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October 24, 2002

Secretary
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED³
OCT 24 2002
Missouri Public
Service Commission

RE: Case No. GR-2002-520 and GR-2001-461(Consolidated)

Dear Mr. Roberts:

Enclosed please find an original and eight copies of the Direct Testimony of Karen S. Russell and an original and eight copies of the Direct Testimony of Shawn Gillespie filed on behalf of Aquila, Inc. Please file stamp the enclosed extra receipt copy and return to me for my records.

If you have any questions concerning this matter, then please do not hesitate to contact me. Thank you very much for your attention to this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:


Dean L. Cooper

DLC/tli
Enclosures
cc: Office of the Public Counsel
General Counsel

Exhibit No.:
Issues: Storage Calculation
Witness: Karen S. Russell
Exhibit Type: Direct
Sponsoring Party: Aquila, Inc.
d/b/a Aquila Networks - MPS
Case No.: GR-2002-520
GR-2001-461 (Consolidated)
Date: October 24, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2002-520

CASE NO. GR-2001-461 (Consolidated)

FILED³

OCT 24 2002

**Missouri Public
Service Commission**

DIRECT TESTIMONY

OF

KAREN S. RUSSELL

ON BEHALF OF

AQUILA, INC

D/B/A AQUILA NETWORKS - MPS

JEFFERSON CITY, MISSOURI

State of Nebraska)
County of Douglas) ss

AFFIDAVIT OF KAREN RUSSELL

Karen Russell, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Karen Russell"; that said testimony was prepared by her and/or under her direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge, information, and belief.

Karen S. Russell

Subscribed and sworn to before me this 23 day of October, 2002.

Ann McCarthy
Notary Public

My Commission expires:

10/17/04

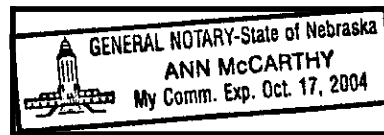


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1 **Q. Please state your name and business address.**

2

3 A. My name is Karen S. Russell and my business address is Aquila, Inc., 7101
4 Mercy Road, Omaha, Nebraska 68106.

5

6 **Q. By whom are you employed and in what capacity?**

7

8 A. My employer is Aquila, Inc.("Aquila"). I work in the Aquila Networks business
9 unit, in Aquila Networks Regulatory Services. My current position is Director of
10 Rate Administration.

11 **Q. What are your duties and responsibilities as Aquila's Director of Rate**
12 **Administration?**

13

14 A. In this position, I am responsible for supervising five Regulatory Analysts who
15 develop the gas cost component of Billing Rates, prepare the filings for gas cost
16 recovery, and respond to questions concerning these filings in the jurisdictions
17 where Aquila operates as a gas local distribution company ("LDC"), one of which
18 is Aquila Networks - MPS. My responsibilities also include supervision of an
19 Account Services Specialist who updates and maintains tables in the Customer
20 Information System ("CISPLUS") System that includes the rate input for all
21 Aquila Gas LDC's. Administration of customer refunds associated with Pipelines
22 and supporting the various State Gas Rate Managers, Regulatory and Financial
23 Accounting are some of my further responsibilities.

24

1 **Q. What is your educational background, including continuing professional**
2 **education and seminars?**

3
4 A. I graduated from Buena Vista College in 1980 with a BS Degree in Business
5 Education. In addition, I have attended various gas industry workshops such as
6 Natural Gas Ratemaking Strategies Conference Post 636, Rate Case Workshop,
7 Current PGA and FAC Practices: Implications for Ratemaking in Competitive
8 Markets.

9
10 **Q. Please summarize your employment experience.**

11
12 A. Prior to obtaining a job with Aquila in 1981. I worked in banking, real estate, and
13 education. During my employment with Aquila, I have transitioned from Large
14 Volume Billing Lead Clerk for three years, to Minnesota/Nebraska Regulatory
15 Analyst for two years, to PGA Supervisor for five years, to Director Rate
16 Administration for the past ten years.

17
18 **Q. Have you previously filed testimony before the Missouri Public Service**
19 **Commission?**

20
21 A. No, I have not filed testimony before the Missouri Public Service Commission. I
22 have, however, supervised the preparation of the rate changes and Annual

1 Reconciliation that have been filed with the Missouri Public Service Commission
2 since 1996 and responded to numerous audit and data requests.
3

4 **Q. Have you filed testimony or testified in any other state?**

5
6 A. Yes. I recently filed testimony in the 2003 Michigan Plan Case where I sponsored
7 the calculation of the normalized volumes, projected over/under balance and the
8 GCR rate component.
9

10 **Q. What is the purpose of your testimony in this proceeding?**

11
12 A. Staff recommends changing the method of accounting for storage injections and
13 withdrawals on the Northern System during certain months in the year covered in
14 this case. These changes would reduce the cost of storage withdrawals and annual
15 cost included in the 2000-2001 reconciliation by \$28,830. In my testimony, I will
16 show that the Company's storage accounting practices have been consistently
17 applied, have not changed from previous filings and are a reasonable approach to
18 the issues involved.
19

20 **Q. What are storage injections and withdrawals?**

21
22 A. Storage injections refer to gas purchased that is not used in the same month as the
23 purchase. Instead the gas is delivered to a storage field for use at a later date.

1 When the gas is needed for customer use, the gas is nominated out of the storage
2 fields. That nomination is referred to as a storage withdrawal.
3

4 **Q. How do injections and withdrawals impact the purchase gas adjustment**
5 **("PGA") calculations?**
6

7 A. Storage injections are accumulated in an inventory account until such time as
8 required for System Supply. The injections are not booked to gas purchase
9 expense until withdrawn. A weighted average cost of gas ("WACOG") is
10 developed using the accumulated cost and volumes, the WACOG is then applied
11 to the volumes withdrawn and is booked as a gas cost, or gas purchase expense, in
12 the month of usage.
13

14 **Q. Can you describe the method Aquila uses to determine storage injection and**
15 **withdrawal pricing?**
16

17 A. Yes. Storage injections, volumes and cost, are added to the previous month's
18 storage balance. A WACOG is determined by dividing the total cost by the total
19 volumes. Total cost is the previous month's balance plus the injection cost and
20 any withdrawal and/or transportation cost associated with storage. Total volumes
21 are the previous month's balance plus the injected volumes. If a withdrawal
22 occurs in the same month, the resulting WACOG is then applied to the

1 withdrawal volumes to determine the cost of the withdrawal. This withdrawal
2 cost is added to the current month's cost.
3

4 Q. **How long has Aquila utilized this method to account for storage injection**
5 **and withdrawal?**
6

7 A. The Missouri PGA's have been a part of my responsibilities since 1996 and to
8 the best of my knowledge, no procedural changes have been made from 1996 to
9 present.
10

11 Q. **How does the Commission Staff propose to determine storage injection and**
12 **withdrawal pricing?**
13

14
15 A. Staff's Recommendation proposes to use the WACOG at the beginning of the
16 month of the activity to determine the value of the withdrawal gas to include in
17 the current month's cost. The injected volumes and associated cost, pipeline cost
18 for withdrawal and transportation would be added to the storage balance after
19 withdrawal to arrive at a new storage balance that carries forward to the next
20 month.
21

1 **Q. How does the Staff determine a withdrawal cost that differs by \$3,984.81**
2 **from the Company for the months of November 2000 through February**
3 **2001?**

4
5 A. The changes the Staff recommends for valuing the November through February
6 withdrawals do not include the pipeline transportation or withdrawal charges
7 incurred in those months. The cost incurred for pipeline transportation and
8 withdrawal in each of these months is associated with the specific delivery from
9 storage for that month and validates Company's method of pricing storage
10 withdrawals.

11
12 **Q. Why?**

13
14
15 A. The transportation and withdrawal cost is specific to the cost of gas being
16 delivered in the month the gas is burned.

17
18
19 **Q. How is the March 2001 withdrawal cost of \$144,013 filed by the Company**
20 **different than Staff's recommendation of \$119,168?**

21
22 A. In March, an injection of 57,439 volumes at a cost of \$297,014.12 and the
23 transportation and withdrawal cost associated with this transaction were not

1 included in Staff's valuation of the withdrawal. Staff's withdrawal WACOG was
2 \$3.93 and the Company's was \$4.75 creating a difference of \$24,845 for the total
3 gas cost assigned to the Northern System in March.
4

5 **Q. Is it common to have a storage injection in March?**

6
7 A. No.
8

9 **Q. Why not?**

10
11 A. The supply plan for the heating season, or November through March, includes the
12 delivery of gas from storage in each of these months. Only when weather or
13 operational restrictions occur are injections made in these months.
14

15 **Q. Do you believe the Company's method is more appropriate than Staff's?**

16
17 A. Yes.
18

19 **Q. Why?**

20
21 A. The March injection as well as the market prices for the winter of 2000-2001 were
22 anomalies that apparently caused the Staff to question the Company's long
23 standing method of valuing storage withdrawals.

1

2 **Q. What is the impact of moving from the existing method of calculating storage**
3 **injection and withdrawal pricing to the method proposed by the Staff?**

4

5 **A. The impact is a cost shift from one month or PGA period to another. While**
6 seemingly innocuous, the PGA process depends upon consistent application of
7 accounting principles in order to make the process fair to both the Company and
8 its customers. Therefore, accounting conventions should not be changed without
9 good basis. Inconsistent application of accounting methods, depending upon the
10 underlying facts and conditions, can lead to inequitable results.

11

12 **Q. Does this conclude your testimony?**

13

14 **A. Yes, it does.**