

Exhibit No.:
Issues: Put/Call Transactions
Witness: Shawn Gillespie
Exhibit Type: Rebuttal
Sponsoring Party: UtiliCorp United Inc.
d/b/a Missouri Public Service
Case No.: GR-99-435
Date: February 20, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-99-435

FILED²
FEB 20 2002
Missouri Public
Service Commission

REBUTTAL TESTIMONY

OF

SHAWN GILLESPIE

ON BEHALF OF

UTILICORP UNITED INC.

D/B/A MISSOURI PUBLIC SERVICE

JEFFERSON CITY, MISSOURI

State of Nebraska)
) ss
County of Douglas)

AFFIDAVIT OF SHAWN GILLESPIE

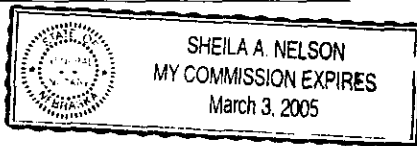
Shawn Gillespie, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Shawn Gillespie"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in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

Shawn L. Gillespie

Subscribed and sworn to before me this 18th day of February, 2002.

Sheila A. Nelson
Notary Public

My Commission expires:



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

2 A. My name is Shawn Gillespie. My business address is 7101 Mercy Road, Suite 400,
3 Omaha, NE 68106.

4
5 **Q. Are you the same Shawn Gillespie that previously filed Direct Testimony in this**
6 **case?**

7 A. Yes.

8
9 **Q. What is the purpose of your rebuttal testimony in this proceeding?**

10 A. The purpose of my testimony is to address the direct testimony of Missouri Public
11 Service Commission Staff witness Phil S. Lock.

12
13 **Q. To what items will you respond?**

14 A. My rebuttal testimony will specifically address the following items:

- 15 1. The methodology of quantifying price risk.
- 16 2. The most equitable method of compensating regulated customers for price
- 17 risk; and,
- 18 3. The methodology of crediting "Put/Call" premiums.

19
20 **Q. What is MPS's response to Staff's comments concerning the methodology of**
21 **quantifying price risk?**

22 A. MPS does not agree with Staff's comments on the methodology of quantifying price
23 risk. "Put/Call" options are an equal sum game, or in other words, over a period of
24 time the options will be exercised 50% of the time. MPS feels the methodology

1 explained during the Technical Conference held in Omaha on December 14-15, 2000,
2 as reflected in the memo drafted by Jon Empson (Schedule 1 to Staff witness Lock's
3 Direct Testimony), and the Direct Testimony of Shawn Gillespie, clearly and
4 consistently explain the methodology of quantifying price risk.
5

6 **Q. What is this methodology?**

7 A. The 50% methodology only applied to the "Put/Call" transactions that occurred on
8 the MPS Southern System served by Williams Gas Pipeline Central (WGPC). The
9 methodology for quantifying price risk on the MPS Northern and MPS Eastern
10 Systems served by Panhandle Eastern Pipeline (PEPL) was based on the difference
11 between the daily gas price when gas was not put, but the option was exercised to call
12 on the gas at the gas daily price, less the first of the month index.
13

14 **Q. Why is there a difference between the price risk methodology between the MPS**
15 **Southern System and the MPS Northern and Eastern Systems?**

16 A. The reason for the difference in methodology between the MPS Southern System and
17 the MPS Northern and Eastern Systems, is due to Williams being a monthly balanced
18 pipeline, which serves the Southern System versus Panhandle being a daily balanced
19 pipeline serving the Northern and Eastern Systems. A monthly balanced pipeline
20 requires having the accumulation of daily imbalances between nominated volumes
21 versus actual volumes to be within a prescribed tolerance level by the end of the
22 month. A daily balanced pipeline requires having the imbalance between nominated
23 volumes versus actual volumes to be within a prescribed tolerance level at the end of
24 each day. A monthly balanced pipeline provides the flexibility to apply the 50%

1 methodology, whereby providing the opportunity to have the MPS Southern System
2 in balance by the end of the month.

3
4 **Q. How does the Staff's methodology differ?**

5 A. The Staff believes multiple "Put/Call" scenarios could exist that may be detrimental
6 to the customer, however no scenarios have been identified that are contrary to the
7 way MPS quantified price risk.

8
9 **Q. Does MPS agree with Staff's comments on the most equitable way of
10 compensating regulated customers for price risk?**

11 A. No.

12
13 **Q. Why not?**

14 A. Staff argues that the most equitable means of compensating customers is to credit
15 the premiums. This is not an equitable solution, because regulated customers may
16 receive benefits, which offset the price risk. The most equitable way to address
17 the risk is to determine the actual impact, which has already been calculated and
18 provided in the Direct Testimony of Shawn Gillespie.

19
20 **Q. Does MPS agree with Staff's methodology in calculating the "Put/Call"
21 premiums to be credited back?**

22 A. No.

23
24 **Q. Why not?**

1 A. Applying a flat 28.57% to the MPS Northern and MPS Eastern Systems
2 “Put/Call” premiums is not equitable. If premium crediting is to be equitable, the
3 percentage needs to be calculated by totaling the allocated regulated “Put/Call”
4 volumes, divided by the overall regulated volumes. Using that methodology, there
5 would be no premium crediting because regulated customers on the Northern and
6 Eastern Systems were not harmed due to the fact that no “Put/Call” activity was
7 directly allocated to those systems during the relevant time period.

8

9 **Q, Does this conclude your rebuttal testimony?**

10 A. Yes, it does.