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TRANSCRIPT OF PROCEEDINGS

Hearing

November 24, 2003
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Volume 9

In the Matter of Missouri Gas Energy's Purchased Gas Adjustment Tariff Revisions to be Reviewed in its 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-382 et al.

MORRIS L. WOODRUFF, Presiding,
SENIOR REGULATORY LAW JUDGE.

STEVE GAW, Chair
CONNIE MURRAY,
ROBERT M. CLAYTON, III,
COMMISSIONERS.

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P R O C E E D I N G S

(EXHIBIT NOS. 28 THROUGH 37 WERE MARKED FOR IDENTIFICATION BY THE REPORTER.)

JUDGE WOODRUFF: This is a continuation of the hearing in Case No. GR-2001-328, as well as several other cases, all concerning Missouri Gas Energy's purchased gas adjustment tariff revisions for its 2000-2001, 1999-2000, 1998-1999 and 1997-1998 actual cost adjustments. And as I indicated, this is a continuation of a hearing that began back in May of 2003, and we're here to deal with a couple of additional issues that required some additional testimony.

We've already premarked exhibits, so we'll begin with taking additional testimony from MGE, if you'd call your first witness.

MR. DUFFY: We'd call Mike Langston to the stand.

MR. MICHEEL: Your Honor, at this time Public Counsel would ask for leave to be excused from the proceeding. We do plan on saving our right to brief the matter, if we so choose, but we are willing to waive our cross-examination and take the record as we find it.

JUDGE WOODRUFF: Very well. You can be excused. And which reminds me, we really need to take entries of appearance to show who is here and who is not here. So let's go ahead and begin with entries of

appearance from MGE.

MR. DUFFY: Gary W. Duffy, Brydon, Swearengen & England, P.C., P.O. Box 456, Jefferson City, Missouri 65101, appearing for Missouri Gas Energy.

JUDGE WOODRUFF: For Staff?

MR. SCHWARZ: Tim Schwarz and Bob Berlin, P.O. Box 360, Jefferson City, Missouri 65102, appearing for the Staff of the Commission.

JUDGE WOODRUFF: Public Counsel?

MR. MICHEEL: Douglas E. Micheel, P.O. Box 2230, Jefferson City, Missouri 65102-2230, appearing on behalf of the Office of the Public Counsel and the Public.

JUDGE WOODRUFF: And Riverside Pipeline Company?

MR. KEEVIL: Yes, Judge. Jeff Keevil, appearing on behalf of Riverside Pipeline, Kansas Pipeline and Mid-Kansas Partnership. My law firm is Stewart & Keevil, LLC, address 4603 John Garry Drive, Suite 11, Columbia, Missouri 65203. And I would note for the record that is a new address, so if new communications are sent, they need to go to that address, rather than the old.

JUDGE WOODRUFF: All right. Thank you. The other party was City of Joplin with Mr. Deutsch representing. I don't see them here today. That completes entries of appearance. And, Public Counsel, you are excused

from participation.

MR. MICHEEL: Thank you, your Honor.

(Witness sworn.)

JUDGE WOODRUFF: You may inquire.

MICHAEL T. LANGSTON testified as follows:

DIRECT EXAMINATION BY MR. DUFFY:

Q. Would you state your name for the record, please.

A. Michael Langston.

Q. Are you the same Mike Langston that's previously testified in this proceeding?

A. Yes, I am.

Q. Do you have in front of you what's been marked for identification as Exhibit No. 28, identified as the supplemental direct testimony of Michael T. Langston?

A. Yes, I do.

Q. If I ask you the same questions that appear in that document this morning, would your answers be the same as they appear therein?

A. Yes, they would.

Q. You have no corrections to that document?

A. No, I don't.

Q. Okay. You also have in front of you what's been marked for purposes of identification as Exhibit 29, identified as supplemental rebuttal testimony of Michael T.

Langston?

A. Yes, I do.

Q. Do you have any corrections to that document?

A. Yes, I do.

Q. Would you tell us what those are, please?

A. On page 20 of the testimony, line 9, the line that starts with the word "daily," says, daily flowing supplies reflected in on. The word "in," I-N, needs to be eliminated. Then on Schedule MTL-40, on the Footnote No. 2, it says tab, quote, FOM plans-RUD, end quote, Table 3-2, line 91 should be line 88.

Q. With those corrections, if I ask you the same questions that appear therein, would your answers be the same as they appear therein?

A. Yes, they would.

Q. Are those answers true and correct to the best of your knowledge, information and belief?

A. Yes, they are.

Q. And are the answers in your supplemental direct testimony true and correct to the best of your knowledge, information and belief?

A. Yes, they are.

MR. DUFFY: With that, I would offer into evidence Exhibits 28 and 29.

JUDGE WOODRUFF: All right. Exhibits 28 and

29 have been offered into evidence. Are there any objections to their receipt?

(No response.)

JUDGE WOODRUFF: Hearing none --

MR. KEEVIL: Judge, I do have one to a very small portion of Mr. Langston's supplemental rebuttal. That would be 29. If you turn to Schedule MTL-37, page 13, I understand, I believe, why Mr. Langston may have attached that, but if you look at the top of that, it states that it is a calculation of the capacity release adjustment, not either the purchasing practices or the storage adjustments, which are the subject of this portion of the hearing.

What this is, it's a reproduction of a schedule which was attached to Mr. Sommerer's direct testimony, which was submitted back in the first portion of the hearing. However, it's not the complete version that's attached. I believe it's Schedule 4 of Mr. Sommerer's direct. Mr. Sommerer's direct has an additional calculation at the bottom of the schedule.

And it's my understanding from talking to Ms. Jenkins at her deposition that this was Mr. Sommerer's schedule. She did not have anything to do with the preparation of this particular schedule, and that the schedule has nothing to do with the purchasing practices, hedging adjustments which are the subject of the hearing

today.

So I would object just to that schedule, because I don't think it's relevant to these issues and it's also incomplete, because like I said, Mr. Sommerer had a different schedule attached to his direct.

JUDGE WOODRUFF: Response?

MR. DUFFY: I guess my reaction is we copied this because it was in Ms. Jenkins' work papers and we want to provide a complete set of her work papers. I have no reason to doubt whatsoever Mr. Keevil's explanation that it somehow differs from what Mr. Sommerer put on.

If there is -- if there's something objectionable that it needs to be removed from this document, if the Staff has no objection of that, I don't think we do, because I would agree that, as far as I know, it's got really nothing to do with the issues we're going to talk about here today.

But on the other hand, with his explanation in the record that it differs and that the complete document is somewhere else, I don't know that it hurts that much to just leave it where it is. So I'm sort of ambivalent as to what we do with it, as long as the record's clear.

MR. KEEVIL: As far as being -- since it's already in the record, I would say that it is in the record in the highly confidential format attached to Mr. Sommerer's

direct; whereas, I believe this particular schedule is not highly confidential.

JUDGE WOODRUFF: Staff have any response?

MR. SCHWARZ: Well, first of all, I think that the entirety of these schedules are highly confidential and have been so marked.

Secondly, I don't see that reproducing something that's already in the record in any way, shape or form hurts anything.

And third, I think from Mr. Duffy's explanation, it's not being offered except to establish what Ms. Jenkins' work papers were, so it's not being offered to establish anything with respect to capacity release transactions. And I think for that limited purpose, it should come in.

JUDGE WOODRUFF: Mr. Keevil, go ahead.

MR. KEEVIL: My understanding was it was only the first five or six pages of Langston's schedules that were deemed confidential. If they're all confidential, I've got no problem with them all being confidential, but that wasn't my understanding.

MR. DUFFY: I think Mr. Keevil is correct that with regard to the -- not all of the schedules are highly confidential. I think this reflects -- my understanding is this reflects MGE's position that some of these things have

ceased to be highly confidential as far as we're concerned. So we don't have a problem with Schedule MTL-37, page 13 being in the public record at this point.

MR. SCHWARZ: But it's Mr. Keevil's.

JUDGE WOODRUFF: Yes, it's his objection.

MR. SCHWARZ: I think the simpler solution is ask that it be marked HC.

JUDGE WOODRUFF: Mr. Keevil, does it need to be HC? It's already on the Internet. It's on EFIS as non-highly-confidential.

MR. KEEVIL: I was going to say, it seems since we've gone EFIS, I don't know that we could go back and make something confidential that wasn't previously confidential.

JUDGE WOODRUFF: I suppose we could, but it's not going to be very effective. And then I don't know if we could remove it from EFIS at this point. I suppose there's a way to do it.

MR. SCHWARZ: Yes, there is.

JUDGE WOODRUFF: You've had experience at this?

MR. SCHWARZ: Not personally, but I know it has been.

JUDGE WOODRUFF: Okay. Your objection's been noted for the record. It will be overruled. The exhibits,

the Exhibits 28 and 29 are admitted into evidence.

(EXHIBIT NOS. 28 AND 29 WERE RECEIVED INTO EVIDENCE.)

MR. DUFFY: The only thing else that I wanted to take care of at this point was that we earlier had marked for identification Exhibits 30, 31, 32, 33, 34 and 35. And as I explained off the record, those are Commission record documents, filings in two ACA cases involving other utilities and the same general issues which I had previously asked the Commission to take official notice of, and I believe you declined to do that.

And then I requested that they be nevertheless preserved in the record pursuant to 536.070, sub 7, and so they've been marked for purposes of identification as exhibits, but they are an offer of proof on our behalf. And I would also note that I intend to provide additional copies at my first opportunity, but at this point, I would offer as offers of proof what has been marked as Exhibits 30 through 35.

JUDGE WOODRUFF: All right. They will be received as offers of proof.

(EXHIBIT NOS. 30 THROUGH 35 WERE RECEIVED AS AN OFFER OF PROOF.)

MR. DUFFY: And at this point I will tender Mr. Langston for cross-examination.

JUDGE WOODRUFF: Thank you. For cross-examination, we'll begin with Kansas Pipeline Company.

MR. KEEVIL: No questions.

JUDGE WOODRUFF: Joplin and Public Counsel are not here, so we'll move to Staff.

CROSS-EXAMINATION BY MR. SCHWARZ:

Q. Good morning, sir.

A. Good morning.

Q. Who's your current employer?

A. My current employer is Panhandle Energy.

Q. And what is your current relationship with MGE?

A. I have a, I guess you'd call it a consulting agreement or an agreement to provide this service on their behalf.

Q. And Panhandle's an affiliate of Southern Union and, hence, MGE?

A. Correct.

Q. Again, what were your responsibilities at -- you were employed at MGE during the 2000-2001 heating season?

A. I had responsibility for MGE's gas supply function during the period of this ACA period.

Q. Who reported to you?

A. I had a staff of individuals; they reported to

me in -- they were located in Austin. Do you want all of their names? There was about 10 or 11 people in our department that involved both gas supply reps, contract administration, gas control scheduling, plus administrative help.

Q. Which persons prepared the 2000-2001 reliability report for MGE?

A. Primarily, I believe Liz Smith was the contract administration, scheduling-type person that would have been involved, as well as Merlin Monroe, who was -- provided load forecasting. There was an individual David Twitchell who was over the gas control group, although I think he went on disability probably prior to the filing of that report. I don't remember the exact date, as well as Sandy Reedy, who was a gas controller was heavily involved in it as well.

Q. The reliability report discusses annual load projections, base case forecasts, high case and low case scenarios; is that correct?

A. That's part of what's in there. The reliability report really came into being following the Commission's Order in GO-94-318, our first incentive case. And the Commission's concerns were that MGE would essentially purchase all spot gas, i.e. daily gas, that would affect the reliability of service to customers, or

they would not contract for enough capacity or storage or supplies or whatever so that the overall reliability of service to customers would be in jeopardy.

So the purpose of the reliability report was to make sure that basically the company over a coming period had adequate supplies in their contract, storage deliverability, capacity to meet a customer's requirements.

Q. And what do the base case, high case and low case represent?

A. The base case was -- would be basically what we would expect kind of, quote, normal weather to -- quote, normal weather meaning basically heating degree days that equal a three-year normal weather load. What our load would be -- and I'm speaking primarily now in the wintertime under those same heating-degree-day conditions. The high case and the low case were designed to provide adjustments to those volume levels to basically test whether or not the supplies and storage had the flexibility to deal with variations in load that could occur.

And if I might add, the reliability report also contained a specific peak-day calculation that was also beyond the monthly data to determine whether or not on a single day, the kind of historic weather was incurred in Kansas City could, in fact, be met by the current resources.

Q. Is it fair to say that the base case -- that

the low case and the high case, as well as the peak day, are designed to deal with weather extremes?

A. The peak day would clearly deal with weather extremes. The high case and low case is more of a monthly forecast that were designed to look at kind of an overall, you know, variable load parameters. I mean, extreme weather occurs more on a daily basis. So, I mean, I don't know that we had, say, for instance, that the high case, for instance, didn't necessarily look at what a peak day would have done in any particular month.

The low case, for instance, wouldn't have looked at what an extreme warm weather situation would have resulted in in any month. But overall, yeah, you're looking at basically what happens if the weather's over the course of a year basically warm, over the course of the year basically cold or a normal case and then, in addition, what are the parameters that affect peak-day service.

Q. Do you have your schedules to your supplemental rebuttal in front of you?

A. Yes.

Q. Could you turn to Schedule MTL-37, page 6 for me? I don't believe this is marked highly confidential. I would ask you to take a look at that preliminarily and tell me if it --

A. Yes, I have it.

Q. Would you take a look at lines 22, 23 and 24 for me, please?

A. Okay.

Q. Do you recognize those figures?

A. The indication here is that they're from the reliability report.

Q. And do they look -- without actually -- do they look about right?

A. Sure. I'm sure they're correct.

Q. Do you have a calculator with you?

A. Yes.

Q. I'd ask you, if you would, to total each of those rows for me, please.

A. Okay. Unless I've misstroked my calculator, the base number is 53,281,216; the low case is 41,923,413; and the high case is 67,470,969.

Q. Those are the same numbers that I got, so that's -- I understand from your supplemental testimony that you -- that MGE expects to cycle all of its storage, plans to cycle all of its storage in the base case formulations; is that correct?

A. Our -- our normal plan is to be at the end of October or essentially the beginning of the heating season November 1st with 500,000 MMBtus of storage capacity remaining in storage to attempt to deal with any warm

weathers that might occur in November, and to be at the end of March, March 31st, at the end of the winter season, with 500,000 MMBtus of gas remaining in inventory to deal with weather that may occur in early April.

But in general terms, yes, we would use roughly 94 percent of our total storage inventories, assuming that we got exactly to 100 percent full and we could get essentially right on plan.

Q. Let me ask you this: Your testimony is highly critical of Ms. Jenkins for not suggesting that or for having a plan that doesn't use all the storage in a heating season; is that correct?

A. I think planning for normal weather, you should plan to utilize storage facilities, yes.

Q. In the reliability report, is there any indication of how storage should be utilized for a low-case scenario and a high-case scenario?

A. I honestly don't remember. There's a bunch of schedules in there. If you have a copy, we can certainly look and see.

Q. I don't have one with me.

A. I don't recall right now.

Q. The --

A. I certainly know that the base case clearly looks at storage. You know, storage deliverability, as well

as supplies and capacity are primarily looked at in the reliability report for the peak day deliverability.

Q. The planning documents that were included in your direct testimony, I believe, is part of MTL-16?

A. Okay. I'm there.

Q. MTL-16. There are -- for instance, page 23, which purports to be the final December plan.

A. Okay.

Q. Does that have specifications for low-case or high-case eventualities?

A. No.

Q. And is it safe to say that the similar documents for the balance of that schedule don't have high-case and low-case scenarios with them?

A. If we're speaking primarily related to storage, yes, I agree. There is some provisions on here where, for instance, if we have supply contracts that have certain minimums or certain maximums that we have to follow, there are areas in here where we can indicate what those limitations may be.

Q. But those are contract limitations, not weather limitations?

A. Correct. Correct.

Q. So there's no planning that you know of in the reliability report or in the actual supply plans for either

high- or low-case weather occurrences; is that correct?

A. No. I mean, we certainly take into effect what we think the weather variability will be when we set -- you set an overall plan that deals with both flowing gas supplies and storage withdrawals, and this plan -- or the actual plans that we set up are going to reflect, you know, both of those potential eventualities.

In other words, we want to make sure we can, in fact, flow the gas that we have scheduled to flow. This document, basically our monthly -- at the end of all of the, you know, discussions and reviews and everything else, these are the documents that basically, as we enter into the month, this is our plan for that particular month and it's going to inherently reflect everything that we're looking at there to deal with.

You know, we start with normal weather, but when we set the flowing supplies up and we know what our storage deliverability is at our storage levels, it clearly reflects high and low eventualities.

That's why at the top of the page where it says PDP, that's essentially peak day protection. In other words, this plan in and of itself, as we enter into the month, will deal with a weather event that equals what our projected demand would be based on a peak day at a certain heating degree level.

So, for instance, we're saying, okay, if we enter, in this case, the month of December, peak day production is 68 heating degree days. So we know that as we go through the month without making any changes, our normal storage deliverability and our -- the flowing supplies that we have nominated here deal with 68-degree-day-type weather load.

So in our weather forecast, as we go through the months, we start seeing that, gosh, we're forecasting some 70 heating degree day weather, well, then we know we've got to basically go and get some additional supplies.

Q. All right. But there's nothing here that says, is there, that if we have any demand that is above normal demand, we will meet that demand by pulling storage, is there?

A. On this particular document, no, that statement's certainly not on here.

Q. And there's nothing in this document that says if weather turns out to be warmer than normal, we will cut back on flowing supply or we will cut back on storage; is that correct?

A. On this particular document, no, that's certainly --

Q. Are there any other documents? I mean, Staff has asked for all of your planning documents. Are there any

other planning documents that we haven't seen?

A. Well, I think throughout here we basically provided memos where we discuss contracts, indexes, adjustments to flowing supplies, those sort of things. What we have in here is basically what we did have from the standpoint of written documents. I mean, as far -- we certainly don't sit down and document all of the meetings that we have in the supply department talking about what, you know, whatever and whether this opinion is relative to flowing supplies, storage withdrawals, weather forecast, those sort of things. We've provided copies of all the weather forecasts that we had as well.

Q. But there -- if I understand your testimony, then you have ad hoc meetings and discussions, but there's no consideration taken in either the reliability report or your first of the month planning documents for dealing with, for instance, the fact that the prior month has been historically colder than normal and your storage pulls were greater than anticipated?

A. No, there is. I mean, you know, the whole, you know, what we've documented here is the decision process that, you know, we stepped through to make those very types of adjustments that you're referring to.

Now, you know, are you saying whether a document, before all this happened, that we said, here's our

-- you know, if this happens, we do this, if this happens we do that, no, we don't have a document. We don't have a document that reflects, you know, 15 what-if cases. But, I mean, the results of that is reflected in, you know, in the final plan that we move into a month with.

Q. On that December document, for instance, you know that you're coming out of the coldest November in memory, you know that you have pulled more storage than was planned for a base case. And you chose to short flowing supply 20,000 decatherms a day; is that correct?

A. I think, as reflected in here, when we got to the end of November, our numbers basically said that we had planned on withdrawing about 4,150,000 Ms from storage. Our forecasted number said we were going to be somewhere over 4.5 million. So we felt we were roughly 350,000 Ms above plan, which across an entire winter we did not consider to be a substantial number out of 17.8 BCF storage capacity.

Now, that number was subsequently adjusted in the middle of December after we received Williams' numbers and found out they had a bust in the measurement numbers they were reporting to us. But at that point in time, no, we didn't make any adjustments for the additional storage pull in November that we felt was small. We did consciously make a decision to go in 20,000 flowing under what our normal plan would be, and we were doing that based on our

pricing expectations.

Q. Going back to page 6 of MTL-37.

A. Okay.

Q. Again, I'm looking at lines 22, 23, and 24. I didn't see anything in either the reliability report or in the schedules that we've just reviewed that show -- that give any decision-making criteria for when the company would move from a base case to a high case or from a base case to a low case. Is that all done in this ad hoc discussions that you have?

A. Well, I mean, we normally -- we normally enter the winter, for instance, you know, say November, and each month we'll normally start with an assumption that we'll have normal weather. Now, in November, since storage is essentially full, you know, we start with the assumption that we're going to have a normal November load and we look at what kind of daily variations we may potentially have. We do have some weather forecast into the first part of November, but it's obviously a few days and, you know, we'll come up with our November plan.

Now, once November is over or as we're toward the end of November, then we're going to have some idea, based on our forecast, whether or not we, you know, pulled more storage, pulled less storage, whatever. And then each month thereafter, you know, we will have to make some

adjustments as we go forward.

But we'll generally -- as far as the total demand, we'll assume that while we make these adjustments for what's happened last month, we'll assume normal demand for the next month as the base case, you know, until we actually experience something different.

Q. Well, I'm concerned with the base case indicates 53 million MMBtu for the season, the high case indicates 65 million MMBtu for the period. At what stage does MGE actually acknowledge that weather has been colder than normal?

A. Well, I mean, after we experience a month that is colder than normal, then we're going to look at what our situation is relative to our storage inventories, and if we have to increase flowing supplies, we do it, which is what we did in January, which was the basis of the Staff's initial disallowance proposal.

Q. But after pulling more storage than planned in November, you shorted flowing supplies and planned on pulling more storage in December than normal?

A. Yes, but then when we realized by the 11th of the month that that was incorrect, we went out and contracted for incremental supplies.

Q. Does the decision to rely on flowing supplies or pull gas from storage affect MGE's cash flow?

A. You know, let me -- let me try to answer your question this way. As we're pulling -- storage gas has already been purchased. So from that standpoint, it's, I assume, a balance sheet type asset. So money has already been expended for that -- for that inventory. Flowing supplies are contracted for and paid for typically about the 21st or 25th day of the month following the month in which the supplies are delivered.

So when you say does it -- yet at the same time, when we file a gas cost filing on a seasonal basis, we do project what we think demands will be, how much gas we think we'll pull from storage, how much gas is going to be flowing and, of course, this is a rough estimate across the wintertime, we come up with a number.

So when you say does it affect cash flow, well, yes and no. I mean, it's -- if the forecast, for instance, is significantly, you know, higher on the customer side, you know, the lead lag that we normally have between revenues, cycle billing and storage payments may not be as bad as otherwise.

I mean, certainly it all affects cash flow, but I'll have to tell you the most significant item that affects cash flow is cycle billing, more than our flowing gas costs or our average storage inventory cost, those sort of things. I'm not really -- maybe I'm not understanding

your question exactly.

Q. My question was, does it make a difference to MGE's cash flow if you meet customer demands by pulling from storage on the one hand or meeting it through flowing supplies on the other?

A. And let me just say, over the long term, the answer is no, because we should recover all of our costs in our -- in our gas cost component. At any particular point in time, clearly our cash flow's always impacted by cycle billing and lead lag, which should be reflected in our rate calculations in some form or fashion.

Q. But I'm talking about cash flows. That is, if you pull gas from storage, will you be receiving an invoice in the next 30 days for that gas?

A. No.

Q. If you meet demand by ordering flowing supplies, will you be receiving an invoice in the next 30 days?

A. Yes.

Q. And will -- MGE will have to send money to the producer or the marketer for the invoiced gas within the next 30 days or 45 days, whatever?

A. Yes.

Q. So over that 45-day period, is it true that by taking gas from storage, as opposed to meeting demand

through flowing supply, that MGE's cash flow would be better if you supply needs from storage as opposed to flowing gas?

A. Based on the assumptions you laid out, I would say yes, obviously assuming that the pricing -- prices of gas are approximately the same. Obviously if the flowing supplies aren't so much less expensive than the average storage inventory, I'll agree with you.

Q. I don't believe that -- well, the price of the flowing gas can affect the amount of the cash flow benefit, but there's a cash flow benefit, is there not?

A. I guess the -- I guess the -- if you're just looking at the storage side, I guess I agree with you. The part I'm having trouble with is the fact that since we set our rates seasonally, then our revenue, the cash that we get in is -- is pretty much set at that point in time. So the total cash for the company is really driven more by the customer billing and the cycle billing.

But if you're saying does the mix affect what we ultimately recover, you know, on a month-to-month basis, yes. If you pull more storage versus less storage, then for that particular month, yes, you're going to have some movements in cash. But across the winter, assuming that you basically -- you consume the storage that you had, you collect the exact amount of money that you billed for the customers, you ought to be even at the end of the day.

Q. Let's go back to MTL-14 for a moment, if we might, and do you see the line that says November of 2000?

A. Yes.

Q. And under the column expected storage volumes 4,278,150?

A. Yes.

Q. And under the -- in the next group of columns, the -- it indicates that the weather was 126.79 percent of normal; is that correct?

A. Yes.

Q. Would you multiply the 4,278,000 number by 1.2679?

A. Okay.

Q. And what number did you get?

A. I have 5,424,266.

Q. Okay. And in the actual volumes it indicates 5,673,557?

A. Correct.

Q. Was the actual -- what's the difference between those two numbers?

A. 249,291.

Q. Okay. And would you perform a similar calculation for December?

A. Okay. The December storage volume 3,046,494, multiplied by 1.3467, you get 4,102,714. Taking that

number, subtracting it from 6,727,710, equals 2,624,997, unless I missed that.

Q. No. That's the -- if you did, we made the same mistakes.

A. Okay.

Q. Would you assume with me for a moment, and it's -- I can't find the reference in all this stuff right now, but the November first-of-the-month Williams index was $4.43. Would you multiply that times the 249,291?

A. I'm sorry. What was that number?

Q. $4.43.

A. Multiplied by which number?

Q. The November 249,291.

A. That's 1,104,359.

Q. And if you use the 2,600,000 number for December and multiply that times $5.90, which I think was the Williams December first of the month index?

A. 15,487,482.

Q. And if you add those two?

A. 16,591,841.

Q. Thank you. Do you have Ms. Jenkins' direct testimony with you?

A. Supplemental direct?

Q. No. Her actual direct.

A. No, I don't.

Q. I just found the Williams first-of-the-month numbers. Would you take a look at line 11 in the column marked F minus E.

MR. DUFFY: I think the record needs to reflect what page or schedule.

MR. SCHWARZ: It's Schedule 8-1 --

THE WITNESS: Okay.

MR. SCHWARZ: -- of Ms. Jenkins' direct.

THE WITNESS: Okay. It's Column N, if I read this correctly.

BY MR. SCHWARZ:

Q. Correct.

A. Okay. Column N, line 11?

Q. Yeah.

A. I'm there.

Q. And would you multiply that number by 4.43?

A. This number is negative 2,209,290. That times $4.43 is 9,787,155, roughly.

Q. And would you drop down one line and do the December. That's 1,206,458 times $5.90.

A. 7,118,102.

Q. And if you add those two numbers?

A. 16,905,257.

Q. And so the number that you calculated from Ms. Jenkins' schedule and the ones that you did from

MTL-14 are reasonably close, are they not, 400,000 out of 16.5 million?

A. Well, the numbers per month are significantly different, but I mean the total is within --

Q. 400,000, 500,000 out of 16 --

A. Sure. Less than 400,000.

Q. And is it fair to say that those two numbers indicate the difference between -- the priced-out difference between what the storage pulls could have expected to be if consistent with the colder-than-normal weather, as opposed to if the pull from storage had followed the percentage increase in cold weather?

A. If I understand the schedule correctly, the numbers that we utilized here were the difference between the Staff's expected storage withdrawals that Ms. Jenkins came up with based on all her calculations versus the actual levels that we withdrew. So if you take that differential times first-of-the-month index price, then essentially what we're reflecting here is the market value benefit, if you will, to the customers of pulling storage.

Q. But it also measures the --

A. Well, that's not exactly correct.

Q. No. But it does measure the cash flow advantage of pulling gas from storage as opposed to ordering flowing supplies over the next 45 days; is that correct?

A. You would have impacted cash flow at -- I mean, at the end of December and the end of January, again, not taking into consideration the fact that we made an unscheduled filing but adjusted the revenue numbers as well. So you've got a lot of factors in here.

Q. On the cost side, you would have had a better cash flow from the storage pulls that you actually did that were over and above the proportionate increase in cold weather; is that correct?

A. If you assume away all the other factors, you know, yes, assuming you pulled more storage gas, as opposed to going out and contracting for flowing gas, then you're essentially consuming an asset you've already paid for. So you essentially already had your cash flow hit in the past.

Q. Yes. Thank you.

A. And I will say that again, because of cycle billing, that's more impacted in November through January than it is February and March, because cycle billing tends to turn around the cash flows at that point in time.

Q. But over a predictable period of time, there would have been a $16.5 million advantage, cash flow advantage to pulling the storage instead of ordering the flowing supplies?

A. Over that limited time, yes. Presumably if you did your forecasting right on your revenue side, at the

end of the day, you're even.

Q. And to the extent that your PGA was above or below the first-of-the-month cost of gas, there would be an additional benefit or detriment; is that correct?

A. I mean, your PGA, your gas cost number would include both your assumed mix of storage and flowing gas. So presumably if your cash out the door only reflects your flowing gas, then other than the cycle billing impacts, the revenues should, in fact, during the winter period at least, be greater than your expenses, assuming you can ever match them.

The problem with cycle billing is you shove your revenues forward and your costs are current. So, I mean, you should always -- if you matched revenues and expenses, if you could actually do that from a billing cycle standpoint during the wintertime, you should always be recovering your net storage expenses, so you should always have greater revenues coming in, all other things being equal. You know, here again, I'm waiving the cycle billing issue which is the biggest issue.

Q. The November 2000 -- MGE's November 2000 PGA was 6.76.86 -- or 6.76.86.

MR. SCHWARZ: I'd ask the Commission to take official notice of the MGE PGA factors for the period of November 2000 through May of 2001.

JUDGE WOODRUFF: They should be in the record in this case somewhere.

MR. SCHWARZ: I'm sure they are somewhere, but if not, I would ask that you take notice of that.

JUDGE WOODRUFF: All right.

BY MR. SCHWARZ:

Q. Assume for the moment that they are 6.76.86. Given what you know about transportation costs, what would the commodity factor be?

A. Normally our kind of overall transportation storage fixed cost involved in this round numbers, $1.20, so we're talking about $5.56.

Q. Okay.

A. So I mean, in that case, to the extent that our storage is less than that, you know, again it's a cycle billing that's going to give you the cash flow hit, not the -- you know, the PGA factor in November would clearly be above your flowing and storage inventory cost.

Q. You said it was about 5.26?

A. 56 cents.

Q. And the Williams first of the month for December was $5.90?

A. I'm talking about November. We talked about November 1st.

Q. Yes.

A. You had a factor going at 6.76, so you had roughly $5.56 of commodity. To the extent that your storage cost is already paid for, essentially the only costs you're recovering on a cash flow basis is your flowing gas cost. But you're recovering $5.56 on every unit that you're delivering past November 1.

Q. Yes.

A. Well, that you're billing past November 1, there's a -- we're back to the cycle billing issue.

Q. Right.

A. Right.

Q. Do gas supply decisions made by the company in one month affect decisions made in other months?

A. As to gas supply, yes.

Q. Is it possible to run out of storage too early in the winter?

A. Just in general terms within the industry, yes, and that did, in fact, occur. The most recent example would have been in 1996.

Q. In terms of the percent of total maximum stored volumes as the winter proceeds, would it be typical for an LDC such as MGE to draw down its storage from the maximum amount?

A. I mean, our -- our goal is to have storage absolutely full except for the 500,000 Ms that we leave as

available capacity for an early November period. But we want to shoot for that number exactly. Sometimes we're -- frankly, we've been a little above that number where we've had less than the 500,000 Ms of capacity available and we've been below that number, but we shoot to be within a few percentage points of that number.

Q. But as the season goes on, the total amount in storage declines and should be expected to decline, correct?

A. Yes.

Q. Would it be prudent for MGE to have a zero storage balance as of December 31st?

A. No, absent a change in our contractual or service arrangements.

Q. So that you would want to have it -- have some gas in storage on December 31st?

A. Yes, for MGE's service territory, that's correct.

Q. And what would be a minimum level of storage MGE would expect to have on December 31st?

A. I don't know that we've ever set a minimum level that we seek to achieve in any particular month, as long as we forecast that we can meet our overall demand, both peak day and overall service across the winter.

Q. Well, how much gas would you need in storage to meet your supply plans for a normal winter at the end

of -- how much -- strike that question, please.

How much gas would you have in storage or plan to have in storage as of December 31st to meet a normal case scenario for January through March?

A. Well, I mean, our plans reflect if you have a normal winter all the way November through March, what our normal plan would be as far as storage withdrawals, assuming that your consumption was exactly what we had planned for normal and our withdrawals were exactly what we had for normal -- am I following you?

Q. I think you're following me, but I don't think you're answering me. How much -- how much gas would you need in storage on December 31st to meet your base case scenario for the months January through March?

A. Well, and I guess -- I mean, I have to preface that with you've got to know what's happening in November and December to say what your plan is going forward there. I mean, we try to draw a distinction in our testimony about the fact that you have kind of this overall winter plan and about how you're going to plan withdrawals across five months, but then clearly once you start -- once you get to the end of November, whatever's happening in November has to adjust everything else.

So my answer is, if nothing happened in November and December that was different than normal, then

you could follow your, quote, normal winter plan that you set up before the winter occurred. If it isn't normal, then clearly you can't follow that plan.

Q. And what I'm asking is, assuming that you've had normal weather to meet your base case scenario, how much storage would you need for January, February and March?

A. Well, I mean, if you elect to serve your load with the normal winter plan that we have, then it would be basically the difference between our -- I mean, it would be whatever that number calculates out to be as of the end of December under our normal plan.

Q. And what would you need in storage on December 31st to meet a high-case scenario for January, February and March?

A. Well, here again, you know, you don't -- you don't sit at the end of December and say, I'm going to experience three, you know, historically cold months in January, February and March. You enter the month of January with an assumption of normal, and then if you get through January and it's been colder than normal, then you have to adjust going forward. That adjustment's going to be primarily with flowing supplies if you've pulled storage.

So, you know, I can't give you an answer across three months when the reality is if you, in fact, have cold weather, you're going to have a different

structure -- I mean, you're going to know what your storage balance is, and you have to make adjustments. You can't just say, gosh, as of the end of December I need, you know, whatever, 10 BCF just because I'm -- I'm currently forecasting I'm going to have 90 days of record cold temperatures. You don't -- it doesn't work like that.

Q. Well, then, let's go back to the end of November of 2000, when you've had -- already experienced colder weather, and for your final December plan, instead of pulling additional supplies or ordering additional flowing supplies, you instead shorted flowing supplies 20,000 a day. It seems to me there's an inconsistency between those two.

A. Well, you're talking about two different decisions. The first decision was, when we looked at our storage inventories, our projections show that we had pulled about 4.5 BCF out of storage, compared to our plan of 4.15 BCF out of storage.

So we're sitting there the 27th of November saying, okay, we're within 350,000 of our plan, which out of 17.8 BCF we said, you know, pretty close, especially given the fact we knew we'd have a cold November. So based on that, we didn't -- we made a decision not to make any adjustments on the basis of our storage inventories.

Now, we made a second decision, which was based on the prices and the expectation that prices would

decline, that we would short our flowing supplies by 20 million and seek to consciously pull more storage, since we felt we had adequate storage as of the end of November. Solely for the purpose of price issues.

Now, when it became obvious that wasn't the case, we went out and purchased incremental supplies on the 11th of December. We purchased 20 million a day and floated for the rest of the month.

So those were two different decisions that we made. You know, was the second one correct? No, obviously not. But it was reasonable at the time. And I will say we made the exact same decision in February and it was a good decision.

Q. You're planning January storage withdrawals in December of 2000. Did you look at how much storage you would have left for February and March 2001 if you had a cold January and assuming and knowing that you had only 30 percent of your total storage left?

A. What we did is we basically looked at the overall January numbers, and we knew that since our storage inventory was low at the end of December, that we had to pull a much smaller amount than planned for January. I think we reduced our planned January pull to whatever it was, 1.7.

Q. Knowing that storage --

A. Yeah, 1.7 as opposed to, like, 3.4, 3.5. So we cut our planned storage pull in half at that point in time.

Q. Knowing that storage was low at the end of December, did you evaluate the consequences of pulls on storage to meet a colder than normal January?

A. We did. We looked at that, and we felt we had -- that we could react either with flowing gas or with storage to meet that demand.

Q. And how would that be done?

A. As the month progressed, based on our weather forecast, we would know if we were ahead, colder than normal or warmer than normal. Obviously we'd have to get into the month a little way to see what the forecast was saying, but we could make adjustments in the middle of the month, if we need to.

Q. And would you still be able to meet the terms of the then Williams transportation contract?

A. Yes. The trans-- limitations on the transport contract -- you're talking about the TSS service contract that we have primarily?

Q. Yeah.

A. In the tariffs, the requirements are that if you're on a peak-day event, which, you know, is a fairly specified event, of your volumes 1/3 has to be flowing

within the production zone and then 2/3 of your takes come from storage deliverability.

The tariffs basically provide that as long as you have gas in storage, you can take your full maximum storage withdrawal capability on any particular day, and they also provide that you don't have to be -- essentially through a proceeding that we litigated in '95 with Williams at the FERC, the FERC ruled in our favor that basically we did not have to maintain the 1/3-2/3 split on any day other than a peak-day event. So we're free to adjust those ratios.

Q. Again, would you turn to your direct testimony, Schedule MTL-16, this time pages 62 to 64.

A. Page 62?

Q. Yes.

A. Yes.

Q. And I guess there are 62, 63 and 64.

A. Yes.

Q. When did -- at least according to these documents, when did the company decide to place hedges for February?

A. Document 62 was on January 12th. 63 was January 16th. 64 was January 18th.

Q. Generally mid January, would you say --

A. Yes.

Q. -- is that fair?

Why did the company wait until mid January to place most of these hedges?

A. Well, we were -- we had been in a rising market all the way from early November, which we didn't -- obviously did not expect it to continue rising. That's why we made a lot of decisions that we made previously.

Q. What was the price of these fixed volumes?

A. 8.49, 7.98 and 6.99.

Q. And those were for 20,000 a day each?

A. Correct.

Q. And wasn't the weighted average cost of gas in storage at that time about $4.25?

A. I'm sorry?

Q. Was the weighted average cost of gas in storage at that time about $4.25?

A. That's about correct.

Q. Ballpark?

A. That's --

Q. And it will be reflected --

A. That's what it would have been the entire winter. I mean, it's whatever the price was as of November 1st.

Q. Why didn't the company utilize storage withdrawals for hedges in February?

A. We did withdraw gas from storage in February.

Q. If Staff had used the approximately $7 mid-January hed-- February hedge cost instead of first-of-month pricing of $6.29 that is used in Ms. Jenkins' supplemental direct, wouldn't that have increased Staff's adjustment?

A. You'll have to ask Ms. Jenkins, but I assume any higher number would affect her calculations.

Q. In your supplemental rebuttal you compare Staff's estimates of volumes versus actual for various months and various winters. Have you done a similar comparison of MGE's estimates versus actuals for each of those months?

A. I'm sorry. Where are we now? You were referring to --

Q. In your supplemental rebuttal, you compare -- and I can't tell you exactly which schedule it is -- you compare Staff's estimates versus actual, and I just want to know if you did the same comparison for MGE's estimates?

A. I'm sorry. Which estimates and actuals are we talking about? Which -- what kind of actuals and estimates?

Q. I think it's MTL-41.

A. Okay. I'm there.

Q. Did you make a similar comparison for MGE's estimates?

A. No. What this -- what this schedule is --
Q. No. I asked, did you make a similar schedule using MGE's estimates, as opposed to Staff's?
A. Well, MGE did not run a regression analysis like this, so MGE did not come up with similar estimates to this.
Q. But -- go ahead.
A. You know, the intention of this was to basically point out the kind of, quote, estimates, that Ms. Jenkins came up with, which she could have essentially used actuals. So, I mean, that was the issue that we had with that.
Q. But at some point -- at any number of stages of the process, in planning and acquiring storage or gas supply, MGE makes estimates of demand, does it not?
A. Well, I mean, obviously at the -- as we're moving through the winter, we have both actual demand, or at least based on our telemetry, actual demand, flowing supplies and storage inventory numbers that we use, and clearly we use estimates going forward, which we have both weather forecasts for the next ten days and we estimate what type of demand is generated by that weather forecast.
And then we know on a monthly basis, you know, we have our predictions of what normal weather is that we normally start with. So, yeah, I mean, we have a mix of

actuals and estimates of all different kinds, every step of the way.

Q. And did you do a similar analysis of comparing estimates to actuals for MGE as you did for Staff?

A. Well, our -- I mean, this analysis --

Q. And this analysis, did you do an analysis comparing MGE's volume estimates to actual volumes?

A. Okay. Based on what Ms. Jenkins did, we didn't have to do any estimates. We used actuals.

Q. Not talking about what Ms. Jenkins did. Did MGE compare its estimates through the planning process, through the supply process to the actuals, volumes?

A. Yes, at the end of every month. We knew what our plan was going into the month, what our estimated demand was, what our planned flowing gas was. When we got to the end of the month, we knew what our actual flowing gas was, what our storage inventory was, and what our total demand was. Now, obviously based on telemetry that was subject to some adjustment, but yes.

MR. SCHWARZ: Okay. I think that's all I have.

JUDGE WOODRUFF: We're due for a break. So we'll come back at 10:15.

(A BREAK WAS TAKEN.)

JUDGE WOODRUFF: Okay. We're ready to get

started again, and we'll come back up for questions from the Bench, beginning with Commissioner Murray.

COMMISSIONER MURRAY: I pass.

JUDGE WOODRUFF: Commissioner Clayton?

COMMISSIONER CLAYTON: No questions.

JUDGE WOODRUFF: And I have no questions, so there's no need for recross. Any redirect?

REDIRECT EXAMINATION BY MR. DUFFY:

Q. I just have a few questions, Mr. Langston. Mr. Schwarz, early on in his questions, was asking you about the high case and low case in the reliability report, and there's also been testimony in this case about what the warmest month was.

My question is, is there any comparison or is low case in the reliability report the same as warmest month that we've been talking about? Can you compare and contrast the concepts of low case and warmest month? Are they the same or different?

A. Well, in general, I mean, when we look at warmest month, what we're looking at is what's the lowest demand, customer demand that we've had in a particular month. Take the month of November, if we look back at what was the actual customer demand, where our demand was the lowest in the month of November, which obviously is always a warm month and typically the warmest month, that's not

always the case, but when we do our planning we're looking at what's that low month. We also look at what's the high month. We'll look at both of them.

And the reliability report, those cases do look at, you know, warm and cold from the standpoint that it's more, you know, across the year, across the season. You know, it may not necessarily reflect the absolute lowest consumption in each and every month.

Q. So warmest month and low case are not the same thing?

A. No.

Q. Mr. Schwarz asked you a series of questions having to do with cash flow effects, and I think we covered this somewhat in the previous hearings. Have cash flow considerations or decisions ever affected the gas supply decisions of MGE or that you have made for MGE?

A. No.

Q. And have you ever had any directives from upper management to do something with regard to gas supply based upon cash flow considerations?

A. No.

Q. Do you recall that Mr. Schwarz asked you a series of questions and asked you to do some calculations, part of which were based upon numbers coming out of Ms. Jenkins' Schedule 8-1?

A. Yes.

Q. Is it your understanding that Ms. Jenkins has abandoned Schedule 8-1 in her supplemental testimony?

A. That's my understanding.

Q. There was also some -- a question that Mr. Schwarz asked you about is it possible to run out of storage too early in the winter, and you answered, yes; in fact, it occurred in 1996. My first question is, what happened in 1996 with regard to storage?

A. Well, the '95-'96 period had been relatively cold overall, and on February 1st there was a very, very severe cold weather event that hit in the midwest, all the way south -- all the way through Missouri and south of Missouri. And during that time frame there were extremely high pulls on storage and also very high price fights that occurred. Gas prices hit $39 at the Chicago citygate, for instance.

During that time frame, there were companies, particularly several on the Williams central system, that had contracts for storage capacity and had storage gas on the central system where they had actually consumed all their storage gas prior to that event.

And, therefore, when they continued to take gas during that time frame, they were subject to substantial penalties on the central system as a result of that. Many

of those penalties were ultimately rebated in part to MGE, since MGE was not an entity that was out of storage at that time frame.

Q. So when you said that some companies ran out of storage in '96, you were not including MGE; is that right?

A. No.

Q. There was also some discussion with Mr. Schwarz about the decision that I guess you made to short 20 million in December and also in February. What I'd like you to do is just briefly give me a layman's explanation of what you were trying to accomplish, what sort of a transaction that was, so that maybe we can better understand what was going on and what the results were. And I wanted to -- you said you did the same thing in February. So just tell me briefly what kind of a transaction you were talking about.

A. Well, it was just when you have a plan to purchase a certain amount of flowing supplies and then in this -- in these cases we made a conscious decision to not purchase 20 million a day of flowing supplies, based on our expectations that prices would fall. So the idea was, don't purchase the higher-cost flowing gas, we can utilize storage in the interim, and then at a later date we can either repurchase that gas at a lower cost to save the net

difference or, depending on the weather, our storage volumes may be adequate.

Q. If the events had transpired as you had anticipated, who would have benefited from that transaction?

A. The customers.

Q. And why? Why would the customers benefit?

A. Well, whatever costs we incurred are flowed through to the customer. So obviously to the extent that we can have an overall net lower cost, that's a benefit for the customers.

Q. So you made a decision both in December and February that you thought prices were going to be lower in the future, and so you decided to act on that assumption, and in one case it turned out -- your assumption turned out to be correct and the other case it turned out to be incorrect; is that right?

A. That's correct.

Q. And so -- and you said that the February decision turned out to be correct, so what did that mean, that -- what did that mean?

A. We avoided purchasing the higher-cost gas and so the customer got the benefit of lower-cost supplies.

MR. DUFFY: I think that's all I have.

JUDGE WOODRUFF: Commissioner Gaw, I believe, has some questions for this witness. After he's asked his

questions, I'll give you a chance for further recross and redirect.

CHAIRMAN GAW: Thank you, Judge.

QUESTIONS BY CHAIRMAN GAW:

Q. Good morning.

A. Good morning.

Q. Would you mind for me framing up where we are today in regard to this -- this continued hearing from several months ago, and give me your perspective on the very general issues that are in front of the Commission as of now.

A. Let me do my best. I guess my view is that there's -- there was four basic issues in this case, the last two kind of sometimes being considered a single one, but my view is there's four issues. The first was the Mid-Kansas Partnership/Riverside Pipeline issue, which was a disallowance for transportation capacity related costs on that system. That issue, as I understand it, has been deferred or it's in the similar state as the same issue in the previous cases, all the way back to the '97-'98 time frame so --

Q. It's not a part of this particular hearing?

A. It's been set aside.

Q. Would that be correct?

A. Correct.

Q. Not a part of this particular hearing? Go ahead.

MR. DUFFY: Well, your Honor, the Commission issued an Order bifurcating, and that issue is put aside or held in abeyance pending judicial review, I think is probably the better way to characterize it. So it technically is a part of this hearing, but the Commission has chosen not to deal with it at this time.

CHAIRMAN GAW: That's fair.

BY CHAIRMAN GAW:

Q. Go ahead.

A. The next issue is the capacity release issue on the Riverside Pipeline system. The Staff has taken the issue that MGE should have generated some dollar amount of capacity release credits on the Riverside Pipeline system. The company's taken the position that that capacity had no market value, and there's a lot of information in the proceeding regarding that particular issue. So that would be the second issue.

I guess the next issue under -- sometimes under purchasing practices are two-part. One is a hedging adjustment. The other is storage -- kind of operational storage utilization.

The hedging is a -- the Staff has a 30 percent hedging standard that they have proposed in this proceeding,

stating the company should have hedged either by storage or by financial market transactions 30 percent of its normal expected volumes by month across the winter. And as a result of their calculations, they proposed -- I think Ms. Jenkins has adjusted the number in the second part of this hearing to approximately $130,000. Previously it was 610,000 or 615,000.

The company's position is that across the winter we hedged 38 percent of our volumes, and to hold us -- No. 1, we don't think the 30 percent standard is -- should be applied, based on the fact that we had no knowledge of a standard such as that, and that applying it on a monthly basis is not reasonable, given the fact that Laclede was granted flexibility just prior to this winter to actually hedge no volumes on any particular month. So that's kind of a summary of that issue. I'm sure the Staff has their own takes on some of this.

The storage utilization, the Staff is -- they originally had a -- I guess my summary is their view was that MGE took too much of their storage in November and December. It did not reserve it for the colder months of January, February and March.

Now, that was in the earlier part of the proceeding. Our view is they've kind of got a different take on that at this point in time. And I think from a

process standpoint, I think the process that the Staff is using is frankly very similar to the decision process the company went through, through the winter.

There's clearly differences on the starting point in the month of November as far as what storage should be consumed. As a result, I think the primary kind of disallowance calculation the Staff has now is in the month of February, as opposed to the -- originally it was January, February and March. I think the total is 2.5 million or 2.9 million, somewhere in that range is the Staff's proposal at this point in time.

Q. Okay. Is that everything?

A. I believe that's it.

Q. Let me back up then on the -- if you would, give me a little more detail on the change that -- in Staff's position since the last hearing that we had several months ago in regard to their adjustment. Go through that with me, if you would, in a little more detail.

A. I think the Staff basically came up with a -- a different storage utilization profile now versus what they were using before.

Q. Okay. Explain what they were using before, if you wouldn't mind, and then tell me what they're using now.

A. Okay. And you know there's a lot of testimony on these issues. My understanding is, what the Staff did is

they took a -- took the total storage capacity basically, or virtually all of it, profiled it across the winter months based on heating degree days, and then took that profile and made some adjustments based on how cold the various months were during the winter.

So they kind of took this heating degree day profiled number, adjusted it to come up with what they felt would be kind of, quote, expected volumes, and then they calculated the difference between their expected volumes and what we did and calculated a disallowance.

The result was credits in the months of November and December, credits being primarily because, since we took more gas in November and December than what the expected numbers were, then that resulted in a credit. And then in January, February and March we took, according to the first calculation, less volumes out of storage than the expected numbers, and so consequently there were kind of charges or disallowances proposed for those months, and then the net being about $8 million.

I guess I would characterize the approach now more from the standpoint that the Staff has looked at flowing gas supply levels, they've done this regression analysis and said, okay, we've got this regression analysis of what we think base load and heat rate factors ought to be, and on that basis, then, we're going to calculate what

we think the demand should be and we're going to look at flowing gas supplies. They make some kind of a new profile of flowing gas supplies, and then storage kind of falls out after that, which is a little different approach.

You can look at storage first or flowing gas supplies first. This is a little different, in my opinion, approach than what the Staff did originally. And so it comes out with a different storage profile, which actually shows, I think, higher takes in November and December, very low takes in January, very similar to our profile, but then has high storage withdrawals in February, and then, of course, a little lower in March.

The result is that profile is much closer, I guess, if you will, to what the company's profile turned out to be. So the differences between kind of the, quote, new expected numbers versus the company's numbers were -- you know, were different and only the month of February has a larger disallowance calculation in it, which I think is 6.2 million, and the credits in the rest of the month where the net amount is 2, 2.5 million.

Q. Okay. If Staff had continued with what you believe their methodology was, as you've just described in your earlier hearings, again -- and I know this is in the written testimony -- what would be the proposed adjustment by Staff or that you believe Staff would have made? How

much in amount if they had stayed with their original methodology, based upon the new calculations?

A. Yeah. At the end of the hearing last time, I think the primary issue was in the use of the warmest month data, and if you just go in and correct November and December, which is kind of what was being discussed at the end of the last hearing, and stayed with the original methodology, the disallowance drops from, like, 8 million to like 182,500-some-odd dollars.

So that would have been -- kind of adjusted Staff's disallowance, had they only made those adjustments. And Ms. Jenkins discusses that.

Q. The rationale from the company's standpoint of utilizing as much from storage as was utilized in the year in front of us here, again, was what? Tell me what the basis of that -- of the plan was and the actual usage. I know that's already -- there's already testimony.

A. Sure.

Q. Refresh my memory.

A. I think the -- you know, if I could break that into two parts, one being the plan and one being --

Q. Yes.

A. -- actuals.

Q. I agree.

A. On the plan, I think the primary difference

between what the company has and where the Staff is is our planned levels for November. That would be -- I mean, obviously it makes their other numbers a little different, but overall, that's, I think, the key issue on the planning side.

Our plan is to -- is to have lower flowing gas supplies and consume more storage gas in the month of November than what the Staff has. Our storage takes approximately 4 million MMBtus or 4 BCF, and roughly in round numbers 3 BCF of the flowing supplies, the Staff is at a higher flowing level and a lower storage withdrawal for November, and then obviously that affects the rest of the numbers.

Setting that aside, then obviously you have that difference kind of going into the winter, but then November and December, as far as actual storage withdrawals, are basically driven by the weather. And then as a result, since you have strong pulls in November and December, then there's adjustments to increase flowing supplies in January, so that, you know, you don't pull as much storage gas in the month of January.

And I think in the latest Staff approach, again, other than the starting point, the November plan, their profile is very similar. I mean, both of them result in a very low storage take in January, the reason being

primarily that January was -- in this particular year was a month with, like, 90 percent of normal weather. In both cases had we had normal weather there would have been more gas taken in January, but in this case it was a low number.

The difference is because the Staff starts at a different place in November than we do, as far as how much is planned to be pulled, then at the end of January in their forecast they have a higher storage number than what we had. And so, therefore, there's more storage gas to allocate across February and March. And that's, I think, what generates the primary larger storage utilization in February in the Staff's proposal than what the company did.

Q. And then your actual usage as far as the month of November was concerned in comparison with your planned usage, how did that compare?

A. Let me discuss that at two particular points in time. When we were at the end of November, at November 27th, based on the telemetry data that we had and the numbers that we were getting from -- well, it was Williams at the time, but Williams Central, however you want to refer to them, we thought we were -- had withdrawn a little over 4.5 BCF out of storage, compared to 4.15, which was kind of the number we were shooting for. So we thought we were kind of close as of November 27.

In the middle of December, around the 12th,

15th, somewhere in there, we actually got our final, you know, storage numbers from Williams as of the end of November, and we found out that what the telemetry had told us, they had some measurement adjustments, and we had consumed about 900,000 MMBtus more in November than we thought we had consumed.

So that made a big adjustment for us. That on top of the colder weather in December is also what led us to flow more gas in January.

Q. Well, I think earlier in your testimony today -- correct me if I'm mistaken -- you indicated that part of the rationale for the company's decision to utilize storage at some point in this had to do with the company's belief that prices on flowing gas would be coming down?

A. Yes.

Q. Help me to understand when that was a part of your decision-making in regard to that year, whether that had to do with the plan itself, whether it had to do with your adjustments to the plan as you were moving along.

A. Okay. That was in -- we made that decision on November 27th. As of that date, our view was that we were roughly 350,000 MMBtus -- we had consumed about that much more out of storage in November than we had originally planned. We felt that was fairly close. So going into December --

Q. Excuse me for interrupting. That was based on your numbers that you knew at the time at November 27th, not what you learned later?

A. Correct.

Q. Okay. I'm sorry. Go ahead.

A. So from a storage standpoint we felt we were -- you know, recognizing it had been cold, we thought we were in relatively good shape. We did not have any concerns. So we were making a different decision in December as we were looking at our December planned flowing gas and storage withdrawal numbers, and there we made a separate decision and said, well, based on the forecast, you know, we think prices are going to decline, so we will not purchase 20 million a day of flowing gas supplies on a conscious base, and then consequently use 20 million a day of storage capacity.

And then to the extent that prices decline, we have the option to go out and purchase that gas at a higher cost, or if weather is warmer than normal, utilize that storage gas, we would have then two options on how to deal with that. I mean, frankly, in the case of December, it became very clear that December was -- after the first week or so of December, it was -- the forecasts were getting very cold. So we started purchasing incremental supplies about the 10th or 11th of December.

Q. Okay. And again, what was the date that you had the information about the storage usage being -- data being incorrect or different from what you thought it was?

A. Around the middle of the month. There's a schedule in here. I can get you the exact date, if you want it.

Q. Was it after the date that you just described in December?

A. Yes.

Q. Within a few days, do you think?

A. Can I look real quick?

Q. Go ahead.

A. I don't find that exact date in here. The closest date is December 19th and 20th, when we were looking at the actual TSS balance. I want to say they come in around the 15th or 16th of the month.

Q. Okay. After you received that information, what did MGE do in response to learning that again?

A. Then that factored into, I mean, we updated all our storage inventory numbers at that point in time, which actually showed us to have a much greater pull than we were expecting. We also knew December was also very cold at that point in time. So that's when basically we planned to have a lot higher flowing gas levels in January.

Q. And what was the cause of the error in the

difference in what MGE believed they had utilized and what Williams disclosed, do you know?

A. We asked that question. We never got a really satisfactory answer. They told us basically that it was a measurement-related adjustment that they were making.

Q. Were you -- if you know, were you the only company that had that occur with Williams?

A. It was our understanding that there were several others that -- they made this adjustment in their storage allocation calculations pretty much across their inventory. So it was my understanding that that was probably true for just about everybody, but we didn't ask for sure. We didn't call the other companies and ask them.

CHAIRMAN GAW: I understand. I think that's all I have, Judge.

JUDGE WOODRUFF: Commissioner Murray, did you have any questions?

COMMISSIONER MURRAY: I don't believe so. Thank you.

JUDGE WOODRUFF: Any recross based on questions from Commissioner Gaw? Kansas Pipeline?

MR. KEEVIL: No, your Honor.

JUDGE WOODRUFF: Staff?

FURTHER RECROSS-EXAMINATION BY MR. SCHWARZ:

Q. My understanding is that you intentionally

scheduled to use more storage gas in November than the normal heating day demands would indicate. That is November's -- November's not the colder month, but you planned to use more storage in November than strictly going by when you expect the coldest weather; is that correct?

A. Well, that's the result. Let me rephrase that. What we look at is when we have -- assuming normal November customer demand, yes, we will consume approximately 4 BCF of storage in November.

What we're looking at is setting our flowing gas level at a level where we know that on a day, and for the month, we will not be in a situation where if we have a warm November that we'll be looking to inject gas into a storage facility that is full.

Q. Understood. But you understand that if you were looking at allocating storage in the same proportion as the cold weather is distributed, you hit storage harder in November than the cold weather would dictate; is that correct?

A. If you just look across the month based on heating degree days, that would be correct, but obviously, you know, our position on it varied in November.

Q. Right. But by November 27th you realized that the weather had been colder than normal; is that correct?

A. Yes, but we also thought we were very -- we

thought that if we were only 350,000 Ms over our planned storage level for the November that we had had to that point, we actually thought that was very good.

Q. Did you do any calculations just as a check to see if the degree to which weather was colder than normal matched the increased storage pulls that you had had?

A. Normally on our sheets what we really look at is what the -- what we call the heat rate factor, which I think Ms. Jenkins -- I think she has a different term for it, but -- heat load factor, I think is what she uses.

We actually look at calculating that factor each day as we roll through the month. So we keep our eye on how that is, but to the extent that our telemetry, which normally is accurate, is telling us this is what our numbers are, that's normally what we utilize.

Q. Okay. But so then did your calculations indicate that there might be a difference between what you thought you had pulled or what you would have expected to have pulled and what Williams was reporting to you?

A. No. I mean, our heat load factor is also, I mean, based off what our consumption is as reported by our measurement. So we're looking at that and saying, okay, we calculate a heat load factor that's -- you know, whatever it is, 6,000 BTUs per cubic foot, for instance -- or I mean, 6,000 per 100. So we're looking at that and we're saying,

okay, our consumption was lower than heating degree days would otherwise tell us, but our heat rate factors don't look that far out of line.

Q. And, I mean, is that -- those calculations, have you provided those to Staff?

A. Those are -- those are shown on the daily sheets, and I believe we've given Staff copies of each of those and how those progress through the -- through the month. I mean, we don't really do anything other than just look at what the series of numbers is, you know, when we're doing our planning at the end of the month, because we've also got our measurement data that's also telling us also what our projected numbers are.

Q. Right. Right. So what you're saying is that it was -- the month was 26 percent colder than normal, and any calculations that you had done didn't cause you to -- your estimators wouldn't have estimated that for 26 percent colder than normal, that your consumption would have been any different than Williams was reporting; is that correct?

A. That's correct.

MR. SCHWARZ: That's all I have.

JUDGE WOODRUFF: Thank you. Any redirect?

FURTHER REDIRECT EXAMINATION BY MR. DUFFY:

Q. I just want to hit a couple points briefly. First thing I would like to ask is, why does MGE plan

November the way it plans November?

A. Well, our view, and it's reflected in testimony, is November's the most volatile month that we have. While November, by tariff, in interstate pipelines is a withdrawal month, the reality is you can have significantly warm weather in the month of November. The primary difference in November versus other months is that storage is full.

At the end of October, storage on the interstate pipeline systems are basically full. They may have a little capacity left, but for all intents and purposes, it's virtually impossible for interstate pipeline to allow a company to inject a lot of additional volumes in the month of November.

So from our standpoint, from a planning standpoint, we have to be careful that we don't schedule flowing gas to the point that the weather's -- you know, there's some flexibility in the system. You can do it for a day or two, but you can't have a prolonged period where you're asking an interstate pipeline to inject gas into storage or else they'll give you an operational flow order and basically you have to -- have to dump gas.

Q. If you had to sum up the reason for November being the way it is, would it be flexibility?

A. Yes.

Q. Why does -- or if you know, why do you think that the Staff's November expectations or plan, whatever you want to call it, differs from what MGE's November plan is? What's the difference?

A. I think personally theirs is a calculated number. They've taken the heating degree days and done an allocation. It all sounds really simple and straightforward and all like that. Ours is really, especially for the month of November, based more on what we've experienced on an operational basis, as far as how those variabilities occur and how often do we get calls from the interstate pipelines about having more gas on the system and that sort of thing.

Q. In one of the responses to Commissioner Gaw's question, you were exploring the fact that the Staff changed its position on this storage utilization issue from what we were aware of back in May in those hearings to what we are aware of now. When did MGE find out that the Staff had changed its position?

A. That was when Ms. Jenkins filed her supplemental direct testimony.

Q. Did MGE try to find out whether the Staff was going to change its position or not earlier than that?

A. Yes.

Q. And how did it do that? How did it attempt to do that?

A. There was a Data Request that we sent.
Q. And do you remember when that was?
A. Shortly after the last hearing. No, I don't remember the exact date.
Q. But the essence of that Data Request was, if you're going to change your position, tell us what it is. And do you remember what the response generally was to that?
A. Just that whatever the position would be reflected in the supplemental direct testimony.
MR. DUFFY: That's all I have.
JUDGE WOODRUFF: Thank you, Mr. Langston. You can step down. And Staff can call their witness.
MR. SCHWARZ: Lesa Jenkins.
MR. DUFFY: While we're doing that, your Honor, I have -- I have seven sets of those documents that I I had not come up with enough copies of earlier, or six.
JUDGE WOODRUFF: Those were Exhibits 30 through 35.
MR. DUFFY: Right.
JUDGE WOODRUFF: And so that the Commissioners understand what these documents are that I'm handing out, these were documents that in the hearing back in May MGE had offered -- had requested that the Commission take administrative notice of these documents. That request was denied at that time, and so these documents are being

offered now as an offer of proof. So they're not being admitted into evidence at this time, but they are a part of the record for that purpose.

And, Ms. Jenkins, I don't believe I've sworn you yet.

(Witness sworn.)

JUDGE WOODRUFF: You may inquire.

LESA JENKINS testified as follows:

DIRECT EXAMINATION BY MR. SCHWARZ:

Q. Good morning.

A. Good morning.

Q. Are you the same Lesa Jenkins who caused to be filed in this proceeding supplemental direct in an NP and HC version which has been marked as Exhibit 36?

A. Yes.

Q. If I ask you the same questions today as are propounded in your prefiled testimony, would your answers be the same?

A. Yes.

Q. And are those answers true and correct to the best of your information, knowledge and belief?

A. Yes.

MR. SCHWARZ: I would offer Exhibits 36NP and 36HC into the record.

JUDGE WOODRUFF: All right. 36NP and HC have

been offered into evidence. Are there any objections to their receipt?

(No response.)

JUDGE WOODRUFF: Hearing none, they will be received into evidence.

(EXHIBIT NOS. 36NP AND 36HC WERE RECEIVED INTO EVIDENCE.)

BY MR. SCHWARZ:

Q. Likewise, did you cause supplemental rebuttal testimony to be prepared, which has been marked as 37NP and 37HC?

A. Yes.

Q. If I ask you the same questions, would I get the same answers?

A. Yes.

Q. And are those answers true and correct to the best of your information, knowledge and belief?

A. Yes.

Q. Do you have any corrections to it?

A. No.

MR. SCHWARZ: I would then offer Exhibits 37NP and HC into the record.

JUDGE WOODRUFF: 37NP and HC have been offered into evidence. Are there any objections to their receipt?

(No response.)

JUDGE WOODRUFF: Hearing none, they will be received in evidence.

(EXHIBIT NOS. 37NP AND 37HC WERE RECEIVED INTO EVIDENCE.)

MR. SCHWARZ: I tender the witness for cross.

JUDGE WOODRUFF: And for cross-examination, Kansas Pipeline?

MR. KEEVIL: No questions at this time, your Honor.

JUDGE WOODRUFF: MGE?

MR. DUFFY: Yes.

CROSS-EXAMINATION BY MR. DUFFY:

Q. Good morning, Ms. Jenkins.

A. Good morning.

Q. I have a few questions regarding your overall storage utilization proposal. And so I'd like to start with Exhibit 36, your supplemental direct testimony. Do you have that?

A. Supplemental direct?

Q. Yes, ma'am.

A. Yes.

Q. Would you turn to page 13, please, and I want you to look at line 20. There's two sentences there. The first one starts with a general explanation. I would like you to just read into the record those two sentences on

lines 20 and 22.

A. A general explanation of Staff's calculation is that planned storage withdrawals follow the same distribution as the distribution of normal heating degree days. Thus, greater withdrawal of natural gas from storage is planned for the coldest heating season months.

Q. So that your testimony is, under your proposal, planned storage withdrawals will follow the same distribution as the distribution of normal heating degree days; is that right?

A. Yes.

Q. Isn't it true that your later spreadsheet analysis uses your estimate of warmest month requirements rather than the distribution of normal heating degree days to calculate your latest disallowance proposal?

A. It uses both of those.

Q. Is it your testimony that your spreadsheet calculations utilize normal heating degree days to actually calculate the number that results in a recommended disallowance?

A. It goes back and compares where storage is based on what the new nominations are to what they expected to be for normal weather. So, yes, that comparison is done. So you have to go back and look at what normal is. So that looks at normal heating degree days.

Q. What I'm trying to get at, though, is in your spreadsheet there are numbers that are, for lack of a better word, drivers that result in calculations, the net result of the calculation being what it is.

And the point I'm trying to make is, are you telling me that the actual numbers that drive the calculation are based upon -- come from normal heating degree days or do they come from your warmest month calculations from your regression analysis?

A. The flowing looks at warmest, but when you're looking at is storage where it's expected to be, which is one of the checks that's done in those work sheets, you're going back and comparing it to where you expected it to be for normal.

Q. Let me try it this way. If you totally took out of your spreadsheet the normal heating degree day numbers, would the answer that you get be the same as what it shows right now?

A. It would invalidate the work sheet, because you're inserting the numbers that's the comparison you're doing for storage. It uses those normal heating degree days to look at, is storage where you thought it would be?

Q. Do you have Mr. Langston's supplemental rebuttal testimony there?

A. Yes.

Q. Would you look at his Schedule MTL-39, and can you agree with me generally that MTL-39 is a copy of the work paper you used to prepare your revised disallowance that you present on Schedule 5 of your supplemental direct testimony?

A. Yes, it appears to be that.

Q. Okay. I would like you to look at page 7 of Schedule MTL-39, and look in your Table 3-1, which is lines 66 through 72. You are reflecting in that table, based upon the heading that's shown in line 65, what Staff's expected storage withdrawals would be, based upon the distribution of normal HDD, or heating degree days; is that right?

A. Yes.

Q. In column D, line 67 in that table, the number there of 2,474,336 means that you would expect MGE should withdraw that amount from storage in November based upon the distribution of normal heating degree days; is that right?

A. Yes.

Q. And you would agree with me that 2,474,336 MMBtu is roughly 2.47 BCF?

A. Yes.

Q. On that same page, let's look at Table 3-2, specifically line 83, column D, you've proposed a daily storage withdrawal amount of 93,474 MMBtus per day in November; is that right?

A. Yes.

Q. But that's a daily number as opposed to a monthly number, isn't it?

A. Yes.

Q. So if we multiplied that number by 30, which is the number of days in November, we'd get a monthly storage withdrawal for November that you'd recommend; is that right?

A. Yes.

Q. Could you do that, please?

A. 2.8 million.

Q. Okay. So that would mean that you're assuming MGE should have withdrawn approximately 2.8 BCF from storage for November; is that right?

A. Right.

Q. But the amount of storage that would be withdrawn based on the distribution of normal heating degree days would be the number we discussed earlier, namely 2.47 BCF; isn't that right? That's the number in line 67, Column D.

A. Column D, line 67, is the normal distribution. It's taking the maximum storage quantity, it's subtracting off 500,000 that the company allows for injections. So part of the difference there is that in Table 3-1 we're including the ISS storage.

Q. And part of it is that you've calculated it on a warmest month demand rather than heating degree days?

A. I brought it up to warmest month, yes, less than ISS.

Q. As you explained in your deposition that we took in -- October 30th, I believe, for the other winter months, December through March, you adjusted your proposed normal storage withdrawal amount either downwards if more storage had taken in the previous months or upward if less storage had been taken in the previous months; is that correct?

A. Yes.

Q. So for December as shown on line 83, column F, you're proposing a daily storage withdrawal for December of 85,031 MMBtu per day; is that right?

A. Yes.

Q. But that number has been adjusted downward by 22,212, which shows up in line 82, column E, due to the fact that MGE used more storage than you believed should have been taken for November; is that right?

A. Yes.

Q. So if we were to exclude this over or under storage adjustment that you made for December and assume that November was normal, you would recommend in normal conditions that the storage withdrawal in December should be

85,031 MMBtu per day, plus the 22,212 MMBtu per day added back; isn't that right?

A. I don't know that you can ignore -- even if November had been normal, you're still going to go back and check to see what storage was really pulled, and it could still be over or under and you may be making adjustments.

Q. But if we add the 85 and the 22, 85,000 and the 22,000 together, your proposed daily storage withdrawal for December under general, normal conditions would be about 107,243 MMBtu a day, wouldn't it?

A. It's 110.8 here, yes.

Q. I'm sorry. If you add 85,031 and 22,212, you get something other than 107,243?

A. I didn't understand the question. Just a minute. 107,243.

Q. Okay. But that number, again, is a daily number. So since there's 31 days in December, can you multiply that number by 31 and tell me what you get for a storage withdrawal number for all of December?

A. 3,324,533.

Q. Okay. So under normal conditions, your proposal would assume MGE would withdraw approximately 3.3 BCF of storage in December; is that right? Again, we're assuming that the over and unders go away and it's normal.

A. I'm trying to follow you here, Mr. Duffy. The

normal that I'm showing here in column E is 110,778. And I understand that you asked me to add the 85 number and the 22 number, but that 85 number also considers what warm weather was. So if you're going back to purely normal, it would have been that 110,778 times 31.

Q. Okay. What's that number?

A. 3,434,118.

Q. So your perception of a normal December would be approximately 3.4 BCF from storage withdrawals; is that right?

A. Just a minute.

Q. All I asked you was if that number you gave me in MMBtus were translated to BCF, it would be 3.4 BCF?

A. Yes. It is taking me a minute to catch up with what you're doing here. We're looking at row 83, which is the subtotal of daily storage withdrawals. And I have to back up a minute here. If you go to row 80, it says, daily demand to be met with storage withdrawals. That's the normal number. That 110 number there is already subtracted off that 22,212 number.

So I'm sorry for the confusion, but I'm confused, I guess, just not understanding the questions. But if you go back up to row 80, it says, daily demand to be met with storage withdrawals, and that's going to be your normal numbers.

Q. Well, but you're not using those numbers, you're using the numbers in column M that you revised; isn't that true?

A. Yes. But the question, as I understood it, is what did you plan on for normal? If you're saying normal adjusted for storage over and underage, then, yes, that 110,778 number, which is normal, it's 132,990.

Q. Okay. Let's try it this way. If we look back in Table 3-1, the distribution of normal heating degree days suggests for December that MGE should withdraw 4.1 BCF of storage for December, and that's the number that appears in line 68 of B; isn't that true?

A. Yes.

Q. So the numbers that you get through your spreadsheet analysis for storage distribution differ from the numbers that are shown in your Table 3-1 that would follow a normal heating degree day distribution, don't they?

A. No. If you take that 132,990 number and multiply it by 31, you get your 4.1 million number. I think there's just a confusion about which storage numbers are being used when. If you look at row 80, those are the numbers where it's taking the numbers from Table 3-1 and they're dividing them by the number of days in the month.

Q. Well, let's try it this way. Under normal conditions, are you saying that MGE would experience or

should operate a system in the manner shown in your column E or your column F?

A. The normal would be in column F, but it's already considered storage overage in November, and it's also considered warmest weather that's shown there in column E.

I mean, you can't -- when you move on to December, you can't just say, I'm going to assume normal, because November's pretty much happened when you're making your plans for December. You have to consider what you know about November when those decisions are being made.

Q. You would agree with me, generally, wouldn't you, that local distribution companies have historically attempted to fill their storage facilities in summer months when natural gas prices have been lower than in winter months?

A. Summer, if you mean as early as April and as late as October, yes.

Q. Yes. The normal filling season for storage is what I'm talking about.

A. Yes.

Q. And in the hedging issue in this case, you've given MGE credit for using its storage as a physical hedge, have you not?

A. Yes.

Q. Hasn't MGE historically followed a plan that utilizes nearly all of its storage gas each year under normal conditions?

A. The plan for normal, yes, they -- they have some provision where 500,000 is not filled to allow for injections in November and they allow 500,000 in March, I guess for variations in March and possibly April.

Q. Do you remember in your deposition we took on October 30th, 2003, when I asked you to total up a series of numbers shown in work papers and when we did -- or when you did that, we established that your newly estimated normal winter demand was 51,386,089 decatherms or approximately 51.4 BCF?

A. I don't recall, but yeah, we agreed that we were close, that we had the same number.

Q. Okay. Do you want to see your deposition where you got that number?

A. No. I believe you're quoting it right.

Q. And we also established that your analysis assumed warmest month demand in a normal winter total 37,399,863 decatherms or, in other words, flowing supplies in your plan would be approximately 37.4 BCF, do you remember that?

A. I remember the discussions, yes. I don't remember the exact number, but that sounds right.

Q. Okay. And the difference between a total winter demand of 51.4 BCF and flowing supply of 37.4 BCF is approximately 14 BCF. Do you remember we established that?

A. Yes, and -- but I also said that it wasn't that simple. Even if weather's normal, at the end of November you're still going to be looking at, is storage where you expected it to be, at the end of December, at the end of January, at the end of February?

So even if the weather is truly normal each and every month, you're still going to be looking at where is your storage balance versus where you expected it to be? And if it isn't where you expected it to be, you're going to be making changes.

Q. You made some changes to your storage utilization analysis in your supplemental direct testimony, and I believe you stated in that supplemental direct and supplemental rebuttal that you have not changed your overall approach for evaluating MGE's utilization of its storage; is that right?

A. Yes.

Q. Your original storage utilization disallowance was reflected on Schedule 8-1 of your direct testimony; is that right?

A. Just a minute. Schedule 8-1 is the calculation of the adjustment. The storage numbers are in

the same table and work papers, which in my direct testimony are on Schedule 13-2, Table 3-1.

Q. But you told us -- the original storage disallowance recommendation of $8,051,049 appears on your Schedule 8-1, doesn't it?

A. Yes.

Q. And that's at line 16, column R?

A. Yes.

Q. And you've told us in the deposition and in your testimony you're no longer supporting that calculation; is that correct?

A. Yes.

Q. If we look at your original disallowance recommendation, in column R on Schedule 8-1, you had proposed that there should have been a storage charge that is a disallowance in three of the five winter months, namely January, February and March; is that right?

A. Yes.

Q. And the largest of those was in January, where you were proposing a disallowance of approximately $6.2 million; is that right?

A. Yes.

Q. Let's turn now to your Schedule 5 of your supplemental direct testimony. Can you tell me on your Schedule 5 what column and what lines correspond to column R

in Schedule 8-1, where we will find the disallowances by month?

A. Excuse me. For storage -- revised storage credit or charge is in column F in rows 20 through 24, with row 20 starting with November.

Q. Okay. Now, in that particular calculation, you're only proposing a disallowance in one of the five months, instead of three of the five months that you had previously; is that right?

A. That's the way the math comes out, but you can't take any month singly. I mean, you have to see how the other -- how the month -- how each month progresses. So I don't like to characterize it like that, but yes, if you're looking at is it a credit or a charge, the charge is in February.

Q. So that means under your new proposal there would be a benefit of MGE's storage actions in four of the five winter months or, in other words, a credit instead of a disallowance in four of the five winter months; is that right?

A. There is a credit in four of the five months.

Q. So to briefly recap, in your original proposal you were proposing a disallowance in three of the five winter months, but now you're only proposing a disallowance in one of the five winter months; is that right?

A. That's the way it comes out, yes.

Q. And the largest disallowance you were proposing previously was attributable to January, but you're not even proposing a disallowance attributable to January now; isn't that right?

A. That's correct. There's a credit for January.

Q. I want you to turn back to your direct testimony, Exhibit 12 in this case, and look at page 13 or go to page 13.

A. I'm sorry. What?

Q. Page 13 in your original direct testimony, which is Exhibit 12.

A. Okay.

Q. I'm looking at lines 20 through 23, and there you say, in particular Staff believes that MGE relied too heavily on storage withdrawals rather than flowing natural gas supplies in November 2000 and December 2000. Using higher levels of flowing supplies in November would have preserved storage for the normally colder months of December and January. Is that your testimony?

A. Yes.

Q. Is that still your testimony?

A. That testimony pertains to these schedules. I still believe that they pulled too much storage early on. In this case, it impacts them in February.

Q. Reserving storage for the normally coldest month of the winter, January, was the primary premise of your original disallowance recommendation, was it not?

A. I guess I don't understand that question.

Q. You wanted -- one of the goals, based upon what you're saying here on page 13, is you wanted MGE to preserve storage for the normally colder months of December and January. And I'm saying that was a premise of your original disallowance, that you wanted MGE to preserve storage so that it could be used in the normally coldest month, January; isn't that true?

A. Yes. If you look at the distribution of heating degree days, December and January typically have colder weather than November, but so does February.

Q. And in your supplemental testimony, your position is still that you have not changed your rationale for calculating a disallowance; is that right?

A. That's correct.

Q. Specifically in your supplemental direct testimony, Exhibit 36 on page 13, lines 22 through the top of the next page, you say, the purpose of the storage withdrawal approach laid out by Staff is that by purchasing more FOM, meaning first of the month, natural gas, the company would preserve storage volumes, so that natural gas from storage is available in later winter months when

potential for colder weather is still great, and to ensure that storage is available to meet the pipeline constraints in each of the heating season months. Did I quote you accurately there?

A. I believe so. I didn't catch the page, but yes.

Q. Therefore, as you say there, a premise of your proposal is that MGE should have storage available in January, as well as in February and March, due to the potential for cold weather, correct?

A. Yes.

Q. If we go back to your Schedule 8-1 from your direct testimony, though -- if you'll get that in front of you.

A. Okay.

Q. In column F on that Schedule 8-1 in Exhibit 12, you presented Staff's expected storage withdrawals; is that correct?

A. Yes.

Q. What was Staff's expected storage withdrawal for January 2001 upon which your original disallowance was premised?

A. 1,257,104.

Q. Could you add up for me the numbers that show on that schedule on lines 13, 14 and 15 in that column F, so

that we have a total for January through March?

A. We're talking actual weather here now, but yes, I'll do that. 7,894,663.

Q. Right. That's the number I got. So, therefore, in your direct testimony, the disallowance that you were proposing there was based upon MGE withdrawing nearly 7.9 BCF of storage in the months of January, February and March as we just established; is that right?

A. For actual weather. This isn't the plan, but yes.

Q. Now let's go back to your supplemental direct testimony and your Schedule 5. In column F, lines 7 through 14, you have presented your revised expected storage withdrawals upon which your revised storage disallowance is based; is that right?

A. Yes.

Q. What's the revised storage -- revised expected storage withdrawal amount for January 2001 that you are now supporting?

A. 129,076.

Q. And can you add the numbers for January, February and March that you have there in the table for me?

A. 6,230,144.

Q. That's the same number I got. So looking at the difference between your direct testimony and your

supplemental direct testimony, your expected storage withdrawal amount for January is now approximately 1.1 BCF less than what it was originally; is that right?

A. Yes.

Q. And also looking at the differences between your direct and your supplemental direct, your total revised expected storage withdrawal amount for January through March is approximately 1.6 BCF less than was in your direct testimony; is that right?

A. Would you restate that, please?

Q. The totals of the three months, comparing Schedule 8-1 and Schedule 5, your new number is approximately 1.6 BCF less than what was in the direct testimony?

A. For those three months, yes.

Q. Yes, for those three months.

MR. DUFFY: That's all I have.

JUDGE WOODRUFF: Thank you. We'll come up for questions from the Bench, Chair Gaw.

QUESTIONS BY CHAIRMAN GAW:

Q. Ms. Jenkins, could you just very generally describe how Staff has, if at all, changed its position since the last hearing we had on this case?

A. Yes. Since we had the last hearing, there were questions raised about the November 2000 and December

2000 low case or warmest month estimates that I had used, which were taken from the company's reliability report.

As I was looking at that, it was obvious there was something that wasn't right there, but I didn't feel it was right just to accept November and December and ignore the other three winter months. If November and December are not right, then why are the other ones okay?

And the only way I knew to do that was to ask the company what numbers I should use and ask them to support that. Well, their response was that I should use just the November and December numbers.

So I looked further, and I had usage -- actual usage for all of the winter months for a couple of years, so I did a regression analysis. And then I started comparing based on that regression what I would expect the normal to be, what would I expect the low case to be? And they were different from what was in the company's reliability report.

So I felt that it was appropriate to go in and substitute those numbers in. That was the main change. There were some other changes that I discovered errors in work sheets and I corrected those, and I've explained those in my testimony. Those corrections were made. The philosophy of making sure you're flowing warmest month adjusted for too much storage or not enough storage pulled the previous months, that remains the same.

And in the end, when you substitute in all those numbers, you get a lower adjustment, and it isn't just to the storage since we also relied on the company's estimates of normal to make the 30 percent hedging adjustment. That adjustment got revised as well.

Q. Can you explain why you did not use that -- you did not go into those other months previously? Maybe I need to rephrase that.

Help me to understand why you did what you did on this -- on your -- on this latest set of figures that you have, as opposed to not doing that before.

A. Before it looked like when the company was doing their planning, the supply/demand summaries, that they were pulling the number from the reliability report, which was their estimate of normal. They were within -- I went back and looked and they're, like, within .2 or .3 percent. I guess I just trusted that the company had done these analyses. They've explained it in previous reports how they've done their estimates.

I did do a comparison using their base load factor and heat load factor from their peak-day analysis, but I decided I couldn't use that because that was from a 1994 analysis. I don't know how old that data was. I guess at the time I had nothing better. So I just assumed that there was adequate information that went into that

reliability report to support those numbers. And as we went forward, I discovered that wasn't right.

Q. Okay. And when did you make that discovery?

A. I guess there was sort of a joint discovery at the end of the last hearing. MGE started asking, you know, more detailed questions of why you're using these, and we pulled out reliability reports and started showing them and they said, but look at this November '99 number. It just doesn't match that. Something's wrong.

Q. And what was wrong, Ms. Jenkins?

A. The November '99 estimate was lower than what the reliability report said low case November would be.

Q. And why was that?

A. I don't think anybody knew at that time.

Q. And based on what you know now, why was that?

A. The warmest month in the reliability report doesn't truly reflect warmest month. It doesn't do really a detailed analysis of usage. It just -- I had to go back to the '70 -- excuse me, the '97/98 report to try to figure out how they were estimating these things.

It simply takes the usage from the prior year for that month and then adjusts it based on actual heating degree days and where they expect the low case to be, which in their reliability report they say that's a review of 15 years of data.

Q. And in reality, what is it?

A. I mean, that's what it is in reality, but it obviously doesn't estimate low case usage very well. For one, they look at 15 years worth of weather data. I did try to go in and use that base load and heat load factor that they had in there prior to that and use 30 years of weather data, but it wasn't a good -- I couldn't use it, because that base load and heat load was from the '94 analysis. I just couldn't trust that was going to give me any better data.

Q. So what did you do as a result?

A. The company sent me their usage for prior months and prior years, which was much more recent. In my Schedule 3 of my supplemental direct, I've included the regression analysis in there.

Q. And what does it show?

A. It's the predicted values there and the actual, but when you do that, it comes out with an estimation of where it crosses the Y axis there, which is basically your base load, and then it comes up with a slope, which is basically your heat load factor. And from that then you can estimate usage.

One of the things you're looking at when you're doing that is how well does that line, that estimation predict the actual?

And in that -- that sheet there it says regression statistics suggested R square is .98565, which is very good. I mean, if it predicts it perfectly, the value would be 1.0. And most of the LDCs that I -- well, I review all the LDCs' reliability reports, and they generally tell me if they get a value above .9, they're happy, extremely happy. So when I came out with a value .9856, you can see that it reasonably predicts usage.

So I used those factors, along with normal heating degree days, warmest heating degree days and coldest heating degree days to estimate what usage would be under those conditions.

Q. And what MGE used again?

A. In the 2000/2001 reliability report, they say they followed the same process as they had in prior reports. They look at -- for example, November they look at November in the prior year and then they adjust that up or down. If it was a warm year, they adjust it up; if it was a cold year, they adjust it down to try to normalize it.

And then once they have that normal factor, then they adjust it down again, based on 15 years worth of heating degree days to what they believe the warmest would be for November.

Q. And you criticize that method?

A. I did, and the company did. They said it

doesn't estimate warmest month very well.

Q. Okay. Did you -- was there a calculation of the -- is it adjusted R square for their methods?

A. No, they did not do a regression analysis. It was simply very simple math based on one month's usage.

Q. So how does your new calculation or calculations, how do your new calculations compare, then, with what you had done before, after you had this new regression analysis?

A. In my Schedule 4.2 of the same supplemental direct, I have compared where the values are from the 2000-2001 -- excuse me -- that's normal, for example. For the 2000-2001 reliability report, it's got for each month what the estimate was, and for November it was saying 7.4 million. If you use the base load factor and heat load factor from the regression analysis you get 7.686, and then it differs every single month because you're substituting in the heating degree days for that month.

If I skip over to Schedule 6, 6-2, it's got the same type of comparison but for warmest weather, for low usage estimates. For example, for the month of November, the reliability report was saying 5.587 million. Using this regression analysis, it goes down to 5.114 million.

Q. Which means what in regard to your adjustments?

A. For every single month I had to substitute in different numbers. I substituted in different numbers for normal and different numbers for warmest month, and that's -- the adjustment for every single month had to be changed or it did change when those numbers were put in there.

Q. And is it Staff's position that you have not changed your methodology here for calculating what the adjustment should be?

A. The intent was not to change the methodology. I did discover some errors in the work sheet. They didn't show up as errors before because the numbers were such that it checked out okay. If it had come up a negative number, then they would have been long.

And I discovered that as I was going through this work sheet, that I didn't accurately put in the formulas to check for greater than and less than, and so I made those corrections.

Q. And is the driver of the -- well, let me ask you this first. If you would have continued to utilize the numbers that you had before regarding the warmest month issues, and you had made the corrections in the calculations, how much of an adjustment would there -- would there be from Staff's vantage point?

A. If I had changed -- I'm sorry?

Q. If you had continued to utilize the numbers that you utilized earlier when we had the first part of these hearings, but you had not changed the -- you had not used the regression analysis, what would the adjustment have been?

A. Just for correcting the errors in the work sheet?

Q. Yes.

A. I don't believe it would be any different, because like I said, for example, for November it checked out okay the way they were in there before, but when I did -- the math was done when you put in that lower estimate of warmest month, it didn't adequately check that value. And there could have -- there were errors carried on in each of the months after that.

Q. And prior to -- previously you had not looked at the later months; is that correct or not?

A. I had looked at November, December and January.

Q. Yes.

A. For February and March what I had done is I'd still done some basic math, but I'd not brought them up to the warmest month requirement. I guess in my mind at the time, I wasn't sure that they had adequate information or that they had better information where they would be making

calls there, but as I thought through that, it didn't make sense that storage analysis reports were still available for those latter two months, just like they were for the earlier months, so they did know where storage was when they were making those decisions.

So I was trying to do that to recognize that maybe the company had some additional information, but there wasn't anything else there that I could figure out that they would have been looking at. So in both cases, I mean, it wasn't something they did. It was a judgment call on my part that I didn't make those adjustments in February and March before, whereas I did here.

Q. So if you're targeting the issue of where MGE and Staff's position was imprudent, in general terms, where would that be as of now, Staff's position?

A. That the decisions that were made were imprudent?

Q. Yes.

A. I think the biggest difference on both of our parts is how much storage is normally withdrawn in the month of November. And then Staff goes through and adjusts based on where storage was each month. I mean, the company says they do that, but it's not clear that they adequately did that every single month. But the biggest thing is that November storage withdrawal.

Q. And Staff's belief is that the November storage withdrawal should have been what?

A. 2.4-- 2,474,336 for normal.

Q. Is there any consideration given by Staff to the -- to the adjustment that occurred in December from Williams to the amount of storage MGE thought that they had withdrawn?

A. I looked at what they knew on November 27th when they were making decisions about December first of the month supplies, so that wasn't known by them at that time. It would have been considered when they were making their January first of the month, because they would have -- I would have thought they would have adjusted that storage analysis report once they heard that.

And they are looking at that decision later in November after they have that information. So January, yes, I would have considered that, but the company would have known that as well.

Q. So how does that work in your calculations? How does that come into the picture, the new analysis and the way you have done your calculations here?

A. The storage, obviously the plan is for normal weather and what they're going to withdraw, and they had to have at least warmest month flowing for November. So for one, we would have said there would have been -- we would

have planned on less storage withdrawal in November, and warmest month is different than what the company's saying is the warmest.

But in December, as you're making decisions for flowing, you know from their storage analysis reports they pulled more than they planned, which makes sense. It was colder that month. So you adjust your flowing so that you're flowing more than you normally would to try to make up for that excess storage withdrawal from the month of November. It sort of forces storage back to normal each month.

Q. So the calculation that results in your proposed adjustment mainly comes from the fact that there was little or much less available from storage for the month of February?

A. That's how it ends up. When I'm going through this, I don't know how it's going to end up. I mean, you're looking at where the planned storage is versus where the actual is and you're making adjustments. You know what normal usage is and what warmest weather usage is, so you're evaluating that as decisions are being made.

The company's also bringing on more flowing supplies in some of those months, and I didn't question that. So I know you can look at that work sheet and isolate February and say, there's the adjustment, but it's not that

simple. The reason it's there is because of all the decisions that went through the prior months.

Q. The numbers show negative for the prior months, or in other words, that it was a benefit to the consumer that they were withdrawing at the rate that they were from storage; is that accurate?

A. Based on that work sheet, yes, we're trying to compare average cost of gas in storage versus first of the month flowing, so yes.

Q. It does stand to reason that that might be the case if the market was high and -- would it not, if the market were higher than the amount it would cost to put the gas in storage? There might be benefit to the consumers during those months if they were using storage?

A. Yes.

Q. But, of course, that -- the big picture would be that you have to look at how that impacts the end result in the last -- toward the last of the heating season?

A. Yes. You can't make decisions in November irrespective of what might happen in the later months. You have to be considering that, because cold weather can occur in January and February. Mr. Langston said how in '96 a lot of companies were put in a bad situation because we had a cold snap in February. Well, if that occurs, you need to have storage.

Q. If the market had dropped in February and the prices for the flowing gas were less than what it cost to put in storage originally, the company or the consumer would have received some benefit from that also, would they not?

A. Yes.

Q. Is it Staff's --

A. Can I stop you a minute?

Q. Sure.

A. The only problem there is the company had hedged with fixed price contracts, and those fixed price contracts are actually higher than what's shown in here for Williams first of the month. So I guess if prices had dropped, they're still committed to those higher costs in February.

Q. When was that hedged, again?

A. Some of it, a smaller portion of it they hedged earlier, but most of the hedge was put in place in January, mid January.

Q. And the hedge price was greater than the storage gas price?

A. Yes.

Q. Even if that had not been the case, would Staff have been -- does Staff believe that the company should be hedging at least some -- at least in a consistent fashion with what you've outlined in your testimony,

regardless of whether flowing gas supplies are going up or down?

A. Yes. I mean, we've said 30 percent minimum. Nobody knows what the prices are going to be, but they knew -- they do know you're going to flow volumes, and we do know that the company's got storage, for example. But yes, our approach was that we believe that each and every month should have at least 30 percent hedged.

Q. All right. And Staff's position is that each month that 30 percent of the gas that you're anticipating being utilized for that month should be -- should be hedged?

A. Yes.

Q. That's what you're saying?

A. Yes.

Q. And the -- and had Staff previous to this case enunciated that 30 percent figure?

A. I don't believe 30 percent, and you'd have to talk with David Sommerer, but I know there were prior winters where these discussions were had about hedging. I don't believe that there was a particular percentage, just that Staff believed that there should be hedging.

Q. And how much variance, again, was there in what was actually done by the company from Staff's position in this case in November?

A. For the 30 percent?

Q. Yes.

A. Because of the company planning to withdraw large amounts of storage in November, they actually had more than 30 percent hedged in the month of November.

Q. And do you know about how much it was percentage-wise?

A. Well, 30 percent of normal was 2.3 million, and the planned storage withdrawal was 4.2 million.

Q. And is that the actual -- that was the planned amount? Excuse me.

A. Uh-huh.

Q. The actual usage was --

A. The actual withdrawn from storage was 5.7 million.

Q. And is that including the Williams adjusted figures?

A. It would have been the final withdrawal for the month of November, so, yes, I believe it would have been.

Q. Is Staff taking the position that this regression analysis in calculating what should be the anticipated numbers for November -- well, for a heating season is an analysis that the company should use in the future or is it something that's just been highlighted for this case?

A. I believe they should use something more sophisticated than what they have been using. Quite a few companies use a regression analysis, and it can get very sophisticated because they need to understand their customers, and I don't think that's well documented. A lot of large companies know that they use less on weekends. Well, that needs to be considered. They know that there might be other things that are in there that cause changes. Do you have some seasonal businesses?

So at a bare minimum, I'd say they need to use something comparable to that so they have a sense of how accurate their estimate is. I'd also say that they can get a lot more detailed. There's some companies that use daily data and daily usage data and heating degree data. It can get very precise with what's varying and what those estimates are going to be.

CHAIRMAN GAW: I think that's all, Judge. Thank you.

JUDGE WOODRUFF: It's now 12 o'clock, so it's time for a break for lunch. Let's break now and come back at 1:15.

(A BREAK WAS TAKEN.)

JUDGE WOODRUFF: All right. We're back from lunch, and when we left off, we were -- Ms. Jenkins is on the stand and we're going to begin with questions from

Commissioner Murray.

COMMISSIONER MURRAY: Thank you.

QUESTIONS BY COMMISSIONER MURRAY:

Q. Good afternoon, Ms. Jenkins. When the proceeding was continued for dealing with the error that was discovered back in May, if you had simply made the adjustment for that particular error, what would your calculations or disallowance have been?

A. By error, do you mean using November '99 and December '99 usage?

Q. Yes.

A. Just a second.

Q. Would that have been the $182,500 figure?

A. If you don't make the corrections to the work sheet. But if you make the corrections to the work sheet, it's different. I'm trying to find that. Just a minute. It's 2.5 million for the storage effect. But as I said earlier, if you're only changing November and December, that doesn't make sense, because why would those be the only numbers that are incorrect?

Q. When the error was discovered, the parties got together and discussed that there was an error in the calculations, correct?

A. It's not really an error in the calculations. The reliability report, 2000-2001 reliability report

actually had that number in there.

Q. An error in the number that was used, wherever -- it was taken from the wrong place, in other words?

A. It wasn't in the reliability report. It was discovered that we needed to look at that and something else probably needed to be used instead.

Q. For November and December calculations?

A. That was the company's contention.

Q. Was that what Staff also thought at the time?

A. At the time all we said is that we would look at the information. At that time I wasn't committed to saying that was the right thing to do until I looked at the data.

Q. I think one of the problems that we Commissioners are having with this is the great length of time that has elapsed since we were first in here on these issues. And it may be in testimony somewhere that explained it, and if so I apologize, but why did it take six months before we could get back to address this again?

A. The group that I'm in, procurement analysis, had quite a few Staff recommendations due for other companies that we were trying to get accomplished at the same time that we were doing this rereview. Plus we knew we needed time to do additional Data Requests to verify what

numbers should be done, and we wanted to allow time for one or two rounds of Data Requests.

Q. Were your Data Requests promptly answered?

A. Yes.

Q. And when were those Data Requests submitted?

A. I don't recall the exact date. I mean, within a couple weeks of the hearing we sent the first round of Data Requests.

Q. And when were you asked in a Data Request whether you would be adjusting any numbers other than those that had been talked about?

A. I don't recall the date. I mean, it was after we sent the first round of Data Requests.

Q. And when did you determine that you would be?

A. Making an adjustment?

Q. On more than just November and December.

A. I don't know exactly. I mean, like I said, I was working on other cases. I kind of set this aside for a while. It didn't all come together 'til right before we actually filed testimony.

Q. And what actually caused you to determine that you were going to make adjustments more than just for the November, December figures?

A. Well, if you looked at that year, November '99, December '99, looked at the rest of that winter, it

wasn't reasonable to use the usage estimate or the actual usage from the other months, because they weren't warmest. And since the reliability report had been called into question about warmest, I didn't know where to get then January, February and March. So I had to figure out a way that I could come up with reasonable numbers that I knew were based on reasonable data.

And that's when I was looking at the monthly data and decided, let's do a regression analysis and see how it comes up. I had no idea how it would come out. It could have come out poorly. It could have come out well. It came out that --

Q. I'm sorry. What would you describe as coming out poorly?

A. You do a regression analysis and you can look at that R squared value, and if it's say .5, sort of like a flip of the coin, does it accurately predict usage or not on this heating degree day? Could you have an inverse relationship? But, I mean, it came out where the adjusted R squared was above .9, so I believed it accurately predicted usage.

Q. When Commissioner Gaw was asking you some questions earlier, I believe you said that the November storage withdrawals, according to Staff, should have been 2,474,336; is that right? I mean, you don't have to verify

that figure exactly, but it was 2.4 roughly?

A. Just a minute. I can tell you. That would be what it would be for normal weather.

Q. All right. And that's basing -- that's calculating storage withdrawals on normal weather, correct?

A. Yes.

Q. But then to calculate for November the amount of flowing supplies, you would base that on warmest -- warmest month; is that right?

A. Let me walk through it, because it gets sort of complicated. You take the estimated usage for normal and you subtract off the planned storage withdrawals for normal, and you get flowing supplies. But then -- then you're going back and doing a check to see that that at least equals to warmest weather. If it doesn't, you bring it up to that level.

It could have also come out as higher than warmest. That would have meant the check, but because the company's consistently saying, you know, there's not as much flexibility for injecting in November, we said, we'll only bring it up to normal if it comes out as higher or only bring it up to warmest. When we first did the calculations, the normal minus planned storage and you got flowing, if that had been greater than warmest, we would have forced that down to warmest also.

And none of that considers that ISS contract and that further complicates it, but we accepted that the company was planning on pulling additional storage from that contract as well.

Q. You began by estimating the usage, the total usage for a normal month?

A. Uh-huh. Yes.

Q. And then you calculate the amount of flowing supplies that would be needed for that normal month?

A. If you subtracted off normal -- our normal storage withdrawals.

Q. If that amount of flowing supplies at least equals what you would need for warmest weather -- and how could it come out to be less than what you would need for warmest weather?

A. It's just how the math works out. I mean, you compare what the warmest month would have been. In this case, it actually came out higher than warmest. So we brought it back down do warmest month, and then also subtracted off that interruptible storage contract.

Q. It came out higher, meaning the flowing supplies that were needed were greater than would have been needed for a warmest month scenario?

A. If you'd taken the normal requirements, the normal demand and subtracted off Staff's normal storage,

then the result in that flowing, yes, that was higher than what was needed for warmest month.

Q. So then you did what?

A. All of those calculations also considered that ISS storage that the company had planned on. I don't think we're disagreeing on that. We're saying the company acknowledged that they had that ISS storage and Staff's acknowledging, okay, we'll accept that.

Q. Does Staff have the position that the company would be prudent to consider the cost of flowing gas as compared to the cost of gas in storage?

A. I don't think that's an issue. I mean, that's what we considered in the calculations, but I guess I don't understand.

Q. Well, I'm talking about in terms of how much -- I think what I'm wanting to ask you is, in making the determination of how much storage to withdraw, is it prudent for the company to consider the cost of gas in storage versus the cost of flowing supplies at the time?

A. I think I understand. When the company's making decisions for first of the month and how much flowing to have, no, we're not saying that price of storage versus flowing is a consideration, because the company's planning on using that storage as part of their hedging. It's part of their operational requirement on that pipeline.

I think the disagreement comes in that Staff believes that there needs to be adequate amounts in all of the winter months, and with the company's plan in 2000-2001, which is a lot different than the previous reliability reports, the company's planning to pull a lot more in November than they had in any of the other previous reliability reports. And it just didn't make sense to do that.

Q. And with the amount of storage that -- gas in storage that was withdrawn in November and December, what -- that was well beyond what Staff would have recommended withdrawing, correct?

A. Yes. The company had withdrawn 70 percent from storage by the end of December, so they only had 30 percent left for three winter months that were remaining.

Q. And it was a colder than normal winter, correct?

A. Yes.

Q. And the result of that, as it turned out, looking back, was what?

A. When we quantified the impact on customers, it was approximately $2.9 million.

Q. Have you in the past recommended this methodology to MGE?

A. On the storage you mean?

Q. Yes.

A. This is the first year it came up. In the reliability reports prior to that, the distribution more closely followed the heating degree days. The company has said that they changed that in -- I think it was 1999-2000, but there was no reliability report in that year.

Q. When you say the distribution more closely followed the heating degree days, what are you calling distribution?

A. If you look at my rebuttal testimony --

Q. Supplemental rebuttal?

A. No. It's in my rebuttal.

Q. I don't have that with me. You can read it into the record if you want.

A. Well, I kind of wanted to show you what it did, but basically in that rebuttal testimony, in the Schedule 5, I'm showing the distribution of normal heating degree days. And I also show the planned withdrawals from the reliability reports for 1996-'97, '97-'98, '98-'99 and 2000-2001. And the 2000-2001 is when there's a large increase in the planned withdrawal in the month of November.

Q. And that is planned withdrawal that shows up in the company's --

A. In the company's reliability reports. In the 2000-2001, the planned withdrawals are actually not in the

reliability report. It is in the reliability report for all the other years. For that year, we had to pull that information from one of the DR responses. And that's indicated in that Schedule 5, on the detailed part of it, where I got that data from.

Q. And because of that large increase in the planned withdrawals, that raised a concern for Staff?

A. It wasn't just the planned. I was looking at the actual withdrawals in November and December and saw that 70 percent had been withdrawn by the end of December. So that's what raised the concern, and I started exploring that further.

Q. So you didn't look at the planned -- actually see the planned withdrawals until sometime after the fact; is that right?

A. No. I had that as well. But, I mean, they can have a plan and they can follow it or not follow it, and I mean, you can look at Mr. Langston's testimony, too, but obviously they're going to differ from it because there is never a year -- I shouldn't say never, but it would be uncommon to have every single month actually having normal weather in a year.

You can still calculate what the normal would be. I did look at the plan, but if the plan had said one thing and the result had been another, there's not

necessarily an adjustment in it. It depends on how it impacts customers, and this had a negative impact on customers.

Q. But if the impact for customers had been positive, you wouldn't have had a problem with planning greater withdrawals?

A. We might have raised an issue. I've done that in other cases, but I mean, the adjustment is because there was a detriment to the customers.

Q. And what do you call a detriment? How are you defining detriment?

A. $2.9 million.

Q. And that was because?

A. That was a combination of things. I mean, we had to recalculate -- I had to recalculate estimated normal usage and estimated warmest month usage and look at how they were planning to do flowing supplies and storage, but I go through all the details of the calculations and how we expected it to turn out, it turned out as a detriment to customers.

Q. And I guess what I'm trying to do is to put -- to be able to more closely understand what it is you are saying should have happened. You're saying, for one, that there should not have been as many storage withdrawals, correct?

A. I'm saying, one, they should have had a more reasonable storage withdrawal plan consistent with some of the storage withdrawal plans they had in prior years.

Q. And if that had occurred, then -- in which month is it you have your disallowance now, February?

A. It shows up in February, but it's one of those things you can't just calculate it for one month. You have to start with November and see how it impacts. But on the chart, you're correct, that's where the dollar amounts mainly come from is February.

Q. So the result -- Staff is saying the result of having the storage levels drawn down as much as they were drawn down was that the company had to purchase gas in those later months at a higher price than the gas in storage?

A. Effectively, yes. They had this storage that they could have reserved part of it for each of the winter months. They drew it down -- they withdrew 70 percent of it in the first two months.

Q. And is that where the total figure comes from?

A. The 2.9, it considers each month. So we gave credits in some months, and then the charge was in February on these calculations. But again, they all tie together. You can't just say -- you can't just look at February. That would have been a $4.6 million adjustment. You have to look at all the months and then add them together and consider

what decisions were made and how they carried over to the other months.

Q. And if the -- the price of gas was comparatively pretty high when it was placed in the storage; is that correct? I mean, compared to previous amounts?

A. Well, the average cost of gas -- and I've got it on this spreadsheet. It's about 4.25 -- it's less than $4.30.

Q. But at that time that was fairly high, was it not?

A. Yes.

Q. And was it a common belief in the industry that the price of gas might come down or would be likely to come down from that?

A. I guess it depends on what time frame you're looking at. Staff Witness Herbert addressed that more thoroughly than I'm able to. But I -- you know, the company's saying some of the decisions in December were because they thought prices would drop, and Mr. Herbert addressed that. The reports that I went back and reviewed, I didn't see that.

Q. If prices had dropped, and the purchases then that were made to replace the gas that was removed from storage had been cheaper or had been at a lower cost than that $4.40, would the Staff still be claiming that MGE was

imprudent to reduce the storage levels as much as it did in November and December?

A. I think we'd run the same analysis and see how it came out. I mean, it depends on what months you're talking about. Yes, I still would have commented on the amount of storage. I mean, pulling out 70 percent of storage in the first two months seems extreme to me.

I think the company should have some guidelines on maximum amounts they should be withdrawing in storage so that they do have enough to meet some of the pipeline constraints so they do have that storage available for later winter months for hedging purpose. They don't know what's going to happen to the weather. They don't know what's going to happen to price.

But you're correct, if the dollars had been different, I would have run the analysis to see how it would have come out, and I don't know how that would have came out. Basically you can take the Schedule 5 from my supplemental direct and you can put in different numbers, but the issue is still they withdrew huge amounts in the first two months of the winter.

Q. So if it had come out to be a dollar figure benefit to the customers, you would still be complaining about the fact that the storage levels were taken too low in Staff's opinion; is that right?

A. For this winter, we would have said it had -- you know, if it came out where we were concerned, say, with the dollar amount, more the issue with the storage, then we would have stated that. I've done that with other companies. I've gone into the Staff recs and explained in detail why I don't agree with their plans.

Q. Even when the company -- even when the customers have benefited financially?

A. Yes, because under a different set of circumstances, when it's really cold, that's when prices tend to be high. Generally when customers aren't affected is when the weather's warm and prices are low. Nobody seems to care that their bills are low. It's when the prices are high and temperatures are cold is when they're really negatively impacted. And the company doesn't know that -- when that's going to happen, so it needs to be considered.

Q. But there wouldn't be any means of asking for a disallowance in that instance, would there?

A. Correct. And I've done that in other cases. I've said -- I've not made a dollar disallowance, but I have recommended that the company do more detailed analyses.

COMMISSIONER MURRAY: I think that's all I have. Thank you.

JUDGE WOODRUFF: All right. I don't have any questions, so we'll go to recross. Kansas Pipeline?

MR. KEEVIL: No questions, Judge.

JUDGE WOODRUFF: MGE?

MR. DUFFY: Just a second.

RECROSS-EXAMINATION BY MR. DUFFY:

Q. Just a couple. Ms. Jenkins, you indicated that MGE changed its November withdrawal plans also for the 1999-2000 winter, but MGE did not file a reliability report for that period; is that right?

A. Yes.

Q. Did the Staff make any similar storage planning analysis in the 1999-2000 time period?

A. Mainly with the '99-2000 recommendation, if you look back at that, I'm asking for a lot more detail from the company and how they got numbers and providing that type of analysis.

Q. So the answer is, no, you didn't do that analysis for that time period?

A. I detailed -- no, because I know the company says that was their plan, but that's not what they actually did.

Q. Are you aware that in November 1998 MGE provided Staff with a printout of its supply plan that showed plans to withdraw 4.0 BCF in November, based upon normal weather?

A. That's not what was in the reliability report.

Q. That wasn't my question.

A. For '98? No, I don't recall that. I didn't actually start here until November of '99.

MR. DUFFY: That's all I have.

JUDGE WOODRUFF: Redirect?

REDIRECT EXAMINATION BY MR. SCHWARZ:

Q. Is it my understanding that MGE's reliability report in 2000 for 2000-2001 was different from earlier plans? Is that --

A. Yes, it was different from earlier reliability reports. The questioning has been on the storage. And the earlier reliability reports that I looked at -- and it's in my Schedule 5 of my rebuttal testimony -- had the storage information in them. For the 2000-2001 reliability report it was not in there, but I did find the information in one of the DR responses.

Q. And if I understood Mr. Duffy's last question, it was that MGE had indicated to Staff in '98 that it was going to withdraw 4 BCF for that November. Is that your understanding of that?

A. That's what he said, but that's not what was in the reliability report.

Q. The reliability report for '98-'99?

A. Yes.

Q. And they didn't have a reliability report for

'99-2000?

A. Right.

Q. Okay. In Mr. Duffy's cross-examination, he asked if hedging had been credited for storage amounts. Do you recall that?

A. Well, we considered storage, the storage plan in the check for the 30 percent minimum hedge.

Q. Let me ask you this: Is a central theme to Staff's approach that if you have a plan going into the season, into the heating season, that as you actually make the monthly nominations, you have to consider the history of your actions in prior months?

A. Yes. You have to make adjustments as you know that you, say, pulled too much or too little storage, which, of course, would tie -- if the weather's cold, you'd expect that probably you're going to be pulling more storage, and if the weather's warm, you're probably not going to pull as much. You'd want to know for sure. The company has a storage analysis report that it can refer to.

Q. Would you expect any plan going in to call for using 70 percent of your storage by the end of December?

A. No. When you look at the heating degree days, there's only 35, 36 percent -- excuse me -- 37 percent of the heating degree days typically in November and December. So I'd have to really question, unless they have some other

thing they are going to pull on, but they have that TSS contract that says they have to have so much storage and so much flowing. And, no, I just can't think right now why you would do that.

Q. In response to a question from -- Commissioner Gaw asked you some questions about the reasons for -- well, for this year, why we had a break, and I think that you answered that back in May it was discovered that the November of '99 actual was less than MGE's reliability report had estimated for 2000. Is that --

A. Yes.

Q. Did I get that -- okay. Is it fair to say that an LDC has to keep storage available, even if there is a price differential between storage gas and flowing gas?

A. The companies are generally not using storage in that way. They're actually using their storage to try to meet cold days and cold month requirements, and thus they know it's going to be cold in every single month, especially so in December and January are colder. And then February, and then November and March about the same, but with March being a little bit colder. So I guess if I understand your question, they're going to want to use storage in all of those months typically.

Q. So that simply because the storage gas is cheaper than flowing gas is no indication that all of the

storage gas should be used, say, in December?

A. Right. If you make that decision, I mean, how do you know what the price is going to be in January, February and March? You know there's still a real potential for really good weather in those months, and you know operationally that's where you're planning on getting some of your supplies is from your storage. You're going to want to reserve it for those months as well.

MR. SCHWARZ: I think that's all I have.

JUDGE WOODRUFF: Thank you. You may step down.

I believe that concludes all the evidence for this case. Earlier we had a discussion off the record about when the Briefs would be due, and the parties agreed and I agreed that the Initial Briefs would be due on January the 15th, with Reply Briefs to follow on February the 18th. And I'll issue an Order or notice to that effect through the EFIS system.

Any other matters that need to be taken up while we're still on the record?

(No response.)

JUDGE WOODRUFF: Hearing nothing, then this hearing is adjourned. Thank you.

WHEREUPON, the hearing of this case was concluded.

I N D E X

MGE'S EVIDENCE

STAFF'S EVIDENCE

EXHIBITS INDEX

	MARKED	RECEIVED
EXHIBIT NO. 28 Supplemental Direct Testimony of Michael T. Langston	614	622
EXHIBIT NO. 29NP Supplemental Rebuttal Testimony of Michael T. Langston	614	622
EXHIBIT NO. 29HC Supplemental Rebuttal Testimony of Michael T. Langston, Highly Confidential	614	622
EXHIBIT NO. 30 Unanimous Stipulation and Agreement Case No. GR-2001-461	614	622*
EXHIBIT NO. 31 Suggestions in Support of Unanimous Stipulation and Agreement, Case No. GR-2001-461	614	622*
EXHIBIT NO. 32 Order Approving Unanimous Stipulation and Agreement, Case No. GR-2001-461	614	622*
EXHIBIT NO. 33 Unanimous Stipulation and Agreement Case No. GR-2001-396, GR-2001-397	614	622*
EXHIBIT NO. 34 Suggestions in Support of Unanimous Stipulation and Agreement, Case No. GR-2001-396, GR-2001-397	614	622*
EXHIBIT NO. 35 Order Approving Stipulation, Establishing ACA Balance, and Closing Case, Case No. GR-2001-396, GR-2001-397	614	622*
EXHIBIT NO. 36NP Supplemental Direct Testimony of Lesa A. Jenkins	614	683

EXHIBIT NO. 36HC Supplemental Direct Testimony of Lesa A. Jenkins, Highly Confidential		614	683
EXHIBIT NO. 37NP Supplemental Rebuttal Testimony of Lesa A. Jenkins		614	684
EXHIBIT NO. 37HC Supplemental Rebuttal Testimony of Lesa A. Jenkins, Highly Confidential		614	684

*Received as offer of proof.