Exhibit No.:
Issue: *Purchasing Practices*
Witness: *Lesa A. Jenkins*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Supplemental Rebuttal Testimony*
Case Nos.: *GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167 (Consolidated)*
Date Testimony Prepared: *November 13, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

LESA A. JENKINS

MISSOURI GAS ENERGY
CASE NOS. GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167
(Consolidated)

Jefferson City, Missouri
November 2003

****Denotes Highly Confidential Information****

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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**
In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment Factors to be Reviewed in its 1999-2000 Actual Cost Adjustment	)))	**Case No. GR-2000-425**
In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment Factors to be Reviewed in its 1998-1999 Actual Cost Adjustment	)))	**Case No. GR-99-304**
In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment Tariff Revisions to be Reviewed in its 1997-1998 Actual Cost Adjustment	)))	**Case No. GR-98-167**

AFFIDAVIT OF LESA A. JENKINS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lesa A. Jenkins, being of lawful age, on her oath states: that she has participated in the preparation of the following supplemental rebuttal testimony in question and answer form, consisting of 15 pages to be presented in the above case; that the answers in the following supplemental rebuttal testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Lesa A. Jenkins

Lesa A. Jenkins

Subscribed and sworn to before me this 13th day of November 2003.

D SUZIE MANKIN
Notary Public - Notary Seal
STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

D Suzie Mankin

Notary Public

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

LESA A. JENKINS

MISSOURI GAS ENERGY

CASE NOS. GR-2001-382, GR-2000-425, GR-99-304, GR-98-167

(CONSOLIDATED)

Q. Please state your name and business address.

A. Lesa A. Jenkins, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am a Regulatory Engineer in the Procurement Analysis Department with the Missouri Public Service Commission (Commission).

Q. Are you the same Lesa A. Jenkins who filed direct, rebuttal, surrebuttal and supplemental direct testimony in the consolidated Case Nos. GR-2001-382, GR-2000-425, GR-99-304 and GR-98-167?

A. Yes, I am.

Q. What is the purpose of your supplemental rebuttal testimony?

A. The purpose of my supplemental rebuttal testimony is to respond to the supplemental direct testimony of Missouri Gas Energy witness Michael T. Langston related to Staff's proposed adjustments for Missouri Gas Energy (MGE or Company), Case No. GR-2001-382. My supplemental rebuttal testimony is specifically related to "Purchasing Practices-Storage."

PURCHASING PRACTICES-STORAGE

Q. Mr. Langston states that you suggested that MGE should have scheduled first-of-month flowing supplies for each winter month based on the lowest demand that had been experienced for that month based on historical usage. (Langston supplemental direct, p. 4, ll. 23 – 25). Do you agree with Mr. Langston's statement?

A. Absolutely not. Staff suggested in its ACA Recommendation and my direct testimony that November through January first-of-month (FOM) flowing supply nominations must at least cover warmest month requirements, adjusted for deviations from planned storage inventory levels. In my supplemental direct testimony, Staff revised the estimates of normal usage and warmest month usage, but the approach of assuring that FOM flowing supply nominations must at least cover warmest month requirements, adjusted for deviations from planned storage inventory levels, is basically the same. As explained in my supplemental direct testimony, Staff's revised adjustment also applies the same methodology for November 2000 through March 2001, not just November 2000 through January 2001.

Previously, Staff had not checked the level of flowing supplies in February and March against warmest month requirements, adjusted for deviations from planned storage levels. Staff's reasoning for not applying the same methodology in February and March 2001 was that the Company should have had a better handle on the storage volumes available to meet requirements for the rest of the heating season. Staff also recognized that the previous recommended adjustment of $8,051,049 was large, and Staff did not want to further increase this adjustment. Following the initial hearing in May 2003, Staff reevaluated the Company actions, rechecked the Company assumptions, rechecked the Company and Staff calculations and reconsidered whether the low-case numbers from the Company's 2000/2001 Reliability Report represented warmest month usage. This was done to assure

that Staff's adjustment appropriately quantified damages to MGE's customers for the heating season of 2000/2001. During this review, it became clear that the Staff worksheet already considers what the Company knew about storage inventory levels at the time decisions were made for February and March FOM flowing supply nominations. It was not fair to MGE's customers to ignore storage inventory information that was available to the Company at the end of January and February. This information affects FOM flowing supply nomination decisions for February and March and the proposed adjustment.

Q. Why is it important that you explain that the Staff adjustment considers deviations from planned storage inventories and not just the usage for warmest weather for each month?

A. The Company plan is just that, a plan. The Company's gas supply plan and the storage plan provided to Staff consider usage for normal weather. When plans are being made for the winter months, no one knows if the weather will be warm, cold or normal for each of the heating season months of November through March. The Company plans must consider storage withdrawal plans for any of these weather conditions – warm, cold or normal weather. Additionally, plans must change as circumstances change. As November 2000 progressed, the Company was aware that the month had been colder than normal and that more natural gas had been withdrawn from storage than its normal plan. Thus, less storage was available for the remaining winter months than it planned for normal weather.

When the Company decision for November and December flowing supplies were being made (on October 24, 2000 for November, and on November 27, 2000 for December), MGE did not know what the weather would be in each of the remaining heating season months. The Company routinely reviews Accuweather forecasts - forecasts for the current

day and for the next six days, not for the entire winter. There is no crystal ball that could tell the Company in advance what the actual weather would be during the 2000/2001 winter months.

However, the Company knew, or should have known, that a review of historical temperature data for the past 40 years reveals that January is usually the coldest month, followed by December, February, March and lastly by November. The Company knew that the month of November had been colder than normal. The Company knew from its Storage Analysis Report that it had withdrawn more natural gas from storage than planned in November 2000. The Company did not know if its storage gas for each of the remaining heating season months would have to cover warm, cold or normal weather. The Company plans must change as circumstances change, and the Company must consider usage requirements for the unknown weather in the remaining heating season months. Thus, it must reserve sufficient storage to cover the remaining winter months.

The Company's plans and actions resulted in the storage inventory level being at 30.2% at the end of December 2000. This does not mean that only 30.2% had been withdrawn from storage. It means that 30.2% is all that remained in storage. MGE's original gas storage plan for normal weather in 2000/2001 called for 49.9% of storage to be available for January through March. A review of historical heating degree day (HDD) data shows that for normal weather, 62.3% of the HDD are in the months of January through March.

Staff's approach of factoring in deviations from planned storage inventory levels reflects that plans must change to meet changing conditions, and the revised plan must still ensure that sufficient storage will be available for each of the remaining heating season months when the potential for cold weather was still great.

MGE faces operating constraints in addition to weather-driven demands. ** _____ _____ _____ _____ _____ ** Thus, the Company must manage its storage inventory so that adequate volumes of storage gas are available for each of the heating season months in case cold weather occurs and these operating constraints are encountered.

Q. Mr. Langston states that you suggested that demand above the warmest month requirements would be met by planned storage withdrawals. (Langston supplemental direct, p. 5, ll. 1-2.) Do you agree with Mr. Langston's statement?

A. Not entirely. As the Company considers information about actual weather encountered in the month, reviews the storage inventory level from its Storage Analysis Report and reviews the Accuweather forecast for the next six days, it must make decisions about using additional natural gas from storage or using additional flowing supplies. These additional flowing supplies can be through the use of swing contracts or daily purchases, such as from its ** _____ ** contract for gas supplies.

Q. Mr. Langston states that you have an alternative approach for planned storage withdrawals (Langston supplemental direct, p. 5, ll. 4–27 and p. 6, ll. 1-14), which suggest that Staff has two separate approaches for calculating storage. Do you agree with Mr. Langston's statement?

A. No. There is a single approach. Staff's approach considers: 1) how storage would be utilized if it were distributed based on normal weather; and 2) flowing supplies that

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would at least cover warmest weather requirements, adjusted for deviations from planned storage inventory levels. These are not separate approaches, but are just the two aspects of MGE's supply plan that must be considered as information is reported about actual storage inventory levels and as conditions change.

As noted in my testimony (Jenkins supplemental direct, p. 12, l. 9 – p. 14, l. 4), the Company's Supply/Demand Summary for November (provided in the response to Data Request Nos. 21 and 68, included as Schedules 5 and 6 of my earlier direct testimony and included in Langston direct, Schedule 16; and Langston rebuttal, Schedules 17 and 19), takes the normal estimated requirements less the planned storage withdrawals to obtain the planned flowing supplies.

Staff does the same calculation to support my supplemental direct testimony, but with a revised estimate of normal requirements and what it believes is a more prudent storage withdrawal plan for normal weather. This initial calculation could have resulted in FOM flowing supply nominations that were more or less than warmest month requirements. If the FOM flowing supply nominations were less than the warmest month requirements, Staff forced the November FOM flowing supplies to warmest month requirements, less the additional ISS storage of 150,000. (Staff accepts the Company's explanation that it had additional storage that it planned to use in November 2000.) None of this is different from Staff's prior methodology. As also explained in my supplemental direct testimony, a change to Staff's methodology was made for November only to address the Company's concern that it has less flexibility to inject natural gas in November. This was accomplished by setting the FOM flowing supply nominations to equal the warmest November requirements, less the ISS storage of 150,000.

Staff has shown that adjustments for each of the subsequent months of December through March follow the same methodology, using the revised estimate of normal requirements less what it believes is a more prudent storage withdrawal plan for normal weather for each month, adjusted for any excess storage withdrawals from the prior month. Staff tested to ensure that FOM flowing supply nominations covered warmest month requirements adjusted by storage over/under from the prior month. If the calculated FOM flowing supply nomination was less than the tested value, Staff forced it to warmest month requirements, adjusted by the storage over/under from the prior month.

Deviations from planned storage inventory levels must be considered because plans must change to meet changing conditions. The revised plan must ensure that sufficient storage will be available for each of the remaining heating season months when the potential for cold weather is still great, and so that adequate storage inventory is available to meet the pipeline constraints in each of these heating season months.

Q. Mr. Langston states that you have relied upon inaccurate data concerning warmest month requirements (Langston supplemental direct, p. 6, l. 16 – p. 7, l. 5). Do you agree with Mr. Langston's statement?

A. In my earlier testimony, yes. I will clarify how this happened. Staff's evaluation of Company decisions for this actual cost adjustment (ACA) period must be based on information that was available at the time MGE made its purchasing decisions. Staff evaluated information provided by the Company including, but not limited to, the Company's Supply/Demand Summaries provided in response to Data Request Nos. 21 and 68 (included as Schedules 5 and 6 of my earlier direct testimony), and storage withdrawal plans contained in response to Data Request Nos. 21 and 28. The Data Request No. 21 response states:

> Please see the attached monthly Supply/Demand summaries for the ACA period under review. These documents are the planning tool utilized by the company each month to compare forecasted demand based on normal weather to available supply. Also, please see the Reliability Report MGE has filed with the commission staff for the current ACA period.

The Reliability Report referred to is the *Missouri Gas Energy Reliability Report, July 1, 2000 through June 30, 2001*, dated July 1, 2000. This report provides the Company's forecast for base case (estimated usage for normal weather). The Reliability Report includes estimates of base case, high case and low case usage for each month of July 2000 through June 2001. The Company stated in this Report that:

> A key consideration in the forecasting process is the firm demand during extreme weather conditions. This information is necessary to allow the Company to ensure adequate supplies and pipeline capacity to meet all of its firm sales obligations under such conditions.

Comparison of the base case usage estimates in the 2000/2001 Reliability Report to the forecasted demand based on normal weather in the Company Supply/Demand Summaries shows that these numbers are virtually the same, with only 0.2% to 0.3% difference for each month of November 2000 through March 2001. The Company's reliance on the normal estimates that were very near the 2000/2001 Reliability Report numbers led Staff to believe that the Company also relied on the extreme weather information from its 2000/2001 Reliability Report. Staff used this Company normal usage and warmest weather (low case) usage in the calculations for the purchasing practices adjustment. These were not numbers that Staff concocted, but numbers provided by the Company.

Q. Is Staff relying on Company usage estimates now?

A. No. Staff's reasons for no longer relying on the Company's estimates from its Gas Supply/Demand Summary and its estimates from the 2000/2001 Reliability Report are documented in my supplemental direct testimony. Explanations of the derivation of the

normal usage estimates and warmest weather usage estimates now being used in Staff's calculations for the revised purchasing practices storage adjustment are also provided in my supplemental direct testimony.

Q. Mr. Langston states that the warmest December in the past 40 years was December 1965, and since MGE's system and thus its demand have changed significantly since that time, it would have been more appropriate for you to use the warmest December in most recent history and this occurred in December 1999 (Langston supplemental direct, p. 11, ll. 5-9). Do you agree with Mr. Langston's statement?

A. No. Staff disagrees with two implications being made by Mr. Langston. First, Mr. Langston mischaracterizes the usage data being used by Staff as the warmest December. Staff has never said that the Company should utilize an actual usage value from December 1965 as the warmest month usage estimate. There is no doubt that there have been changes in customer numbers and usage patterns so that the actual usage in 1965 would not be representative of expected warmest month usage in December 2000.

Staff has said that a review of the historical HDD shows that December 1965 experienced the warmest weather. This is a real value that represents an extreme weather condition for the Company service area. As noted in the Company's Reliability Report:

> A key consideration in the forecasting process is the firm demand during extreme weather conditions. This information is necessary to allow the Company to ensure adequate supplies and pipeline capacity to meet all of its firm sales obligations under such conditions.

It is common sense that extreme weather conditions present greater difficulty for the Company in its planning efforts to ensure that adequate supplies are available. Thus, Staff believes that the extreme weather condition encountered in December 1965 should be considered in the Company's supply planning.

Q. Please explain the second problem with Mr. Langston's statement.

A. It is not appropriate for the Company to use December 1999 actual usage as the estimate for warmest December usage. December 1999 experienced 906 HDD. Fewer HDD were experienced in 1994, 1991 and 1965 with 886 HDD, 896 HDD and 763 HDD, respectively. If the HDD in 1999 had been 763 HDD instead of 906 HDD, Staff believes that the usage would have been lower.

Q. What other issue does Mr. Langston's statement highlight?

A. As explained in my supplemental direct testimony, questions raised about the validity of the Company's November and December 2000 low case estimates also raise questions about the validity of the low case estimates for January through March 2001 and the normal estimates for all of these months, November 2000 through March 2001. The Company does not state which estimates of usage should be used for a warmest January, February or March. Given the problems with November and December 2000 usage estimates, a review of the data and a consideration of the estimates being used in all of the heating season months was warranted.

Q. How did Staff proceed?

A. After the May 12-15, 2003 hearing, Staff requested and received additional monthly usage data from the Company. This usage data is more current than the 1994 Company analyses and was available to the Company prior to the 2000/2001 winter. In light of the concerns with the information in the 2000/2001 Reliability Report, Staff undertook a regression analysis of the Company data for actual heating degree days and actual usage for July 1998 through June 2000. This regression analysis results in a coefficient of determination, R^2, of 0.9855, which implies a strong relationship between HDD and expected

usage. To obtain a reasonable estimate for normal and low-case usage, Staff used the outputs from the regression analysis with estimates of normal and warmest month HDD to obtain reasonable estimates of normal month and warmest month usage for the heating season of November 2000 through March 2001. As noted in my supplemental direct, Staff's analysis results in different estimates of normal or base case usage and warmest month or low case usage than previously provided by the Company. It is not surprising that these estimates are different since the Company numbers in the 2000/2001 Reliability Report are based on 1994 analyses that cannot be found by the Company.

Q. Mr. Langston provides a revised estimate of the purchasing practices – storage adjustment using the November 1999 and December 1999 actual usage as the warmest month usage (Langston supplemental direct, p. 12, l. 3 – p. 14, l. 5). Do you agree with Mr. Langston's revision?

A. No. Staff does not agree that the November 1999 and December 1999 actual usage should be used as the warmest month usage. Additionally, in the review of Staff's spreadsheet an error was found in the calculations built into the spreadsheet that did not properly revise the FOM flowing supply nominations. This is explained in detail in my supplemental direct, p. 7, ll. 4-16. If the November 1999 and December 1999 actual usage values are used as the warmest month usage estimate for November 2000 and December 2000, the purchasing practices – storage adjustment is reduced to $2,502,453. Staff does not recommend that this adjustment be accepted as noted on p. 8, ll. 3-18 of my supplemental direct testimony.

Q. Mr. Langston compares the Company's planned and actual storage withdrawals to the Staff planned and actual storage withdrawals and states that Staff's

proposed storage utilization method is very similar to what MGE actually did during the winter of 2000/2001 (Langston supplemental direct, p. 13, l. 16 – p. 14, l. 5). Do you agree with this comparison and conclusion?

A. No. Mr. Langston is comparing a Company plan for natural gas storage withdrawals for normal weather to Staff's calculation of expected actual storage withdrawals. It is not a fair comparison. The heating season of 2000/2001 did not have normal weather in each of the months of November 2000 through March 2001.

It would be fair to compare the Company and Staff plans for storage withdrawals for normal weather. It would also be fair to compare the Company actual storage withdrawal for the 2000/2001 heating season to the Staff's calculation of expected storage withdrawals given actual conditions for the 2000/2001 heating season. A comparison of the Company and Staff plans for storage withdrawals for normal weather is shown in the chart below.

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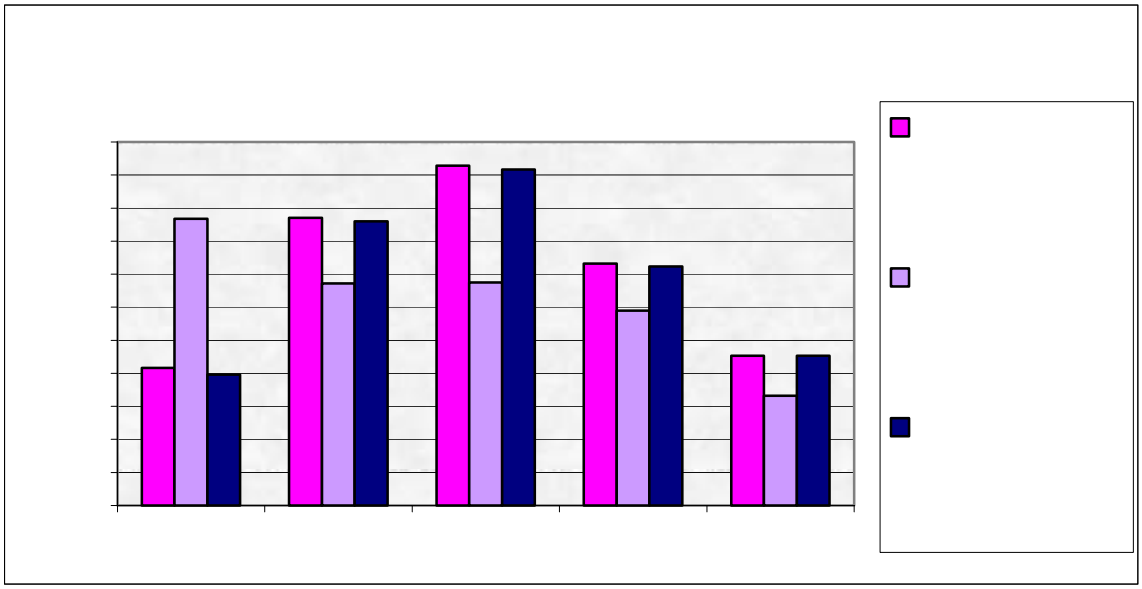

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As can be seen in the above chart, the distribution of HDD for the heating season months of November through March illustrates that the coldest month is January followed by December, February, March, and then November. MGE's planned withdrawals show that the largest planned withdrawal is in November, the heating season month with the fewest number of HDD, and the smallest planned withdrawal is in January, the heating season month with the greatest number of HDD. As noted in my earlier direct testimony, a review of recent Reliability Reports, illustrates that the planned withdrawal for November 2000 was higher than that shown for November in the previous three Reliability Reports. For the immediately preceding Reliability Report (1998/1999), MGE planned to withdraw 15.9% of the storage, which is 7.5 percentage points less than the 23.4% planned by MGE for November 2000. It does not make sense to Staff to have the largest planned withdrawal in the winter of 2000/2001 for the month of November 2000, the heating season month with the fewest number of HDD. Nor does it make sense for MGE to have increased its planned withdrawals in November 2000 compared to the planned withdrawals for the month of November in the previous years.

The second storage comparison that I referenced above as a fair comparison, the Company actual storage withdrawal for the 2000/2001 heating season compared to the Staff's calculation of expected actual storage withdrawals for the 2000/2001 heating season, is shown below. Both the Company's and the Staff's numbers were based on information available to the Company when decisions were made regarding FOM flowing supplies such as information known about storage inventory levels. As can be seen in the following chart, these storage withdrawals are not the same.

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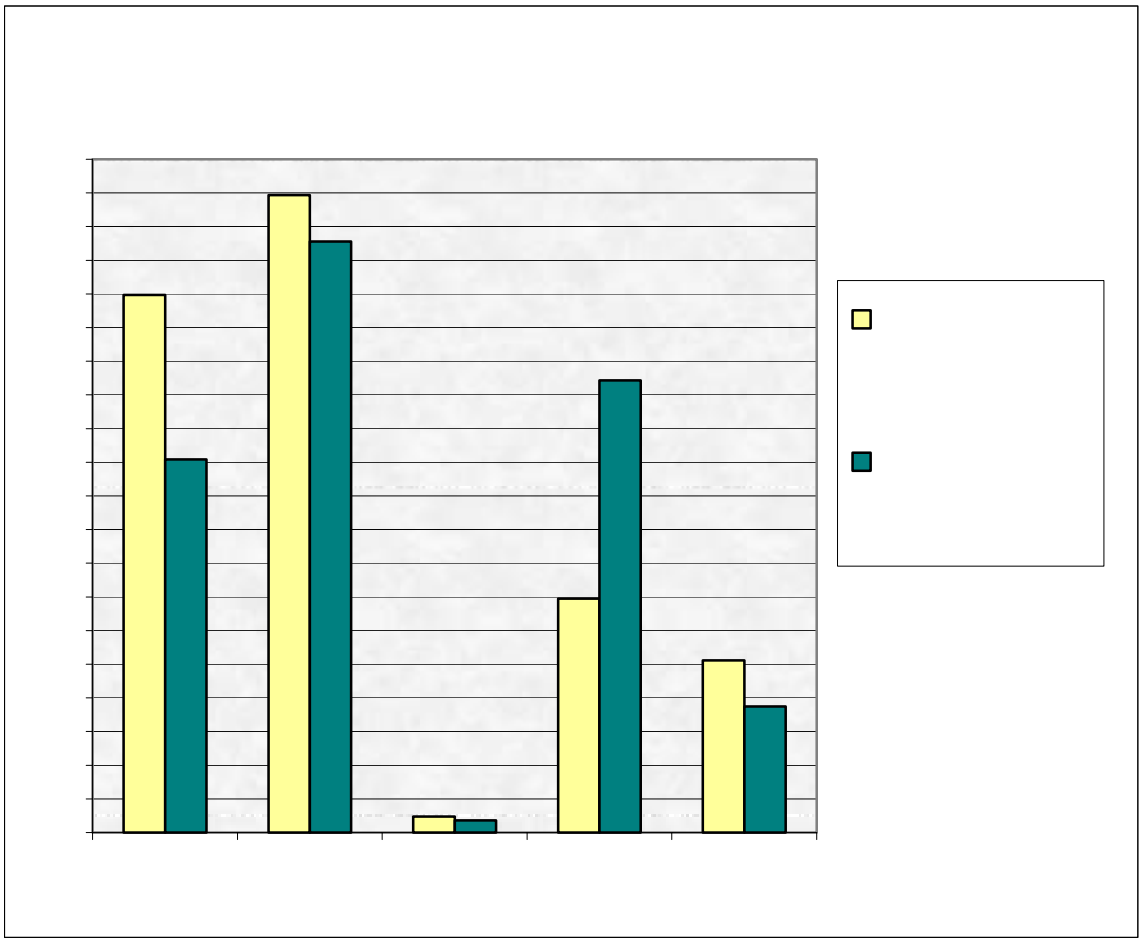

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My supplemental direct testimony shows that the Company's decisions about planned and actual flowing supplies and planned and actual withdrawals of natural gas from storage were not reasonable and the cost burden to MGE customers was $2,924,398.

Q. Mr. Langston explains why the Company did not discover the problem with warmest month earlier than during the hearing in May 2003 (Langston supplemental direct, p. 15, ll. 5-14). Do you have any comments regarding Mr. Langston's statements?

A. Yes. This directly relates to Staff's concern with the Company's gas supply plans. The information contained in the Company's 2000/2001 Reliability Report is not

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current or complete. How can the Company properly plan for extreme weather conditions when its analyses for extreme weather are not based on reasonable data that is properly documented?

Staff is no longer relying on data from the Company's 2000/2001 Reliability Report to calculate the purchasing practices adjustment. Staff has considered information that was available to the Company at the time that decisions were made for each of the heating season months of November 2000 through March 2001. Staff believes that the revised adjustment more accurately reflects information that should have been used by the Company when it was making purchasing decisions for its customers for November 2000 through March 2001. The cost burden to customers was $2,924,398.

Q. Does this conclude your supplemental rebuttal testimony?

A. Yes, it does.