Exhibit No.:
Issue: *Purchasing Practices*
Witness: *Lesa A. Jenkins*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case Nos.: *GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167 (Consolidated)*
Date Testimony Prepared: *April 22, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL 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
April 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, of lawful age, on her oath states: that she has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 18 pages to be presented in the above case; that the answers in the following surrebuttal 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

Subscribed and sworn to before me this 18th day of April 2003.

Notary Public

My Commission Expires: _____

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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SURREBUTTAL TESTIMONY OF

LESA A. JENKINS

MISSOURI GAS ENERGY

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

(CONSOLIDATED)

LIST OF SCHEDULES

SURREBUTTAL 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. Are you the same Lesa A. Jenkins who filed direct and rebuttal 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 surrebuttal testimony?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal 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 surrebuttal testimony is specifically related to "Purchasing Practices-Storage."

PURCHASING PRACTICES-STORAGE

Q. Mr. Langston makes comments about Ms. Jenkins' misuse of, and incorrect reliance on, storage data in her analysis of MGE's storage purchasing practices (Langston rebuttal, p. 4, ll. 19-21). Do you agree with these comments?

A. No. First, in order for Staff to evaluate the question before the Commission regarding the prudency of MGE's purchasing practices, Staff must evaluate the Company's natural gas supply plans. In Staff's attempt to evaluate Company decisions for this actual

cost adjustment (ACA) period, which must be based on information that was available at the time MGE made its purchasing decisions, Staff has found that the Company analyses was not supported. For example, as noted in my direct testimony, the Company provided Staff with a copy of its *Missouri Gas Energy Reliability Report, July 1, 2000 through June 30, 2001*, dated July 1, 2000. This report provides Staff with information about the Company's plan for providing for customer needs during a peak cold day. The Company states 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." When Staff requested a copy of some of the data used in the preparation of this report, the Company stated that this analysis was undertaken in 1994 and cannot be found. This was surprising to me since it was my impression from the review of the Company's reliability report that the Company reviewed usage information on an annual basis. Because the data cannot be found, MGE cannot establish, and Staff cannot confirm, that estimates provided in the Reliability Report are reasonable. Even if the 1994 analysis could be found, there is the concern that analysis of data that was at least six-years old prior to the date of this Reliability Report, would not be representative of customer usage for this ACA period.

Another example from this same Reliability Report is that the Company states that a series of regression analyses are performed to determine certain factors used to develop the peak day estimate – customer usage that could be expected on a peak cold day. When Staff examined the information further, these factors used by the Company appear to be based on a review of usage for only one cold day each year, not a series of regression analyses. Staff

does not believe that the review of one cold day in each year, a single data point, is sufficient to establish these factors.

Other examples of Staff's concerns with Company's plans for natural gas supply are contained in my direct, rebuttal, and surrebuttal testimony, in the direct, rebuttal, and surrebuttal testimony of Staff witnesses David Sommerer and John Herbert, and in the direct and surrebuttal testimony of Staff witness Anne Allee.

Q. When you say Staff must evaluate the Company's natural gas supply plans, what do you expect the Company to provide?

A. Staff would expect the Company to provide its gas procurement plans, strategies, policies, procedures and practices in a document or manual, to include at a minimum the following information:

a. The Company's gas procurement goals (including hedging);

b. The Company's strategies to meet the goals;

c. Potential situations that might prevent the Company from meeting its goals and the Company's contingency plans to deal with those situations;

d. A list of those responsible for gas procurement plans, policies and procedures and a list of those authorized to make gas procurement contracts and transactions;

e. Responsibilities of personnel in gas procurement positions;

f. The Company's evaluation of gas supply requirements for warmest weather and coldest weather scenarios, including peak day requirements, and types of contracts (transportation, storage, and supply - base load,

swing, etc.) necessary to provide for these variations in usage, including rationale for any reserve margin;

g. A detailed hedging plan that evaluates volumes to be hedged, types of instruments used, various weather scenarios with impact on hedging coverage, relationship of storage plans to hedging plan;

h. A detailed analysis of storage plans on a monthly basis, with rationales for withdrawal and injection amounts and evaluations of various weather scenarios;

i. Strategic planning regarding new capacity and storage alternatives and pipeline mix reviews;

j. Vendor selection criteria for potential supplies of natural gas, including verification of financial solvency and performance in delivering contracted supplies;

k. The Company's process of soliciting and evaluating bids, the criteria for accepting and/or rejecting certain suppliers and the documentation of the bid process and bid awards (including documentation of verbal offers);

l. The Company's process of entering into gas supply contracts and the documentation of the contracting process;

m. The Company's nomination process, both for first-of-month (FOM) determining and ordering required natural gas and for daily changes to the nomination. The nomination process includes, but may not be limited to the interaction between short-term weather forecasts, pricing information, nomination deadlines, demand forecasts, end-user analysis, existing gas

supply contracts and constraints and first-of-the-month flowing gas prices versus daily gas market prices;

n. A discussion of the Company's method of economic dispatch that is consistent with maintaining reliability; and

o. The Company's process of verifying and approving gas supply invoices before paying them.

Additionally, key assumptions and supporting data used to develop the Company gas procurement plans, strategies, policies, procedures and practices must be provided.

Q. Was this type of information available from MGE's plan?

A. Some, but not all of this information was available from the Company's reliability report and its responses to Staff data requests. However, as noted above, the information was not always supported.

Q. Mr. Langston makes assertions about Ms. Jenkins' incorrect application of the storage information from the Company's responses to Data Request (DR) Nos. 21, 28 and 68 (Langston rebuttal, pp. 5 – 11). Do you agree with these assertions?

A. No. DR No. 21 requested a copy of all internal memos and reports from the Company's gas supply/purchasing department that discussed the Company's purchase decisions for the 2000/2001 ACA review. (DR No. 21 was included as Schedule 5 of my direct testimony.) DR No. 28 requested information regarding the Company's storage contract and operation of the storage resources. DR No. 68 requested all reasons other than colder-than-normal weather that MGE's withdrawals for November 2000 and December 2000 exceeded planned levels. (DR No. 68 was included as Schedule 6 of my direct testimony.) It should be clarified that the information provided in the responses to

DR Nos. 21 and 68 included the same Supply/Demand Summaries. Thus, the storage numbers are the same in both the responses to DR No. 21 and DR No. 68. Mr. Langston contends that the storage numbers in the responses to DR No. 21 and DR No. 68 have been updated based on actual results on a month-to-month basis. However, when the storage numbers in the responses to DR No. 21 and DR No. 68 are compared to actual results, these values are not similar, as would be expected if these responses had been updated based on actual results. This is shown in the chart below.

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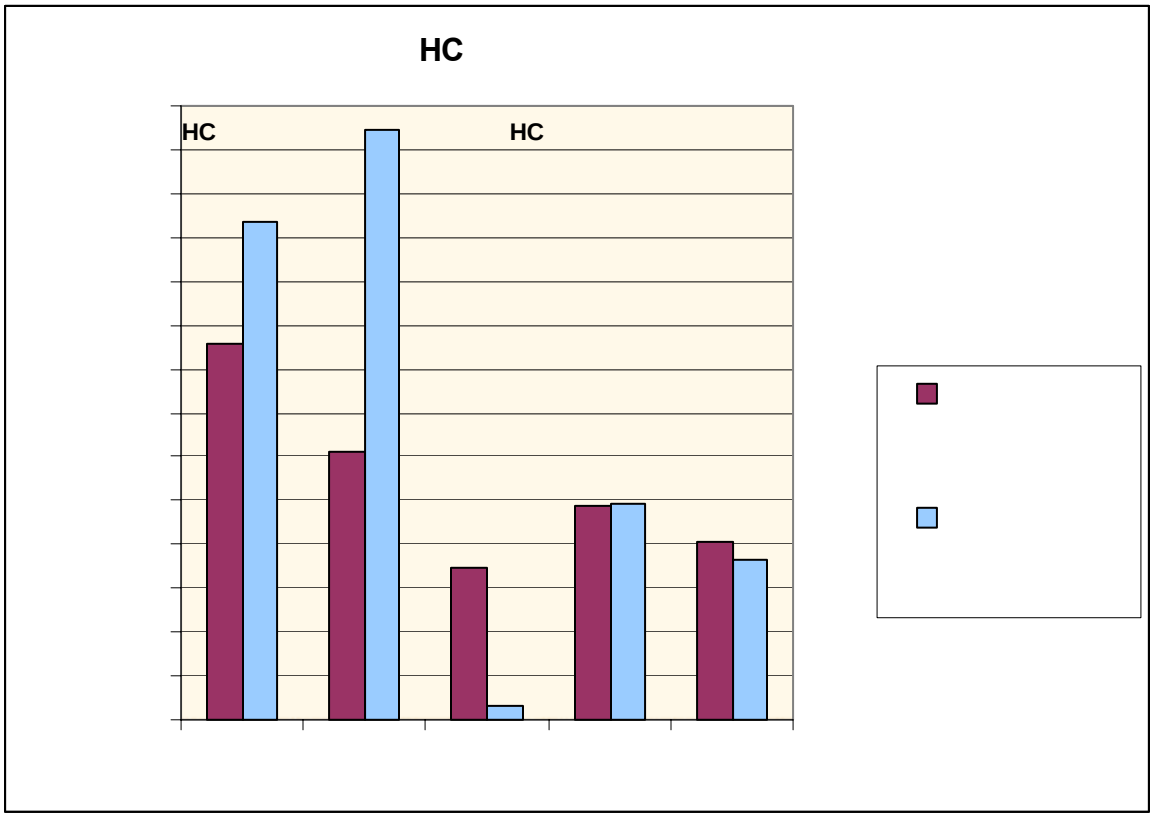

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The usage estimates in the responses to DR Nos. 21 and 68 were not updated. These usage estimates are actually reasonably close to the base case numbers provided in the Company's Reliability Report for 30-year normal weather.

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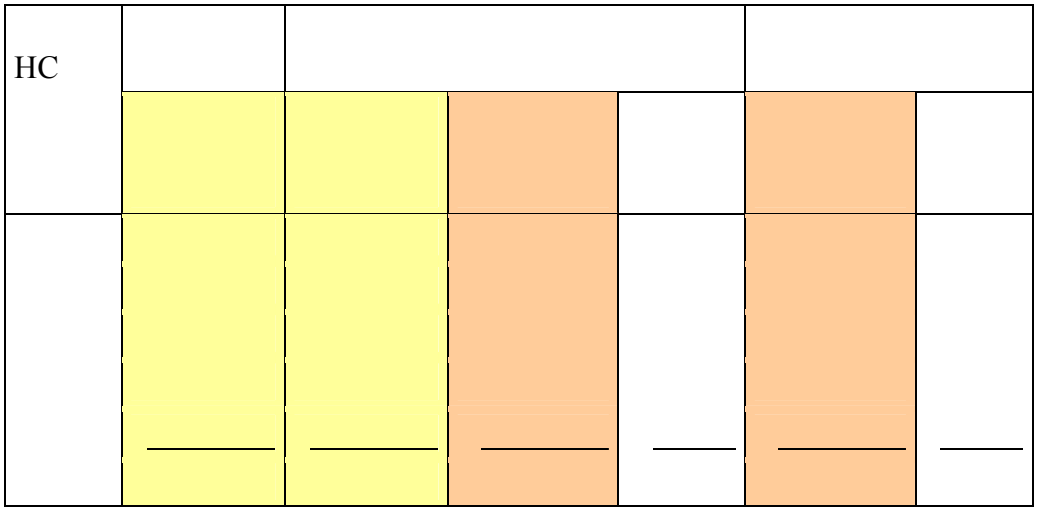

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Mr. Langston states that the Company's response to DR No. 28 contains information related to the Company's planned storage injections and withdrawals, and he claims that it has used the same storage withdrawal plan as used since the winter of 1998/1999. Staff acknowledges that DR No. 28 contains MGE's planned storage withdrawals and this was noted in Schedule 8 of my direct testimony. However, Staff does not agree that the storage withdrawal plan is the same as used in prior years.

As noted in my direct and rebuttal testimony, a review of recent Reliability Reports, shown in the following chart, reveals clearly 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 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 heating degree days. 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.

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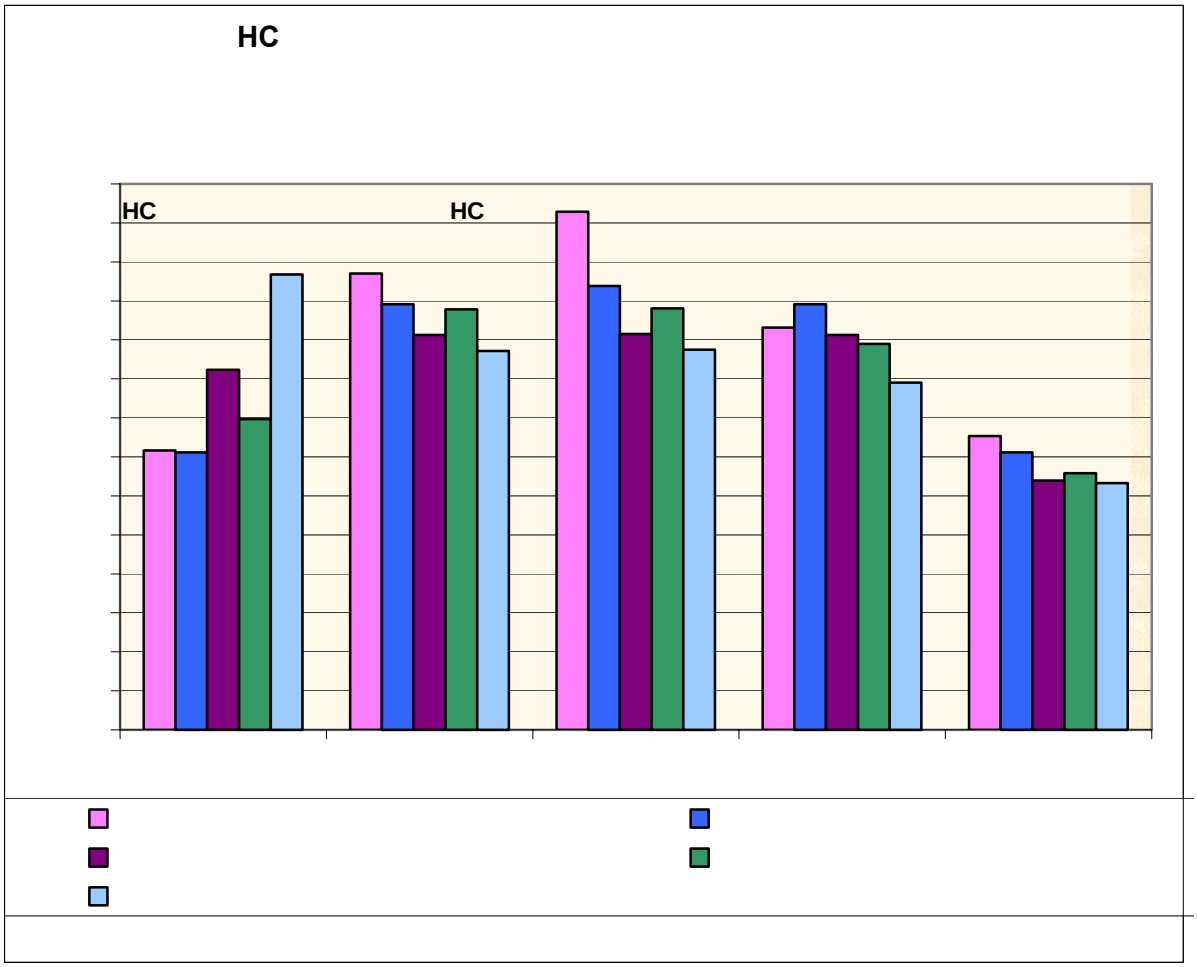

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Q. Mr. Langston states that Ms. Jenkins position in this proceeding is inconsistent with Staff's prior positions regarding MGE's storage inventory (Langston rebuttal, p. 11, ll. 24 – 27, p. 12, ll. 1-21, and p.13, ll. 1-3). Do you agree with Mr. Langston's statement?

A. No. Staff's storage analysis in this case is not related to the storage inventory costing reviewed in the rate cases. This is explained in the surrebuttal testimony of Staff witness Anne Allee.

Q. Mr. Langston criticizes Ms. Jenkins' approach for ordering first-of-month flowing supplies based on warmest month requirements (Langston rebuttal, pages 14–17). Do you agree with these criticisms?

A. No. Staff's usage estimate for warmest November is based on information provided by the Company for November 2000. First, Mr. Langston refers to Schedule MTL-15 of his direct testimony in which he plots actual demand for November 1999, November 2000 and November 2001 versus Staff's proposed flowing supplies for the 2000/2001 heating season. As noted in my rebuttal testimony, the estimates for flowing supplies could be different each November and thus the usage data for November 1999 and November 2001 should not be compared to Staff's flowing supplies for November 2000. As an example, the Company's estimate of usage includes an escalation factor for growth which could change annually, the Company's estimate of base load is supposedly updated once each year for the prior twelve-month period, and the heat load component of the Company forecast could change because of growth, conservation efforts, change in equipment used by customers or change in types of customers (e.g. change in number of industrial customers). Additionally, the Company made a comment in the response to DR No. 68, included as Schedule 6 of my direct testimony, that February and March 2001 demand was less than expected. This observation should have caused the Company to reevaluate its usage estimates for the upcoming winter, and thus the estimate for November 2001 would not be

the same as for November 2000. Thus, a comparison of actual November 1999 and November 2001 usage to that in November 2000 is not reasonable.

Second, the Company has produced no analysis of daily usage data going into the heating season of 2000/2001 to support lower first-of-month flowing supplies in November 2000. Even if the Company did provide such an analysis, Staff would not expect large amounts to be withdrawn from storage in November. Rather, if the Company could provide data to support lower first-of-month flowing volumes in November, it would seem reasonable that if the weather turned cold in November, the Company would also purchase other flowing supplies (natural gas from swing contract purchases or spot purchases) rather than relying mainly on storage withdrawals.

The purpose of the storage withdrawal approach laid out by Staff was that by purchasing more first-of-month natural gas, the Company would preserve storage volumes so that natural gas from storage was available in later winter months when the potential for cold weather was still great, and to ensure that adequate storage inventory was available to meet the pipeline constraints in each of the heating season months. ** HC

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Thus, the Company could create serious deliverability problems for itself later in the heating season when it withdraws large amounts of gas early in the heating season. Additionally, it reduces its flexibility for later in the heating season by withdrawing large amounts of natural gas from storage early in the heating season.

Third, Mr. Langston incorrectly states that Staff plans that flowing supplies will equal the average monthly demand. As noted in my rebuttal testimony, Staff planned on flowing supplies for November 2000 through January 2001 that covered warmest month's requirements based on the Company's estimates provided in its Reliability Report. Of course some days in the month would actually be warmer, but as noted by the Company in its response to DR No. 78, the Company has some flexibility with its storage contracts and actually plans to inject up to ** HC ** MMBtu of natural gas into storage in the month of November "for the very purpose of dealing with warm early November weather."

Q. Mr. Langston states that MGE entered into a short-term interruptible storage contract with Williams to accommodate additional storage volumes injected in excess of its contracted maximum storage capacity. As such, MGE did not have the operational flexibility to inject any daily swing quantities into storage in early November. Mr. Langston provides this information as additional support for lower flowing supplies in November (Langston rebuttal, p.16, ll. 11-18). Do you agree with this evaluation?

A. No. Although the Williams storage inventory was nearly full, the combined inventory from all of the Company's storage contracts would still allow for injection of ** HC ** MMBtu of natural gas. This is consistent with prior Company statements that it has some flexibility with its storage contracts and actually plans to inject up to ** HC ** MMBtu of natural gas into storage in the month of November for the very purpose of dealing with warm early November weather. However, it should be noted that the Staff's volumes for first-of-month flowing supplies were reduced by ** HC ** MMBtu because of the Company's stated plan to withdraw that amount from the interruptible contract in November 2000.

Q. Mr. Langston states that Ms. Jenkins' proposed storage utilization plan does not account for any weather variability during each month of the winter heating season or daily variability in heating demand within the month (Langston rebuttal, p. 18, ll. 10 – 20). Do you agree with this statement?

A. No. Staff's storage withdrawals based on distribution of normal heating degree days is shown in Table 3-1 of Schedule 13-2 of my direct testimony. Table 3-2 of Schedule 13-2 of my direct testimony shows Staff's calculation of expected storage withdrawals and flowing supplies for the Company's normal usage. Table 3-2 shows how Staff's planned storage withdrawals for a given month are adjusted based on storage inventory information that indicates too much or too little natural gas remains in storage inventory. For example, the December planned withdrawals are adjusted based on the Company's information about expected end of November storage inventory. In the month of November more storage was utilized than planned. Thus, Staff's planned withdrawals of natural gas from storage for the month of December were reduced so that sufficient storage inventory would be available for usage in the remaining winter months. Similar logic is followed for each of the winter months.

Staff's storage withdrawals based on distribution of normal heating degree days is compared below to Staff's expected storage withdrawals for revised flowing supplies, which considers changes in usage requirements because of weather. Thus, Mr. Langston's statement that Ms. Jenkins' proposed storage utilization plan does not account for any weather variability during each month of the winter heating season or daily variability in heating demand within the month is incorrect.

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Q. Mr. Langston states that since November is the most variable month in terms of heating demand, and storage is the supply resource most capable of supporting this variability, MGE plans on utilizing the greatest level of storage during November (Langston rebuttal, p. 18, ll. 20 – 23 and p.19, ll. 5-17). Do you agree with this statement?

A. No. November is not the most variable month in terms of heating demand. This was addressed on pages 6 and 7 of my rebuttal testimony.

Even if the Company could provide data to support nominating lower first-of-month volumes in November, it would seem reasonable that if the weather turned cold in November, the Company would purchase other flowing supplies (natural gas from swing contract purchases or spot purchases) rather than relying mainly on storage withdrawals. The purpose of the storage withdrawal approach laid out by Staff was that by purchasing more first-of-month natural gas, the Company would preserve storage volumes so that natural gas from storage was available in later winter months when the potential for cold weather was still great and so that adequate storage inventory was available to meet the pipeline constraints in each of the heating season months.

Q. Mr. Langston states that January 2001 actually had lower demand than December 2000 and provides this as justification for withdrawing more storage early in the winter (Langston rebuttal, p. 19, ll. 21-23 and p. 20, ll. 1-19). Do you agree with Mr. Langston's statements?

A. No. The Company did not know in October 2000 that November and December 2000 were going to be colder than normal and that January 2001 was going to be warmer than normal. The Accuweather forecasts that are routinely reviewed by the Company provide forecasts for the current day and for the next 6 days, not for the entire winter. There is no crystal ball that could tell the Company in advance what the actual weather would be each month of the winter of 2000/2001. However, a review of actual temperature data for the past forty years reveals that January is usually the coldest month, followed by December, February, March and lastly by November.

The Company plan for storage for normal weather was to withdraw 23.4% of the maximum storage inventory in November and 19.4% in December 2000, for a total draw down of 42.8% by the end of December 2000. The Company actually withdrew 31.9% of the maximum storage inventory in November 2000 and 37.9% in December 2000 for a total withdrawal of 69.8% by the end of December 2000. A normal January, February and March have 62.3% of a normal winter heating degree days, yet only 30.2% remained in storage at the end of December 2000. The Company had boxed itself in, and subsequently had to purchase high priced index gas for January 2001 delivery.

Q. Please explain your understanding of MGE's plans for December 2000 flowing supplies (Langston rebuttal, pp. 25 – 27).

A. As noted in my direct testimony the Company planned to undersupply flowing gas for the month of December. The Supply/Demand Summary provided in the responses to DR Nos. 21 and 68 for December 2000 listed the "TOTAL SUPPLY LESS TOTAL DEMAND OVERSUPPLIED (+)/ UNDERSUPPLIED (-)" as ** HC ** MMBtu/day. Additionally, the Company response to DR No. 61 included copies of various documents maintained by the Managers of Supply. One of these documents is an email from David Twichell dated November 27, 2000, the date that MGE indicated that first-of-month nominations were made for December 2000, that includes the statement, "we are still leaving Williams supply ** HC ** short for FOM nominations." Another of these documents is an email from David Twichell dated November 28, 2000, that includes the statement, "This still leaves the overall supply ** HC ** Dth/day short of projected demand but allows us to take advantage of more attractive pricing on Williams." (These emails are attached to this testimony as Schedules 1 and 2.)

The Company has not adequately explained why it planned to "undersupply" for December 2000. As noted in my rebuttal testimony, the Company had information that its expected natural gas storage inventory resources at the end of November 2000 were expected to be at 71.6% of the maximum storage quantity. Thus approximately 28% of the storage inventory had been used even though four heating season months remained, each of which is normally colder than the month of November. So even if December weather had been normal, the Company would have had to purchase additional swing or spot supplies or withdraw even more natural gas from storage because of this decision to undersupply December 2000.

One Company explanation for the ** HC ** MMBtu/day undersupply for December 2000, included in my direct testimony as Schedule 12, states as follows:

> "The December planned undersupplies were an adjustment utilized as a result of significantly lower volumes that occurred during December 1999."

Review of December 1999 weather showed that there were 906 heating degree days compared to the normal for December of 1,073. December 1999 had 15.6% fewer heating degree days than normal. Thus, Staff would expect that December 1999 would have lower natural gas volumes than that for normal December weather. This Company response does not explain why the Company would undersupply for December 2000 planned normal requirements. There was not then, and there has never been, any solid information indicating that all of December 2000 was expected to be warmer than normal.

Another Company explanation for the ** HC ** MMBtu/day undersupply for December 2000 is that MGE nominated less first-of-month supplies for December due to the expectation that prices could moderate in December from the record high levels (Langston direct, p. 59, ll. 11-20 and rebuttal p. 26, ll. 6 - 10). Staff witness John H. Herbert provides comments about the direction of price levels and price speculation in his rebuttal and surrebutal testimony.

Q. Mr. Langston states that Staff's expected storage plan is inappropriate from a cost perspective and he provides a schedule MTL-23 that contrasts the costs between Staff's expected storage plan and MGE's baseline storage plan that was developed prior to the winter of 2000/2001 (Langston rebuttal, pages 21 – 24). Do you agree with Mr. Langston's statements?

A. No. First, the information presented by Mr. Langston in MTL-23 utilizes actual system demand for each heating season month for 1997/1998, 1998/1999, 1999/2000,

2000/2001 and 2001/2002. Thus, the usage would be based on actual conditions at that time – e.g. actual weather, actual numbers and types of customers. Then Mr. Langston utilizes the same storage withdrawal for each November, each December, each January, each February and each March regardless of these actual conditions and regardless of any adjustments that would be made to flowing supplies for conditions known at the time such as prior month's storage inventory. As noted previously, Staff does not assume that storage is constant regardless of conditions; neither does the Company. Thus, Mr. Langston does not fairly present either Staff's position or the Company's position for expected flowing supplies and storage withdrawals for each of these heating season months. However, if Mr. Langston's logic were accepted, there is a net cost to consumers for the Company's approach for the five heating seasons presented in Mr. Langston's Schedule MTL-23 of his rebuttal testimony. This net cost is $1,745,517, as summarized in the table below.

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Q. Doesn't your table show that there is a benefit to customers in four of the five winters evaluated?

A. Yes. However, the Company only presented information for five heating seasons, four of which had warmer then normal weather. Only one year in this table,

2000/2001, had colder than normal weather. If the Company were to more reasonably evaluate costs to customers, the colder-than-normal heating seasons of 1995/1996 and 1996/1997 should also be included. If the Company were to update its evaluation to include the heating seasons of 1995/1996 and 1996/1997, only three of the seven heating seasons evaluated would be for cold weather. Mr. Langston's statement that Staff's proposed storage utilization plan would generally be more costly for MGE's customers is not based on a reasonable evaluation. Customers use more natural gas when the weather is colder and if the prices are also increasing, the combination can create unexpectedly high bills for many consumers, especially residential or small commercial consumers who rely on the utility to make prudent decisions to keep their bills reasonable.

Q. Mr. Langston clarifies that MGE's December 2000 first-of-month nominations were made on November 27, 2000, not on November 22, 2000, and that the price direction was different on these two dates. Do you have any comments on this statement?

A. Yes. Staff witness John H. Herbert provides comments about the direction of price levels and price speculation in his rebuttal and surrebutal testimony. As noted in my rebuttal testimony, the additional storage information known on November 27, 2000, revealed that the Company had used even more storage than planned and thus, the Company should have further increased flowing supplies in December 2000.

Q. Does this conclude your surrebuttal testimony for the MGE Purchasing Practices – Storage adjustment?

A. Yes, it does.

Schedule 1 and

Schedule 2

have been deemed

Highly Confidential

in their entirety.