

Exhibit No.: _____
Issues: Experimental School
Transportation Tariff
Witness: Scott F. Klemm
Type of Exhibit: Direct Testimony
Sponsoring Party: Southern Missouri Gas Company, L.P.
Case No.: GT-2003-0031

MISSOURI PUBLIC SERVICE COMMISSION

SOUTHERN MISSOURI GAS COMPANY, L.P.

CASE NO. GT-2003-0031

TESTIMONY OF

SCOTT F. KLEMM

Jefferson City, Missouri

September 10, 2002

TESTIMONY OF SCOTT KLEMM

CASE NO. GT-2003-0031

September 10, 2002

1 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

2 A. My name is Scott F. Klemm and my business address is 301 East 17th Street,
3 Mountain Grove, MO 65711.

4

5 **Q. WHO ARE YOU EMPLOYED BY?**

6 A. I am employed by Southern Missouri Gas Company, L.P. (SMGC) as Vice-President.
7 My responsibilities include supervising all aspects of the SMGC's operations in
8 Missouri, including regulatory matters.

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **EXPERIENCE.**

12 A. I attended Eastern Michigan University in Ypsilanti, Michigan, where I received a
13 Bachelor of Science degree in Business Administration, with a major in Accounting,
14 in December 1985. In May 1987, I successfully completed the Uniform Certified
15 Public Accountant (CPA) examination and subsequently received the CPA certificate.
16 I am currently licensed as a CPA in the State of Ohio. In January 1986, I joined
17 Arthur Young (now Ernst & Young) in the Toledo, Ohio office as an auditor. I
18 audited numerous clients from small closely held companies to SEC corporations. I
19 held the position of Senior Staff Auditor when I left the firm in September 1988 to

1 join Citizens Gas Fuel Company ("Citizens"), a small natural gas utility in Adrian,
2 Michigan. I began my career at Citizens as an accountant and have served in several
3 capacities. I presently serve as the Vice President and General Manager being
4 responsible for all aspects of Citizens' operations. Citizens was acquired by MCN
5 Energy Group Inc. in 1990. In 1995, MCN became a partner in SMGC. Since 1995,
6 I have served various roles in overseeing MCN's investment in SMGC. In May 2001,
7 I (through Citizens) was retained by SMGC to manage all aspects of the SMGC's
8 operations in Missouri, including regulatory matters.

9
10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

11 A. The purpose of my testimony in this proceeding is to describe the tariff sheets filed by
12 Southern Missouri Gas Company, L.P. (SMGC) that will allow the public school
13 districts within the SMGC service territory to aggregate the purchasing of natural gas
14 supplies and transport said supplies to eligible schools in compliance with House Bill
15 No. 1402 which was signed into law on July 11, 2002.

16
17 **Q. WHAT ARE THE SPECIFIC REQUIREMENTS OF NEW LAW?**

18 A. On July 11, 2002 the Governor signed into law House Bill No. 1402, enacting Section
19 393.310, RSMo which directed SMGC and the state's other regulated natural gas
20 distribution companies to file with the Commission by August 1, 2002 a set of
21 experimental tariff sheets applicable to public school districts and which: (1) provides
22 for the aggregate purchasing of natural gas supplies and pipeline transportation
23 services on behalf of eligible school entities in accordance with aggregate purchasing

1 contracts negotiated by and through a not-for-profit school association; (2) provides
2 for the resale of such natural gas supplies, including related transportation service
3 costs, to the eligible school entities at the gas corporation's cost of purchasing of such
4 gas supplies and transportation, plus all applicable distribution costs, plus an
5 aggregation and balancing fee to be determined by the commission, not to exceed
6 four-tenths of one cent per therm delivered during the first year; and (3) not require
7 telemetry or special metering, except for individual school meters over one hundred
8 thousand therms annually. The new law also sets the requirements that the
9 Commission may suspend the tariff as required for a period ending no later than
10 November 1, 2002, and shall approve such tariffs upon finding that implementation of
11 the aggregation program set forth in such tariffs will not have any negative financial
12 impact on the gas corporation, its other customers or local taxing authorities, and that
13 the aggregation charge is sufficient to generate revenue at least equal to all
14 incremental costs caused by the experimental aggregation program. In addition, the
15 law states that the commission may adopt by order such other procedures not
16 inconsistent with this section that the Commission determines are reasonable or
17 necessary to administer the experimental program.

18
19 **Q. DID SMGC FILE THE REQUIRED TARIFF SHEETS IN ACCORDANCE**
20 **WITH THE LAW?**

21 A. Yes. On August 1, 2002 SMGC filed with the Commission the proposed
22 Experimental School Transportation Program tariff sheets (ESTP). The sheets
23 contained an issue date of August 1, 2002 and an effective date of November 1, 2002.

1 As a result of discussion with the staff and the Missouri School Board Association,
2 SMGC has agreed to make certain changes in the tariff sheets it originally filed.
3 These changes are reflected in Schedule 1 appended hereto.
4

5 **Q. THE NEW LAW ALLOWS SMGC TO COLLECT AN AGGREGATION AND**
6 **BALANCING FEE NOT TO EXCEED \$0.004 PER THERM THE FIRST**
7 **YEAR. HAS SMGC INCLUDED THAT FEE IN THE FILED TARIFFS?**

8 A. Yes. SMGC has included a balancing fee of \$0.04 per MMBtu to cover the
9 incremental costs of initiating and implementing this new tariff. This is equivalent to
10 \$0.004 per therm. This fee will be subject to adjustment on an annual basis based on
11 whether SMGC is over or under recovering the costs to implement this new law.
12

13 **Q. THE NEW LAW ALSO PROVIDES THAT THERE WILL NOT BE ANY**
14 **NEGATIVE FINANCIAL IMPACT ON LOCAL TAXING AUTHORITIES.**
15 **HAS SMGC ADDRESSED THAT CONCERN IN THE PROPOSED TARIFF**
16 **SHEETS?**

17 A. Yes. SMGC has included tariff language designed to mitigate negative financial
18 impact on local taxing authorities by requiring eligible school entities to agree to pay
19 local taxes or similar fees in a manner similar to the way such taxes are currently
20 levied on sales customers.
21

1 **Q. THE NEW LAW ALSO REQUIRES THAT THE TARIFF BE DESIGNED TO**
2 **BE REVENUE NEUTRAL TO SMGC AND ITS OTHER CUSTOMERS.**
3 **WILL THESE TARIFF SHEETS BE REVENUE NEUTRAL?**

4 A. Yes. With the inclusion of the aggregation and balancing fees and with Williams Gas
5 Pipeline not having daily gas balancing penalties in its present tariffs, the new ESTP
6 tariff should not cause any shift of costs to the detriment of either SMGC or other
7 existing sales or transportation customers. It has been proposed by the Commission
8 Staff and agreed to by SMGC that no later than June 1 of each year of the
9 experimental program, SMGC will provide an accounting of the revenues and
10 expenses incurred as a result of this experimental program.

11

12 **Q. DOES SMGC PROPOSE TO RELEASE ANY OF ITS PIPELINE CAPACITY**
13 **TO THE SCHOOLS IN CONJUNCTION WITH THIS EXPERIMENTAL**
14 **PROGRAM?**

15 A. Yes. SMGC will make pipeline capacity on the Williams Gas Pipeline System
16 available.

17

18 **Q. HAS THE SCHOOL BOARD ASSOCIATION AGREED WITH THE**
19 **CAPACITY RELEASE LANGUAGE CONTAINED IN THE ESTP TARIFF**
20 **SHEETS?**

21 A. Yes they have.

22

1 **Q. ARE THERE ANY PARTS OF SMGC’S PROPOSED TARIFFS WHICH ARE**
2 **IN DISPUTE EITHER WITH THE COMMISSION STAFF OR THE SCHOOL**
3 **BOARD ASSOCIATION?**

4 A. No. It is my understanding at the time of writing this testimony, that SMGC has
5 addressed any concerns of either the Commission Staff or the School Board
6 Association. SMGC believes its tariff filing complies with the provisions of section
7 393.310 RSMo 2002.

8

9 **Q. DO YOU HAVE ANY OTHER COMMENTS TO MAKE AT THIS TIME?**

10 A. SMGC has designed the ESTP tariff and seeks to implement this program in a spirit
11 that is in keeping with the experimental nature of the program. SMGC has used its
12 best efforts to design a program that complies with the requirements of section
13 393.310 RSMo and is at the same time capable of being administered with as few
14 structural or process changes as reasonably possible. Nevertheless, despite these best
15 efforts, it must be understood that actual experience under the program may be
16 considerably different than the projections that were of necessity used in the
17 development of the ESTP tariff and that such actual experience may necessitate
18 changes during the course of the experiment.

19

20 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY AT THIS TIME?**

21 A. Yes it does.

22

23

24

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

All Communities and Rural Areas

Southern Missouri Gas Company, L.P.
Name of Issuing CorporationFor Receiving Natural Gas Service
Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

1. Availability

This service is available to any eligible school entity as defined in Section 393.310.2(3), RSMo. (Cum.Supp. 2002) within Southern Missouri Gas Company, L.P.'s (Company's) service area who has purchased natural gas from a third party supplier and desires transportation of those volumes through the Company's facilities. All provisions of the Transportation Service, Tariff Sheet Nos. 6-18, inclusive, shall apply to this program, unless otherwise indicated below. Transporter shall be required to execute a Transportation Agreement prior to receiving service under this Rate Schedule. This service shall be offered upon approval by the Missouri Public Service Commission as a pilot program in accordance with Section 393.310, RSMo. (Cum.Supp. 2002). As a condition of taking this transportation service, an eligible school entity must agree to pay local gross receipts taxes, or local franchise taxes, or other similar local fees or taxes, based upon the actual gas costs charged by the third party aggregator for natural gas and the transportation costs charged by Company.

2. Applicability of Missouri School Pilot Program

- a. This Pilot Program will become effective upon approval by the Commission and continue as a pilot program through June 30, 2005. Participants should notify the Company no later than sixty (60) days prior to service beginning date. Transporter shall agree to remain on this Rate Schedule for a period of not less than one year. Transporter may return to sales service on November 1 of any year by giving the Company notice no later than September 1 of that year. Transporter shall return to sales service at the conclusion of this program, unless this experimental program is extended.

DATE OF ISSUE: August 1, 2002
month day yearEffective : November 1, 2002
month day yearISSUED BY: Scott Klemm
name of officerVice-President
title301 East 17th Street Mountain Grove MO 65711
address

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

For All Communities and Rural Areas

Southern Missouri Gas Company, L.P.

For

Receiving Natural Gas Service

Name of Issuing Corporation

Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

- b. Company will prepare a contract for execution by the Pool Operator addressing its obligations in respect to Nominations, Balancing Charges and Cash-Out provisions and other applicable charges.
- c. Pool Operator is defined as the entity responsible on the Transporter's behalf, to contract for, and cause delivery of, adequate natural gas supplies necessary to meet the Transporter's Forecasted Daily Gas Supply Requirements. The Missouri School Board Association will select the Pool Operator for this Pilot Program.
- d. Pool Group is defined as the transporters or schools participating in this Pilot Project. A customer is assigned to a specific pool group on the basis of the connecting pipeline which serves the respective customer.
- e. The Company will be responsible for forecasting the Daily Gas Supply Requirements of participating eligible school entities. The Daily Gas Supply Requirements will be initially determined using historical consumption data and be adjusted for normal weather. The Pool Operator will be responsible for taking the Forecasted Daily Gas Supply Requirement determined by the Company and provide a nomination to the interstate pipeline supplier and the Company. Nomination Procedures, Balancing and Cash-out Charges will be handled in accordance with Sections 3 and 4 set forth below or in the Pool Operator contract. The Forecasted Daily Gas Supply Requirement will include a retention adjustment for distribution system losses in accordance with Sheet No. 9.
- f. The Pool Operator shall be responsible for pipeline imbalances, cash-outs, penalties, overrun gas charges or other charges it may create with the pipeline suppliers. All balancing charges or balancing-related obligations shall be the responsibility of the Pool Operator. Should the Pool Operator fail to satisfy such obligation, each individual transporter within such Pool Group shall remain responsible for their obligations. The Pool Operator shall enter into a group balancing agreement with the Company for a term of not less than one year.

DATE OF ISSUE: August 1, 2002
month day yearEffective : November 1, 2002
month day yearISSUED BY: Scott Klemm
name of officerVice-President
title301 East 17th Street Mountain Grove MO 65711
address

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

All Communities and Rural Areas

Southern Missouri Gas Company, L.P.
Name of Issuing CorporationFor Receiving Natural Gas Service
Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

3. Nomination Procedures

- a. The Pool Operator will actively confirm with the Company's Gas Supply Department by 3:00 p.m. (CST) six (6) working days prior to the end of the preceding month the aggregated daily volumes and associated upstream transportation contract number(s) to be delivered for the Pool Group on whose behalf they are supplying natural gas requirements. This information will be relayed using Company's standard nomination form.
- b. In the event the Pool Operator must make any changes to the nomination during the month, the Pool Operator must directly advise Company's Gas Supply Department of those changes by 9:00 a.m. (CST) on the day preceding the effective date of the change. The Pool Operator must obtain prior approval from the Company to change the total daily volumes to be delivered to the city gate.

4. Transporter (s) Balancing Obligation

- a. The Company will be responsible for any imbalances between the Forecasted Daily Gas Supply Requirement and the actual consumption caused by differences between actual weather and forecasted weather. An aggregation and balancing charge of \$.04 per MMBtu on all throughput will be collected from Transporter to offset the costs incurred by the Company to provide this service during the first year of availability and as approved by the Commission for subsequent years. No additional daily balancing fees will be imposed during the first year of the Pilot Program. In the event that there is a residual balance, the Company will be allowed to true-up any differences as approved by the Commission. The support for any true-up will be filed by June 1st of each program year. The Commission will approve any true-up by November 1st of each program year. Balancing charges will be collected and credited to the monthly cost of the Purchased Gas Adjustment Clause.
- b. Transporters within the Pool Group for respective Company pricing zones on common pipeline will have the obligation to insure that their Pool Operator delivers the Forecasted Daily Gas Supply Requirement volume to the Company's interconnect with its interstate pipeline. Transporters will be held responsible for any and all charges levied against their Pool Operator which are not paid.

DATE OF ISSUE: August 1, 2002
month day yearEffective : November 1, 2002
month day yearISSUED BY: Scott Klemm Vice-President 301 East 17th Street Mountain Grove MO 65711
name of officer title address

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

Southern Missouri Gas Company, L.P.
Name of Issuing Corporation

All Communities and Rural Areas
For Receiving Natural Gas Service
Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

- c. Transporters within one Pool Group will be treated as one customer for balancing. Consumption for all Transporters under this Pilot Program will be aggregated to be compared to monthly aggregated Confirmed Nominations to calculate the Monthly Imbalance.
5. Cash-Out of Monthly Imbalances
- a. Meters for all customers within a Pool Group will be read on the same meter reading cycle.
- b. Consumption for all customers within a Pool Group will be aggregated to be compared to monthly-confirmed nominations for that Pool Group before calculating the monthly imbalance.
- c. Any imbalances and cash-outs will be treated pursuant to the terms of Tariff Sheet Nos. 9-11, inclusive.
- d. Revenue generated from cash-out charges shall be included in the annual PGA reconciliation filings as a reduction to the cost of gas for system sales customers.
6. Overrun Charges
- On any day that the Confirmed Nomination volume is different than the Forecasted Daily Gas Supply Volume and the Pool Operator has not obtained prior approval for the variance, the Company shall charge the Pool Operator the greater of the appropriate pipeline cash-out charges or \$25.00 per MMBtu.

Overrun Charges will be collected and the revenues will be credited to the monthly Cost of Purchased Gas Adjustment Clause.

DATE OF ISSUE: August 1, 2002
month day year

Effective : November 1, 2002
month day year

ISSUED BY Scott Klemm Vice-President 301 East 17th Street Mountain Grove MO 65711
name of officer title address

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

All Communities and Rural Areas

Southern Missouri Gas Company, L.P.For Receiving Natural Gas Service

Name of Issuing Corporation

Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

6. Capacity Release Provisions

Company will release firm pipeline capacity on the applicable pipeline(s) equal to the peak day needs for all customers in aggregate to the Pool Operator, as specified in the Pool Operator Contract. The release will be at the same rate that the applicable pipeline(s) charges the Company for that capacity and will be for a term of one year. The release will be made on a recallable basis, but the Company agrees not to recall capacity unless requested to do so by Customer.

7. Billing

- a. In year one, Transporter shall pay the Company an aggregation and balancing charge of \$.04 per MMBtu. After year one, Transporter may pay the Company a higher or lower aggregation and balancing charge to cover incremental costs, as may be approved by the Commission.
- b. The monthly commodity charges and customer charges equivalent in the applicable companion sales rate will be billed each transporter within the Pool Group by the Company in accordance with non-gas charges set forth in the Company's tariff for applicable sales service.
- c. Customer will be billed any pipeline transition cost recovery factor which would otherwise be applicable as a system sales customer.
- d. ACA charges related to prior periods approved by the Commission will apply and will be billed to the customer for the first year.
- f. The Pool Operator will be billed all imbalance charges and cash-outs.

DATE OF ISSUE: August 1, 2002
month day year

Effective : November 1, 2002
month day year

ISSUED BY Scott Klemm
name of officer

Vice-President
title

301 East 17th Street Mountain Grove MO 65711
address

FORM NO. 13

P.S.C. MO. No. 1

{Original} SHEET NO. 18.6

{Revised}

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

All Communities and Rural Areas

Southern Missouri Gas Company, L.P.

Name of Issuing Corporation

For Receiving Natural Gas Service

Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

8. Taxes

The Pool Operator shall be required to collect local municipal franchise taxes, if any, on natural gas supplied by a Third Party and remit franchise tax collections to the applicable local municipal entity. In addition to local franchise taxes specified under Paragraph 1, above, schools shall agree to pay franchise tax on commodity transportation if applicable to Sales service for schools. Transportation shall be billed any applicable proportionate part of any directly allocable tax, impost or assessment imposed or levied by a governmental authority, which is assessed or levied against the Company or affects the Company's cost of operation and which the Company is legally obligated to pay on the basis of meters, customers, or rates of, or revenues from gas or service sold, or on the volume of gas produced, transported, purchased for sale, or sold, or on any other basis where direct allocation is possible.

9. Terms of Payment

Bills are delinquent if unpaid after the twenty-first (21st) day following rendition or as may be specified by law. Rendition occurs on the date of physical mailing or personal delivery, as the case may be, of the bill by the Company.

The Company shall add to any delinquent unpaid bill a sum equal to one and one half percent (1-1/2%) of the outstanding balance. In calculating the outstanding balance for these purposes, the Company may not include any amounts due to deposit arrears and amounts agreed to be paid under any deferred payment agreement. An unpaid bill shall be any undisputed amount that remains owing to the Company at the time of the rendition of the next bill. Failure to pay the late payment charge is grounds for discontinuance of service.

10. Rules and Regulations

Service will be furnished in accordance with Company's Standard Rules and Regulations.

DATE OF ISSUE: August 1, 2002
month day year

Effective : November 1, 2002
month day year

ISSUED BY Scott Klemm Vice-President 301 East 17th Street Mountain Grove MO 65711
name of officer title address

FORM NO. 13

P.S.C. MO. No. 1

{Original} SHEET NO. 18.7

{Revised}

Cancelling P.S.C. MO. No.

{Original} SHEET NO.

{Revised}

Southern Missouri Gas Company, L.P.
Name of Issuing Corporation

All Communities and Rural Areas
For Receiving Natural Gas Service
Community, Town or City

**Missouri School Pilot Program
Transportation Service
Rate Schedule**

11. Reporting Requirements

The company shall, no later than June 1st of each year of the experimental program, provide records of the revenues and expenses incurred as a result of this experimental program. These records shall be provided to the Staff of the Missouri Public Service Commission and the Office of the Public Counsel and shall be categorized in sufficient detail to permit the PSC Staff and Office of the Public Counsel to determine what under or over recovery of expenses may be taking place at that time and to determine what changes in rates, if any, may be appropriate at that time to prevent any harm to the groups identified in RSMo section 393.310. The Commission may, no later than November 1st of each year of the experimental program, implement any adjustments in rates it deems appropriate to comply with RSMO section 393.310.

DATE OF ISSUE: August 1, 2002
month day year

Effective : November 1, 2002
month day year

ISSUED BY Scott Klemm Vice-President 301 East 17th Street Mountain Grove MO 65711
name of officer title address