Exhibit No.:	
Issues:	*Northern System Storage* *Put and Call* *Eastern System Purchasing Practices* *Southern System Purchasing Practices*
Witness:	*Phil S. Lock*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*GR-2000-520 and GR-2001-461 (Consolidated)*
Date Testimony Prepared:	*November 20, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

PHIL S. LOCK

AQUILA, INC.
D/B/A MISSOURI PUBLIC SERVICE

CASE NOS. GR-2000-520 AND GR-2001-461
(Consolidated)

Jefferson City, Missouri
November 2002

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

NP

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In The Matter of Aquila Networks-MPS' Purchased Gas Adjustment Factors to be Reviewed in its 1999-2000 Actual Cost Adjustment	))))	Case No. GR-2000-520
In The Matter of Aquila Networks-MPS' Purchased Gas Adjustment Factors to be Reviewed in its 2000-2001 Actual Cost Adjustment	))))	Case No. GR-2001-461

AFFIDAVIT OF PHIL S. LOCK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phil S. Lock, being of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Phil S. Lock
Phil S. Lock

Subscribed and sworn to before me this 19th day of November 2002.

Toni M Charlton

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

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

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PHIL S. LOCK

AQUILA, INC.

D/B/A MISSOURI PUBLIC SERVICE

CASE NOS. GR-2000-520 AND GR-2001-461

(CONSOLIDATED)

REBUTTAL TESTIMONY

OF

PHIL S. LOCK

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D/B/A MISSOURI PUBLIC SERVICE

CASE NOS. GR-2000-520 and GR-2001-461

(CONSOLIDATED)

Q. Please state your name and business address.

A. Phil S. Lock, 200 Madison Street, Jefferson City, MO 65101.

Q. Did you previously file direct testimony in this case?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Company witnesses Karen Russell and Shawn Gillespie. Ms. Russell's direct testimony addresses Staff's Northern System storage adjustment. Mr. Gillespie's direct testimony addresses Put/Call transactions, Eastern System Purchasing Practices and Southern System Purchasing Practices. I will first address Company witness Russell's direct testimony.

NORTHERN SYSTEM STORAGE

Q. On Page 4 of her direct testimony, Ms. Russell describes the method employed by the Company to determine storage injection costs and withdrawal pricing. Do you agree with her description of this process?

A. Yes, during the 2000-2001 ACA period the weighted average cost of gas (WACOG) was determined by adding the previous cumulative cost balance to the current month injection costs, any current month withdrawal (if applicable), and/or transportation costs associated with storage. The total volumes are the previous month cumulative balance plus the current month injection volumes. Total cost divided by total volumes equals the WACOG rate.

Q. Ms. Russell describes the Staff's methodology used to determine storage injection costs and withdrawal pricing (Karen Russell direct, p. 5, ll. 11-20). Do you agree with her description of this process?

A. Yes, the Staff proposes to use the prior month WACOG to determine the cost of storage withdrawals for the current month's storage activity. The current month storage injections and associated pipeline costs for withdrawal and transportation would be added after withdrawal costs are determined.

Q. How do the Staff and Company's methodologies differ?

A. The Company proposes to add the current month injection costs, any current month withdrawal costs (if applicable), and the pipeline costs for withdrawal and transportation to the prior month cumulative cost balance to determine the total storage costs. These costs are used to determine the current month storage withdrawal cost. Staff applies the prior month cumulative cost balance (prior month WACOG) to determine the current month storage withdrawal costs.

Q. Company witness Russell indicates that, to the best of her knowledge, no procedural changes have been made to Company's methodology of determining withdrawal pricing (WACOG) since 1996 (Russell direct, p.5, ll. 7-9). Is this correct?

A. No. Prior to the 1999-2000 ACA period, the Company used the same methodology employed by the Staff. The Company's methodology changed during the 1999-2000 ACA period, effective September 1999.

Q. Has the Staff used the same methodology for withdrawal pricing from 1996 to present?

A. Yes, the Staff has used the same methodology whereby the prior month WACOG is used to determine current month withdrawal costs.

Q. Why has the Company changed its methodology for withdrawal pricing?

A. Staff does not know. It appears that the Company may not be aware of its own changes in methodology regarding withdrawal pricing.

Q. Does the $28,845 adjustment proposed by the Staff have an overall effect of reducing the total cost of gas for the Company's Northern System customers?

A. No. As indicated by Company witness Russell the impact is merely a cost shift from one period to another (Russell direct, p. 8, l. 5).

Q. Should the Company's storage schedule for the Northern System be adjusted to account for this timing adjustment?

A. Yes. Workpapers have been sent to the Company reflecting the changes proposed by the Staff.

PUT/CALL

Q. When will the Put/Call adjustment contained in Schedule 1 of my direct testimony, be included in the Company's PGA rates?

A. After further discussion between Missouri Public Service (MPS or Company) and Staff, an agreement was made to include the credits associated with the Put/Call adjustment in the Company's Spring 2003 filing.

EASTERN SYSTEM PURCHASING PRACTICES

Q. Does Staff have concerns over Company's proposal to shift costs from its Eastern System to its Southern System (Shawn Gillespie direct, p. 9, ll. 10-11)?

A. Yes, it does.

Q. Why does Staff have concerns?

A. Mr. Gillespie indicated that the Company intends to shift gas costs by $330,406 (Gillespie direct, p. 9, ll. 9-17 and Schedule SLG-1) whereby gas costs would be reduced on the Eastern System and conversely increased by the same amount on the Southern System. This shift is based on the Company's plan to hedge 50% of their normal requirement on the Eastern System but the Company never provided any detailed analysis to support this plan. This plan assumes that a certain level of fixed priced purchases would have been acquired (as planned) for the Eastern System prior to the 2000-2001 winter season. This may have been the **intent** of the Company, but not what was **executed** by the Company.

Q. Is it appropriate to shift purchased gas costs from the Eastern System to the Southern System as proposed by the Company based on intent rather than execution?

A. No. Staff believes that it would be inappropriate to shift gas costs from one system to another under the circumstances of this case if the gas was in fact not purchased in that manner. Shifting costs based on intent would inappropriately shift costs from the Eastern System customers to the Company's Southern System customers based on events that did not occur, but allegedly should have occurred. Furthermore, costs would be shifted from the Eastern System customers to the Southern System customers at the expense of the Southern System customers. It should also be noted that the Northern, Southern and Eastern systems are not interconnected - another reason why such a shift would be inappropriate.

Q. Does the Company have tariff authority to subsidize one district at the expense of another?

A. No. Each district on MPS's distribution system has its own set of PGA rates that are separate and distinct from other districts on the distribution system. This is because the cost of providing services in each district is noticeably different. As indicated by Mr. Gillespie (Gillespie direct, p. 8, l. 15), Missouri does not have statewide PGA rates that would allow the same gas costs to occur under separate districts.

SOUTHERN SYSTEM PURCHASING PRACTICES

Q. Does Staff have concerns about the Company's storage practices on the Southern System?

A. Yes.

Q. Mr. Gillespie indicated that purchasing gas on the daily market instead of withdrawing storage on the Southern System for the months of November and December would have cost approximately $743,202 more in gas costs (Gillespie direct, p. 19, l. 20 to p. 20, line 7). Is this a fair assessment of the cost savings during the months of November and December 2000?

A. No. Daily gas prices were not relevant in determining the cost savings during the months of November and December 2000. Staff believes that the Company should have acquired more gas through increased first-of-month (FOM) nominations during November and December 2000. In other words, more gas should have been nominated during the last week of October for November requirements and likewise more gas should have been nominated during the last week of November for December requirements. The additional requirements (proposed by Staff) for both November and December 2000 should have been purchased at FOM prices, not daily prices. The Company's cost savings should therefore reflect the difference between the monthly storage WACOG price and the FOM index price. These additional purchases would constitute baseload and/or term volumes. Schedule 9-1 of Staff witness Lesa Jenkins' direct testimony provides a monthly cost comparison between the Williams FOM index price and the storage WACOG price. This is included in Columns O to Q.

Q. Did the Company have pricing and reliability concerns prior to January 2001?

A. Mr. Gillespie indicated it was only a matter of economics or pricing (Gillespie direct, p. 16, ll. 1-4 and p. 19, ll. 4-9).

Q. When did reliability become a major concern for MPS?

A. Not until Company nominated for their January 2001 requirements (Gillespie direct, p. 22, ll. 7-11).

Q. Mr. Gillespie indicated "flowing gas was purchased in place of storage withdrawals, preparing for the continuation of colder than normal weather as was experienced in November and December 2000" (Gillespie direct, p. 25, ll. 13-15). Was economics a factor in the decision to purchase flowing gas in place of storage withdrawals during the month of January 2001?

A. No, it appears that the Company purchased expensive flowing gas with no regard to price so that if the January weather were normal, storage would not be utilized during the month of January 2001. Economics does not appear to have been a factor in the Company's decision to purchase expensive flowing gas in place of storage withdrawals.

Q. Is the Company fulfilling its goal to provide price stability for each month of the 2000-2001 winter season?

A. No, it is not. Staff witnesses Jenkins indicates "Staff believes that the Company could have reasonably avoided much of its exposure to the higher storage costs beginning in January 2001 by developing and following a reasonable plan for using flowing gas and storage withdrawals for each of the winter months of November 2000 through March 2001" (Lesa Jenkins direct, p. 6, ll. 19-22).

Q. The Company indicated that it purchased additional flowing gas in January 2001 due to colder than normal weather, concerns regarding supply availability and to maintain adequacy of storage for the remaining winter months (Gillespie direct, p. 24, ll. 4-7). Did the Company have any obligations to acquire flowing gas during the month of January 2001 for reasons not explained above?

A. Yes. In its direct testimony, the Company did not indicate its potential obligation to obtain flowing supply (in the form of daily swing supply) because of put provisions contained in contracts that it negotiated with its suppliers.

Q. How were these Put contracts developed?

A. A Put option gives the buyer (supplier) the right, but not the obligation, to sell a specific quantity of gas to the seller at a specified price at a specified time. In return for this right, the seller (formerly known as UtiliCorp) receives a monthly premium from the buyer for this protection in the form of a demand charge. ** HC

HC

HC

HC

HC

HC **

Q. Was UtiliCorp affected by the Put transactions in any other months of the 2000-2001 ACA period?

A. ** HC

HC

HC **

Q. Was the gas "put" to UtiliCorp synonymous with the daily swing volumes acquired by the Company during the months of January 2001 and February 2001?

A. Yes, it is my understanding that all daily swing pool volumes were synonymous with the put volumes acquired by UtiliCorp during January 2001 and February 2001.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

SCHEDULE 1-1

IS

DEEMED

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SCHEDULE 1-2

IS

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