

Exhibit No.:

Issues:

Storage Inventory Balances
and Off-System Sales
Adjustment

Witness:

Michael J. Wallis

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Direct Testimony

Case No.:

GR-99-315

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MICHAEL J. WALLIS

FILED

JUN 28 1999

LACLEDE GAS COMPANY

Missouri Public
Service Commission

CASE NO. GR-99-315

Jefferson City, Missouri
June 1999

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

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DIRECT TESTIMONY

OF

MICHAEL J. WALLIS

CASE NO. GR-99-315

LACLEDE GAS COMPANY

Q. Please state your name and business address.

A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission
(Commission).

Q. Please describe your educational and professional background.

A. I graduated from Central Missouri State University at Warrensburg,
Missouri and received a Bachelor of Science degree in Business Administration, with a
major in Accounting, in July 1986. I am currently a licensed Certified Public Accountant
in the state of Missouri.

Q. What has been the nature of your duties while in the employ of the
Commission?

A. Under the direction of both the Manager of the Accounting Department
(August 1987 to November 1992) and the Manager of the Procurement Analysis
Department (October 1993 to the current time), I have assisted with audits and
examinations of the books and records of utility companies operating within the state of
Missouri.

1 Q. Have you previously filed testimony before this Commission?

2 A. Yes. Schedule 1, attached to my direct testimony, is a list of cases in
3 which I have filed testimony before this Commission.

4 Q. What is the purpose of your direct testimony?

5 A. The purpose of my direct testimony is to (1) sponsor the appropriate end-
6 of-month inventory balances and corresponding inventory prices (see Schedules 2 and 3
7 attached to my direct testimony) for Laclede Gas Company (Laclede or Company) and
8 (2) sponsor Staff's alternative treatment for off-system sales profits.

9 Q. Please explain Schedules 2 and 3 which are attached to your direct
10 testimony.

11 A. Schedule 2 [Mississippi River Transmission Company (MRT) Storage
12 Inventory Balances] and Schedule 3 (Company-owned Underground Storage Inventory
13 Balances) represent the Staff's calculation of the inventory balances shown on Staff
14 Accounting Schedule 2-Rate Base.

15 Q. How was Schedule 2, attached to your direct testimony, developed?

16 A. Schedule 2 was developed by using actual MRT storage injection rates
17 (per unit gas costs) and the end-of-month volume levels developed by Staff witness
18 James A. Busch. Schedule 2 follows the MRT storage usage assumptions and
19 corresponding end-of-month volume calculations developed by Mr. Busch to arrive at the
20 Staff's calculated 12 month average inventory balance. Staff used the actual MRT storage
21 injection rates for the period of May 1998 to October 1998 to develop the vintages of gas
22 which were withdrawn during the winter months of November to April.

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1 The ending inventory balance on April 30, 1998 was calculated by multiplying
2 the end-of-month volume level (for April) developed by Mr. Busch by the corresponding
3 actual MRT injection rates for vintages of gas in the MRT storage account as of April 30,
4 1998 (provided in response to Staff Data Request No. 5001). The Staff, in order to be
5 consistent with Laclede, used the LIFO (Last In First Out) inventory pricing
6 methodology. As a result, the MRT injection rates shown on Schedule 2 for April 1998
7 represent the oldest vintage of gas remaining in the Company's MRT storage at the end of
8 the month.

9 The ending inventory balances for the months of May 1998 to October 1998 were
10 calculated by adding the pre-existing vintages of gas developed in the previous months
11 and the vintages of gas developed during these months. The volumes of gas developed
12 during the months of May to October were calculated by multiplying the difference in the
13 end-of-month balances developed by Mr. Busch by the actual MRT injection rate
14 experienced by Laclede during each month.

15 The ending inventory balances for the months of November 1998 to April 1999
16 were developed by using the LIFO inventory pricing method to withdraw the newest
17 vintages of gas based on the corresponding end-of-month volume levels developed by
18 Mr. Busch.

19 Q. How was Schedule 3, attached to your direct testimony, developed?

20 A. Schedule 3 was developed by using the same general methodology as the
21 Staff used to develop Schedule 2. However, Schedule 3 uses the end-of-month volume
22 levels for Company-owned underground storage (developed by Mr. Busch) whereas
23 Schedule 2 uses the end-of-month volume levels for MRT storage. The vintages of gas in

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1 storage as of April 30, 1998 with regard to Schedule 3 are based on actual Company-
2 owned underground storage injection rates (provided in response to Staff Data request
3 No. 5001) whereas the vintages of gas in storage as of April 30, 1998 with regard to
4 Schedule 2 are based on actual MRT storage injection rates.

5 The Staff points out that the injection rates for the months of June 1998 and July
6 1998, as shown on Schedule 3, are the same as the MRT injection rates shown on
7 Schedule 2. The use of actual MRT injection rates was necessary because Laclede did not
8 inject any gas into its underground storage facility during June and July of 1998. The
9 Staff's use of the actual MRT injection rates is conservative, since on a historical basis
10 MRT injection rates have been consistently higher than Laclede's Company-owned
11 underground storage injection rates.

12 Q. Please explain Staff's alternative treatment for off-system sales profits.

13 A. Staff witness Thomas M. Imhoff, in his direct testimony, has proposed
14 PGA tariff language which would [in the event a Gas Supply Incentive Plan (GSIP) is not
15 approved by the Commission in the context of Case No. GT-99-303] require Laclede to
16 flow back to its ratepayers, through the ACA/PGA process, all off-system sales profits.
17 This proposed PGA tariff language is necessary in order to insure that Laclede's captive
18 customers are properly compensated for the gas supply demand charges/premiums and
19 transportation reservation charges which they pay (via the PGA/ACA process) to insure
20 that the firm gas supply contracts and firm transportation contracts are (1) available in
21 aiding Laclede to meet a peak day and (2) necessary in allowing Laclede to enter into
22 profit-making off-system sales transactions.

1 In the event the Commission rejects Staff's proposed PGA tariff language, Staff
2 proposes that Laclede's rate case revenues be increased by approximately \$2.5 million.
3 Staff's proposed adjustment represents a three year average of the off-system sales profits
4 realized by Laclede during Company's three most recent ACA periods (October 1, 1995
5 to September 30, 1998).

6 Q. Please explain the phrase "off-system sales transaction".

7 A. An off-system sales transaction is a transaction wherein Laclede (or any
8 other local distribution company) uses its gas supply and/or transportation contracts to
9 transport and/or sell (at a profit) its idle gas supply volumes to customers outside of its
10 service territory and off of its distribution system.

11 Q. How are the off-system sales profits realized by Laclede currently treated
12 by the Commission?

13 A. The off-system sales profits realized by Laclede are currently handled
14 through the existing GSIP which expires on September 30, 1999. The existing GSIP
15 allows Laclede to retain 30% of all off-system sales profits.

16 Q. Why is the Staff's proposed adjustment necessary?

17 A. In the event that (1) a new GSIP is not approved by the Commission and
18 (2) the Commission rejects Staff's proposed PGA tariff language, Staff's adjustment is
19 necessary in order to reflect, in Staff's rate case revenue requirement, the off-system sales
20 profits which Laclede has realized on a recurring basis since November 1995. Staff's rate
21 case approach with regard to Laclede's off-system sales profits is necessary because the
22 Commission in its Order in Case No. GR-96-181 indicated (in agreement with Laclede)
23 that off-system sales profits should not be included as either revenues or gas cost offsets

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1 in Company's ACA filing and thus allowed Laclede to retain all profits from off-system
2 sales.

3 Q. What would the consequences be if the Commission (1) did not approve a
4 new GSIP, (2) did not approve Staff's proposed PGA tariff language, and (3) did not
5 approve Staff's proposed adjustment?

6 A. If the Commission did not approve any of the three alternatives discussed
7 above, Laclede would be allowed to retain 100% of all profits from off-system sales
8 transactions.

9 Q. Please summarize your direct testimony.

10 A. I am sponsoring the appropriate end-of-month inventory balances and
11 corresponding inventory prices for Laclede's MRT storage inventory and Company-
12 owned underground storage inventory. The 12 month averages for the MRT storage
13 inventory and Company-owned underground storage inventory were developed by using
14 end-of-month volume levels established by Staff witness James A. Busch and actual
15 MRT and Company-owned storage injection rates.

16 I am also sponsoring Staff's alternative treatment for off-system sales profits.

17 Q. Does this conclude your direct testimony?

18 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's
Tariff to Revise Natural Gas Rate Schedules.

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)

Case No. GR-99-315

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct 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.



Michael J. Wallis
MICHAEL J. WALLIS

Subscribed and sworn to before me this 24th day of June 1999.

Randall Z. Wright
Notary Public, State of Missouri
County of Cole

Randall Z. Wright
Notary Public

My Commission Expires: My Commission Exp. 01/02/2001

SUMMARY OF RATE CASE INVOLVEMENT

MICHAEL J. WALLIS

<u>COMPANY NAME</u>	<u>CASE NO.</u>
St. Joseph Light & Power Company	GR-88-115
Capital City Water Company	WR-88-215
GTE North Incorporated	TR-89-182
The Empire District Electric Company	WR-90-56
The Empire District Electric Company	ER-90-138
Ozark Natural Gas Company	GA-90-321
United Cities Gas Company	GR-91-249
St. Joseph Light & Power Company	EC-92-214
Western Resources Inc.	GR-93-140
Tartan Energy Company, L.C.	GA-94-127
Associated Natural Gas Company	GR-94-189
Associated Natural Gas Company	GR-95-213
Missouri Public Service	GR-95-273
Union Electric Company	EM-96-149
Laclede Gas Company	GR-96-181
Missouri Public Service	GR-96-192
Laclede Gas Company	GR-96-193
Associated Natural Gas Company	GR-96-227
Missouri Gas Energy	GR-96-450
Atmos Energy Corporation and United Cities Gas Company	GM-97-70
Associated Natural Gas Company	GR-97-272
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Missouri Gas Energy	GC-98-335
Laclede Gas Company	GR-98-374
Laclede Gas Company	GT-99-303

SCHEDULE 2
HAS BEEN DEEMED
HIGHLY CONFIDENTIAL
IN ITS
ENTIRETY

SCHEDULE 3
HAS BEEN DEEMED
HIGHLY CONFIDENTIAL
IN ITS
ENTIRETY