

Exhibit No.:

*Issues: Agency Fees; Purchasing
Practices-Southeast
Missouri Integrated
System*

Witness: Phil S. Lock

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

*Case Nos.: GR-2001-396 and
GR-2001-397
(Consolidated)*

Date Testimony Prepared: February 28, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY OF

PHIL S. LOCK

**ATMOS ENERGY CORPORATION
CASE NO. GR-2001-396**

AND

**UNITED CITIES GAS COMPANY
CASE NO. GR-2001-397**

(CONSOLIDATED)

*Jefferson City, Missouri
February 2003*

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

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Atmos Energy)
Corporation's Purchased Gas) Case No. GR-2001-396
Adjustment Factors to be Reviewed in)
its 2000-2001 Actual Cost Adjustment)

In the Matter of United Cities Gas)
Company's Purchased Gas Adjustment) Case No. GR-2001-397
Tariff Revisions to be Reviewed in its)
2000-2001 Actual Cost Adjustment)

AFFIDAVIT OF PHIL S. LOCK

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

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 7 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

Subscribed and sworn to before me this 27th day of February 2003.



Iain A Charles

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

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1 **REBUTTAL TESTIMONY**
2 **OF**
3 **PHIL S. LOCK**
4 **ATMOS ENERGY CORPORATION**
5 **CASE NO. GR-2001-396 AND**
6 **UNITED CITIES GAS COMPANY**
7 **CASE NO. GR-2001-397**
8 **(CONSOLIDATED)**

9 Q. Please state your name and business address.

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

11 Q. By whom are you employed and what is your position?

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

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

15 A. My rebuttal testimony will address Company witness John Hack's
16 direct testimony where he describes the Company's use of storage facilities on the
17 SEMO Integrated System during the winter of 2000-2001. The winter period
18 includes the months of November 2000 to March 2001. My testimony will also
19 address the Company's proposed treatment of Agency Fees.

20 **AGENCY FEES**

21 Q. The Company describes Agency Fees as a per unit fee that is viewed
22 by the Company in the same manner as a premium to index pricing (John Hack

1 direct, p. 43, ll. 14-15). Do you agree with the Company's understanding of Agency
2 Fees?

3 A. No. Staff does not view Agency Fees as a premium to index pricing.
4 Under an agency agreement, a service is provided by Mississippi River
5 Transportation (MRT) for a consulting fee. As indicated in my direct testimony,
6 consulting fees are a payroll issue typically reviewed in the context of a general rate
7 case.

8 Q. Can you provide a list of ACA cases that Staff has proposed to
9 disallow Agency Fees?

10 A. Yes. The Staff has proposed disallowances of Agency Fees in the
11 following cases: Southern Missouri Gas, Case No. GR-96-85; Southern Missouri
12 Gas, Case No. GR-97-234; Southern Missouri Gas, Case No. GR-99-178; and
13 Greeley Gas, Case No. GR-99-197. In all of these cases, Staff's proposed
14 disallowance has been approved.

15 **PURCHASING PRACTICES – SOUTHEAST MISSOURI INTEGRATED**

16 Q. Mr. Hack alleges that Staff's proposed adjustment regarding storage
17 utilization relies on the use of hindsight (Hack direct, p. 25, ll. 5-6).

18 A. A hindsight review implies that Staff has "second-guessed" the
19 Company based upon information that was not available at the time the decision was
20 made. Mr. Hack may not be aware that ACA reviews are, by necessity, after-the-
21 fact reviews. Contrary to Company's beliefs, Staff's analysis is based on
22 information known by the Company at the time the Company made its decisions.
23 Mr. Hack fails to acknowledge that the Company should have achieved some

1 minimum level of hedging without any prior approval by the Commission or
2 agreement by the Staff.

3 Q. Mr. Hack describes Staff's refusal "to 'pre-approve' any specific level
4 of hedging when requested to do so by larger LDCs in Missouri" (Hack direct, p. 13,
5 ll. 9-11). What is Staff's position on pre-approval of the Company's hedging
6 requirements?

7 A. First, the Commission approves tariffs, not the Staff. Second, the Staff
8 believes that pre-approval of the Company's hedging requirements would constitute
9 "micro-management" of a gas utility. Section 393.140(5) of the Missouri Statutes
10 provides that the "Commission shall examine all persons and corporations under its
11 supervision and keep informed as to the methods, practices, regulations and property
12 employed by them in the transaction of their business." This is clearly a review
13 function. Furthermore, the Public Service Commission (PSC) has no authority to
14 take over the general management of any utility. State ex rel. Laclede Gas Co. v.
15 Pub. Serv. Comm., 600 S.W.2d 222 (Mo. Banc 1980).

16 Q. Mr. Hack indicated that the Company made a prudent operational
17 decision to purchase additional flowing gas to meet expected January demand in an
18 effort to protect from further erosion of existing storage levels (Hack direct, p. 26,
19 ll. 18-23). What are the consequences, from an economic viewpoint, of the
20 Company's decision to purchase additional flowing gas to meet expected January
21 demand?

22 A. According to Staff, the Company made the decision to purchase
23 additional flowing gas at first-of-the-month nominations for the month of

1 January 2001 instead of withdrawing natural gas from storage. In fact, extensive
2 first-of-the-month nominations were a major contributor to the lost savings during
3 this month. Purchases for flowing gas were made in January 2001, at an average
4 cost of ** HC ** as the result of the
5 Company's decision to forego storage withdrawals. As shown on Schedule 12-1,
6 attached to Staff witness Lesa A. Jenkins' revised direct testimony, Staff believes
7 that the Company's decision to forego storage withdrawals resulted in lost savings
8 (or costs that could have been avoided) of \$1,286,793 during the month of January.

9 Q. What is Staff's total prudence disallowance for the SEMO district?

10 A. According to Schedule 12-1 of Staff witness Jenkins' revised direct
11 testimony, Staff's proposed disallowance for the period of November 2000 to
12 March 2001 is \$1,119,105.

13 Q. Mr. Hack stated that 29,060 Dth (3% of maximum storage quantity or
14 MSQ) of gas were injected into storage during January 2001. No withdrawals were
15 made in January 2001. (Hack direct, p. 35, ll. 6-7) Are these actual injections into
16 storage?

17 A. No. These are net injections into storage. Actual storage injections
18 were 60,558 Dth for the month of January 2001. Withdrawals of 31,011 Dth and
19 fuel losses of 487 Dth were subtracted from 60,558, to equal 29,060 Dth. Actual
20 storage injections represent 8% (60,558/753,969) of the Company's MSQ on the
21 Texas Eastern system (TETC).

22 Q. What is the risk of injecting gas into storage during the winter months?

1 A. A price risk exposure problem exists when the utility injects gas into
2 storage during the winter season at a price that turns out to be greater than the
3 market price when the gas is withdrawn. Staff believes that the Company's decision
4 to purchase additional flowing gas for January 2001, resulting in net injections of
5 gas into storage (29,060 Dth), was unreasonable given the information available to
6 the Company at the time the decision was made.

7 Q. In addition to the price risk exposure to customers, can this create a
8 problem for the Company?

9 A. Yes. This can create a cash flow problem for the utility because the
10 utility is not able to recover those dollars (assuming that those costs are prudent)
11 until that gas is withdrawn from storage.

12 Q. Mr. Hack indicated that prices were going up, and were expected to
13 continue to escalate (Hack direct, p. 28, ll. 18 and 20). Did this rationale have any
14 bearing on the Company's decision to utilize its storage facilities during the month
15 of January 2001?

16 A. No. Mr. Hack mentioned two scenarios for utilizing storage in his
17 direct testimony. First, he indicated that by withdrawing gas from storage the
18 Company is able to avoid the higher daily gas prices. He also indicated that storage
19 should be used principally to ensure that necessary supplies are available to ensure
20 the reliability of the storage service to consumers in the event of a late winter peak
21 demand period (Hack direct, p. 31, ll. 12-16). Staff believes that under a reasonable
22 storage plan (described in Staff witness Jenkins' revised direct testimony) the
23 Company could have avoided higher gas prices by the prudent use of its storage

1 facilities and still maintained reliability of service to its customers. As indicated by
2 Mr. Hack in his direct testimony, storage enhances reliability by providing a ready
3 source of supply. Mr. Hack further indicated that under colder than normal
4 conditions, the economics of pricing come into play (Hack direct, p. 31, ll. 9-11);
5 however, economics does not appear to have been a factor in the Company's
6 decision to purchase expensive flowing gas in place of storage withdrawals.

7 Q. Did the Company fulfill its goal of providing price stability for each
8 month of the 2000-2001 winter season?

9 A. No, it did not. As I described previously, the Company could have
10 avoided much of its exposure to the higher storage costs beginning in January 2001
11 by developing a reasonable plan for using flowing gas and storage withdrawals for
12 each of the winter months of November 2000 through March 2001.

13 Q. What do Staff's proposed storage requirements achieve for customers
14 on the SEMO Integrated System?

15 A. Staff believes that its proposed storage requirements provide for the
16 reliability of supply, operational flexibility and the prudent use of the Company's
17 storage to lock in prices in order to reduce price volatility and minimize gas costs.

18 Q. Mr. Hack indicated that Atmos' purchasing practices were consistent
19 with the prevailing custom and practices used throughout the Local Distribution
20 Company (LDC) industry (Hack direct, p. 9, ll. 16-18). Does this mean that Atmos'
21 purchasing practices are prudent?

22 A. No. Whether Atmos' purchasing practices were consistent with
23 prevailing custom and practices in the LDC industry is irrelevant. Staff's review

1 was made based on the facts and circumstances that existed at the time the
2 purchasing decisions were made by the Company. Decisions must be reviewed in
3 light of the facts and circumstances known to management at the time the decision
4 was made. Because the facts and circumstances are different from LDC to LDC,
5 Staff's analysis is conducted on a case-by-case basis.

6 Staff believes that Mr. Hack has not done an extensive review of other LDC
7 purchasing practices and it is unlikely that such a detailed review could be done
8 given the highly confidential nature of most LDC buying practices.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes.