

Exhibit No.:  
Issues: Put/Call Transactions  
Witness: Shawn Gillespie  
Exhibit Type: Direct  
Sponsoring Party: UtiliCorp United Inc.  
d/b/a Missouri Public Service  
Case No.: GR-99-435  
Date: January 29, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-99-435

DIRECT TESTIMONY  
OF  
SHAWN GILLESPIE  
ON BEHALF OF  
UTILICORP UNITED INC.  
D/B/A MISSOURI PUBLIC SERVICE

JEFFERSON CITY, MISSOURI

FILED<sup>2</sup>  
JAN 30 2002  
Missouri Public  
Service Commission

NP

State of Nebraska     )  
                                  ) ss  
County of DOUGLAS )

AFFIDAVIT OF SHAWN GILLESPIE

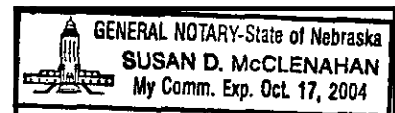
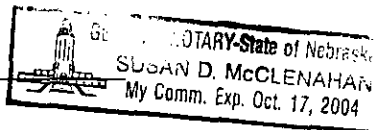
Shawn Gillespie, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Shawn Gillespie"; that said testimony was prepared by him and/or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Shawn Gillespie

Subscribed and sworn to before me this 28 day of January, 2002.

Susan D. McClenahan  
Notary Public

My Commission expires:



1    **Q.     Please state your name and business address.**

2    A.     My name is Shawn Gillespie. My business address is 7101 Mercy Road, Suite 400,  
3           Omaha, NE 68106.

4  
5    **Q.     By whom are you employed and in what capacity?**

6    A.     My employer is UtiliCorp United, Inc. ("UtiliCorp"). I work in the USU (U.S.  
7           Utilities) business unit, in the UtiliCorp Gas Supply Services department. My current  
8           position is Senior Gas Supply Representative.

9  
10   **Q.     Please state your educational background.**

11   A.     I have a Bachelor of Science (BS) in Accounting and a Master of Business  
12           Administration (MBA). Both degrees were obtained from Bellevue University,  
13           located in Bellevue, Nebraska.

14  
15   **Q.     How long have you been employed with UtiliCorp?**

16   A.     I have been employed with UtiliCorp since April of 1994.

17  
18   **Q.     What positions have you held within UtiliCorp?**

19   A.     I started with UtiliCorp on April 13, 1994, working in the PGA group for the Peoples  
20           Natural Gas division. I was responsible for the PGA filings and ACA filings for the  
21           State of Kansas. Beginning June 1, 1995, I began dispatching natural gas for  
22           UtiliCorp Gas Supply Services. I was responsible for dispatching; managing storage  
23           and balancing natural gas on various Local Distribution Companies and pipelines, for

1 UtiliCorp's retail division. Approximately June, 1996, I dispatched, managed storage  
2 and balancing natural gas on Colorado Interstate Gas (CIG), Kinder Morgan  
3 Interstate Gas Transmission (KMIGT, previously KN), Williams Gas Pipeline  
4 SouthCentral (WGPC, previously WNG) and Reliant pipelines, for UtiliCorp Gas  
5 Supply regulated division. Beginning June 1997, I added the Transportation &  
6 Exchange (T&E) responsibilities and backup Buyer of natural gas to my dispatching  
7 responsibilities for the same pipelines. Beginning in July 1999, I was made an  
8 Operations Lead. The dispatching responsibilities were removed but I was  
9 responsible for all operation issues on the same pipelines. I had two dispatchers and  
10 one buyer reporting to me. Beginning in September 2000, I moved into my current  
11 position, Senior Gas Supply Representative, in the Planning Group within UtiliCorp  
12 Gas Supply Services.

13  
14 **Q. What are your responsibilities as Senior Gas Supply Representative?**

15 A. My responsibilities in this position are to develop the supply portfolio on CIG,  
16 KMIGT, WGPC and Reliant, to support Regulatory Services on state activities in  
17 Kansas, Colorado, Missouri and Nebraska, and to negotiate storage and transportation  
18 contracts on assigned pipelines.

19  
20 **Q. Have you previously presented testimony in any regulatory proceedings?**

21 A. Yes. I have testified before the Kansas Corporation Commission (KCC) in the  
22 Application for approval of a proposed Transportation Contract with Williams Gas  
23 Pipeline for capacity on the proposed Western Frontier Pipeline, Docket No. 02-  
24 UTCG-177-CON. I have also testified before the Public Utilities Commission of the

1 State of Colorado in the matter of the Gas Purchase Plan for Peoples Natural Gas  
2 (PNG), Docket No. 00P-305G.  
3

4 **Q. What is the purpose of your testimony in this proceeding?**

5 A. Based upon the Staff's recommendation in this case, I believe the only subject at  
6 issue is the treatment of "Put/Call" transactions. Therefore, I will describe what a  
7 "Put/Call" transaction entails, how options are utilized in determining supply for  
8 monthly requirements and describe the methodology in calculating the impact to  
9 Missouri Public Service (MPS) Southern System, MPS Northern System and  
10 MPS Eastern System ratepayers due to "Put/Call" transaction(s).  
11

12 **Q. Can you please describe the MPS Southern, Northern and Eastern Systems?**

13 A. Yes. MPS Southern System serves approximately 31,627 customers in the  
14 following communities: Clinton, Deerfield, Henrietta, Leeton, Lexington,  
15 Marshall, Nevada, Otterville, Platte City, Richmond, Sedalia, Smithton, Tracy,  
16 Weston and rural customers in Central Missouri. The Southern System is  
17 supplied gas by Williams Gas Pipeline Central (WGPC). MPS Northern System  
18 serves approximately 10,843 customers in the following communities:  
19 Brookfield, Brunswick, Bucklin, Chillicothe, Chula, Glasgow, Keytesville,  
20 Laclede, Marceline, Meadville, Salisbury, Trenton, Utica, Wheeling and rural  
21 customers in North Central Missouri. MPS Eastern System serves approximately  
22 4,206 customers in the following communities: Owensville, Rolla, Salem and

1 rural customers in South Central Missouri. MPS Northern and Eastern Systems  
2 are supplied gas by Panhandle Eastern Pipeline (PEPL).  
3

4 **Q. What is your understanding of the Staff's recommendation?**

5 A. Staff has proposed adjustments to increase revenue recovery by \*\* \_\_\_\_ \*\* for the  
6 Southern System and \*\* \_\_\_\_ \*\* for the Northern System. Staff explains that "[t]o  
7 compensate regulated customers in Missouri, Staff proposes to allocate put and  
8 call premiums to MPS customers."  
9

10 **Q. What are "Put Options" and "Call Options" in terms of this testimony?**

11 A. A "Put Option" is a transaction where the supplier would have the right to put or  
12 give a specified volume of gas to MPS at first of month index and in return MPS  
13 would receive a premium payment from the supplier. The option would  
14 potentially be exercised based on operational and/or economic conditions.  
15 UtiliCorp generally included in these transactions an additional right to call or  
16 receive that gas at the gas daily price, if the gas was not put. A "Call Option" is a  
17 transaction where the supplier has the right to call or receive a specified volume  
18 of gas from MPS at first of month index and in return MPS would receive a  
19 premium payment from the supplier. The option would again potentially be  
20 exercised based on operational and/or economic conditions. UtiliCorp generally  
21 included in these transactions the right to call back the gas at the gas daily price, if  
22 gas was not called.  
23

1   **Q.    What MPS System(s) are impacted by the “Put/Call” transactions?**

2    A.    All three MPS Systems are impacted by the “Put/Call” transactions.  
3

4   **Q.    Are the MPS Systems the only systems impacted by “Put/Call” transactions?**

5    A.    No. For Options transacted on WGPC, gas was allocated to Kansas regulated  
6           activities and Power, as well as non-regulated activities. For Options transacted  
7           on PEPL, gas was allocated to Michigan and Kansas regulated and to non-  
8           regulated activities.  
9

10   **Q.    How were “Put/Call” transactions utilized when determining first of month  
11           requirements?**

12   A.    On the MPS Southern System, when a “Put/Call” transaction was contracted for,  
13           the expectation was the gas would be put or called one half the time. For  
14           example, if a put option of 10,000 Dth/day for the month of July was contracted,  
15           the expectation for planning purposes would be to have 155,000 Dth put to MPS  
16           for the month or 5,000 Dth/day. The 5,000 Dth/day was viewed as a baseload  
17           supply package of gas to meet the first of the month requirements. On the MPS  
18           Northern and MPS Eastern Systems, “Put/Call” transaction(s) were considered to  
19           occur 100% of the time. In the previous example 10,000 Dth/day was viewed as a  
20           baseload supply package of gas for planning purposes.  
21  
22  
23

1 Q. Do you believe that there has been an impact from the "Put/Call"  
2 transactions that should be reflected in the ACA balance?

3 A. Yes. However, MPS respectfully disagrees that the Staff's proposal to refund the  
4 premiums associated with "Put/Call" transactions is the appropriate remedy for  
5 the risk to which Staff perceives regulated customers have been exposed. MPS  
6 instead proposes that the gas costs be adjusted to ensure that there has been no  
7 impact on regulated customers as a result of the "Put/Call" transactions.  
8

9 Q. Have you performed a calculation of the impact you believe the "Put/Call"  
10 transactions should have on the ACA balance?

11 A. Yes. Marked as Schedules SLG-5 and SLG-6, and attached to my testimony, are  
12 my calculations of the impact.  
13

14 Q. How is the impact to MPS Southern System ratepayers calculated?

15 A. If gas was put to MPS more than half the month, the impact was calculated by  
16 multiplying the difference between the number of days gas was actually put minus  
17 half the month, times the average of the gas daily prices for the days gas was put  
18 times the MPS portion. Please see Schedule SLG-1 for an example of the  
19 calculation. If gas was put to MPS less than half the month, the impact was  
20 calculated by multiplying the difference between half the month minus the  
21 number of days actually put the gas, times the average of the gas daily prices for  
22 the days gas was called on times the MPS portion. Please see Schedule SLG-2 for  
23 an example of calculation. If gas was called on from MPS more than half the



1 month, the impact was calculated by multiplying the difference between the  
2 number of days gas was actually called on minus half the month, times the  
3 difference by the average of the gas daily prices for the days gas was called on  
4 times the MPS portion. Please see Schedule SLG-3 for an example of calculation.  
5 If gas was called on from MPS less than half the month, the impact was calculated  
6 by multiplying the difference between half the month minus the actual days gas  
7 was called on, times the average of the gas daily prices for the entire month times  
8 the MPS portion. Please see Schedule SLG-4 for an example of the calculation.  
9

10 **Q. How is the impact to MPS Northern and Eastern System ratepayers**  
11 **calculated?**

12 A. Impact was calculated by multiplying the difference between the daily gas price  
13 when gas was not put, but the option was exercised to call on the gas at the gas  
14 daily price, minus the first of the month index times the volumes. For example, if  
15 5,000 Dth of gas was called on January 1 at a price of \$2.50 and first of month  
16 index was \$2.40 the calculated impact would be 5,000 Dth times \$.10 or \$500.00.  
17

18 **Q. Based on the above impact methodologies, what does MPS feel is the impact**  
19 **that should be reflected in the ACA balance?**

20 A. UtiliCorp believes the above methodology I have described fairly compensates  
21 the MPS ratepayers for any impact that may have resulted. Thus, UtiliCorp  
22 suggests that the proper compensating amount for the MPS Southern System for  
23 the 1998-1999 ACA period is \*\* \_\_\_\_\_ \*\*, as shown in Schedule SLG-5 under the

1 "Impact to MPS" column, of which \*\* \_\_\_\_\_ \*\* has already been credited back to  
2 the General System under the "Amount Credited Back to MPS" column, leaving  
3 amount of \*\* \_\_\_\_\_ \*\* to be credited back under the "Remainder to Credit MPS"  
4 column. There were no "Put/Call" transactions directly allocated to MPS  
5 Northern and MPS Eastern Systems during the 1998-1999 ACA year; therefore,  
6 UtiliCorp believes the proper compensating amount for the MPS Northern and  
7 MPS Eastern Systems for the 1998-1999 ACA period is \*\* \_\_\_\_\_ \*\*, as shown in  
8 Schedule SLG-6 under the "Total MPS Northern Impact" and "Total MPS  
9 Eastern Impact" columns.  
10

11 **Q. Does this conclude your testimony?**

12 **A.** Yes, it does.  
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14  
15  
16  
17  
18  
19  
20  
21  
22  
23

SCHEDULES SLG-1, SLG-2, SLG-3,  
SLG-4, SLG-5 AND SLG-6  
HAVE BEEN DEEMED TO BE  
HIGHLY CONFIDENTIAL