Exhibit No.:

Issue: Put and Call Transactions

Witness: Phil S. Lock

Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony

Case No.: GR-99-435

Date Testimony Prepared: February 20, 2002

# MISSOURI PUBLIC SERVICE COMMISSION UTILITY SERVICES DIVISION

**REBUTTAL TESTIMONY** 

**OF** 

PHIL S. LOCK



### UTILICORP UNITED INC. d/b/a MISSOURI PUBLIC SERVICE

**CASE NO. GR-99-435** 

Jefferson City, Missouri February 2002

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

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1	REBUTTAL TESTIMONY					
2	OF					
3	PHIL S. LOCK					
4	UTILICORP UNITED INC.					
5	d/b/a MISSOURI PUBLIC SERVICE					
6	CASE NO. GR-99-435					
7						
8	Q. Please state your name and business address.					
9	A. Phil S. Lock, 200 Madison Street, Jefferson City, MO 65101.					
10	Q. By whom are you employed and what is your position?					
11	A. I am a Regulatory Auditor III with the Missouri Public Service					
12	Commission (Commission).					
13	Q. What is the purpose of your rebuttal testimony?					
14	A. To address Company witness Shawn Gillespie's direct testimony in which					
15	he describes the methodology used in quantifying the impact of put and call transactions					
16	to Missouri Public Service's (MPS, UtiliCorp or Company) Northern and Southern					
17	Systems.					
18	Q. Does UtiliCorp agree with the Staff that its Missouri-regulated customers					
19	were at risk due to put and call transactions?					
20	A. Yes. Mr. Gillespie makes it very clear in his direct testimony that					
21	Missouri-regulated customers were at risk by his discussion of the risk exposure and					
22	customer impacts from put and call transactions. Staff and Company, however, do not					
23	agree on the method of compensating the regulated customers for those risks.					

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Q. How does Staffs approach to compensating Missouri-regulated customers differ from the Company's approach?

As indicated in my direct testimony, Staff believes the most equitable way A. of compensating regulated customers from the impact of put and call transactions in this case is by the crediting of put and call premiums and allocating these credits to Missouri customers. In fact, it can be argued that the greater of the premiums received or the detrimental impact on gas costs should form the basis of the adjustment. Based upon its review in this case. Staff believes that crediting back the premiums helps ensure that there is no risk to Missouri-regulated customers. The Company believes, however, that regulated customers are better compensated for their risk by analyzing only those put and call transactions that the Company believes has impacted the regulated customers. The Company's approach, as described in Mr. Gillespie's direct testimony on page 6, lines 14 through page 7, line 16, includes many assumptions and scenarios that require extensive calculations (see Company's explanation marked as Schedule 1-1 of Staff's direct testimony). Depending on whether the Company needs the gas or not and whether or not a put or call option is used would require different decisions to be made by the Company.

O. On page 5, lines 12-13 of Mr. Gillespie's direct testimony he states, "On the Southern System, when a "Put/Call" transaction was contracted for the expectation was the gas would be put or called one half the time." Do you agree with the expectation that gas would be put or called one half of the time?

The Staff does not believe in this concept. The concept of having gas "put" to MPS one half of the time is not clear, lacks basis, and fails to account for effects of balancing and storage. UtiliCorp has not provided any detailed explanation to show that this is a reasonable and realistic expectation. In addition, the Staff is not aware of any policy established or party responsible for making "the expectation." The Company's concept, however, seems to be critical to the Company in quantifying the risks.

On the Northern and Eastern Systems Mr. Gillespie indicated on page 5, lines 17-19 of his direct testimony that "Put/Call" transactions were to occur 100% of the time. Again, in this example, there was no basis for this expectation.

- Q. In regard to the Southern System, Mr. Gillespie discusses the pricing of put/call volumes by using the average of gas daily prices for days when gas was put or called (p. 6, 1l. 15-22). Do you believe that the pricing methodology described by the Company is a proper measure to quantify risks to the regulated customers?
- A. No. Average daily prices were influenced by the execution and timing of put and call transactions by the buyer that can often change on a daily basis. Staff found it difficult to follow Company's procedures for applying gas daily prices to put and call transactions. In addition, there appeared to be miscalculations in Company's proposed worksheets.
- Q. Are the impact of puts and calls on Missouri-regulated customers fully explained in Mr. Gillespie's direct testimony?
- A. No. On page 5, line 10 through page 7, line 16 of his direct testimony Mr. Gillespie only gives a broad and simplistic overview of the Company's approach to quantifying risks. The Staff believes that it is also appropriate and necessary to show the contract terms between UtiliCorp and the gas supplier for each put and call transaction in order to show the complexities of each transaction and to fully understand the actual and potential impact of put and calls on Missouri-regulated customers.

## Rebuttal Testimony of Phil S. Lock

1	Q. What do the contract terms between UtiliCorp and the gas supplier						
2	provide in regard to put and call transactions?						
3	A. **						
4							
5	** Since each transaction is unique, multiple scenarios exist that						
6	could be detrimental to the regulated customer. The Company merely recreated those						
7	transactions using their methodology in order to quantify the risks. In reality, the impact						
8	to the regulated customer would be difficult to recreate because of the multitude of						
9	scenarios that could exist.						
10	Q. On page 7, lines 12-16 of Mr. Gillespie's direct testimony, he describes						
11	how the impact is calculated for the Northern and Eastern System ratepayers. Does he						
12	propose any compensation to these customers because of this methodology?						
13	A. No. On page 8, lines 6-7 of his direct testimony he indicates the proper						
14	compensation amount for these systems is zero.						
15	Q. Can you explain why he describes the put and call impact to the Northern						
16	and Eastern System ratepayers (p. 7, ll. 10-16) but does not propose any compensation to						
17	those customers?						
18	A. This is not clear to Staff. It is also not clear what position the Company						
19	has taken in regard to those systems.						
20	Q. Does this conclude your rebuttal testimony?						
21	A. Yes, it does.						



### **BEFORE THE PUBLIC SERVICE COMMISSION**

### **OF THE STATE OF MISSOURI**

In The Matter Of Missouri Purchased Gas Adjustment Reviewed In Its 1998-1999 Adjustment	Factors T	o Be	) ) )	Case No. GR-99-435				
AFFIDAVIT OF PHIL S. LOCK								
STATE OF MISSOURI	)	80						
COUNTY OF COLE	)	SS.						

Phil S. Lock, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of pages to be presented in the above case; that the answers in the foregoing 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

day of February 2002.

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

