

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\*\***

**FILED<sup>2</sup>**  
FEB 20 2002  
Missouri Public  
Service Commission

**NP**



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Phil S. Lock

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

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

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

21           The Staff does not believe in this concept. The concept of having gas "put" to  
22 MPS one half of the time is not clear, lacks basis, and fails to account for effects of  
23 balancing and storage. UtiliCorp has not provided any detailed explanation to show that

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1 this is a reasonable and realistic expectation. In addition, the Staff is not aware of any  
2 policy established or party responsible for making "the expectation." The Company's  
3 concept, however, seems to be critical to the Company in quantifying the risks.

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

7 Q. In regard to the Southern System, Mr. Gillespie discusses the pricing of  
8 put/call volumes by using the average of gas daily prices for days when gas was put or  
9 called (p. 6, ll. 15-22). Do you believe that the pricing methodology described by the  
10 Company is a proper measure to quantify risks to the regulated customers?

11 A. No. Average daily prices were influenced by the execution and timing of  
12 put and call transactions by the buyer that can often change on a daily basis. Staff found  
13 it difficult to follow Company's procedures for applying gas daily prices to put and call  
14 transactions. In addition, there appeared to be miscalculations in Company's proposed  
15 worksheets.

16 Q. Are the impact of puts and calls on Missouri-regulated customers fully  
17 explained in Mr. Gillespie's direct testimony?

18 A. No. On page 5, line 10 through page 7, line 16 of his direct testimony  
19 Mr. Gillespie only gives a broad and simplistic overview of the Company's approach to  
20 quantifying risks. The Staff believes that it is also appropriate and necessary to show the  
21 contract terms between UtiliCorp and the gas supplier for each put and call transaction in  
22 order to show the complexities of each transaction and to fully understand the actual and  
23 potential impact of put and calls on Missouri-regulated customers.

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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.

