

Exhibit No.:
Issues: *Billing Error*
Witness: *Anne M. Allee*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2007-0256*
Date Testimony Prepared: *October 15, 2009*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

ANNE M. ALLEE

MISSOURI GAS ENERGY
A Division of Southern Union Company

CASE NO. GR-2007-0256

Jefferson City, Missouri
October 2009

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

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1 **DIRECT TESTIMONY**
2 **OF**
3 **ANNE M. ALLEE**
4 **MISSOURI GAS ENERGY**
5 **A Division of Southern Union Company**
6 **CASE NO. GR-2007-0256**

7 Q. Please state your name and business address.

8 A. Anne M. Allee, P.O. Box 360, Jefferson City, Missouri 65102.

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

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

12 **EXECUTIVE SUMMARY**

13 Q. Please summarize your testimony.

14 A. The purpose of my testimony is to present Staff's position regarding the
15 appropriate monetary adjustment to MGE's ACA balance as a result of a billing error
16 involving ** _____ ** This error resulted in the
17 ** _____ ** and evaluation of this error
18 resulted in Staff making an adjustment of ** _____ **

19 **WITNESS INFORMATION**

20 Q. Please describe your educational background.

21 A. I graduated from the University of Missouri at Columbia with a
22 Bachelor of Science degree in Accounting in 1989. I am currently a licensed
23 Certified Public Accountant in the state of Missouri.

24 Q. Please describe your work experience.

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1 A. During college and after graduation, I worked for Capital Bank as a
2 Teller, New Accounts Representative and temporary Branch Manager.

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

5 A. My employment with the Commission began in October 1990 as a
6 Regulatory Auditor in the Accounting Department. My duties included assisting with
7 audits and examinations of the books and records of utility companies operating within
8 the state of Missouri.

9 In October 1993, I obtained my current position as a Regulatory Auditor in the
10 Procurement Analysis Department. Since that time, my responsibilities have included
11 reviewing and analyzing gas purchasing activities of natural gas local distribution
12 companies (LDCs) through the Purchased Gas Adjustment (PGA)/Actual Cost
13 Adjustment (ACA) mechanism.

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

15 A. Yes, I have previously filed testimony before this Commission.
16 Schedule 1, attached to my direct testimony, is a list of cases and issues in which I have
17 filed testimony.

18 Q. Did you make an examination and analysis of the books and records of
19 Missouri Gas Energy (MGE or Company) in regard to matters raised in this case?

20 A. Yes. The Procurement Analysis Department Staff reviewed
21 MGE's books, records and procedures to ensure the gas costs passed on to the
22 consumers through the PGA clause reflects MGE's actual prudently incurred cost of gas.

23 Q. What matters will you address in your testimony?

1 A. I will address the billing error issue identified in Staff's June 3, 2009
2 Amended ACA recommendation.

3 Q. What knowledge, skill, experience training or education do you have in
4 these matters?

5 A. Since my time in the Procurement Analysis Department, I have
6 performed and/or assisted in performing numerous ACA reviews. A portion of the ACA
7 reviews involve an evaluation of an LDC's billed revenues and actual gas costs to ensure
8 only the actual prudently incurred cost of gas is passed on to customers. The ACA
9 review also involves an examination of the Company's purchasing practices to
10 determine the prudence of the Company's purchasing decisions.

11 **BILLING ERROR**

12 Q. Please explain the history of the billing error issue in this case.

13 A. On December 15, 2008, Staff filed its Memorandum containing its
14 recommendations regarding MGE's 2006-2007 ACA filing. Following this filing, MGE
15 notified Staff that the Company had made a ** _____
16 _____
17 _____

18 ** The error began ** _____ **

19 Q. Please describe Staff's understanding of the cause of the billing error.

20 A. ** _____
21 _____
22 _____

NP

1 _____
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____
13 _____
14 _____
15 _____ **

16 Q. How did this error impact MGE's sales customers?

17 A. ** _____ **
18 gas shortfall came from the gas purchased by MGE for its PGA sales customers.
19 ** _____
20 _____ ** instead the cost of this gas was passed on to
21 MGE's PGA sales customers through the PGA/ACA mechanism.

22 After reviewing the billing error data, Staff determined the error had affected
23 MGE's filed ** _____ ** ACA balance. Staff filed an amended

1 ACA recommendation on June 3, 2009, which discussed how the billing error
2 affected (increased) costs passed through the PGA to MGE's sales customers.

3 Q. Please explain the difference between a transportation customer and a
4 PGA sales customer.

5 A A sales customer buys its gas directly from MGE, while a
6 transportation customer buys its gas supply from a party, usually a gas marketer, other
7 than MGE and uses MGE's distribution system to transport the gas from the MGE
8 city gate to its premises for consumption.

9 Q. How does the ACA balance impact the sales customers?

10 A. MGE's ACA balance is a reconciliation of the actual prudently incurred
11 gas costs with what the Company actually charged its customers – its billed revenues.
12 The ACA balance is converted into a rate and charged to all sales customers. Therefore,
13 items, such as this billing error, that affect the ACA balance also affect the amounts
14 MGE billed its sales customers. In this case, the amount of gas ** _____
15 _____ ** was charged to MGE's sales customers through the PGA.

16 Q. Was the impact of the billing error on MGE's PGA sales customers
17 limited to the ** _____ ** ACA period?

18 A. No. Staff determined the error affected PGA sales customers during the
19 following ACA periods:

Case Number	ACA Period	Status
** _____	_____	_____ **
** _____	_____	_____ **
** _____	_____	_____ **
** _____	_____	_____ **
** _____	_____	_____ **
** _____	_____	_____ **
** _____	_____	_____ **

1 Staff's proposed adjustment includes the impact to each of these ACA periods except
2 the ** _____ ** period because MGE's tariff, Sheet Nos.** _____

3 _____
4 _____ **

5 Q. If MGE began billing ** _____ ** the correct amount ** _____
6 _____ **, then how can the billing error impact the ** _____ ** ACA period?

7 A. As I explain later in my testimony, the ACA balance is carried over from
8 month to month. Therefore an error in one month of the ACA period will be carried
9 over to subsequent months until corrected. Since interest is calculated based on the
10 monthly ACA balance, the interest continues to accumulate for the ** _____ **
11 ACA period until the Company adjusts its ACA balance for this billing error from the
12 prior ACA periods.

13 Q. Please explain Staff's recommended adjustment for the ** _____ **
14 billing error.

15 A. Staff's adjustment is comprised of three components: 1) the
16 gas commodity costs for the incorrect billed volumes for ** _____
17 _____ **. 2) interest on the ACA balance; and 3) retainage for fuel losses. Each of
18 these components had an effect of increasing the cost of gas charged the
19 PGA sales customers.

20 Q. Please explain Staff's adjustment related to the gas commodity costs for
21 the incorrectly billed volumes.

22 A. ** _____
23 _____

1 _____
2 _____ ** Staff Data Request

3 No. 96 requests:

4 ** _____
5 _____
6 _____
7 _____
8 _____
9 _____
10 _____
11 _____
12 _____ **

13 MGE's response to this question was:

14 ** _____
15 _____
16 _____
17 _____
18 _____
19 _____
20 _____ **

21 In response to Staff Data Request No. 95, MGE presented Staff with a ** _____

22 _____
23 _____
24 _____
25 _____
26 _____
27 _____
28 _____
29 _____

30 _____ ** Based on

31 Staff's review, Staff accepted MGE's ** _____ ** described above as a

1 reasonable estimate for the impact of the commodity cost of gas to the PGA sales
2 customers, with one exception.

3 Q. What is the exception Staff notes above?

4 A. ** _____

5 **

6 The tariff states:

7 Customers Other Than Residential:

8 In the event of an overcharge: An adjustment shall be
9 made for the entire period that the overcharge existed not
10 to exceed sixty consecutive billing periods, calculated
11 from the date of discovery, inquiry or actual notification of
12 the Company, whichever was first.

13
14 In the event of an undercharge: An adjustment shall be
15 made for the entire period that the undercharge existed not
16 to exceed sixty consecutive billing periods, calculated
17 from the date of discovery, inquiry or actual notification of
18 the Company, whichever was first.

19 Although PGA sales customers were affected for the entire period of the billing
20 error, ** _____ **, Staff believes it is reasonable to seek reimbursement to
21 sales customers of the maximum amount allowed by tariff. Therefore, Staff is limiting
22 its recommended adjustment to ** _____ ** Although ACA cases for the period
23 of ** _____

24 **

25 Q. Please explain Staff's adjustment for retainage for fuel used or lost.

26 A During transportation of natural gas a small percentage of gas is lost. As
27 is common practice, MGE's tariff permits it to retain a small amount of the gas delivered
28 to account for the lost gas. Tariff Sheet No. 60 states: "The gas retained by the
29 Company shall be two percent of the volume delivered to the Company for

1 transportation to the customer as compensation for Company's lost and unaccounted for
2 and Company use gas". Accordingly, Staff grossed up each month's unbilled volumes
3 by 2% because the metered volumes did not include fuel losses for transporting the
4 supply to ** _____ ** premises.

5 Q. Please explain Staff's adjustment for interest.

6 A. MGE's customers either pay interest to or receive interest from MGE
7 depending upon the ACA balance. MGE receives interest when it has under-recovered
8 its gas costs; customers receive interest when MGE has over-recovered its gas costs.
9 As explained in MGE's tariff sheet no. 17:

10 For each month during the ACA period and for
11 each month thereafter interest, at a simple rate equal to the
12 prime bank lending rate (as published in the Wall Street
13 Journal on the first business day of the following month),
14 minus two (2) percentage points (but not less than zero)
15 shall be credited to customers for any over-recovery of
16 gas costs or credited to the Company for any under-
17 recovery of gas costs. Interest shall be computed based
18 upon the average of the accumulated beginning and ending
19 monthly ACA account balances.

20 The ACA balance is carried over from month to month. For example, the ending
21 ACA balance of one month is the beginning balance for the next month. Therefore, an
22 error in one month affects the balance in future months until the error is corrected.
23 Since the billing error affected MGE's ACA balance, the ACA balance continues to be
24 misstated until the Company makes an adjustment.

25 Q. Has MGE corrected its ACA balance for this error?

26 A. MGE has not corrected the ACA balance for the effect of this error.
27 Therefore, the sales customers are still being charged the amount of interest related to
28 gas costs that would not have been included in the ACA account absent this error.

1 In other words, MGE's ACA balance contained the cost of gas ** _____

2 _____ ** The result is these gas costs were borne by the PGA sales
3 customers. Because MGE's PGA sales customers were overcharged, Staff's adjustment
4 includes the interest paid by the sales customers as a result of the error.

5 Q. How did Staff calculate the interest included in its
6 recommended adjustment?

7 A. Staff calculated the interest impact by applying the monthly prime minus
8 2% interest rate to the cumulative amount of the error on the ACA balance of all
9 open ACA cases.

10 Q. Please summarize the components of Staff's adjustment.

11 A. The Staff's recommended adjustment to MGE's ACA balance is:

** _____	_____ **
_____ **	_____ **
_____ **	_____ **
Total Proposed Adjustment	** _____ **

12 Q. Staff's ACA recommendation addresses the impact of the error on
13 MGE's ACA balance. Was there any impact on MGE's margin or non-gas costs as a
14 result of this error?

15 A. Yes. ** _____

16 _____

17 _____

18 _____ **

19 Q. What is Staff's understanding of the status of this billing issue?

20 A. In its response to Staff Data Request No. 98 dated August 28, 2009,
21 MGE sent Staff a copy of its ** _____

1 _____
2 _____ **

3 Q. Why is Staff recommending an adjustment that goes beyond the
4 ** _____ **

5 A. The impact of this billing error is known and measurable. ** _____

6 _____
7 _____ **

8 Staff believes it is appropriate for MGE to make one adjustment to its ACA balance for
9 this billing error as soon as possible, rather than making piece-meal adjustments ** _____

10 _____ **

11 Q. What is the total impact of this error on a per customer basis?

12 A. The total impact is approximately ** _____ **

13 CONCLUSION

14 Q. Please summarize your recommendation in this case.

15 A. The issue in this case is the determination of the appropriate adjustment
16 to MGE's ACA balance for the cost of gas that ** _____ ** and the
17 firm customers paid as a result of this billing error. Based on MGE's response to
18 Staff's ACA recommendation it appears that MGE and Staff agree that MGE's
19 ACA balance was affected by this billing error. However, ** _____

20 _____
21 _____

22 _____ ** Staff's proposed
23 adjustment in this case is ** _____ ** Staff's proposed adjustment differs slightly

from its June 3, 2009 amended ACA recommendation due to the correction of an error in its fuel calculation and the addition of interest on the ACA balance.

Q. Specifically what is Staff's recommended ACA balance for the period ending June 30, 2007?

A. MGE's filed ACA balance for this period was an over-recovery meaning this is the amount that is owed to the customers by MGE. Staff's recommended adjustment increases the over-recovery ACA balance so that more money is owed to MGE's customers as a result of the billing error. Staff's recommended adjustment along with adjustment amounts related to the ** _____

_____ ** are shown in the tables below:

**		**	
Staff Proposed Adjustments:			
**	_____		**
	**	_____	**
	_____	_____	**
**	_____	_____	**

**		**	
**	_____	-	**
	**	_____	**
	_____	_____	**
**	_____	_____	**

**		**	
**	_____		**
**	_____		
**	_____	**	
	**	_____	**
	_____	_____	**
**	_____	_____	**

1 Staff recommends the Commission order MGE to establish an ending balance of
2 ** _____ ** as of June 30, 2007.

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

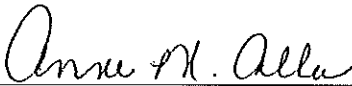
In the Matter of Missouri Gas Energy)
Purchased Gas Adjustment Rate Change.)

Case No. GR-2007-0256

AFFIDAVIT OF ANNE M. ALLEE

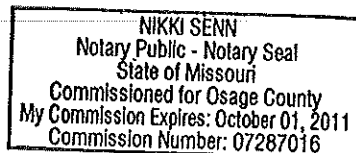
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

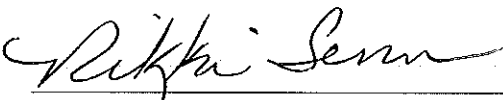
Anne M. Allee, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 13 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.



Anne M. Allee

Subscribed and sworn to before me this 14th day of October, 2009.





Notary Public

SUMMARY OF TESTIMONY
ANNE M. ALLEE

Company Name	Case Number	Issues
Choctaw Telephone Company	TR-91-336	Payroll; Payroll Taxes; Employee Pensions/Benefits; Voucher Analysis; Other Misc. Expenses
Laclede Gas Company	GR-92-165	Payroll; Payroll Taxes; Employee Pensions and Benefits
United Cities Gas Company	GR-93-47	Rate Base; CWC; Dues & Donations; Misc. Expenses
St. Louis County Water Company	WR-93-204	Rate Base; CWC; Dues & Donations; Misc. Expenses
Ozark Natural Gas Company	GA-96-264	Cost of Gas per Dth; Reliability of Transportation
Missouri Gas Energy Company	GR-96-285	Natural Gas Storage Inventory Prices
St. Joseph Light and Power Company	GR-96-47	Gas Purchasing Practices
Union Electric Company	GR-97-393	Natural Gas Storage Inventory Prices
Missouri Public Service	GR-96-192	Winter Storage Allocation; Overrun Penalties
Missouri Gas Energy	GR-98-140	Natural Gas Storage Inventory Prices
Ozark Natural Gas Company	GA-98-227	Cost of Gas per Dth; Reliability of Supply and Transportation
St. Joseph Light and Power Company	GR-99-246	Natural Gas Inventory Prices
UtiliCorp United Inc. and St. Joseph Light and Power Company	EM-2000-292	Conditions to be Made Part of Approved Merger
Atmos Energy Corporation and United Cities Gas Company	GR-2001-396 & GR-2001-397 (Consolidated)	Purchasing Practices – Neelyville; Purchasing Practices-Consolidated District; Deferred Carrying Cost Balance; Propane
Missouri Gas Energy	GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167 (Consolidated)	Purchasing Practices; Refunds

Company Name	Case Number	Issues
Union Electric Company	GR-2003-0517	Gas Inventories
Missouri Gas Energy	GR-2004-0209	Gas Inventory, Capacity, Release and Gas Purchasing Practices
Missouri Gas Energy	GR-2006-0422	Gas Inventory, Uncollectible Expense and ACA documentation
Union Electric Company	GR-2007-0003	Gas Inventory, ACA documentation
Missouri Gas Energy	GR-2009-0355	Capacity Release and Off-System Sales