Exhibit No.:
Issues: Off-System Sales Adjustment
Witness: Michael Wallis
Sponsoring Party: MO PSC Staff
Type of Exhibit:
Case No.: GR-96-181

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

MICHAEL WALLIS

LACLEDE GAS COMPANY

CASE NO. GR-96-181

Jefferson City, Missouri
June 24, 1998

DIRECT TESTIMONY

OF

MICHAEL J. WALLIS

LACLEDE GAS COMPANY

CASE NO. GR-96-181

Q. Please state your name and business address.

A. Michael J. Wallis, P.O. Box 360, Jefferson City, Missouri 65102.

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

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

Q. Please describe your educational and professional background.

A. I graduated from Central Missouri State University at Warrensburg, Missouri and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in July, 1986. I am currently a licensed Certified Public Accountant in the state of Missouri.

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

A. Under the direction of both the Manager of the Accounting Department (August 1987 to November 1992) and the Manager of the Procurement Analysis Department (October 1993 to the current time), I have assisted with audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously filed testimony before this Commission?

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

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to support the Staff's proposed off-system sales adjustment of $3,569,843 to Laclede Gas Company's (Laclede or Company) Firm Sales ACA balance ($3,554,727 in additional over-recoveries) and Interruptible Sales ACA balance ($15,116 in additional over-recoveries) submitted in Staff's recommendation filed with the Commission on September 3, 1997 and developed during my audit of Company's 1995/1996 ACA period (the audit was conducted between November 1, 1996 and September 1, 1997).

Q. Please describe the function of the PGA/ACA recovery mechanism.

A. A typical PGA clause outlines the items covered and the methods used in determining the amount of change (increase or decrease) which may occur as a result of a gas supplier's change in rates. It also contains provisions for the administration of refunds and an annual reconciliation of gas costs. This annual reconciliation is referred to in Missouri as the Actual Cost Adjustment or ACA. The purpose of the ACA is to insure that actual gas costs are flowed through on a dollar for dollar basis. Laclede's PGA clause, in effect during the 1995/1996 ACA period, is attached as Schedule 2 to my direct testimony.

Q. Please discuss the basis for Staff's proposed off-system sales adjustment.

A. During the months of November 1995 to March 1996, Laclede realized

$3,569,843 in profits from approximately 250 off-system sales transactions (Company's response to Staff Data Request No. 36). Company did not share these profits with its ratepayers.

Staff believes that Laclede's failure to share the profits with its captive customers is improper. Company's captive customers paid (via the PGA/ACA process) the demand charges (fixed costs customers must pay in order to ensure that natural gas will be available during extremely cold weather periods) and premiums necessary to have the various firm gas supply contracts, contained in Laclede's gas supply portfolio, available for use (and used) by the Company in making the $3,569,843 in profits from the off-system sales transactions. Thus, since captive customers bear the costs associated with firm gas supply (not the shareholders) they should also receive the profits from the off-system sales transactions. The off-system sales profits should be credited back to the PGA/ACA accounts and be used to offset the gas costs passed through to Laclede's customers.

The PGA/ACA mechanism was never designed to be a profit making tool for the Local Distribution Company's (LDC) in Missouri. The Missouri PSC PGA tariffs in effect for Laclede's 1995/1996 ACA period, as well as for the 1995/1996 ACA periods of the other LDCs operating in Missouri, clearly indicate that the PGA/ACA mechanism is to be used to ensure that the LDC is recovering, from its customers, its prudently incurred gas costs (gas supply demand charges, gas supply commodity charges, transportation and storage costs, propane costs, transition costs, take-or-pay costs, etc.), not its prudently incurred gas costs plus a profit from off-system sales or any other transaction. Laclede violated this most basic premise of the PGA/ACA mechanism during the 1995/1996 ACA period.

Q. Did Laclede seek any Missouri PSC PGA tariff approval which could have allowed it to enter into profit-making off-system sales transactions?

A. No.

Q. Did Laclede seek Missouri PSC PGA tariff approval for the off-system sales portion of its incentive plan, which is in effect for the 1996/1997, 1997/1998, and 1998/1999 ACA periods?

A. Yes. Laclede was given Missouri PSC PGA tariff approval to enter into profit-making off-system sales transactions for the 1996/1997, 1997/1998, and 1998/1999 ACA periods. Laclede's Missouri PSC PGA incentive plan tariffs allow it to keep 30% of all profits from off-system sales with the other 70% of the profits being flowed to its customers.

Q. Please summarize your direct testimony.

A. During the months of November 1995 to March 1996, Laclede realized $3,569,843 in profits from approximately 250 off-system sales transactions. Staff believes that Laclede's failure to share these profits with its captive customers is improper. Company's captive customers paid the demand charges and premiums necessary to have the various firm gas supply contracts, contained in Laclede's gas supply portfolio, available for use (and used) by the Company in making the $3,569,843 in profits from the off-system sales transactions. Thus, since captive customers bear the costs associated with firm gas supply (not the shareholders) they should also receive the profits from the off-system sales transactions.

Staff would also point out that the PGA/ACA mechanism was never designed to be a profit making tool for the LDC's in Missouri. The Missouri PSC PGA tariffs in effect for Laclede's 1995/1996 ACA period clearly indicate that the PGA/ACA mechanism is to be used to ensure that the LDC is only recovering, from its customers, its prudently incurred gas costs. Laclede violated this most basic premise of the PGA/ACA mechanism during the 1995/1996 ACA period and in addition, Company did not get the Missouri PSC PGA tariff approval which could have allowed it to enter into profit-making off-system sales transactions.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company's	)	
Tariff Sheets to be Reviewed in its	)	Case No. GR-96-181
1995-1996 Actual Cost Adjustment.	)	

DIRECT TESTIMONY OF MICHAEL WALLIS

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Michael Wallis, is, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 5 pages to be presented in the above case; that the answers in the foregoing Direct 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.

michael j. wallis
MICHAEL WALLIS

Subscribed and sworn to before me this 23rd day of June 1998.

Roberta A. McKiddy
Notary Public

My Commission Expires: ROBERTA A. McKIDDY
Notary Public, State of Missouri
County of Cole
My Commission Expires 09/11/99

<u>SUMMARY OF RATE CASE INVOLVEMENT</u>

MICHAEL J. WALLIS

COMPANY NAME	CASE NO.
St. Joseph Light & Power Company	GR-88-115
Capital City Water Company	WR-88-215
GTE North Incorporated	TR-89-182
The Empire District Electric Company	WR-90-56
The Empire District Electric Company	ER-90-138
Ozark Natural Gas Company	GA-90-321
United Cities Gas Company	GR-91-249
St. Joseph Light & Power Company	EC-92-214
Western Resources Inc.	GR-93-140
Tartan Energy Company, L.C.	GA-94-127
Associated Natural Gas Company	GR-94-189
Associated Natural Gas Company	GR-95-213
Missouri Public Service	GR-95-273
Union Electric Company	EM-96-149
Missouri Public Service	GR-96-192
Laclede Gas Company	GR-96-193
Associated Natural Gas Company	GR-96-227
Atmos Energy Corporation and United Cities Gas Company	GM-97-70
Associated Natural Gas Company	GR-97-272
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Missouri Gas Energy	GC-98-335

P.S.C. MO. No. 5 Consolidated, Third Revised Sheet No. 15

CANCELLING P.S.C. MO. No. 5 Consolidated, Second Revised Sheet No. 15

Laclede Gas Company For Refer to Sheet No. 1

Name of Issuing Corporation or Municipality — Community, Town or City

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SCHEDULE OF RATES

PURCHASED GAS ADJUSTMENT CLAUSE

A. Current Purchased Gas Adjustments

In the event of increases or decreases in the cost of purchased gas, charges for gas service contained in the Company's then effective retail rate schedules on file with the Missouri Public Service Commission (Commission) shall be increased or decreased by a Current Purchased Gas Adjustment (CPGA). The cost of purchased gas shall include but not be limited to all charges incurred for gas supply, pipeline transmission and gathering, contract storage, and related agency services.

1. a. The CPGA factor for firm sales shall be calculated by summing the gas cost components per therm as determined in accordance with paragraphs 2.a., b., c., d. and e. respectively, of Section A of this clause and subtracting therefrom the base gas cost level per therm for firm sales as set forth in Section E of this clause.

b. The CPGA factor for the seasonal and interruptible sales classifications shall be calculated by summing the gas cost components per therm as determined in accordance with paragraphs 2.c., d. and e. respectively, of Section A of this clause and subtracting therefrom the base gas cost level per therm for seasonal and interruptible sales as set forth in Section E of this clause.

2. The following unit gas cost components, rounded to the nearest .001¢ per therm, are recoverable under the CPGA of either firm or interruptible sales customers, where applicable, as described in Paragraph A.1. above.

a. Gas Supply Demand Charges. The Gas Supply Demand Charge cost component per therm shall be determined by dividing the total current annualized gas supply demand charges the Company incurs by the firm sales volumes specified in Section E of this clause. Total current annualized gas supply demand charges shall be equal to the sum of the demand charges of each of the Company's gas suppliers obtained by multiplying the latest effective demand charge of each gas supplier by the annualized demand determinants applicable to such gas supplier. Such charges shall include charges payable to a producer or any gas supplier for the reservation of gas supplies, minimum take charges and any direct-billed agency fees.

CANCELLED OCT 1 1996 BY 4th RS 15 Public Service Commission

FILED NOV 1 1993 94-138 MO. PUBLIC SERVICE COM

DATE OF ISSUE September 30, 1993 (month day year) DATE EFFECTIVE November 1, 1993 (month day year)

ISSUED BY Kenneth J. Neises, Vice President, 720 Olive, St. Louis, MO 63101 (name of officer, title)

SCHEDULE 2-1

P.S.C. MO. No. 5 Consolidated, Fifth Revised Sheet No. 16

CANCELLING P.S.C. MO. No. 5 Consolidated, Fourth Revised Sheet No. 16

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Laclede Gas Company — Name of Issuing Corporation or Municipality
For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

A. Current Purchased Gas Adjustments (Continued)

b. Capacity Reservation Charges. The Capacity Reservation Charge cost component per therm shall be determined by dividing the total current annualized capacity reservation charges the Company incurs by the firm sales and firm transportation volumes specified in Section E of this clause. Total current annualized capacity reservation charges shall be equal to the sum of the reservation charges of each of the Company's suppliers obtained by multiplying the latest effective capacity reservation charge of each supplier by the annualized reservation-related determinants applicable to such supplier. Such charges shall include pipeline reservation charges (exclusive of Gas Supply Realignment Cost ("GSRC") surcharges) and contract storage capacity and deliverability charges.

c. Commodity-Related Charges. The Commodity-Related Charge cost component per therm shall be equal to total current annualized commodity-related costs divided by the total sales volumes specified in Section E. Total current annualized commodity-related costs shall be equal to the product of the current average commodity-related cost per therm applicable to the Company's purchases during the period covered by the new CPGA and the annual purchase volumes specified in Section E. The current average commodity-related cost per therm shall be equal to the latest effective commodity-related charges divided by the total purchase volumes for such period. Such charges shall include but not be limited to producer or gas supply commodity charges and pipeline transmission and gathering commodity charges.

d. Take-or-Pay Charges. The Take-or-Pay cost component per therm shall be determined by dividing the current annualized take-or-pay related cost of purchased gas by the total sales and transportation volumes specified in Section E.

e. Other Non-Commodity-Related Gas Costs. With the exception of FERC Order No. 636 transition costs identified in an interstate pipeline company's rate schedules, the Other Non-Commodity-Related Gas Cost component per therm shall be determined by dividing all non-commodity-related gas costs subject to regulation by the FERC or any successor agency, by the total sales and transportation volumes specified in Section E. The Other Non-Commodity-Related Gas Cost component per therm applicable to the aforementioned transition costs will be determined by dividing such costs by the total sales volumes specified in Section E.

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ISSUED BY Kenneth J. Neises, Senior Vice President, 720 Olive, St. Louis, MO 63101 (name of officer, title)

SCHEDULE 2-2

Laclede Gas Company — Name of Issuing Corporation or Municipality

For Refer to Sheet No. 1 — Community, Town or City

SCHEDULE OF RATES

A. Current Purchased Gas Adjustments (Continued)

3. The factors determined in Paragraphs 2.b., 2.d. and 2.e. shall be applicable to transportation customers pursuant to Sheet No. 34 of the Company's Large Volume Transportation and Sales Service per therm, respectively. For informational purposes, such charges shall also be set forth at the bottom of Sheet No. 29.

4. No new CPGA will be submitted unless the aggregate increase or decrease in annualized gas costs computed in accordance with Paragraph 2 above represents an aggregate current increase or decrease of more than $2,000,000 from the previous CPGA computation which resulted in the previously effective CPGA.

5. The CPGA for firm sales and the CPGA for seasonal and interruptible sales shall be set forth on Tariff Sheet No. 29 to be filed with the Commission and shall remain in effect until the next CPGA becomes effective hereunder, or until retail rates (or the fixed test period purchase and sales volumes) are otherwise changed by order of the Commission. Each CPGA made effective hereunder shall cancel and supersede the previously effective CPGA and shall be the CPGA to be effective thenceforth.

6. The amount of each customer's bill shall include a CPGA charge which shall on a net basis be the product of (a) the CPGA per therm applicable to the sales classification as set forth in Tariff Sheet No. 29 and (b) the total therms used in each billing period.

7. The resulting increases or decreases in charges for gas service resulting from an increase or decrease in the CPGA shall be effective on a pro-rata basis beginning with the effective date of the revised Tariff Sheet No. 29 and shall be fully effective one month thereafter, provided that any such proposed increase or decrease in charges satisfies the terms of Section D hereof.

B. Refunds

Any refunds which the Company receives from its suppliers, together with any interest included in such refunds, will be refunded in turn to the Company's customers. Such refund distribution will commence within three months of receipt by Company of a refund which by itself, or in combination with prior refunds upon which distribution by the Company has not yet commenced, exceeds $100,000, and will be accomplished in the following manner:

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ISSUED BY Kenneth J. Neises, Vice President, 720 Olive, St. Louis, MO 63101 (name of officer, title, address)

P.S.C. MO. No. 5 Consolidated, Fourth Revised Sheet No. 18

CANCELLING P.S.C. MO. No. 5 Consolidated, Third Revised Sheet No. 18

Laclede Gas Company
Name of Issuing Corporation or Municipality
For Refer to Sheet No. 1
Community, Town or City

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Public Service Commission

SCHEDULE OF RATES

B. Refunds (Continued)

1. The following refund factors will be applied as a credit to bills to the applicable customers over the succeeding 12 months by multiplying such factors by the total therms billed to each customer in each billing period.

a. The refund factor for firm sales service shall be calculated by summing the gas supply demand, capacity reservation, commodity-related, take-or-pay and other non-commodity-related gas cost refunds per therm as determined in accordance with paragraphs 2.a, b., c., d. and e., respectively.

b. The refund factor for seasonal and interruptible sales service shall be calculated by summing the commodity-related, take-or-pay and other non-commodity-related gas cost refunds per therm as determined in accordance with paragraphs 2.c., d. and e, respectively.

c. The refund factor for firm transportation customers shall be calculated by summing the capacity reservation, take-or-pay and other non-commodity-related gas cost refunds per therm as determined in accordance with paragraphs 2.b., d. and e. respectively.

d. The refund factor for basic transportation customers shall be calculated summing the take-or-pay and other non-commodity-related gas cost unit refunds per therm as determined in accordance with paragraph 2.d. and e. respectively.

2. Unit refund factors related to various gas cost components, rounded to the nearest .001¢ per therm, will be calculated in the following manner:

a. Gas Supply Demand. The amount of refund related to gas supply demand charges shall be divided by the amount of therms estimated to be sold on a firm basis in the succeeding 12 months.

b. Capacity Reservation. The amount of refund related to capacity reservation charges shall be divided by the amount of therms estimated to be sold and transported on a firm basis in the succeeding 12 months.

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name of officer title address

SCHEDULE 2-4

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SCHEDULE OF RATES

B. Refunds (Continued)

c. Commodity-Related.

i. The amount of commodity related refund applicable to firm sales shall be divided by the amount of therms estimated to be sold in the succeeding 12 months to customers who purchase gas on a firm basis.

ii. The amount of commodity related refund applicable to seasonal and interruptible sales shall be divided by the amount of therms estimated to be sold in the succeeding 12 months to customers who purchase gas on a seasonal and interruptible basis.

d. Take-Or-Pay.

i. The amount of refund related to take-or-pay charges applicable to the period June 1, 1988 through November 14, 1989, shall be divided by the amount of therms estimated to be sold and transported to firm sales, firm transportation and basic transportation customers who purchased gas on a firm basis during the aforementioned period.

ii. The amount of refund related to take-or-pay charges applicable to the period November 15, 1989 and after shall be divided by the amount of therms estimated to be sold (firm and seasonal and interruptible) and transported (firm and basic) in the succeeding 12 months.

e. Other Non-Commodity-Related Gas Costs. The amount of any refund related to other non-commodity-related gas costs shall be divided by the amount of therms estimated to be sold and transported, or sold in the succeeding 12 months, in conformance with the derivation of the charge set forth in Section A.2.e.

3. The Company may adjust the aforesaid unit refund credit factors in the twelfth month by dividing the estimated refund balances yet to be distributed to each sales and/or transportation classification during such twelfth month by the amount of therms estimated to be sold and/or transported to each classification respectively. The resulting unit refund per therm, to the nearest .001¢, will be applied as a credit to

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SCHEDULE 2-5

B. Refunds (Continued)

bills during such twelfth month. Any amount by which the refund distribution is less or more than the amount initially determined to be refunded, will be added to or subtracted from the next succeeding refund distribution.

4. The Company will add interest monthly to the balances of refunds received from its suppliers remaining to be distributed to customers. The amount of interest to be added each month shall be computed at the refund interest rate described in paragraph B.5. applied to such refund balance existing on the last day of each month. For each twelve-month refund distribution period, an estimate of the interest to be so added by the Company shall be included in determining the per therm credits to be applied to bills pursuant to Paragraphs 2.a. through 2.e. of this Section B, using the refund interest rate described in paragraph B.5.

5. The refund interest rate shall be equal to the prime bank lending rate as published in The Wall Street Journal less two percentage points. The refund interest rate to be applied to the refund balance at the end of each month shall be equal to the arithmetic average of the refund interest rates in effect on each day during such month. The refund interest rate to be used to make the initial estimate of the interest that will be included in each refund distribution shall be equal to the refund interest rate in effect on the day of the receipt of the supplier refund which results in the accumulation of over $100,000 in new supplier refunds. At the conclusion of each refund distribution the refund interest rate used in such distribution shall be reconciled with the actual average refund interest rate in effect for each month during the distribution period.

C. Deferred Purchased Gas Cost Accounts

The Company shall maintain Deferred Purchased Gas Cost Account(s) which shall be credited by the amount of any gas cost revenue recovery in excess of actual purchased gas costs and debited by the amount of any gas cost revenue recovery which is less than said actual purchased gas costs.

P.S.C. MO. No. 5 Consolidated, Fifth Revised Sheet No. 21

CANCELLING P.S.C. MO. No. 5 Consolidated, Fourth Revised Sheet No. 21

Laclede Gas Company For Refer to Sheet No. 1

Name of Issuing Corporation or Municipality — Community, Town or City

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SCHEDULE OF RATES

C. Deferred Purchased Gas Cost Accounts (Continued)

1. Such excess or deficiency in total gas cost recovery, for each sales classification (firm, and seasonal and interruptible) and for each transportation classification (firm and basic) shall be determined by a monthly comparison of the actual cost of gas, net of storage injections and withdrawals, as shown on the Company's books and records, exclusive of refunds, for each revenue month to the gas cost revenues recovered for such revenue month.

2. Each component of actual gas cost shall be allocated to the sales and transportation classifications in accordance with the CPGA components described in Paragraph 2 of Section A above relating to each component and based on the volumes sold and/or transported to the applicable customer classification in each revenue month. The actual costs of propane peak shaving supplies and penalties will be allocated solely to firm sales customers.

3. The amount of gas cost revenues recovered each month for the sales classes shall be the product of the actual therm sales of each sales class and the gas cost revenue recovery components for such sales class. Such revenue recovery components shall be the sum of the base unit cost of gas for each sales class (as set forth in Section E) and the CPGA applicable to each sales class.

4. The amount of gas cost revenues recovered each month for the transportation classes shall be the product of the actual therms transported and the "Additional Transportation Charges," where applicable, specified in the Company's Large Volume Transportation and Sales Service tariff.

5. The Deferred Purchased Gas Cost Account shall also be credited for any revenues received by the Company for the release of pipeline transmission or leased storage capacity to another party. Such revenues shall be allocated to firm sales and transportation customers.

6. For each twelve-month period ending with the September revenue month, the differences of the comparisons described above including any balance or credit for the previous year shall be accumulated to produce a cumulative balance of excess or deficiency of gas cost revenue recovery. "Actual Cost Adjustment" (ACA) factors shall be computed by dividing these cumulative balances by the applicable

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ISSUED BY Kenneth J. Neises, Vice President, 720 Olive, St. Louis, MO 63101 (name of officer, title)

SCHEDULE 2-7

P.S.C. MO. No. 5 Consolidated, Sixth Revised Sheet No. 22

CANCELLING P.S.C. MO. No. 5 Consolidated, Fifth Revised Sheet No. 22

Laclede Gas Company For Refer to Sheet No. 1
Name of Issuing Corporation or Municipality — Community, Town or City

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SCHEDULE OF RATES

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MO. PUBLIC SERVICE COMM.

C. Deferred Purchased Gas Cost Accounts (Continued)

estimated sales or transportation volumes during the subsequent twelve-month period beginning with the November revenue month for each of the respective sales and transportation classes. All actual ACA revenue recovered shall be debited or credited to the balance of the ACA account as appropriate and any remaining balance shall be reflected in the subsequent ACA computations.

7. These ACA adjustment factors shall be rounded to the nearest .001¢ per therm and applied to billings commencing with the November revenue month to the applicable sales and transportation classes.

These "Actual Cost Adjustments" shall remain in effect until superseded by subsequent "Actual Cost Adjustments" calculated according to this provision. The Company shall file ACA factors in the same manner as all other Purchased Gas Adjustments.

D. Filing Requirements

At least fifteen days before applying any Purchased Gas Adjustment(s), the Company shall file with the Commission an Adjustment Statement showing:

1. The computation of the revised CPGA, refund, or ACA factor;

2. A revised PGA Tariff Sheet No. 29 setting forth the rate classes of the Company to which the Purchased Gas Adjustment(s) is to be applied, the net amount per therm, expressed to the nearest .001¢ to be used in computing the Total Purchased Gas Adjustment (sum of CPGA, refund, and ACA) applicable to customers' bills under each rate schedule, and the effective date of such adjustment.

3. The Company shall also file with the Commission, as soon as available, copies of any orders or other pertinent information applicable to the wholesale rate(s) charged the Company by its suppliers. Any supporting material disclosing market-specific information will be designated "Highly Confidential" and will only be made available to the Missouri Public Service Commission or to any party that executes a non-disclosure statement.

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By 7th RS 22
Public Service Commission
MISSOURI

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ISSUED BY K. J. Neises, Senior Vice President, 720 Olive St., St. Louis, MO 63101
name of officer — title — address

SCHEDULE 2-8