

Exhibit No.:
Issue: *Carrying Cost*
Witness: *David M. Sommerer*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2008-0060*
Date Testimony Prepared: *February 27, 2008*

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS UTILITY, INC.

CASE NO. GR-2008-0060

Jefferson City, Missouri
February, 2008

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DAVID M. SOMMERER**

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DIRECT TESTIMONY
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DAVID M. SOMMERER
MISSOURI GAS UTILITY, INC.
CASE NO. GR-2008-0060

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, MO. 65102.

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

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

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

A. From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the state of Missouri. In 1988, the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department (now referred to as the Auditing Department). I assumed

1 responsibility for planning and implementing these audits and trained available Staff on the
2 requirements and conduct of the audits. I participated in most of the ACA audits from early
3 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy
4 Department. Until November of 1993, my duties consisted of reviews of various tariff
5 proposals by electric and gas utilities, Purchased Gas Adjustment (PGA) reviews, and tariff
6 reviews as part of a rate case. In November of 1993, I assumed my present duties of
7 managing a newly created department called the Procurement Analysis Department. This
8 Department was created to more fully address the emerging changes in the gas industry
9 especially as they impacted the utilities' recovery of gas costs. My duties have included
10 managing the five member staff, reviewing ACA audits and recommendations, participating
11 in the gas integrated resource planning project, serving on the gas project team, serving on the
12 natural gas commodity price task force, and participating in matters relating to natural gas
13 service in the state of Missouri. In July of 2006, the Federal Issues/Policy Analysis Section
14 was transferred to the Procurement Analysis Department. That group analyzes filings made
15 before the Federal Energy Regulatory Commission (FERC).

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

18 A. I have been assigned and testified in many PGA and ACA proceedings. I have
19 reviewed numerous ACA filings and have evaluated the purchasing practices of various Local
20 Gas Distribution Companies (LDCs) in Missouri. I have also attended conferences and
21 seminars related to the natural gas futures market and other natural gas issues.

22 Q. Have you previously testified before this Commission?

1 A. Yes. A list of cases and issues in which I have filed testimony is included as
2 **Schedule 1** of my testimony.

3 Q. Did you make an examination and analysis of the books and records of
4 Missouri Gas Utility, Inc. (Company or MGU) in regard to matters raised in this case?

5 A. Yes. I have examined these records in the context of the issues I am
6 addressing in this case.

7 **EXECUTIVE SUMMARY**

8 Q. The Staff is recommending that the Company's proposal to collect \$12,482 of
9 gas inventory carrying costs in the 2005-2006 ACA case be denied. This cost is typically
10 addressed in general rate cases. The cost is clearly a working capital cost that is not a "gas
11 cost" subject to PGA recovery. The Company's tariffs do not authorize this recovery. If the
12 Company is allowed to recover this amount in this ACA, it will likely request recovery in
13 further ACA cases even though the cost may well have been recovered in non-gas rates.

14 **2005-2006 ACA**

15 Q. Please provide a background for this testimony.

16 A. Case No. GR-2007-0178 addresses MGU's 2005-2006 Actual Cost
17 Adjustment (ACA) filing. This case was consolidated with MGU's rate case with the
18 Commission's Order issued on December 21, 2007. The rate case is docketed as Case No.
19 GR-2008-0060. The Staff believes there is only one remaining issue related to the 2005-2006
20 ACA. The Company calculated \$12,482 of carrying cost related to its storage inventory.
21 The Staff believes the Company lacked tariff authority for this proposal and therefore
22 has proposed to remove the cost from the Company's ACA balance. Carrying costs related

1 to MGUs storage inventory will also be an issue in the 2006/2007 ACA, Case No.
2 GR-2008-0136, and the 2007-2008 ACA (Case Number not yet assigned).

3 Q. Please give a basic history of the PGA clause and what types of costs have
4 traditionally been recovered through the clause.

5 A. PGA clauses in Missouri were first instituted in Missouri in the early 1960s.
6 The basic reasoning for the special ratemaking treatment for gas costs is that the costs were
7 generally governed by the Federal Energy Regulatory Commission (FERC) or its predecessor.
8 Even after the wellhead cost of gas was deregulated and the FERC unbundled the supply from
9 the transportation on the federal level, it was recognized that gas costs were still a significant
10 aspect of the Local Distribution Company's (LDC) cost of service, were mostly comprised of
11 an unregulated natural resource, and were highly variable. These unique features resulted in a
12 continuance of the PGA mechanism beyond the era of deregulation of wellhead prices. The
13 FERC still oversees the interstate pipeline transportation part of what is typically considered a
14 gas cost.

15 Q. Are gas inventory carrying costs "gas costs" that are subject to recovery
16 through MGU's PGA tariffs?

17 A. No, not in my opinion. On tariff Sheet No. 44 the scope of what is considered
18 a "cost of gas" is given as follows:

19 For purposes of this clause the term "cost of gas" shall include the cost
20 paid to suppliers for the purchase, transportation and storage of gas.

21 The recovery of storage carrying costs being requested by MGU is not the cost paid to
22 suppliers for the storage of gas. It is MGU's calculated interest cost for the natural gas
23 storage balance. Generally speaking, an invoice from the supplier is necessary to provide
24 support for an item that is considered a cost of gas. It is also a general practice in Missouri

1 that “gas costs” are incurred for deliveries of the commodity “upstream” of the city gate. The
2 city gate is a general term that represents the point of transfer between an interstate pipeline’s
3 facilities and the local distribution company’s facilities.

4 On tariff Sheet No. 47, the term “city gate” is referenced:

5 The costs to be included in the RPGA rate calculation shall be limited
6 to the projected costs necessary to deliver the volumes purchased for
7 resale to the Company’s city gate.

8 Although there are many items that have an indirect relationship to natural gas
9 procurement, they are traditionally subject to recovery as part of a company’s margin or non-
10 gas rates. These items include consulting fees related to procurement of gas, payroll of gas
11 supply employees, natural gas dispatch models, bad debt expense related to gas costs,
12 carrying cost of gas inventory, agency fees related to gas procurement, industry periodicals
13 related to natural gas, local propane air facilities, LDC owned storage facilities downstream of
14 the city gate, and many other indirect costs that might have some connection with acquiring
15 the gas supply but have not traditionally been considered part of the PGA clause.

16 The expense that MGU is attempting to recover through the PGA clause is really a
17 working capital cost that is usually recoverable in non-gas rates. If gas inventory carrying
18 costs were recoverable in the Company’s PGA clause, the tariffs would provide guidance on
19 what interest rate to use, what storage balance to use, and whether the amount would be
20 subject to true-up. An example of these tariffs exists in Laclede Gas Company’s tariffs,
21 which to my knowledge, are the only LDC tariffs in Missouri that authorize gas inventory
22 carrying cost recovery as part of the PGA clause.

23 Q. Do you believe that MGU’s existing rates incorporate carrying costs in non-gas
24 rates?

1 A. MGU acquired these systems from municipal systems that were not previously
2 subject to PSC rate jurisdiction. The level of rates was determined by city government. In a
3 typical situation, interest costs would be recovered in non-gas rates. In my view it is
4 reasonable to assume that current rates were designed to collect working capital associated
5 with gas inventory, absent specific tariff authority describing a more non-traditional method.

6 Q. Will the issue of carrying costs related to MGUs storage inventory be an issue
7 in future ACA cases?

8 A. Yes. The rate case, Case No. GR-2008-0060, will ultimately address how
9 storage inventory carrying costs will be handled on a moving forward basis. However, there
10 are two other ACA cases that will precede any decision in the rate case. Staff is currently
11 reviewing the 2006/2007 ACA, Case No. GR-2008-0136. MGU's 2007-2008 ACA (Case
12 Number not yet assigned) is for the period of September 1, 2007 through August 31, 2008.
13 Thus, a large part of the 2007-2008 ACA will not be covered by the decisions in
14 GR-2008-0060.

15 Q. Does this conclude your direct testimony?

16 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the General Rate Increase)
for Natural Gas Service Provided by) Case No. GR-2008-0060
Missouri Gas Utility, Inc.)

AFFIDAVIT OF DAVID M. SOMMERER

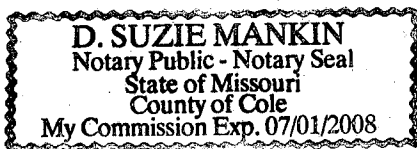
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

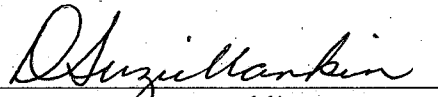
David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



David M. Sommerer

Subscribed and sworn to before me this 26th day of February, 2008.





Notary Public

CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.	ISSUES
Laclede Gas Company	GR-2007-0208	Gas Supply Incentive Plan, Off-system Sales, Capacity Release
Laclede Gas Company	GR-2005-0284	Off-System Sales/GSIP
Laclede Gas Company	GR-2004-0273	Demand Charges
AmerenUE	EO-2004-0108	Transfer of Gas Services
Aquila, Inc.	EF-2003-0465	PGA Process, Deferred Gas Cost
Missouri Gas Energy	GM-2003-0238	Pipeline Discounts, Gas Supply
Laclede Gas Company	GT-2003-0117	Low-Income Program
Laclede Gas Company	GR-2002-356	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-629	Inventory, Off-System Sales
Laclede Gas Company	GR-2001-387	ACA Price Stabilization
Missouri Gas Energy	GR-2001-382	ACA Hedging/Capacity Release
Laclede Gas Company	GT-2001-329	Incentive Plan
Laclede Gas Company	GO-2000-394	Price Stabilization
Laclede Gas Company	GT-99-303	Incentive Plan
Laclede Gas Company	GC-99-121	Complaint PGA
Laclede Gas Company	GR-98-297	ACA Gas Cost
Laclede Gas Company	GO-98-484	Price Stabilization
Laclede Gas Company	GR-98-374	PGA Clause
Missouri Gas Energy	GC-98-335	Complaint Gas Costs
United Cities Gas Company	GO-97-410	PGA Clause
Missouri Gas Energy	GO-97-409	PGA Clause
Missouri Gas Energy	GR-96-450	ACA Gas Costs

COMPANY	CASE NO.	ISSUES
Missouri Public Service	GA-95-216	Cost of Gas
Missouri Gas Energy	GO-94-318	Incentive Plan
Western Resources Inc.	GR-93-240	PGA tariff, Billing Adjustments
Union Electric Company	GR-93-106	ACA Gas Costs
United Cities Gas Company	GR-93-47	PGA tariff, Billing Adjustments
Laclede Gas Company	GR-92-165	PGA tariff
United Cities Gas Company	GR-91-249	PGA tariff
United Cities Gas Company	GR-90-233	PGA tariff
Associated Natural Gas Company	GR-90-152	Payroll
KPL Gas Service Company	GR-90-50	Service Line Replacement
KPL Gas Service Company	GR-90-16	ACA Gas Costs
KPL Gas Service Company	GR-89-48	ACA Gas Costs
Great River Gas Company	GM-87-65	Lease Application
Grand River Mutual Tel. Company	TR-87-25	Plant, Revenues
Empire District Electric Company	WR-86-151	Revenues
Associated Natural Gas Company	GR-86-86	Revenues, Gas Cost
Grand River Mutual Telephone	TR-85-242	Cash Working Capital
Great River Gas Company	GR-85-136	Payroll, Working Capital
Missouri-American Water Company	WR-85-16	Payroll