

Exhibit No.:
Issue:
Witness:
Sponsoring Party:
Type of Exhibit:
Case No.:

*Off-System Sales
Adjustment
Michael J. Wallis
MoPSC Staff
Surrebuttal Testimony
GR-96-181*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

MICHAEL J. WALLIS

LACLEDE GAS COMPANY

CASE NO. GR-96-181

Jefferson City, Missouri
September, 1998

Surrebuttal Testimony of
Michael J. Wallis

1 The fixed gas supply demand charges and transportation reservation charges,
2 necessary to allow Laclede to have enough extra gas supply and transportation capacity to
3 enter into profit-making off-system sales transactions, are recovered by Laclede through
4 the PGA/ACA mechanism. As a result, any revenues (including profits) collected by
5 Laclede from any off-system sales transaction are regulated by Laclede's Commission
6 approved PGA tariffs.

7 Q. Do you agree with Mr. Neises where on Page 2, Lines 22 to 25 of his
8 rebuttal testimony, he indicates that Laclede does not need Missouri PSC tariff approval
9 to engage in off-system sales transactions?

10 A. Yes. Staff is not concerned with the fact that Laclede entered into off-
11 system sales transactions during the 1995/1996 ACA period. However, it was improper
12 for Laclede to keep a portion of the profits from the off-system sales transactions without
13 first obtaining Missouri PSC tariff approval.

14 Q. Do you agree with Mr. Neises where on Page 3, Lines 16 to 20 of his
15 rebuttal testimony, he indicates that Laclede's ratepayers are not entitled to any of the off-
16 system sales profits because they do not own the gas supply and transportation contracts
17 used by Laclede to enter into profit-making off-system sales transactions?

18 A. No. The firm captive customers paid, through the PGA/ACA mechanism,
19 the fixed gas supply demand charges and transportation reservation charges necessary to
20 allow Laclede to have enough extra gas supply and transportation capacity to make \$3.6
21 million in off-system sales profits during the 1995/1996 ACA period. Laclede's firm
22 captive customers have (1) reimbursed Laclede for the fixed gas supply demand charges

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1 and transportation reservation charges necessary to allow Laclede to meet a peak day, (2)
2 funded the gas supply and transportation contracts used by Laclede to enter into several
3 profit-making off-system sales transactions during the 1995/1996 ACA period, and (3)
4 paid (through the rate case recovery process) the salaries of the Laclede employees who
5 entered into the off-system sales transactions which resulted in the \$3.6 million in off-
6 system sales profits.

7 As a result, Laclede should have lowered its customers gas costs by passing on the
8 off-system sales profits. Laclede failed to pass on the off-system sales profits to its
9 customers and thus, its PGA/ACA rates are not just and reasonable.

10 Q. Do you have any comments with regard to Page 5, Lines 6 to 8 of Mr.
11 Neises' rebuttal testimony wherein he states that "one could argue that since Laclede is
12 expected to make sales to its on-system customers, it should flow through all profits for
13 such sales"?

14 A. Yes. Mr. Neises statement is incorrect. The purpose of the PGA/ACA
15 recovery mechanism is to insure that actual gas costs are flowed through on a dollar for
16 dollar basis. The PGA/ACA mechanism was never designed to be a profit making tool.
17 Thus, contrary to what Mr. Neises asserts, Laclede is prohibited by its Missouri PSC PGA
18 tariffs from making any profits on sales of gas to its on-system (or off-system) customers.

19 Q. Please summarize your surrebuttal testimony.

20 A. The Commission has authority under the PGA/ACA tariffs to regulate the
21 off-system sales transactions made by Laclede during the 1995/1996 ACA period. The
22 fixed gas supply demand charges and transportation reservation charges, necessary to

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1 allow Laclede to have enough extra gas supply and transportation capacity to enter into
2 profit-making off-system sales transactions, are recovered by Laclede through the
3 PGA/ACA mechanism. As a result, any revenues (including profits) collected by Laclede
4 from any off-system sales transaction are regulated by Laclede's Commission approved
5 PGA tariffs.

6 Staff is not concerned with the fact that Laclede entered into off-system sales
7 transactions during the 1995/1996 ACA period. However, it was improper for Laclede to
8 keep a portion of the profits from the off-system sales transactions without first obtaining
9 Missouri PSC tariff approval.

10 Laclede's firm captive customers have (1) reimbursed Laclede for the fixed gas
11 supply demand charges and transportation reservation charges necessary to allow Laclede
12 to meet a peak day, (2) funded the gas supply and transportation contracts used by
13 Laclede to enter into various profit-making off-system sales transactions during the
14 1995/1996 ACA period, and (3) paid (through the rate case recovery process) the salaries
15 of the Laclede employees who entered into the off-system sales transactions which
16 resulted in the \$3.6 million in off-system sales profits. Laclede failed to pass on the off-
17 system sales profits to its customers and thus, its PGA/ACA rates are not just and
18 reasonable.

19 Q. Does this conclude your surrebuttal testimony?

20 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)
1995-1996 Actual Cost Adjustment.) Case No. GR-96-181

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Michael J. Wallis, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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

Subscribed and sworn to before me this 9th day of September, 1998.


Notary Public

TONI WILLMENO
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF CALLAWAY
MY COMMISSION EXPIRES JUNE 24 2000

My Commission expires: _____

