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Witness:	Michael J. Ensrud
Sponsoring Party:	MO PSC Staff
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Case No.:	GT-2010-0261
Date Testimony Prepared:	June 22, 2010

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

MICHAEL J. ENSRUD

MISSOURI GAS ENERY COMPANY
CASE NO. GT-2010-0261

Jefferson City, Missouri
June 2010

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In re Missouri Gas Energy's Revised)
Transportation Tariff) Case No. GT-2010-0261

AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on his oath states: that he has participated in the preparation of the following Supplemental Rebuttal Testimony in question and answer form, consisting of 10 pages of Supplemental Rebuttal Testimony to be presented in the above case, that the answers in the following Supplemental Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.

Michael J. Ensrud
Michael J. Ensrud

Subscribed and sworn to before me this 21 day of June, 2010.

NOTARY PUBLIC NOTARY SEAL STATE OF MISSOURI
SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086

Susan L. Sundermeyer
Notary Public

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Q. Please state your name and business address.

A. My name is Michael J. Ensrud, P.O. Box 360, Jefferson City, Missouri 65102.

Q. Are you the same witness who submitted information in the Staff's Supplemental Direct Testimony (Staff's Testimony) addressing Missouri Gas Energy's (MGE or Company) transportation tariff issues that commenced in Case No. GR-2009-0355 and which "spun off" into this proceeding?

A. Yes. I am.

Q. What is the purpose of your Supplemental Rebuttal Testimony?

A. I will respond to the Supplemental Direct Testimonies of Richard Haubensak (Constellation), and David N. Kirkland (MGE).

Q. Does Staff agree, in general, with Mr. Haubensak's Supplemental Direct Testimony?

A. No. Staff disagrees with several aspects of Mr. Haubensak's testimony:

- Proposals for Lowering the Transport Class Threshold.
- Waiver of the Telemetry Requirement for Small Volume Transport Customers.
- Alternatives to Telemetry.

Proposals for Lowering the Transport Class Threshold

Q. As the witness for Constellation, what usage threshold and terms of service does Mr. Haubensak propose for transport class customers?

A. Mr. Haubensak supports a lowered threshold of 30,000 Ccf per year for a customer to qualify to participate as a transport customer (Haubensak Supplemental Direct, page 3, lines 1-2). He differentiates between small volume and large volume transport customers (Haubensak Supplemental Direct, pages 10-11).

Q. What does MGE recommend as the new threshold?

A. In its pending tariff, MGE proposes:

> Transportation service will be made available over a three year period to those customers whose annual usage exceeds 50,000 Ccf in the preceding calendar year. In the first year (2010), this service will be available to those customers whose usage exceeds 100,000 Ccf in the preceding year with service limited to the first 50 customers to apply. In the second year (2011), this service will be available to those customers whose usage exceeds 70,000 Ccf in the preceding year with service limited to 100 customers. The third year (2012), the service will be available to all customers whose usage in the preceding year exceeds 50,000 Ccf.

Constellation's proposed lowered threshold or MGE's proposed lowered threshold are similar in ultimate effect. However, MGE witness Mr. Kirkland raises the issue that MGE has limited trained personnel to install telemetry equipment. He questions whether MGE can adequately respond to the maximum potential number of customers if unlimited conversion is allowed in the first year (Direct Testimony, page 5, lines 22 & 23 to page 6, lines 1 to 5).

Staff agrees MGE's tariff should limit the availability of this service to the number of customers that MGE can serve without having to hire and train additional personnel to meet a temporary demand for telemetry installations.

Q. Does Staff agree with Mr. Haubensak's testimony that under MGE's proposal to lower the usage threshold, some existing transport customers would not qualify for transport service under the new threshold (page 3, line18 to page 4, line 2)?

A. Yes. MGE should not terminate Transport Service for those currently receiving Transport Service qualifying under the current tariff. MGE should either "grandfather in" these currently-qualifying customers, or incorporate the current 15,000 Ccf monthly usage criterion into the proposed tariff.

<u>Waiver of the Telemetry Requirement for Small Volume Transport Customers.</u>

Q. What is MGE's current telemetry requirement?

A. Since at least 1994, MGE's tariff has required transport customers (with the exception of certain schools, exempted by statute) to purchase telemetry equipment as a pre-condition to obtaining transport service. As addressed in my Supplemental Direct Testimony, Staff supports this requirement as necessary for MGE to have daily information to control its distribution system and to accurately assign and distribute those costs to the customer who generated those costs.

Q. Does Constellation support required telemetry for all transportation customers?

A. No. Mr. Haubensak states telemetry should **not** be required for small volume transportation customers whose peak annual usage is less than 100,000 Ccf, but greater than 30,000 Ccf (Haubensak Supplemental Direct, page 3, lines 2-4).

Q. Does Mr. Haubensak propose a means to recover costs caused by small volume transport customers that would otherwise be measured and billed utilizing telemetry?

A. No. Mr. Haubensak's testimony is silent on what should be done with costs related to daily balancing generated by these customers. However, in a response to Staff's

Data Request, Constellation does propose adoption of another Local Distribution Company's recovery methodology.

Q. Does MGE support mandatory telemetry for all transport customers?

A. Yes. In his Supplemental Direct Testimony (page 9, lines 13 – 15), MGE witness Mr. David Kirkland states: Transportation customers should have daily gas monitoring in order to assign "costs in a way that will not require firm sales customers or the existing transport customers to subsidize those customers desiring to take the transportation service."

Alternatives to Telemetry

Q. What does Mr. Haubensak suggest regarding the need for telemetry equipment for the small-volume transport customer?

A. Mr. Haubensak states there is a strong argument that telemetry equipment should be installed if the interstate pipeline supplying the gas has daily balancing requirements, but the pipeline primarily used by MGE does not have daily balancing (Haubensak Supplemental Direct, page 7, lines 17-21). He also states MGE's tiered cash-out provisions in its tariff encourage marketers to stay in balance and keep them from gaming the system (Haubensak Supplemental Direct, page 12, lines 3-17).

Q. Do you agree that cash-out provisions are adequate to encourage marketers to stay in balance or, in the alternative, reimburse the LDCs for all the costs that they generate by being out of balance?

A. No. MGE needs to be able to determine if a transportation customer is using more or less gas than it is delivering to the system. MGE also needs to be able to assess penalties for customer overuse or underuse during certain conditions. As addressed in my

Supplemental Direct Testimony, Tariff Sheet Nos. 65, 66, and 67 address penalties for unauthorized usage under an Operational Flow Order (OFO) or during a Period of Curtailment (POC). MGE's current Large Volume Transport customers have telemetry equipment, which permits MGE to use daily readings from telemetry equipment to charge its current Large Volume Transport customers any penalties for unauthorized usage during an OFO or POC.

In addition, there are daily charges for being "out of balance" –either "long" or "short." These various charges justify the need for telemetry equipment in order to recapture costs of this nature from those who actually generated them.

Staff supports MGE's requirement of telemetric measuring and daily balancing because not all pipeline charges are based upon a month-end "true up" in a monthly balancing environment. The pipelines have some additional charges that can apply to MGE on a daily basis, even in a monthly balancing environment.

Q. Do you agree with Mr. Haubensak's statements that telemetry equipment need not be required for small volume transportation customers for the following reasons?

1. Small volume usage is very predictable.
2. School customers in Missouri are not required to have telemetry equipment installed.
3. Customers with similar load characteristics in other states are not required to have telemetry installed.
4. The Empire District Gas Company is Missouri does not require telemetry equipment to be installed for small volume customers.

(Haubensak Supplemental Direct, page 7, lines 4 – 11; page 10, lines 8 and 9)

A. No. First let me address his comment that small volume usage is very predictable. Mr. Haubensak provides no support for that statement. Without telemetry, Staff questions how daily predictions (gas nominated) is "tracked" to see how far or how close daily usage actually comes to that predicted amount. For the type of cost that is the focus of this proceeding, the variance between daily nomination and daily usage is the factor that generates those costs. To get that information, MGE needs telemetry. Staff knows of no calculation that accurately derives this information.

Q. Do you have any comments to Mr Haubensak's comment that School customers in Missouri are not required to have telemetry equipment installed (Haubensak Supplemental Direct, page 7, lines 5 & 6)?

A. This is a statutory exemption applicable to schools only. The fact that schools **are** exempt does not mean businesses **should be** exempt.

Q. Do you agree with Mr. Haubensak's testimony regarding balancing and telemetry requirements in other states?

A. Staff does not agree that this information is especially relevant. First, Staff does not know the factors leading to tariff provisions in other states. Second, we do not know the requirements of the interstate pipelines supplying those states. Third, tariffed rates vary from state to state and within any particular state. Samples from any particular LDC's tariff (within a particular state) may not be indicative of the range of charges that exist within that state. Fourth, costs vary between states. For example, labor costs in metropolitan areas can be higher than in less urban settings. All these factors can impact the price reflected in a particular tariff selected from another state.

More importantly, different states could have different standards concerning cost recovery and other regulatory factors that could significantly impact rates reflected in respective tariffs for similar services.

Staff recommends the installation of telemetry be treated like other (similar) miscellaneous charges are in Missouri that have been set in formal hearing, and be priced on underlying costs.

Q. Do you agree with Mr. Haubensak's comments regarding alternatives to telemetry in effect for Empire District Gas?

A. Not entirely, as Mr. Haubensak does not completely describe the applicable Empire tariff. While Empire does not require telemetry equipment to be installed for small volume transportation customers, it does require subscription to a "Balancing Service" – a surrogate charge to collect or offset costs caused by customers not utilizing telemetry. The extension of the Balancing Service to additional transport customers in Case No. GR-2009-0434 was the result of a settlement, and the rates are not necessarily based on actual cost.

Q. Does Staff recommend adoption of a surrogate in lieu of telemetry as best practice?

A. No. Staff does not recommend a surrogate to be the best regulatory practice. This methodology does not assign costs to cost-causers within the class. Nor are customers properly assigned cost on a customer-specific basis. If small customers are allowed to transport gas, they should pay all costs associated with that choice. Telemetry is required for daily readings, and is the best regulatory practice to measure and assign these costs.

Q. Has Constellation put forth a proposal for recovery or offset of costs generated by small-volume transport customers?

A. Yes. In its response of June 11, 2010, to Staff's Data Request #1, Constellation suggests adoption of a balancing service arrangement identical to Empire's.

Q. Does Staff recommend adoption of this proposal?

A. No. Staff recommends, as best regulatory practice, that all transport customers utilize telemetry equipment to obtain accurate measurement of daily imbalances, per the existing requirement. However, if the Commission does exempt small-volume transport customers from telemetry requirements, a Balancing Service fee or some other surrogate is necessary in order to make some attempt at recovering or offsetting costs caused by these customers.

Q. Would a surrogate that was suitable for Empire, necessarily be suitable for MGE?

A. No. Since MGE and Empire are two separate entities, it is simply wrong to apply a stipulation provision to a different entity. MGE and Empire have different cost characteristics for embedded operations.

When the Empire stipulation was reached, a small transport class already existed and had a balancing service in place, for certain customers. MGE does not currently have balancing service for its Transportation customers, so, if a MGE Sales customer wants to convert, the customer knows that the prerequisite of purchasing telemetry exists prior to the customer making the choice. Any costs incurred by MGE caused by a sales customer becoming a new small transport customer should be borne by that customer. Telemetry will provide MGE the basis for computing costs it incurs on behalf of these small transport customers.

Q. Do other Missouri LDCs require telemetry for transport customers?

A. Yes. Both Atmos and AmerenUE have "Daily Balancing" which is similar, though more expansive. Atmos' provisions for Daily Balancing Charges are found on Atmos tariff sheet no. 52. AmerenUE's provision for a Daily Balancing Charge is found on AmerenUE tariff sheet no. 15.

Q. Does Constellation offer any other proposals in lieu of telemetry?

A. Yes. Constellation (in its response to Staff's DR #1) states the following:

> 3. To deal with OFOs and periods of curtailment, Constellation suggests that tariff language be implemented similar to the attached KGS tariff sheet requiring customers or marketers to deliver a predetermined **MDQ.** ATTACHMENT: KGS Index No. 42.2, Schedule EFMR, Replacing Schedule EFMR Sheet 2 which was filed January 30, 2003. (Emphasis added)

The supplied Kansas Gas Service tariff sheet provides:

> 2. RDQ Balancing: Notwithstanding the provisions above, according to the **Required Daily Quantity (RDQ)** Balancing provisions in Section 11 of Company's General Terms and Conditions for Gas Service (GT&C), a customer may agree to deliver during PODBs and/or POC a predetermined Required Daily Quantity (RDQ) of natural gas to a transportation service meter which records a peak-month usage of less than 1,500 Mcf in the most recent 12 month period ending April 30, in lieu of the Company's requirement to install EFM. However, meters upon which EFM equipment has already been installed shall not be eligible for the RDQ Balancing option and the customer shall be subject to all charges set out in the Net Monthly Bill section. (Emphasis added)

Q. Does Constellation adequately explain this proposal?

A. No. As Staff understands an RDQ, it only applies during periods of curtailment, and it is unclear how the LDC verifies whether individual transport customers comply with the RDQ. Determining compliance with an RDQ would appear to require telemetry equipment, so it is unclear to Staff how Constellation's proposal would mitigate the need for telemetry. Also, the proposed tariff does not indicate any penalty for a transport customer exceeding the dictated amount, or for imbalances outside periods of curtailment, so the proposal does not address all likely costs. Absent full cost-recovery from transport service cost-causers, the pipeline penalties will simply work through the PGA.

This proposal seems to be geared to prevent Transport Customers from needing to purchase gas, but does nothing to prevent over-delivery of gas.

Staff does not recommend, as best practice, a tariff provision that requires a LDC to dictate a daily volume for a Transport customer. While a LDC should be concerned with the difference between daily nomination and daily usage for a particular customer, it is not the LDC's place to forecast a transport customer's usage.

Q. Does this conclude your Supplemental Rebuttal Testimony?

A. Yes, it does.