

Exhibit No.:
Issue: Puts and Calls
Witness: Phil S. Lock
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: GR-99-435
Date Testimony Prepared: January 28, 2002

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PHIL S. LOCK

FILED³

JAN 29 2002

**Missouri Public
Service Commission**

UTILICORP UNITED INC.

d/b/a MISSOURI PUBLIC SERVICE

CASE NO. GR-99-435

Jefferson City, Missouri
January 2002

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

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Phil S. Lock

1 Q. Have you previously filed testimony in cases before this Commission?

2 A. Yes. I have filed written testimony in Case No. TR-87-25, Grand River
3 Mutual Telephone; Case No. GR-89-48, Kansas Power and Light Company; Case
4 No. GR-90-84, St. Joseph Light and Power Company; Case No. GR-90-152, Associated
5 Natural Gas Company; Case No. GR-92-21, United Cities Gas Company; Case
6 No. GR-92-165, Laclede Gas Company; Case No. GR-93-47, United Cities Gas
7 Company; Case No. GR-93-149, Laclede Gas Company; Case No. GR-94-328, Laclede
8 Gas Company; Case No. GA-97-132, Missouri Public Service; and Case
9 No. GM-2001-585, Gateway Pipeline. I have also prepared numerous Actual Cost
10 Adjustment (ACA) recommendations since 1993.

11 Q. What is the purpose of your direct testimony?

12 A. ** _____
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18 _____ ** The Staff will also briefly discuss an imbalance issue still pending
19 in this case.

20 Q. What are put and call options and how do they work?

21 A. Put and call options are a risk management tool that allows a party
22 purchasing or selling natural gas to achieve some degree of price protection while
23 retaining the ability to obtain favorable prices in the market at a given time. To ensure

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1 against falling natural gas prices, a natural gas seller could buy a put option. A put option
2 gives the buyer the right, but not the obligation, to sell a specified quantity of gas to the
3 seller at a specified price at a specified time. In return for this right, the seller receives a
4 monthly premium from the buyer for this protection.

5 A buyer would typically buy a call option to ensure it against rising gas prices.
6 Under a call option, the buyer would have the right, but not the obligation, to buy a
7 specified quantity of gas from the seller at a specified price at a specified time. Again,
8 the seller receives a monthly premium for this protection.

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13 Q.

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21 A.

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Q. An imbalance issue arose in the context of Staff's ACA recommendation in Case No. GR-99-435. Does UtiliCorp agree in principle with Staff's proposed methodology for treating pipeline imbalances?

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A. Yes, after further discussion with the Company, the parties agree on this issue.

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Q. Does this conclude your direct testimony?

A. Yes, it does.

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SCHEDULE 2

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