

*Exhibit No.:*  
*Issue:* *Gas Inventory; Uncollectible Expense*  
*Witness:* *Anne M. Allee*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Direct Testimony*  
*Case No.:* *GR-2006-0422*  
*Date Testimony Prepared:* *October 12, 2006*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**ANNE M. ALLEE**

**MISSOURI GASE ENERGY**

**CASE NO. GR-2006-0422**

*Jefferson City, Missouri*  
*October 2006*

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**


In the Matter of Missouri Gas Energy's Tariff )  
Sheets Designed to Increase Rates for Gas Service )  
in the Company's Missouri Service Area. )

Case No. GR-2006-0422

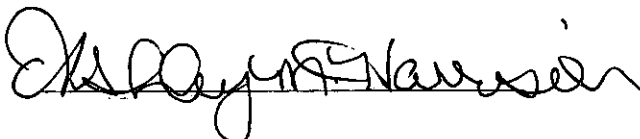
AFFIDAVIT OF ANNE M. ALLEE

STATE OF MISSOURI       )  
                                  )       ss.  
COUNTY OF COLE        )

Anne M. Allee, of lawful age, on her oath states: that she 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 her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Anne M. Allee

Subscribed and sworn to before me this 10 day of October 2006.





ASHLEY M. HARRISON  
My Commission Expires  
August 31, 2010  
Cole County  
Commission #06898978

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**OF**  
  
**ANNE M. ALLEE**  
  
**MISSOURI GAS ENERGY**  
  
**CASE NO. GR-2006-0422**

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Direct testimony of  
Anne M. Allee

1 In October 1993, I obtained my current position as a Regulatory Auditor in the  
2 Procurement Analysis Department. Since that time, my responsibilities include reviewing and  
3 analyzing amounts charged by natural gas local distribution companies (LDCs) through the  
4 Purchased Gas Adjustment (PGA)/Actual Cost Adjustment (ACA) mechanism.

5 Q. Have you previously filed testimony before this Commission?

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

8 Q. Did you make an examination and analysis of the books and records of  
9 Missouri Gas Energy (MGE or Company) in regard to matters raised in this case?

10 A. Yes. I reviewed MGE's natural gas stored underground records and MGE's  
11 alternative proposal to use the PGA mechanism to recover bad debt expense or uncollectible  
12 expense.

13 Q. What matters will you address in your testimony?

14 A. I will address the Staff's recommended inventory level for natural gas stored  
15 underground. I will provide the Staff's position on recovering bad debt or uncollectible  
16 expense through the PGA mechanism. Finally, I will address the Staff's proposal to include  
17 ACA documentation in the Company's PGA tariffs.

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

20 A. Since my time in the Procurement Analysis Department, I have performed  
21 and/or assisted in performing approximately 30 ACA reviews which include a review of the  
22 LDC natural gas storage.

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

1           A.     I am sponsoring the Staff's natural gas inventory level included in rate base,  
2     the Staff's position regarding recovery of uncollectible expense, and the Staff's proposal to  
3     include ACA documentation within the Company's PGA tariffs.

4     **EXECUTIVE SUMMARY**

5           Q.     Please summarize the issues addressed in your direct testimony.

6           A.     The Staff used a thirteen-month average of natural gas inventory balances to  
7     represent ongoing inventory levels included in rate base.

8           The Staff supports recovery of uncollectible expense in base rates. The direct  
9     testimony of Staff witness Paul R. Harrison of the Auditing Department addresses the level of  
10    uncollectible expenses to be included in rates.

11          The Staff recommends adding ACA documentation requirements in MGE's PGA  
12    tariffs. Schedule 3, of my testimony contains, the ACA documentation requirements that the  
13    Staff is proposing.

14    **GAS INVENTORY**

15          Q.     Why is gas held in storage considered inventory and included in rate base?

16          A     Natural gas is purchased and injected into storage facilities during the summer  
17    months where it is held until the winter months when it is withdrawn and delivered to MGE's  
18    distribution system. This natural gas stored underground represents an investment by MGE.  
19    Therefore, it is included in rate base which allows the Company an opportunity to earn a  
20    return on its investment.

21          Q.     Please explain Schedule 2, attached to your direct testimony.

1           A.     Currently MGE has storage agreements with two interstate pipelines, Southern  
2     Star Central and Panhandle Eastern Pipe Line. Schedule 2 lists the monthly combined value of  
3     MGE's storage for the update period, June 30, 2006. These monthly storage balances were  
4     used to calculate a thirteen-month average which is the level of natural gas inventory included  
5     in rate base.

6           Q.     Why did you use a thirteen-month average of inventory balances to value  
7     storage?

8           A.     Natural gas inventory is cyclical in nature. Inventory volumes increase  
9     throughout the summer as gas is injected into storage and then decrease throughout the winter  
10    as gas is withdrawn. An average is used to account for the fluctuation in inventory levels over  
11    time.

12    **UNCOLLECTIBLE EXPENSE**

13           Q.     Please explain MGE's current ratemaking treatment for bad debt expense or  
14     uncollectible expense.

15           A.     Currently and historically, a normalized level of bad debt expense is included  
16     in MGE's base rates.

17           Q.     What is Staff's recommendation with regard to the recovery of bad debt  
18     expense or uncollectible expense.

19           A.     The Staff's recommendation is to continue the current treatment of bad debt  
20     recovery in MGE's base rates. The Staff maintains that uncollectible expense is a credit and  
21     collection function and is not a gas cost. Thus, the traditional means of recovery, through  
22     base rates, is the best way to handle bad debt or uncollectible expense. Staff witness

Direct testimony of  
Anne M. Allee

1 Paul R. Harrison addresses Staff's proposed level of uncollectible expense in his direct  
2 testimony.

3 Q. How do other Missouri LDCs recover uncollectible expenses?

4 A. All other Missouri LDCs recover uncollectible expenses through base rates.

5 **ACA DOCUMENTATION – PGA TARIFF CHANGE**

6 Q. Do you have any recommendations regarding the Company's PGA tariffs?

7 A. Yes. Staff recommends that certain ACA documentation be added to MGE's  
8 PGA tariffs. The Staff recommends MGE be required to provide documentation which  
9 supports its gas procurement activity applicable to each ACA period. All documentation  
10 concerning the Company's gas purchasing decisions for that period should be submitted to the  
11 Staff. Schedule 3, attached to my testimony, contains the requirements the Staff proposes to  
12 insert into MGE's PGA tariffs.

13 Q. When would MGE be required to provide this documentation?

14 A. At the same time the Company makes its annual ACA filing to the  
15 Commission. Generally, MGE makes its ACA filing each October.

16 Q. Why is the Staff recommending this requirement?

17 A. The Staff believes it is appropriate for the Company to submit, along with its  
18 ACA filing, all documentation supporting the level of costs included within its ACA filing.

19 Q. Does this conclude your direct testimony?

20 A. Yes, it does.



SUMMARY OF TESTIMONY  
ANNE M. ALLEE

Company Name	Case Number	Issues
Choctaw Telephone Company	TR-91-336	Payroll; Payroll Taxes; Employee Pensions/Benefits; Voucher Analysis; Other Misc. Expenses
Laclede Gas Company	GR-92-165	Payroll; Payroll Taxes; Employee Pensions and Benefits
United Cities Gas Company	GR-93-47	Rate Base; CWC; Dues & Donations; Misc. Expenses
St. Louis County Water Company	WR-93-204	Rate Base; CWC; Dues & Donations; Misc. Expenses
Ozark Natural Gas Company	GA-96-264	Cost of Gas per Dth; Reliability of Transportation
Missouri Gas Energy Company	GR-96-285	Natural Gas Storage Inventory Prices
St. Joseph Light and Power Company	GR-96-47	Gas Purchasing Practices
Union Electric Company	GR-97-393	Natural Gas Storage Inventory Prices
Missouri Public Service	GR-96-192	Winter Storage Allocation; Overrun Penalties
Missouri Gas Energy	GR-98-140	Natural Gas Storage Inventory Prices
Ozark Natural Gas Company	GA-98-227	Cost of Gas per Dth; Reliability of Supply and Transportation
St. Joseph Light and Power Company	GR-99-246	Natural Gas Inventory Prices
UtiliCorp United Inc. and St. Joseph Light and Power Company	EM-2000-292	Conditions to be Made Part of Approved Merger
Atmos Energy Corporation and United Cities Gas Company	GR-2001-396 & GR-2001-397 (Consolidated)	Purchasing Practices – Neelyville; Purchasing Practices-Consolidated District; Deferred Carrying Cost Balance; Propane
Missouri Gas Energy	GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167 (Consolidated)	Purchasing Practices; Refunds
Union Electric Company	GR-2003-0517	Gas Inventories
Missouri Gas Energy	Case No. GR-2004-0209	Gas Inventory, Capacity, Release and Gas Purchasing Practices

Missouri Gas Energy  
Gas Inventory - Underground Storage  
Case No. GR-2006-0422

Month	End of Month Storage Balances
June-05	\$ 82,091,045
July-05	\$ 93,052,291
August-05	\$ 101,336,153
September-05	\$ 106,543,327
October-05	\$ 117,284,371
November-05	\$ 114,847,089
December-05	\$ 92,678,911
January-06	\$ 97,447,881
February-06	\$ 81,248,833
March-06	\$ 79,748,344
April-06	\$ 89,139,925
May-06	\$ 97,297,862
June-06	\$ 102,882,503
Rate Base Inventory Level	<u>\$ 96,584,503</u>

Concurrently with the Company's annual Actual Cost Adjustment (ACA) filing the Company shall:

- Provide all documentation to support the Company's ACA to reconcile the Company's actual gas costs with its billed revenues. Provide all documentation of the natural gas purchases (commodity, demand or reservation charges or other charges) of the LDC to support that the claimed costs are properly attributed to the ACA period and that the pipelines, natural gas suppliers, and any other vendors have charged or invoiced the LDC for the volumes nominated and received at the proper rates.
- Provide all documentation to support the prudence of the Company's natural gas supply planning, capacity planning, purchasing practices, and operating decisions for the ACA period.
- Provide all documentation of the financial impact on customers of the LDC's use of its gas supply, transportation and storage contracts.
- Provide a copy of all contracts in effect at any time during the ACA period. Include copies of all contracts related to the procurement of natural gas including but not limited to transportation, storage, and supply contracts and all schedules and exhibits and letter agreements related to gas procurement, gas costs and/or gas constraints.

The documentation provided shall include fully functioning electronic versions.

The term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed electronic or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to the LDC and its employees, contractors, agents or others employed by or acting in its behalf.