Exhibit No.:	
Issues:	*Gas Inventory;* *Capacity Release; and* *Gas Purchasing Practices*
Witness:	*Anne M. Allee*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*GR-2004-0209*
Date Testimony Prepared:	*April 15, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

ANNE M. ALLEE

MISSOURI GAS ENERGY

CASE NOS. GR-2004-0209

Jefferson City, Missouri
April 2004

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

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariffs to Implement a General Rate Increase for Natural Gas Service	)))	Case No. GR-2004-0209

AFFIDAVIT OF ANNE M. ALLEE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Anne M. Allee, being of lawful age, on her oath states: that she has participated in the preparation of the following direct testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the following 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
Anne M. Allee

Subscribed and sworn to before me this 14th day of April 2004.

Toni M Charlton

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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ANNE M. ALLEE

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

DIRECT TESTIMONY

OF

ANNE M. ALLEE

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Q. Please state your name and business address.

A. Anne M. Allee, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from the University of Missouri at Columbia with a Bachelor of Science degree in Accounting in 1989. I am currently a licensed Certified Public Accountant in the state of Missouri.

Q. Please describe your work experience.

A. During college and after graduation, I worked for Capital Bank as a Teller, New Accounts Representative and temporary Branch Manager.

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

A. My employment with the Commission began in October 1990 as a Regulatory Auditor in the Accounting Department. My duties included assisting with audits and examinations of the books and records of utility companies operating within the state of Missouri.

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

Q. Have you previously filed testimony before this Commission?

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

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

A. Yes. I reviewed the natural gas stored underground and capacity release records of MGE.

Q. What matters will you address in your testimony?

A. I will address the Staff's recommended inventory level for natural gas stored underground and the Staff's recommended amount of capacity release revenues to recognize in the revenue requirement.

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

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

Q. What is the purpose of your direct testimony?

A. I am sponsoring the Staff's natural gas inventory level included in rate base and sponsoring Income Statement Adjustment S-74.1 with regard to the level of capacity release revenues.

GAS INVENTORY

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

A Natural gas stored underground represents an investment by MGE, and therefore it is included in rate base so that the Company can have the opportunity to earn a return on its investment. Natural gas is purchased and injected into storage facilities during the summer months where it is held until the winter months when it is withdrawn and delivered to MGE's distribution system.

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

A. Schedule 2 is Staff's calculation of the natural gas inventory level used in this case. It was derived by multiplying the average volumes in inventory by the storage injection rate of $4.59.

Q. Why did you use an average inventory volume to value storage?

A. The natural gas inventory is cyclical in nature. Inventory volumes increase throughout the summer as gas is injected into storage and then decrease throughout the winter as gas is withdrawn. An average is used to account for the fluctuation in inventory levels. The average volume in inventory is an average of the volume of gas in inventory for the twelve months beginning January 2003 and ending December 2003. The average inventory volume represents ongoing inventory levels.

Q. Please explain Staff's calculation of the $4.59 storage injection price.

A. The injection price was calculated using MGE's actual weighted average storage injection prices during the injection season for the past three calendar years (2001-2003). The injection season occurs April through October.

Q. Why did you use a three-year average of actual injection prices to calculate the natural gas inventory level to include in rate base?

A. When the test year and update period inventory injection prices were compared with historical injection prices, I found that MGE's 2003 natural gas injection prices were the highest prices ever paid by MGE and that natural gas injection prices have fluctuated significantly both in the test year and over the three-year period used in the average. Since Staff is setting a level of inventory that should be reflective of ongoing operations and will be included in rates until the next MGE rate case, Staff used a three-year average of actual injection prices.

CAPACITY RELEASE

Q. Please explain "capacity release."

A. MGE contracts with interstate pipeline companies for capacity within the pipeline so that it can move or transport natural gas to its distribution system. Because the demands of MGE's customers can vary significantly depending upon the weather, MGE does not use all of its firm transportation capacity at all times. Thus, this idle capacity is available for release to other parties. As authorized by the Federal Energy Regulatory Commission (FERC) Order 636, a capacity release occurs when MGE releases or assigns its firm transportation rights to another party. MGE receives a credit on its interstate pipeline company invoice for capacity released.

Q. Please explain MGE's current ratemaking treatment for capacity release.

A. In MGE's previous rate case, a fixed level of capacity release was included as revenue in the cost of service for the determination of base rates. Including capacity release as revenue in the cost of service gives MGE an incentive to maximize the use of its idle pipeline capacity.

Q. What is Staff's recommendation with regard to capacity release in this case?

A. Staff's recommendation is to continue the current treatment of capacity release as a component of annualized revenues except for releases made under MGE's Experimental School Transportation Program (ESTP). Staff also recommends adjusting the level or amount of capacity release to include as revenue in the cost of service.

Q. What amount of capacity release is Staff proposing to include as revenue in the cost of service?

A. Staff recommends a revenue adjustment of $1,340,400 for capacity release.

Q. How did Staff determine the appropriate level of capacity release?

A. MGE's level of capacity release has fluctuated over the last several years, therefore the Staff developed a three-year average based on MGE's fiscal years ending June 30, 2001, 2002 and 2003. Schedule 3 attached to my direct testimony shows the calculation of Staff's recommended level of capacity release revenues.

Q. Please explain the Staff recommendation to exclude capacity releases made under the MGE's ESTP from revenue in the cost of service.

A. In July 2002, the Governor signed into law a bill that required LDCs to provide an opportunity for schools to purchase gas supply and pipeline transportation on an aggregated basis. The program enacted under this law is experimental and is scheduled to terminate June 30, 2005. MGE's ESTP tariffs complying with this law went into effect on

October 28, 2002. The ESTP tariffs state that MGE will release capacity to not-for-profit school associations or its designated agent; however, the tariffs don't specifically address the accounting treatment of these releases. In order to clarify the Company's current accounting treatment of these releases, Staff recommends adding, on Sheet No. 56 under Other Terms and Conditions at the end of paragraph 4, the following sentence, "Capacity released to the not-for-profit school associations or its designated agent shall be credited to the Purchased Gas Costs."

GAS PURCHASING PRACTICES

Q. Do you have any recommendations regarding the Company's gas purchasing practices?

A. Yes. Staff recommends that by October 1, MGE file with the Commission, in the applicable ACA case, both a Natural Gas Supply Plan annually and an updated Capacity Analysis/Reliability Analysis every two to three years, so that current information is available prior to making contract or other natural gas purchasing decisions. Both the Company and the Commission need written planning documents.

Q. Why does the Company need written planning documents?

A. Updated natural gas supply plans and capacity/reliability analysis are a means to document usage requirements to meet customer needs during normal weather and the extremes of warmest or coldest weather, including the increased requirements for a historic peak cold day. Additionally, there may be other LDC or system constraints that must be considered so that the LDC adequately plans for the natural gas requirements of its customers. A LDC must have adequate capacity and supplies to provide natural gas to its firm sales customers on even a peak historic cold day, without maintaining excess capacity that costs customers money without any related benefit.

Further, When MGE's employees are making the actual supply and transportation decisions during the heating season, they need to be able to reference how then-current conditions compare to the conditions planned for. The employees need to be able to adjust or modify the plan to fit actual conditions. Absent a written plan, it will be difficult to systematically adjust for changing conditions.

Finally, MGE is a regulated utility, subject to the oversight of the Commission for its supply and transportation decisions. The Commission must review the Company's actions in light of conditions and information known at the time the decisions and actions were taken. Absent written plans, procedures and documentation of actions made, at the time the actions were taken, the Company may be unable to adequately explain its actions to the Commission.

Q. What kind of planning documents are needed?

A. Capacity planning is critical because natural gas can only be provided to an LDC if the pipeline capacity (transportation capacity) is available to the LDC when it is needed, and thus an LDC must acquire this capacity on a firm basis. This capacity may include multiple contracts, each with multi-year terms. Because of the time needed to acquire pipeline capacity, these analyses and plans must include estimates of customer demand for the next three to five years. Decisions about pipeline capacity considers estimates of growth, constraints of existing contracts, expiration date and the preplanning time required to renew, terminate, modify or initiate contracts, and the cost of carrying any reserve margin until needed. The pipeline capacity analyses and plans are updated by some LDCs on an annual basis. However, since most of these contracts are for multiple years, the capacity analyses and plans of some LDCs are updated only every two to three years. So that current information is being considered in the decision making, at a minimum these analyses and plans should be updated prior to the LDC making contract decisions, even decisions to extend/renew contracts or otherwise renegotiate a contract. Thus, a more frequent filing might be necessary if contractual changes or contractual reviews occur more frequently than two to three years.

Natural gas supply plans are generally updated annually because many of the contracts/agreements for gas supply are for a shorter term than those for pipeline capacity. Supply planning can include natural gas from storage; base load gas that is provided on a constant basis each day for the year or for the winter season; swing gas or combination base load and swing that allows the LDC to nominate the minimum volume up to the maximum allowed by the agreement/contract; daily or multiple day spot gas purchases; and/or other peaking supply. These different supply agreements/contracts are needed to meet the changing supply requirements for weather or increased demand on weekdays versus weekends, or for other operational or demand reasons. The natural gas supply plans include economic dispatch models or a discussion of how the LDC considers cost and operational requirements for nominating volumes among the various supply services in its portfolio. Additionally the natural gas supply plans document the LDCs hedging plans to address its management of price volatility so that customers' natural gas requirements are reasonably protected from upward price spikes.

Q. Why does the Commission need MGE to maintain written supply plans?

A. The Commission has the duty to insure that an LDC provides safe and reliable service at just and reasonable rates. These written plans will provide Staff the ability to evaluate the LDC's actions at the time supply and capacity decisions are made and with the information the LDC relied upon to make those decisions.

Q. Does this conclude your direct testimony?

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
Gas Inventory - Underground Storage
Case No. GR-2004-0209

End of Month Storage Balance		
Month		Volumes (MMBtu)
January-03		6,199,269
February-03		1,604,779
March-03		1,793,568
April-03		4,843,104
May-03		9,205,812
June-03		12,451,375
July-03		13,914,784
August-03		15,189,442
September-03		16,457,594
October-03		17,460,027
November-03		14,562,734
December-03		12,013,048
12 Month Average Volumes		10,474,628
3 Year Average Injection Price	$	4.59
Rate Base Inventory Level	$	48,101,139

SCHEDULE 3

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY