

Exhibit No.:  
Issue: Surcharge Tariff Filing  
Witness: Gary L. Clemens  
Type of Exhibit: Direct Testimony  
Sponsoring Party: UtiliCorp United Inc. DBA Missouri  
Public Service  
Docket No.: ER-2001-294

**FILED<sup>3</sup>**  
JAN 11 2001  
Missouri Public  
Service Commission

Before the Public Service Commission  
of the State of Missouri

Direct Testimony

of

Gary L. Clemens

January 11, 2001

**RECEIVED**  
JAN 11 2001

ACCOUNTING DEPT.  
PUBLIC SERVICE COMMISSION

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
DIRECT TESTIMONY OF GARY L. CLEMENS  
ON BEHALF OF MISSOURI PUBLIC SERVICE,  
A DIVISION OF UTILICORP UNITED INC.  
CASE NO. ER-2001-294**

1 Q. Please state your name and business address.

2 A. My name is Gary L. Clemens and my business address is 10700 East 350 Highway,  
3 Kansas City, Missouri, 64138.

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

5 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") in the Regulatory Services  
6 Department. My position is Regulatory Services Manager in UtiliCorp's Missouri  
7 Public Service ("MPS") division.

8 Q. Please state your educational background and experience.

9 A. I attended Northwest Missouri State University in Maryville, Missouri from which I  
10 received a Bachelor of Science Degree in Business Administration with a major in  
11 Accounting. After graduating in 1980, I joined Missouri Public Service, ("MPS"), as a  
12 Staff Accountant in the Rate Department. Since then I have held various positions in  
13 the Accounting and Regulatory departments.

14 Q. What is the purpose of your testimony in this proceeding?

15 A. The purpose of my testimony is to present to the Missouri Public Service Commission  
16 ("Commission") testimony in support of P.S.C. Mo. No. 2 Original Sheets Nos. 78 and  
17 79, which together are tariffs filed by MPS with the Commission as an experimental  
18 recovery surcharge for MPS's retail electric customers.

1 Q. Are copies of those tariff sheets attached to your testimony?

2 A. Yes. Attached as Schedule GLC-1 are copies of Tariff Sheets 78 and 79.

3 Q. What is the purpose of this filing?

4 A. The involved tariffs are designed to compensate MPS for a portion of the significant  
5 increase in the cost of natural gas used by MPS for electric generation and the increase  
6 in the cost of MPS's purchased power which directly relate to natural gas market prices.

7 Q. What prompted MPS to file this tariff?

8 A. Natural gas prices have increased dramatically beginning in the summer of 2000. Prices  
9 were in the \$2.00 range in April 2000 compared to recent prices over \$9.00. The  
10 NYMEX future summer prices for 2001 are in the \$5.00 to \$5.50 per mcf range. The  
11 increased cost of producing electricity using natural gas and natural gas effect on  
12 purchased power will increase MPS fuel cost \$25-\$30 million dollars in 2001. This  
13 additional expense will have a detrimental effect on MPS's operational electric  
14 earnings unless a means is found to provide for recovery of these costs.

15 Q. You stated earlier that this is an experimental tariff. Please explain.

16 A. MPS has characterized the proposed tariff as "experimental" because the industry and  
17 the Commission need to find a way to address this sudden, recent and hopefully  
18 temporary problem that is seriously impacting utilities in Missouri. Thus the proposed  
19 tariff is to be in place only for two years on an experimental basis and thus is not  
20 permanent. Moreover, it is to be updated and reviewed every six months. After the two

1        year period, the tariff can be reviewed and a decision can be made if it should become  
2        permanent.

3        Q.     How was the tariff developed?

4        A.     The tariff is a fixed rate charge based on the expected fuel costs divided by the  
5        estimated tariff sales during a six month recovery period. The costs included in the  
6        recovery are natural gas cost over \$3.00 per Mcf for gas used for electric generation for  
7        retail load and purchased power energy costs between \$30.00 and \$78.00 per Mwh.  
8        The budgeted fuel costs included in the surcharge will not exceed 120% of the average  
9        fuel cost for the previous 90 days. This is done to insure that the budgeted data used is  
10       not out of line with the market.

11       Q.     How was the budgeted fuel cost estimate calculated?

12       A.     As explained in the direct testimony of UtiliCorp witness Frank DeBacker, the REAL  
13       TIME model was used to run the fuel cost model to emulate actual fuel cost for 2001  
14       using the NYMEX Henry Hub Gas Futures price.

15       Q.     What happens after the 6 month surcharge period is over?

16       A.     The actual costs will be compared to the budgeted surcharge collected. Any over -  
17       recovery will be refunded to the customers with interest based on MPS's customer  
18       deposit interest rate. Any under-recovery will not be collected by MPS.

19       Q.     Has MPS made any of the calculations to estimate what the surcharge would be for  
20       2001 if the experimental tariff was in place today?

1 A. Yes. Schedule GLC\_2 identifies the surcharge rate for the first six months of 2001 if  
2 the rate was in effect. The rate would be \$.0050/ Kwh. Based on budgeted sales, about  
3 \$12 million would be collected from the surcharge.

4 Q. What would be the monthly impact on an average residential customer using 750 Kwh  
5 per month if the proposed tariff was approved?

6 A. Approximately \$3.75 per month.

7 Q. Does the \$12 million collected cover the entire fuel increase?

8 A. No. As explained in Mr. DeBacker's testimony, the fuel costs increases are well above  
9 the \$12 million that will be collected from the surcharge.

10 Q. Why didn't MPS just file a general rate case to recover those costs?

11 A. Because of the dramatic swings in price in the gas markets, MPS believed the proposed  
12 experimental surcharge tariff would better fit the situation. The surcharge tariff will  
13 insure that these high costs will not be locked in if the cost of gas decreases as the new  
14 charge will only be in effect if the costs of gas and purchased power are above the stated  
15 targets. With the volatility of the gas market, MPS may have been in a situation where  
16 about the time the general rate case was completed and rates were in place with the high  
17 gas cost built into rates that gas could drop and leave MPS in a possible over earnings  
18 situation. The experimental tariff is a test to see if this will allow MPS to recover its  
19 actual fuel cost and at the same time prevent the customers from overpaying for the cost  
20 of gas because of the volatility in price.

21 Q. Since MPS's last rate case, Case No. ER-97-394, has its cost of service changed?

1 A. Not dramatically.

2 Q. Please explain..

3 A. MPS return on rate base shown on its surveillance report continues to be in the 9.00%  
4 range. In its last rate case, MPS was allowed a 9.12% return on rate base. The  
5 following illustrates the change in MPS's return since that case.

Month	Return on Rate Base
ER-97-394 - April 1997	9.12%
July 2000	8.89%
August 2000	9.00%
September 2000	8.72%
October 2000	8.49%
November 2000	8.50%

6

7 As shown above, MPS is not in an over-earnings situation based on per book costs.

8 With the expected increase in cost of gas and purchased power, MPS will be making  
9 well below its authorized return. But if for some reason the cost of gas and purchase  
10 power does decrease the surcharge allows for refund of the dollars collected with  
11 interest.

12 Q. How does this proposed experimental surcharge work as compared to an automatic fuel  
13 adjustment clause?

1 A. It is similar, but there are differences. First, the proposed surcharge is not an  
2 “automatic” adjustment clause which can change without Commission authorization. It  
3 is a fixed rate which must be approved initially by the Commission and is subject to  
4 Commission review and revision or adjustment every six months. Second, over  
5 collection will be refunded with interest and under recoveries will not be collected. It  
6 must be kept in mind that the proposed surcharge is a two-year experiment that is  
7 proposed to be implemented for a very unusual situation. The current volatility of the  
8 gas market is unprecedented. By allowing MPS the opportunity to recover these cost in  
9 a timely manner will keep its business sound financially and operationally. If the  
10 experiment is a success, this approach may be a method that can be used for other  
11 utilities rather than having expensive rate cases in those situations when it is apparent  
12 that the cost of service is being upset by an extreme or unusual circumstance.

13 Q. Does this conclude your direct testimony?

14 A. Yes it does.

P.S.C. MO. No. \_\_\_\_\_

2

(Original)  
(Revised)  
(Original)  
(Revised)

SHEET NO. 78

Cancelling P.S.C. MO. No. \_\_\_\_\_

SHEET NO. \_\_\_\_\_

MISSOURI PUBLIC SERVICE  
KANSAS CITY, MO 64138

FOR: All Territory Served by Missouri Public Service

EXPERIMENTAL RECOVERY SURCHARGE  
ELECTRICPURPOSE

The purpose of this Experimental Recovery Surcharge is to compensate Missouri Public Service for a portion of the impact caused by significant increases in the cost of natural gas used for electric generation and the increases in the cost of power purchased which are directly related to natural gas market prices. The surcharge is intended to recover certain increased costs above prescribed target levels in a timely manner, preventing undue financial harm to Missouri Public Service while avoiding frequent, costly general rate increase requests.

APPLICABILITY

The Experimental Recovery Surcharge shall be applied on a uniform basis to all kWh sold under any approved Missouri Public Service rate schedule except kWh that exceed the customer baseline load (CBL) as determined for customers on the Real-Time Price Program (Sheet No. 65) or the Special Contract Rate (Sheet No. 69).

EXPERIMENTAL RECOVERY SURCHARGE

$$\text{Experimental Recovery Surcharge} = \text{ERS}_t = \frac{\text{SR}_{\text{gas}} + \text{SR}_{\text{ppt}} - \text{RR}_{t-1}}{S_t}$$

Where:

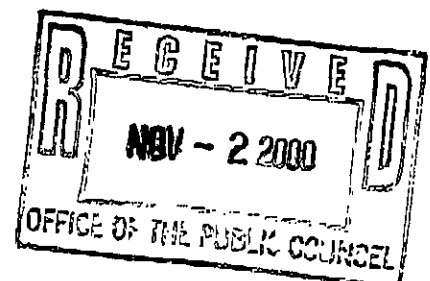
$\text{SR}_{\text{gas}}$  = surcharge requirement for gas defined as the forecast cost of gas to be used for generation during the recovery period subject to the following limits: Only forecast gas costs in excess of \$3.00 per mmbtu are eligible for recovery. The maximum price of gas allowed in the forecast cost of gas is limited to 150% of the maximum price actually paid during the most recent 90 days available at the time of calculation.

$\text{SR}_{\text{ppt}}$  = surcharge requirement for purchased power defined as the forecast cost of purchased energy during the recovery period subject to the following limits: Only forecast energy purchases in excess of \$30 per mWh are eligible for recovery. The maximum energy purchase price allowed in the forecast is limited to the lesser of \$78 per mWh or 150% of the maximum price actually paid during the most recent 90 days available at the time of calculation.

$\text{RR}_{t-1}$  = refundable recovery from the previous recovery period as defined below. There is no refundable recovery in the calculation of the ERS for the first recovery period.

$S_t$  = forecast kWh sales for the recovery period.

= current recovery period. A recovery period is a consecutive six-month period beginning on either January 1 or July 1. The first recovery period under this experimental surcharge begins January 1, 2001.

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NOV 2 2000  
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Service Commission

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P.S.C. MO. No. 2 (Original) SHEET NO. 79  
(Revised)  
Cancelling P.S.C. MO. No. (Original) SHEET NO.         
(Revised)

MISSOURI PUBLIC SERVICE  
KANSAS CITY, MO 64138

FOR: All Territory Served by Missouri Public Service

**EXPERIMENTAL RECOVERY SURCHARGE (CONTINUED)**  
**ELECTRIC**

**RECOVERY REFUND**

After each recovery period the amount recovered under the surcharge and the actual eligible costs shall be determined. No attempt shall be made to recover actual costs in excess of recovery collected. If recovery collected exceeds actual costs, the difference shall be refunded through an adjustment to the ERS applicable in the subsequent recovery period. The refundable recovery (RR) amount shall be calculated as follows:

$$RR = \text{refundable recovery} = SC - AC_{gas} - AC_{pp} + \text{Int}$$

Where:

SC = actual surcharge collected during a recovery period as recorded on the company's books and records through the customer billing process.

AC<sub>gas</sub> = actual cost of gas used for generation during the recovery period subject to the same price limits applicable to the determination of SR<sub>gas</sub>.

AC<sub>pp</sub> = actual cost of purchased energy during the recovery period subject to the same price limits applicable to the determination of SR<sub>pp</sub>.

Int = interest on the refundable amount =  $[SC - AC_{gas} - AC_{pp}] \times 9.5\% \times 0.25$

**EFFECTIVE EXPERIMENTAL RECOVERY SURCHARGES**

<u>Recovery Period</u>	<u>Rate</u>
January 1 – June 30, 2001	\$0.0050 per kWh

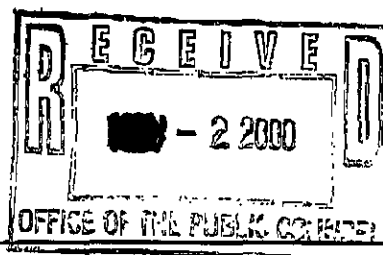
**TERMS AND CONDITIONS**

The term of this schedule shall be limited because of its experimental nature. This schedule will terminate no later than December 31, 2002. Earlier termination is subject to Commission approval. Within 60 days of the end of each recovery period the following information shall be filed with the Commission:

- Recovery period kWh sales
- Amount of actual surcharge collected
- Actual cost of gas used for generation
- Actual cost of gas exceeding the cap rate
- Actual cost of energy purchases
- Actual cost of energy purchases exceeding the cap rate
- Interest calculation if applicable

**FILED<sup>2</sup>**  
NOV 2 2000

Missouri Public  
Service Commission



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**Experimental Recovery Surcharge**  
**Recovery Period: 1/1/2001 - 6/30/2001**

<u>Line</u>			<u>Source</u>
a	Forecast cost of gas	\$ 7,173,196	Production model
b	Forecast gas used	1,536,011 mmbtu	Production model
c	Recovery floor	\$ 3.00 per mmbtu	Tariff
d	Ineligible costs	4,608,033	b * c
e	Eligible costs	\$ 2,565,163	a - d
f	Forecast purchased energy	not available	Production model
g	Ineligible costs	not available	Production model
h	Eligible costs [\$30<price<\$78]	\$ 9,486,561	Production model
i	Recoverable refund - prior period	\$ -	
j	Forecast sales	2,416,101 mWh	Budget
k	Experimental Recovery Surcharge	0.0050 \$/kWh	[e+h-i]/j

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

In the Matter of the Tariff filing of       )  
UtiliCorp United Inc. DBA as Missouri    )  
Public Service.                                )

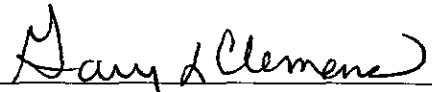
Case No. ER-2001-294

County of Jackson                        )

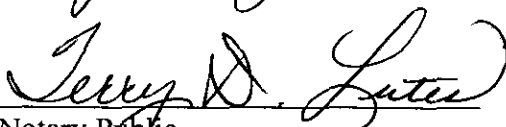
State of Missouri                         )

**AFFIDAVIT OF GARY L. CLEMENS**

Gary L. Clemens, **being first duly sworn**, deposes and says that he is the witness who sponsors the accompanying testimony entitled direct testimony; that said testimony was prepared by him and or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

  
\_\_\_\_\_  
Gary L. Clemens

Subscribed and sworn before me this 10th day of January, 2001.

  
\_\_\_\_\_  
Notary Public

My Commission Expires:

