

*Exhibit No.:*

*Issue:* Storage Inventory Balance;  
Off-System Sales Adjustment;  
Performance Bond Adjustment

*Witness:* Michael J. Wallis

*Sponsoring Party:* MoPSC Staff

*Type of Exhibit:* Direct Testimony

*Case No.:* GR-2001-292

*Date Testimony Prepared:* April 19, 2001

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**MICHAEL J. WALLIS**

**MISSOURI GAS ENERGY,  
A DIVISION OF SOUTHERN UNION COMPANY**

**CASE NO. GR-2001-292**

*Jefferson City, Missouri  
April 2001*

**FILED<sup>2</sup>**

**APR 19 2001**

**Missouri Public  
Service Commission**

**DIRECT TESTIMONY**  
**OF**  
**MICHAEL J. WALLIS**  
**MISSOURI GAS ENERGY,**  
**A DIVISION OF**  
**SOUTHERN UNION COMPANY**  
**CASE NO. GR-2001-292**

Q. Please state your name and business address.

A. Michael J. Wallis, 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 and professional background.

A. I graduated from Central Missouri State University at Warrensburg,  
Missouri and received a Bachelor of Science degree in Business Administration, with a  
major in Accounting, in July 1986. I am currently a licensed Certified Public Accountant  
in the state of Missouri.

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

A. Under the direction of both the Manager of the Accounting Department  
(August 1987 to November 1992) and the Manager of the Procurement Analysis  
Department (October 1993 to the current time), I have assisted with audits and

Direct Testimony of  
Michael J. Wallis

1 examinations of the books and records of utility companies operating within the state of  
2 Missouri.

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

4 A. Yes. Schedule MJW-1, attached to my direct testimony, is a list of cases in  
5 which I have filed testimony before this Commission.

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

7 A. The purpose of my direct testimony is to (1) sponsor the appropriate end-  
8 of-month gas inventory balance (see Schedule MJW-2 attached to my direct testimony)  
9 for Missouri Gas Energy (MGE or Company); (2) sponsor Staff Adjustment S-9.1; and  
10 (3) sponsor Staff Adjustment S-75.1.

11 Q. Please explain Schedule MJW-2 which is attached to your direct  
12 testimony.

13 A. Schedule MJW-2 represents the Staff's calculation of the natural gas  
14 inventory balance shown on Staff Accounting Schedule 2, Rate Base.

15 Q. Please explain the Staff's calculation of the total inventory balance shown  
16 on Schedule MJW-2.

17 A. The Staff's calculation of the total inventory balance shown on Schedule  
18 MJW-2 was derived by multiplying (1) the average level of volumes in MGE's natural  
19 gas inventory at the end of each month during the 12 month period of January 2000 to  
20 December 2000 by (2) a storage injection rate of \$3.197.

21 Q. Please explain the Staff's calculation of the \$3.197 storage injection rate.

22 A. The Staff's calculation of the \$3.197 storage injection rate was derived by  
23 summing six rate components. These six rate components are (1) \$2.729 which represents

1 a three year average (1998 to 2000) of the *Inside FERC's Gas Market Report* first-of-the-  
2 month index prices for Williams Gas Central for the injection months of April to  
3 October; (2) \$.109 which represents the gas supply premium (4% of index) historically  
4 experienced by MGE; (3) \$.07 which represents the Tight Sands premium historically  
5 experienced by MGE; (4) \$.109 which represents the fuel rate (4% of index) historically  
6 experienced by MGE; (5) \$.15 which represents the variable injection charges  
7 experienced by MGE during the 1999/2000 Actual Cost Adjustment (ACA) period and  
8 (6) \$.03 which represents the variable transportation charges experienced by MGE during  
9 the 1999/2000 ACA period. Staff notes that the gas supply premium percentage, fuel  
10 premium percentage, and fixed Tight Sands premium which it used in its calculation are  
11 same values as those which Staff and MGE agreed to in MGE's current Gas Supply  
12 Incentive Plan (GSIP).

13 Q. Please explain Staff Adjustment S-9.1 found on Accounting Schedule 10,  
14 Adjustments to Income Statement.

15 A. Staff Adjustment S-9.1 has been proposed in order to increase MGE's  
16 booked revenues by \$1,083,055 to include the average level of off-system sales profits  
17 retained by MGE during the 1999 and 2000 calendar years.

18 Q. Please explain the phrase "off-system sales transaction".

19 A. An off-system sales transaction is a transaction wherein MGE (or any  
20 other local distribution company) uses its gas supply and/or transportation contracts to  
21 transport and/or sell (at a profit) its idle gas supply volumes to customers outside of its  
22 service territory and off of its distribution system.

1 Q. How were the off-system sales profits realized by MGE treated by the  
2 Commission prior to MGE's current rate case filing.

3 A. The off-system sales profits realized by MGE were handled through a  
4 Commission-approved GSIP which allowed MGE to retain all off-system sales profits in  
5 excess of \$100,000.

6 Q. Why has the Staff proposed this adjustment?

7 A. The Staff points out that the Commission, in its Order in Laclede Gas  
8 Company (Laclede) Case No. GR-99-315, removed off-system sales profits from  
9 Laclede's then effective GSIP and included those off-system sales profits (on a going  
10 forward basis) in Laclede's rate case revenues. Staff, in order to be consistent with the  
11 Commission order in Laclede Gas Company Case No. GR-99-315, is asking the  
12 Commission to order the same rate case treatment for MGE's off-system sales profits as it  
13 did for Laclede's off-system sales profits.

14 Q. Please explain Staff Adjustment S-75.1 found on Accounting Schedule 10,  
15 Adjustments to Income Statement.

16 A. Staff Adjustment S-75.1 has been proposed in order to remove (from  
17 Accounting Schedule 10) \$186,500 in fees associated with an annual performance bond  
18 which MGE is required to pay to Duke Energy as a part of its gas supply contract with  
19 Duke Energy.

20 Q. Why has the Staff proposed this adjustment?

21 A. Staff believes that the amount of the performance bond represents a gas  
22 supply contract expense and as such should be recovered by MGE through the ACA/PGA  
23 process.

Direct Testimony of  
Michael J. Wallis

1 Q. Please summarize your direct testimony.

2 A. I am sponsoring the appropriate end-of-month inventory balance for  
3 MGE's gas supply inventory. I am also sponsoring Staff Adjustment S-9.1 which  
4 increases Company's booked revenues to include off-system sales profits and Staff  
5 Adjustment S-75.1 which decreases Company's booked expenses to exclude the annual  
6 fees associated with a performance bond which MGE pays to Duke Energy.

7 Q. Does this conclude your direct testimony?

8 A. Yes, it does.

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

In The Matter of Missouri Gas Energy's Tariff     )  
Filing For General Rate Increase                     )

Case No. GR-2001-292

AFFIDAVIT OF MICHAEL J. WALLIS

STATE OF MISSOURI     )  
                                   )     ss.  
COUNTY OF COLE     )

Michael J. Wallis, of lawful age, on his oath states: that he 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 him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Michael J. Wallis  
Michael J. Wallis

Subscribed and sworn to before me this 18<sup>th</sup> day of April 2001.

Toni M. Charlton

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



## SUMMARY OF RATE CASE INVOLVEMENT

*MICHAEL J. WALLIS*

<u>COMPANY NAME</u>	<u>CASE NO.</u>
St. Joseph Light & Power Company	GR-88-115
Capital City Water Company	WR-88-215
GTE North Incorporated	TR-89-182
The Empire District Electric Company	WR-90-56
The Empire District Electric Company	ER-90-138
Ozark Natural Gas Company	GA-90-321
United Cities Gas Company	GR-91-249
St. Joseph Light & Power Company	EC-92-214
Western Resources Inc.	GR-93-140
Tartan Energy Company, L.C.	GA-94-127
Associated Natural Gas Company	GR-94-189
Associated Natural Gas Company	GR-95-213
Missouri Public Service	GR-95-273
Union Electric Company	EM-96-149
Laclede Gas Company	GR-96-181
Missouri Public Service	GR-96-192
Laclede Gas Company	GR-96-193
Associated Natural Gas Company	GR-96-227
Missouri Gas Energy	GR-96-450
Atmos Energy Corporation and United Cities Gas Company	GM-97-70
Associated Natural Gas Company	GR-97-191
Associated Natural Gas Company	GR-97-272
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Laclede Gas Company	GR-98-297
Missouri Gas Energy	GC-98-335
Laclede Gas Company	GR-98-374
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Atmos Energy Corporation and Associated Natural Gas Company	GM-2000-312



MGE Gas Inventory

<u>Month</u>	<u>Total End-of-Month Storage Volumes</u>
January, 2000	10,050,227
February, 2000	6,237,796
March, 2000	4,574,627
April, 2000	664,507
May, 2000	2,295,712
June, 2000	5,833,048
July, 2000	9,112,905
August, 2000	12,401,741
September, 2000	14,597,387
October, 2000	16,041,777
November, 2000	17,766,963
December, 2000	<u>12,321,628</u>
Total Storage Volumes	111,898,318
12 Month Average Volumes	<u>9,324,860</u>
Storage Injection Rate	3.197
Total Inventory Value	<b>\$29,811,577</b>