

Exhibit No.:
Issues: *Transportation Service-Internal
Deferred Carrying Cost Balance*
Witness: *Annell G. Bailey*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Surrebuttal Testimony*
Case No.: *GR-2001-388*
Date Testimony Prepared: *February 20, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ANNELL G. BAILEY

SOUTHERN MISSOURI GAS COMPANY, L.P.

CASE NO. GR-2001-388

Exhibit No. 12
Case No(s) GR-2001-388
Date 3-11-03 Rptr XF

Jefferson City, Missouri
February 2003

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ANNELL G. BAILEY
SOUTHERN MISSOURI GAS COMPANY, L.P.
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Surrebuttal Testimony of
Annell G. Bailey

1 A. No. I made no assumptions about what might have happened. My position
2 was based entirely on the belief that the Company had sold natural gas in violation of its
3 tariff.

4 Q. How did you arrive at the amount of \$105,809?

5 A. Given that the tariff had been violated, my aim was to restore the Actual Cost
6 Adjustment (ACA) balance and the Company's other customers to where they would have
7 been if no tariff violation had occurred, other facts remaining the same. It is a fact that the
8 Company sold a verifiable quantity of gas to the two "Transportation Service - Internal"
9 customers. It is a fact that the Company had a tariff authorizing a Purchased Gas Adjustment
10 (PGA) rate for sales of gas. The only realistic option was to compute the PGA revenue that
11 would have been received if the known sales volume had been sold at the authorized PGA
12 rate. That computation totaling \$105,809 was attached to my Direct Testimony as
13 Schedule 1. Since then, Staff has agreed with two of the Company's requested changes
14 (explained later in this surrebuttal testimony), resulting in a revised Staff adjustment of
15 \$102,137 to the ACA balance and a \$2,938 adjustment to the Refunds balance. (See attached
16 Surrebuttal Schedule 1)

17 Q. Did you make alternative computations to show the impact if these two
18 industrial customers had left the SMGC system or reduced their throughput?

19 A. As I stated in my Rebuttal Testimony, any such computations would have
20 been based on guesswork and conjecture about an infinite number of imagined actions and
21 reactions of the part of the Company and the two customers. There was no realistic way to
22 support such computations.

Surrebuttal Testimony of
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1 Q. Mr. Klemm states on page 3 of his Rebuttal Testimony that Staff does not
2 identify in direct testimony the basis for its conclusion that "Transportation Service --
3 Internal" is an "unauthorized service" and a "violation of Commission rules and SMGC's
4 tariff on file with the Commission." Has the basis for that conclusion been identified?

5 A. Yes. Please refer to the rebuttal and surrebuttal testimony of Staff witness
6 James M. Russo for an explanation of the tariff authorization issue.

7 Q. Do you agree with the following statements made by Mr. Klemm?

8 [T]he profit [from gas sales to "Transportation Service -- Internal"
9 customers] was used to reduce the amount that other ratepayers would
10 have to pay for the uncollected ACA balance. In other words,
11 SMGC's remaining customers directly benefited from the fact that
12 SMGC was able to negotiate a contract that recovered its variable
13 costs and made a contribution to the fixed costs of the system. SMGC
14 did not retain any of the revenues from the gas supply contract as a fee
15 for providing this service.

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19 . . . If these customers had left the system, the remaining
20 ratepayers would have had to absorb the entire remaining uncollected
21 ACA balance from previous periods. (Rebuttal, p. 10, l. 13 through
22 p. 11, l. 5)

23 A. Yes. Based on my audit work, the profit from gas sales to the two
24 "Transportation Service -- Internal" customers was used to reduce the ACA balance by
25 \$39,987 (See attached Surrebuttal Schedule 1). This contribution would not have been made
26 if the customers had left the system and that gas had not been sold. However, as I explained
27 in my Rebuttal Testimony, Surrebuttal Schedule 1 also shows that if the gas had been sold to
28 those two customers at tariff-authorized rates, the contribution would have been \$102,137
29 more than the actual \$39,987. Whether the customers would have left the system or whether
30 they would have paid the PGA rates is a matter of conjecture. Finally, the Company's

Surrebuttal Testimony of
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1 motive and use of the profits is irrelevant to the key question of whether the Company has
2 violated its tariff.

3 Q. Can you comment on this statement from page 15 of Mr. Klemm's Rebuttal
4 Testimony?

5 A \$105,809 adjustment is a very substantial adjustment for a small
6 company of SMGC's size. In fact, SMGC's Net Utility Operating
7 Income for the year ended December 31, 2001, was \$155,703. The
8 Staff's proposed disallowance would represent nearly 68% of SMGC's
9 Net utility Operating Income for 2001. This is a very substantial
10 penalty....

11 A. Yes. The \$105,809 is not a penalty. As I stated above, the adjustment is
12 intended to restore the ACA balance and the Company's other customers to where they
13 would have been if no tariff violation had occurred, other facts remaining the same. This
14 ACA case is not the appropriate case for consideration of penalties.

15 Q. Do you agree with Mr. Klemm's statement (Rebuttal Testimony, page 16) that
16 Staff's proposed disallowance does not consider the Refunds (i.e. negative numbers) that are
17 part of the PGA rate?

18 A. Yes. I excluded Refunds because there is separate accounting for Refunds
19 under the tariff. (See attached Surrebuttal Schedule 1) Although refunds are an adjustment
20 to the rates that are charged to customers, the tariff does not allow them to be included in the
21 ACA balance that is carried forward for recovery in future years. Adjustments to the ACA
22 balance are the subject of this case. According to the Company's tariff, Sheet 26:

23 The Company shall establish and maintain a Deferred
24 Purchased Gas Cost - Actual Cost Adjustment (ACA) Account which
25 shall be credited with any over-recovery resulting from the operation
26 of the Company's PGA procedure or debited for any under-recovery
27 resulting from the same.

28 Such over- or under-recovery shall be determined by a monthly
29 comparison of the actual (as billed) cost of gas as shown on the books
30 and records of the Company for each cost month, exclusive of

Surrebuttal Testimony of
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1 **refunds**, [emphasis added], TOP costs and penalties, to the cost
2 recovery by the Company for the revenue month corresponding to the
3 cost month.

4 However, as shown in the attached Surrebuttal Schedule 1, the Refunds account should be
5 separately adjusted by \$2,938.

6 Q. Do you agree with Mr. Klemm's statement (Rebuttal, page 16) that Staff
7 computed the revenues using the million British thermal units (MMBtu) volumes and not the
8 hundred cubic feet (Ccf) volumes?

9 A. Yes. This is true because Staff was being consistent with the Company:

10 1) The Company's invoices to its "Transportation Service – Internal"
11 customers are expressed in MMBtu. These customers are the reason for the
12 disallowance.

13 2) In the Company's support for its ACA filing of November 8, 2001
14 (the subject of this case) the Company computed all of its revenues in
15 thousands of cubic feet (MCF). It is a standard practice to covert on the basis
16 that one MCF = one MMBtu.

17 However, Staff has now accepted Mr. Klemm's conversion rates. The reason is that
18 the Staff has seen documentation in the form of Statements of Deliveries from Williams
19 Natural Gas, showing actual MCF volumes and the related MMBtu's. With this evidence to
20 support a conversion rate that is outside the norm, the Staff is willing to adjust the disallowed
21 amount down from \$105,809 to \$102,137. (See attached Surrebuttal Schedule 1)

22 **DEFERRED CARRYING COST BALANCE**

23 Q. Do you agree with the following statement, "Based upon these discussions
24 [with other LDC's], it is my understanding that the LDC industry in Missouri has historically

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1 based the interest calculation for the DCCB on the PGA rate only, not including the ACA
2 factor...." from page 2 of Mr. Klemm's Supplemental Direct Testimony?

3 A. Yes and no. Staff's position is that other LDC's have their own tariffs,
4 separate and in some ways different from SMGC's tariff. Therefore, other LDCs' practices
5 are irrelevant. However, Staff has accepted Mr. Klemm's adjustment and has recalculated
6 Staff's DCCB calculation to include only the PGA rate and exclude the ACA rate.
7 (See attached Surrebuttal Schedule 2) Staff's change is based on SMGC's tariff, Sheet 26:
8 "The cost recovery shall be calculated by multiplying the PGA class Ccf sales by the
9 **applicable** [emphasis added] effective revenue components (the RPGA factor and the ACA
10 factor) related to the cost of gas purchased."

11 Staff noted that the DCCB calculation includes only the current year's sales (related
12 to the PGA factor) and excludes the prior period ACA balance (related to the ACA factor).
13 Therefore, only the PGA factor is applicable and has been used on the revised Surrebuttal
14 Schedule 2.

15 Q. Have you made any other adjustments to the DCCB Schedule?

16 A. Yes. In our original DCCB calculation (Schedule 1 attached to my Direct
17 Testimony), column (F) "Billed Sales Volumes (Ccf)" excluded the volumes of gas sold to
18 Transportation Service – Internal customers. We noted that this is inconsistent with our
19 position that those sales should be treated as regular PGA sales. Therefore, we added them to
20 the revised DCCB calculation, attached as Surrebuttal Schedule 1. The resulting interest due
21 to the Company is \$11,595, an increase from our original calculation \$2,024.

22 Q. Does this conclude your Surrebuttal Testimony?

23 A. Yes.

SOUTHERN MISSOURI GAS COMPANY, L.P. - Case #GR-2001-388

**Gas Sold at Pipeline Take Point Without PGA/ACA Charges - Comparison With Normal PGA Sales
September 2000 through August 2001**

Surrebuttal Schedule 1

	Apr-01	May-01	Jun-01	Jul-01	Aug-01	Total	Staff Adjustment to ACA Balance	Staff Adjustment to Refund Balance
Actual Internal Transport Transactions 2000-2001:								
PGA Revenue Booked from Internal Transport:								
Customer #1 - gas quantity sold (MMBTU)	8,758	8,871	6,566	3,408	4,547			
Customer #2 - gas quantity sold (MMBTU)	0	0	0	2,760	2,691			
Total MMBTU sold at pipeline take point, no PGA	8,758	8,871	6,566	6,168	7,238			
Unit price per invoice	\$ 6,2540	\$ 6,2540	\$ 6,2540	\$ 6,2540	\$ 6,2540			
Total "PGA" Revenue from Int. Transp.	\$ 54,772.53	\$ 55,479.23	\$ 41,063.76	\$ 38,574.67	\$ 45,266.45	\$ 235,156.65	(\$235,157)	
Gas Cost for Internal Transport Sales:								
Gas supply charges related to Int. Transp.	\$(48,387.43)	\$(44,246.62)	\$(33,347.76)	\$(31,325.64)	\$(36,762.24)			
Transportation charges related to Int. Transp.	\$ (256.32)	\$ (259.61)	\$ (192.16)	\$ (180.51)	\$ (211.84)			
Total Gas Cost for Int. Transp. Sales	\$(48,643.75)	\$(44,506.23)	\$(33,539.92)	\$(31,506.15)	\$(36,974.08)	\$(195,170.13)		
Transportation Revenue for Gas Sold at Pipeline Take Point:								
Customer #1 - Transportation Charge per Invoice	\$ 10,371.70	\$ 10,501.65	\$ 7,849.75	\$ 4,219.20	\$ 5,529.05			
Customer #2 - Transportation Charge per Invoice	\$ -	\$ -	\$ -	\$ 2,937.69	\$ 2,872.13			
Total Transp. Rev. for Gas Sold at Take Point	\$ 10,371.70	\$ 10,501.65	\$ 7,849.75	\$ 7,156.89	\$ 8,401.18	\$ 44,281.17		
Net Income to Company from Int. Transp. Sales	\$ 16,500.48	\$ 21,474.65	\$ 15,373.59	\$ 14,225.41	\$ 16,693.55	\$ 84,267.69		
Less: transp. Revenue, not in PGA computation	\$(10,371.70)	\$(10,501.65)	\$(7,849.75)	\$(7,156.89)	\$(8,401.18)	\$(44,281.17)		
Net Internal Transp. Impact on PGA Filing 11/8/01	\$ 6,128.78	\$ 10,973.00	\$ 7,523.84	\$ 7,068.52	\$ 8,292.37	\$ 39,986.52		
Comparison - If Gas Were Sold With PGA & ACA Charges:								
PGA Revenue - Theoretical if Sold per Tariff:								
Large Volume Sales in MCF (S. Klemm's Rebuttal Sch. 5)	8,685	8,789	6,494	6,090	7,138			
Total PGA Rate Authorized per Tariff (CCF rate x 10)	\$ 8,4340	\$ 8,4340	\$ 8,4340	\$ 8,4340	\$ 8,4340			
Theoretical PGA Revenue if Sold per Tariff	\$ 73,249.29	\$ 74,126.43	\$ 54,770.40	\$ 51,363.06	\$ 60,201.89	\$ 313,711.06	\$313,711	
ACA Revenue - Theoretical if Sold per Tariff:								
Large Volume Sales in MCF (S. Klemm's Rebuttal Sch. 5)	8,685	8,789	6,494	6,090	7,138			
Total ACA Rate Authorized per Tariff (CCF rate x 10)	\$ 0,6340	\$ 0,6340	\$ 0,6340	\$ 0,6340	\$ 0,6340			
Theoretical ACA Revenue if Sold per Tariff	\$ 5,506.29	\$ 5,572.23	\$ 4,117.20	\$ 3,861.06	\$ 4,525.49	\$ 23,582.26	\$23,582	
Refunds - Theoretical if Sold per Tariff:								
Large Volume Sales in MCF (S. Klemm's Rebuttal Sch. 5)	8,685	8,789	6,494	6,090	7,138			
Total Refund Rate Authorized per Tariff (CCF rate x 10)	\$ (0,0790)	\$ (0,0790)	\$ (0,0790)	\$ (0,0790)	\$ (0,0790)			
Theoretical Refunds if Sold per Tariff	\$ (686.12)	\$ (694.33)	\$ (513.03)	\$ (481.11)	\$ (563.90)	\$(2,938.48)	\$(2,938.48)	
Total PGA + ACA less Refunds if Sold per Tariff	\$ 78,069.47	\$ 79,004.32	\$ 58,374.57	\$ 54,743.01	\$ 64,163.48	\$ 334,354.84		
Gas Cost for Internal Transport Sales:								
Gas supply charges related to Int. Transp.	\$(48,387.43)	\$(44,246.62)	\$(33,347.76)	\$(31,325.64)	\$(36,762.24)			
Transportation charges related to Int. Transp.	\$ (256.32)	\$ (259.61)	\$ (192.16)	\$ (180.51)	\$ (211.84)			
Total Gas Cost for Int. Transp. Sales	\$(48,643.75)	\$(44,506.23)	\$(33,539.92)	\$(31,506.15)	\$(36,974.08)	\$(195,170.13)		
Transportation Revenue - n/a if Sold per Tariff:								
Customer #1 - Transportation Charge per Invoice	\$ -	\$ -	\$ -	\$ -	\$ -			
Customer #2 - Transportation Charge per Invoice	\$ -	\$ -	\$ -	\$ -	\$ -			
Total Transp. Rev. for Gas Sold at Take Point	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Net Income to Company if Sold per Tariff	\$ 29,425.72	\$ 34,498.09	\$ 24,834.65	\$ 23,236.86	\$ 27,189.40	\$ 139,184.71		
Less: transp. Revenue, not in PGA computation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		
Theoretical Impact on PGA Filing if Sold per Tariff	\$ 29,425.72	\$ 34,498.09	\$ 24,834.65	\$ 23,236.86	\$ 27,189.40	\$ 139,184.71		
Difference - Under or (Over) Claimed PGA Net Income	\$ 23,296.93	\$ 23,525.09	\$ 17,310.80	\$ 16,168.34	\$ 18,897.03	\$ 99,198.19	-\$102,137	(\$2,938)

Surrebuttal Schedule 1

Southern Missouri Gas Company, L.P. - Case #GR-2001-388

Surrebuttal Schedule 2

DCCB Calculation of Interest

	(A)	(B)	(C) = (B) / (A) / 10	(D)	(E) = (C) - (D)	(F)	(G) = (E) * (F)	(H)	(I)	(J)	(K)	(L)
Production Month & Year	Purchased MMBTU per invoices	Actual cost of Gas (\$) total per invoices	Actual Annualized Unit Cost of Gas (Ccf)	Estimated Annualized Unit Cost of Gas	Price Variance	Transp. Internal + Billed Sales Volumes (Ccf)	Monthly DCCB Subject to interest	Cumulative DCCB	10% Threshold (computed below)	Amount subject to interest	Interest rate: prime less 1%	Interest Due to Company or (Customers)
<u>Large Volume & Large General Service</u>												
Sep-00	28,500	\$ 221,686.42	\$ 0.7778	\$0.4483	\$0.3295	166,390	\$54,833.34					
Oct-00	48,887	\$ 327,106.14	\$ 0.6691	\$0.4483	\$0.2208	233,710	\$51,604.71					
Nov-00	77,400	\$ 426,775.06	\$ 0.5514	\$0.6073	(\$0.0559)	335,290	(\$18,746.41)					
Dec-00	228,783	\$ 1,713,414.21	\$ 0.7489	\$0.6073	\$0.1416	523,850	\$74,190.51					
Jan-01	210,162	\$ 1,710,664.05	\$ 0.8140	\$0.6073	\$0.2067	517,290	\$106,910.40					
Feb-01	130,200	\$ 797,509.37	\$ 0.6125	\$0.8434	(\$0.2309)	413,760	(\$95,526.26)					
Mar-01	158,389	\$ 851,067.27	\$ 0.5373	\$0.8434	(\$0.3061)	382,060	(\$116,938.15)					
Apr-01	55,500	\$ 396,530.01	\$ 0.7145	\$0.8434	(\$0.1289)	233,130	(\$30,057.80)					
May-01	9,610	\$ 145,533.69	\$ 1.5144	\$0.8434	\$0.6710	204,890	\$137,480.87					
Jun-01	34,990	\$ 252,404.91	\$ 0.7214	\$0.8434	(\$0.1220)	166,620	(\$20,333.81)					
Jul-01	20,000	\$ 196,944.08	\$ 0.9847	\$0.8434	\$0.1413	123,280	\$17,421.98					
Aug-01	24,805	\$ 212,056.30	\$ 0.8549	\$0.8434	\$0.0115	139,980	\$1,608.84					
Total	1,027,226	\$ 7,251,691.51				3,440,250	\$162,448.22					
<u>General, Residential, and Optional Residential</u>												
Sep-00	28,500	\$ 221,686.42	\$ 0.7778	\$0.4483	\$0.3295	106,850	\$35,212.11					
Oct-00	48,887	\$ 327,106.14	\$ 0.6691	\$0.4483	\$0.2208	190,940	\$42,160.81					
Nov-00	77,400	\$ 426,775.06	\$ 0.5514	\$0.4483	\$0.1031	385,970	\$39,789.25					
Dec-00	228,783	\$ 1,713,414.21	\$ 0.7489	\$0.6073	\$0.1416	1,160,740	\$164,390.37					
Jan-01	210,162	\$ 1,710,664.05	\$ 0.8140	\$0.6073	\$0.2067	1,452,090	\$300,109.26					
Feb-01	130,200	\$ 797,509.37	\$ 0.6125	\$0.6073	\$0.0052	1,033,750	\$5,402.79					
Mar-01	158,389	\$ 851,067.27	\$ 0.5373	\$0.8434	(\$0.3061)	888,620	(\$271,982.36)					
Apr-01	55,500	\$ 396,530.01	\$ 0.7145	\$0.8434	(\$0.1289)	590,550	(\$76,140.51)					
May-01	9,610	\$ 145,533.69	\$ 1.5144	\$0.8434	\$0.6710	186,400	\$125,074.11					
Jun-01	34,990	\$ 252,404.91	\$ 0.7214	\$0.8434	(\$0.1220)	140,420	(\$17,136.44)					
Jul-01	20,000	\$ 196,944.08	\$ 0.9847	\$0.8434	\$0.1413	116,610	\$16,479.37					
Aug-01	24,805	\$ 212,056.30	\$ 0.8549	\$0.8434	\$0.0115	103,360	\$1,187.95					
Total	1,027,226	\$ 7,251,691.51				6,356,300	\$364,546.72					

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Surrebuttal Schedule 2

DCCB Calculation of Interest

	(A)	(B)	(C) = (B) / (A) / 10	(D)	(E) = (C) - (D)	(F)	(G) = (E) * (F)	(H)	(I)	(J)	(K)	(L)
Production Month & Year	Purchased MMBTU per Invoices	Actual cost of Gas (\$) total per Invoices	Actual Annualized Unit Cost of Gas (Ccf)	Estimated Annualized Unit Cost of Gas	Price Variance	Transp. Internal + Billed Sales Volumes (Ccf)	Monthly DCCB Subject to Interest	Cumulative DCCB	10% Threshold (computed below)	Amount subject to interest	Interest rate: prime less 1%	Interest Due to Company or (Customers)
Total Both Charts – All Customer Classes												
Sep-00	28,500	\$ 221,686.42	\$ 0.7778	See above	See above	273,240	\$90,045.45	\$90,045.45	\$321,223.83		8.50%	
Oct-00	48,887	\$ 327,106.14	\$ 0.6691	"	"	424,650	\$93,765.52	\$183,810.97	\$321,223.83		8.50%	
Nov-00	77,400	\$ 426,775.06	\$ 0.5514	"	"	721,260	\$21,042.84	\$204,853.80	\$321,223.83		8.50%	
Dec-00	228,783	\$ 1,713,414.21	\$ 0.7489	"	"	1,684,590	\$238,580.89	\$443,434.69	\$321,223.83	\$122,210.86	8.50%	\$865.66
Jan-01	210,162	\$ 1,710,664.05	\$ 0.8140	"	"	1,969,380	\$407,019.65	\$850,454.35	\$321,223.83	\$529,230.51	8.50%	\$3,748.72
Feb-01	130,200	\$ 797,509.37	\$ 0.6125	"	"	1,447,510	(\$90,123.47)	\$760,330.87	\$321,223.83	\$439,107.04	7.50%	\$2,744.42
Mar-01	158,389	\$ 851,067.27	\$ 0.5373	"	"	1,270,680	(\$388,920.51)	\$371,410.36	\$321,223.83	\$50,186.53	7.50%	\$313.67
Apr-01	55,500	\$ 396,530.01	\$ 0.7145	"	"	823,680	(\$106,198.31)	\$265,212.05	\$321,223.83		7.00%	
May-01	9,610	\$ 145,533.69	\$ 1.5144	"	"	391,290	\$262,554.98	\$527,767.03	\$321,223.83	\$206,543.20	6.50%	\$1,118.78
Jun-01	34,990	\$ 252,404.91	\$ 0.7214	"	"	307,040	(\$37,470.24)	\$490,296.79	\$321,223.83	\$169,072.95	6.00%	\$845.36
Jul-01	20,000	\$ 196,944.08	\$ 0.9847	"	"	239,890	\$33,901.35	\$524,198.14	\$321,223.83	\$202,974.30	5.75%	\$972.59
Aug-01	24,805	\$ 212,056.30	\$ 0.8549	"	"	243,340	\$2,796.80	\$526,994.93	\$321,223.83	\$205,771.10	5.75%	\$985.99
Total	1,027,226	\$ 7,251,691.51				9,796,550	\$526,994.93					\$11,595.17

10% Threshold Computation

99-00 ACA	\$ 3,466,824
98-99 ACA	\$ 3,155,635
97-98 ACA	\$ 3,014,256
Sum	\$ 9,636,715
Average	\$ 3,212,238.33
10% of AGL	\$ 321,223.83