

Exhibit No.:

Issues: Tariff Issues

Witness: James M. Russo

Sponsoring Party: MO PSC Staff

Type of Exhibit: Surrebuttal Testimony

Case No.: GR-2001-388

Date Testimony Prepared: February 20, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

SURREBUTTAL TESTIMONY

OF

JAMES M. RUSSO

SOUTHERN MISSOURI GAS

CASE NO. GR-2001-388

Jefferson City, Missouri

February 2003

Exhibit No. 16

Case No(s) GR-2001-388

Date 3-11-03 Rptr TF

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

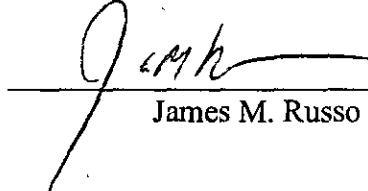
In The Matter Of Southern Missouri Gas)
Company, L.P.'s Purchased Gas Adjustment)
Factors To Be Reviewed In Its 1999-2000)
and 2000-2001 Actual Cost Adjustment)

Case No. GR-2001-388

AFFIDAVIT OF JAMES M. RUSSO

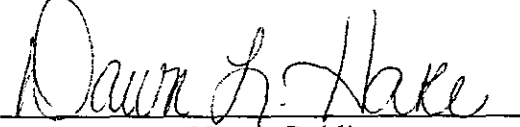
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

James M. Russo, of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 5 pages of Surrebuttal Testimony to be presented in the above case, that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true to the best of his knowledge and belief.



James M. Russo

Subscribed and sworn to before me this 19th day of February, 2003.



Notary Public

Dawn L. Hake
Notary Public - State of Missouri
County of Cole
My commission expires Jan 9, 2005

My commission expires _____

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James M. Russo

1 A. No, I do not. Mr. Klemm implies in this statement and confirms later in his
2 Rebuttal Testimony that SMGC is acting like a third party marketer in the sale of gas to
3 these customers. As stated in my Rebuttal Testimony, SMGC is not certificated as an
4 energy seller in the State of Missouri. SMGC is not one of the Companies that requested
5 to be included in a stay from the affiliated transaction rule, so therefore is subject to 4 CSR
6 240-40.015 Affiliate Transaction and 4 CSR 240-40.016 Marketing Affiliate Transactions
7 rules. Nor is SMGC maintaining its books of accounts and records completely separate
8 and apart from the activities related to third party marketing. These activities related to
9 third party marketing include allocating employee time, shared facilities and other
10 mutually shared expense between these non-regulated and regulated activities. If indeed
11 SMGC is acting as a third party marketer, then SMGC's residential and other industrial
12 customers are paying for non-regulated activities related to these two industrial customers
13 in SMGC's current rates.

14 Q. Mr. Klemm states on page 13, lines 19 thru 23 of his Rebuttal Testimony:
15 "Yes. SMGC believed it already had approval from the Commission to enter into the Gas
16 Transportation Agreements under SMGC's Transportation Tariffs. With regard to the Gas
17 Supply Agreements, we believed that this gas supply function was a deregulated market
18 that SMGC could participate in for the benefit of its customers, without seeking prior
19 regulatory approval." Do you agree with this statement?

20 A. First, Staff does not believe SMGC was providing service to these industrial
21 customers under the Transportation Service provisions of SMGC's tariff. Staff is of the
22 opinion that SMG was serving these industrial customers under a newly created customer
23 class called Transportation Service-Internal. Staff believes the Company's latest

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1 explanation is not credible. Staff believes and the evidence supports the fact that the
2 Company was caught in the act of providing unauthorized service.

3 Second, Staff believes if the Commission were to accept SMGC's
4 explanation that it was serving these industrial customers under the existing transportation
5 tariff as third party marketers, then SMGC is admitting that it is passing non-regulated
6 costs from a non-certified company to its regulated customers. As stated earlier, Staff is
7 concerned that SMGC is not certified with the Commission as a third party marketer and,
8 Staff is concerned that the Company is not following the affiliate transaction rules and is
9 not allocating expenses between the non-regulated affiliate and regulated business.

10 Q. Mr. Klemm states that Staff does not identify in their Direct Testimony
11 what portion of SMGC's existing tariff that the Company is violating. Please respond.

12 A. The Company is creating a new class of customer. This new customer class
13 and the attributes related to this new customer class are not in the currently approved
14 SMGC tariff on file with the Commission. Staff cannot identify a specific tariff section
15 that is being violated by SMGC because the Company is operating outside the current
16 approved tariff.

17 Q. Mr. Klemm compares what SMGC is doing with United Cities Gas
18 Company in Case No. GR-95-160 on page 14, lines 1 thru 18 of his Rebuttal Testimony.
19 Is this case the same?

20 A. No. The United Cities Gas Company case Mr. Klemm is referring to was a
21 rate case and the decision cited was a result of the facts and circumstances in that case.
22 The customers in that case were transportation customers who could have the

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1 transportation rates flexed down on the margin costs. It is important to point out that the
2 actual cost of gas is not included in the items that can be flexed down.

3 Q. Does SMGC's transportation tariff provide for the purchase price of gas?

4 A. No. All Local Distribution Company (LDC) transportation tariffs on file
5 with the Commission only provide for the transportation of the commodity. Transportation
6 tariffs are not for the purchase price of gas.

7 Q. Mr. Klemm on page 11, lines 15 thru 23 of his Rebuttal Testimony,
8 characterizes statements in your Direct Testimony as saying Staff recognizes benefits to
9 SMGC's remaining customers as a result of SMGC keeping these industrial customers on
10 the system. Is this a correct characterization of your Direct Testimony?

11 A. No, not completely. Staff recognizes that the statement in my Direct
12 Testimony MAY occur. It is correct to say there would be an increase in cost to the other
13 SMGC customers if costs were spread over a lower volume. However, any increase in cost
14 related to this lower volume activity, would be offset by a reduction in expenses related to
15 the allocation of costs between non-regulated and regulated activities. It is possible that
16 this offset would result in an overall dollar decrease in expenditures, thus decreasing the
17 cost of service to the remaining SMGC customers and possibly reducing these customers'
18 rates. Staff wants to stress that even though something may occur that is a benefit to some
19 or all customers, the result in itself is not justification to violate the rules of the
20 Commission or violate the tariff currently in effect.

21 Q. Mr. Klemm suggests that new tariff sheets changing the threshold of five
22 percent on Sheet 26.1 Section (b) for calculating interest on the deferred carrying cost to

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1 ten percent be addressed in Case No. GO-2002-452 or not changed since other LDC's have
2 the five percent threshold. Do you agree?

3 A. Staff agrees that Case No. GO-2002-452 may resolve this issue. However,
4 if it is not resolved in that proceeding, Staff believes that the tariff sheets should be
5 changed to reflect the ten percent threshold that SMGC agreed to in the stipulation and
6 agreement approved in Case No. GO-97-407. Staff does not believe that just because other
7 LDC's have five percent in their tariffs would supercede the stipulation and agreement
8 reached by the Staff and SMGC.

9 Q. Does this conclude your Surrebuttal Testimony?

10 A. Yes, it does.