

Exhibit No.: _____
Issue: Imbalances and Cashout Price Determinants
Witness: Renato Nitura Jr.
Exhibit Type: Surrebuttal
Sponsoring Party: Summit Natural Gas of Missouri, Inc.
Case No.: GR-2014-0086
Date: August 8, 2014

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2014-0086

SURREBUTTAL TESTIMONY

OF

RENATO NITURA JR.

ON BEHALF OF

SUMMIT NATURAL GAS OF MISSOURI, INC.

Jefferson City, Missouri
August, 2014

Summit Exhibit No. 11
Date 8-19-14 Reporter xf
File No. GR-2014-0086

TABLE OF CONTENTS

**SURREBUTTAL TESTIMONY
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RENATO NITURA JR.**

SUMMIT NATURAL GAS OF MISSOURI, INC.

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	Page
Introduction	1
Purpose of Testimony	1
MSBA Witness Ervin's Rebuttal Testimony	2
Staff Witness Jenkins Rebuttal Testimony	5
Conclusion	11

SURREBUTTAL TESTIMONY
OF
RENATO NITURA JR.
SUMMIT NATURAL GAS OF MISSOURI, INC.

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. Renato Nitura Jr., 777 29th Street, Suite 200, Boulder, Colorado, 80303.

3 **Q. ON WHOSE BEHALF IS YOUR TESTIMONY PRESENTED?**

4 A. Summit Natural Gas of Missouri, Inc. ("SNG" or the "Company").

5 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

6 A. I am a Natural Gas Manager for KTM, an energy consulting firm.

7 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

8 A. I will offer Surrebuttal Testimony that responds to Missouri School Board
9 Association's (MSBA) Witness Ervin's rebuttal testimony, dated July 11, 2014,
10 and Missouri Public Service Commission's Staff witness Jenkins' rebuttal
11 testimony, also dated July 11, 2014. I will respond to issues presented by
12 Witness Ervin pertaining to imbalance and cashouts related to MSBA's gas
13 transportation service on Company's distribution system. I will also respond to
14 issues presented by Witness Jenkins pertaining to: (1) SNG's natural gas
15 transportation services in general such as imbalances and cashout practices;
16 and, (2) natural gas transportation service issues specifically related to MSBA.

MSBA WITNESS ERVIN'S REBUTTAL TESTIMONY

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Q. IN HIS REBUTTAL TESTIMONY, WITNESS ERVIN DESCRIBES “CASHOUT” AND HOW IT RELATES TO MONTHLY IMBALANCE. HE FURTHER ACKNOWLEDGES THAT IMBALANCES ARE A RESULT OF THE DIFFERENCE BETWEEN GAS DELIVERED TO THE COMPANY’S DISTRIBUTION SYSTEM (ALSO KNOWN AS “ALLOCATED VOLUME OR RECEIPT VOLUME”) AND THE CUSTOMER’S ACTUAL USAGE (PAGE 4, LINES 5 – 6). DO YOU AGREE WITH THIS DESCRIPTION?

A. Yes.

Q WITNESS ERVIN THEN ASSERTS THAT COMPANY IMPUTES ARTIFICIAL DAILY IMBALANCES FOR MSBA, RESULTING IN AN ARTIFICIAL MONTH END IMBALANCE (PAGE 4, LINES 16 – 17). IS THIS TRUE?

A. No.

Q. HOW DOES SNG DETERMINE THE MSBA IMBALANCES?

A. In calculating MSBA’s monthly imbalance, two distinct steps take place. First, Company manually reads each metered facility’s usage on a calendar month basis. Second, facility usages are summed at a School District level and then all district usages are summed for a total MSBA usage volume for the month. This monthly MSBA usage total is then compared to the monthly MSBA total allocated volume to determine the MSBA month end imbalance.

Q. WITNESS ERVIN SUGGESTS THAT MSBA IMBALANCES SHOULD BE BASED ON SCHEDULED DELIVERIES (AKA UPSTREAM IPELINE

1 **NOMINATIONS), RATHER THAN UPSTREAM PIPELINE ALLOCATED**
2 **VOLUMES (PAGE 5, LINES 1 - 4). DO YOU AGREE?**

3 A. No. The key factor is the upstream pipeline's allocated volumes. Company
4 does not recognize a receipt volume for MSBA or any other Shipper that has
5 not been allocated to the Company's distribution system by the upstream
6 pipeline. The Company is unable to deliver to Shipper a volume of gas that is
7 different than the actual volume received by the upstream pipeline.

8 **Q. WITNESS ERVIN CLAIMS THAT SNG'S PROPOSED CASHOUT TIERS ARE**
9 **PROGRESSIVELY PUNITIVE (PAGE 5, LINES 14 - 19). IS THIS TRUE?**

10 A. It is for those Shippers that do not fall within the Missouri Schools Program. It is
11 not true for those Shippers which participate in the Missouri Schools Program.
12 This is because only Tier 1 Imbalance Cashout charges apply to the Missouri
13 Schools Program. As cited in Witness Ervin's Direct Testimony dated May 30,
14 2014 (Page 7 lines 3 – 9), "...Company agrees that because not all schools
15 have daily telemetry, for purposes of the Missouri School Program, school
16 imbalances will be cashed out in Tier 1...".

17 **Q. PLEASE EXPLAIN FURTHER.**

18 A. Company's proposed Cashout Tiers 2 and 3 are however more punitive the
19 larger the month end imbalance percentage. Presumably, this punitive
20 progression shall entice Shippers to make best efforts to minimize imbalances.

21 **Q. SNG PROPOSES TO PRICE THE TIER ONE CASHOUTS BY CHARGING**
22 **100% OF THE CORRESPONDING CASHOUT PRICE DETERMINANT.**

1 **WITNESS ERVIN SUGGESTS THAT A SINGLE “INDEX BASED” MARKET**
2 **PRICE FOR PURPOSES OF CASHING OUT IMBALANCES IS A MORE**
3 **ACCURATE REFLECTION OF COMPANY’S ACTUAL COSTS (PAGE 6,**
4 **LINES 12 – 15). IS THIS AN APPROPRIATE APPROACH?**

5 A. No. The use of a single index based market price for imbalance cashouts may
6 not necessarily reflect Company’s actual costs given the variety of options
7 Company has at its disposal to manage its own upstream pipeline imbalances.
8 For example, in the event Company elects to use its storage assets to manage
9 its upstream pipeline imbalance rather than procure market priced gas, the
10 associated cost of doing so is related to Company’s storage costs and not
11 related to market prices.

12 **Q. WITNESS ERVIN PROPOSES THAT THE “...THE INDEX PRICE . . . BE**
13 **DETERMINED BY THE ARITHMETIC AVERAGE OF THE FIRST-OF-THE-**
14 **MONTH INDEX PRICES PUBLISHED IN INSIDE FERC’S GAS MARKET**
15 **REPORT FOR THE MONTH IMMEDIATELY FOLLOWING THE MONTH IN**
16 **WHICH THE IMBALANCE OCCURRED...” (PAGE 6, LINES 21 – 23, AND**
17 **PAGE 7, LINES 1-4). DO YOU BELIEVE WITNESS ERVIN’S PROPOSAL IS**
18 **APPROPRIATE?**

19 A. No. This proposal is not representative of the actual costs Company may
20 incur during the month in which the imbalance occurs. As stated above,
21 Witness Ervin suggests the use of an index price that is based on the
22 succeeding month.

1 Q. PLEASE COMMENT ON WITNESS ERVIN'S RECOMMENDATION THAT
2 COMPANY GIVE MONTHLY METERED SHIPPERS (NON-TELEMETERED)
3 LIKE MSBA THE HIGHEST PRIORITY RANKING ON THE UPSTREAM
4 PIPELINE (PAGE 11, LINES 13 – 17), MEANING SNG AND SHIPPERS WITH
5 TELEMETRY WOULD EXPERIENCE VOLUME REDUCTIONS BEFORE
6 NON-TELEMETERED SHIPPERS WOULD.

7 A. Company does not intend to give, nor should it, a higher allocation priority on
8 the upstream pipeline based on whether or not a Shipper has telemetry.

9 **STAFF WITNESS JENKINS REBUTTAL TESTIMONY**

10 Q. IN HER REBUTTAL TESTIMONY, STAFF WITNESS JENKINS
11 RECOMMENDS THAT SNG MONITOR ITS SHIPPERS' IMBALANCES TO
12 ENSURE THE PROPOSED IMBALANCE TIERS PROVIDE THE
13 NECESSARY ECONOMIC INCENTIVE FOR SHIPPERS TO MANAGE
14 IMBALANCES EFFECTIVELY (PAGE 2, LINES 7 – 9). DO YOU AGREE
15 WITH WITNESS JENKINS?

16 A. No. Company's proposed Imbalance Tiers, including Tier 1, in conjunction with
17 its proposed Cashout Price Determinants, are intended to encourage efficient
18 management of Shipper imbalances, thereby minimizing imbalances.
19 Monitoring imbalances is a fundamental responsibility of the Shipper (or its
20 agent) and Company's obligation related to monitoring imbalances is limited to
21 providing Shipper with daily metered quantities in a timely manner. Company
22 should not bear responsibility for monitoring Shipper imbalances as this is a

1 time consuming and tedious undertaking and not included in its transportation
2 service. When a customer chooses transportation service over sales service, it
3 takes on the full responsibility for procuring its own natural gas and managing
4 its imbalances.

5 **Q. WITNESS JENKINS INDICATES THAT LARGE SHIPPER IMBALANCES**
6 **MAY CAUSE THE COMPANY TO ADJUST ITS NATURAL GAS SUPPLY**
7 **ACTIVITIES (INCLUDING UTILIZATION OF STORAGE ASSETS), WHICH**
8 **MAY RESULT IN HIGHER NATURAL GAS COSTS TO ITS RETAIL SALES**
9 **CUSTOMERS (PAGE 3, LINES 16 – 19, AND PAGE 5, LINES 1 - 2). DO YOU**
10 **AGREE WITH WITNESS JENKINS?**

11 **A.** Yes. Company agrees with Witness Jenkins that Shipper imbalances can
12 adversely affect natural gas costs for Company's retail sales customers. For
13 instance, an upstream pipeline imbalance that is greater than 10,000 dths
14 would likely compel the Company to take corrective action causing an
15 associated cost to the Company; thus, the risk of increased natural gas costs
16 resulting from excessive Shipper imbalances further supports Company's
17 proposed use of its Purchase WACOG, Storage WACOG, and PGA as possible
18 Cashout Price Determinants to fully protect its retail sales customers and
19 assure recovery of costs.

20 **Q. EXPLAIN HOW THE UPSTREAM PIPELINE IMBALANCE SUPPORTS THE**
21 **COMPANY'S PROPOSED CASHOUT PRICE DETERMINANTS.**

22 **A.** Company uses a variety of methods to manage its imbalances with upstream

1 pipelines (natural gas procurement activities, storage activities, imbalance
2 trades, cashout) and believes its proposed Cashout Price Determinants are
3 reasonable and preserve Company's goals of recovering actual costs in
4 imbalance Cashouts and protecting its retail sales customers from additional
5 costs resulting from Shipper's actions or inactions. When the Company is able
6 to recover its actual gas costs resulting from its own imbalance management
7 activities resulting from Shippers' imbalances, its retail sales customers are
8 insulated from any consequential costs.

9 **Q. WITNESS JENKINS RECOMMENDS THAT COMPANY ALLOCATE**
10 **ASSOCIATED FIXED COSTS OF STORAGE ASSETS TO SHIPPERS, IF**
11 **STORAGE GAS IS UTILIZED FOR BALANCING (PAGE 6, LINES 8 – 10).**
12 **WHAT IS SNG'S RESPONSE TO THIS RECOMMENDATION?**

13 A. Company agrees this is a reasonable suggestion and would accept proposed
14 tariff language in order to clarify that this is an additional cost to be applied to
15 the Cashout Price Determinant for Storage WACOG.

16 **Q. WITNESS JENKINS NOTES THAT ACTUAL MARKET PRICES MAY BE**
17 **HIGHER, PARTICULARLY IN THE WINTER, THAN COMPANY'S ACTUAL**
18 **PURCHASE WACOG (PAGE 6, LINES 14 – 18). DO YOU CONCUR?**

19 A. Yes. However, it's important to understand that Company's natural gas
20 procurement activities throughout the course of the month will be reflected
21 within its Purchase WACOG calculation. Consequently, purchases made at
22 higher prices would be captured in this calculated price. Thus, stand alone

1 higher market prices are irrelevant when comparing it to the Purchase WACOG
2 as a Cashout Price Determinant.

3 **Q. WITNESS JENKINS STATES THAT THE PGA DOES NOT REFLECT**
4 **VARIABLE GAS COSTS (PAGE 7, LINES 3 – 5). DO YOU AGREE?**

5 A. Yes. However, this does not diminish the PGA’s usefulness in the cashout
6 process. The proposed use of the PGA as one of three possible Cashout Price
7 Determinants is intended to, at a minimum, protect the retail sales customers
8 from any adverse effects resulting from Shipper’s behavior. The use of the
9 PGA provides protection from additional costs that would result from Company
10 either selling gas to Shippers (Negative Imbalance) that is priced less than the
11 PGA or buying gas from Shippers (Positive Imbalance) that is priced higher
12 than the PGA.

13 **Q. WITNESS JENKINS PROPOSES THE REPLACEMENT OF COMPANY’S**
14 **CASHOUT PRICE DETERMINANTS WITH A MARKET BASED PRICE OF**
15 **THE PUBLISHED GAS DAILY “WEEKLY WEIGHTED AVERAGE PRICES”**
16 **(PAGE 7 LINES 9 – 18). DO YOU AGREE WITH THIS CHANGE?**

17 A. No. Since the recommended price above crosses over a two (2) month period,
18 this would not necessarily reflect actual market costs associated with the
19 imbalance month and is therefore not representative of market costs for the
20 appropriate month.

21 **Q. WHY NOT?**

22 A. As an example, the published Gas Daily “Weekly Weighted Average Price” for

1 the end of November may also include natural gas prices for the early part of
2 December, which may be vastly different from the end of November prices.
3 Sizable variances in this published price between months could result in higher
4 natural gas costs to Company's retail customers to the extent such price is
5 different than the effective PGA. These higher natural gas costs would not be
6 reflective of SNG's actual costs because it's for a different time period than
7 when the imbalance occurred. Also, the Gas Daily Weekly Weighted Average
8 Price is not designed to reflect the actual cost of gas because it is not typically
9 used in natural gas purchase transactions.

10 **Q. WITNESS JENKINS INFERS THAT THE PREVIOUS APPROVAL OF**
11 **MIDCONTINENT EXPRESS'S CASHOUT PRICING METHODOLOGY**
12 **SUPPORTS THE REASONABLENESS OF STAFF'S RECOMMENDATION IN**
13 **THIS CASE (PAGE 8, LINE 23, AND PAGE 9, LINES 1 – 2). DO YOU**
14 **AGREE?**

15 **A.** No. Company desires the use of its proposed Cashout Price Determinants
16 because it allows for recovery of its actual gas costs while protecting its retail
17 sales customers from financial harm. Furthermore, just because a particular
18 method has been previously approved for another pipeline company does not
19 necessarily mean it is reasonable for SNG.

20 **Q. WITNESS JENKINS STATES COMPANY'S CASHOUT PROVISION SHOULD**
21 **INCLUDE THE FOLLOWING LANGUAGE "..., PLUS PIPELINE FUEL,**
22 **PIPELINE CAPACITY AND PIPELINE COMMODITY CHARGES" (PAGE 9,**

1 **LINES 24 – 25). DO YOU AGREE?**

2 A. Yes. These costs are currently reflected in the Company's effective PGA but
3 are not included in the Cashout price calculation using Storage WACOG or
4 Purchased WACOG. Company agrees that these costs should be included in
5 all Cashout Price Determinants when appropriate and recommends that
6 language be clarified accordingly in its proposed use of the Storage WACOG
7 and Purchase WACOG as Cashout Price Determinants.

8 **Q. WITNESS JENKINS RECOMMENDS THAT COMPANY MONITOR MSBA**
9 **IMBALANCES TO DETERMINE APPROPRIATE ECONOMIC INCENTIVE TO**
10 **MINIMIZE IMBALANCES THROUGH IMBALANCE TIER 1 CASHOUTS**
11 **(PAGE 10, LINES 7 - 9). DO YOU AGREE?**

12 A. No. Company believes the "greatest of" and "least of" application of the
13 proposed Cashout Price Determinants, even for Imbalance Tier 1 levels, will
14 result in appropriate economic incentive for MSBA to manage imbalances
15 effectively. Company does not intend to monitor any Shipper's, including
16 MSBA's, imbalance as it is a tedious and time consuming task and is also the
17 fundamental responsibility of the Shipper.

18 **Q. WITNESS JENKINS INDICATES THAT MSBA IMBALANCES COULD**
19 **AFFECT COMPANY'S NATURAL GAS SUPPLY MANAGEMENT**
20 **ACTIVITIES INCLUDING STORAGE ASSET UTILIZATION, IMPACTING**
21 **AVAILABLE STORAGE TO SERVE RETAIL SALES CUSTOMERS (PAGE**
22 **11, LINES 14 – 18). DOES SNG HAVE EXPERIENCE WITH THIS**

1 **SITUATION?**

2 A. Yes. When Shipper related Negative Imbalances have been excessive, from
3 time to time, SNG chooses to withdraw storage gas as a corrective action. As
4 such, Company believes that this further supports its proposed use of Storage
5 WACOG as a Cashout Price Determinant. The use of such pricing
6 methodology will go a long way toward protecting SNG's retail sales
7 customers from this situation.

8 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9 A. Yes.

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

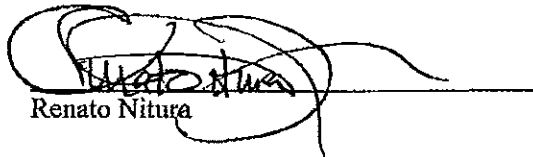
In the Matter of Summit Natural Gas of)
Missouri Inc.'s Filing of Revised Tariffs)
To Increase its Annual Revenues For)
Natural Gas Service)
Case No. GR-2014-0086

AFFIDAVIT OF RENATO NITURA JR.

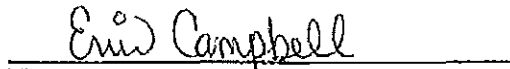
STATE OF COLORADO)
) ss
COUNTY OF JEFFERSON)

Renato Nitura Jr., being first duly sworn on his oath, states:

1. My name is Renato Nitura Jr. I work in Boulder, Colorado and I am employed by KTM, Inc. as a Natural Gas Manager.
2. Attached hereto and made a part of hereof for all purposes is my Surrebuttal Testimony on behalf of Summit Natural Gas of Missouri, Inc. consisting of 11 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.


Renato Nitura

Subscribed and sworn to before me this 6th day of August, 2014.


Notary Public

My commission expires: 6/7/16

