

*Exhibit No.:*

*Issues:* Gas Inventory;  
Capacity Release; and  
Gas Purchasing Practices

*Witness:* Anne M. Allee

*Sponsoring Party:* MoPSC Staff

*Type of Exhibit:* Direct Testimony

*Case No.:* GR-2004-0209

*Date Testimony Prepared:* April 15, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**ANNE M. ALLEE**

**FILED**

**JUL 13 2004**

**Missouri Public  
Service Commission**

**MISSOURI GAS ENERGY**

**CASE NOS. GR-2004-0209**

*Jefferson City, Missouri*

*April 2004*

**\*\*Denotes Highly Confidential Information\*\***

**NP**

**Exhibit No.** 800 NP  
**Case No(s)** GR-2004-0209  
**Date** 6-28-01 **Rptr** XF

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of Missouri Gas Energy's )  
Tariffs to Implement a General Rate )  
Increase for Natural Gas Service )

Case No. GR-2004-0209

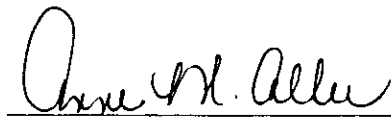
**AFFIDAVIT OF ANNE M. ALLEE**

STATE OF MISSOURI )

COUNTY OF COLE )

) ss.

Anne M. Allee, being of lawful age, on her oath states: that she has participated in the preparation of the following direct testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the following direct testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Anne M. Allee

Subscribed and sworn to before me this 14<sup>th</sup> day of April 2004.





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

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**TABLE OF CONTENTS OF**  
**DIRECT TESTIMONY**  
**ANNE M. ALLEE**  
**MISSOURI GAS ENERGY**  
**CASE NO. GR-2004-0209**

GAS INVENTORY ..... 3

CAPACITY RELEASE ..... 4

GAS PURCHASING PRACTICES ..... 6

1                                   **DIRECT TESTIMONY**

2   **OF**

3   **ANNE M. ALLEE**

4                                   **MISSOURI GAS ENERGY**

5                                   **CASE NO. GR-2004-0209**

6           Q.     Please state your name and business address.

7           A.     Anne M. Allee, P.O. Box 360, Jefferson City, Missouri 65102.

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

9           A.     I am a Regulatory Auditor with the Missouri Public Service Commission  
10 (Commission).

11          Q.     Please describe your educational background.

12          A.     I graduated from the University of Missouri at Columbia with a Bachelor of  
13 Science degree in Accounting in 1989. I am currently a licensed Certified Public Accountant  
14 in the state of Missouri.

15          Q.     Please describe your work experience.

16          A.     During college and after graduation, I worked for Capital Bank as a Teller,  
17 New Accounts Representative and temporary Branch Manager.

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

20          A.     My employment with the Commission began in October 1990 as a Regulatory  
21 Auditor in the Accounting Department. My duties included assisting with audits and  
22 examinations of the books and records of utility companies operating within the state of  
23 Missouri.

Direct Testimony of  
Anne M. Allee

1 In October 1993, I obtained my current position as a Regulatory Auditor in the  
2 Procurement Analysis Department. Since that time, my responsibilities include reviewing  
3 and analyzing amounts charged by natural gas local distribution companies (LDCs) through  
4 the Purchased Gas Adjustment (PGA)/Actual Cost Adjustment (ACA) mechanism.

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

6 A. Yes, I have previously filed testimony before this Commission. Schedule 1,  
7 attached to my direct testimony, is a list of cases and issues in which I have filed testimony.

8 Q. Did you make an examination and analysis of the books and records of  
9 Missouri Gas Energy (MGE or Company) in regard to matters raised in this case?

10 A. Yes. I reviewed the natural gas stored underground and capacity release  
11 records of MGE.

12 Q. What matters will you address in your testimony?

13 A. I will address the Staff's recommended inventory level for natural gas stored  
14 underground and the Staff's recommended amount of capacity release revenues to recognize  
15 in the revenue requirement.

16 Q. What knowledge, skill, experience training or education do you have in these  
17 matters?

18 A. Since my time in the Procurement Analysis Department, I have performed  
19 and/or assisted in performing approximately 30 ACA reviews which include a review of the  
20 LDC natural gas storage and capacity release transactions.

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

Direct Testimony of  
Anne M. Allee

1           A.     I am sponsoring the Staff's natural gas inventory level included in rate base  
2 and sponsoring Income Statement Adjustment S-74.1 with regard to the level of capacity  
3 release revenues.

4     **GAS INVENTORY**

5           Q.     Why is gas held in storage considered inventory and included in rate base?

6           A     Natural gas stored underground represents an investment by MGE, and  
7 therefore it is included in rate base so that the Company can have the opportunity to earn a  
8 return on its investment. Natural gas is purchased and injected into storage facilities during  
9 the summer months where it is held until the winter months when it is withdrawn and  
10 delivered to MGE's distribution system.

11          Q.     Please explain Schedule 2 attached to your direct testimony.

12          A.     Schedule 2 is Staff's calculation of the natural gas inventory level used in this  
13 case. It was derived by multiplying the average volumes in inventory by the storage injection  
14 rate of \$4.59.

15          Q.     Why did you use an average inventory volume to value storage?

16          A.     The natural gas inventory is cyclical in nature. Inventory volumes increase  
17 throughout the summer as gas is injected into storage and then decrease throughout the  
18 winter as gas is withdrawn. An average is used to account for the fluctuation in inventory  
19 levels. The average volume in inventory is an average of the volume of gas in inventory for  
20 the twelve months beginning January 2003 and ending December 2003. The average  
21 inventory volume represents ongoing inventory levels.

22          Q.     Please explain Staff's calculation of the \$4.59 storage injection price.

1           A.     The injection price was calculated using MGE's actual weighted average  
2 storage injection prices during the injection season for the past three calendar years (2001-  
3 2003). The injection season occurs April through October.

4           Q.     Why did you use a three-year average of actual injection prices to calculate  
5 the natural gas inventory level to include in rate base?

6           A.     When the test year and update period inventory injection prices were  
7 compared with historical injection prices, I found that MGE's 2003 natural gas injection  
8 prices were the highest prices ever paid by MGE and that natural gas injection prices have  
9 fluctuated significantly both in the test year and over the three-year period used in the  
10 average. Since Staff is setting a level of inventory that should be reflective of ongoing  
11 operations and will be included in rates until the next MGE rate case, Staff used a three-year  
12 average of actual injection prices.

13           **CAPACITY RELEASE**

14           Q.     Please explain "capacity release."

15           A.     MGE contracts with interstate pipeline companies for capacity within the  
16 pipeline so that it can move or transport natural gas to its distribution system. Because the  
17 demands of MGE's customers can vary significantly depending upon the weather, MGE does  
18 not use all of its firm transportation capacity at all times. Thus, this idle capacity is available  
19 for release to other parties. As authorized by the Federal Energy Regulatory Commission  
20 (FERC) Order 636, a capacity release occurs when MGE releases or assigns its firm  
21 transportation rights to another party. MGE receives a credit on its interstate pipeline  
22 company invoice for capacity released.

23           Q.     Please explain MGE's current ratemaking treatment for capacity release.

Direct Testimony of  
Anne M. Allee

1           A.     In MGE's previous rate case, a fixed level of capacity release was included as  
2 revenue in the cost of service for the determination of base rates. Including capacity release  
3 as revenue in the cost of service gives MGE an incentive to maximize the use of its idle  
4 pipeline capacity.

5           Q.     What is Staff's recommendation with regard to capacity release in this case?

6           A.     Staff's recommendation is to continue the current treatment of capacity  
7 release as a component of annualized revenues except for releases made under MGE's  
8 Experimental School Transportation Program (ESTP). Staff also recommends adjusting the  
9 level or amount of capacity release to include as revenue in the cost of service.

10          Q.     What amount of capacity release is Staff proposing to include as revenue in  
11 the cost of service?

12          A.     Staff recommends a revenue adjustment of \$1,340,400 for capacity release.

13          Q.     How did Staff determine the appropriate level of capacity release?

14          A.     MGE's level of capacity release has fluctuated over the last several years,  
15 therefore the Staff developed a three-year average based on MGE's fiscal years ending  
16 June 30, 2001, 2002 and 2003. Schedule 3 attached to my direct testimony shows the  
17 calculation of Staff's recommended level of capacity release revenues.

18          Q.     Please explain the Staff recommendation to exclude capacity releases made  
19 under the MGE's ESTP from revenue in the cost of service.

20          A.     In July 2002, the Governor signed into law a bill that required LDCs to  
21 provide an opportunity for schools to purchase gas supply and pipeline transportation on an  
22 aggregated basis. The program enacted under this law is experimental and is scheduled to  
23 terminate June 30, 2005. MGE's ESTP tariffs complying with this law went into effect on



1 October 28, 2002. The ESTP tariffs state that MGE will release capacity to not-for-profit  
2 school associations or its designated agent; however, the tariffs don't specifically address the  
3 accounting treatment of these releases. In order to clarify the Company's current accounting  
4 treatment of these releases, Staff recommends adding, on Sheet No. 56 under Other Terms  
5 and Conditions at the end of paragraph 4, the following sentence, "Capacity released to the  
6 not-for-profit school associations or its designated agent shall be credited to the Purchased  
7 Gas Costs."

8 **GAS PURCHASING PRACTICES**

9 Q. Do you have any recommendations regarding the Company's gas purchasing  
10 practices?

11 A. Yes. Staff recommends that by October 1, MGE file with the Commission, in  
12 the applicable ACA case, both a Natural Gas Supply Plan annually and an updated Capacity  
13 Analysis/Reliability Analysis every two to three years, so that current information is  
14 available prior to making contract or other natural gas purchasing decisions. Both the  
15 Company and the Commission need written planning documents.

16 Q. Why does the Company need written planning documents?

17 A. Updated natural gas supply plans and capacity/reliability analysis are a means  
18 to document usage requirements to meet customer needs during normal weather and the  
19 extremes of warmest or coldest weather, including the increased requirements for a historic  
20 peak cold day. Additionally, there may be other LDC or system constraints that must be  
21 considered so that the LDC adequately plans for the natural gas requirements of its  
22 customers. A LDC must have adequate capacity and supplies to provide natural gas to its

Direct Testimony of  
Anne M. Allee

1 firm sales customers on even a peak historic cold day, without maintaining excess capacity  
2 that costs customers money without any related benefit.

3 Further, When MGE's employees are making the actual supply and transportation  
4 decisions during the heating season, they need to be able to reference how then-current  
5 conditions compare to the conditions planned for. The employees need to be able to adjust or  
6 modify the plan to fit actual conditions. Absent a written plan, it will be difficult to  
7 systematically adjust for changing conditions.

8 Finally, MGE is a regulated utility, subject to the oversight of the Commission for its  
9 supply and transportation decisions. The Commission must review the Company's actions in  
10 light of conditions and information known at the time the decisions and actions were taken.  
11 Absent written plans, procedures and documentation of actions made, at the time the actions  
12 were taken, the Company may be unable to adequately explain its actions to the Commission.

13 Q. What kind of planning documents are needed?

14 A. Capacity planning is critical because natural gas can only be provided to an  
15 LDC if the pipeline capacity (transportation capacity) is available to the LDC when it is  
16 needed, and thus an LDC must acquire this capacity on a firm basis. This capacity may  
17 include multiple contracts, each with multi-year terms. Because of the time needed to  
18 acquire pipeline capacity, these analyses and plans must include estimates of customer  
19 demand for the next three to five years. Decisions about pipeline capacity considers  
20 estimates of growth, constraints of existing contracts, expiration date and the preplanning  
21 time required to renew, terminate, modify or initiate contracts, and the cost of carrying any  
22 reserve margin until needed. The pipeline capacity analyses and plans are updated by some  
23 LDCs on an annual basis. However, since most of these contracts are for multiple years, the

1 capacity analyses and plans of some LDCs are updated only every two to three years. So that  
2 current information is being considered in the decision making, at a minimum these analyses  
3 and plans should be updated prior to the LDC making contract decisions, even decisions to  
4 extend/renew contracts or otherwise renegotiate a contract. Thus, a more frequent filing  
5 might be necessary if contractual changes or contractual reviews occur more frequently than  
6 two to three years.

7       Natural gas supply plans are generally updated annually because many of the  
8 contracts/agreements for gas supply are for a shorter term than those for pipeline capacity.  
9 Supply planning can include natural gas from storage; base load gas that is provided on a  
10 constant basis each day for the year or for the winter season; swing gas or combination base  
11 load and swing that allows the LDC to nominate the minimum volume up to the maximum  
12 allowed by the agreement/contract; daily or multiple day spot gas purchases; and/or other  
13 peaking supply. These different supply agreements/contracts are needed to meet the  
14 changing supply requirements for weather or increased demand on weekdays versus  
15 weekends, or for other operational or demand reasons. The natural gas supply plans include  
16 economic dispatch models or a discussion of how the LDC considers cost and operational  
17 requirements for nominating volumes among the various supply services in its portfolio.  
18 Additionally the natural gas supply plans document the LDCs hedging plans to address its  
19 management of price volatility so that customers' natural gas requirements are reasonably  
20 protected from upward price spikes.

21       Q.     Why does the Commission need MGE to maintain written supply plans?

22       A.     The Commission has the duty to insure that an LDC provides safe and reliable  
23 service at just and reasonable rates. These written plans will provide Staff the ability to

Direct Testimony of  
Anne M. Allee

1 evaluate the LDC's actions at the time supply and capacity decisions are made and with the  
2 information the LDC relied upon to make those decisions.

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

SUMMARY OF TESTIMONY  
ANNE M. ALLEE

Company Name	Case Number	Issues
Choctaw Telephone Company	TR-91-336	Payroll; Payroll Taxes; Employee Pensions/Benefits; Voucher Analysis; Other Misc. Expenses
Laclede Gas Company	GR-92-165	Payroll; Payroll Taxes; Employee Pensions and Benefits
United Cities Gas Company	GR-93-47	Rate Base; CWC; Dues & Donations; Misc. Expenses
St. Louis County Water Company	WR-93-204	Rate Base; CWC; Dues & Donations; Misc. Expenses
Ozark Natural Gas Company	GA-96-264	Cost of Gas per Dth; Reliability of Transportation
Missouri Gas Energy Company	GR-96-285	Natural Gas Storage Inventory Prices
St. Joseph Light and Power Company	GR-96-47	Gas Purchasing Practices
Union Electric Company	GR-97-393	Natural Gas Storage Inventory Prices
Missouri Public Service	GR-96-192	Winter Storage Allocation; Overrun Penalties
Missouri Gas Energy	GR-98-140	Natural Gas Storage Inventory Prices
Ozark Natural Gas Company	GA-98-227	Cost of Gas per Dth; Reliability of Supply and Transportation
St. Joseph Light and Power Company	GR-99-246	Natural Gas Inventory Prices
UtiliCorp United Inc. and St. Joseph Light and Power Company	EM-2000-292	Conditions to be Made Part of Approved Merger
Atmos Energy Corporation and United Cities Gas Company	GR-2001-396 & GR-2001-397 (Consolidated)	Purchasing Practices – Neelyville; Purchasing Practices-Consolidated District; Deferred Carrying Cost Balance; Propane
Missouri Gas Energy	GR-2001-382, GR-2000-425, GR-99-304 & GR-98-167 (Consolidated)	Purchasing Practices; Refunds
Union Electric Company	GR-2003-0517	Gas Inventories

**Missouri Gas Energy  
Gas Inventory - Underground Storage  
Case No. GR-2004-0209**

End of Month Storage Balance	
Month	Volumes (MMBtu)
January-03	6,199,269
February-03	1,604,779
March-03	1,793,568
April-03	4,843,104
May-03	9,205,812
June-03	12,451,375
July-03	13,914,784
August-03	15,189,442
September-03	16,457,594
October-03	17,460,027
November-03	14,562,734
December-03	12,013,048
12 Month Average Volumes	10,474,628
3 Year Average Injection Price	\$ 4.59
Rate Base Inventory Level	\$ 48,101,139

SCHEDULE 3

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY