

Exhibit No.: 801
Issue: Gas Inventory
Witness: Anne M. Allee
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-2004-0209
Date Testimony Prepared: May 24, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

ANNE M. ALLEE

FILED

JUL 13 2004

**Missouri Public
Service Commission**

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

Jefferson City, Missouri
May 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

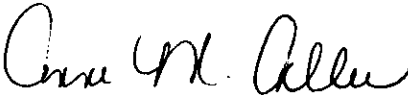
In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate)
Increase for Natural Gas Service)

Case No. GR-2004-0209

AFFIDAVIT OF ANNE M. ALLEE

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

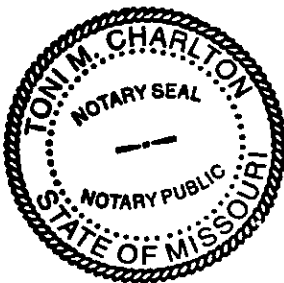
Anne M. Allee, being of lawful age, on her oath states: that she has participated in the preparation of the following rebuttal testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the following rebuttal testimony were given by her; that she 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 19th day of May 2004.





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

1 **REBUTTAL 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. Are you the same Anne M. Allee who has previously filed direct testimony in
9 this case?

10 A. Yes. I filed direct testimony on April 15, 2004.

11 Q. What is the purpose of your rebuttal testimony?

12 A. The purpose of my testimony is to respond to Missouri Gas Energy (MGE or
13 Company) witness Michael R. Noack's direct testimony regarding gas in inventory.
14 Specifically, I will address the natural gas price used to establish the dollar value of natural
15 gas in inventory.

16 Q. Describe Mr. Noack's method of calculating the value of inventory.

17 A. Mr. Noack calculates a thirteen-month average of the gas storage volumes for
18 December 2002 through December 2003. He then prices the gas in storage at an estimated
19 injection price of \$5.35.

20 Q. Do you agree with Mr. Noack's calculation of value of gas in inventory?

21 A. I agree that Mr. Noack's calculation is mathematically correct; however, I do
22 not agree that \$5.35 is a reasonable injection price.

23 Q. Why doesn't the Staff agree with the Company's \$5.35 injection price?

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1 A. Mr. Noack's price is not based on known and measurable natural gas injection
2 prices; rather, it is based on the average New York Mercantile Exchange (NYMEX) futures
3 prices for the 2004 storage injection season. The storage injection season generally runs
4 from April through October annually.

5 Q. Why do you believe MGE's estimated injection price is based upon NYMEX
6 futures prices?

7 A. The Company states in its response to Staff Data Request No. 176, "The price
8 used was the forward looking index price on average for the next injection cycle. The web
9 site used is: '<http://futures.tradingcharts.com/marketquotes/index.php3?market=1NG>'." In
10 other words, Mr. Noack estimates the price of gas using an average of the natural gas futures
11 price for April 2004 through October 2004.

12 Q. Please continue to explain why Staff doesn't believe the Company's
13 recommended \$5.35 injection price should be used to set rates.

14 A. The \$5.35 is not based upon a known and measurable price. Generally,
15 NYMEX futures prices have not been a particularly reliable predictor of future natural gas
16 prices. For instance, the June 30, 2000 NYMEX futures settlement price for January 2001
17 delivery was \$4.52; however, the January 2001 first-of-month index for Williams Natural
18 Gas was \$9.98. Similarly, the February 28, 2001 NYMEX futures settlement price for
19 February 2002 delivery was \$5.36; however, the February 2002 first-of-month index for
20 Williams Natural Gas was \$1.90. Both of these examples demonstrate that the actual gas
21 price can ultimately be either significantly above or below the NYMEX futures price.

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1 Traditionally, the Commission has used known and measurable information to set
2 rates, and Staff has used known and measurable injection prices to calculate gas utilities'
3 storage levels.

4 MGE's storage injection price of gas has also been extremely volatile. To give an
5 idea of the volatility during 2001 through 2003 period, MGE's natural gas storage injection
6 price experienced a monthly low of \$2.90 and a monthly high of \$6.49. The Company's
7 April through October overall weighted average injection price was \$4.47, \$3.36, and \$5.83
8 for 2001, 2002 and 2003, respectively.

9 Q. How does the Staff propose to calculate a rate base value for MGE's gas in
10 storage inventory?

11 A. Staff used a three-year average to level out these peaks and valleys in
12 injection prices. The Company's estimated price of gas has been limited to the April through
13 October 2004 futures price. The Staff doesn't believe that this is a sufficient length of time
14 to capture variations in factors that affect the price of natural gas such as weather and
15 national storage levels, etc. Thus, Staff has used an average of MGE's 2003, 2002 and 2001
16 storage injection prices.

17 Q. What other problems do you see with the Company's estimated price of gas?

18 A. The Company is basing its estimated injection price on current natural gas
19 prices. However, the rates being set from this proceeding probably won't go into effect until
20 six months from now and continue through the next couple of years until the next MGE rate
21 case. Gas prices can change drastically in six months. For example, in 2001, MGE's storage
22 injection price was \$5.61 in April and dropped to a price of \$2.90 in September; a decrease in
23 price of \$2.71 in six months.

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1 Q. How does MGE's proposed higher price of gas in storage impact customers?

2 A. Since MGE purchases the gas injected into storage during the summer months
3 to use in the winter months, rates are set that allow MGE to collect carrying costs on the
4 storage inventory value. By setting rates based upon the larger MGE estimated storage
5 value, the Company would be collecting a higher return. If the cost of injection gas is lower
6 than that estimated by MGE, the customers would continue to pay rates based on the
7 overstated inventory value. The Company would not refund these costs to the customers;
8 MGE would continue earning a return on the higher valued storage inventory until the next
9 rate case.

10 Q. What are some of the factors that may affect the natural gas price?

11 A. There are several factors that influence the price of gas: oil prices, industrial
12 demand, drilling rig counts, national storage levels, weather and electric generation using gas
13 fired combustion turbines. The factors affecting natural gas prices are numerous and subject
14 to change.

15 Q. Please summarize your testimony.

16 A. Even though MGE's price of natural gas has been extremely volatile, the
17 Company has limited its analysis of natural gas storage injection prices to the summer 2004
18 futures price. Staff's methodology is based upon known and measurable data over three
19 years, not just estimates of future gas prices.

20 Q. Does this conclude your rebuttal testimony?

21 A. Yes, it does.