	Exhibit No.: ____________
Issues:	KPC Capacity Release
	Purchasing Practices – Hedging
	Purchasing Practices – Storage
Witness:	Michael T. Langston
Sponsoring Party:	Missouri Gas Energy
Case No.:	GR-2001-382

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-382

SURREBUTTAL TESTIMONY OF

MICHAEL T. LANGSTON

Jefferson City, Missouri
April 22, 2003

Exhibit No. SNP
Case No(s). GR-2001-382
Date 5-12-03 **Rptr** KF

NON-PROPRIETARY

SURREBUTTAL TESTIMONY OF

MICHAEL T. LANGSTON

Table of Contents

Schedules

SURREBUTTAL TESTIMONY OF

MICHAEL T. LANGSTON

CASE NO. GR-2001-382

APRIL 22, 2003

Q. ARE YOU THE SAME MICHAEL T. LANGSTON THAT FILED DIRECT AND REBUTTAL TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. PLEASE STATE THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY.

A. I will address issues that Staff has raised in this proceeding, i.e., (i) MGE's storage plan entering the winter of 2000/2001, and ultimately its utilization of storage during the winter; (ii) the level of hedging MGE conducted for the winter of 2000/2001; and (iii) the release of pipeline capacity on Kansas Pipeline Company ("KPC"), or in the alternative, the release of capacity on Williams Central Pipeline ("Williams"). My surrebuttal testimony will address issues raised in the rebuttal testimony of Missouri Public Service Commission ("Commission") Staff ("Staff") Witnesses Lesa A. Jenkins, David M. Sommerer and John H. Herbert.

Specifically, the purpose of my surrebuttal testimony is to emphasize for the Commission:

- The lack of credible evidence that Staff has offered in this proceeding to support its positions;
- The significant errors in the analyses that Staff has attempted to conduct to support its positions;

- The mischaracterizations that Staff has utilized which confuse the record and tend to mask the lack of evidence supporting Staff's positions in this case; and
- The inconsistencies in positions of Staff witnesses in this proceeding.

PURCHASING PRACTICES - STORAGE

Q. ARE THERE ANY PROBLEMS WITH MS. JENKINS' ANALYSIS WITH REGARD TO MGE'S STORAGE PURCHASING PRACTICES?

A. Yes. Ms. Jenkins' rebuttal testimony contains three significant problems that severely undermine the credibility of her position in this proceeding. Specifically:

(1) Ms. Jenkins has inaccurately used data for a purpose it was not intended and for which it is not appropriate in order to form her opinion regarding MGE's storage plan;

(2) Ms. Jenkins' volatility analysis is incomplete, as it does not present the data on a comparable basis; and

(3) Ms. Jenkins has mischaracterized MGE's first-of-month flowing supply plan.

In fact, when the analyses that have been based upon inappropriate data are disregarded, her volatility analysis is completed, and the mischaracterizations eliminated, Ms. Jenkins' analysis actually supports MGE's position in this proceeding.

1) STAFF HAS MADE INAPPROPRIATE AND INACCURATE USE OF DATA

Q. IN TERMS OF THE FIRST PROBLEM, PLEASE EXPLAIN MS. JENKINS' INACCURATE USE OF DATA.

A. Ms. Jenkins has attempted to show that MGE's storage plan was unreasonable by comparing what she claims is MGE's storage plan to the distribution of normal heating degree days throughout the winter. However, her analysis contains errors. In fact, on two different occasions in her rebuttal testimony, Ms. Jenkins has inappropriately used data for a purpose that it was not intended (and is not suited) in order to form an opinion regarding MGE's storage plan for the winter of 2000/2001. By doing this, Ms. Jenkins has inaccurately portrayed MGE's storage plan. Ms. Jenkins analysis is without foundation because it is based on data that was compiled by MGE for an entirely different purpose than the purpose for which Ms. Jenkins is using the data. The fact that the data was provided by MGE does not in itself make her analysis correct. Rather, Ms. Jenkins must make appropriate and suitable use of the data that is provided.

Q. WHAT ARE THE TWO PORTIONS OF MS. JENKINS' REBUTTAL TESTIMONY IN WHICH SHE HAS INAPPROPRIATELY RELIED UPON DATA FOR A PURPOSE THAT IT WAS NOT INTENDED?

A. First, on page 4, line 6 through page 6, line 3, and on Schedules 1 and 2 of her rebuttal testimony, Ms. Jenkins continues to rely upon storage data presented in the responses to Data Request ("DR") Numbers 21 and 68 as MGE's "storage plan". As discussed in detail in my rebuttal testimony, Ms. Jenkins' use of this storage information is incorrect because the information was not prepared, and is not suitable, for the purpose to which she devotes it, and is therefore not relevant to, or supportive of, her conclusion. As explained in my rebuttal testimony, the responses to DR Numbers 21 and 68 reflect monthly storage plans that have been updated to account for actual information known during the winter heating season. In other words, they do not represent MGE's baseline storage plan entering the winter heating season. The only information that reflects MGE's storage plan entering the winter of 2000/2001 was provided in the response to DR

Number 28. Therefore, the discussion on pages 4-6 of Ms. Jenkins' rebuttal testimony, including a table that is provided in the text on page 5, and the information presented in Schedules 1 and 2 that present information from DR Numbers 21 and 68, is presented completely out of context. Thus, the comparisons that Ms. Jenkins attempts to make, and the conclusions she attempts to draw, are simply incorrect. As a result, the Commission should disregard this portion of Ms. Jenkins' testimony altogether.

Second, on page 7, line 21 through the end of page 8 of her rebuttal testimony, Ms. Jenkins alleges that MGE did not have the same storage plan since the winter of 1998/1999. However, again, Ms. Jenkins utilizes information previously provided to her for a purpose that it was not intended, and that is not relevant to her argument. As shown on page 8 and on Schedule 5 of her rebuttal testimony, Ms. Jenkins uses information from MGE's various Reliability Reports in an attempt to show that MGE's storage plan has not been consistent since the winter of 1998/1999. The problem with Ms. Jenkins' analysis is that she fails to realize that the Reliability Report is prepared in order to assess the adequacy of supply on MGE's system, or in other words, to ensure that MGE has sufficient firm supply resources to meet projected demand. The information contained in the Reliability Report is not prepared for, nor is it appropriate to be utilized for, determining how storage should be dispatched throughout the winter. To use an analogy, what Ms. Jenkins is attempting to do is akin to utilizing an annual financial budget (i.e., the Reliability Report) to decide how individual daily expenditures (i.e., storage dispatching) should be made, which on its face, simply does not make sense. Therefore, again, the information that Ms. Jenkins has relied upon from the Reliability Reports does not represent MGE's baseline storage plan entering the winter heating season. I have provided MGE's storage plans for the winter of 2000/2001 and previous winters in my direct and rebuttal testimony, and MGE's storage plan has remained essentially the same since the winter of 1998/1999.

Q. HAS STAFF HAD ACCESS TO MGE'S STORAGE AND SUPPLY PLANS FOR THE WINTER OF 1998/1999 FORWARD?

A. Yes. As I have explained previously, MGE has provided a copy of its storage supply plans to Staff. In fact, the plan for November 1998 reflected MGE's original planned withdrawal volume as utilized in November 2000. Moreover, Staff never indicated a concern with this planned level for November until this proceeding.

2) STAFF'S WEATHER VOLATILITY ANALYSIS IS INCOMPLETE AND THE CONCLUSION INCORRECT

Q. WHAT HAS STAFF ARGUED WITH RESPECT TO WEATHER VOLATILITY?

A. On pages 4 through 6 of her rebuttal testimony, Ms. Jenkins has claimed that MGE's storage utilization for the winter of 2000/2001 was imprudent because MGE planned on utilizing more storage in November than in any other month, even though November typically experiences a relatively low percentage of the total heating degree days that occur throughout the winter. In response to these allegations, I have pointed out in both my direct and rebuttal testimony that (i) November is the most volatile month on MGE's system, both in terms of actual heating degree days and in terms of actual demand (see, e.g., Schedule MTL-14 attached to my direct testimony); and (ii) storage is the best resource to deal with this significant amount of actual demand volatility. These are the primary reasons why MGE specifically plans to give itself the option of using a greater amount of storage in November rather than simply mirroring the normal heating degree day distribution as Staff has suggested. However, Ms. Jenkins attempts to rebut MGE's position by claiming that, when using 30-years of monthly heating degree day data rather than 5-years of data, January, and not November, is actually more volatile (see pages 6-7 of Ms. Jenkins' rebuttal).

Q. PLEASE EXPLAIN THE PROBLEM WITH MS. JENKINS' VOLATILITY ANALYSIS.

A. The problem with Ms. Jenkins' analysis is that, even when 30-years of monthly heating degree day data is utilized, it produces the exact same conclusion that I set forth in my direct and rebuttal testimony, i.e., **November is more volatile than January**. Schedule MTL-34 presents the same data that Ms. Jenkins utilized for her analysis (see Schedule 3 of her rebuttal testimony). As shown on Schedule MTL-34, when 30-years of heating degree day data is utilized, the weather for November has varied from 59% of normal weather to 130% of normal, or a range of 71%. On the other hand, the weather for January has a range of 67% (between 71% of normal to 138% of normal). In other words, in percentage terms, November has a larger heating degree day variation from coldest to warmest weather as compared to January over the past 30-years. Therefore, even though Ms. Jenkins criticizes MGE for not utilizing 30-years of data in Schedule MTL-14, November is more variable in terms of weather than January. Moreover, the exact same conclusion results when 40-years and 20-years of heating degree day data is utilized, and when daily heating degree day data is utilized.

Another important aspect of the figures shown on Schedule MTL-34 is when only warmer-than-normal weather is evaluated, November has experienced weather that was 41% warmer-than-normal (based on 30-years of data), while January has experienced weather that was only 29% warmer-than-normal. No other winter month comes close to the warmer-than-normal variability experienced in November.

Q. **WHY IS IT IMPORTANT TO NOTE THAT NOVEMBER HAS EXPERIENCED SIGNIFICANTLY WARMER-THAN-NORMAL WEATHER AS COMPARED TO THE OTHER WINTER MONTHS?**

A. As I have explained in detail in my direct and rebuttal testimony, since storage is nearly full entering November and the flexibility to make further storage injections is limited, the primary function of storage during November is for withdrawals. Therefore, since November can experience significantly warmer-than-normal weather, it is important for MGE **not** to order first-of-month flowing supplies based on normal heating degree days as Staff has suggested. When weather in November is warmer-than-normal, MGE would have flowing supplies available to serve demand, and when it is colder-than-normal, MGE would have flowing supplies and storage available to serve demand.

3) STAFF HAS MISCHARACTERIZED MGE'S FIRST-OF-MONTH FLOWING SUPPLY PLAN

Q. **PLEASE EXPLAIN THE THIRD GENERAL PROBLEM WITH MS. JENKINS' REBUTTAL TESTIMONY, i.e., THE MISCHARACTERIZATION OF MGE'S FIRST-OF-MONTH FLOWING SUPPLY PLAN.**

A. On pages 3 and 4 of her rebuttal testimony, Ms. Jenkins states that MGE's plan for ordering first-of-month flowing supplies does not reasonably reflect the minimum level of daily demand that is projected to occur during the winter, even though the first-of-month flowing supply plan is characterized as a 'baseload' supply plan in my direct testimony. Specifically, Ms. Jenkins criticizes MGE's level of planned flowing supplies of ******** for November, stating that that amount of flowing supplies is well above the ******** of non-heating demand that MGE experiences each and every month.

Q. IS MS. JENKINS' ARGUMENT REGARDING MGE'S FIRST-OF-MONTH FLOWING SUPPLY PLAN REASONABLE OR APPROPRIATE?

A. No. In my direct and rebuttal testimony, I stated that MGE's planned November flowing supply level of approximately ******** is the baseload first-of-month flowing supply, not baseload demand, that is most appropriate for MGE to meet November demand. The distinction between baseload supply and baseload demand here is important. Ms. Jenkins is correct in noting that there are days in November which can be very warm, which in effect, would lead to little or no heating demand for those days. While this assertion by Ms. Jenkins is correct, it does not reveal the complete picture for there are also typically a significant number of days in November that experience heating demand, and in certain instances, significant levels of demand. As explained earlier, when considering 30-years of heating degree day data, November experiences the greatest range of heating degree day variation from coldest to warmest weather experienced within any of the winter months.

Therefore, due to the extreme weather volatility experienced in November, MGE's baseload first-of-month flowing supply plan accounts for both baseload demand (non-heating demand) **and** a level of heating demand that is likely to occur based on past operating experience. MGE's planned November flowing supply level of approximately ******** is above the level of non-heating demand that occurs in every month (i.e., ********). But it is intentionally done in this manner to recognize the fact that (i) there are days during November that experience no heating demand; (ii) there are a significant number of days during November that do experience heating demand, and in some instances, a substantial level of heating demand; and (iii) storage inventory is near full capacity entering the winter. In other words, MGE's baseload flowing supply plan of ******* accounts for both warmer-than-normal and colder-than-normal weather that does occur in November. MGE does not disagree with Ms. Jenkins' assertion that ******* represents the annual baseload demand, and is the lowest level of demand that is experienced on MGE's system. However, in my direct and rebuttal testimony, I have referred to baseload flowing supplies, not baseload demand, as the appropriate and reasonable approach to ordering first-of-month flowing supplies because it accounts for the weather variation that can be experienced in November. MGE's flowing supply plan considers all of the operational flexibility/limitations that MGE has on its system in order to manage the extremely variable weather and demand in November. I explained this in detail in my direct testimony (see pages 47-55 and Schedules MTL-15 and MTL-16) and in my rebuttal testimony (see pages 13-17 and Schedule MTL-22).

PURCHASING PRACTICES - HEDGING

NON-PROPRIETARY

Q. MR. SOMMERER HAS ARGUED IN HIS REBUTTAL TESTIMONY THAT MGE DID NOT HAVE A DOCUMENTED HEDGING PLAN IN PLACE. IS THIS ACCURATE?

A. No. In his rebuttal testimony, Mr. Sommerer has acknowledged that MGE was subject to the hedging requirements set forth in the Fixed Commodity Price settlement ("FCP Settlement") filed jointly on April 28, 2000 by MGE and Staff, and subsequently amended to add the Office of Public Counsel. As discussed in detail in my direct testimony, the FCP Settlement included two specific hedging mechanisms to provide price protection to MGE's customers for the winter of 2000/2001. First, the FCP Settlement established a Fixed Commodity Price PGA mechanism that required MGE to hedge, or fix the price on, 100% of volumes by purchasing fixed price contracts when a specific trigger price was reached. Second, the FCP Settlement provided for a continuation of the Price Stabilization Fund that provided MGE with the authority to conduct financial hedging, but only within very specific parameters, e.g., MGE was authorized to spend a specific amount of money to hedge a specific amount of volumes that were to be purchased by a specific date and not to exceed a specific price cap.

While Mr. Sommerer has acknowledged that MGE was subject to both the Fixed Commodity Price PGA and the Price Stabilization Fund, and up to the beginning of August 2000 was awaiting Commission approval of these mechanisms, Mr. Sommerer is claiming that MGE should have disregarded those specific hedging obligations and responsibilities and conducted additional hedging outside those plans. In essence, what Mr. Sommerer is arguing is that although the signatories to the FCP Settlement, including

MGE, Staff and the Office of Public Counsel, had requested and were awaiting Commission approval for authority to hedge and recover the associated costs pursuant to the FCP Settlement, MGE should have also conducted hedging <u>without obtaining any specific authority from the Commission to do so or to recover the associated costs</u>. Mr. Sommerer cannot have it both ways.

Q. MR. SOMMERER STATES ON PAGE 7 OF HIS REBUTTAL TESTIMONY THAT THE FIXED COMMODITY PRICE PGA WAS A REGULATORY INCENTIVE MECHANISM THAT "COULD DO NOTHING TO PROTECT CUSTOMERS FROM PRICE INCREASE UNLESS THE TRIGGER MECHANISM WAS ACTIVATED." IS THIS AN ACCURATE PORTRAYAL OF THE FCP SETTLEMENT?

A. This is not a complete portrayal of the FCP Settlement or MGE's attempts to provide price stability to its customers for the winter of 2000/2001. Mr. Sommerer's assertions belie one of the express purposes of the settlement. As specifically addressed on page 1 of the FCP Settlement under the "Purpose" section, the settlement stated:

> MGE, Public Counsel and the Staff have entered into this Stipulation and Agreement, and request that the Commission approve it, as a way to: 1) provide system sales customers with a reliable supply of natural gas at **<u>stable and lower prices</u>** than would be achieved by continuation of current practices... (emphasis added) (Missouri Public Service Commission, "Amended Stipulation and Agreement", Case No. GO-200-705, May 15, 2000).

In addition, also on page 1 in footnote 2, the FCP Settlement stated:

> Public Counsel believes the appropriate goal is to provide reasonable and **<u>stable prices</u>**. Implementation of the fixed commodity price component of the PGA should result in lower prices; however, lower prices are not guaranteed. (emphasis added) (Ibid.)

Therefore, as clearly stated in the FCP Settlement, a fundamental purpose of the Fixed Commodity Price PGA was to provide customers with reasonable and stable prices. Staff signed the settlement. In addition, the settlement also recognized that this stability might be provided at higher prices if natural gas prices in the market were to increase. As a result of increasing natural gas prices at the time, MGE proposed to increase the trigger price to implement the Fixed Commodity Price PGA at then-current market price levels. The Staff did not agree. It is disingenuous of Mr. Sommerer to claim <u>after</u> the winter of 2000/2001 that the Fixed Commodity Price PGA would do nothing to protect customers, when MGE's clear proposals to get this plan implemented were not agreed to by Staff.

Q. MR. SOMMERER ALSO STATES ON PAGE 8 THAT "MGE'S PROPOSAL TO INCREASE THE TRIGGER PRICE WOULD HAVE DONE NOTHING TO PROTECT THE WINTER OF 2000/2001." IS THIS ACCURATE?

A. No, this is a complete mischaracterization on the part of Mr. Sommerer. First, the conclusion that increasing the trigger price for the Fixed Commodity Price PGA to $3.75/Dth would have provided no price protection could only be drawn **<u>after</u>** the winter of 2000/2001, when everyone had full knowledge of the events of that winter. Based on the natural gas prices in the market at the time MGE made the proposal, and based on the knowledge of historical natural gas prices, proposing to increase the trigger price was neither unreasonable nor inappropriate.

In addition, and more importantly, Mr. Sommerer completely ignores the fact that proposing to increase the trigger price to $3.75/Dth was only one option that MGE proposed to Staff in order to provide price stability for the winter of 2000/2001. As clearly stated in the September 26, 2000 letter from MGE to Staff (presented in my direct testimony as Schedule MTL-12), MGE also proposed to fix the price for all volumes for the winter of 2000/2001 based on the then prevailing New York Mercantile Exchange ("NYMEX") natural gas forward market strip price. In other words, MGE proposed to Staff to hedge 100% of volumes at a price that was reflective of then-current natural gas prices. Staff nevertheless rejected this alternative proposal made by MGE. Based on 20/20 hindsight, this option clearly would have provided significant price protection for the winter of 2000/2001. Therefore, based on the circumstances that existed at the time, MGE took numerous actions in an attempt to provide price protection to its customers prior to the winter of 2000/2001.

Q. MR. SOMMERER ALSO STATES THAT IT WAS "STAFF'S UNDERSTANDING" THAT THE HEDGING MECHANISMS SET FORTH IN THE FCP SETTLEMENT WERE FLEXIBLE AND THAT IT WAS "OBVIOUS" THAT MGE WAS NOT PRECLUDED FROM HEDGING OUTSIDE OF THE PARAMETERS OF THE FCP SETTLEMENT. DO YOU AGREE WITH THIS ASSESSMENT?

A. Absolutely not. The most significant flaw with this argument is that MGE was not making decisions regarding the winter of 2000/2001 based on "Staff's understanding", but rather based on the circumstances that existed at the time and the facts that were known or knowable, which of course, is also the Commission's prudence standard. In addition, there was absolutely no "obvious" indication that MGE was authorized to hedge outside of the parameters of the FCP Settlement. In fact, Mr. Sommerer's assertion contradicts the FCP Settlement that clearly stated that if the price was not fixed under the terms of the Fixed Commodity Price PGA tariffs that "MGE shall be authorized to make use of financial instruments to obtain price protection on natural gas supplies in accordance with the Commission's order in Case No. GO-2000-231", which was the docket for the Price Stabilization Fund. Therefore, the FCP Settlement clearly specified the parameters for any additional hedging outside the parameters of the Fixed Commodity Price PGA. Mr. Sommerer is attempting to simply ignore the facts that were known or knowable at the time that MGE was making decisions prior to the winter of 2000/2001.

Q. IS MR. SOMMERER'S REBUTTAL TESTIMONY POSITION THAT MGE SHOULD HAVE HEDGED OUTSIDE THE PARAMETERS OF THE FCP SETTLEMENT CONSISTENT WITH OTHER STAFF POSITIONS IN THIS PROCEEDING?

A. No. Mr. Sommerer's position is inconsistent with:

(i) information that he has provided elsewhere in his rebuttal testimony and in data request responses;

(ii) the testimony of other Staff witnesses in this proceeding; and

(iii) Staff's actions immediately prior to the winter of 2000/2001 with other LDCs in Missouri.

First, Mr. Sommerer's position that MGE should have hedged outside of the hedging mechanisms established in the FCP Settlement is contradictory to the fact that Staff believed that natural gas prices were too high prior to the winter of 2000/2001 and would not support MGE's attempts to implement hedging for its customers. As stated in my direct testimony at pages 32-33 and on Schedule MTL-12 attached thereto, Mr. Sommerer admitted in his deposition that the reason that Staff did not support MGE's attempts to reflect then-current market prices in the hedging mechanisms was that Staff was reluctant to agree to lock-in natural gas prices at potentially the peak of the market, and then have natural gas prices fall. In addition, Staff's reluctance due to high natural gas prices has been further noted in Mr. Sommerer's rebuttal testimony and a recent response to a data request. Specifically, when asked why Staff did not support MGE's proposed modifications to the Price Stabilization Fund in September 2000 to reflect market conditions at the time, Mr. Sommerer stated:

> The price stabilization program was analogous to obtaining price insurance for the customers at a specified premium. MGE's late September 2000 filing was, in essence, a filing made to acquire regulatory pre-approvals for buying "flood" insurance while the floodwaters lapped against the front door. **The price of the insurance was high, and the deductibles (or strike prices) had reached relatively high levels.** (emphasis added) (Rebuttal Testimony of David Sommerer, Case No. GR-2001-382, March 18, 2003, page 10, ll. 11-15).

In addition, in Staff's response to MGE DR Number 43 in this proceeding, Mr. Sommerer responded:

> DR#43: Please provide a detailed explanation of the basis for Staff's support of Laclede Gas Company's Unanimous Stipulation and Agreement filed on September 1, 2000 concerning the hedging parameters for Laclede for the winter of 2000/2001.
>
> Response: Please see attached copy of Staff's memorandum in support. In Staff's opinion, this Stipulation and Agreement was required because of Laclede's June 2, 2000 letter which announced that Laclede would not be crediting gas costs for strike prices in excess of catastrophic price protection (CPL). Absent the relaxing of volume requirements, **the Staff was concerned that very high**

<u>strike prices would be acquired simply to achieve guaranteed levels of coverage.</u>

Thus, on the one hand, Mr. Sommerer has stated MGE should have hedged outside the parameters of the FCP Settlement, while on the other hand, he has admitted that Staff did not support MGE's attempts to hedge due to the high level of natural gas prices at the time. Staff cannot be permitted to take the position prior to the winter of 2000/2001 that prices were too high to hedge, and now credibly argue that MGE should have implemented additional hedging outside of the authority granted by the Commission. This is completely contradictory and Mr. Sommerer cannot have it both ways.

Q. COULD YOU PLEASE EXPLAIN THE OTHER INCONSISTENCIES WITH MR. SOMMERER'S HEDGING POSITION IN HIS REBUTTAL TESTIMONY?

A. Second, Staff's belief that natural gas prices were too high to support MGE's attempts to reflect then-current natural gas prices in its hedging mechanisms is also contradictory to the position of its own witness in this proceeding. Specifically, Mr. Herbert has argued in this proceeding that an LDC should hedge its gas supply portfolio up to and during the winter if necessary, regardless of the cost of those hedges (see, e.g., pages 2-13, 2-14, and 2-99 of Direct Testimony of John H. Herbert). Therefore, on the one hand, Mr. Sommerer has admitted in his rebuttal testimony (and many other places) that Staff would not support increasing the trigger price of the Fixed Commodity Price PGA to allow the tariffs to be implemented because natural gas prices were too high, yet it seems to me that Mr. Herbert's proposed approach to hedging would have required that the trigger price be raised and the Fixed Commodity Price PGA tariffs be implemented.

Lastly, Mr. Sommerer's hedging position is not consistent with Staff's actions immediately prior to the winter of 2000/2001 with other LDCs in Missouri. Specifically, as I have explained in my direct and rebuttal testimony, Staff signed a settlement with Laclede Gas Company in September 2000 which demonstrated Staff's support for Laclede to begin hedging natural gas prices immediately prior to the winter of 2000/2001. Staff signed the Laclede settlement just two months prior to the winter, even though Staff did not support MGE's similar hedging plan soon thereafter by claiming that Staff was concerned about high natural gas prices. Thus, Staff's internal position regarding hedging prior to the winter of 2000/2001 was not even consistent.

Q. WOULD YOU LIKE TO MAKE ANY ADDITIONAL POINTS REGARDING MR. SOMMERER'S REBUTTAL TESTIMONY?

A. Yes. Mr. Sommerer makes two additional allegations in his rebuttal testimony regarding the negotiations of the FCP Settlement that must be clarified, as it appears to me to be an attempt by Staff to confuse the record through unsupported allegations and misstatements. Specifically, on pages 9 and 10 of his rebuttal testimony, Mr. Sommerer (i) alleges that MGE was negotiating in bad faith during the negotiations of the FCP Settlement, claiming that MGE willingly agreed, in March 2000, to include the Price Stabilization Fund in the FCP Settlement knowing that it was unachievable; and (ii) claims that Staff would have considered altering the parameters of the Price Stabilization Fund in March/April 2000, but MGE never asked Staff for such modifications at that time.

MGE never, in any manner, negotiated in bad faith during the negotiations of the FCP Settlement. Mr. Sommerer offers absolutely no evidentiary support for his allegation. In addition, he fails to point out to the Commission that Staff willingly signed the FCP Settlement. If Staff truly believed at the time that MGE was negotiating in bad faith, and that Staff would have considered modifications to the Price Stabilization Fund, it is inconceivable to me that Staff would not have indicated their disapproval and insisted on those modifications prior to their signing the agreement.

Q. DID MGE EXPECT TO HAVE TO IMPLEMENT THE PRICE STABILIZATION FUND IN THE MARCH/APRIL 2000 TIMEFRAME?

A. No. MGE did not expect to have to implement the Price Stabilization Fund in the March/April 2000 timeframe. Rather, MGE expected that the Fixed Commodity Price PGA tariffs would be implemented to fix the price on 100% of its supply prior to the winter of 2000/2001. MGE's expectation was that if the stated trigger price was not reached, then the trigger price would be adjusted to market levels. MGE recognized that this adjustment was subject to agreement by the Staff and the Office of Public Counsel, but fully expected that, if the market was clearly indicating that the prices would not reach the $2.25 price level specified in the FCP Settlement between April 2000 and two months after Commission approval, all parties would agree to a new market-based price. When this did not occur, MGE then proposed to implement the Fixed Price Commodity PGA for only a single winter period, i.e., the winter of 2000/2001. As Staff did not respond favorably to MGE's proposal, MGE then sought to modify the Price

Stabilization Fund parameters to allow this agreed upon hedging plan to be implemented. What is surprising is that the Staff and Office of Public Counsel would not agree to either approach, and then Staff would challenge MGE regarding the adequacy of volumes hedged during the same winter in this ACA proceeding.

KPC CAPACITY RELEASE

Q. WHAT HAS MR. SOMMERER STATED IN HIS REBUTTAL TESTIMONY REGARDING THE RELEASE OF MGE'S KPC CAPACITY?

A. Regarding the KPC capacity, Mr. Sommerer has stated that "MGE should have made every effort to release this capacity." While he agrees that the commodity rates on KPC are much greater than the competing pipelines in the region, and does not disagree with the fact that there are operational/administrative difficulties associated with utilizing the capacity, he argues that MGE could have potentially found a party to which it could have released the capacity by repackaging the KPC capacity in various ways.

Q. IS MR. SOMMERER'S POSITION SUPPORTED BY ANY FACTS?

A. Absolutely not. Mr. Sommerer's rebuttal testimony on this issue just confuses the record, seemingly in an attempt to draw the Commission's attention away from the fact that **there is absolutely no market for KPC released capacity**. By ignoring this important fact, Mr. Sommerer implies that MGE could have taken other actions to remarket the KPC capacity. However, as stated in my direct and rebuttal testimony in this proceeding, **there has never been a single successful capacity release transaction on the KPC system**. Not a single shipper on KPC has ever been able to successfully release capacity, even though MGE and presumably KPC's other existing shippers have attempted to release the capacity. This is the most compelling evidence that there is **absolutely no market for the release of KPC capacity**. The fact that there have never been any capacity release transactions on KPC proves that, even though the capacity has value to the existing shippers, the KPC capacity has effectively no value to other shippers in the market, regardless of the release rate.

While Mr. Sommerer has acknowledged that he was aware of the fact that there has never been a successful capacity release transaction on KPC, he still attempts to imply that MGE should have packaged the capacity in alternative ways in order to successfully release the capacity, such as on a non-recallable, long-term summer basis to an electric generator. However, historical market evidence has shown that there are simply no buyers willing to take the capacity regardless of:

(i) how the capacity is packaged (i.e., recallable or non-recallable);

(ii) how long the capacity is released for (i.e., monthly or the entire summer season);

(iii) how the deal is marketed (posted capacity release or negotiated transaction); or

(iv) how much the capacity is discounted.

Since there is no market for released capacity on KPC, and neither MGE nor its customers have ever received a benefit from released capacity on the KPC system, the costs associated with attempting to remarket the capacity outweigh any potential, and highly unlikely, benefits.

Q. WHILE MR. SOMMERER AGREES THAT THERE ARE OPERATIONAL ISSUES ASSOCIATED WITH THE KPC CAPACITY, HE HAS CLAIMED ON PAGES 4-5 OF HIS REBUTTAL THAT MGE COULD ASSIST POTENTIAL RELEASE SHIPPERS IN DEALING WITH THOSE ISSUES. DO YOU AGREE?

A. No. This argument by Mr. Sommerer does not recognize the reality of the situation. As discussed in detail in my direct testimony, the KPC capacity has significant operational issues associated with the TransOk lease that make utilizing the capacity more burdensome than using other pipeline capacity. Mr. Sommerer states on page 5 of his rebuttal testimony that MGE should "do everything in its control" to ease these burdens. However, MGE would not be able to ease these operational and administrative burdens for potential third-parties seeking to purchase released KPC capacity. Mr. Sommerer fails to understand that once capacity is released, MGE has absolutely no control over that capacity, either operationally, physically or financially. Therefore, MGE would not, and could not, operate, nominate or schedule that capacity for the third-party, as that would be the sole responsibility of the shipper acquiring the released capacity. However, all of this assumes that there is a capacity release market on KPC in the first place, which clearly there is not. Therefore, this argument of Mr. Sommerer's is both theoretically incorrect and realistically irrelevant.

Q. ON PAGE 6 OF HIS REBUTTAL TESTIMONY, MR. SOMMERER ALSO CONTINUES TO ARGUE THAT MGE COULD HAVE RELEASED ITS WILLIAMS CAPACITY INSTEAD OF RELEASING ITS KPC CAPACITY. WAS THIS A VIABLE ALTERNATIVE DURING 2000/2001?

A. No. Again, Mr. Sommerer offers unsupported opinion on a matter which simply distracts attention away from the facts established by MGE, i.e., the alternative he proposes was uneconomic and would have been more costly to MGE's customers. Staff's claims that MGE is comparing recallable to non-recallable transactions, posted capacity to negotiated capacity, and firm capacity to interruptible capacity, are not only inaccurate, but are also entirely irrelevant. The only relevant point here is that releasing Williams capacity, no matter how it was done or packaged, and utilizing KPC capacity instead, would have been uneconomic. As shown on Schedule MTL-9 in my direct testimony, the capacity release market during 2000/2001 was such that MGE could not obtain sufficient revenues from its Williams capacity to offset the variable costs of utilizing its KPC capacity. Mr. Sommerer has not produced any facts to demonstrate otherwise.

Q. ARE THERE OTHER FACTUAL MISTAKES WITH MR. SOMMERER'S POSITION REGARDING MGE'S RELEASE OF KPC CAPACITY?

A. Yes. Mr. Sommerer states that the letter MGE received from Duke regarding the value of MGE's KPC capacity (see Schedule MTL-6) was dated after the 2000/2001 ACA period. As such, he implies that the letter does not demonstrate that the KPC capacity effectively has no value to third-parties. I would like to clarify for the Commission that Duke evaluated MGE's capacity on KPC as part of MGE's supply outsourcing arrangement that was established with Duke **prior to** the 2000/2001 ACA period. At that time, Duke indicated verbally that it did not place any value on MGE's KPC capacity due to the economic and operational issues outlined in that letter. When Staff indicated a concern with the release of KPC capacity in this proceeding, MGE asked Duke to provide a written explanation of the reasons that it did not agree to take MGE's KPC capacity prior to the 2000/2001 ACA period. This is the letter that is presented in Schedule MTL-6. Therefore, MGE did not ask Duke to evaluate the KPC capacity after-the-fact, but rather the letter is simply documentation of an internal Duke evaluation that took place prior to the 2000/2001 ACA period.

<u>HERBERT TESTIMONY</u>

Q. HAS MGE BEEN ABLE TO FULLY EVALUATE THE TESTIMONY OF MR. HERBERT THAT HAS BEEN PRESENTED IN THIS CASE SO FAR?

A. No. Although MGE has been diligent in requesting copies of certain articles authored by Mr. Herbert in the past related to natural gas pricing and hedging, we have had difficulty obtaining these articles. These are articles that Mr. Herbert listed in his previously filed testimony as a part of his credentials. Although Staff has attempted to assist us in obtaining a copy of these articles, and we have refrained from filing motions in order to give Staff time to provide this material, MGE has as of the filing of my surrebuttal testimony been unable to obtain some of the listed articles. Therefore, I would like to make the Commission aware that if MGE cannot obtain this information that we believe to be pertinent to Mr. Herbert's status in this proceeding, we reserve the right to take appropriate action. If we are finally able to obtain it, we may seek to file additional testimony relating to it.

<u>CONCLUSION</u>

Q. NOW THAT YOU HAVE SEEN STAFF'S DIRECT AND REBUTTAL TESTIMONY AND HAVE HAD AN OPPORTUNITY TO COMMENT ON IT, CAN YOU BRIEFLY SUMMARIZE MGE'S POSITION IN THIS CASE AT THIS TIME?

A. Yes. Up to this point in the proceeding, Staff has not presented sufficient evidence in its May 31, 2002 memorandum or in prepared testimony to raise serious or substantial doubt about MGE's prudence during this ACA period. In short:

- Staff has presented no credible evidence that MGE would ever have been able to release capacity on KPC, or alternatively, that it would have been economic for MGE to release its Williams capacity and utilize its KPC capacity. MGE has proven beyond any doubt that there was no market for release of the KPC capacity during 2000/2001 and that Mr. Sommerer's alternative proposal (i.e., releasing Williams capacity/utilizing KPC capacity) was uneconomic. Therefore, Staff's proposed adjustments regarding the release of KPC capacity should be disregarded by the Commission.

- Staff has presented no credible evidence that MGE's purchasing practices during the winter of 2000/2001 were imprudent with regard to the level of physical and financial hedging. The evidence presented clearly shows that MGE made several reasonable attempts to establish financial hedging mechanisms and conduct hedging within parameters to be approved by the Commission, only to be met with resistance from Staff. The evidence also shows that MGE cannot be appropriately judged by Staff's use of a standard for hedging which was developed after-the-fact and never communicated to MGE in time for MGE to even attempt to act on it, even assuming that Staff's proposal is a valid standard in the first place, which it is not. If Staff's purported "standard" is applied on a seasonal basis, MGE well exceeded their after-the-fact "standard". Most importantly, Staff has not shown any instance where, based on what was known or reasonably knowable at the time, that MGE made an imprudent decision. Therefore, Staff's proposed adjustments regarding hedging should be disregarded by the Commission.

- The evidence shows there are serious theoretical and operational problems with Staff's proposed approach on how MGE's storage should have been utilized during the winter of 2000/2001. MGE has shown that its actions were based on what was known or knowable at the time and consistent with that of most other gas companies during the same period. Ms. Jenkins has made various proposals, but those proposals have suffered from numerous flaws, including the use of incorrect data, inappropriate analysis and incomplete calculations. MGE has shown that Ms. Jenkins' theory that storage should be dispatched based on the distribution of normal heating degree days through the winter is not sound, either operationally or financially. Therefore, those proposed adjustments should be disregarded by the Commission.

- Finally, the issues raised by Staff regarding the Reliability Report should be addressed in another docket.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes, it does.

Schedule MTL-34
Case No. GR-2001-382

Comparison of Weather Volatility - 20, 30 and 40-Years of Heating Degree Day Data

Line No.	Description	Nov	Dec	Jan	Feb	Mar
	(a)	(b)	(c)	(d)	(e)	(f)
1	1961/62	715	1,252	1,386	924	876
2	1962/63	642	1,056	1,482	988	561
2	1963/64	558	1,335	981	934	801
3	1964/65	556	1,111	1,135	998	1,057
3	1965/66	556	763	1,283	935	563
4	1966/67	591	1,052	1,093	959	587
4	1967/68	697	976	1,232	993	560
5	1968/69	748	1,142	1,257	937	894
5	1969/70	651	1,107	1,344	847	823
6	1970/71	739	928	1,296	1,043	764
6	1971/72	625	933	1,228	989	635
7	1972/73	768	1,164	1,169	875	537
7	1973/74	591	1,084	1,278	832	565
8	1974/75	672	1,017	1,090	1,043	885
8	1975/76	579	961	1,162	646	623
9	1976/77	877	1,115	1,534	840	529
9	1977/78	687	1,101	1,495	1,274	854
10	1978/79	631	1,056	1,629	1,235	706
10	1979/80	728	927	1,126	1,155	816
11	1980/81	615	1,019	1,076	887	615
11	1981/82	581	1,118	1,439	1,043	698
12	1982/83	696	916	1,084	817	683
12	1983/84	623	1,606	1,242	757	901
13	1984/85	634	916	1,438	1,111	547
13	1985/86	847	1,306	947	969	536
14	1986/87	813	947	1,095	718	556
14	1987/88	559	929	1,187	1,076	676
15	1988/89	606	924	847	1,182	666
15	1989/90	681	1,362	841	807	606
16	1990/91	458	1,109	1,307	717	561
16	1991/92	850	896	905	733	564
17	1992/93	780	996	1,213	1,019	784
17	1993/94	768	945	1,236	980	589
18	1994/95	561	886	1,143	815	619
18	1995/96	750	1,051	1,299	894	848
19	1996/97	842	1,096	1,260	873	610
19	1997/98	731	978	967	666	814
20	1998/99	512	938	1,156	666	696
20	1999/00	398	906	1,032	701	559
21	2000/01	853	1,425	1,111	982	777

	40-Years of Data					
22	Average (Normal)	669	1,059	1,201	922	689
23	Minimum	398	763	841	646	529
24	Maximum	877	1,606	1,629	1,274	1,057
25	Min. as % of Normal	59%	72%	70%	70%	77%
26	Max. as % of Normal	131%	152%	136%	138%	154%
27	Range	72%	80%	66%	68%	77%

	30-Years of Data					
28	Average (Normal)	677	1,054	1,185	910	669
29	Minimum	398	886	841	646	529
30	Maximum	877	1,606	1,629	1,274	901
31	Min. as % of Normal	59%	84%	71%	71%	79%
32	Max. as % of Normal	130%	152%	138%	140%	135%
33	Range	71%	68%	67%	69%	56%

	20-Years of Data					
34	Average (Normal)	677	1,063	1,137	876	665
35	Minimum	398	886	841	666	536
36	Maximum	853	1,606	1,439	1,182	901
37	Min. as % of Normal	59%	83%	74%	76%	81%
38	Max. as % of Normal	126%	151%	127%	135%	136%
39	Range	67%	68%	53%	59%	55%

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment tariff Revisions to be reviewed in its 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-382

AFFIDAVIT OF MICHAEL T. LANGSTON

STATE OF TEXAS)
) ss.
COUNTY OF TRAVIS)

Michael T. Langston, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

MICHAEL T. LANGSTON

Subscribed and sworn to before me this 16th day of April 2003.

PAIGE S. HUFFMAN NOTARY PUBLIC STATE OF TEXAS EXPIRES 06-27-2006

Paige S. Huffman
Notary Public

My Commission Expires: 27 June 2006