

Exhibit No.:

Issues: **Atmos Energy Corporation:**
*Purchasing Practices Storage
Adjustment-Southeast Missouri
Integrated System; Reliability Analysis
Demand Charges*

United Cities Gas Company:
*Purchasing Practices Minimum Level
of Hedging-Neelyville District and
Consolidated District; Purchasing
Practices Storage Adjustment-
Consolidated District*

Witness: Lesa A. Jenkins

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case Nos.: GR-2001-396 & GR-2001-397
(Consolidated)

Date Testimony Prepared: February 28, 2003

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

LESA A. JENKINS

ATMOS ENERGY CORPORATION

CASE NO. GR-2001-396

AND

UNITED CITIES GAS COMPANY

CASE NO. GR-2001-397

(Consolidated)

*Jefferson City, Missouri
February 2003*

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

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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

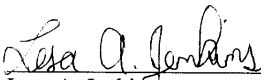
In the Matter of Atmos Energy)
Corporation's Purchased Gas) Case No. GR-2001-396
Adjustment Factors to be Reviewed in)
its 2000-2001 Actual Cost Adjustment)

In the Matter of United Cities Gas)
Company's Purchased Gas Adjustment) Case No. GR-2001-397
Tariff Revisions to be Reviewed in its)
2000-2001 Actual Cost Adjustment)

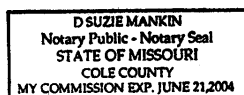
AFFIDAVIT OF LESA A. JENKINS

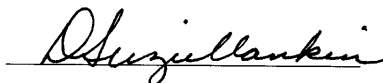
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Lesa A. Jenkins, 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 24 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.


Lesa A. Jenkins

Subscribed and sworn to before me this 27th day of February 2003.





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LESA A. JENKINS

ATMOS ENERGY CORPORATION

CASE NO. GR-2001-396

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UNITED CITIES GAS COMPANY

CASE NO. GR-2001-397

(CONSOLIDATED)

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| Schedule 1 | Changes in the Level of Spot Prices, (Figure 1 from <i>The General Report on Analysis of Gas Supply and Hedging Practice by Regulated Natural Gas Utilities in Missouri</i> , by John H. Herbert, under contract number C201046001, March 2002) |
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REBUTTAL TESTIMONY
OF
LESA A. JENKINS
ATMOS ENERGY CORPORATION
CASE NO. GR-2001-396 AND
UNITED CITIES GAS COMPANY
CASE NO. GR-2001-397
(CONSOLIDATED)

Q. Please state your name and business address.

A. Lesa A. Jenkins, P.O. Box 360, Jefferson City, MO 65102.

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

A. I am a Regulatory Engineer in the Procurement Analysis Department with the Missouri Public Service Commission (Commission).

Q. Are you the same Lesa A. Jenkins who filed revised direct testimony in the consolidated Case Nos. GR-2001-396 and GR-2001-397?

A. Yes, I am.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to the direct testimony of Atmos Energy Corporation witness John Hack related to Staff's proposed adjustments for Atmos Energy Corporation (Atmos or Company), Case No. GR-2001-396, and for United Cities Gas Company (United Cities or Company), Case No. GR-2001-397. My rebuttal testimony is specifically related to "Purchasing Practices Minimum Level of Hedging – United Cities, GR-2001-397, Neelyville District and Consolidated District," "Purchasing

1 Practices Storage Adjustments – Atmos, GR-2001-396, Southeast Missouri Integrated
2 System and United Cities, GR-2001-397, Consolidated District,” and “Reliability Analysis
3 Demand Charges – Atmos, GR-2001-396, Butler District and Piedmont District.”

4 **PURCHASING PRACTICES MINIMUM LEVEL OF HEDGING -UNITED CITIES,**
5 **GR-2001-397, NEELYVILLE DISTRICT AND CONSOLIDATED DISTRICT**

6 Q. Do you agree with Mr. Hack’s statement (Hack direct, p. 9, ll. 18-22) that at
7 the time the Company made its purchasing decisions for the ACA period in this proceeding,
8 local distribution companies (LDCs) throughout the United States relied principally upon
9 contracts that were based on index pricing rather than financial instruments or other hedging
10 techniques?

11 A. Staff does not have comprehensive data on all LDCs throughout the United
12 States of the same quality that it has for LDCs in Missouri. Besides, it is Missouri business
13 and regulatory issues and history that are of most relevance here. Even so, in an Energy
14 Analysis annual report dated June 1, 2000, provided by the American Gas Association to
15 Members of NARUC Staff Subcommittee on Gas, *LDC System Operations and Supply*
16 *Portfolio Management During the 1999-2000 Winter Heating Season*, there was some
17 relevant commentary regarding hedging.

18 Forty-seven percent of responding companies in the survey used
19 financial instruments to hedge at least a portion of their supply
20 purchases. Of those, only 22 percent hedged more than half of
21 their gas purchases. In addition, some companies used fixed-price
22 contracts to hedge as much as 37 percent of volumes delivered on a
23 peak-day. The use of financial tools may be understated in this
24 report inasmuch as some volumes delivered to LDCs from
25 marketers and other suppliers are hedged by that third-party rather
26 than the LDC or customer and may not be included in the LDC
27 hedging question response. (page 3 of report)
28

1 Additionally, the report on page 8, listed in Table 4 that 24% of peak day gas
2 deliveries were obtained from firm pipeline storage, 18% from on-system storage and 5%
3 from LNG/Propane Air, which are all considered hedging instruments by Staff.

4 More importantly, Staff does have similar data for all Missouri LDCs. For the
5 2000/2001 ACA period, Staff reviewed the purchasing practices of the 10 Missouri LDCs.
6 One of these LDCs has two service areas and three of these LDCs have three service areas
7 each, for a total of 17 service areas. Staff reviewed the purchasing practices for each LDC.
8 Staff recommended purchasing practices adjustments for failure to have a minimum level of
9 hedging for four of these LDCs. One of the proposed LDC purchasing practices adjustments
10 included two service areas. Thus, for the 2000/2001 ACA reviews, Staff recommended
11 purchasing practices adjustments for failure to have a minimum level of hedging in 29% of
12 the Missouri LDC service areas.

13 Q. Do you agree with Mr. Hack's statements (Hack direct, p. 10; ll. 6-16; p. 14,
14 ll. 1-2; p. 21, ll. 15-20) that the proposed purchasing practices adjustment for failure to have a
15 minimum level of hedging of 30% of normal requirements is based on hindsight and ignores
16 information that was available at the time the decisions were made?

17 A. No. The Staff's analysis was based on information that was known or should
18 have been known at the time the Company made its decisions.

19 As noted in my revised direct testimony, Staff evaluated the anticipated normal usage,
20 minimum usage, and maximum usage for each month of November 2000 through March
21 2001 for both the Neelyville district and the Consolidated district by using the Company's
22 estimate of base load usage and heat load factor from its reliability review; the Company's
23 estimated number of customers; and normal month temperatures, warmest month

1 temperatures, and coldest month temperatures for these months. This information was
2 available to the Company prior to the winter of 2000/2001. The Staff compared the
3 Company's actual volumes hedged to 30% of normal requirements as a minimum level of
4 hedge for the winter of 2000/2001, as shown in Schedules 14-1 and 19-1 of my revised direct
5 testimony, respectively for the Neelyville district and Consolidated district. A hedge volume
6 of 30% of normal requirements is well below the minimum usage that could be expected for
7 the warmest weather that could be encountered in each of the winter months of November
8 through March.

9 Q. Mr. Hack makes statements regarding high natural gas prices in the winter of
10 2000/2001 (Hack direct, p. 10, ll. 21-23; p. 11, ll. 1-16). He also comments that there has
11 been relatively little volatility in the natural gas commodity markets prior to the winter of
12 2000/2001 (Hack direct, p. 11, ll. 21-23; p. 12, l. 1). Do you agree with these comments?

13 A. Staff agrees that natural gas prices were high and volatile during the winter of
14 2000/2001. However, the potential for natural gas price volatility did not just occur in the
15 winter of 2000/2001. Price volatility was known to be great by most in the industry prior to
16 2000. Examples of this knowledge are as follows:

17 a) Schedule 1 attached to this rebuttal testimony illustrates the change in
18 level of spot prices from 1991 through 2001. Price spikes are noted on this
19 chart.

20 b) Price volatility and customer desire for stable monthly commodity
21 bills is discussed in the July 1, 1999, Public Utilities Fortnightly article, "The
22 Gas Merchant Business: Still a Place for LDCs?" by Mr. John Herbert.

1 c) The Missouri Public Service Commission sponsored a roundtable,
2 Understanding and Managing Natural Gas Price Volatility, on May 20, 1997,
3 in St. Louis, MO. Mr. John Hack, Atmos Energy Corp., is listed as an
4 attendee of that roundtable.

5 Additionally, Staff previously brought natural gas price volatility and the necessity
6 for hedging to the Company's attention. Examples of statements made by Staff regarding
7 natural gas price volatility in United Cities Gas Company Case No. GO-97-410 are as
8 follows:

9 a) The direct testimony of Staff witness David Sommerer states,
10 "Although fewer PGA filings will result in a more stable gas bill for the
11 customer, the gas supply practices and related contracts may still be tied to
12 volatile spot market indices." He further states, "This is why hedging is
13 related to the frequency issue, and why it may be difficult to have a reasonable
14 frequency solution without some form of hedging to address the risk of
15 volatile spot market indices." (Case No. GO-97-410, Sommerer direct, p. 5, ll.
16 8-18.) The frequency issue pertains to the number of PGA filings per year,
17 which was an issue addressed in that case, but is not an issue in this case
18 (Case No. GR-2001-397).

19 b) The direct testimony of Staff witness Michael Wallis states:

20 Index based gas supply contracts are completely at the mercy
21 of the spot market and because they have no upper limit, the
22 Missouri local distribution companies (LDC) could be forced
23 to pay enormously high prices for natural gas. The LDC's
24 should realize that index pricing is not a risk free proposition.
25 If the index moves to unreasonable levels and the LDC has not
26 taken steps to mitigate the price fly-up, disallowances will
27 likely be made. Even if the LDC uses storage for price

1 moderation, measures should be taken to reduce the price risk
2 of the flowing (non-storage withdrawal) gas supply. The LDC
3 should also insure reasonable internal controls are in place for
4 hedging. (Case No. GO-97-410, Wallis direct, p. 3, ll. 20-22; p.
5 4, ll. 1-5.)

6 c) The surrebuttal testimony of Staff witness Sommerer states, "Index
7 based gas contracts have proven to be very volatile and could result in a price
8 that is very burdensome to the customer." (Case No. GO-97-410, Sommerer
9 surrebuttal, p. 2, ll. 11-12) Mr. Sommerer further comments about extreme
10 price levels that have been experienced and provides copies of Energy
11 Information Administration, *Natural Gas Weekly Market Updates* from May
12 13, 1996 and March 3, 1997 to illustrate his point. Additionally, Mr.
13 Sommerer states, "It must be emphasized that to the extent a company is
14 relying on volatile market based indices for its winter gas supply it is
15 speculating that the price will be reasonable." (Case No. GO-97-410,
16 Sommerer surrebuttal, p. 3, ll. 2-3.)

17 Q. Mr. Hack also comments about the record cold in November and December
18 2000. Does Staff agree with these comments?

19 A. Partially. Although United Cities could not have known that November and
20 December 2000 weather was going to be extremely cold, the Company should have reviewed
21 past heating degree day information so that the Company understood how usage would vary
22 for a normal, warm and cold month. Staff believes that it is necessary and prudent for a
23 Company that has a state-authorized monopoly franchise to consider the minimum, normal
24 and maximum monthly usage information in order to properly plan for the variations in
25 volumes of natural gas required by its customers and thus, the types of contracts (base load,
26 swing, storage, pricing provisions, etc.) necessary to meet customer requirements.

1 Q. What would a review of past heating degree day information reveal?

2 A. As shown clearly in the attached Schedule 2-1, a review of the past 30 years
3 of Poplar Bluff, Missouri weather data (information reviewed for the Neelyville district),
4 reveals that there were seven winters prior to 2000/2001 with heating degree days in
5 November in excess of 600. Six of these years had colder Novembers than that experienced
6 in November 2000. Thus, Staff believes that United Cities' planning should have considered
7 the very real possibility of a November that was as cold as November 2000 proved to be.

8 As shown in the attached Schedule 2-1, a review of the past 30 years of Poplar Bluff
9 weather data shows that there were three winters prior to 2000/2001 with heating degree days
10 in December in excess of 1,000. One of these years had a colder December than that
11 experienced in December 2000. Thus, Staff believes that the Company planning should have
12 considered the very real possibility of a December that was as cold as December 2000 proved
13 to be.

14 As shown in the attached Schedule 2-2, a review of the past 30 years of weather data
15 reveals that coldest consecutive November and December occurred in 1976 with a combined
16 total of 1,776 heating degree days. Additionally, the combined heating degree days for the
17 coldest November and the coldest December is 2,011 (790 from November 1976 and 1,221
18 from December 1983). The heating degree days for the combined months of November and
19 December 2000 were 1,816, which was only 2% colder than the historic 30-year coldest
20 consecutive November and December, and it was 10% warmer than the historic 30-year
21 combined coldest November and coldest December. Again, Staff believes that the Company
22 planning should have considered the very real potential for a cold November and a cold
23 December.

1 To be thorough, the attached Schedule 2-3 displays a review of the past 30 years of
2 Poplar Bluff weather data for each heating season (November – March). This part of the
3 schedule shows that there were four heating seasons prior to 2000/2001 with a higher number
4 of heating degree days for the entire heating season. These seasons occurred in 1977/1978
5 with 4,423 heating degree days, 1976/1977 with 4,402 heating degree days, 1978/1979 with
6 4,281 heating degree days, and 1983/1984 with 4,254 heating degree days. For comparison,
7 the heating degree days for the heating season months of November 2000 through March
8 2001 were 4,106. Thus, Staff believes that the Company plan should have considered usage
9 requirements for such a cold winter.

10 Q. Would a review of past heating degree day information for Hannibal, Missouri
11 have revealed similar findings for the Consolidated district (Hannibal/Canton/Palymra/
12 Bowling Green)?

13 A. Yes. The analysis is shown in the attached Schedule 3. The data and charts in
14 Schedule 3 support that the Company should have considered the very real possibility of a
15 November and December that were as cold as November 2000 and December 2000 proved to
16 be.

17 Q. Do you agree with Mr. Hack's statement that Staff did not specifically state
18 prior to the winter of 2000/2001 that United Cities should hedge a minimum of 30% of
19 normal requirements (Hack direct, p. 12, ll. 15-18; p. 13, ll. 1- 22; p. 14, ll. 1-2)?

20 A. Yes. Staff did not specifically state prior to the winter of 2000/2001 that
21 United Cities should hedge a minimum of 30% of normal requirements. And, this seemed a
22 very reasonable level of requirements to be hedged. The reason why Staff chose this number
23 is that we realized that some utilities were new to hedging instruments, in particular financial

1 hedges such as futures and options. Yet, choosing a lower number would have left customers
2 of the Company exposed to large amounts of price risk exposure that could be effectively
3 controlled by prudent actions on the part of the Company.

4 Staff does not make purchasing decisions for the Missouri LDCs. In the ACA
5 review, Staff's role is to evaluate the planning documents and data provided by the Company
6 or available to the Company and the decisions made by the LDC in light of the information
7 that the Company knew or should have known when decisions were made.

8 United Cities is the purchasing agent for its customers. Customers of United Cities
9 rely on the Company to acquire the necessary natural gas supplies to meet their needs.
10 Customers expect natural gas to be there when they need it, and they are also concerned
11 about the cost they pay for natural gas service. The cost of the natural gas service will
12 impact customers' ability to pay. Higher utility bills can cause economic hardship, especially
13 for lower income consumers.

14 Since the Company is making the purchasing decisions for its customers, it must
15 consider volatility and the impact of price volatility on its customers' economic welfare and
16 provide them with some level of protection from this price risk. This protection is
17 accomplished by hedging some portion of the natural gas requirements. As stated in my
18 revised direct testimony, because of price volatility in the natural gas market, Staff believes
19 that it is reasonable to expect that United Cities would have engaged in a minimal level of
20 hedging for the winter months of 2000/2001, especially because customers need at least some
21 partial protection from the potentially great damage caused by a rise in price during a cold
22 winter when they are already facing an increase in their bills because of the weather alone.
23 Staff believes that hedging 30% of normal usage represents an achievable minimum for the

1 winter of 2000/2001 even for LDCs relatively new to the concept of hedging. Yet, no utility
2 is really new to this concept since the majority of them have used storage as a hedge for
3 many years.

4 Q. Mr. Hack includes selected information from the National Regulatory
5 Research Institute reports pertaining to pre-approval, upfront reviews, and upfront guidelines
6 for hedging plans (Hack direct, p. 16, ll. 3-23; p. 17, ll. 3 - 21). Do you have any comments
7 regarding this information?

8 A. Yes. It should be noted that these reports also give reasons to support
9 hedging. For example, in the May 2001 National Regulatory Research Institute report, *Use*
10 *of Hedging by Local Gas Distribution Companies: Basic Considerations and Regulatory*
11 *Issues*, authored by Kenneth W. Costello and John Cita, it states as follows:

12 Buying exclusively gas at index, for example, a gas utility would
13 expose its customers to a 'roller coaster' of prices over different
14 time periods. (Page iv.)

15
16 For LDCs that rely on pass-through provisions, however, hedging
17 may produce large benefits to core customers. Clearly when an
18 LDC employs a pass-through mechanism its core customers are
19 exposed to changing gas prices; that is, in addition to passing
20 through the price, the LDC also passes through the price risk.
21 While PGA-type mechanisms create a lag, and perhaps some
22 smoothing under averaging, price spikes are almost always passed
23 through in some form. (Page 20.)

24
25 Because both the price level and price volatility affect consumers'
26 well-being, hedging by a gas utility should be given serious
27 consideration. Given the high price volatility of gas and the
28 consumer uncertainty that it fosters, it seems consistent with
29 prudent management practices for gas utilities to hedge under
30 many circumstances and to continuously evaluate hedging as part
31 of their gas-management strategy. (Page 63.)

32
33 Moreover, Mr. Costello and Mr. Cita were referring to financial instruments such as
34 futures and options, which are new to some utilities. The hedging instruments considered by

1 Staff included not only financial instruments, but also natural gas storage and fixed price
2 contracts. Most utilities are very familiar with these forms of hedging.

3 Mr. Hack also refers to upfront reviews of hedging strategies in his reference to the
4 February 2002 paper, *Regulatory Questions on Hedging: The Case of Natural Gas*, by Ken
5 Costello, Senior Institute Economist, National Regulatory Research Institute (Hack direct,
6 p. 16, ll. 3-11). It should be clarified that this point was offered by Mr. Costello as one of
7 seven guidelines for consideration, not as a mandate or as a prescription to be followed by
8 state commissions. Mr. Costello also states as follows:

9 State PUCs can choose among various policy options regarding
10 utility hedging with financial instruments; they span the spectrum
11 from prohibition to a mandate. The more defensible, middle-of-
12 the-road course of action, and one that most commissions have
13 taken so far, is to allow utilities to hedge with financial instruments
14 so long as it is done “prudently.” (Page 15)

15
16 Utilities that have pass-through (i.e., PGA) provisions may have
17 little if any direct incentive to undertake hedging activities. On the
18 other hand, hedging may reduce the LDC’s risk exposure from
19 customer non-payment of bills. There also may be other indirect
20 pecuniary incentives. (Page 11.)
21

22 Q. Does that conclude your rebuttal testimony for the Purchasing Practices
23 Minimum Level of Hedging - United Cities, GR-2001-397, Neelyville District and
24 Consolidated District?

25 A. Yes, it does.
26

PURCHASING PRACTICES STORAGE ADJUSTMENTS ATMOS, GR-2001-396,
SOUTHEAST MISSOURI INTEGRATED SYSTEM, AND UNITED CITIES,
GR-2001-397, CONSOLIDATED DISTRICT

Q. Mr. Hack states that Staff's proposed purchasing practices adjustment regarding storage utilization is based on hindsight and fails to adequately recognize operational and reliability issues involved in day-to-day system operations and that Staff disregards the market intelligence and other information that Atmos and other LDCs had available during the volatile months of the 2000-2001 winter (Hack direct, p. 25, ll. 5-9). Do you agree with these statements?

A. No. As noted in my revised direct testimony, the Staff adjustment for the Southeast Missouri Integrated System reflects its analysis of decisions made by the Company for first-of-month flowing supplies, including the effect of these decisions on the planned and actual utilization of storage. The Staff's analysis was based on information available to the Company at the time it made the decisions.

In fact, Staff's recommended disallowance for the Southeast Missouri Integrated System is a direct consequence of the Company not following its plan for first-of-month nominations. Thus, storage was over-utilized in November and December 2000 and under-utilized in January 2001. As a consequence, the cost burden on regulated customers was considerably larger than it should have been.

The Staff adjustment for the Consolidated district reflects specifically and in detail its analysis of decisions made by the Company for planned and actual utilization of first-of-month flowing supplies and natural gas from storage. The Staff's analysis of the Consolidated district was based on information that was known or should have been known

1 by the Company at the time important decisions were made by the Company – decisions that
2 greatly impacted the well-being of its customers.

3 Unfortunately, the Company did not follow its plan for first-of-month nominations for
4 the Consolidated district. Thus, storage was over-utilized early in the winter and under-
5 utilized in January and February 2001, and as a consequence, the cost burden on regulated
6 customers was larger than it would have been.

7 As noted in detail in my revised direct testimony, Staff evaluated the anticipated
8 normal usage, minimum usage, and maximum usage for each month of November 2000
9 through March 2001 for both the Southeast Missouri Integrated System and the Consolidated
10 district by using the Company's estimate of base load usage and heat load factor from its
11 reliability review; the Company's estimated number of customers; and normal month
12 temperatures, warmest month temperatures, and coldest month temperatures for these
13 months. This information was available to the Company prior to the winter of 2000/2001.
14 Staff believes that it is necessary for the Company to consider the minimum and maximum
15 monthly usage information in order to properly plan for the variations in volumes of natural
16 gas demanded by customers, and thus, the types of contracts (base load, swing, storage, etc.)
17 necessary to meet customer requirements.

18 Q. Do you have anything to add to Mr. Hack's comments on factors that affected
19 the Company strategy for managing gas supply and storage (Hack direct, p. 26, ll. 8-23;
20 p. 30, ll. 20-22; p. 31, ll. 1-2)?

21 A. Yes. First, I will address the factors for Atmos' Southeast Missouri Integrated
22 System.

1 As presented in detail in my revised direct testimony, the Company's plan for Atmos'
2 Southeast Missouri Integrated System for normal weather for the heating season months of
3 November 2000 through March 2001 calls for withdrawal of ** HC ** of the maximum
4 storage quantity (MSQ), but the storage was only filled to ** HC ** of the MSQ. Thus,
5 the Company's planned use of storage withdrawals for the heating season of November 2000
6 through March 2001, as shown in the Company's response to Data Request Number
7 (DR No.) 48, exceeds the volume of storage in inventory at the beginning of the heating
8 season. This is a problem. The Company obviously cannot withdraw more natural gas than
9 it has in inventory. Therefore, the Company should have modified its plan for base load
10 supplies and storage withdrawals to adjust for the lower storage inventory.

11 Additionally, and as presented in detail in my revised direct testimony, the
12 Company's planned storage withdrawals exceed Texas Eastern Transmission Corporation's
13 maximum storage withdrawal parameters for November 16 through December 31, 2000, for
14 January 1 - 31, 2001, and for February 1 - 28, 2001. The Company plan for normal weather
15 in November and December 2000, was to withdraw ** HC ** MMBtu, which would
16 have been 166% of the Texas Eastern Transmission Corporation's storage withdrawal
17 limitation of ** HC ** MMBtu for November and December 2000. Thus, even for
18 normal weather, the Company would have greatly exceeded the withdrawal limitation for
19 November and December 2000. The Company actually withdrew ** HC ** MMBtu
20 from storage in November and December 2000. Clearly, the Company should have modified
21 its plan for base load supplies and storage withdrawal beginning in November 2000 to adjust
22 for the storage withdrawal restrictions of Texas Eastern Transmission Corporation.

1 It is worth pointing out that waiting until January 2001 to adjust flowing supplies to
2 make up for excess storage withdrawals in November and December 2000 **would not have**
3 **satisfied** the restrictions of Texas Eastern Transmission Corporation for November and
4 December 2000.

5 Q. Do you have any other comments on factors that affected the Company
6 strategy for managing gas supply and storage for Atmos' Southeast Missouri Integrated
7 System?

8 A. Yes. Mr. Hack states, "the weather for the first week of January was
9 forecasted to be at or colder than normal and the trend was expected to continue for a colder
10 than normal January and February. Based upon these projections, the Company made a
11 prudent operational decision in late December to purchase additional flowing gas to meet
12 expected January demand in an effort to protect from further erosion of existing storage
13 levels." (Hack direct, p. 26, ll. 18-23)

14 Staff's DR No. 62 (Case No. GR-2001-396), requested copies of the weather forecast
15 information available to the Company when decisions were made for first-of-month
16 nominations. Staff also asked the Company to explain how these forecasts were utilized in
17 setting first-of-month nominations and planned storage withdrawals.

18 The Company responded, "The forecast does not affect the planned first of month
19 nominations."

20 The Company also provided copies of weather forecasts. First-of-month nominations
21 for January 2001 were made December 29, 2000. If the Company had reviewed the available
22 weather forecast information prior to making nominations on December 29, 2000, Company
23 personnel would have looked at the December 29, 2000 forecast report. This forecast report

1 gave the forecast for that day and for 6 days out. It provided forecasts for December 29,
2 2000 through January 4, 2001.

3 In conclusion, Staff cannot accept that the Company made a determination that colder
4 than normal weather was expected in January and February 2001 when the Company only
5 had forecast information through January 4, 2001.

6 Q. Please continue with your comments for the United Cities' Consolidated
7 district.

8 A. Mr. Hack states that Atmos typically plans to withdraw approximately 10% of
9 its MSQ in the month of November, approximately 25% in December, approximately 30% in
10 January, approximately 25% in February, and approximately 10% in March. (Hack direct,
11 p. 30, ll. 20-22; p. 31, ll. 1-2). This sums to a planned withdrawal of 100% of the MSQ.

12 However, the assertion is not consistent with information provided by the Company.
13 A review of the Company's plan in its responses to DR No. 48 and DR No. JH85 reveals that
14 only 70% of the storage inventory in the Flexible Storage (FS) and Winter Storage (WS)
15 contracts are used to meet normal requirements.

16 The Company also has an In/Out Storage (IOS) contract and none of this is shown in
17 the Company plan for normal requirements.

18 The Company's withdrawal plan for FS and WS storage withdrawals does not follow
19 the withdrawal distribution described by Mr. Hack, (described above as 10% in November,
20 25% in December, 30% in January, 25% in February, and 10% in March). The Company's
21 response to DR No. JH85 shows that United Cities typically plans to withdraw approximately
22 13% of its MSQ of FS and WS in the month of November, approximately 19% in December,

1 approximately 23% in January, approximately 6% in February, and approximately 8 % in
2 March.

3 In conclusion, Atmos is again providing inconsistent and confusing information.
4 Were those Atmos employess who were responsible for making nomination decisions to
5 assume that 100% of storage is to be typically used, or is 70% of storage to be used? And
6 how does the storage inventory in the IOS contract fit into this plan?

7 As noted in my revised direct testimony (p. 8, ll. 18 through p. 9, ll. 9), the
8 information provided to Staff in different data request responses was inconsistent. Poor
9 choices were made in managing operations during the heating season, and one of the reasons
10 for this may be the inconsistent and confusing information available. Costs may have been
11 avoided if the Company had one reasonable plan, based on a sound strategy, and supported
12 by consistent related schedules instead of a variety of unreasonably different and confusing
13 schedules.

14 Q. Do you have any other comments on factors that affected the Company
15 strategy for managing gas supply and storage for United Cities' Consolidated district?

16 A. Yes. Mr. Hack states, "the weather for the first week of January was
17 forecasted to be at or colder than normal and the trend was expected to continue for a colder
18 than normal January and February. Based upon these projections, the Company made a
19 prudent operational decision in late December to purchase additional flowing gas to meet
20 expected January demand in an effort to protect from further erosion of existing storage
21 levels." (Hack direct, p. 26, ll. 18-23)

22 Staff's DR No. 86 (Case No. GR-2001-397) requested copies of the weather forecast
23 information available to the Company when decisions were made for first-of-month

1 nominations. Staff also asked the Company to explain how these forecasts were utilized in
2 setting first-of-month nominations and planned storage withdrawals. The Company
3 responded as follows:

4 The weather forecasts received by Gas Control are short-term
5 forecasts for the upcoming six to seven day period. These
6 forecasts, in addition to local and national media, are useful in
7 preparing for the possibility of continued colder than normal
8 weather and, based on such forecasts, making adjustments to
9 planned volumes, if needed, in order to ensure the reliability of
10 supply in subsequent months. Such was the case in late December
11 2000 when colder than normal weather was forecast to continue.
12 As a result, the Company made an operational decision to increase
13 flowing gas supplies in January 2001 in order to preserve
14 reliability in January, February, and March 2001.

15 The Company also provided copies of weather forecasts.

16 Staff's understanding is that first-of-month nominations for January 2001 were made
17 on December 29, 2000. Thus, if the Company reviewed the available weather forecast
18 information prior to making nominations on December 29, 2000, Company personnel would
19 have looked at the December 29, 2000, forecast report. This forecast report gave the forecast
20 for that day and for six days out, so it provided forecasts for December 29, 2000 through
21 January 4, 2001.

22 In conclusion, this limited forecast information does not provide support for
23 Mr. Hack's assertion that the Company's decision to nominate additional flowing gas was
24 based on colder than normal weather expected in January and February 2001. The Company
25 only had forecast information through January 4, 2001.

26 Q. In Mr. Hack's direct testimony he refers to information from Gas Daily about
27 the volatility in the natural gas market in November and December 2000 (Hack direct, pp.
28 27-30). Do you disagree with this information?

1 A. No. Staff does not disagree that the market price and the market in general
2 was very volatile. However, volume requirements and weather forecasts should have been
3 considered for January 2001 for both Atmos' Southeast Missouri Integrated System and the
4 United Cities' Consolidated district.

5 As noted previously, the Company forecasts being considered when making January
6 2001 first-of-month nominations only went through January 4, 2001. If the Company was
7 also considering information from Gas Daily, it should be noted that the December 26, 2000,
8 issue of Gas Daily states as follows on page 8 "The Pacific Decadal Oscillation, an oceanic
9 phenomenon that influences long-term weather trends, indicates a January warming trend,
10 though."

11 Mr. Hack also refers to Mr. Steve Bergstrom's comments in the December 26, 2000,
12 issue of Gas Daily regarding gas-fired power plants adding to demand significantly. The
13 same issue of Gas Daily also contains comments from a Washington, D.C. based analyst, in
14 which he points to the trend of utilities abandoning natural gas in favor of liquid fuels and a
15 big increase in fuel oil prices in the Midwest because of this. (Gas Daily, December 26,
16 2000, p. 8)

17 Q. In Mr. Hack's direct testimony, he provides information about storage
18 balances for Atmos' Southeast Missouri Integrated System (Hack direct, pp. 32-37). Do you
19 agree with this information?

20 A. No. However, I should clarify that some of this information changed after the
21 Company filed direct testimony. Staff filed revised direct testimony on January 31, 2003,
22 and revised Staff workpapers were also provided to the Company on that date.

1 A summary of the storage withdrawals for Atmos' Southeast Missouri Integrated
2 System was provided in Schedule 7 of my revised direct testimony. Similar information is
3 presented in Schedule 4, attached, but the plot of storage withdrawals now also shows the
4 actual withdrawals.

5 In the calculation of expected storage withdrawals, Staff considered both the
6 Company's planned storage withdrawals (but reasonably adjusted for the Company's lower
7 than planned beginning storage inventory), and the Texas Eastern Transmission Corporation
8 restriction on storage withdrawal volumes. As noted in my revised direct testimony, the
9 expected first-of-month flowing supplies also impacted the expected storage withdrawals.

10 Q. Please comment on Mr. Hack's assertion that it would not have been prudent
11 to use more flowing gas during November and December 2000 (Hack direct, p. 40, ll. 9-15).

12 A. First, I would like to clarify that Staff's understanding is that Mr. Hack's
13 comments pertain only to the United Cities' Consolidated district.

14 As shown in Schedule 24 of my revised direct testimony, the Company's plan for the
15 United Cities' Consolidated district was to have base load purchases of ** HC **
16 MMBtu for November 2000. But the Company actually nominated only ** HC **
17 MMBtu. Additionally, the Company's plan was to have base load purchases of
18 ** HC ** MMBtu for December 2000. Again, the Company fell short of its plan as it
19 actually nominated only ** HC ** MMBtu.

20 In conclusion, if the Company had nominated base load purchases as planned, then
21 less storage withdrawals would have been required in both November and December 2000.

22 The Company plan called for more base load flowing supplies in November and
23 December 2000. But Mr. Hack is now stating in his direct testimony that it would not have

1 been prudent to use more flowing gas in November and December 2000. It seems to Staff
2 that the Company is now stating that its own plan for November and December 2000 was
3 unreasonable, but justification is not provided. Unfortunately, this might appear to be
4 hindsight review on the Company's part to justify its deviation from its plan for the winter of
5 2000-2001.

6 Q. Does Staff agree with Mr. Hack's statements that Atmos' use of storage in
7 November and December 2000 was consistent with that of other Missouri LDCs (Hack
8 direct, p. 41, ll. 14-21)?

9 A. No. The various Missouri LDCs utilize storage differently.

10 For example, storage contracts can have monthly minimum and maximum
11 withdrawal volumes. Storage service can have a no-notice feature that provides a balancing
12 service that may only have limitations on the maximum daily withdrawal and injection
13 volumes. Storage service can be set up to provide only peaking service, or can be set up to
14 meet a portion of base load requirements.

15 In conclusion, since each Missouri LDCs use of storage considers the needs of its
16 service area, Staff evaluated each LDCs plan and use of storage separately to determine
17 whether each LDCs plan was reasonable and whether the plan was followed with reasonable
18 care, if not followed exactly. Staff does not believe that it is appropriate to simply state that
19 because one LDC made certain decisions, it was prudent for another LDC to make the same
20 or a similar decision. How an LDC uses its storage contracts is a complex issue.

21 Q. Did Staff's proposed adjustment consider the Company's specific plans and
22 use of storage in these consolidated cases?

1 A. Yes. Staff presented information in the revised direct testimony for the
2 consolidated cases, Case Nos. GR-2001-396 and GR-2001-397, explaining Staff's evaluation
3 of Atmos' Southeast Missouri Integrated System and United Cities' Consolidated district
4 planned and actual use of first-of-month nominations and storage withdrawals. Staff's
5 evaluation of the Company data resulted in a quantification of reasonable volumes of first-of-
6 month nominations and expected storage withdrawals as shown in Schedules 11, 12 and 21
7 of my revised direct testimony.

8 Q. Does that conclude your rebuttal testimony for the purchasing practices
9 storage adjustments for Atmos' Southeast Missouri Integrated System and United Cities'
10 Consolidated district?

11 A. Yes, it does.

12 **RELIABILITY ANALYSIS DEMAND CHARGES – ATMOS, GR-2001-396, BUTLER**
13 **DISTRICT AND PIEDMONT DISTRICT**

14 Q. Does Staff still support a disallowance of \$12,296 for Atmos' Butler district
15 related to demand charges on natural gas deliverability that exceeds peak day requirements?

16 A. No, Staff no longer supports the adjustment.

17 Based on information provided in Mr. Hack's direct testimony, Staff re-examined the
18 contracts for the ACA period related to Case No. GR-2001-396. Staff also re-examined the
19 Unanimous Stipulation And Agreement in Case No. GM-2000-312. Because the contract
20 was put in place by Associated Natural Gas for the relevant time period in Case No.
21 GR-2001-396, and not by Atmos, and because Atmos made no changes to this contract
22 during the contract term of March 1, 2000 – April 20, 2001, Staff is no longer proposing an
23 adjustment for the Butler district for this case (Case No. GR-2001-396).

1 Q. Does Staff still support a disallowance of \$20,824 for Atmos' Piedmont
2 district related to demand charges on natural gas deliverability that exceeds peak day
3 requirements?

4 A. Yes, Staff still supports this adjustment.

5 Based on information provided in Mr. Hack's direct testimony, Staff re-examined the
6 contracts for the ACA period related to Case No. GR-2001-396. Staff also re-examined the
7 Unanimous Stipulation And Agreement in Case No. GM-2000-312. The contract put in
8 place by Associated Natural Gas, expired March 15, 2000. For this case (Case No.
9 GR-2001-396), the contract term was November 1, 2000 through March 15, 2001 and the
10 contract was between United Cities and MRT Energy Marketing Company. Gordon J. Roy,
11 Vice President, United Cities Gas Company, a division of Atmos Energy Corporation, signed
12 the confirmation letter. It was Staff's impression in the review of Case No. GR-2000-573,
13 the ACA review for the previous year, that the contract in question was not being renewed
14 for the 2000/2001 ACA period. In fact, Atmos' revised response to DR No. 39a, in Case No.
15 GR-2000-573 includes a note that states,

16 ** HC

17 **

18
19 This revised DR response was received as an attachment to an email from Patti Dathe, Atmos
20 Energy, dated October 24, 2001, and is attached as Schedule 5. Additionally, the contract is
21 not shown in the Company's summary of contracts for the 2000/2001 ACA period in its
22 response to DR No. 5, attached as Schedule 6.

23 Q. One of Mr. Hack's reasons for maintaining all previous year's capacity and
24 supply arrangements was to allow time for Atmos to compile a historical load profile from

1 which the Company could make prudent capacity and supply decisions. Do you have
2 comments regarding this reason?

3 A. Yes. Although the Company did not provide an updated regression analysis
4 to Staff until December 31, 2000 and did not provide detailed supporting documentation until
5 May 1, 2001, the Company should have had access to data to calculate peak day
6 requirements for this district. Additionally, Atmos should have had access to information
7 previously provided by Associated Natural Gas for peak day requirements for this district.

8 Q. What is Staff's proposed adjustment for the Piedmont district?

9 A. Staff's proposed adjustment of \$20,824 for Atmos' Piedmont district is
10 related to demand charges on natural gas deliverability that exceeds peak day requirements.
11 The calculation of this adjustment is included as Schedule 13-2 to 13-4 of my revised direct
12 testimony. The details of the proposed adjustment are contained in the Reliability Analysis
13 section of the Staff Recommendation and in point No. 1 of the Summary section of the Staff
14 Recommendation for this case (Case No. GR-2001-396).

15 Q. Does this conclude your rebuttal testimony for Atmos' Butler district and
16 Piedmont District related to reliability analysis demand charges?

17 A. Yes, it does.

18 Q. Does this conclude your rebuttal testimony for all issues for the consolidated
19 cases, Case Nos. GR-2001-396 and GR-2001-397?

20 A. Yes, it does.