

Exhibit No.:

Issues: **Atmos Energy Corporation:**
Purchasing Practices-General;
Purchasing Practices-Southeast
Missouri Integrated System;
Reliability Analysis
United Cities Gas Company:
Purchasing Practices-General;
Purchasing Practices-Neelyville
District; Purchasing Practices-
Consolidated District; Reliability
Analysis

Witness: Lesa A. Jenkins

Sponsoring Party: MoPSC Staff

Type of Exhibit: **Revised** Direct Testimony

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

Date Testimony Prepared: **January 31, 2003**

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

****REVISED** DIRECT 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

January 2003

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

NP

OF THE STATE OF MISSOURI

Case No. GR-2001-396

Case No. GR-2001-397

AFFIDAVIT OF LESA A. JENKINS

SS.

Lesa A. Jenkins, being of lawful age, on her oath states: that she has participated in the preparation of the following Revised Direct Testimony in question and answer form, consisting of 46 pages to be presented in the above case; that the answers in the following Revised Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Lesa A. Jenkins

30th day of January 2003.



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

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(CONSOLIDATED)

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REVISED DIRECT 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. Please describe your educational and professional background.

A. I received a Bachelor of Science degree, with honors, in Industrial Engineering (BSIE) from University of Missouri – Columbia. I received a Master of Business Administration (MBA) from William Woods University. Since March 1993, I have been registered as a professional engineer in the state of Missouri. I am currently a member of the Society of Women Engineers, National Society of Professional Engineers and the Missouri Society of Professional Engineers.

Q. Please describe your work background.

A. Prior to joining the Commission, I was employed by the Missouri Department of Natural Resources (DNR). While employed with DNR I held various engineering and

1 then management positions with the Division of Energy from February 1992 - October 1999.

2 I was employed as an environmental engineer with the Division of Environmental Quality
3 from January 1988 - January 1992. Prior to that I was employed by Procter & Gamble in
4 various production and quality control/quality assurance team manager positions in Cape
5 Girardeau, Missouri and then in Cincinnati, Ohio. I began employment in my current
6 position with the Commission in November 1999.

7 Q. Please describe your duties while employed by the Commission?

8 A. The nature of my duties at the Commission has been to investigate and review
9 natural gas reliability/peak day plans of the ten natural gas local distribution companies in
10 order to determine the reasonableness of the assumptions for estimating demand
11 requirements, analyze the companies' estimating tools, review and analysis of transportation
12 capacity/storage/peaking/supply resources utilized by the companies, review and analyze
13 company base load requirements and other requirements and review and analyze the rationale
14 for the companies' reserve margins—capacity in excess of the requirements estimated to be
15 needed for peak day requirements. I also assist in matters involving analysis of economic
16 dispatch models, gas supply plans, incentive plans, hedging plans and service area
17 expansions.

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

19 A. Yes, I have. See Schedule 1 attached to this direct testimony for a list of cases
20 and issues. Additionally, I have prepared 29 reliability reviews as part of the filed Staff
21 Actual Cost Adjustment (ACA) recommendations since November 1999.

22 Q. Did you make an analysis of the books and records of the Company in regards
23 to matters relevant to this case?

1 A. Yes, I did. For each service area in each case, I conducted a reliability and
2 natural gas purchasing practices analysis for the reasonableness of the assumptions for
3 estimating demand requirements, analysis of the Company's estimating methods, review and
4 analysis of transportation capacity/storage/peaking/supply resources planned and utilized by
5 the Company and review and analysis of the rationale for the Company's reserve margin.

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

7 A. I will address issues filed in the Staff recommendation for Atmos Energy
8 Corporation, Case No. GR-2001-396, related to "Purchasing Practices-General," "Purchasing
9 Practices – Southeast Missouri Integrated System" and "Reliability Analysis." I will also
10 address issues filed in the Staff recommendation for United Cities Gas Company, Case No.
11 GR-2001-397, related to Purchasing Practices – General," "Purchasing Practices - Neelyville
12 district," "Purchasing Practices – Consolidated district," and "Reliability Analysis."

13 Q. Please explain why you are filing revised direct testimony.

14 A. Direct testimony was filed on December 23, 2002. However, additional
15 information received from the Company prompted Staff recently to re-examine the data that
16 was used to calculate the proposed Purchasing Practices adjustment for the Atmos Southeast
17 Missouri Integrated System. The re-examination revealed that there was a misunderstanding
18 about some of the data, which caused the data to be incorrectly used in Staff's worksheets.
19 As a consequence, a re-evaluation of the subject Purchasing Practices adjustment was
20 conducted. In this re-evaluation, two schedules were added. Thus some of the subsequent
21 schedules were renumbered. To assist in locating information in the schedules, a list of
22 schedules was also added. All substantial changes from the original filed direct testimony
23 are indicated by shaded text.

1 Q. What knowledge, skills, experience, training or education do you have in
2 these matters?

3 A. Both my MBA and BSIE degrees provided formalized coursework that gave
4 me knowledge and skills that I used in these reviews. My 20 years of
5 engineering/management work experience provided me with experience from project reviews
6 and provided additional knowledge from training courses and review of technical
7 information. Eleven of these years of work experience related specifically to energy issues.
8 The projects that I worked on over my 20 years of engineering/management work in private
9 industry and government allowed me to look at issues from various vantage points, such as
10 consumer wants and needs, business goals and limitations and requirements and limitations
11 presented by rules and regulations.

12 **ATMOS ENERGY CORPORATION, CASE NO. GR-2001-396**

13 Q. What is the purpose of your direct testimony for Atmos Energy Corporation,
14 Case No. GR-2001-396?

15 A. I address the Staff recommendation regarding the documentation issues
16 related to Purchasing Practices – General. The direct testimony of Staff witness Phil S. Lock
17 provides a summary of the purchasing practices adjustment related to the Southeast Missouri
18 Integrated district identified in Staff's ACA recommendation for Case No. GR-2001-396
19 filed on September 30, 2002. My testimony provides support for the proposed purchasing
20 practices adjustment for the Southeast Missouri Integrated district related to use of storage.
21 In addition, I address the Staff recommendation regarding the proposed reliability
22 disallowances for the Butler district and Piedmont district as well as documentation issues
23 related to the reliability analysis.

1 Q. Please describe the Missouri service territories served by Atmos Energy
2 Corporation (Atmos or Company) in Case No. GR-2001-396.

3 A. Atmos separates its Missouri gas operations into the following three districts:
4 Southeast Missouri (SEMO), Kirksville and Butler. The SEMO, Kirksville and Butler
5 districts serve approximately 37,200 customers, 6,200 customers, and 4,000 customers,
6 respectively. For purposes of the reliability review, Atmos separates its Missouri gas
7 operations into the following five service areas: Butler/Panhandle Eastern Pipe Line (PEPL),
8 Kirksville/ANR Pipeline, Jackson/Natural Gas Pipeline (NGPL), Piedmont/Mississippi River
9 Transmission (MRT), and the Southeast Missouri Integrated system consisting of Texas
10 Eastern Pipeline (TETC), Ozark Gas Transmission and Arkansas Western Pipeline.

11 **PURCHASING PRACTICES – GENERAL**

12 Q. Please explain the Staff recommendation for Purchasing Practices – General.

13 A. The Staff recommendation in Case No. GR-2001-396, filed on
14 September 30, 2002, contained a recommendation No. 2 that the Company submit on
15 January 1, 2003, documentation of its policies and procedures for those responsible for
16 nominating natural gas. The submittal was to include the information identified in the
17 section “Purchasing Practices – General” of the Staff recommendation as follows:

18 The Staff believes that a fully documented nomination process, the process for
19 determining and ordering required natural gas, is critical for a reasonable gas
20 procurement plan. The nomination process includes, but may not be limited
21 to, the interaction between short-term weather forecasts, pricing information,
22 nomination deadlines, demand forecasts, end-user analysis, required storage
23 targets, actual storage balances, storage telemetry information, existing gas
24 supply contracts and constraints, and first-of-the-month flowing gas prices
25 versus daily gas market prices. These variables should be considered, at least
26 implicitly, in spreadsheet summaries containing the various inputs that
27 eventually result in the determination of the amount of flowing supply to

1 nominate. The Staff recommends that the nomination process be fully
2 documented.

3 Q. What is the disagreement?

4 A. In its Response to Staff Memorandum and Recommendation, filed
5 October 30, 2002, the Company states that Staff recently concluded a management audit that
6 included a review of the Company's policies and procedures for nominating natural gas. The
7 Company believes that it would be duplicative to resubmit these policies for a second review
8 by the Commission Staff within a few months of the completion of the management audit.

9 Q. Do you agree that this is duplicative?

10 A. No. The scope of the Engineering and Management Services Department
11 (EMSD) gas supply process and operations study, to which the Company refers, included "a
12 review of the management controls in place and the use of technology within the gas supply
13 function," (Review of Atmos Energy Corporation Customer Service and Gas Supply
14 Operations, Prepared by Missouri Public Service Commission Engineering and Management
15 Services Department, July 2001, page 78). The Staff recommendation regarding Purchasing
16 Practices – General is in response to a more specific review of the 2000-2001 ACA filing,
17 and requests more specific information such as the interaction between short-term weather
18 forecasts, pricing information [first-of-month (FOM) flowing gas prices, expected daily gas
19 market prices], nomination deadlines, demand forecasts, end-user analysis, required storage
20 targets, actual storage balances, storage telemetry information and existing gas supply
21 contracts and constraints.

PURCHASING PRACTICES-SOUTHEAST MISSOURI INTEGRATED SYSTEM

Q. Please explain the Staff adjustment for the Southeast Missouri Integrated System.

A. Staff shows that Atmos did not properly plan for storage withdrawals for the months of November and December 2000, that Atmos relied too heavily on flowing supplies rather than planned storage withdrawals in January 2001, and that these decisions exposed customers to the higher flowing gas costs in January 2001. In arriving at this conclusion, Staff evaluated the Company's actual use of flowing supply, storage gas, and liquefied natural gas (LNG) to meet actual requirements compared to the Company's short-term plan for meeting natural gas requirements for the winter months of November 2000 to March 2001. Staff's review shows that Atmos' decisions for flowing gas and storage withdrawals had an unfavorable economic impact to customers on purchased gas costs of \$1,119,105 to \$1,146,076 and the Staff proposes to reduce gas costs by \$1,119,105.

Q. Is this different from Staff's original recommendation?

A. Yes. Staff's ACA recommendation included a proposed purchasing practices adjustment of \$1,309,540. Further review of Company information indicated that changes to the original adjustment were required. In addition, supplementary information was obtained regarding pipeline constraints for storage withdrawals that impacted the assumptions used in Staff's analysis of the Company's purchasing practices. This resulted in a reduction of Staff's proposed adjustment from \$1,309,540 to \$1,119,105. This information has been provided to the Company and the corrections are included in this testimony.

Q. Does Staff believe that the Company plan for flowing supplies and storage withdrawals was unreasonable?

Revised Direct Testimony of
Lesa A. Jenkins

1	A. Yes. ** <u>HC</u>
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2	<u>HC</u>
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3	<u>HC</u>
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4	<u>HC</u>
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5	<u>HC</u>
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6	HC
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11	HC
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12	<u>HC</u>
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13	<u>HC</u>
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14 | HC15 | HC

16	HC	**
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17 Q. Do you have problems with the information provided by the Company?

18 A. Yes. The information provided to the Staff in different data request responses
19 was inconsistent. The information needed to be evaluated by Staff before it could be used for
20 purposes of evaluating Company performance. Amounts reported for the same variable were
21 unreasonably different in Company responses to data requests. For example, an important
22 variable for planning and managing operations is normal usage for each heating season
23 month. Yet, values for this variable for the same month were unreasonably different in

1 various DR responses as described below. In other words, a reasonable person would not
2 know without some evaluation which of the normal volumes reported should be used. This
3 may explain, in part, why the Atmos customers paid \$1,119,105 more for gas (Staff's
4 recommended disallowance) than they would have paid if reasonable and prudent practices
5 had been followed. Poor choices were made in managing operations during the heating
6 season, and one of the reasons for this may be the inconsistent and confusing information
7 available. Costs may have been avoided if the Company had one reasonable plan supported
8 by consistent related schedules instead of a variety of unreasonably different and confusing
9 schedules. Staff uses such a reasonable schedule here to compute the disallowance.

10 Staff would expect that the Company's estimated requirements for normal weather
11 would be consistent with other Company estimates of usage for normal weather. However,
12 as shown in Schedule 3 attached to this testimony, the Company estimate of normal usage is
13 different in the responses to DR No. 48 and DR No. 85, attached as Schedule 4, and these are
14 different from the estimated usage for normal weather obtained from the Company's
15 reliability review using a regression analysis.

16 Q. How was usage estimated from the regression analysis?

17 A. In the Company's reliability review, natural gas usage was evaluated to obtain
18 an estimate of base load usage and heat load usage of the Company's firm customers. Base
19 load usage refers to customer usage that is not expected to vary with the outside temperature
20 such as usage for cooking, some commercial and industrial processes and most water
21 heating. Heat load usage refers to customer usage that does vary based on outside
22 temperature, such as space heating. The heat load for a particular temperature is estimated
23 by multiplying the heating degree days (HDD), a measure of how cold a location is relative

1 to a base temperature of 65 degrees Fahrenheit, by a heat load factor. Using the Company's
2 estimate of base load usage and heat load factor from the Company's reliability review, the
3 Company's estimated number of customers and normal temperatures for the winter months
4 of November through March, Staff estimated normal usage for each of these winter months
5 of November 2000 to March 2001.

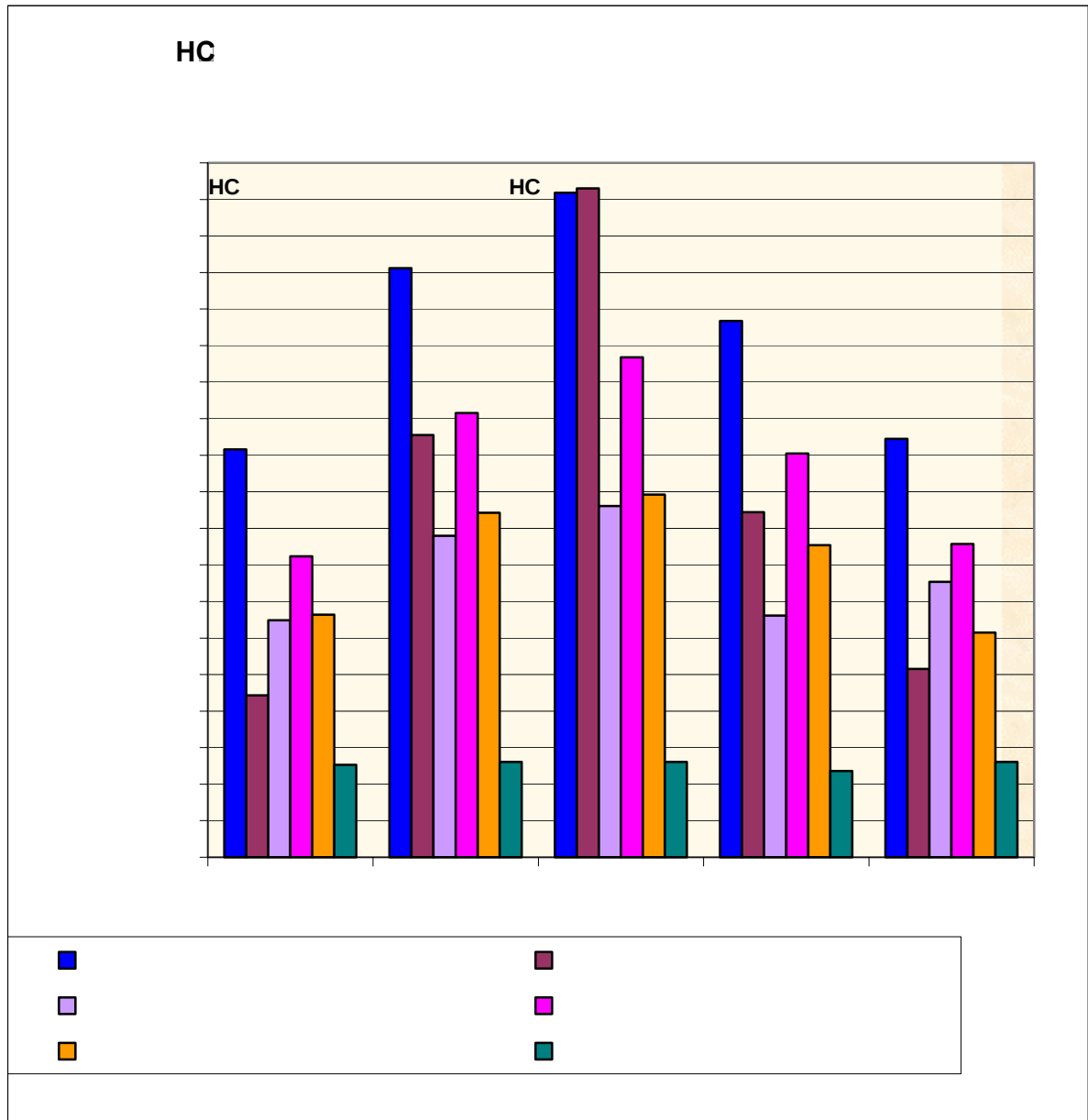
6 Usage in the winter months of November through March is expected to be higher than
7 just the base load usage because each month has daily average temperatures below 65
8 degrees Fahrenheit, and thus each of these months also has heat load usage. Staff determined
9 what could be expected as the minimum and maximum usage for each month of November
10 2000 through March 2001 by using the Company's estimate of base load usage; heat load
11 factor and warmest and coldest month temperatures, respectively for these months; and the
12 Company's estimate for number of customers. Staff believes that it is necessary for the
13 Company to consider the minimum and maximum monthly usage information in order to
14 properly plan for the variations in volumes of natural gas demanded by customers and thus,
15 the types of contracts (base load, swing, storage, etc.) necessary to meet customer
16 requirements. See Schedule 5 attached to this testimony for a summary of warmest month,
17 coldest month, normal month and actual month heating degree day information.

18 Q. Which estimate of normal usage does Staff support?

19 A. Staff compared these three estimates of normal usage (one from the Company
20 reliability review, one from the DR No. 85 response and one from the DR No. 48 response).
21 The comparison shown on the chart on the following page and in the attached Schedule 3
22 shows how these estimates of normal usage compare to estimates of warmest month and

coldest month usage. The Staff believes the regression analysis from the Company's
Reliability Report is the most reasonable based upon the discussion that follows.

**



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Q. Do any of the Company's responses seem particularly unreasonable?

A. Yes, the Company's estimate of normal usage (usage for normal weather) in the response to DR No. 48 does not seem reasonable to Staff because the Company's response shows its estimate of normal weather usage for each of the months of November 2000 through February 2001 as being lower than that estimated for even the warmest weather for each of the months of November through February.

The Company's estimate of normal usage in the response to DR No. 85 also does not seem reasonable to Staff for the following reasons:

a) The DR85 response shows normal weather November 2000 usage to be considerably lower, ** HC

HC **

b) The response to DR No. 85 shows normal weather January 2001 usage to be nearly the same, and actually ** HC

HC

HC
**

As a check, Staff's review shows that January 2001 weather was near normal and actual usage was near the estimate for normal weather from the regression model, and thus not near the estimate from the response to DR No. 85. (The actual usage estimate was ** HC **

MMBtu; the regression analysis normal usage estimate was
 ** HC ** MMBtu; and the DR No. 85 normal usage estimate was
 ** HC ** MMBtu.

1 c) The response to DR No. 85 shows normal weather March 2001 usage
2 to be ** HC ** MMBtu lower than that estimated for even the
3 warmest March ** HC **

4 Because the Company provided detailed supporting information for the estimates
5 obtained from the reliability review, and none for the two DR responses, and because of the
6 concerns noted previously regarding the DR No. 48 and DR No. 85 estimates of normal
7 usage, Staff uses the Company's regression analysis to estimate usage.

8 Q. Are there other reasons why Staff believes that the Company plan for flowing
9 supplies and storage withdrawals was unreasonable?

10 A. Yes. ** HC
11 HC
12 HC
13 HC
14 HC
15 HC
16 HC ** Staff compared the Company's planned sources of supply (from DR No. 48) to
17 the estimates of usage from the regression analysis, (Schedule 6 attached to this testimony),
18 and notes the following concerns with the Company's Short Term Plan.

19 a) ** HC
20 HC
21 HC
22 HC
23 HC

1 HC

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5 HC

6 HC

7 HC

8 HC

9 HC ** it is not clear that the Company has properly evaluated and
10 planned how it will react when cold weather occurs in this service area.
11 (“Swing gas” and “peaking gas” are defined in the Company’s response to DR
12 No. 48. “Swing gas” can be requested as needed throughout the month at any
13 level up to the maximum daily contractual quantity. “Peaking gas” can be
14 called upon as needed, but only up to a maximum number of days during the
15 contracted period.)

16 b) ** HC

17 HC

18 HC

19 HC

20 HC ** So
21 again, it is not clear that the Company has properly evaluated and planned
22 how it will react when cold weather occurs in this service area.

1 Q. Please continue with the explanation of why Staff believes that the
2 Company's plan for flowing supplies and storage withdrawals was unreasonable.

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

12 Additionally, the Company's planned storage withdrawals exceed Texas Eastern
13 Transmission Corporation's maximum storage withdrawal parameters for November 16
14 through December 31, 2000, for January 1 - 31, 2001, and for February 1 - 28, 2001. The
15 Company plan for normal weather in November and December 2000, was to withdraw
16 ** HC ** MMBtu and this would have been 166% of the Texas Eastern Transmission
17 Corporation's storage withdrawal limitation of ** HC ** MMBtu. Thus, even for
18 normal weather, the Company would have greatly exceeded the withdrawal limitation for
19 November and December 2000. Charts of the planned and actual storage withdrawals are
20 shown in Schedule 7 attached to this testimony. A customer-specific operation flow order
21 (OFO) can be issued by Texas Eastern Transmission Corporation when an individual
22 customer exceeds the maximum storage performance levels provided in their winter storage
23 withdrawal plan. The customer-specific OFO places restrictions on utilization of natural gas

1 in storage. Texas Eastern Transmission Corporation will assess charges of \$25 per
2 dekatherm for unauthorized quantities withdrawn from storage.

3 Q. The above discussion addresses some shortcomings of the Company's Supply
4 Plan. Does Staff have any concerns regarding the execution of the Company's Supply Plan?

5 A. Yes. The Company did not follow its plan for base load purchases. Although
6 the Company plan for November 2000 was to have base load purchases of ** HC
7 HC ** the actual base load, including fixed volumes, was ** HC
8 HC ** ("Fixed" is a term used in DR No. 85
9 and refers to volumes of natural gas purchased under fixed price contracts. Staff considered
10 these fixed price contracts to be base load volumes of natural gas.) Because less FOM
11 flowing supplies were nominated than planned by the Company (or expected by Staff) for
12 November 2000, the Company relied more on swing supplies and storage withdrawals, which
13 were not planned for normal weather. When the weather actually turned out to be colder
14 than normal, the Company had to rely on even more higher priced swing supplies and storage
15 withdrawals - withdrawals that were planned for later winter months.

16 The Company plan for January 2001 was to have base load purchases of ** HC
17 HC ** but the actual base load, including fixed volumes, was ** HC
18 HC ** Charts comparing the planned to actual
19 base load purchases and storage withdrawals are shown in Schedule 8. The chart comparing
20 the planned and actual base load purchases is also shown below.

1 A. The Company's short-term plan shows that ** HC
2 HC
3 HC
4 HC
5 HC
6 HC ** Staff reviewed Atmos' actual natural gas purchases to see that the
7 Company had sufficient volumes of FOM flowing supplies and planned storage withdrawals
8 to cover warm weather requirements for November 2000 through January 2001. Staff also
9 reviewed Atmos' actual natural gas purchases to consider how the Texas Eastern
10 Transmission Corporation restriction on storage withdrawal volumes should have been
11 considered by the Company in setting these FOM flowing supply volumes. The review of the
12 actual natural gas purchases shows that the Company uses base load, including fixed
13 volumes, of flowing supplies, swing/peaking flowing supplies, storage and LNG to meet
14 actual customer requirements during these months.

15 If instead of nominating the low FOM flowing supply volumes for November 2000,
16 the Company had planned on and nominated FOM volumes of base load (including fixed)
17 flowing natural gas, so that these FOM supplies, along with the planned storage withdrawals,
18 covered warmest month requirements, then less storage withdrawals would have been
19 necessary in November and December 2000 and lower volumes of flowing swing natural gas
20 would have been necessary in November 2000.

21 Q. Wouldn't Staff expect greater utilization of storage in cold weather?

22 A. Normally, yes. However, the Company plan is for ** HC
23 HC

1 HC

2 HC

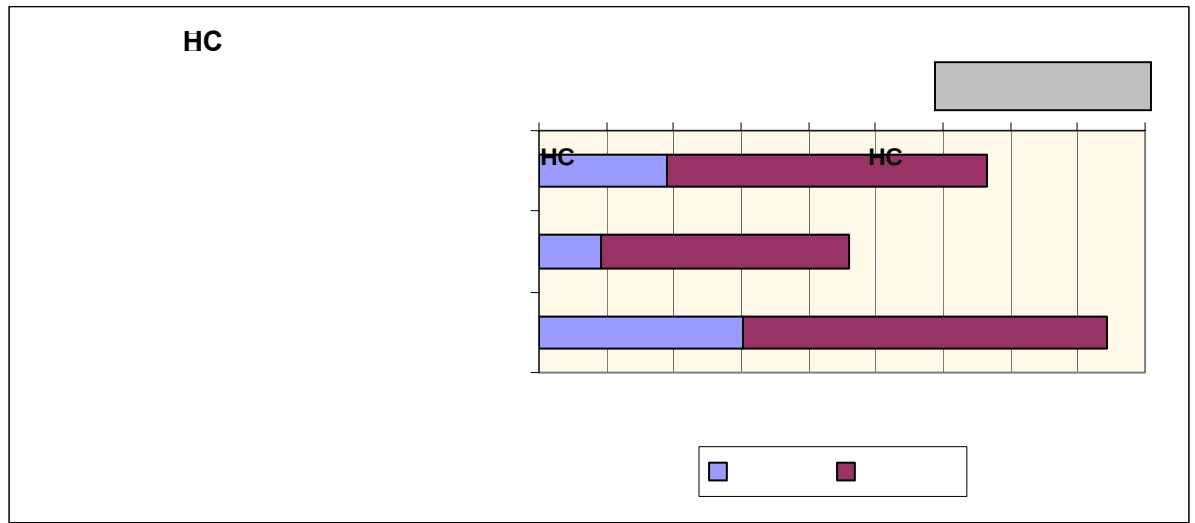
3 HC

4 HC

5 HC ** Based on the Company's plan for storage,
6 Staff believes that if the weather had been warmer than normal in a particular month, then
7 there would be a net injection in that month; this would put storage inventory at a higher
8 level than planned, but then the Company could use this excess in following months as part
9 of the plan for cold weather, or storage withdrawals could be used to reduce FOM base load
10 nominations.

11 In fact, the Company did withdraw more natural gas from storage than planned in
12 November and December 2000, ** HC
13 HC ** of the MSQ. This difference of 3.2% would not
14 normally be a major concern to Staff, but as noted previously, the Company plan for storage
15 withdrawals did not appropriately consider the Texas Eastern Transmission Corporation's
16 limitations on storage withdrawals. The Company's plan for normal weather in November
17 and December 2000, included withdrawals of ** HC ** MMBtu and this would have
18 been 166% of the Texas Eastern Transmission Corporation's storage withdrawal limitation of
19 ** HC ** MMBtu. Thus, even for normal weather, the Company would have greatly
20 exceeded the withdrawal limitation for November and December 2000, as shown on the
21 following chart.

1 **



2
3
4 **

5 Q. Does Staff have any additional concerns with the Company's natural gas
6 purchasing decisions?

7 A. Yes. Staff is also concerned about the Company's natural gas purchasing
8 decisions for January 2001. Even though the month of January 2001 had near normal
9 temperatures, the Company actually had a net ** HC ** for
10 that month.

11 Q. Did the ** HC ** in January 2001 surprise you?

12 A. Yes. January is typically colder than the other winter months. Based on the
13 Company plan, it would be standard practice to withdraw natural gas from storage during the
14 month of January. It is reasonable to expect occasional injections when the weather is
15 warmer than normal in January, for balancing purposes, but it is surprising to observe ** HC
16 HC ** in January 2001 when the weather was near normal. Thus, Staff believed it was

NP

1 appropriate to look more closely at the Company's decisions regarding planned storage
2 withdrawals and actual storage withdrawals for the winter of 2000/2001.

3 As illustrated by the storage plots for the Southeast Missouri Integrated System in
4 Schedule 9 attached to this testimony, the ** HC

5 HC

6 HC

7 HC ** by itself is not viewed as unreasonable and the Company still could
8 have withdrawn natural gas from storage in January 2001 and maintained the Company's
9 planned level of storage for the remaining winter months at either level. When reviewing the
10 actual Company storage inventory levels, Staff also found that storage ** HC

11 HC

12 HC ** the Company still could have
13 withdrawn natural gas from storage in January 2001 and maintained the Company's planned
14 level of storage for the remaining winter months. This is illustrated in the chart in

15 Schedule 9-2. If the Company had adjusted the planned monthly storage withdrawals for
16 each month of November 2000 through March 2001 to be in compliance with the Texas
17 Eastern Transmission Corporation's limitation on storage withdrawals, as noted in the
18 November 6, 2000 letter from Duke Energy Gas Transmission, attached as Schedule 10, the
19 Company still could have withdrawn natural gas from storage in January 2001 and
20 maintained storage inventory levels expected for the Texas Eastern Transmission
21 Corporation storage. This is illustrated in the chart in Schedule 9-3.

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11 HC ** Staff also considered the storage withdrawal limits of Texas
12 Eastern Transmission Corporation, but these limitations should have been taken into
13 consideration by the Company beginning in November 2000, not in late December 2000
14 when decisions were being made for January 2001 FOM nominations.

15 Finally, Staff would have expected planned withdrawals for February and March
16 2001 to be adjusted based on what was known about the storage inventory compared to the
17 plan at the end of January and February 2001.

18 Q. How did Staff use this information in the proposed adjustment for the
19 Southeast Missouri Integrated System?

20 A. Using the parameters described above, Staff calculated the adjusted base load
21 FOM nominations. For normal weather, the Company plans to withdraw ** HC

22 HC

23 HC ** Therefore, Staff calculated

Revised Direct Testimony of
Lesa A. Jenkins

base load FOM nominations using the Company's planned storage withdrawals, but adjusted for the lower beginning inventory. Staff also calculated base load FOM nominations given the Texas Eastern Transmission Corporation's storage withdrawal limitations. The storage withdrawals expected by Staff were compared to the actual storage withdrawals. A summary of the FOM nominations and the storage withdrawals from Staff's review is shown below.

**

	HC		

HC			

**

Adjustments were calculated based on these comparisons. An explanation of the dollar amount of the adjustment for these revised storage volumes is included in the direct testimony of Staff witness Phil Lock. Staff's review shows Atmos' decisions for flowing gas and storage withdrawals had an unfavorable economic impact on customers' purchased gas costs amounting to \$1,119,105 to \$1,146,076 as shown in the attached Schedules 11 and 12. If FOM nominations and withdrawals of natural gas from storage had followed either of

1 these reasonable approaches, Staff would not be proposing an adjustment. Therefore, the
2 Staff proposes to reduce gas costs by the lower amount of \$1,119,105.

3 Q. In the Company Response To Staff Memorandum And Recommendation, the
4 Company states that the Staff recommendation improperly seeks disallowance based on
5 hindsight review. Is this true?

6 A. No. The Staff adjustment reflects its analysis of decisions made by the
7 Company for FOM flowing supplies, including the effect of these decisions on the planned
8 and actual utilization of storage. The Staff's analysis was based on information known at the
9 time the Company made the decisions. In fact, the disallowance is a direct consequence of
10 the Company not following its plan for FOM nominations. Thus, storage was over-utilized
11 in November and December 2000 and under-utilized in January 2001 and as a consequence
12 the cost burden on regulated customers was considerably larger than it would have been.

13 Q. Does that conclude your testimony on the Southeast Missouri Integrated
14 System proposed purchasing practices adjustment?

15 A. Yes, it does.

16 **RELIABILITY ANALYSIS**

17 Q. Please explain the reliability issues.

18 A. The Staff Recommendation in Case No. GR-2001-396 filed on September 30,
19 2002, also contained a recommendation No. 1 pertaining to adjusting the ACA account
20 balances, which include an adjustment for reliability for the Butler district and the Piedmont
21 district. The details of the proposed adjustment are contained in the Reliability Analysis
22 section of the Staff Recommendation and in point No. 1 of the Summary section of the Staff
23 Recommendation. The adjustment in the recommendation is for demand charges on natural

1 gas deliverability that exceeds peak day requirements. The dollar amounts of the proposed
2 adjustments are \$12,296 for the Butler district and \$20,824 for the Piedmont district and
3 these are shown in the attached Schedule 13. In the Response To Staff Memorandum And
4 Recommendation filed October 25, 2002, the Company does not state whether Atmos agrees
5 or disagrees with the recommended adjustment. Therefore, the Staff views this as an
6 unresolved issue at this time.

7 Q. Do you have any other issues?

8 A. Yes. The Staff Recommendation in Case No. GR-2001-396 filed on
9 September 30, 2002, also contained recommendation Nos. 3a through 3h related to actions to
10 be taken by the Company by February 3, 2003, regarding the Company's reliability analysis.
11 In the Response To Staff Memorandum And Recommendation filed October 25, 2002, the
12 Company states that the Company will accept Staff's recommendation that additional
13 documentation regarding the reliability information be submitted by February 3, 2003.
14 Therefore, this issue appears to be resolved.

15 Q. Does this conclude your revised direct testimony for Atmos Energy
16 Corporation, Case No. GR-2001-396?

17 A. Yes, it does.

18 **UNITED CITIES GAS COMPANY, CASE NO. GR-2001-397**

19 Q. What is the purpose of your revised direct testimony for United Cities Gas
20 Company, Case No. GR-2001-397?

21 A. I address the Staff recommendation regarding the documentation issues
22 related to Purchasing Practices – General. The direct testimony of Staff witness Anne Allee
23 provides a summary of the purchasing practices adjustment related to the Neelyville district

1 and the Consolidated district identified in Staff's ACA recommendation for Case No.
2 GR-2001-397 filed on August 29, 2002. In that recommendation it is stated that Staff
3 believes that 30% of normal requirements, as a minimum level of hedging for each month of
4 November 2000 through March 2001, is reasonable. My testimony provides support for 30%
5 of normal requirements as a minimum level of hedge for the winter of 2000-2001. My
6 testimony provides support for the proposed purchasing practices adjustment for the
7 Consolidated district related to use of storage. In addition, I address the Staff
8 recommendation regarding documentation issues related to the reliability analysis.

9 Q. Are there any differences in this revised direct testimony from that which was
10 filed for United Cities on December 23, 2002?

11 A. There are only minor editorial changes. Since some schedules were added for
12 the Atmos portion of the revised direct testimony, the numbers of the schedules for United
13 Cities were changed.

14 Q. Please describe the Missouri service territories served by United Cities Gas
15 Company (United Cities or Company) in Case No. GR-2001-397.

16 A. United Cities separates its Missouri gas operations into the following two
17 districts: Neelyville district and Consolidated district. The Consolidated district is comprised
18 of the historical districts of Hannibal/Canton, Palmyra and Bowling Green and serves
19 approximately 15,200 customers in the northeastern part of Missouri. The Neelyville district
20 serves approximately 600 customers in the southeastern part of the state.

21 **PURCHASING PRACTICES – GENERAL**

22 Q. Please explain the Staff Recommendation for Purchasing Practices – General.

1 A. The Staff Recommendation in Case No. GR-2001-397, filed on August 29,
2 2002, contained a recommendation No. 2 that the Company submit by December 1, 2002,
3 documentation of its policies and procedures for those responsible for nominating natural
4 gas. The submittal was to include the information identified in the section “Purchasing
5 Practices – General” of the Staff Recommendation as follows:

6 The Staff believes that a fully documented nomination process, the process for
7 determining and ordering required natural gas, is critical for a reasonable gas
8 procurement plan. The nomination process includes, but may not be limited
9 to, the interaction between short-term weather forecasts, pricing information,
10 nomination deadlines, demand forecasts, end-user analysis, required storage
11 targets, actual storage balances, storage telemetry information, existing gas
12 supply contracts and constraints, and first-of-the-month flowing gas prices
13 versus daily gas market prices. These variables should be considered, at least
14 implicitly, in spreadsheet summaries containing the various inputs that
15 eventually result in the determination of the amount of flowing supply to
16 nominate. The Staff recommends that the nomination process be fully
17 documented.

18 This recommendation for additional documentation is the same as that made in the
19 Atmos Energy Corporation case, Case No. GR-2001-396, described earlier.

20 Q. What is the disagreement?

21 A. In its Response To Staff Memorandum And Recommendation, Case No.
22 GR-2001-397, filed October 25, 2002, the Company states that Staff recently concluded a
23 management audit that included a review of the Company’s policies and procedures for
24 nominating natural gas. The Company believes that it would be duplicative to resubmit these
25 policies for a second review by the Commission Staff within a few months of the completion
26 of the management audit.

27 Q. Do you agree that this is duplicative?

28 A. No. The scope of the Engineering and Management Services Department
29 (EMSD) gas supply process and operations study, to which the Company refers, included “a

1 review of the management controls in place and the use of technology within the gas supply
2 function,” (Review of Atmos Energy Corporation Customer Service and Gas Supply
3 Operations, Prepared by Missouri Public Service Commission Engineering and Management
4 Services Department, July 2001, page 78). The Staff Recommendation regarding Purchasing
5 Practices – General is in response to a more specific review of the 2000-2001 ACA filing,
6 and requests more specific information such as the interaction between short-term weather
7 forecasts, pricing information [first-of-month (FOM) flowing gas prices, expected daily gas
8 market prices], nomination deadlines, demand forecasts, end-user analysis, required storage
9 targets, actual storage balances, storage telemetry information and existing gas supply
10 contracts and constraints.

11 **PURCHASING PRACTICES-NEELYVILLE DISTRICT**

12 Q. Please explain why Staff believes there should be a minimum level of hedging
13 for each month of November 2000 through March 2001.

14 A. Because of price volatility in the natural gas market, Staff believes that it is
15 reasonable to expect that United Cities would have engaged in a minimal level of hedging for
16 the winter months of the 2000-2001 ACA review period, so that the customers are at least
17 partially protected from the potential for rising prices.

18 Staff believes that the Company should have considered several scenarios when
19 determining an appropriate hedging level for its customers. Staff believes that it is necessary
20 for the Company to consider the minimum, normal and maximum monthly usage information
21 in order to properly plan for the variations in volumes of natural gas demanded by customers
22 and thus, the types of contracts (base load, swing, storage, pricing provisions, etc.) necessary
23 to meet customer requirements.

1 Q. Did the Company provide estimates of usage?

2 A. Yes. In the Company's reliability review, natural gas usage was evaluated to
3 obtain an estimate of base load usage and heat load usage for the Company's firm customers.
4 As noted earlier, base load usage represents customer usage that is not expected to vary with
5 the outside temperature such as usage for cooking, some commercial and industrial processes
6 and most water heating. Heat load usage represents customer usage that does vary based on
7 outside temperature, such as space heating. The heat load for a particular temperature is
8 estimated by taking the heating degree days (HDD), a measure of how cold a location is
9 relative to a base temperature of 65 degrees Fahrenheit, times a heat load factor.

10 Usage in the winter months of November through March is expected to be higher than
11 just the base load usage because each month has daily average temperatures below 65
12 degrees Fahrenheit, and thus each of these months also has heat load usage. Using the
13 Company's estimate of base load usage and heat load factor from its reliability review, the
14 Company's estimated number of customers and normal temperatures for the winter months
15 of November through March, Staff estimated normal usage for each of these winter months
16 of November 2000 to March 2001.

17 Staff also determined what could be expected as the minimum and maximum usage
18 for each month of November 2000 through March 2001 by using the Company's estimate of
19 base load usage; heat load factor with warmest month and coldest month temperatures for
20 these months; and the Company's estimated number of customers. See Schedule 14 attached
21 to this direct testimony, for a summary of estimated winter month usage for base load, 30%
22 of normal, warmest month, normal month and coldest month. See Schedule 15 for a

1 summary of warmest, coldest, normal and actual heating degree day information for this
2 district.

3 Q. Did the Company provide staff with other estimates of usage?

4 A. Yes. In addition to the estimates of base load and heat load factors discussed
5 above, the Company provided estimates of normal usage in its responses to DR No. 48,
6 attached as Schedule 16, and DR No. JH85, attached as Schedule 17. Staff compared these
7 three estimates of normal usage (one from the Company's reliability review, one from the
8 DR No. 48 response, and one from the DR No. JH85 response). These estimates of normal
9 usage are also shown on the chart in Schedule 14.

10 Q. Do any of the Company's responses seem particularly unreasonable?

11 A. Yes. The Company's estimate of normal usage in the response to DR No. 48
12 seems unreasonable because it is 8% to 17% lower than the regression equation for base load
13 and heat load usage for normal estimated usage for the months of November 2000 – February
14 2001. Additionally, the Company's estimate of normal usage in its response to DR No. JH85
15 does not seem reasonable to Staff for the following reasons:

16 a) The DR No. JH85 response shows normal weather November 2000
17 usage to be considerably lower ** (HC _____ ** lower), or 25% lower
18 than that estimated using the regression equation for base load and heat load
19 usage for normal estimated November usage.

20 b) The DR No. JH85 response shows normal weather December 2000
21 usage to be considerably higher ** (HC _____ ** higher) than that
22 estimated using the regression equation for base load and heat load usage, and
23 this is 18% higher than that estimated for even the coldest December.

1 c) The response to DR No. JH85 shows normal weather January 2001
2 usage to be ** HC ** higher, or 17% higher than that estimated
3 using the regression equation for base load and heat load usage for normal
4 estimated January usage.

5 Because the Company provided detailed supporting information for the estimates
6 obtained from the reliability review, and none for the other two DR responses, and because
7 of the concerns noted previously regarding the DR No. 48 and DR No. JH85 estimates of
8 normal usage, Staff used the Company's regression analysis to estimate usage.

9 Q. Please explain why Staff believes that 30% of normal requirements, as a
10 minimum level of hedging for each month of November 2000 through March 2001, is
11 reasonable.

12 A. It could be argued that to mitigate price risk to customers, 100% of warm
13 month requirements should be hedged because these demands represent the lowest expected
14 demand for that month; even if the warmest temperature were encountered, customer demand
15 would be at the warmest month usage shown in Schedule 14. A review of the Neelyville
16 district information reveals that if the Company hedged volumes required for a warmest
17 winter month, then for a cold winter, 55% of volumes would be hedged, and thus customers
18 would be exposed to price risk for 45% of volumes required. Thus, under a coldest winter
19 month scenario, 45% of a customer's expected requirements would still have been exposed to
20 price risk. Some companies that have flexibility in their operations and in their contracts
21 might want to reduce this exposure further by hedging more than 100% of warmest winter
22 requirements.

1 However, Staff is not proposing that 100% of the warmest month volumes should
2 have been hedged for the 2000-2001 ACA period. Staff is proposing that for the winter of
3 2000-2001, a minimum reasonable hedge would have been 30% of normal for each month of
4 the winter season. If 30% of normal requirements had been hedged for the Neelyville
5 district, this would mean that when a warmest month was encountered, 40% of the estimated
6 volumes required would have been hedged. This also means that when a coldest month was
7 encountered, only 22% of the estimated volumes required would have been hedged.
8 Therefore, for a coldest month, 78% would not have been hedged and customers would have
9 been exposed to price risk for these volumes. Staff could not reasonably justify hedging less
10 than 30% of normal requirements, because this implies that for a cold winter, more than 78%
11 of customer natural gas requirements would have been exposed to price risk.

12 Q. Since the Neelyville district is a small district, could this have prevented the
13 Company from engaging in hedging to address customer exposure to rising prices?

14 A. No. Although the Neelyville district is a small district with approximately
15 600 customers, it is part of a larger company – United Cities Gas Company. The interstate
16 pipelines serving this area are the Natural Gas Pipeline Company of America (NGPL) and
17 Texas Eastern Transmission Corporation (TETCO). In Missouri, United Cities has
18 approximately 15,200 customers in the Consolidated district. As a larger Company, United
19 Cities also has other service areas in Missouri and has more options for hedging.

20 Q. What is the Staff's proposed adjustment for the Neelyville district for failure
21 to hedge 30% of estimated normal usage?

22 A. The Company's hedged volumes of natural gas for the Neelyville district for
23 the winter of 2000-2001 included storage and fixed price purchases. Staff's review revealed

1 that the Company's planned hedged volumes covered only 9.9% of normal requirements for
2 November 2000 through March 2001. The proposed adjustment is \$15,875, which is
3 approximately \$26.82 per customer. The proposed adjustment is shown in Schedule 18
4 attached to this testimony.

5 Q. Does this conclude your testimony for the Neelyville district purchasing
6 practices adjustment?

7 A. Yes, it does.

8 **PURCHASING PRACTICES-CONSOLIDATED DISTRICT**

9 Q. Please explain the Staff adjustment for the Consolidated district.

10 A. The Staff purchasing practices adjustment consists of two parts – one related
11 to an adjustment for failure to hedge 30% of normal requirements as a minimum level of
12 hedge for the winter of 2000-2001; and the second related to the Company's plan for flowing
13 supplies and storage.

14 Q. Are Staff's reasons for a minimum hedge for each month of November 2000
15 through March 2001 the same as that presented earlier in your testimony?

16 A. Yes. The reasoning is presented in the testimony under the heading "United
17 Cities Gas Company, Case No. GR-2001-397, Purchasing Practices -Neelyville District."

18 Q. Did the Company provide estimates of usage?

19 A. Yes. In the Company's reliability review, natural gas usage was evaluated to
20 obtain an estimate of base load usage and heat load usage for the Company's firm customers.
21 Using the Company's estimate of base load usage and heat load factor from the Company's
22 reliability review, the Company's estimated number of customers and normal temperatures

1 for the winter months of November through March, Staff estimated normal usage for each of
2 these winter months of November 2000 to March 2001.

3 Staff also evaluated what could be expected as the minimum and maximum usage for
4 each month of November 2000 through March 2001 by using the Company's estimate of
5 base load usage; heat load factor with warmest month and coldest month temperatures for
6 these months; and the Company's estimated number of customers. Staff believes that it is
7 necessary for the Company to consider the estimated minimum and maximum monthly usage
8 in order to properly plan for the variations in volumes of natural gas demanded by customers
9 and thus, the types of contracts (base load, swing, storage, pricing provisions, etc.) necessary
10 to meet customer requirements. See Schedule 19 attached to this direct testimony, for a
11 summary of estimated winter month usage for base load, 30% of normal, warmest month,
12 normal month and coldest month. See Schedule 20 attached to this testimony for a summary
13 of warmest, coldest, normal and actual heating degree day information for this district.

14 Q. Did the Company provide other estimates of usage?

15 A. Yes. In addition to the estimates of base load and heat load factors discussed
16 above, the Company provided estimates of normal usage in its responses to DR No. 48,
17 attached as Schedule 16, and DR No. JH85, attached as Schedule 17. Staff compared these
18 three estimates of normal usage for the Consolidated district (one from the Company
19 reliability review, one from the DR No. 48 response, and one from the DR No. JH85
20 response).

21 Q. Do you have problems with the information provided by the Company?

22 A. Yes. The information provided to the Staff in different data request responses
23 was inconsistent. The information needed to be evaluated by Staff before it could be used for

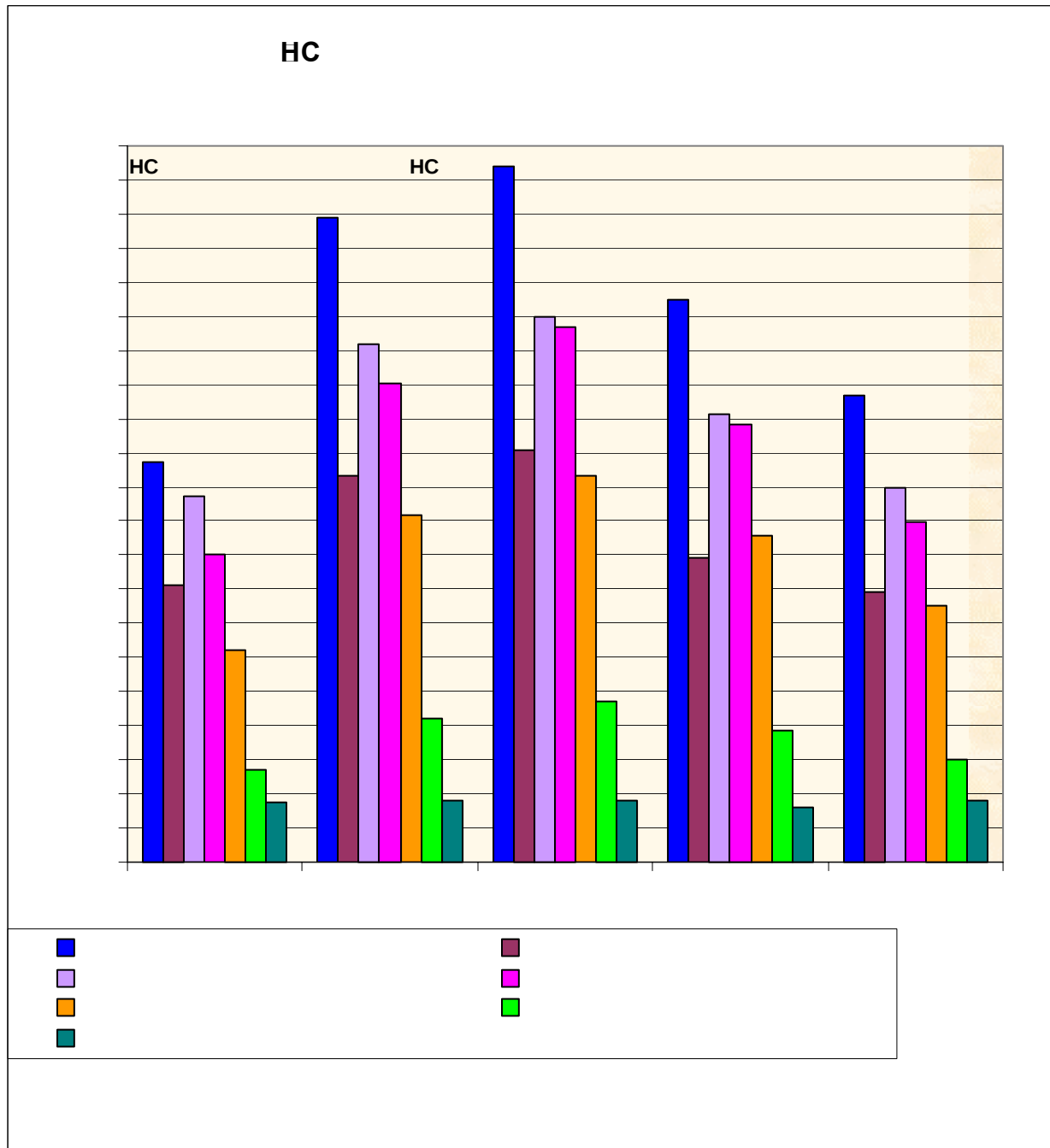
1 purposes of evaluating Company performance. Amounts reported for the same variable were
2 unreasonably different in Company responses to data requests. For example, an important
3 variable for planning and managing operations is normal usage for each heating season
4 month. Yet, values for this variable for the same month were unreasonably different in
5 various DR responses. In other words, a reasonable person would not know without some
6 evaluation which of the normal volumes reported should be used.

7 Staff would expect that the Company's estimate of requirements for normal weather
8 would be consistent with other Company estimates of usage for normal weather. However,
9 as shown in the chart on the next page and in Schedule 19 attached to this testimony, the
10 Company estimate of normal usage is different in its responses to DR No. 48 and DR No.
11 JH85, and these are different from the estimated usage for normal weather obtained from the
12 Company's reliability review using a regression analysis.

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Q. Do any of the Company's responses seem particularly unreasonable?

5

A. Yes. The Company's estimate of normal usage in the response to DR No. 48

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seems unreasonable because it is 2% to 18% higher than the regression equation for base

1 load and heat load usage for normal estimated usage for the months of November 2000 –
2 March 2001. Additionally, the Company's estimate of normal usage in the response to DR
3 No. JH85 does not seem reasonable to Staff because it is 9% to 30% lower than the
4 regression equation for base load and heat load usage for normal estimated usage for the
5 months of November 2000 – March 2001.

6 Because the Company provided detailed supporting information for the estimates
7 obtained from the reliability review, and none for its other two DR responses, and because of
8 the concerns noted previously regarding the DR No. 48 and DR No. JH85 estimates of
9 normal usage, Staff used the Company's regression analysis to estimate usage.

10 Q. Please explain why Staff believes that 30% of normal requirements, as a
11 minimum level of hedging for each month of November 2000 through March 2001, is
12 reasonable.

13 A. As stated for the Neelyville district, it could be argued that to mitigate price
14 risk to customers, 100% of warm month requirements should be hedged because these
15 demands represent the lowest expected demand for that month; even if the warmest
16 temperature were encountered, customer demand would be at the warmest month usage as
17 shown in Schedule 19. A review of the Consolidated district information reveals that if the
18 Company hedged volumes required for a warmest winter month, then for a cold winter, 55%
19 of volumes would be hedged, and thus customers would be exposed to price risk for 45% of
20 volumes required. Thus, under a coldest winter month scenario, 45% of a customer's
21 expected requirements would still have been exposed to price risk. Some companies that
22 have flexibility in their operations and in their contracts might want to reduce this exposure
23 further by hedging more than 100% of warmest winter requirements.

1 However, Staff is not proposing that 100% of the warmest month volumes should
2 have been hedged for the 2000-2001 ACA period. Staff is proposing that for the winter of
3 2000-2001, a minimum reasonable hedge would have been 30% of normal for each month of
4 the winter season. If 30% of normal requirements had been hedged for the Consolidated
5 district, this would mean that when a warmest month was encountered, 41% of the estimated
6 volumes required would have been hedged. This also means that when a coldest month was
7 encountered, only 23% of the estimated volumes required would have been hedged.
8 Therefore, for a coldest month, 77% would not have been hedged and customers would have
9 been exposed to price risk for these volumes. Staff could not reasonably justify hedging less
10 than 30% of normal requirements, because this implies that for a cold winter, more than 77%
11 of customer natural gas requirements would have been exposed to price risk.

12 Q. What is Staff's proposed adjustment for the Consolidated district for failure to
13 hedge 30% of estimated normal usage?

14 A. The Company's hedged volumes of natural gas for the Consolidated district
15 for the winter of 2000-2001 included storage and fixed price purchases. Staff's review
16 revealed that the Company's planned hedged volumes met the 30% threshold for November
17 2000 through January 2001, but the planned hedged volumes for February and March 2001
18 were only 14.1% and 23.2% of normal requirements. The proposed adjustment is \$105,326,
19 which is approximately \$6.92 per customer. The proposed adjustment is shown in column
20 M, Line 15 of the attached Schedule 21.

21 Q. Please explain the Staff's proposed purchasing practices adjustment related to
22 the Company's plan for flowing supplies and storage for the Consolidated district.

1 A. Staff believes that United Cities relied too heavily on flowing supplies rather
2 than planned and available storage withdrawals in January and February 2001, and that these
3 decisions exposed customers to the higher flowing gas costs in these months. In arriving at
4 this conclusion, Staff evaluated the Company's actual use of flowing supply and storage gas
5 to meet actual requirements compared to the Company's plan for meeting natural gas
6 requirements for the winter months of November 2000 to March 2001. This evaluation
7 shows that United Cities' decisions for flowing gas and storage withdrawals had an
8 unfavorable economic impact to customers on purchased gas costs of \$454,763 and,
9 therefore, the Staff proposes to reduce gas costs by that amount.

10 Q. Does Staff believe that the Company plan for flowing supplies and storage
11 withdrawals was unreasonable?

12 A. Yes. ** HC

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5 Q. Do you have problems with the information provided by the Company?

6 A. Yes. As noted previously, the information provided to the Staff in different
7 data request responses was inconsistent. Staff would expect that the Company's estimated
8 requirements for normal weather would be consistent with other Company estimates of usage
9 for normal weather. However, as shown in the chart on page 32 and in Schedule 19 attached
10 to this testimony, the Company estimate of normal usage is different in its responses to DR
11 No. 48 and DR No. JH85, and these are different from the estimated usage for normal
12 weather obtained from the Company's reliability review using a regression analysis.

13 For the reasons stated earlier, Staff does not believe that the estimates of normal
14 usage provided in its DR No. 48 and DR No. JH85 responses are reasonable. However, for
15 purposes of determining whether an adjustment was appropriate, Staff evaluated the
16 Company supply plan from the DR No. 48 response compared to both the DR No. 48
17 estimates of normal and the estimates of normal from the regression analysis. Charts of the
18 estimated usage and the Company gas supply plan are shown in Schedule 22 attached.

19 Q. Are there other reasons why Staff believes that the Company plan for flowing
20 supplies and storage withdrawals was unreasonable?

21 A. Yes. The Company's plan in DR No. 48 and the information in DR No. JH85
22 show that ** HC

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4 HC ** However, the planned distribution of the withdrawals
5 in each of the winter months was not consistent with the distribution of HDD in these
6 months. Staff therefore revised the planned withdrawals to be consistent with the distribution
7 of normal HDD. Additionally, the Company plan did not explain how the ** HC

8 HC ** Since one of the benefits of an

9 ** HC

10 HC ** Staff assumed that there would be injections on some days and withdrawals on
11 other days, but that during the winter months, it would be reasonable to expect the Company
12 to withdraw net volumes of at least 50% of the ** HC ** throughout the
13 winter season. This seemed to be reasonable since the Company also makes transfers from
14 ** HC **

15 Staff reviewed United Cities' actual natural gas purchases to see that the Company
16 had sufficient volumes of FOM flowing supplies and planned storage withdrawals to cover
17 warm weather requirements for November 2000 through January 2001. Charts of the actual
18 gas supply volumes versus estimated usage are shown in Schedule 23 attached to this
19 testimony. The review of the actual natural gas purchases shows that the Company used base
20 load, including fixed volumes of flowing supplies, swing flowing supplies, and storage to
21 meet actual customer requirements during these months. The review also revealed that the
22 Company did not follow its plan for base load purchases. Although the Company plan for
23 November 2000 to March 2001 was to have base load purchases of ** HC **

1 the actual base load, including fixed volumes, was ** HC ** and this is 89% of
2 the planned total base load purchases. When examining each winter month separately, Staff
3 found that actual base load as a percentage of planned base load purchases was 74% for
4 November 2000, 95% for December 2000 and January 2001, 93% for February 2001 and
5 80% for March 2001. ("Fixed" is a term used in DR No. JH85 and refers to volumes of
6 natural gas purchased under fixed price contracts. Staff considered these fixed price
7 contracts to be base load volumes of natural gas.) Because less base load flowing supplies
8 were procured than planned by the Company for each of the winter months, the Company
9 relied more on swing supplies and storage withdrawals, which were not planned for normal
10 weather. When the weather actually turned out to be colder than normal in November and
11 December 2000, the Company had to rely on even more higher priced swing supplies and on
12 storage withdrawals. A chart comparing the planned gas supply volumes (base load
13 purchases and storage withdrawals) to the actual gas supply volumes (base load, including
14 fixed purchases, and storage withdrawals) is shown in Schedule 24 attached to this
15 testimony.

16 In fact, the Company did withdraw more storage than planned in November and
17 December 2000, but this difference is not the major Staff concern. The major concern is for
18 decisions made for January and February 2001.

19 Q. What is Staff's concern for January 2001?

20 A. Even though the month of January 2001 had near normal temperatures, and
21 the Company plan for normal weather is to withdraw ** HC
22 HC** storage in January, the Company actually had a ** HC

1 HC ** for that month, and when combined with ** HC

2 HC **

3 Q. Did the storage activity in January 2001 surprise you?

4 A. Yes. January is typically colder than the other winter months. Based on the
5 Company plan, it would be standard practice to withdraw natural gas from storage during the
6 month of January. It is reasonable to expect occasional injections when the weather is
7 warmer than normal in January, for balancing purposes, but it is surprising to observe
8 ** HC ** in January 2001 when
9 the weather was near normal. Thus, Staff believed it appropriate to look more closely at the
10 Company's decisions regarding planned storage withdrawals and actual storage withdrawals
11 for the winter of 2000/2001. As noted previously, the Company only plans to withdraw

12 ** HC

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3 HC ** This was unreasonable and
4 could have been corrected by relying more on storage withdrawals for January 2001 rather
5 than flowing supply.

6 Q. What is Staff's concern for February 2001?

7 A. The main difference between the Company plan and the Staff plan is that the
8 Company plans to withdraw a ** HC

9 HC

10 HC ** The comparison of the distribution of HDD and the planned storage
11 withdrawals is shown in the attached Schedule 25. Staff would expect that by the end of
12 January the Company will have more information about the past winter months and the
13 approximate volumes of storage utilized, so the Company can revise planned flowing
14 supplies based on its knowledge of the remaining storage inventory levels.

15 Q. How did Staff use this information in the proposed adjustment for the
16 Consolidated district?

17 A. Using the parameters described above, Staff calculated the adjusted base load
18 FOM nominations and adjusted storage withdrawals, as shown in column R, row 15 of
19 Schedule 21 attached to this direct testimony. Staff also calculated the adjusted base load
20 FOM nominations and adjusted storage withdrawals using the estimate of normal usage from
21 the regression analysis and the actual base load volumes. This second calculation is shown in
22 column R, row 15 of Schedule 26 attached to this testimony. An explanation of the dollar
23 amount of the adjustment for these revised storage volumes is included in the direct

1 testimony of Staff witness Allee. Staff's review shows United Cities' decisions for flowing
2 gas and storage withdrawals had an unfavorable economic impact on customers' purchased
3 gas costs amounting to \$454,763 (approximately \$29.86 per customer) as shown in the
4 attached Schedule 21. Therefore, the Staff proposes to reduce gas costs by this amount.

5 Q. In the Company Response To Staff Memorandum And Recommendation, the
6 Company states that the Staff recommendation improperly seeks disallowance based on
7 hindsight review. Is this true?

8 A. No. The Staff adjustment reflects its analysis of decisions made by the
9 Company for planned and actual utilization of storage, and thus the use of swing supplies.
10 The Staff's analysis was based on information that was known or should have been known at
11 the time the Company made the decisions. Thus, storage was over-utilized early in the
12 winter and under-utilized in January and February 2001 and as a consequence the cost burden
13 on regulated customers was larger than it would have been.

14 Q. Does this conclude your testimony for the Consolidated district purchasing
15 practices adjustment?

16 A. Yes, it does.

17 **RELIABILITY ANALYSIS**

18 Q. Please explain the reliability issues.

19 A. The Staff Recommendation in Case No. GR-2001-397 filed on August 29,
20 2002, contained recommendation Nos. 3a through 3d related to actions to be taken by the
21 Company by February 3, 2003, regarding the Company's reliability analysis. In the
22 Response To Staff Memorandum And Recommendation filed October 25, 2002, the
23 Company states that it will accept Staff's recommendation that additional documentation

1 regarding the reliability information be submitted by February 3, 2003. Therefore, this issue
2 appears to be resolved.

3 Q. Does this conclude your revised direct testimony for United Cities Gas
4 Company, Case No. GR-2001-397?

5 A. Yes, it does.

SUMMARY OF TESTIMONY

LESA A. JENKINS

Company Name	Case Number	Issues
Aquila, Inc. d/b/a Aquila Networks – MPS	GR-2000-520 and GR-2001-461 Consolidated	Purchasing Practices-Eastern System; Purchasing Practices-Southern System; Reliability Analysis
Missouri Gas Energy	GR-2001-382, GR-2000-425, GR-99-304, and GR-98-167 Consolidated	Purchasing Practices; Reliability Analysis