

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: Direct Testimony

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

Date Testimony Prepared: December 23, 2002

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

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

December 2002

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

NP

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Atmos Energy Corporation's)
Purchased Gas Adjustment Factors to be Reviewed)
in its 2000-2001 Actual Cost Adjustment)

Case No. GR-2001-396

In the Matter of United Cities Gas Company's)
Purchased Gas Adjustment Tariff Revisions to be)
Reviewed in its 2000-2001 Actual Cost Adjustment)

Case No. GR-2001-397

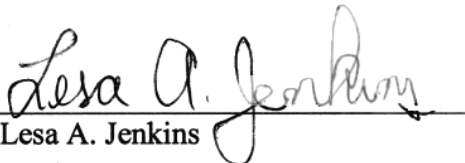
AFFIDAVIT OF LESA A. JENKINS

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 Direct Testimony in question and answer form, consisting of 42 pages to be presented in the above case; that the answers in the following Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Lesa A. Jenkins

Subscribed and sworn to before me this 20th day of December 2002.





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

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LESA A. JENKINS

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(CONSOLIDATED)

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1 **DIRECT TESTIMONY**
2 **OF**
3 **LESA A. JENKINS**
4 **ATMOS ENERGY CORPORATION**
5 **CASE NO. GR-2001-396 AND**
6 **UNITED CITIES GAS COMPANY**
7 **CASE NO. GR-2001-397**
8 **(CONSOLIDATED)**

9 Q. Please state your name and business address.

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

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

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

14 Q. Please describe your educational and professional background.

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

21 Q. Please describe your work background.

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

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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?

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

15 A. Both my MBA and BSIE degrees provided formalized coursework that gave
16 me knowledge and skills that I used in these reviews. My 19 years of
17 engineering/management work experience provided me with experience from project reviews
18 and provided additional knowledge from training courses and review of technical
19 information. Eleven of these years of work experience related specifically to energy issues.
20 The projects that I worked on over my 19 years of engineering/management work in private
21 industry and government allowed me to look at issues from various vantage points, such as
22 consumer wants and needs, business goals and limitations and requirements and limitations
23 presented by rules and regulations.

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

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

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

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

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

PURCHASING PRACTICES – GENERAL

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

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

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

Q. What is the disagreement?

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

Q. Do you agree that this is duplicative?

A. No. The scope of the Engineering and Management Services Department (EMSD) gas supply process and operations study, to which the Company refers, included “a review of the management controls in place and the use of technology within the gas supply

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

10 **PURCHASING PRACTICES-SOUTHEAST MISSOURI INTEGRATED SYSTEM**

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

13 A. Staff believes that Atmos relied too heavily on flowing supplies rather than
14 planned storage withdrawals in January 2001, and that these decisions exposed customers to
15 the higher flowing gas costs in January 2001. In arriving at this conclusion, Staff evaluated
16 the Company’s actual use of flowing supply, storage gas, and liquefied natural gas (LNG) to
17 meet actual requirements compared to the Company’s short-term plan for meeting natural gas
18 requirements for the winter months of November 2000 to March 2001. This evaluation of
19 the Company plan and the actual weather for the 2000/2001 winter shows that the largest
20 concern is for the decisions made for the January 2001 flowing supplies, which impacted the
21 volume of gas withdrawn from storage. Staff’s review shows that Atmos’ decisions for
22 flowing gas and storage withdrawals had an unfavorable economic impact to customers on
23 purchased gas costs of \$1,149,451 and the Staff proposes to reduce gas costs by that amount.

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

2 A. Yes. Staff's ACA recommendation included a proposed purchasing practices
3 adjustment of \$1,309,540. Further review of the calculations used by Staff revealed errors,
4 the correction of which resulted in a reduction of Staff's proposed adjustment from
5 \$1,309,540 to \$1,149,451. This information has been provided to the Company and the
6 corrections are included in this testimony.

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

9 A. Yes. ** _____

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

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A. Yes. The information provided to the Staff in different data request responses was inconsistent. The information needed to be evaluated by Staff before it could be used for purposes of evaluating company performance. Amounts reported for the same variable were unreasonably different in Company responses to data requests. For example, an important variable for planning and managing operations is normal usage for each heating season month. Yet, values for this variable for the same month were unreasonably different in various DR responses as described below. In other words, a reasonable person would not know without some evaluation which of the normal volumes reported should be used. This may explain, in part, why the Atmos customers paid \$1,149,451 more for gas (Staff's recommended disallowance) than they would have paid if reasonable and prudent practices had been followed. Poor choices were made in managing operations during the heating season, and one of the reasons for this may be the inconsistent and confusing information available. Costs may have been avoided if the Company had one reasonable plan supported by consistent related schedules instead of a variety of unreasonably different and confusing schedules.

19

Staff would expect that the Company's estimated requirements for normal weather would be consistent with other Company estimates of usage for normal weather. However, as shown in Schedule 3 attached to this testimony, the Company estimate of normal usage is different in the responses to DR No. 48 and DR No. 85, attached as Schedule 4, and these are

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1 different from the estimated usage for normal weather obtained from the Company's
2 reliability review using a regression analysis.

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

4 A. In the Company's reliability review, natural gas usage was evaluated to obtain
5 an estimate of base load usage and heat load usage of the Company's firm customers. Base
6 load usage refers to customer usage that is not expected to vary with the outside temperature
7 such as usage for cooking, some commercial and industrial processes and most water
8 heating. Heat load usage refers to customer usage that does vary based on outside
9 temperature, such as space heating. The heat load for a particular temperature is estimated
10 by multiplying the heating degree days (HDD), a measure of how cold a location is relative
11 to a base temperature of 65 degrees Fahrenheit, by a heat load factor. Using the Company's
12 estimate of base load usage and heat load factor from the Company's reliability review, the
13 Company's estimated number of customers and normal temperatures for the winter months
14 of November through March, Staff estimated normal usage for each of these winter months
15 of November 2000 to March 2001.

16 Usage in the winter months of November through March is expected to be higher than
17 just the base load usage because each month has daily average temperatures below 65
18 degrees Fahrenheit, and thus each of these months also has heat load usage. Staff determined
19 what could be expected as the minimum and maximum usage for each month of November
20 2000 through March 2001 by using the Company's estimate of base load usage; heat load
21 factor and warmest and coldest month temperatures, respectively for these months; and the
22 Company's estimate for number of customers. Staff believes that it is necessary for the
23 Company to consider the minimum and maximum monthly usage information in order to

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1 properly plan for the variations in volumes of natural gas demanded by customers and thus,
2 the types of contracts (base load, swing, storage, etc.) necessary to meet customer
3 requirements. See Schedule 5 attached to this testimony for a summary of warmest month,
4 coldest month, normal month and actual month heating degree day information.

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

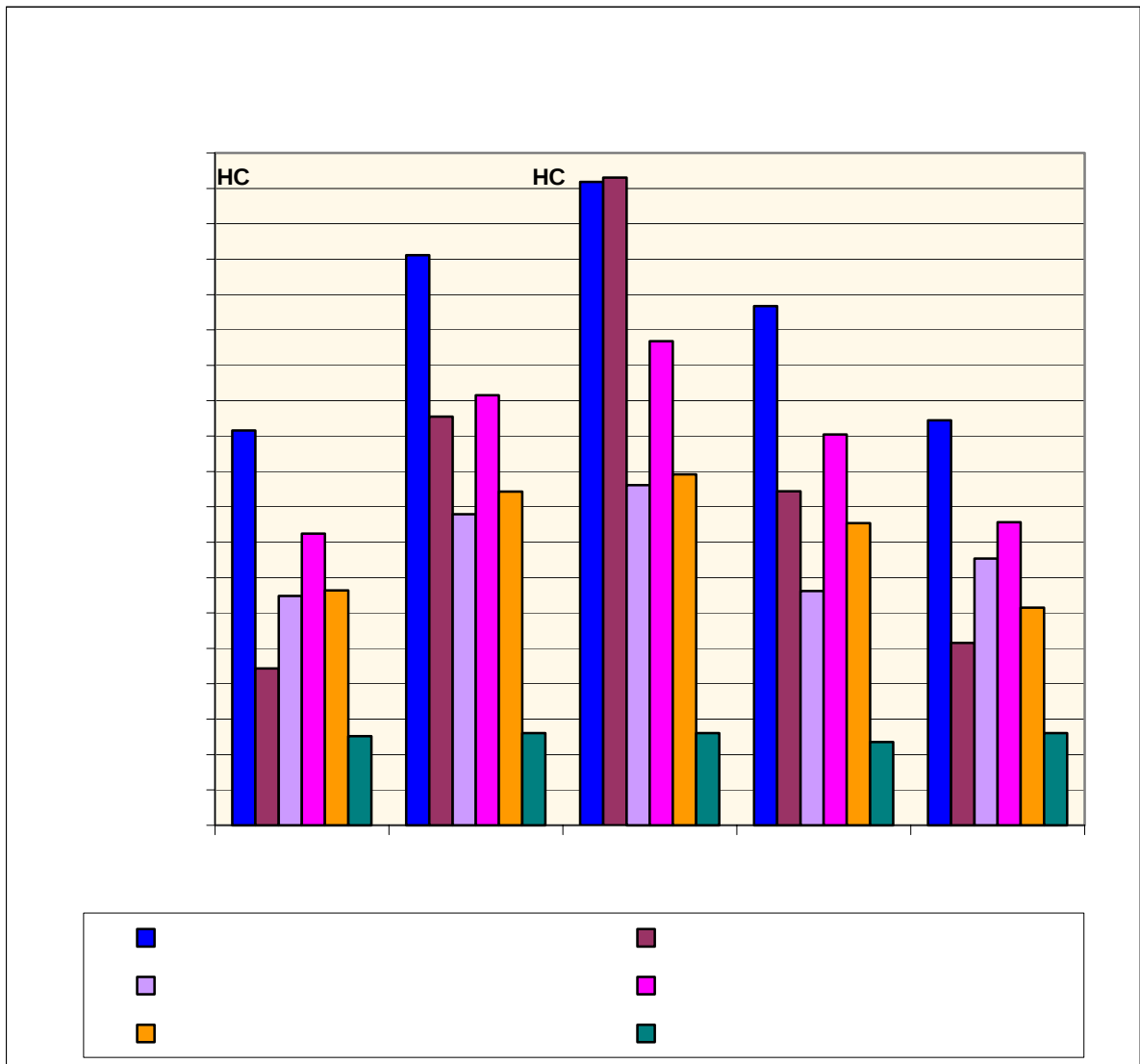
6 A. Staff compared these three estimates of normal usage (one from the Company
7 reliability review, one from the DR No. 85 response and one from the DR No. 48 response).
8 The comparison shown on the chart on the following page and in the attached Schedule 3
9 shows how these estimates of normal usage compare to estimates of warmest month and
10 coldest month usage. The Staff believes the regression analysis from the Company's
11 Reliability Report is the most reasonable based upon the discussion that follows.

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

13 A. Yes, the Company's estimate of normal usage (usage for normal weather) in
14 the response to DR No. 48 does not seem reasonable to Staff because the Company's
15 response shows its estimate of normal weather usage for each of the months of November
16 2000 through February 2001 as being lower than that estimated for even the warmest weather
17 for each of the months of November through February.

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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, ** _____

_____ **

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

3 _____
4 _____ **

5 As a check, Staff's review shows that January 2001 weather was near
6 normal and actual usage was near the estimate for normal weather
7 from the regression model, and thus not near the estimate from the
8 response to DR No. 85. (The actual usage estimate was ** _____ **
9 MMBtu; the regression analysis normal usage estimate was
10 ** _____ ** MMBtu; and the DR No. 85 normal usage estimate was
11 ** _____ ** MMBtu.

12 c) The response to DR No. 85 shows normal weather March 2001 usage
13 to be ** _____ ** MMBtu lower than that estimated for even the
14 warmest March ** _____ **

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

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. ** _____
22 _____
23 _____

_____ ** Staff compared the Company's planned sources of supply (from DR No. 48) to the estimates of usage from the regression analysis, (Schedule 6 attached to this testimony), and notes the following concerns with the Company's Short Term Plan.

a) ** _____

_____ ** it is not clear that the Company has properly evaluated and planned how it will react when cold weather occurs in this service area. (“Swing gas” and “peaking gas” are defined in the Company’s response to DR No. 48. “Swing gas” can be requested as needed throughout the month at any

level up to the maximum daily contractual quantity. "Peaking gas" can be called upon as needed, but only up to a maximum number of days during the contracted period.)

b) ** _____

_____ ** So

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

Q. Does Staff have concerns with the execution of the Company's Supply Plan?

A. Yes. The Company did not follow its plan for base load purchases. Although the Company plan for November 2000 was to have base load purchases of ** _____
_____ ** the actual base load, including fixed volumes, was ** _____
_____ ** ("Fixed" is a term used in DR No. 85 and refers to volumes of natural gas purchased under fixed price contracts. Staff considered these fixed price contracts to be base load volumes of natural gas.) The Company plan for December 2000 was to have base load purchases of ** _____ ** but the actual base load, including fixed volumes, were ** _____
_____ ** Because less FOM flowing supplies were nominated than planned by the Company (or expected by Staff) for November and December 2000, the Company relied more on swing supplies and storage withdrawals, which were not planned for normal weather. When the weather actually turned out to be colder than normal, the

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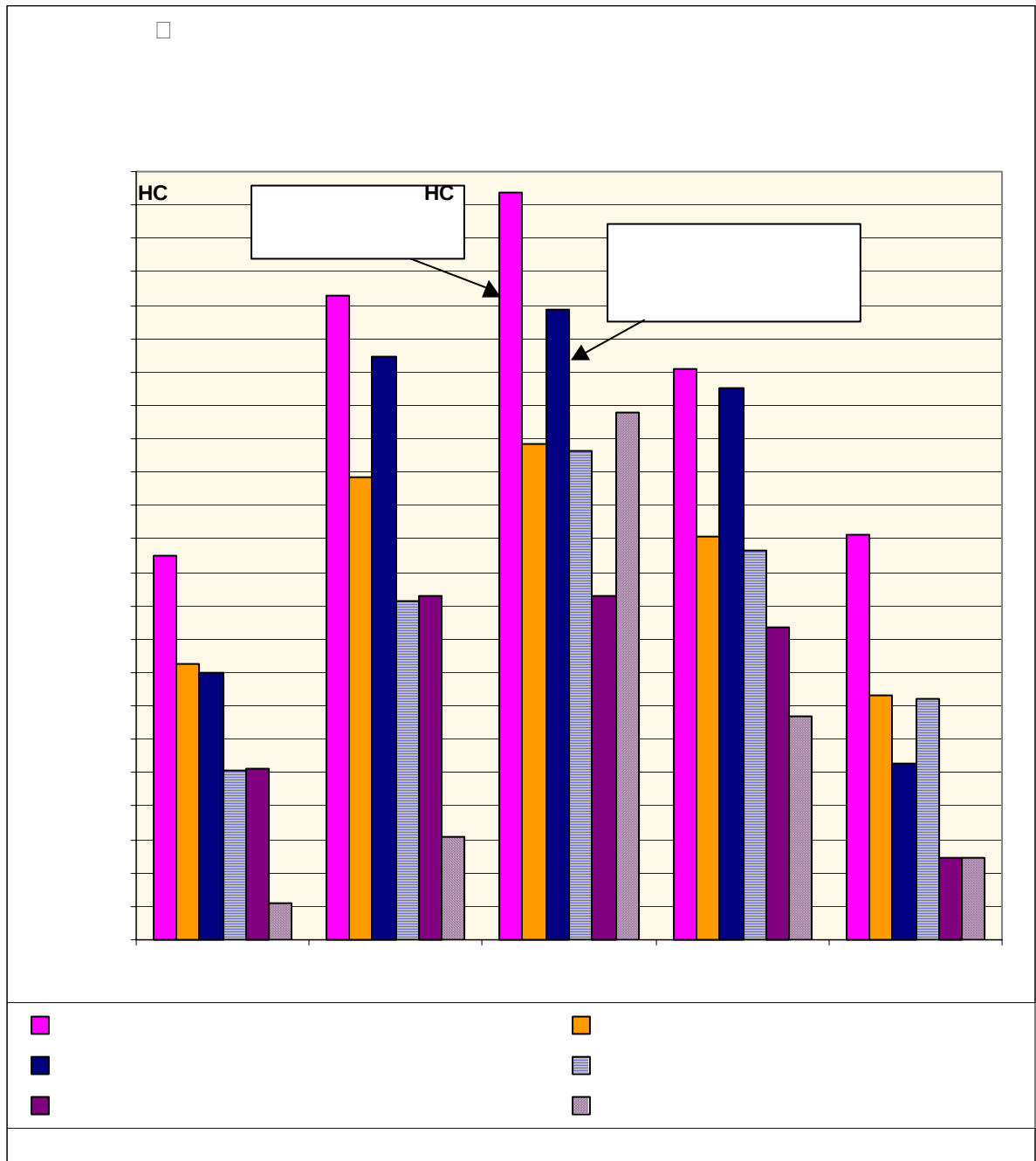
1 Company had to rely on even more higher priced swing supplies and storage
2 withdrawals - withdrawals that were planned for later winter months.

3 The Company plan for January 2001 was to have base load purchases of ** _____
4 _____ ** but the actual base load, including fixed volumes, was ** _____
5 _____ ** Charts of the planned gas supply
6 volumes versus estimated usage are shown in Schedule 6 attached to this testimony. Charts
7 of the actual gas supply volumes versus estimated usage are shown in Schedule 7 attached to
8 this testimony. A chart comparing the planned gas supply volumes (base load purchases and
9 storage withdrawals) to the actual gas supply volumes (base load, including fixed purchases,
10 and storage withdrawals) is shown on the next page and in Schedule 8 attached to this
11 testimony.

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Q. How should the Company have utilized storage and flowing supplies to meet customer needs?

1 A. The Company's short-term plan shows that ** _____

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6 ** 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. The review
9 of the actual natural gas purchases shows that the Company uses base load, including fixed
10 volumes, of flowing supplies, swing/peaking flowing supplies, storage and LNG to meet
11 actual customer requirements during these months.

12 If the Company had planned on and nominated FOM volumes of base load, including
13 fixed, flowing natural gas, so that these FOM supplies, along with the planned storage
14 withdrawals, covered warmest month requirements, then less storage withdrawals and lower
15 volumes of flowing swing natural gas would have been necessary in November and
16 December 2000.

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

18 A. Normally, yes. However, the Company plan is for ** _____

19 _____

20 _____

21 _____

22 _____

23 _____

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

In fact, the Company did withdraw more storage than planned in November and December 2000, ** _____

_____ ** of the MSQ, but this difference is not the major Staff concern. The major concern is for decisions made for January 2001.

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

A. Even though the month of January 2001 had near normal temperatures, the Company actually had a net ** _____ ** for that month.

Q. Did the ** _____ ** in January 2001 surprise you?

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

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

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

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_____ ** the Company still could have withdrawn natural gas from storage in January 2001 and maintained the Company's planned level of storage for the remaining winter months.

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1 Staff would have expected planned withdrawals for February and March 2001 to be
2 adjusted based on what was known about the storage inventory compared to the plan at the
3 end of January and February 2001.

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

6 A. Using the parameters described above, Staff calculated the adjusted base load
7 FOM nominations. For normal weather, the Company plans to withdraw ** _____
8 _____

9 _____ ** Therefore, Staff adjusted
10 base load FOM nominations in two different ways – one with the expected base load FOM
11 volumes using the Company's planned storage withdrawals and the other one using storage
12 withdrawals adjusted for the lower beginning inventory. An explanation of the dollar amount
13 of the adjustment for these revised storage volumes is included in the direct testimony of
14 Staff witness Phil Lock. Staff's review shows Atmos' decisions for flowing gas and storage
15 withdrawals had an unfavorable economic impact on customers' purchased gas costs
16 amounting to \$1,149,451 as shown in the attached Schedule 10. Therefore, the Staff
17 proposes to reduce gas costs by \$1,149,451.

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

21 A. No. The Staff adjustment reflects its analysis of decisions made by the
22 Company for FOM flowing supplies, including the effect of these decisions on the planned
23 and actual utilization of storage. The Staff's analysis was based on information known at the

1 time the Company made the decisions. In fact, the disallowance is a direct consequence of
2 the Company not following its plan for FOM nominations. Thus, storage was over-utilized
3 in November and December 2000 and under-utilized in January and February 2001 and as a
4 consequence the cost burden on regulated customers was larger than it would have been.

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

7 A. Yes, it does.

8 **RELIABILITY ANALYSIS**

9 Q. Please explain the reliability issues.

10 A. The Staff Recommendation in Case No. GR-2001-396 filed on September 30,
11 2002, also contained a recommendation No. 1 pertaining to adjusting the ACA account
12 balances, which include an adjustment for reliability for the Butler district and the Piedmont
13 district. The details of the proposed adjustment are contained in the Reliability Analysis
14 section of the Staff Recommendation and in point No. 1 of the Summary section of the Staff
15 Recommendation. The adjustment in the recommendation is for demand charges on natural
16 gas deliverability that exceeds peak day requirements. The dollar amounts of the proposed
17 adjustments are \$12,296 for the Butler district and \$20,824 for the Piedmont district and
18 these are shown in the attached Schedule 11. In the Response To Staff Memorandum And
19 Recommendation filed October 25, 2002, the Company does not state whether Atmos agrees
20 or disagrees with the recommended adjustment. Therefore, the Staff views this as an
21 unresolved issue at this time.

22 Q. Do you have any other issues?

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

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

10 A. Yes, it does.

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

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

14 A. I address the Staff recommendation regarding the documentation issues
15 related to Purchasing Practices – General. The direct testimony of Staff witness Anne Allee
16 provides a summary of the purchasing practices adjustment related to the Neelyville district
17 and the Consolidated district identified in Staff's ACA recommendation for Case No.
18 GR-2001-397 filed on August 29, 2002. In that recommendation it is stated that Staff
19 believes that 30% of normal requirements, as a minimum level of hedging for each month of
20 November 2000 through March 2001, is reasonable. My testimony provides support for 30%
21 of normal requirements as a minimum level of hedge for the winter of 2000-2001. My
22 testimony provides support for the proposed purchasing practices adjustment for the

1 Consolidated district related to use of storage. In addition, I address the Staff
2 recommendation regarding documentation issues related to the reliability analysis.

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

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

10 **PURCHASING PRACTICES – GENERAL**

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

12 A. The Staff Recommendation in Case No. GR-2001-397, filed on August 29,
13 2002, contained a recommendation No. 2 that the Company submit by December 1, 2002,
14 documentation of its policies and procedures for those responsible for nominating natural
15 gas. The submittal was to include the information identified in the section “Purchasing
16 Practices – General” of the Staff Recommendation as follows:

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

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

3 Q. What is the disagreement?

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

10 Q. Do you agree that this is duplicative?

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

PURCHASING PRACTICES-NEELYVILLE DISTRICT

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

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

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

Q. Did the Company provide estimates of usage?

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

Usage in the winter months of November through March is expected to be higher than just the base load usage because each month has daily average temperatures below 65

1 degrees Fahrenheit, and thus each of these months also has heat load usage. Using the
2 Company's estimate of base load usage and heat load factor from its 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 Staff also determined what could be expected as the minimum and maximum usage
7 for each month of November 2000 through March 2001 by using the Company's estimate of
8 base load usage; heat load factor with warmest month and coldest month temperatures for
9 these months; and the Company's estimated number of customers. See Schedule 12 attached
10 to this direct testimony, for a summary of estimated winter month usage for base load, 30%
11 of normal, warmest month, normal month and coldest month. See Schedule 13 for a
12 summary of warmest, coldest, normal and actual heating degree day information for this
13 district.

14 Q. Did the Company provide staff with 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 14, and DR No. JH85, attached as Schedule 15. Staff compared these
18 three estimates of normal usage (one from the Company's reliability review, one from the
19 DR No. 48 response, and one from the DR No. JH85 response). These estimates of normal
20 usage are also shown on the chart in Schedule 12.

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

22 A. Yes. The Company's estimate of normal usage in the response to DR No. 48
23 seems unreasonable because it is 8% to 17% lower than the regression equation for base load

1 and heat load usage for normal estimated usage for the months of November 2000 – February
2 2001. Additionally, the Company’s estimate of normal usage in its response to DR No. JH85
3 does not seem reasonable to Staff for the following reasons:

4 a) The DR No. JH85 response shows normal weather November 2000
5 usage to be considerably lower ** _____ ** lower), or 25% lower
6 than that estimated using the regression equation for base load and heat load
7 usage for normal estimated November usage.

8 b) The DR No. JH85 response shows normal weather December 2000
9 usage to be considerably higher ** _____ ** higher) than that
10 estimated using the regression equation for base load and heat load usage, and
11 this is 18% higher than that estimated for even the coldest December.

12 c) The response to DR No. JH85 shows normal weather January 2001
13 usage to be ** _____ ** higher, or 17% higher than that estimated
14 using the regression equation for base load and heat load usage for normal
15 estimated January usage.

16 Because the Company provided detailed supporting information for the estimates
17 obtained from the reliability review, and none for the other two DR responses, and because
18 of the concerns noted previously regarding the DR No. 48 and DR No. JH85 estimates of
19 normal usage, Staff used the Company’s regression analysis to estimate usage.

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

1 A. It could be argued that to mitigate price risk to customers, 100% of warm
2 month requirements should be hedged because these demands represent the lowest expected
3 demand for that month; even if the warmest temperature were encountered, customer demand
4 would be at the warmest month usage shown in Schedule 12. A review of the Neelyville
5 district information reveals that if the Company hedged volumes required for a warmest
6 winter month, then for a cold winter, 55% of volumes would be hedged, and thus customers
7 would be exposed to price risk for 45% of volumes required. Thus, under a coldest winter
8 month scenario, 45% of a customers expected requirements would still have been exposed to
9 price risk. Some companies that have flexibility in their operations and in their contracts
10 might want to reduce this exposure further by hedging more than 100% of warmest winter
11 requirements.

12 However, Staff is not proposing that 100% of the warmest month volumes should
13 have been hedged for the 2000-2001 ACA period. Staff is proposing that for the winter of
14 2000-2001, a minimum reasonable hedge would have been 30% of normal for each month of
15 the winter season. If 30% of normal requirements had been hedged for the Neelyville
16 district, this would mean that when a warmest month was encountered, 40% of the estimated
17 volumes required would have been hedged. This also means that when a coldest month was
18 encountered, only 22% of the estimated volumes required would have been hedged.
19 Therefore, for a coldest month, 78% would not have been hedged and customers would have
20 been exposed to price risk for these volumes. Staff could not reasonably justify hedging less
21 than 30% of normal requirements, because this implies that for a cold winter, more than 78%
22 of customer natural gas requirements would have been exposed to price risk.

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

3 A. No. Although the Neelyville district is a small district with approximately
4 600 customers, it is part of a larger company – United Cities Gas Company. The interstate
5 pipelines serving this area are the Natural Gas Pipeline Company of America (NGPL) and
6 Texas Eastern Transmission Corporation (TETCO). In Missouri, United Cities has
7 approximately 15,200 customers in the Consolidated district. As a larger Company, United
8 Cities also has other service areas in Missouri and has more options for hedging.

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

11 A. The Company's hedged volumes of natural gas for the Neelyville district for
12 the winter of 2000-2001 included storage and fixed price purchases. Staff's review revealed
13 that the Company's planned hedged volumes covered only 9.9% of normal requirements for
14 November 2000 through March 2001. The proposed adjustment is \$15,875, which is
15 approximately \$26.82 per customer. The proposed adjustment is shown in Schedule 16
16 attached to this testimony.

17 Q. Does this conclude your testimony for the Neelyville district purchasing
18 practices adjustment?

19 A. Yes, it does.

20 **PURCHASING PRACTICES-CONSOLIDATED DISTRICT**

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

22 A. The Staff purchasing practices adjustment consists of two parts – one related
23 to an adjustment for failure to hedge 30% of normal requirements as a minimum level of

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1 hedge for the winter of 2000-2001; and the second related to the Company's plan for flowing
2 supplies and storage.

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

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

7 Q. Did the Company provide estimates of usage?

8 A. Yes. In the Company's reliability review, natural gas usage was evaluated to
9 obtain an estimate of base load usage and heat load usage for the Company's firm customers.
10 Using the Company's estimate of base load usage and heat load factor from the Company's
11 reliability review, the Company's estimated number of customers and normal temperatures
12 for the winter months of November through March, Staff estimated normal usage for each of
13 these winter months of November 2000 to March 2001.

14 Staff also evaluated what could be expected as the minimum and maximum usage for
15 each month of November 2000 through March 2001 by using the Company's estimate of
16 base load usage; heat load factor with warmest month and coldest month temperatures for
17 these months; and the Company's estimated number of customers. Staff believes that it is
18 necessary for the Company to consider the estimated minimum and maximum monthly usage
19 in order to properly plan for the variations in volumes of natural gas demanded by customers
20 and thus, the types of contracts (base load, swing, storage, pricing provisions, etc.) necessary
21 to meet customer requirements. See Schedule 17 attached to this direct testimony, for a
22 summary of estimated winter month usage for base load, 30% of normal, warmest month,

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1 normal month and coldest month. See Schedule 18 attached to this testimony for a summary
2 of warmest, coldest, normal and actual heating degree day information for this district.

3 Q. Did the Company provide 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 14, and DR No. JH85, attached as Schedule 15. Staff compared these
7 three estimates of normal usage for the Consolidated district (one from the Company
8 reliability review, one from the DR No. 48 response, and one from the DR No. JH85
9 response).

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

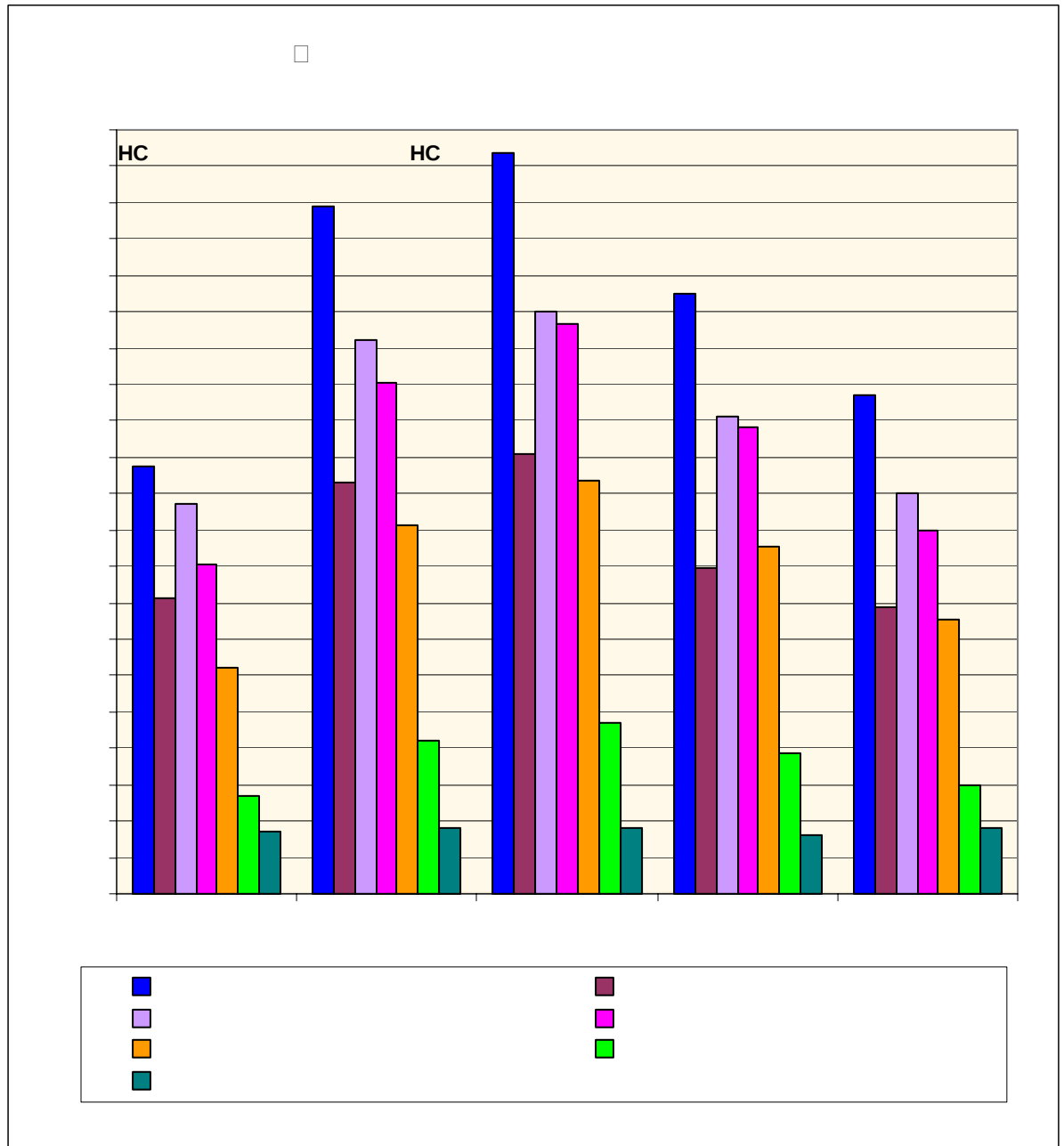
11 A. Yes. The information provided to the Staff in different data request responses
12 was inconsistent. The information needed to be evaluated by Staff before it could be used for
13 purposes of evaluating company performance. Amounts reported for the same variable were
14 unreasonably different in Company responses to data requests. For example, an important
15 variable for planning and managing operations is normal usage for each heating season
16 month. Yet, values for this variable for the same month were unreasonably different in
17 various DR responses. In other words, a reasonable person would not know without some
18 evaluation which of the normal volumes reported should be used.

19 Staff would expect that the Company's estimate of requirements for normal weather
20 would be consistent with other Company estimates of usage for normal weather. However,
21 as shown in the chart on the next page and in Schedule 17 attached to this testimony, the
22 Company estimate of normal usage is different in its responses to DR No. 48 and DR No.

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JH85, and these are different from the estimated usage for normal weather obtained from the Company's reliability review using a regression analysis.

**



**

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

1 A. Yes. The Company's estimate of normal usage in the response to DR No. 48
2 seems unreasonable because it is 2% to 18% higher than the regression equation for base
3 load and heat load usage for normal estimated usage for the months of November 2000 –
4 March 2001. Additionally, the Company's estimate of normal usage in the response to DR
5 No. JH85 does not seem reasonable to Staff because it is 9% to 30% lower than the
6 regression equation for base load and heat load usage for normal estimated usage for the
7 months of November 2000 – March 2001.

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

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

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

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1 have flexibility in their operations and in their contracts might want to reduce this exposure
2 further by hedging more than 100% of warmest winter requirements.

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

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

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

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

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

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

14 A. Yes. ** _____
15 _____
16 _____
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____
23 _____

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

8

A. Yes. As noted previously, the information provided to the Staff in different data request responses was inconsistent. Staff would expect that the Company's estimated requirements for normal weather would be consistent with other Company estimates of usage for normal weather. However, as shown in the chart on page 32 and in Schedule 17 attached to this testimony, the Company estimate of normal usage is different in its responses to DR No. 48 and DR No. JH85, and these are different from the estimated usage for normal weather obtained from the Company's reliability review using a regression analysis.

15

For the reasons stated earlier, Staff does not believe that the estimates of normal usage provided in its DR No. 48 and DR No. JH85 responses are reasonable. However, for purposes of determining whether an adjustment was appropriate, Staff evaluated the Company supply plan from the DR No. 48 response compared to both the DR No. 48 estimates of normal and the estimates of normal from the regression analysis. Charts of the estimated usage and the Company gas supply plan are shown in Schedule 20 attached.

21

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

22

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1 A. Yes. The Company's plan in DR No. 48 and the information in DR No. JH85
2 show that ** _____

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

11 _____ ** Since one of the benefits of an
12 ** _____

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

18 Staff reviewed United Cities' actual natural gas purchases to see that the Company
19 had sufficient volumes of FOM flowing supplies and planned storage withdrawals to cover
20 warm weather requirements for November 2000 through January 2001. Charts of the actual
21 gas supply volumes versus estimated usage are shown in Schedule 21 attached to this
22 testimony. The review of the actual natural gas purchases shows that the Company used base
23 load, including fixed volumes of flowing supplies, swing flowing supplies, and storage to

1 meet actual customer requirements during these months. The review also revealed that the
2 Company did not follow its plan for base load purchases. Although the Company plan for
3 November 2000 to March 2001 was to have base load purchases of ** _____ **
4 the actual base load, including fixed volumes, was ** _____ ** and this is 89% of
5 the planned total base load purchases. When examining each winter month separately, Staff
6 found that actual base load as a percentage of planned base load purchases was 74% for
7 November 2000, 95% for December 2000 and January 2001, 93% for February 2001 and
8 80% for March 2001. ("Fixed" is a term used in DR No. JH85 and refers to volumes of
9 natural gas purchased under fixed price contracts. Staff considered these fixed price
10 contracts to be base load volumes of natural gas.) Because less base load flowing supplies
11 were procured than planned by the Company for each of the winter months, the Company
12 relied more on swing supplies and storage withdrawals, which were not planned for normal
13 weather. When the weather actually turned out to be colder than normal in November and
14 December 2000, the Company had to rely on even more higher priced swing supplies and on
15 storage withdrawals. A chart comparing the planned gas supply volumes (base load
16 purchases and storage withdrawals) to the actual gas supply volumes (base load, including
17 fixed purchases, and storage withdrawals) is shown in Schedule 22 attached to this
18 testimony.

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

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

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1 A. Even though the month of January 2001 had near normal temperatures, and
2 the Company plan for normal weather is to withdraw ** _____
3 ____ ** storage in January, the Company actually had a ** _____
4 _____ ** for that month, and when combined with ** _____
5 _____ **

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

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

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

10

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

11

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

13

14

_____ ** The comparison of the distribution of HDD and the planned storage
withdrawals is shown in the attached Schedule 23. Staff would expect that by the end of
January the Company will have more information about the past winter months and the
approximate volumes of storage utilized, so the Company can revise planned flowing
supplies based on its knowledge of the remaining storage inventory levels.

19

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

21

A. Using the parameters described above, Staff calculated the adjusted base load
FOM nominations and adjusted storage withdrawals, as shown in column R, row 15 of
Schedule 19 attached to this direct testimony. Staff also calculated the adjusted base load

23

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1 FOM nominations and adjusted storage withdrawals using the estimate of normal usage from
2 the regression analysis and the actual base load volumes. This second calculation is shown in
3 column R, row 15 of Schedule 24 attached to this testimony. An explanation of the dollar
4 amount of the adjustment for these revised storage volumes is included in the direct
5 testimony of Staff witness Allee. Staff's review shows United Cities' decisions for flowing
6 gas and storage withdrawals had an unfavorable economic impact on customers' purchased
7 gas costs amounting to \$454,763 (approximately \$29.86 per customer) as shown in the
8 attached Schedule 19. Therefore, the Staff proposes to reduce gas costs by this amount.

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

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

18 Q. Does this conclude your testimony for the Consolidated district purchasing
19 practices adjustment?

20 A. Yes, it does.

21 **RELIABILITY ANALYSIS**

22 Q. Please explain the reliability issues.

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1 A. The Staff Recommendation in Case No. GR-2001-397 filed on August 29,
2 2002, contained recommendation Nos. 3a through 3d related to actions to be taken by the
3 Company by February 3, 2003, regarding the Company's reliability analysis. In the
4 Response To Staff Memorandum And Recommendation filed October 25, 2002, the
5 Company states that it will accept Staff's recommendation that additional documentation
6 regarding the reliability information be submitted by February 3, 2003. Therefore, this issue
7 appears to be resolved.

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

10 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