

FILED³

OCT 11 2001

**Missouri Public
Service Commission**

Exhibit No.:

Issue: **Gas Inventories; Off-System
Sales and Capacity Release**

Witness: **David M. Sommerer**

Sponsoring Party: **MoPSC Staff**

Type of Exhibit: **Direct Testimony**

Case No.: **GR-2001-629**

Date Testimony Prepared: **October 11, 2001**

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

LACLEDE GAS COMPANY

CASE NO. GR-2001-629

*Jefferson City, Missouri
October 2001*

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DIRECT TESTIMONY
OF
DAVID M. SOMMERER
LACLEDE GAS COMPANY
CASE NO. GR-2001-629

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Mo. 65102.

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

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission (Commission).

Q. How long have you been employed with the Commission?

A. Approximately 17 years.

Q. Please describe your educational background and experience.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. Upon graduation, I accepted employment with the Commission.

Q. What has been the nature of your duties at the Commission?

A. From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the State of Missouri. In 1988 the

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1 responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas
2 utilities was given to the Accounting Department. I assumed responsibility for planning
3 and implementing these audits and trained available Staff on the requirements and
4 conduct of the audits. I participated in most of the ACA audits from early 1988 to early
5 1990. On November 1, 1990, I transferred to the Commission's Energy Department.
6 Until November of 1993, my duties consisted of reviews of various tariff proposals by
7 electric and gas utilities, Purchased Gas Adjustment (PGA) reviews and tariff reviews as
8 part of a rate case. In November of 1993, I assumed my present duties of managing a
9 newly created department called the Procurement Analysis Department. This
10 Department was created to more fully address the emerging changes in the gas industry,
11 especially as they impacted the utilities' recovery of gas costs. My duties have included
12 managing the five-member staff, reviewing ACA audits and recommendations,
13 participating in the gas integrated resource planning project, serving on the gas project
14 team, serving on the natural gas commodity price task force, and participating in matters
15 relating to natural gas service in the State of Missouri.

16 Q. Have you previously testified before this Commission?

17 A. Yes. A list of cases in which I have filed testimony is included as
18 Schedule 1 of my testimony.

19 Q. What is the purpose of your testimony in this case?

20 A. I am sponsoring the Staff's inventory levels for underground storage. I
21 will also discuss Staff's position on off-system sales and capacity release.

22 **GAS INVENTORIES**

23 Q. What inventory levels are you proposing to use in this case?

1 A. I have attached, as Schedule 2, the balances for Laclede Gas Company's
2 (Laclede or Company) three types of storage. The calculated balance is based on a 13-
3 month average inventory for the period ending July 2001.

4 Q. Have you reviewed the summer injection prices as part of your
5 recommendation?

6 A. Yes. The prices for Laclede's largest storage area tend to be higher than
7 historical summer prices. However, the Staff intends to review the inventory levels as
8 part of its true-up. This will allow for the consideration of inventory levels that may be
9 more representative of ongoing price levels.

10 **OFF-SYSTEM SALES AND CAPACITY RELEASE**

11 Q. What is Staff's position regarding off-system sales and capacity release?

12 A. The Staff believes that off-system sales should be treated consistently with
13 capacity release credits.

14 Q. Please describe the terms "capacity release" and "off-system sales."

15 A. Capacity release transactions occur when the Company has idle pipeline
16 transportation capacity that is temporarily available and not currently needed for system
17 requirements. The Federal Energy Regulatory Commission (FERC) requires that
18 capacity release transactions be posted to the relevant interstate pipeline's electronic
19 bulletin board unless certain conditions are met. Capacity release deals may occur on a
20 pre-arranged basis or be auctioned to the highest bidder. The "replacement shipper" pays
21 the interstate pipeline for the capacity. The interstate pipeline then credits the
22 transportation invoice of Laclede. These credits are made possible because Laclede must
23 pay the interstate pipeline fees, called reservation charges for firm pipeline capacity.

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1 Off-system sales occur outside of Laclede's service territory and always
2 include the sale of gas commodity (sometimes bundled with transportation). These off-
3 system sales are possible because Local Distribution Companies (LDCs), such as
4 Laclede, sometimes pay demand charges to gas suppliers to meet winter requirements. If
5 the supply is available, but the LDC does not currently need the supply, and there is a
6 market for the supply, the LDC can sell the supply off-system.

7 Q. What is the current ratemaking treatment for capacity release and off-
8 system sales?

9 A. After the expiration of Laclede's Gas Supply Incentive Plan (GSIP), the
10 capacity release credits are flowed through to the customer pursuant to the PGA Clause.
11 In Laclede's last rate case, off-system sales were considered as part of Laclede's non-gas
12 costs and included in the cost of service for the determination of base rates. Staff's
13 position in this case is to include off-system sales in Laclede's PGA tariff.

14 Q. Please explain the rationale for this decision.

15 A. Off-system sales and capacity release are both directly related to and
16 facilitated by components that are already recognized in Laclede's PGA Clause.
17 Interstate pipeline reservation charges and supplier demand charges reserve the capacity
18 or create the right to call on gas. Since these charges are collected and reviewed as part
19 of the PGA process, it makes sense to also consider the revenues associated with use of
20 the idle capacity. Off-system sales and capacity release should also be treated
21 consistently, if possible, because the transactions are sometimes substitutes for each
22 other. This happens because the idle capacity can be used in a capacity-release
23 transaction or bundled with gas supply.

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1 Q. Is the Staff suggesting tariff changes to implement this proposal?

2 A. Yes. Staff witness Thomas M. Imhoff is sponsoring the tariff language for
3 off-system sales. An additional reason for the tariff language relates to accountability.
4 When off-system sales were part of the original GSIP, Laclede was required to maintain
5 records to ensure that off-system customers did not receive lower cost system supplies
6 than captive on-system customers. More than just record keeping, the original GSIP
7 tariff regarding off-system sales contained requirements to explain and document all
8 situations where more expensive supplies were allocated to on-system markets and
9 definitions for allocating the highest incremental cost to off-system transactions. This is
10 an extremely important feature. Without this documentation, Laclede cannot reasonably
11 assure itself that cheaper gas supplies are not being diverted from its customers to off-
12 system sales. In addition, the tariffs should also include a provision that requires Laclede
13 to document the evaluation made to choose capacity release versus an off-system sale.

14 Q. Please explain the reason it is appropriate to document the decisions
15 regarding capacity release and off-system sales.

16 A. I am proposing this change to ensure that adequate documentation exists
17 to help Staff establish that Laclede maximized the choice between these two
18 complimentary gas procurement activities. Both activities can potentially benefit the
19 customer but one decision could benefit the customer more than another.

20 Q. If the Commission chooses to include off-system sales and capacity
21 release revenues in the cost of service for determining base rates, do you have a
22 recommendation for the appropriate level?

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1 A. Yes. The amounts for off-system sales have fluctuated greatly over the
2 years. To address this fluctuation, the Staff has developed a three-year average for off-
3 system sales that results in a revenue adjustment of \$1,630,000. Capacity release,
4 however, has trended down over the last several years so that the current level of
5 \$1,750,000 is the most representative of the going forward level.

6 Q. Does this conclude your direct testimony?

7 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI


In The Matter of Laclede Gas Company's Tariff)
To Revise Natural Gas Rates)

Case No. GR-2001-629

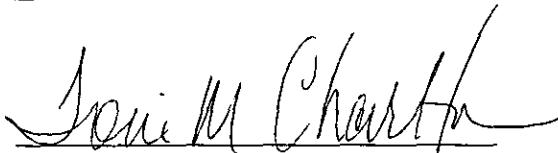
AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

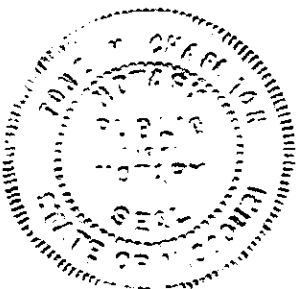
David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


David M. Sommerer

Subscribed and sworn to before me this 10th day of October 2001.



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



CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	CASE NO.
Missouri-American Water Company	WR-85-16
Great River Gas Company	GR-85-136
Grand River Mutual Telephone	TR-85-242
Associated Natural Gas Company	GR-86-86
Empire District Electric Company	WR-86-151
Grand River Mutual Telephone Company	TR-87-25
Great River Gas Company	GM-87-65
KPL Gas Service Company	GR-89-48
KPL Gas Service Company	GR-90-16
KPL Gas Service Company	GR-90-50
Associated Natural Gas Company	GR-90-152
United Cities Gas Company	GR-90-233
United Cities Gas Company	GR-91-249
Laclede Gas Company	GR-92-165
United Cities Gas Company	GR-93-47
Western Resources Inc.	GR-93-240
Union Electric Company	GR-93-106
Missouri Public Service	GA-95-216
Missouri Gas Energy	GO-94-318
Missouri Gas Energy	GO-97-409
United Cities Gas Company	GO-97-410
Missouri Gas Energy	GR-96-450
Missouri Gas Energy	GC-98-335

Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
Laclede Gas Company	GC-99-121
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-98-297
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394

Laclede Gas Co

Natural Gas Inventories

Case No. GR-2001-629

<u>Month</u>	<u>Laclede Natural Gas Storage</u>	<u>MRT Natural Gas Storage</u>	<u>Laclede Propane Storage</u>
July-00	\$ 13,697	\$ 45,095	\$ 12,201
August-00	13,115	59,734	12,201
September-00	16,511	78,241	12,201
October-00	18,472	101,221	12,201
November-00	19,394	80,794	12,187
December-00	13,798	48,117	9,717
January-01	16,447	31,894	9,622
February-01	13,201	21,519	9,622
March-01	10,264	8,764	9,621
April-01	10,554	5,994	11,087
May-01	10,459	6,342	13,149
June-01	14,862	20,147	14,889
July-01	14,475	34,364	16,416
TOTAL	\$ 185,249	\$ 542,226	\$ 155,114
13 Month Avg	\$ 14,250	\$ 41,710	\$ 11,932