Exhibit No.:	
Issues:	*Agency Fees; Overrun Gas; Texas Eastern Transmission Corporation Storage; Reconciled Issues; Purchasing Practices-Southeast Missouri Integrated System*
Witness:	*Phil S. Lock*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case Nos.:	*GR-2001-396 and GR-2001-397 (Consolidated)*
Date Testimony Prepared:	*December 23, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY OF

PHIL S. LOCK

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 PHIL S. LOCK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phil S. Lock, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 10 pages to be presented in the above case; that the answers in the following 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.

Phil S. Lock
Phil S. Lock

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

Toni M Charlton

TONI M. CHARLTON
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

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

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DIRECT TESTIMONY

PHIL S. LOCK

ATMOS ENERGY CORPORATION CASE NOS. GR-2001-396 AND

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DIRECT TESTIMONY

OF

PHIL S. LOCK

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. Phil S. Lock, P.O. Box 360, Jefferson City, Missouri 65102.

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

A. I am a Regulatory Auditor III with the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I attended Central Missouri State University at Warrensburg, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Finance in May 1980 and a major in Accounting in December 1986. Since November 1996, I have been accredited as a Certified Government Financial Manager.

Q. Please describe your work background.

A. Prior to employment with the Commission, I was employed as a Tax Auditor with the Missouri Highway Reciprocity Commission. I also held a position as a Research Analyst with the Division of Family Services.

Q. Please describe your duties while employed with the Commission.

A. From 1987-1993, I conducted rate case audits under the direction of the Chief Accountant of the Commission's Accounting Department. From 1993 to the present, I have, under the direction of the Manager of Procurement Analysis, conducted audits and examinations of the books and records of gas utility companies operating within the state of Missouri.

Q. Have you previously filed testimony in cases before this Commission?

A. Yes. See Schedule 1 attached to this testimony. I have also prepared numerous Actual Cost Adjustment (ACA) recommendations since 1993.

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

A. Yes. In regard to matters raised in this case, I examined Atmos Energy Corporation's (Atmos or Company) gas purchasing practices and conducted a compliance review that includes the issues of Agency Fees, Overrun Gas, and storage inventory with Texas Eastern Transmission Corporation (TETC).

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

A. My direct testimony will identify and address the issues contested by the Company in its October 30, 2002 response to Staff's ACA Recommendation identified as Case No. GR-2001-396, with the exception of the following: A) the Company's Reliability Analysis, Purchasing Practices - General issue, and B) the Purchasing Practices adjustment - Southeast Missouri Integrated system as it pertains to the use of storage. The latter two issues will be addressed by Staff witness Lesa A. Jenkins. Case No. GR-2001-396 includes the service territory of the old Associated National Gas, "ANG" system; namely, the Kirksville district, the Butler district and the Southeast Missouri (SEMO) district. The contested issues that I will address are Agency Fees, Overrun Gas and the Purchasing Practices - Southeast Missouri Integrated issue as it relates to pricing. My testimony will also address the status of a TETC storage inventory issue. Finally, my direct testimony will identify the issues that Staff believes are agreed upon by Staff and Company.

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

A. I have conducted ACA reviews of regulated gas utilities on a full-time basis since the fall of 1993. I have participated in prior ACA reviews involving the issues raised this docket. I have also acquired knowledge of the matters contested within this case through seminars, meetings, correspondence from other state regulatory bodies and gas publications.

Q. What is the purpose of your direct testimony?

A. The purpose of my direct testimony is to address the contested issues related to Agency Fees, Overrun Gas, and Purchasing Practices – Southeast Missouri Integrated System as it relates to pricing. My direct testimony will also address a storage inventory issue with TETC (from which Company requires further documentation from Staff) and identify the issues Staff believes are agreed upon by both Staff and Company.

Q. Please describe the Missouri service territories served by Atmos in Case No. GR-2001-396.

A. Atmos' service territory is composed of three districts: the Butler district which is served by Panhandle Eastern Pipeline (PEPL), the Kirksville district which is served by ANR Pipeline, and the SEMO district which is served by several pipelines, namely Arkansas Western Pipeline (AWP), TETC, Natural Gas Pipeline Company (NGPL) and Mississippi River Transmission Corporation (MRT). The SEMO district includes the service territory known as the SEMO Integrated System that is served by TETC and AWP. Atmos serves over 47,000 customers for its three districts served in Missouri.

AGENCY FEES

Q. Please explain Staff's adjustment on Agency Fees.

A. On the SEMO district, Staff proposes to reduce the cost of gas by $4,886 for firm customers and $576 for interruptible customers as compensation for services provided by MRT Energy Resources under an agency agreement with MRT Energy Resources.

Q. What is the Staff's position on Agency Fees?

A. The Company's tariffs do not allow for recovery of fees related to agency agreements. Staff believes that agency fees are more closely associated with consulting fees that are a payroll issue typically reviewed in the context of a general rate case.

Q. Has Staff disallowed agency fees in previous ACA filings?

A. Yes. Staff is applying the same treatment of these costs in this case as it has in previous ACA cases.

OVERRUN GAS

Q. Please describe Staff's adjustment on Overrun Gas.

A. The Company was billed for overrun charges because the Company did not meet the requirements of ANR pipeline tolerance levels during the period of October 2000 to April 2001. An overrun charge occurs when an actual delivered quantity on a transportation agreement exceeds the maximum daily contract quantity as specified in the contract. As a result, Staff proposes a cost reduction of $5,500 for firm customers and $2,697 for interruptible customers for customers on the Kirksville district. Over-run penalties occurred on ANR from October 2000 to April 2001.

Q. What is Staff's position on this issue?

A. Staff believes that the Company's inability to take corrective action until two days following the date of delivery shows the Company's inexperience in dealing with the contracts. Staff believes that this is not an adequate justification for incurring the penalties. Atmos' customers should not be responsible for overrun penalties in order for Atmos to operate its system. Accordingly, these penalties should not be treated as an ordinary cost of operation.

Q. Has Staff disallowed overrun costs in previous ACA filings?

A. Yes. Staff has applied the same treatment of these costs in this case as it has in previous ACA cases.

Q. Have appropriate measures been taken by the Company to prevent this from occurring again?

A. The Company indicated that it has taken corrective action in matching nominations (requests for service under a service agreement) to anticipated consumption and no further occurrences have resulted.

TETC STORAGE

Q. What is the status of Staff's TETC storage adjustment?

A. The Company has requested a copy of Staff's workpapers that detail the TETC adjustment so that the Company can determine its position on this adjustment. Staff proposes to increase the Company's withdrawal cost by $88,667 and increase its storage injection by $134,391 for an overall reduction in the cost of gas of $45,724. Storage injection costs serve as a reduction in the Company's cost of gas until the gas is withdrawn from storage. Staff recently forwarded a workpaper to the Company that provides detail of Staff's storage adjustment. The Company has not yet responded on this issue.

RECONCILED ISSUES

Q. Please identify the issues that Staff believes are agreed upon by both Company and Staff.

A. See Staff Schedule 2, attached to this direct testimony.

PURCHASING PRACTICES-SOUTHEAST MISSOURI INTEGRATED SYSTEM

Q. Please briefly describe Staff's Purchasing Practices adjustment for the SEMO Integrated System.

A. As described in its 2000-2001 ACA Recommendation, Staff believes that Atmos could have avoided much of its exposure to higher flowing gas costs in January 2001 by following a reasonable approach for planned flowing gas and storage withdrawals for that month. The Company relied too heavily on flowing supplies in January 2001 and not enough on storage (see Staff witness Jenkins direct testimony).

Q. Does Staff have any proposed changes to the Purchasing Practice adjustment for the SEMO Integrated System?

A. Yes. Originally, Staff included the MRT first-of-the-month (FOM) index price when compared to the storage weighted average cost of gas (WACOG), in calculating Staff's Purchasing Practice adjustment. WACOG is a method of pricing out storage inventory. Staff has revised the FOM index prices to reflect the TETC FOM index prices, which more accurately reflects the FOM purchases on the SEMO Integrated System. As a result, Staff proposes to reduce the cost of gas by $1,149,451 on the SEMO Integrated System (see Schedule 10-1 of Staff witness Jenkins' direct testimony).

Q. What impact have the Company's storage decisions had on the Company's monthly WACOG from November 2000 to March 2001?

A. The monthly WACOG increased from $3.63 at the beginning of November 2000 to $4.72 at the end of March 2001. This was mainly the result of the Company injecting gas during the month of January 2001 at a price of ** _____ __________________ ** As explained in Staff witness Jenkins' direct testimony, Staff believes that the Company could have avoided its exposure to higher priced storage in January 2001 by following a reasonable approach for planned flowing gas and storage withdrawals.

Q. Please describe the adjustment (calculation) proposed by the Staff for the SEMO Integrated System.

A. The monthly pricing disallowance or credit was made by calculating the difference between the TETC FOM index price (see Schedule 3) and the storage WACOG price. Staff then determined the monthly storage withdrawal volumes from November 2000 to March 2001 based on normal weather and information obtained from responses to Staff Data Requests (see Staff Witness Jenkins direct testimony for greater detail regarding the analysis of flowing gas volumes and storage volumes). For each month, the overage or shortfall in storage withdrawal volumes (expected versus actual) was then multiplied by the monthly pricing disallowance or credit to determine the storage adjustment by month.

Generally, the Staff believes that the storage adjustment should be credited monthly for actual storage withdrawals that exceed reasonable (expected) storage withdrawals and when the storage WACOG price is less than the FOM price. This occurred during the months of November and December 2000 and March 2001. (Generally, storage gas is available at a lower price than the price obtained for flowing gas purchases during the winter season.) Monthly disallowances are calculated if the Company's actual storage withdrawal is less than reasonable and the FOM price is greater than storage prices. This occurred during the months of January and February 2001. During the months of November 2000 through March 2001, the FOM price was greater than the storage WACOG price.

Q. What is the cost impact for the month of January 2001?

A. Staff's analysis shows that, going into the month of January 2001, the Company had withdrawn more storage gas than was considered prudent by Staff (see Staff witness Jenkins direct testimony for further detail). In January 2001, the Company purchased flowing gas supplies at an average cost of ** ______________________________ ____ ** Flowing gas was imprudently purchased by the Company instead of withdrawing additional storage volumes at the then current WACOG price of $3.77. ** ______________________________ ____ ** One MMbtu is equal to one million British thermal units or one Mcf. ** ______________________________ ____ ____ ** This represents the cost detriment to Atmos' customers resulting from the Company's decision to purchase flowing supplies in January 2001 instead of withdrawing additional storage volumes.

Q. What is the overall cost impact including January 2001?

A. As stated previously in my testimony, the overall cost impact is $1,149,451.

Q. What is the estimated annual impact per customer on the SEMO Integrated System if Staff's $1,149,451 adjustment is allowed?

A. Based on Staff's estimate of 37,209 customers on the SEMO Integrated System, the annual gas cost reduction per customer is approximately $30.89 ($1,149,451 / 37,209).

Q. Is storage considered an effective form of hedging?

A. Yes. Storage allows a Company to purchase gas from a marketer or producer and place this gas into storage facilities. This activity takes place during the summer injection season, which is April through October. Gas is then withdrawn during the months of November through March. Storage provides an effective hedge because it effectively fixes the cost of gas prior to the heating season. The Company knows the cost of this portion of their requirements prior to the heating season. This necessarily provides some protection from price increases, especially price spikes, during the heating season. If the Company was not hedged for some portion of its gas requirements and price spikes occurred in the winter, the full impact of this price spike would need to be passed on to its customers.

Q. Were other forms of hedging utilized by the Company during the 2000-2001 ACA period?

A. Yes. The Company also utilized fixed priced contracts.

Q. Is the Staff's TETC storage inventory adjustment linked to Staff's purchasing practice adjustment on the SEMO Integrated System?

A. Yes, however, they are two separate adjustments. Staff's proposed TETC storage inventory schedule, described previously in my testimony, is consistent with the monthly storage WACOG prices (November 2000 – March 2001) proposed by Staff in its purchasing practice adjustment.

Q. The Company indicated in its response to Staff's ACA recommendation that Staff's proposed adjustments appear to be based primarily on the use of hindsight that is unreasonable. Is this true?

A. No. As Staff witness Jenkins stated in her direct testimony, Staff's analysis is based on information known by the Company at the time the Company made its decisions. Furthermore, the Company may not realize that most regulatory reviews are, by necessity, after-the-fact reviews of the Company's purchasing practices.

Q. Does this conclude your direct testimony?

A. Yes.

SUMMARY OF TESTIMONY

PHIL S. LOCK

COMPANY	CASE NO.	ISSUE
Grand River Mutual Telephone	TR-87-25	Cash Working Capital
Kansas Power and Light Company	GR-89-48	Lost & Unaccounted for Gas
St. Joe Light and Power Company	GR-90-84	PGA Costs
Associated Natural Gas Company	GR-90-152	Revenues, Gas Costs, Bad Debts
United Cities Gas Company	GR-92-21	Take-or-Pay Refunds
Laclede Gas Company	GR-92-165	Weather Normalization, Customer Annualization, Unbilled Revenue, Postage & Card Stock Expense, Uncollectible Accounts, E&D Expense, Gas Expense
United Cities Gas Company	GR-93-47	Revenues, Gas Costs, Uncollectible Expense, Postage Expense, Customer Bypass
Laclede Gas Company	GR-93-149	Transportation within Contract Demand
Laclede Gas Company	GR-94-328	Capacity Reservation Charges
Missouri Public Service	GR-95-273	Capacity Release
Missouri Public Service	GA-97-132	Establish Optimal Gas Cost and Transportation Level
Missouri Public Service	GR-99-435	Put and Call Transactions
Aquila Networks D/B/A Missouri Public Service	GR-2000-520	(Consolidated with GR-2001-461) Purchasing Practices, Deferred Carrying Cost Balance, Puts/Calls
Aquila Networks D/B/A Missouri Public Service	GR-2001-461	Purchasing Practices, Deferred Carrying Cost Balance, Puts/Calls
Greeley Gas Company	GR-2001-394	Purchasing Practices
Gateway Pipeline Company	GM-2001-585	PGA Costs

RECONCILED ISSUES

ATMOS ENERGY CORPORATION CASE NO. GR-2001-396 AND UNITED CITIES GAS COMPANY CASE NO. GR-2001-397 (CONSOLIDATED)

ISSUE	ADJUSTMENT AMOUNT	DISTRICT
Liquified Natural Gas Services	($354,012) Firm	SEMO
	($69,762) Interruptible	SEMO
Revenues	($1,849) Firm	Kirksville
	($99,863) Interruptible	Kirksville
	$21,030 Firm	SEMO
	$100,918 Interruptible	SEMO
DCCB Adjustment	($44,638) Firm	SEMO
	$4,936 Interruptible	SEMO
	($16,155) Firm	Butler
	($764) Interruptible	Butler
	($40,916) Firm	Kirksville
	($4,274) Interruptible	Kirksville
Refunds	$108 Firm	SEMO
	($76) Interruptible	SEMO
	($13,615) Firm	Kirksville
	($6,014) Interruptible	Kirksville
	($1,063) Firm	Butler
	($143) Interruptible	Butler
Storage	$9,824 Firm	Kirksville
	$2,990 Interruptible	Kirksville

Schedule 3

is deemed

Highly Confidential

in its entirety.