

Exhibit No.:
Witness: Bradley R. Lewis
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Associated Natural Gas
Company
Case No.: GR-97-191

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

CASE NO. GR-97-191

SURREBUTTAL TESTIMONY OF

BRADLEY R. LEWIS

**ON BEHALF OF
ASSOCIATED NATURAL GAS COMPANY**

Exhibit No. 3
Date 11-5-99 Case No. GR-97-191
Reporter YMa

**JEFFERSON CITY, MISSOURI
OCTOBER 5, 1999**

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1 Q. Please state your name.

2 A. My name is Bradley R. Lewis.

3 Q. Are you the same Bradley R. Lewis who previously filed direct and rebuttal
4 testimony in this case?

5 A. Yes.

6 Q. Have you read the rebuttal testimony of Michael J. Wallis filed in this case on
7 August 17, 1999?

8 Q. Yes.

9 Q. What is the purpose of your testimony today?

10 A. I will be presenting surrebuttal to the rebuttal testimony of Mr. Wallis which
11 addresses Staff's position on Associated Natural Gas Company's (ANG) actual cost
12 adjustment (ACA) recovery methodology applicable to liquefied natural gas (LNG) and
13 Natural Gas Pipeline Company of America (NGPL) non S2 storage withdrawal dollars.

14 **Litigating Same Issue**

15 Q. On page 1, at line 16, and again beginning at line 21, Mr. Wallis says that the
16 issue and corresponding arguments in this current case (Case No. GR-97-191) are the
17 same as the issue and corresponding arguments in Case No. GR-96-227. Do you agree
18 with that?

19 A. No.

20 Q. Why not?

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1 A. While the issues may be similar, the two cases cover different time periods and
2 involve different amounts of money. Additionally, while ANG's overall position may be
3 the same, namely that the Staff's position is meritless, the arguments I present are not the
4 same arguments presented in the previous case. Frankly, I am always very hesitant to
5 readdress an issue before the Commission. Therefore, prior to accepting this
6 engagement, I insisted on reviewing all of the filed testimony and transcripts for Case No.
7 GR-96-227. My review indicated that many key issues had been overlooked or
8 inadequately addressed in that case. In addition, I found the evidence presented to be
9 quite confusing and somewhat misleading. I thought that Mr. Wallis presented
10 conclusions and recommendations to the Commission that lacked a factual basis and are
11 contrary to widely held notions of gas rate making in this state.

12 Q. Why do you believe Mr. Wallis presented conclusions and recommendations to
13 the Commission that lacked a factual basis and are contrary to widely held notions of gas
14 rate making in this state?

15 A. The primary issue in this proceeding relates to a type of purchased gas adjustment
16 procedure which was effective a considerable time before Staff Witness Mr. Wallis and
17 former ANG Witness Mr. Kidd started their professional careers in the field of public
18 utilities. The type of procedure in effect now is very different. Neither Mr. Wallis nor
19 Mr. Kidd had any personal knowledge of why Sheet 44 was designed the way it was, or
20 how it operated. I believe this lack of personal experience with the former procedure has

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1 led Mr. Wallis to conclusions that lack a factual basis and are contrary to widely held
2 notions of gas rate making in this state. Similarly, Mr. Kidd's lack of familiarity with the
3 former process also apparently led him to make some statements on cross examination
4 that I did not agree with, although he was certainly correct in his overall conclusion.

5 Q. Are there any other reasons which you believe contributed to Mr. Wallis
6 presenting conclusions and recommendations to the Commission that lacked a factual
7 basis and are contrary to widely held notions of gas rate making in this state?

8 A. On page 2, at line 20 of his rebuttal, Mr. Wallis indicates that the Staff position
9 that ANG had recovered its storage withdrawal costs in an "up-front" fashion was
10 originally postulated in 1990 in Case No. GR-90-152. My review of that case showed
11 that testimony about that was sponsored by Staff member David Sommerer, who I
12 believe is Mr. Wallis' immediate supervisor. Mr. Sommerer's qualifications indicated
13 that the Pre-July 1982 PGA was effective a considerable time before he started his
14 professional career in the field of public utilities, and therefore, he also had no personal
15 knowledge how Sheet 44 was designed or operated at the time he made his
16 recommendations in Case No. GR-90-152. Therefore, it appears that Mr. Wallis is
17 advocating a theory of Mr. Sommerer's when Mr. Sommerer had no more personal
18 involvement with Sheet 44 than Mr. Wallis did.

19 Q. Mr. Wallis raises the notion on p. 2, lines 10-11, that there is something wrong
20 with the manner in which ANG implemented the change in its recovery method since he

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1 says it occurred "virtually overnight" and without considering the impact the change
2 would have. Is there any significance to this notion?

3 A. Not at all. This is a notion the Staff keeps raising but never explaining. The
4 implication of the "virtually overnight" phrase used by Mr. Wallis is that if ANG had
5 somehow changed the method over some *longer* period of time, that would have been
6 acceptable. I don't think that is what the Staff is really saying because they have never
7 indicated that the length of time for the change made any difference at all. It appears to
8 me that Mr. Wallis is just trying to make it sound like ANG did something bad, and did it
9 in a hurry. Remember that ANG changed methods because the Staff said that would be a
10 good thing to do. The Staff never said, though, that if ANG changed methods, the Staff
11 would then spring this theory of "double recovery" like a trap. Further, the notion that
12 ANG made this change with no thought to the impacts is also factually incorrect. Mr.
13 Kidd testified in Case No. GR-96-227 that ANG ran scenarios to see if there would be
14 any impacts and there were none of any significance.

15 Q. Why did you agree to testify in this case if, as Mr. Wallis claims, the issue has
16 already been litigated before the Commission?

17 A. I accepted the engagement based on the assumption there were a substantial
18 number of additional facts and arguments supporting ANG's position that had not been
19 appropriately presented, discussed, and understood by the Commission in Case No.
20 GR-96-227.

Echoes of Previous Arguments

Q. As you mentioned earlier, Mr. Wallis states on page 1, and again on page 6, beginning on line 7, that your testimony “merely echoes” the arguments raised by ANG in Case No. GR-96-227. What was your reaction to these statements?

A. My initial reaction was:

Mr. Wallis apparently has no recollection of the content of Mr. Kidd’s surrebuttal testimony presented in Case No. GR-96-227.

Mr. Wallis apparently did not read my direct testimony in this proceeding.

As previously mentioned in my rebuttal testimony, Mr. Wallis continues to draw conclusions without any factual basis.

Q. Can you summarize what you consider the important points and aspects of Case No. GR-96-227 to be?

A. Yes. Staff correctly observed that ANG’s tariff Sheet 44 allowed ANG to charge customers an estimated PGA rate, which was based on a determination of ANG’s average cost of gas by using the most recent supplier invoices. ANG supplier invoices show that (1) storage injections were included or added to the pipeline invoices and (2) storage withdrawals were excluded or subtracted from the pipeline invoices. However, from these observations, the Staff incorrectly concluded that Sheet 44 allowed ANG to recover its storage withdrawal costs in an up-front fashion. Just because purchases related to volumes injected into storage show up on an invoice does not mean that storage gas not

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1 yet consumed by customers was collected through the Pre July 1982 PGA.

2 My review of Case No. GR-96-227, especially the transcript of the proceedings,
3 indicates that both the regulatory law judge and some Commissioners were searching for
4 some sort of tangible "proof" beyond the personal opinion of two witnesses about the
5 design and operation of a tariff sheet with which neither had any personal experience.

6 Based on my experience with and understanding of the objectives and operation
7 of purchase gas adjustment mechanisms, my experience with the specific operation of the
8 Pre-July 1982 PGA, my familiarity with the transition from Pre July 1982 PGA to the
9 Actual Cost Adjustment (ACA) process, my knowledge of reports and recommendations
10 of numerous utility experts, my experience with monthly PGA computations required to
11 comply with Pre July 1982 PGA, my experience with previous general rate proceedings
12 before and after July 8, 1982, and my familiarity with other purchase gas adjustment and
13 fuel adjustment proceedings, I concluded I could bring a perspective to this case that
14 apparently was lacking in the previous case. In my direct testimony, I presented
15 numerous additional arguments and facts that clearly demonstrate ANG has not recovered
16 the cost of storage gas which has not yet been consumed by jurisdictional customers
17 through the application of the Pre July 1982 PGA.

18 Q. To refute Mr. Wallis' claim that your testimony is a "mere echo" of what was
19 presented in the previous case, you said you have presented additional facts and
20 arguments that the Commission did not see in Case No. GR-96-227. Could you

1 summarize these new facts and arguments?

2 A. A summary of the new or additional facts and arguments included in my direct
3 testimony is as follows:

4 **1. Overview of Purchase Gas Adjustments** – Staff’s claim that storage gas not yet
5 consumed is collected through the application of the Pre July 1982 PGA is not consistent
6 with the purpose and intent of purchase gas adjustments.

- 7 ● The primary purpose of purchase gas rate adjustments is to provide a
8 reasonable opportunity for the timely collection of the current actual
9 annual cost of purchased gas consumed by jurisdictional customers. –
10 Purchase gas adjustments were not designed to allow the recovery of the
11 cost of storage gas which had not yet been consumed by jurisdictional
12 customers. (pages 22 and 27)
- 13 ● The Pre July 1982 PGA was not a “dollar tracker.” Sheet 44 did not
14 provide for the collection of an “exact amount” of purchased gas costs, but
15 rather provided for the application of a current PGA rate to all units of
16 jurisdictional sales. This, in combination with the level of purchased gas
17 per MCF included in base rates, provided the opportunity over an annual
18 period for ANG to collect a “representative level” of the current actual
19 annual cost of purchased gas actually delivered and sold to jurisdictional
20 customers; not the amount that was put in storage and not delivered to

customers. (page 66)

2. Relationship of Gas Purchases versus Gas Consumption – The key impact of computing the Pre July 1982 PGA on an annual basis was essentially ignored in Case No. GR-96-227. In the long term, on an annual basis, computing the PGA rate based on Gas Purchases will produce the same results as computing the PGA rate based on Gas Consumption. Understanding this relationship is essential to fully understanding that storage gas not yet consumed by customers is not collected through the Pre July 1982 PGA.

- From September through January when customer gas usage is constantly on the upturn because of cold weather conditions, the actual monthly cost of purchase gas consumed by jurisdictional customers far exceeds actual recoveries being accomplished through rates. This situation exists because gas purchases, which are recorded currently for accounting purposes (current calendar month costs), are reflecting the beginning of the new heating season while recorded revenue reflects usage primarily from the prior month due to the lag effect of cycle billing. This trend eventually reverses itself during the period of February through May when usage is declining. This dramatic “seasonal characteristic” made it challenging to effectively match revenues and expenses without creating a significant

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1 administrative burden. (page 23)

- 2 ● The Pre July 1982 PGA, like most other purchase gas adjustments, based
3 recovery of a representative level of gas cost on an annual basis in an
4 attempt to manage the seasonal characteristic of current purchased gas
5 costs. Therefore, the current gas costs, gas costs in base rates, and most
6 recent gas sales were all determined on an annual basis. This annual
7 approach enabled the Pre July 1982 PGA to provide a reasonable match of
8 purchase gas costs consumed by customers and revenues. (page 35)
- 9 ● Schedule BRL-3 documents the comparison of annual storage gas volumes
10 (September to August) using both the volume "purchased" and volume
11 "consumed" approaches for the period of 1979 through 1995. Although
12 these methods vary materially in result on a *monthly* basis, in the long run
13 they are essentially the same on an *annual* basis. For the sixteen-year
14 period of September 1979 through August 1995, the volume "purchased"
15 and "consumed" differed by only approximately 17,500 MCF. Therefore,
16 the volume "purchased" and "consumed" methods have varied less than
17 one tenth of one percent ($17,500/64,000,000$) for the period from 1979
18 through 1995. (pages 36-37)
- 19 ● This comparison indicates that sometimes the volume purchased is a little
20 more and sometimes it is a little less than volumes consumed but over the

1 long run, on an annual basis, they are essentially the same. Therefore, the
2 relationship of the volume "purchased" and "consumed" accounting
3 methods for purchased gas in the long term on an annual basis can be
4 expressed as follows:

$$\text{Consumption} = \text{Purchases} - \text{Injections} + \text{Withdrawals}$$

6 In the long term on an annual basis, the formula can be simplified as:

$$\text{Consumption} = \text{Purchases (pages 36-37)}$$

8
9 **3. Review of the Application of the Pre July 1982 PGA** – This review confirmed
10 that the Pre July 1982 PGA generally under-collected the cost of purchased gas consumed
11 by jurisdictional customers and did not collect the storage gas cost not yet consumed by
12 jurisdictional customers.

- 13 ● In the simplest of terms, if the volume of gas charged a monthly PGA rate
14 through the Pre July 1982 PGA equals the volume of gas consumed by
15 jurisdictional customers, and the sum of the base rate and PGA rate
16 reflects the price per MCF of purchased gas consumed by jurisdictional
17 customers, then it is confirmed that both (i) the application of the Pre July
18 1982 PGA produced a recovery of base and PGA revenues which
19 approximated the actual annual cost of purchased gas consumed by
20 jurisdictional customers, and (ii) that the Pre July 1982 PGA did not allow

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1 the recovery of storage gas which had not yet been consumed by
2 jurisdictional customers. Or in mathematical terms:

3 **(Volume Consumed) X (Price/MCF of Gas Consumed) = Cost of Gas**
4 **Consumed** (pages 31-32)

- 5 • The volume of gas charged a monthly PGA rate through the Pre July 1982
6 PGA equals the volume of gas consumed by and billed to jurisdictional
7 customers. Sheet 44 describes this procedure as follows:

8 "The difference in annual cost determined above shall be divided
9 by the CCF sold during the same twelve month period and the rate
10 per CCF determined to the nearest \$.00001 will be used as a net
11 adjustment applicable to monthly billings under all of the
12 Company's Gas Rate Schedules not having a purchased gas
13 adjustment clause as part of the schedule."

14
15 Therefore, simply put, Sheet 44 required that the monthly PGA rate apply
16 to all volumes consumed by (i.e., metered) and billed to jurisdictional
17 customers. (page 32)

- 18 • The computation of the monthly PGA rate in the Pre July 1982 PGA in
19 accordance with Sheet 44 produced a PGA rate that was reflective of the
20 current actual annual cost of purchased gas consumed by ANG's
21 jurisdictional customers. (page 66)
- 22 • As shown on Schedule BRL-5, from 1971 to 1982, the gas industry as a

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1 whole experienced double-digit rapid increases in natural gas prices. As
2 shown on Schedule BRL-6, a review of the annual average cost per MCF
3 of ANG storage gas injections indicates that ANG experienced similar
4 rapid price increases during that time period. (page 44)

5 • Because of the two-month lag in implementation of the PGA, and a trend
6 of rising prices during the period of 1971 through 1982, the PGA had a
7 general tendency to undercollect current purchased gas costs. Therefore,
8 during this period, the sum of the base rate and PGA rate was somewhat
9 less than the price per MCF of purchase gas consumed by jurisdictional
10 customers. **Therefore, the Staff is making the unsupported assertion**
11 **that ANG previously recovered gas in storage when the evidence**
12 **clearly suggests it did not even totally recover the gas consumed by**
13 **jurisdictional customers. (pages 44-45)**

14
15 **4. Contradiction of Base Rate Proceedings** - The Staff has turned back the clock 17
16 years to 1982 and developed some astonishing and unsupported assumptions about the
17 Pre-July 1982 PGA. These assumptions contradict the recommendations and
18 assumptions of all parties that participated in the rate making process of that era and
19 imply that significant errors were made in calculating gas rates by many people directly
20 involved in the process.

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- 1 ● The Staff's claim that storage gas was previously recovered through the
2 application of the Pre July 1982 PGA tariff directly contradicts
3 recommendations made by the Commission Staff, the Commission, and
4 ANG in numerous general rate proceedings. (page 16)
- 5 ● From 1970 through 1990, based on recommendations from ANG and the
6 Staff, and orders issued by the Commission, ANG's investment in storage
7 gas, which has not yet been delivered to and consumed by customers, has
8 been included in jurisdictional rate base, examined in general rate cases,
9 and ANG has presumably earned a fair return on that investment. (page
10 48)
- 11 ● Since the implementation of the Pre July 1982 PGA in 1970 through 1990,
12 there appears to have been at least seven general rate proceedings which
13 have involved ANG or its predecessor in interest, Arkansas-Missouri
14 Power Company. The docket numbers of these proceedings are as
15 follows: Case No. 18,101 & 18,103; Case No. 18,600 & 18,601; Case No.
16 18,651 and 18,652; Case No. GR-79-126; Case No. GR-82-126; Case No.
17 GR-83-205; and Case No. GR-86-86.
18 The Staff and ANG included the Missouri jurisdictional portion of the
19 investment in storage gas in rate base in these general rate proceedings.
20 (pages 56-57)

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- 1 ● I included excerpts from the direct testimony submitted by ANG and the
2 Staff in some of these proceedings. See Schedules BRL-15, -16 and -17
3 (page 58)
- 4 ● The Staff's assumptions regarding the operation of tariff sheet 44 would
5 apply to the use of "standard" PGA's by numerous gas utilities in the
6 1960's, 1970's, and 1980's in Missouri and throughout the country.
7 Therefore, if the Commission believes the Staff is correct and endorses its
8 theory, the net logical result is that hundreds -- perhaps thousands -- of
9 regulatory and utility experts nationwide will be declared to have been
10 wrong and numerous gas utilities will be deemed to have over-collected
11 tens of millions of dollars, perhaps hundreds of millions of dollars, over
12 the last 30 years. (page 13)

13

14 **5. Contradiction of Independent Financial Reviews** – Although I agree with the
15 Staff that in certain cases it is appropriate to have a difference in the amount or in the
16 timing between what a utility places on its books for financial reporting purposes and
17 recovery for ratemaking, in this instance, Staff's position of treating this inventory as
18 nonexistent is clearly wrong and directly contradicts the expert opinions of countless
19 other regulatory and utility experts which contend that ANG has not previously collected
20 the cost of storage gas not yet provided to jurisdictional customers.

- 1 ● Financial statements, regulatory filings, Securities and Exchange
2 Commission (“SEC”) data submittals, presentations to financial analysts,
3 Commission Orders, and accounting records produced and reviewed by
4 probably scores of regulatory and utility experts from ANG, the Staff, the
5 Commission, and independent agencies over the last twenty years all
6 categorically contradict the Staff’s assertion that the investment in storage
7 gas has already been recovered through the PGA. All of this past
8 documentation indicates instead that storage gas costs have not yet been
9 collected from ANG’s jurisdictional customers. (pages 58-59)
- 10 ● Mr. Wallis was in the somewhat awkward position of attempting to
11 conduct his investigation 15 to 20 years after the fact, while these
12 previously mentioned examinations were based on a timely and
13 contemporaneous review of the data submitted at the time, with ready
14 access to all pertinent information. (page 59)

15

16 **6. Assumed Recovery of Phantom Gas Volumes** – Staff’s recommendations imply
17 that ANG has recovered the gas cost associated with all volumes consumed by
18 jurisdictional customers as well as gas volumes in storage and not yet consumed by
19 jurisdictional customers. **Staff’s conclusions are obviously physically impossible.**
20 Sheet 44 required that the monthly PGA rate apply only to the volumes consumed (i.e.,

metered) and billed to jurisdictional customers.

- Where customers were supplied with gas purchased as well as gas that was withdrawn from storage, the recovery of gas cost would be based on the volume of gas consumed, which would include purchases and withdrawals from storage. No where on Sheet 44 are customers required to also pay for volumes in storage but not yet consumed by jurisdictional customers. Such an assertion does not comport with the intended purpose or actual operation of the PGA clause. (page 60)

Lack of Data Prior to 1979

Q. On page 4, beginning on line 19, Mr. Wallis claims you have admitted that there is no injection or withdrawal data available prior to 1979. Are 1979 data the oldest data available?

A. No, ANG has information prior to 1979. However, for purposes of preparing Schedule BRL-3, the year 1979 represented the oldest period for which we had *continuous* and *uninterrupted* data. There are data available from earlier years but they do not change the result.

Q. On page 5 of his rebuttal, Mr. Wallis concludes that the alleged lack of data prior to 1979 is critical given that your analysis of the operation of ANG's PGA focuses on the 1970 to 1982 time frame. Do you agree with Mr. Wallis' observation?

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1 A. No. As I stated earlier, my conclusions are based on my general understanding of
2 and experience with the objectives and operation of the Pre-July 1982 PGA and other
3 purchase gas adjustments. I confirmed those understandings with data that was available
4 from 1979 on. I do not believe that data prior to 1979 is required to demonstrate the
5 relationship of gas purchases and gas consumption as shown on Schedule BRL-3 or
6 further support my overall conclusion that ANG never recovered the gas held in
7 inventory by operation of the pre July PGA 1982 as alleged by Staff.

8 Finally, although Mr. Wallis claims it is significant, Mr. Wallis failed to
9 demonstrate how use of the allegedly "critical" earlier data would have changed anything
10 I said. This is just another instance, as with the "virtually overnight" claim, and the
11 "missing data" claim he made in the previous case, where he tries to latch on to
12 apparently important but ultimately *irrelevant* aspects in an attempt to lend credence to
13 his baseless position. He's just throwing a lot of mud against the wall to see if any of it
14 might stick.

15 **Waiting 17 Years to Seek Recovery of Storage Costs**

16 Q. On page 5, beginning on line 20, and again on page 7 beginning on line 9, Mr.
17 Wallis states that you "clearly want the Staff and the Commission to accept the premise
18 that ANG waited 17 years before seeking ACA/PGA recovery of the approximately
19 \$660,000 in storage withdrawal costs." Mr. Wallis also says that the Staff is unaware of a
20 situation in which a Missouri local distribution company has waited even remotely close

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1 to 17 years to seek recovery of ACA/PGA gas costs and that your assertions go against
2 the very foundation of the dollar-for-dollar annual ACA/PGA recovery mechanism under
3 which ANG has operated since July of 1982. What is your reaction to this claim?

4 A. My direct testimony makes absolutely no reference, directly or indirectly, to ANG
5 'waiting 17 years to seek recovery of storage costs.' My reaction to Mr. Wallis' two
6 statements was that -- once again -- he either did not read my direct testimony or is
7 drawing conclusions without any factual basis.

8 As I mentioned in my direct testimony, the Staff is alleging in this proceeding that
9 storage withdrawal costs have been previously recovered through the operation of the
10 purchased gas adjustment tariff in effect prior to July 1982. My testimony focused totally
11 on that issue: demonstrating that the Pre July 1982 PGA, like all other purchase gas
12 adjustments, was not designed to allow the recovery of the cost of storage gas which had
13 not yet been consumed by jurisdictional customers. My testimony does not address the
14 operation of the ACA on or after July 8, 1982, because I don't think that is relevant.

15 Ironically, Mr. Wallis confirms this fact himself on page 4 of his rebuttal testimony
16 beginning on line 21 where he states "Mr. Lewis' analysis of the operation of ANG's
17 PGA focuses on the 1970 to 1982 time frame."

18 Q. In Case No. GR-97-227, did ANG's witness Mr. Kidd answer a question that can
19 be understood as saying ANG waited several years to seek recovery of the 1982 balance
20 of storage inventory?

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1 A. It is my understanding that Mr. Kidd stated that ANG did not intentionally wait
2 15 years to seek recovery of the 1982 balance of storage gas inventory and that the PGA
3 mechanism using the injection recovery procedure would not provide for recovery of this
4 balance.

5 Q. Do you think Mr. Kidd's statement concerning waiting a number of years was
6 accurate?

7 A. I think that Mr. Kidd's response, which was given off the cuff during cross
8 examination, was confusing. I think Mr. Kidd was attempting to answer a complicated
9 question and was attempting to respond to the question as it was posed to him. However,
10 I have a different opinion about ANG's "waiting for recovery" than that presented by Mr.
11 Kidd. I believe that ANG has recovered the actual annual cost of gas consumed by its
12 jurisdictional customers for the time period of the effective date of Sheet 44 through
13 November 1995. I have mentioned repeatedly in my direct testimony that ANG, under
14 Sheet 44, recovered the current actual annual cost of gas consumed by its jurisdictional
15 customers through a combination of base rates set in general rate cases and the operation
16 of the purchase gas adjustment ("PGA") mechanism approved by the Commission for
17 ANG. ANG's investment in storage gas -- gas which has not yet been delivered to and
18 consumed by customers -- has always been included in ANG's Missouri jurisdictional
19 rate base and examined in general rate cases. Mr. Kidd demonstrated that from 1982
20 through November 1995 that ANG essentially recovered the current actual annual cost of

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1 gas consumed by Missouri jurisdictional customers through the operation of the PGA
2 mechanism in place during that time period. Therefore, under any of the PGA
3 mechanisms in effect beginning with Sheet 44, ANG has recovered the gas cost that these
4 PGA mechanisms were designed to recover, which did not include recovery of gas
5 purchased and injected into storage.

6 Q. In your opinion, is the concept of ANG waiting for 15 or more years for
7 recovery of the 1982 storage inventory balance relevant to this proceeding?

8 A. No, for the reasons previously mentioned.

9 Q. Even if one were to subscribe to this erroneous "delayed recovery" theory of
10 the Staff, would the ratepayers or ANG have been harmed in any way by that approach?

11 A. No, they would not have been harmed. As I said, I think the approach is
12 totally erroneous. Ratepayers have not paid for something they have not used. The gas in
13 storage has always been treated as a rate base item by Staff and ANG. Giving that
14 prudent investment by a utility company "rate base" treatment is a normal and customary
15 method of ratemaking in this state and has been for many years. There has been no
16 allegation by the Staff that ANG's investment in gas in storage is imprudent; therefore,
17 ANG has been given an opportunity to earn a return on its investment in storage gas.

18 **Over-collection in Base Rates**

19 Q. Mr. Wallis says on page 2, at line 14, that he does not agree with your direct
20 testimony where you indicated that if the Staff theories are correct, and scores of other

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1 regulatory and utility experts are wrong, ANG has over-collected well over \$1,000,000 in
2 base rates. He says the Staff in Case No. GR-90-152 opposed the inclusion of gas storage
3 costs in rate base. What is your reaction to that claim?

4 A. Assuming a fair return on approximately \$650,000 of jurisdictional rate base and
5 allowing for income taxes, ANG's annual rates for Southeast Missouri have been at a
6 level of approximately \$100,000 per year above where they would have been without that
7 amount in rate base. Therefore, for the twelve-year period of 1978 to 1990, if the Staff
8 were correct in its theory, it can be assumed for purposes of argument that ANG over-
9 collected well over \$1,000,000 in base rates.

10 Q. Why did you discontinue your calculation at 1990?

11 A. From the early 1970's through 1990, all participants in the regulatory process
12 agreed on how the cost of gas in storage not yet consumed by jurisdictional customers
13 should be handled for ratemaking purposes. This investment in storage gas was included
14 in rate base and presumably ANG earned a fair return on that investment.

15 Q. What about Mr. Wallis' claim that the Staff opposed the inclusion of gas storage
16 costs in rate base in Case No. GR-90-152?

17 A. The only time that anyone strayed from this universally accepted ratemaking
18 approach that I just referred to was in the 1990 rate proceeding, Case No. GR-90-152,
19 when Mr. Wallis' supervisor, Mr. Sommerer, first postulated the theory that storage gas
20 was collected in an "up-front" manner.

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1 Q. Was Mr. Sommerer's theory in that case proven to be correct?

2 A. No. He simply raised it in prepared testimony. The issue was never litigated
3 because the case was settled. As such, neither the Commission nor any other party
4 endorsed his position. Certainly ANG cannot be said to have agreed with Mr.
5 Sommerer's position because it agreed to a negotiated dollar amount to settle a rate case.

6 Q. Are you contending that ANG should refund any money, much less \$1,000,000,
7 to ratepayers?

8 A. No. I am only attempting to point out how far-fetched it is to assume that all of
9 the people over all of the years that have looked at this topic in previous ANG rate cases
10 and ACA filings could have overlooked something of this magnitude. The fact that it is
11 only being pursued as an issue these many years later by two Staff auditors (one of whom
12 supervises the other) who had no personal experience with either the design or operation
13 of Sheet 44 should cause the Commission to view the accuracy of the Staff's assertion
14 with great skepticism.

15 ANG has always strongly disagreed with Mr. Wallis' and Mr. Sommerer's
16 unsupported ratemaking assumptions. These assumptions contradict the work of all other
17 regulatory and utility experts. ANG simply seeks appropriate final resolution of this
18 issue in this proceeding.

19 **Summary**

20 Q. Would you please summarize your surrebuttal testimony?

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Division of Arkansas Western Gas Company
Case No. GR-97-191
Surrebuttal Testimony of Bradley R. Lewis

1 A. In this proceeding, Mr. Wallis is "merely echoing" the unproven position first
2 developed by his supervisor, Mr. Sommerer, in Case No. GR-90-152. Mr. Wallis has
3 been attempting to support this position for over two years but still has never produced
4 even a shred of credible evidence to provide some sort of independent analysis to support
5 his theory. All he does is point to the language of the tariff sheet and expect us to believe
6 him. The position categorically contradicts mounds of testimony and financial
7 documents presented by ANG, the Staff, the Commission, and countless other utility
8 experts who had ready access to all the pertinent information. It just doesn't make any
9 sense that Mr. Sommerer and Mr. Wallis are the only people out of all the people who
10 have ever looked at ANG's books who are pursuing this notion. As one might guess,
11 neither Mr. Wallis nor Mr. Sommerer has any actual experience with the design or
12 operation of the Pre July 1982 PGA.

13 Mr. Wallis' rebuttal testimony primarily addressed what I *didn't* say and generally
14 ignored what I *did* say in my direct testimony. This is because he has drawn invalid
15 conclusions without any factual basis and my direct testimony presented a substantial
16 number of new and/or additional facts and arguments that were not presented in Case No.
17 GR-96-227 that clearly demonstrate ANG never recovered storage gas not yet consumed
18 by jurisdictional customers.

19 Q. Does this conclude your surrebuttal testimony?

20 A. Yes, it does at this time.