

Exhibit No.:
Issue: Storage Withdrawal Adjustment
Witness: MICHAEL J. WALLIS
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: GR-97-191

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

MICHAEL J. WALLIS

ASSOCIATED NATURAL GAS COMPANY

CASE NO. GR-97-191

Jefferson City, Missouri
August, 1999

Exhibit No. 5
Date 11-5-99 Case No. GR-97-191
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1 position. The issue and corresponding arguments in the current case (Case No. GR-97-
2 191) are the same as the issue and corresponding arguments in Case No. GR-96-227.

3 Q. Do you have any comments with regard to the direct testimony of Mr.
4 Lewis wherein on Page 7, Line 25 to Page 8, Line 2, he indicates that the Staff
5 recommendation in Case No. GR-93-169 did not say anything about a claim of double-
6 recovery?

7 A. Yes. Staff's recommendation in Case No. GR-93-169 did not say anything
8 about a claim of double-recovery because Staff did not contemplate that ANG would
9 change its ACA recovery methodology [with regard to the Liquefied Natural Gas (LNG)
10 and Natural Gas Pipeline Company (NGPL) non-S2 storage accounts] virtually over-
11 night without even considering the impact (i.e. the portion of the storage balance which
12 was already recovered in an up-front fashion) which the change would have on future
13 ACA filings.

14 Q. Do you agree with Mr. Lewis where on Page 12, Lines 6 to 19, of his
15 direct testimony he indicates that if Staff's assumptions are accepted, ANG has over-
16 collected well over \$1 million in base rates in past rate cases?

17 A. No. I do not agree that Staff's adjustment in this case or in Case No. GR-
18 96-227 conflicts with Staff's treatment of gas storage carrying costs in recent ANG rate
19 cases. I would point out that (as Mr. Lewis indicates on Page 57, Lines 13 to 14 of his
20 direct testimony) in Case No. GR-90-152, Staff did oppose the inclusion of gas storage
21 carrying costs in rate base because Staff viewed that ANG had already recovered its
22 storage withdrawal costs in an up-front fashion through the ACA/PGA recovery
23 mechanism.

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Staff did not oppose the inclusion, by ANG, of gas storage carrying costs in rate base in Case No. GR-97-272. ANG had (prior to its rate case filing) changed its ACA recovery methodology with regard to storage withdrawal costs from an up-front recovery methodology to an as-used or as withdrawn methodology. As a result, Staff believed that it was necessary to allow ANG to recover gas storage carrying costs in rate base on a going-forward basis in order to recognize the fact that ANG had not previously (via the ACA/PGA recovery mechanism) recovered the storage withdrawal costs in an up-front fashion.

Q. Do you agree with Mr. Lewis where on Page 27, Lines 1 to 3, of his direct testimony he indicates that the pre July 1982 PGA was not designed to allow the recovery of the cost of storage gas which had not yet been consumed by customers?

A. No. As I pointed out on Page 3, Lines 4 to 12, of my rebuttal testimony in Case No. GR-96-227 (attached as Schedule 3 to my rebuttal testimony in this case), Tariff Sheet No. 44 allowed ANG to charge its Missouri customers an estimated PGA rate which was based on a determination of the Company's average cost of gas by using the most recent supplier invoices. ANG's most recent supplier invoices, as shown on Schedules 6 and 7 attached to my rebuttal testimony, clearly 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. As a result, the "representative level" (referred to by Mr. Lewis on Page 29, Line 2 of his direct testimony) of the actual annual cost of purchased gas consumed by customers clearly reflects an up-front recovery methodology.

1 Q. Do you have any comments with regard to the direct testimony of Mr.
2 Lewis wherein on Page 30 to Page 47, in the section of his testimony entitled
3 "Application of ANG Purchase Gas Adjustments" he gives his view of the operation of
4 ANG's PGA and the meaning of Tariff Sheet No. 44?

5 A. Yes. Staff would point out that (contrary to what Mr. Lewis asserts) (1)
6 Tariff Sheet No. 44 allowed ANG to charge its customers a PGA rate which was based
7 on pipeline invoices which included storage injection costs (and the corresponding
8 volumes) and excluded storage withdrawal costs (and the corresponding volumes), (2)
9 Tariff Sheet No. 44 does not mention gas consumed, only gas purchased, and (3) Section
10 A.2 of Tariff Sheet No. 44 merely allows ANG to bill its customers (based on billed
11 volumes) for the difference between the cost of gas priced at the historical wholesale base
12 rates (which include storage injection costs and exclude storage withdrawal costs) and the
13 wholesale rates in effect during the most recent purchase month (which also include
14 storage injection costs and exclude storage withdrawal costs).

15 Staff would also point out that ANG does not have documentation in a number of
16 areas with regard to the pre July 1982 time frame. For example, Mr. Kidd, on Page 7,
17 Lines 1 to 13, of his surrebuttal testimony in Case No. GR-96-227, admits that ANG does
18 not have and did not retain any of the PGA filings and PGA rate calculations prior to
19 1984. In addition, Mr. Lewis, on Page 36, Lines 17 to 18, of his direct testimony in this
20 case, admits that there is no injection and/or withdrawal data available prior to 1979. This
21 fact is critical given that Mr. Lewis' analysis of the operation of ANG's PGA focuses on
22 the 1970 to 1982 time frame.

1 Q. Do you have any comments with regard to the direct testimony of Mr.
2 Lewis wherein on Page 50 to Page 55, he discusses the existence of a storage balance on
3 ANG's books and records (which was audited by the accounting firm of Deloitte,
4 Haskins, and Sells) which in his view proves that the amounts which Staff is proposing to
5 disallow actually exist and have not previously been recovered by ANG?

6 A. Yes. Staff would point out that there is often a difference between how a
7 company reflects (on its books) assets, liabilities, revenues, and expenses for financial
8 reporting purposes and how the company seeks to (or is allowed to by the Commission)
9 reflect and/or recover those same assets, liabilities, revenues, and expenses for regulatory
10 rate making purposes. These differences can involve the timing of the recovery of
11 expense amounts and the level of the expense amounts to include in rates.

12 The issue in this case (i.e. the double recovery of storage withdrawal costs) is, in
13 Staff's opinion, a timing issue. Staff is not arguing that the storage withdrawal balances at
14 issue in this case and in Case No. GR-96-227 did not exist on ANG's financial books.
15 Staff is merely arguing that the storage withdrawal balances at issue in this case and in
16 Case No. GR-96-227 do not exist for regulatory rate making purposes. The timing of the
17 regulatory recovery, by ANG, of the storage withdrawal balances at issue dates to the pre
18 July 1982 time period when storage withdrawal costs were recovered in an up-front
19 fashion under Tariff Sheet No. 44.

20 Staff would also point out that Mr. Lewis (in this case) and Mr. Kidd (in Case No.
21 GR-96-227) clearly want the Staff and the Commission to accept the premise that ANG
22 waited 17 years before seeking ACA/PGA recovery of the approximately \$660,000 in
23 storage withdrawal costs at issue in Case No. GR-96-227 and Case No. GR-97-191. The

1 assertions of Mr. Lewis and Mr. Kidd are highly unlikely. Staff is unaware of a situation
2 in which a Missouri local distribution company has waited even remotely close to 17
3 years to seek recovery of ACA/PGA gas costs. The assertions of Mr. Lewis and Mr.
4 Kidd go against the very foundation of the dollar-for-dollar annual ACA/PGA recovery
5 mechanism under which ANG has operated since July of 1982.

6 Q. Please summarize your rebuttal testimony.

7 A. Mr. Lewis' direct testimony merely echoes the arguments raised by ANG
8 in Case No. GR-96-227. The Commission heard the evidence in Case No. GR-96-227
9 and agreed with the Staff's position.

10 Staff's treatment of ANG's LNG and NGPL non-S2 storage withdrawal costs in
11 this ACA case and in Case No. GR-96-227 is consistent with its treatment of gas storage
12 carrying costs in past rate cases. Staff has opposed the recovery of gas storage carrying
13 costs in rate base in the pre December 1995 time frame when ANG used an up-front
14 recovery methodology in its ACA/PGA filings and Staff has allowed ANG to recover gas
15 storage carrying costs in rate base in the post December 1995 time frame wherein ANG
16 has used an as withdrawn methodology.

17 Tariff Sheet No. 44 allowed ANG to charge its Missouri customers an estimated
18 PGA rate which was based on a determination of the Company's average cost of gas by
19 using the most recent supplier invoices. ANG's most recent supplier invoices, as shown
20 on Schedules 6 and 7 attached to my rebuttal testimony, clearly show that (1) storage
21 injections were included or added to the pipeline invoices and (2) storage withdrawals
22 were excluded or subtracted from the pipeline invoices. As a result, Tariff Sheet No. 44
23 clearly allowed ANG to recover its storage withdrawal costs in up-front fashion.

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1 The issue in this case (i.e. the double recovery of storage withdrawal costs) is, in
2 Staff's opinion, a timing issue. Staff is not arguing that the storage withdrawal balances at
3 issue in this case and in Case No. GR-96-227 did not exist on ANG's financial books.
4 Staff is merely observing that the storage withdrawal balances at issue in this case and in
5 Case No. GR-96-227 do not exist for regulatory rate making purposes. The timing of the
6 regulatory recovery, by ANG, of the storage withdrawal balances at issue dates to the pre
7 July 1982 time period when storage withdrawal costs were recovered in an up-front
8 fashion under Tariff Sheet No. 44.

9 Staff has noted that Mr. Lewis (in this case) and Mr. Kidd (in Case No. GR-96-
10 227) clearly want the Staff and the Commission to accept the premise that ANG waited
11 up to 17 years before seeking ACA/PGA recovery of the approximately \$660,000 in
12 storage withdrawal costs at issue in Case No. GR-96-227 and Case No. GR-97-191. The
13 assertions of Mr. Lewis and Mr. Kidd are highly unlikely. Staff is unaware of a situation
14 in which a Missouri local distribution company has waited even remotely close to 17
15 years to seek recovery of ACA/PGA gas costs. The assertions of Mr. Lewis and Mr.
16 Kidd go against the very foundation of the dollar-for-dollar annual ACA/PGA recovery
17 mechanism under ANG has operated since July of 1982.

18 Q. Does this conclude your rebuttal testimony?

19 A. Yes, it does.

