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STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS
April 7, 1998
Jefferson City, Missouri
Volume I

In the Matter of Associated)
Natural Gas Company's Tariff)
Revisions to be Reviewed in) Case No. GR-96-227
its 1995-1996 Actual Cost)
Adjustment.)

BEFORE:

GREGORY T. GEORGE, Presiding,
REGULATORY LAW JUDGE.
SHEILA LUMPE, Chairman,
CONNIE MURRAY,
COMMISSIONER.

REPORTED BY:

KRISTAL R. MURPHY, CSR, RPR, CCR
ASSOCIATED COURT REPORTERS, INC.
714 West High Street
Post Office Box 1308
JEFFERSON CITY, MISSOURI 65102
(314) 636-7551

1 APPEARANCES:

2

3 GARY W. DUFFY, Attorney at Law
4 Brydon, Swearngen & England, P.C.
5 P.O. Box 456
6 312 East Capitol Avenue
7 Jefferson City, Missouri 65102-0456

8 -and-

9 JEFFREY L. DANGEAU, Attorney at Law
10 P.O. Box 1408
11 Fayetteville, Arkansas 72702

12 FOR: Associated Natural Gas.

13 CHERLYN McGOWAN, Assistant General Counsel
14 P.O. Box 360
15 Jefferson City, Missouri 65102

16 FOR: Staff of the Missouri Public Service
17 Commission.

18 DOUGLAS E. MICHEEL, Senior Public Counsel
19 P.O. Box 7800
20 Jefferson City, Missouri 65102

21 FOR: Office of Public Counsel and the Public.

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P R O C E E D I N G S

(EXHIBIT NOS. 1 THROUGH 7 WERE MARKED FOR IDENTIFICATION.)

(Written Entries of Appearance filed.)

JUDGE GEORGE: On the record, please.

This is the hearing for Case No. GR-96-227, in the matter of Associated Natural Gas Company's tariff revisions to be revised in its 1995-1996 actual cost adjustment.

And will the parties please make their entry of appearance, beginning with Company?

MR. DUFFY: Gary W. Duffy, Brydon, Swearngen & England, P.C., P.O. Box 456, Jefferson City, Missouri, appearing for Associated Natural Gas Company. And I think Mr. Dangeau wants to make his appearance also.

MR. DANGEAU: Yes, sir. Jeff Dangeau, representing Associated Natural Gas Company, P.O. Box 1408, Fayetteville, Arkansas, 72702.

JUDGE GEORGE: Thank you.

And for the Staff of the Commission?

MS. MCGOWAN: Cherlyn McGowan representing the Staff of the Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri, 65102.

JUDGE GEORGE: And for the Office of the

1 Public Counsel?

2 MR. MICHEEL: Douglas E. Micheel, appearing
3 on behalf of the Office of the Public Counsel, P.O.
4 Box 7800, Jefferson City, Missouri, 65102-7800.

5 Also, at this time, your Honor, I would like
6 to ask to be excused from the hearing. I will waive
7 all cross-examination of any of these witnesses and
8 take the record as I find it. I do reserve the right
9 to file a brief. I believe I've done that in the
10 hearing memo.

11 JUDGE GEORGE: Is there any response anyone
12 would like to make to that request?

13 (No response.)

14 JUDGE GEORGE: Hearing none, it will be
15 noted for the record that Mr. Micheel will be leaving
16 here and possibly filing briefs later on in this case.

17 Off the record.

18 (A discussion off the record.)

19 JUDGE GEORGE: On the record.

20 At this time we will hear the opening
21 statement of the Company.

22 MR. DUFFY: I'll try to give a real brief
23 background of the facts of this case as I understand
24 it and try to highlight the issues for the Commission.

25 My name is Gary Duffy, and I'm representing

1 Associated Natural Gas Company. Associated is a gas
2 distribution company that serves customers primarily
3 in the Kirksville, Butler and the Boot Heel areas of
4 the state of Missouri from various pipelines.

5 In providing gas service, as is the case
6 with a lot of gas distribution companies, you can't
7 get enough gas out of an interstate pipeline during a
8 peak period to provide all of the gas that your
9 customers demand, so companies normally contract for
10 storage gas, and what that -- as the testimony
11 indicates, what that means is that you put gas into
12 various types of storage facilities during off-peak
13 periods. Usually, these facilities are like
14 underground storage caverns that you can physically
15 store the gas in. And then during very cold time
16 periods you take gas out of that storage and then you
17 take gas from the wells as they flow, and together, in
18 very simple terms, it produces enough gas to meet the
19 needs.

20 What this case -- one -- the major issue in
21 this case has to do with the cost of gas that was put
22 into storage, what's identified in the testimony as
23 "gas inventory cost." And as the testimony has been
24 filed by both Staff and the Company, the issues have
25 been framed to the extent as we understand them that

1 basically the Staff is arguing that there is no value
2 or there is no dollars for recovery of gas in storage
3 for Associated Natural Gas. As we understand the
4 Staff's testimony, they're saying that because of the
5 way that a tariff sheet operated prior to July the
6 8th, 1982, 1982, that because of the way they
7 interpret that sheet operating, that Associated
8 Natural Gas recovered its gas inventory cost at issue
9 here prior to 1982.

10 The Company's position as reflected in the
11 direct, rebuttal and surrebuttal testimony of Mr. Kidd
12 is that the Staff's interpretation that tariff sheet
13 is incorrect, that there is nothing on that sheet that
14 talks about recovery of gas storage cost. Mr. Kidd
15 has gone through several types of examples to show
16 that the tariff sheet did not operate in that fashion.

17 And, therefore, our basic position is that
18 we have gas inventory costs that have not been
19 recovered, that we are entitled to recover those
20 costs, and that the Staff's position that all of those
21 costs have previously been recovered, and, in fact,
22 were recovered prior to 1982, is an erroneous and
23 incorrect interpretation. And the evidence, we
24 believe, will show that the Staff has no documents to
25 affirmatively prove that these dollars were recovered

1 during the time period that they allege that they were
2 recovered.

3 So we think in this case that the burden is
4 on the Staff to convince the Commission that clearly
5 and through clear and satisfactory evidence that, yes,
6 these dollars were recovered by Associated Natural Gas
7 prior to 1982. We have not seen any documents or
8 evidence to that effect, and we don't believe the
9 Staff has any.

10 That essentially is the issue in this case,
11 whether -- whether those gas storage inventory dollars
12 are there or whether they are not there. Thank you.

13 JUDGE GEORGE: Thank you.

14 Miss McGowan?

15 MS. MCGOWAN: Cherlyn McGowan, representing
16 the Staff of the Missouri Public Service Commission.

17 This issue arises as a result of ANG's
18 change in its actual cost adjustment, or ACA recovery,
19 methodology for liquefied natural gas storage and
20 natural gas pipeline non-S2 storage. I'll try to
21 reference those as LNG and non-S2 storage for lack
22 of -- lack of twisting my tongue.

23 Prior to December 1, 1995, ANG did not
24 reflect NLG (sic) an non-S2 storage injections or
25 storage withdrawals as separate components of its ACA

1 filing, but, instead, accounted for the storage
2 injections and storage withdrawals as part of the
3 invoiced flowing supplies in the months in which the
4 gas was purchased by ANG.

5 Accordingly, prior to ANG's recovery
6 modification in December 1, 1995, the price paid for
7 all gas ANG contracted for in any given month was
8 billed directly to ANG's ACA customers irrespective of
9 whether that gas was transported to a city gate or
10 injected directly into storage. Thus, ANG's ACA
11 customers have already paid for all storage volumes
12 injected prior to December 1, 1995.

13 On December 1, 1995, ANG for the first time
14 began showing both the storage injections and
15 withdrawals of gas as separate components of its ACA
16 filing, and they did this change over a one-month
17 period. In other words, ANG began billing customers
18 for storage gas withdrawn on a monthly basis,
19 irrespective of the date the withdrawn gas was
20 injected into storage and irrespective of whether its
21 ACA customers had already paid for that gas.

22 As set out in detail of Michael Wallis's
23 direct testimony, the Staff believes that if the
24 Commission allows ANG to charge its ACA recovery --
25 excuse me -- to change its ACA recovery methodology

1 for LNG and non-S2 storage, ANG's ACA customers will
2 be forced to pay twice for an ANG who received double
3 recovery of all of the LNG and non-S2 gas withdrawn
4 from storage during the 1995-1996 ACA period. In
5 other words, if ANG is permitted to include the
6 withdrawal of gas injected prior to December 1, 1995,
7 as a separate component of its '95-'96 ACA filing,
8 ANG's customers will have to pay ANG twice for that
9 gas.

10 The Staff is not opposed to ANG modifying
11 its method by which it recovers LNG and non-S2
12 storage, but the Staff opposes ANG's changing its
13 storage recovery methodology over a one-month period,
14 and that by changing its methodology over a single
15 month, ANG will receive double recovery on all of the
16 LNG and non-S2 gas withdrawn from storage during the
17 '95-'96 ACA period. The only storage withdrawals that
18 Staff believes should be shown in ANG's '95-'96 filing
19 are those associated with gas supplies injected into
20 storage after December 1, 1995, because, again, ANG's
21 customers already paid for all gas supplies placed
22 into storage prior to that date.

23 For the reasons I have just stated, as well
24 as those set out in Staff witness Michael Wallis's
25 testimony, and the Hearing Memorandum filed in this

1 docket, Staff recommends an adjustment to reduce ANG's
2 Southeastern Missouri district firm customer gas costs
3 and its SEMO district interruptible customer gas costs
4 to account for these volumes.

5 JUDGE GEORGE: And just a few questions for
6 counsel.

7 Ms. McGowan, what reasons -- or what is the
8 primary reason that this storage has already been
9 recovered?

10 MS. MCGOWAN: It's the difference in the way
11 they used to bill it. They purchased a certain volume
12 of gas in a given month. Prior to 19-- or December 1,
13 '95, the gas volumes that they purchased were
14 automatically billed to the customers. Some of the
15 gas that was billed to the customers went to the city
16 gate to serve their immediate needs; other parts of
17 that volume went into storage, and so the customers
18 had already paid for those storage volumes.

19 And then when they changed their methodology
20 within a single month, they started charging the
21 customers for gas that was withdrawn from storage on a
22 monthly basis. However, they were charging them for
23 gas that they paid for prior to its injection.

24 JUDGE GEORGE: And when, in your view, was
25 this storage amount recovered in the past?

1 MS. MCGOWAN: It was recovered prior to --
2 it was recovered as it was purchased, because as it
3 was purchased, part of it went into storage and part
4 of it went on directly to serve the customers.

5 JUDGE GEORGE: And at what time frame of the
6 purchase?

7 MS. MCGOWAN: This may be a question better
8 to get into with the witness because part of the
9 discrepancy, as I understand it, between Staff and
10 Company is when the gas that's currently in storage
11 was placed into storage. The Company is trying to
12 argue that -- well, it depends on how you're -- there
13 is two mechanisms, as I understand it, by which you
14 measure when the gas put in storage was purchased.
15 Some people say first in, first out, which means as
16 you put gas in, you take out the gas that you
17 initially put in. So if you put in gas 20 years ago,
18 but you didn't use it all, that gas that's 20 years
19 old is going to be the last gas you take out of that
20 storage unit. It would be have to be completely dry
21 for you to get that first volumes out. The other is
22 last in, first out, which means that the last volumes
23 that you placed into storage will come out
24 immediately.

25 And I believe that's where the difference of

1 opinion comes. The Company is saying that they are
2 following the first in, last out method, which means
3 that the gas they placed into storage 20 years ago is
4 still there, and they are arguing that those
5 particular volumes were not recovered because they
6 were recovered under a different mechanism.

7 And that's where they are getting into the
8 1982 dates. And they are saying that Staff should
9 have to support an adjustment based on 1982 dates.
10 However, it is our understanding that ANG does not
11 have those records and couldn't provide them to Staff,
12 so they don't exist. And, accordingly, if you are
13 going to follow that method of storage withdrawals,
14 there is no -- there is no evidence that we've been
15 able to find.

16 But Staff believes, to my understanding,
17 that it should be the last in, first out, and based
18 upon that methodology, the gas that was placed in
19 storage 20 years ago was taken out prior to that date,
20 and the gas that was injected in '95 was the gas
21 that's still in storage and will be taken out, you
22 know, during that period. And that gas the customer
23 has paid for.

24 And, again, that's my interpretation.
25 Questions on that issue would better be addressed to

1 both the Staff and the Company witness.

2 JUDGE GEORGE: Mr. Duffy, does that explain
3 the difference between the positions?

4 MR. DUFFY: Well, I was following what
5 Ms. McGowan was saying until we got off into talking
6 about LIFO and FIFO and the other things.

7 All I know is at Mr. Wallis's deposition I
8 asked him when we allegedly recovered this stuff, and
9 you can look for yourself as to what his answer was,
10 but what I interpreted his answer to mean was that we
11 had recovered all of these dollars prior to July 8th,
12 1982, as I told you in my opening statement. And he
13 didn't -- I don't recall his deposition answer talking
14 that much about whether it was LIPO or FIFO, or
15 something else.

16 When he first filed his testimony, he said
17 we recovered it through the ACA filings. And as
18 you -- as the record reflects, we only had ACA filings
19 I think after -- between '82 and '95.

20 And then we filed rebuttal testimony and
21 then we took his deposition. And then instead of
22 saying that we recovered it through ACA filings, as we
23 understand his deposition, they are alleging that we
24 recovered it prior to 1982 through Tariff Sheet 44.
25 And so we have tried to react to that, and say, no,

1 that's not how Tariff Sheet 44 worked. We didn't
2 recover those costs up-front under the operation of
3 Tariff Sheet 44.

4 And if we -- if we're now going to get off
5 into some new issue about whether it's last in, first
6 out or first in, last out, or whatever, then, you
7 know, if the Staff is going to come up with some new
8 theory, then we're going to ask for a continuance and
9 try to understand this new theory and then ask for an
10 opportunity to file rebuttal testimony to a new
11 theory.

12 MS. MCGOWAN: I don't believe this is a new
13 theory, and I think Tariff 44, which I'm sure will be
14 addressed during the course of this proceeding, will
15 speak for itself.

16 Part of the problem is that if you withdraw
17 or store more than -- you know, in unequal amounts,
18 like they tend to put more in storage than they
19 withdraw, so you get a buildup over time.

20 And, as I said, Mr. Wallis will be the
21 appropriate party to really get into the details of
22 the basis, you know, of the prior testimony.

23 And I know that there are different volumes
24 that are in question. And as I remember the section
25 in the deposition Mr. Duffy is addressing, that wasn't

1 necessarily the total volumes. It was certain volumes
2 that may be that residual amount that's left over in
3 storage from that period, as you put more in than you
4 take out over a given amount of time.

5 JUDGE GEORGE: And, Mr. Duffy, does the
6 Tariff Sheet 44 provide the basis for your position
7 that those amounts were not previously recovered? Is
8 that what I'm understanding you to say?

9 MR. DUFFY: My understanding of the issue is
10 that we learned through the course of this case that
11 Tariff Sheet 44 was the basis for the Staff's
12 allegation. We examined Tariff Sheet 44. Tariff
13 Sheet 44 doesn't say anything about gas storage cost.

14 Mr. Kidd addresses the operation of Tariff
15 Sheet 44 extensively in his testimony. He goes
16 through examples of how it operates and walks you
17 through based on various scenarios.

18 So if your question is, are we arguing that
19 Tariff Sheet 44 proves our case, I think I would say
20 that Tariff Sheet 44 does not prove the Staff's case,
21 because they are the ones that are relying on it as
22 near as we can tell.

23 Does that answer your question?

24 JUDGE GEORGE: I think it does. Is there
25 anything that you would point to other than that

1 tariff sheet that does prove your case, that those
2 amounts were not recovered in storage?

3 MR. DUFFY: Well, I don't think that it
4 really ought to be our burden to prove a negative in
5 this case. This is the Staff's adjustment. It's the
6 Staff's allegation that we recovered these dollars at
7 some point in the past, and so my position is going to
8 be that the Staff needs to come forward with evidence
9 to convince you that we have already recovered these
10 dollars.

11 They have pointed to Tariff Sheet 44. We
12 have filed rebuttal saying Tariff Sheet 44 doesn't
13 provide for up-front recovery of these gas storage
14 costs. We've also pointed out in our prepared
15 testimony that in the last rate case the Staff filed
16 testimony which we believe indicates that these
17 dollars -- they take an inconsistent position with the
18 position that Staff is taking in this case that show
19 that the Company should recover rate -- in rate base
20 for those gas storage inventory costs.

21 So what we have pointed out in our testimony
22 is, the Staff filed testimony in the rate case that
23 acknowledged that these gas storage costs were there,
24 and then two months later Mr. Wallis filed testimony
25 in this docket saying those gas storage costs aren't

1 there. So we're pointing out that inconsistency.

2 We're also pointing out that the Staff is
3 the one who said we should change to this new method,
4 that in that recommendation they made no caveat that
5 said, now, if you change to this recommendation, we're
6 going to argue that all of your gas storage costs
7 evaporated in 1982. And so we followed the Staff
8 recommendation, changed the method, and then after we
9 changed the method, they say, oop, you lost -- you
10 have no gas storage costs, which is, as I said,
11 inconsistent with the position they took in the rate
12 case, so that's where we are.

13 MS. MCGOWAN: I would say that both Staff's
14 position in that rate case as well as the testimony,
15 and the flow of the testimony between the parties
16 speaks for itself.

17 Staff initially made this recommendation
18 based upon the change in their mechanism for billing
19 these volumes in 1995. And Company, in their rebuttal
20 testimony, came up with the position that, no, these
21 volumes were actually from '82. And when Staff went
22 back to look at it, the tariff in effect in '82 was
23 the Sheet 44 that is now the subject of controversy,
24 and we reference Tariff Sheet 44 in response to
25 arguments raised by the Company as to where those

1 volumes actually -- actually came from.

2 JUDGE GEORGE: So, in your view, there is no
3 inconsistency with the rate case and this case --

4 MS. MCGOWAN: No.

5 JUDGE GEORGE: -- as far as your position on
6 the issue?

7 MS. MCGOWAN: I don't believe so. And as I
8 stated in my opening, we don't have a problem with
9 their modifying their methodology. It's the way that
10 they have done it, over a single month changing and
11 not going back and accounting for volumes that Staff
12 believes they were already compensated for.

13 JUDGE GEORGE: And the initial
14 recommendation to change the methodology didn't
15 address the problem that has arisen in this case; is
16 that right?

17 MS. MCGOWAN: I believe the recommendation
18 was just to bill the amounts in a different way;
19 however, Staff would not support billing for amounts
20 you were already paid for. And with any change in
21 methodology, there is going to be a transition period
22 where you balance out money that you've already --
23 already received.

24 JUDGE GEORGE: Anything else from counsel
25 before we get the first witness up on the stand?

1 MR. DUFFY: I think we've already concluded
2 closing argument here.

3 MS. MCGOWAN: We've testified long enough.

4 JUDGE GEORGE: Okay. We'll bring our first
5 witness up.

6 Mr. Kidd, would you please come up to the
7 stand?

8 We've already premarked the exhibits and
9 we'll ask Mr. Kidd to please state your full name for
10 the record.

11 MR. KIDD: Mark S. Kidd.

12 JUDGE GEORGE: Please raise your right hand.

13 (Witness sworn.)

14 JUDGE GEORGE: Thank you.

15 Please be seated.

16 Mr. Duffy?

17 MARK S. KIDD testified as follows:

18 DIRECT EXAMINATION BY MR. DUFFY:

19 Q. Would you state your name for the record,
20 please?

21 A. Mark S. Kidd.

22 Q. Mr. Kidd, are you the same person that
23 caused to be filed direct, rebuttal and surrebuttal
24 testimony in this proceeding?

25 A. I am.

1 Q. If I showed you what's been marked for
2 purposes of identification as Exhibits 2, 3, 4NP and
3 4HC in this docket, would you recognize those as your
4 prepared testimony?

5 A. I would.

6 Q. Do you have any corrections or additions to
7 your prepared testimony other than the ones that you
8 have previously included in that prepared testimony?

9 A. I have one.

10 Q. And what is that?

11 A. In direct testimony, Page 13, Line 11,
12 Schedule MSK-3 should read "Schedule MSK-3 Revised."

13 Q. So you wish to insert word "revised" after
14 MSK-3 on Line 11 of Page 13 of what's been marked as
15 Exhibit 2?

16 A. That's correct.

17 Q. Do you have any other corrections at this
18 time?

19 A. No.

20 Q. If I asked you the same questions that
21 appear in those documents this morning, would your
22 answers be the same as they appear and as you have
23 corrected them?

24 A. They would.

25 MR. DUFFY: Your Honor, at this time I would

1 offer into evidence the Hearing Memorandum, Exhibit 1,
2 and Exhibits 2, 3, 4NP and 4HC, and I would tender the
3 witness for cross-examination.

4 JUDGE GEORGE: Are there any objections to
5 the entry of Exhibits 1, 2, 3, 4NP and 4HC?

6 (No response.)

7 JUDGE GEORGE: Hearing none, Exhibits 1, 2,
8 3, 4NP, 4HC are received into the record.

9 (EXHIBITS 1, 2, 3, 4NP AND 4HC WERE RECEIVED
10 INTO EVIDENCE.)

11 JUDGE GEORGE: Ms. McGowan?
12 CROSS-EXAMINATION BY MS. MCGOWAN:

13 Q. Mr. Kidd, are you familiar with Case
14 No. TR-90-152?

15 A. I'm aware that that's an ACA case.
16 That's -- at least that's what my recollection is.

17 Q. I believe it was the rate case prior to --

18 A. Oh, pardon me.

19 Q. Subject to check, would you accept that?

20 A. We can check.

21 MS. MCGOWAN: Well, I guess if you are not
22 familiar with that case, I'd like to ask the
23 Commission to take notice of the Stipulation and
24 Agreement and subsequent Order filed in that case. I
25 think it will clarify some of the issues, but,

1 unfortunately, the witness, being that it's a
2 seven-year old case, is not familiar with it.

3 JUDGE GEORGE: Any response on that?

4 MR. DUFFY: I'm not sure I know what these
5 documents are, but if all that counsel is asking is
6 that the Commission take notice of documents that are
7 already in its file, I'd have a hard time objecting to
8 that.

9 My only concern is I don't know what
10 Stipulation that is being referred to or what Order
11 that is being referred to, and I would have some
12 concern that if there is some other document that
13 somehow needs to be included to explain those --
14 something in those documents or that contradicts
15 something that's said in those documents, that some
16 other additional document might also need to be
17 noticed. And at this point, I don't know what they
18 would be.

19 MS. MCGOWAN: Staff has no problem with
20 taking notice of the official case file in that
21 docket. That way, anything that you may want to
22 review --

23 MR. DUFFY: Well, it's my understanding, and
24 prior practice before the Commission, at least in the
25 cases I've been in, that if the Commission is asked to

1 take official notice of something in its file, that
2 the Commission routinely asks the party offering that
3 to produce the documents themselves so that the
4 documents themselves are in the file and an appellate
5 court would then know what those documents are, and by
6 producing those documents the requesting party
7 believes are relevant, it also gives the opposing
8 party the opportunity to examine those documents and
9 determine whether there is something else that might
10 be necessary to accompany those.

11 So if the Staff wants to produce copies of
12 these documents from GR-90-152 and put them into
13 evidence, that would give us the opportunity to see
14 what they are, at least.

15 JUDGE GEORGE: Now --

16 MS. MCGOWAN: See, I've never been familiar
17 with such a practice. These documents are on the
18 official case file with the Commission and could
19 potentially be voluminous, especially if you are not
20 satisfied with taking the Stipulation and the Order
21 issued subsequent to filing the Stipulation in that
22 case.

23 JUDGE GEORGE: Now, the Stipulation that
24 you're referring to is probably the Stipulation that
25 is attached to the Commission's Order in the case?

1 MS. MCGOWAN: I would -- yeah, it's -- there
2 was a formal Stipulation filed between the parties in
3 GR-90-152. It's my understanding there was only one
4 Stipulation filed in that docket.

5 MR. DUFFY: So you're talking about the
6 Report and Order that disposed of the entire case and
7 that there would be a Stipulation attached to it? Is
8 it possible that that's even printed in the PSC
9 Reports? I don't know.

10 MS. MCGOWAN: I'm not certain whether that's
11 printed in the PSC Reports.

12 I can tell you, if it would make you feel
13 better, the purpose, what evidence I think is in there
14 that I want to reference.

15 MR. DUFFY: Well, perhaps -- I mean, if
16 we're talking about where you want to prove a fact
17 that is included in some kind of Commission Order or
18 Stipulation, perhaps we can stipulate to the fact if
19 we know what it is.

20 MS. MCGOWAN: Okay. Well, we propose that
21 in that case a revenue requirement amount was
22 stipulated to and approved that did not include any
23 carrying cost for storage balances.

24 MR. DUFFY: I'll have to -- I'm sorry. Were
25 you finished or not?

1 MS. MCGOWAN: I just don't see why it's such
2 a problem to take official notice. I think the
3 purpose of taking official notice is to avoid making
4 multiple copies and filing them in this docket when
5 they're going to be on file in this docket with the
6 Commission and they are also identified on another
7 docket. Of course, I'm not sure if they're
8 microfilmed or something, I could get the document
9 printed up.

10 JUDGE GEORGE: Do you know, is this in the
11 PSC Reporter?

12 MS. MCGOWAN: I'm not sure if this one is
13 reported. Usually, stipulated cases are not reported
14 because there is not a lot of evidence or interest to
15 the parties because they generally -- after there is a
16 stipulation disposing of the case. Generally, cases
17 of interest are often reported.

18 JUDGE GEORGE: Okay.

19 MR. DUFFY: Well, I don't want to belabor
20 the point, but in my understanding in a stipulation is
21 that you stipulate to a total dollar amount that
22 nobody admits any principles one way or the other
23 unless the principle is specifically set out in the
24 Stipulation. And if counsel is asking us to admit
25 something that's already set out in the Stipulation,

1 that's one thing. If counsel is suggesting that by
2 agreeing to a total dollar stipulation that somehow
3 some principle that may or may not underlie it is
4 somehow precedent, then I've got a problem with that
5 fundamental notion, because the Stipulations that I
6 sign say it's just a total dollar settlement, and
7 that's all that it is.

8 JUDGE GEORGE: Okay. Any response from
9 counsel on that?

10 MS. MCGOWAN: I believe the language you're
11 interested in speaks for itself. I'm not asking
12 Mr. Duffy to say he did anything that he did not do.
13 That's why I would simply like to reference the
14 section, if necessary, in a brief. I would like to be
15 able to cite to it as evidence that for this period
16 which is closer to the time frame in which Tariff 44
17 was in effect, there was not in the revenue
18 requirement any carrying costs for storage balances.

19 MR. DUFFY: Well -- and my response would be
20 if what she wants to do is cite to a Commission Report
21 and Order in a brief, you do not have to take official
22 notice of that. That is a decision of the Commission
23 that can be cited as any type of precedent could be
24 cited.

25 MS. MCGOWAN: I don't see the problem with

1 taking notice of it. We can cite to it, anyway, but
2 it could be objected by the other parties, and I just
3 think it's a public record, and that the Commission
4 could take notice of it. And I'm letting the parties
5 know that that's something that I may intend to note.

6 JUDGE GEORGE: It's my understanding that
7 with the Commission's Order, it has been issued and
8 the attached Stipulation that's incorporated, the
9 Commission can, on its own authority, take notice of
10 that and consider that.

11 As far as getting into any facts or any
12 specific allegations that we may not be able to look
13 at those things here today, we probably won't allow
14 getting into specific facts or -- or specific language
15 of that today to enable the parties to make their
16 objections, so if you need to reference that, please
17 limit it to --

18 MS. MCGOWAN: I wanted to ask the witness a
19 question, basically, the question, and I think the
20 Stipulation speaks for itself, but it was long enough
21 ago that he does not remember the case.

22 JUDGE GEORGE: Okay. Go ahead and ask your
23 question, and then we'll listen to what objection we
24 have at that point.

25 MS. MCGOWAN: I mean, I don't have a

1 question. The question was whether he remembered the
2 case, and that this was a party to the case. If he
3 doesn't remember the case, I'm not going to ask him --

4 JUDGE GEORGE: Okay.

5 MS. MCGOWAN: -- details about a case that
6 he didn't remember was a rate case or an ACA case.

7 JUDGE GEORGE: Okay.

8 BY MS. MCGOWAN:

9 Q. All right. Back on track a little bit,
10 would you agree that there are only two methods of
11 recovering natural gas storage costs in context of the
12 ACA PGA process, those being one up-front recovery
13 methodology, such as used by ANG prior to November 30,
14 1995, and an as-withdrawn or as-consumed methodology,
15 such as that used by ANG after December 1, 1995?

16 MR. DUFFY: Objection. The question assumes
17 facts not in evidence that there was an up-front
18 recovery. That's not an allegation that's been made
19 in this case. It assumes facts not in evidence, so I
20 object to the phrasing of the question.

21 MS. MCGOWAN: Okay.

22 JUDGE GEORGE: Do you have any response on
23 that, counsel? Do you want to --

24 MS. MCGOWAN: I will rephrase the question.

25 JUDGE GEORGE: Okay.

1 BY MS. MCGOWAN:

2 Q. Okay. Would you agree that there are only
3 two methods of recovering natural gas storing, those
4 being an up-front recovery methodology and an as-
5 withdrawn or as-consumed methodology?

6 A. I don't believe I can necessarily agree with
7 that.

8 Q. Are you suggesting there is a third method
9 or alternate method that you're aware of?

10 A. I'm just suggesting that in this case that
11 we've discussed the injection method and the method
12 called the withdrawal method.

13 Q. I'm not certain that I know what you're
14 talking about.

15 A. Well, it sounds like to me you're asking me
16 if there are more methods than the injection method
17 and the withdrawal method.

18 Q. Well, it's my understanding that there are
19 two methods to recover storage gas costs. One, you
20 recover the cost prior to injecting it, and the other
21 you recover the cost as you take it out of storage?

22 A. Those are the two methods that we've used in
23 the -- or discussed in testimony.

24 Q. Okay. Do you know what method ANG used for
25 recovering its LNG and non-S2 natural gas storage

1 costs prior to December 1, 1995?

2 A. Please repeat the question.

3 Q. Do you know what method to recover its
4 storage gas costs for its LNG and non-S2 natural gas
5 storage costs prior to December 1, 1995?

6 A. Yes.

7 Q. Could you tell me what you believe that
8 method is?

9 A. Well, there are two distinct time periods
10 involved. Prior to July 8th, 1982, ANG recovered its
11 gas costs for NGPL non-S2 and LNG storage using the
12 withdrawal method, and that was through operation of
13 Sheet 44, which I've demonstrated in my surrebuttal
14 testimony allowed recovery as the gas was withdrawn
15 and billed to customers.

16 Beginning July 8th, 1982, through
17 November 30, 1995, ANG accomplished recovery using the
18 injection method.

19 Q. Okay.

20 A. The injection method would allow ANG to only
21 recover the costs that were incurred during that
22 period so there was no ability for ANG to recover the
23 gas inventory that it had incurred as of or prior to
24 July 8th, 1982.

25 Q. Okay. Can you explain the difference

1 between expensing an item and capitalizing an item?

2 A. Well, the expensing of an item refers to the
3 accounting entry that's made. If you record an item
4 as an expense, for example, there is cash outlay which
5 reduces cash, and an entry is made directly to the --
6 to an expense account, which reflects on the income
7 statement.

8 To capitalize an item refers to, for
9 example, a cash outlay that is recorded as a balance
10 sheet item, an asset.

11 Q. So between, I guess, July 8th, 1982, and
12 November 11 -- or excuse me -- November 30th, 1995,
13 when you were recovering via the injection method,
14 would you agree then that ANG expensed its Missouri
15 natural gas storage for that period?

16 A. Are you referring to the accounting entries
17 that we have recorded?

18 Q. Uh-huh.

19 A. Well, I think that -- I think what you would
20 have to do is focus on -- or I should explain to you
21 that during that time period as ANG purchased gas
22 costs (sic), it -- those gas supplies or gas volumes
23 that were injected into storage were recorded as
24 charges to our inventory account, which is a balance
25 sheet item, an asset.

1 Q. I was actually referencing for ACA purposes.

2 A. Well, for ACA purposes, it seems like to me
3 that -- you know, that the issue for ACA purposes
4 is --

5 Q. Not the issue. I'm just trying to
6 understand, was it an expense item for ACA purposes
7 during the period when you were using the injection
8 method?

9 A. Well, I believe the -- using the term
10 "expenses for ACA purposes" is -- is a bit strange. I
11 don't believe that I'm familiar with using it in
12 that -- in that context, so I would be somewhat afraid
13 of being misunderstood by using your term "expenses."

14 Q. Okay. Just a second. Accounting terms
15 always confuse me.

16 Are you familiar with what you reconcile
17 when you do an ACA method, your expenses versus your
18 revenues? When you reconcile your ACA filing, is it
19 expenses versus revenues?

20 A. Let me ask you to be more specific about
21 what you're asking me that we reconcile.

22 Q. Expenses, money that you pay, versus
23 revenues, money you take in.

24 I think we're going to forgo that because
25 you don't want to agree that it's an expensing method.

1 It'll just be confusing.

2 MR. DUFFY: Well, I object to the
3 characterization of my witness's testimony which he
4 has given as confusing.

5 MS. MCGOWAN: No. I said it would be
6 confusing, I mean, to try -- if he's not going to say
7 that it's an expensing item and he's challenging his
8 own definition of an expense that he just gave and
9 whether the definition of an expense item he just gave
10 applies to the way gas storage was handled.

11 MR. DUFFY: Well, I move --

12 MS. MCGOWAN: I asked for him to say, based
13 upon what he told me an expensed item was, would the
14 gas storage volumes be considered an expense item, and
15 he said he had a problem with that.

16 MR. DUFFY: And I move that counsel's
17 remarks after she withdrew the question being stricken
18 as testimony.

19 MS. MCGOWAN: Counsel does not have any
20 objection to that because anything I would say would
21 not count as anyway, and there is really no purpose to
22 the statements.

23 JUDGE GEORGE: Okay. In that case, those
24 comments will be considered stricken.

25 Any further questions?

1 MS. MCGOWAN: Yes, I have some more
2 questions.

3 BY MS. MCGOWAN:

4 Q. Can you explain why ANG waited nearly
5 15 years to seek recovery for approximately \$800,000
6 in LNG and non-S2 natural gas storage costs?

7 A. I don't believe I can explain why ANG waited
8 15 years.

9 I was involved in the ACA filings for
10 several years, beginning in the '92-'93 ACA filing,
11 and so I don't believe that I could address those
12 periods prior to that. My employment with Associated
13 Natural Gas began in December 1991, so I don't believe
14 I can address that entire time period.

15 If there is a way that you can phrase the
16 question, perhaps I can explain it. I'm just not
17 aware of why we -- what went on prior to my
18 employment.

19 Q. That's fine. Are you familiar with ANG's
20 Canceled Tariff Sheet No. 44, which is attached to
21 Mr. Wallis's rebuttal testimony?

22 A. Please repeat.

23 Q. I just was asking for background whether
24 you're familiar with ANG Canceled Tariff Sheet No. 44
25 which was attached as Schedule 1 to Mr. Wallis's

1 rebuttal testimony?

2 A. I read Mr. Wallis's testimony, all of it, of
3 course, and I have examined Canceled Tariff Sheet 44.
4 I have performed analyses on Canceled Tariff Sheet 44
5 in my surrebuttal testimony in which I refute Staff's
6 allegation that ANG was able to operate under Sheet 44
7 to affect up-front recovery. I completely disagree
8 with Staff's allegation that Sheet 44 would have
9 accomplished that.

10 Q. Okay. Would you agree -- and if you would
11 like to, again, look at a copy of the tariff, you can.

12 Would you agree that the wholesale base
13 rates referred to on Sheet 44 are based on historical
14 levels of natural gas which were delivered to ANG's
15 city gate?

16 Do you have a copy of Canceled Tariff
17 Sheet 44?

18 A. Right, I do.

19 Q. Okay.

20 A. And you're addressing my attention to what
21 part of Sheet 44?

22 MR. DUFFY: Just so the record is clear, I
23 guess we're referring to an attachment --

24 MS. MCGOWAN: Schedule 1.

25 MR. DUFFY: -- to Mr. Wallis's rebuttal

1 testimony, Exhibit 6, or what's been marked as
2 Exhibit 6.

3 JUDGE GEORGE: Thank you.

4 BY MS. MCGOWAN:

5 Q. Basically, the wholesale base rates that are
6 referred to on that sheet, can you determine whether
7 they are based on historical levels of natural gas
8 which were delivered to ANG's city gate?

9 A. Please repeat the question.

10 Q. The wholesale base rates that are referred
11 to on Sheet 44, I was asking whether you agree that
12 they are based on historical levels of natural gas
13 which were delivered to ANG's city gates?

14 A. I don't have any direct knowledge of that.

15 I would like to add something, though. You
16 know, Sheet 44 is -- is a PGA mechanism that allowed
17 ANG to track its gas cost levels. Sheet 44, as I
18 think the parties have agreed -- in fact I know the
19 parties have agreed -- Sheet 44 does not have an ACA
20 mechanism in it. Sheet 44 provides these base rates,
21 and from these base rates, ANG made monthly filings to
22 reflect what the current cost was in the month that
23 the current costs had been incurred. Two months later
24 the PGA recovery factors --

25 Q. Okay. I didn't ask this question. I do

1 have a question, though: Were you working in this
2 area, or working for ANG, during the period that
3 Tariff Sheet 44 was in effect?

4 A. No, I was not.

5 Q. Let me see. I want to weed out any
6 questions I don't need to ask you.

7 Is it your understanding from Sheet 44,
8 Part A, that the term "supplier invoice" means
9 invoices from the various pipelines who in the
10 pre-Order 636 environment supplied not only the
11 storage and transportation functions, but also the gas
12 purchasing function?

13 A. Please repeat.

14 Q. Okay. On Sheet 44, Part A, where it
15 references the term "supplier invoices," is it your
16 understanding that "supplier invoices" as used there
17 means invoices from various pipelines who in the
18 pre-Order 636 environment supplied not only storage
19 and transportation, but also the purchasing functions
20 for the pipeline?

21 A. If I understand your question correctly to
22 be simply requesting what the supplier invoices
23 referred to there included, yes, those supplier
24 invoices included a city gate service for ANG that
25 provided ANG's needs at that time, and that did not --

1 there were not separate suppliers for the purchase of
2 the gas. There were not suppliers for the transport
3 and storage, yes.

4 Q. Okay. Would you agree that the supplier
5 invoice from the pipeline would have also included
6 fixed and variable storage charges? Again, this is
7 the pre-636 environment.

8 A. You're asking if the supplier invoices at
9 that time included fixed or other -- are you referring
10 to the main charges?

11 Q. Everything, including fixed and variable
12 storage charges.

13 A. The "variable" being defined as varies based
14 upon the volume that's delivered?

15 Q. Yeah.

16 A. The "demand" being some contract cost that's
17 incurred regardless of volume consumed?

18 Q. Uh-huh.

19 A. I understand that that's correct, that it
20 included -- that the invoices included both fixed
21 charges and variable charges.

22 Q. On Pages 6 and 7 of your surrebuttal
23 testimony, you indicate the calculations which support
24 the Canceled Sheet 44 do not prove that it operated
25 the way Mr. Wallis states that it operated; is that

1 your testimony? Just a yes or no would be fine.

2 A. I need to quickly review that. Just a
3 moment.

4 Q. Okay.

5 A. Would you -- just for the purpose of
6 limiting my review, would give me the line number that
7 you're referring to and where it starts and ends?

8 Q. It wasn't a specific line reference. But I
9 think it's like the bottom of six, top of seven,
10 where, basically, from reading your testimony I'm
11 interpreting it to say that you're stating that Tariff
12 Sheet 44 -- or excuse me -- the calculations which
13 support Tariff Sheet 44 do not prove that it operated
14 the way Mr. Wallis says it operated?

15 A. Okay. Let me review.
16 Did you say my surrebuttal testimony?

17 Q. Yes.

18 A. Okay. Pages 6 and 7?

19 Q. The bottom of six, top of seven.

20 A. In my surrebuttal testimony, on the bottom
21 of Page 6, on Line 18, I ask -- or I'm asked if
22 Mr. Wallis -- if he did not look at the data submitted
23 by ANG prior to 1982, did ANG look at that data? Is
24 that what you're referring to?

25 Q. Basically, it's my understanding that you

1 did calculations that you say support Tariff Sheet 44,
2 and that the calculations that you did do not prove
3 that the tariff sheet operated the way that Mr. Wallis
4 said it did.

5 A. Well, I just wanted to point out to you that
6 I don't believe that that's what this -- I believe
7 this is discussing another topic at this point. We're
8 talking about trying to find some records at the
9 bottom of Page 6.

10 Q. Okay. Well, then I'll go on.

11 The calculations you performed which you say
12 support Tariff Sheet 44, do those calculations
13 disprove Mr. Wallis's claim as to how Tariff Sheet 44
14 operated? I believe it's your testimony that your
15 calculations don't prove it worked in the manner
16 Mr. Wallis claims, but do they prove that it didn't?

17 JUDGE GEORGE: Could counsel help us out by
18 referring to a page on that question?

19 MS. MCGOWAN: Well, there is not really a
20 page. He basically did calculations that he says
21 supported Tariff Sheet 44. And I'm asking him whether
22 those cal-- and that based on those calculations he is
23 saying they don't prove Mr. Wallis's theory as to how
24 Tariff Sheet 44 operated.

25 MR. DUFFY: I believe that statement appears

1 on Line 2 of Page 8 of Mr. Kidd's testimony,
2 surrebuttal testimony.

3 MS. MCGOWAN: I may have my page numbers --
4 and then I was just basically asking whether those
5 same calculations prove that Mr. Wallis's theory as to
6 how Tariff Sheet 44 operated was incorrect, and I
7 don't think there is any conclusive evidence.

8 THE WITNESS: If you want to ask me the
9 question now, I'll attempt to see if you can phrase it
10 so I can respond to it, please.

11 MS. MCGOWAN: I'll try.

12 BY MS. MCGOWAN:

13 Q. It's my understanding from your testimony
14 that you performed calculations in support of Tariff
15 Sheet 44; is that correct? We'll start slow and see
16 if --

17 A. Well, there are two different ways of
18 looking at Sheet 44, and I can't agree with that
19 because the way Mr. Wallis looks at Sheet 44 is a lot
20 different than the way I do.

21 What I'm saying is I produced calculations
22 that demonstrate clearly that Sheet 44 operates so
23 that ANG accomplished recovery as gas was withdrawn
24 from storage, not as it was injected into storage, and
25 that's -- as opposed to Mr. Wallis's position on this.

1 Q. Well, I understand. I'm --

2 A. His position was that Sheet 44 --

3 MS. MCGOWAN: He's not answering my
4 question.

5 THE WITNESS: His position was that Sheet 44
6 completely abolished ANG's recovery -- recoverability
7 of a July 8th, 1982 storage balance, and he based that
8 on a reading of Sheet 44 that simply said that we had
9 recovered the cost as we injected the cost, that's --
10 of course, that's not -- and that's not the case. We
11 disagree with that.

12 BY MS. MCGOWAN:

13 Q. I understand that we disagree on that. Is
14 it true that ANG could not find and apparently didn't
15 retain any of the supporting calculations for Sheet 44
16 prior to 1984?

17 A. Please repeat.

18 Q. Is it true that ANG could not find and did
19 not retain any of the supporting calculations for
20 Sheet 44 prior to 1984?

21 A. I believe what you've asked me is two
22 separate questions. Could we find them?

23 Q. Well, did you -- I believe that Staff asked
24 for them.

25 Well, is it true that you did not retain the

1 supporting documents prior to 1984?

2 A. For --

3 Q. For Tariff Sheet 44 -- Canceled Tariff
4 Sheet 44.

5 A. I am -- I guess I would need you to explain
6 what you mean by "supporting documents" for Tariff
7 Sheet -- Canceled Tariff Sheet 44.

8 Q. I think your testimony probably speaks for
9 itself on that topic.

10 It was my understanding from reading your
11 testimony that you went to the warehouse to look for
12 documentation that supported Tariff Sheet 44, and that
13 it was not available.

14 A. Let's look at my testimony just a moment and
15 see --

16 Q. Okay.

17 A. -- just how we -- how we did that.

18 Q. And it's just a comment I made. I'm not
19 certain of an exact cite to that. I assume it would
20 be in your surrebuttal testimony.

21 A. It's on Pages 6 and 7, I believe. That's
22 where I'm looking right now.

23 What we were looking for in the warehouse
24 was the filings that were made pursuant to Canceled
25 Tariff Sheet 44. We hoped to look at our own records

1 and determine from them that, in fact, Tariff Sheet 44
2 operated as we believed it did. We felt like it was
3 a -- a diligent thing that we should do to determine
4 that, in fact, the calculations were in accordance
5 with our understanding. We saw no need to press on
6 with this case if we were able to look at our own
7 records and determine that we were all wrong. And, in
8 fact, we determined that the tariff sheets were
9 consistent with our understanding of Tariff Sheet 44,
10 which, of course, Mr. Wallis disagrees with.

11 Q. I'm not sure I understood that last
12 statement. You said the tariff sheets were consistent
13 with how you thought Tariff Sheet 44 operated?

14 A. I said the calculations that we found to
15 support our compliance --

16 Q. So you're saying you did find calculations
17 from prior filings?

18 A. No. Pardon me.

19 Q. That's okay.

20 A. We were seeking to find -- I got ahead of
21 myself. We were seeking to find the calculations in
22 our own records in order to diligently determine that
23 our understanding of Sheet 44 was actually in
24 accordance with the way it had been operated.

25 Q. Okay.

1 A. What I was -- what you will read in my
2 testimony is that we were not able to find those
3 particular records that you're referring to. I'm only
4 saying we were unable to find the monthly filings that
5 ANG made with the Commission, and we made a trip here
6 to Jefferson City and looked at microfiche and made
7 copies of those, and I placed several examples in my
8 testimony.

9 Q. Okay.

10 A. And these -- these calculations demonstrate
11 that the operation of Sheet 44, or that the filings
12 are consistent with our understanding of Sheet 44.

13 Q. Okay. That would -- those are the
14 calculations I was referencing earlier, the
15 calculations that you made?

16 A. Which calculation that I made?

17 Q. The calculations of how you believed
18 Canceled Tariff Sheet 44 operates.

19 A. Are you referring to a particular exhibit?

20 Q. We won't go back there.

21 So your surrebuttal -- it's my understanding
22 that your surrebuttal testimony is based upon your
23 opinion of how you think Sheet 44 operated, 15 years
24 after it was canceled; is that correct?

25 A. In my testimony, I introduce an exhibit,

1 MSK-9 -- I should say a schedule, MSK-9, which -- in
2 which I have performed calculations consistent with
3 the meaning of Canceled Tariff Sheet 44, and I have
4 supporting testimony that describes that as well.

5 In that testimony and on those schedules --
6 there are four pages in that schedule -- I demonstrate
7 with a set of facts, or a set of assumptions, how
8 Tariff Sheet 44 works under different -- under
9 different conditions. I demonstrate that Tariff
10 Sheet 44 under these assumptions would produce a --
11 pardon me. It would produce --

12 MS. MCGOWAN: He's not answering my
13 question.

14 BY MS. MCGOWAN:

15 Q. I mean, I'm asking you whether that
16 testimony is based upon your opinion, I mean, if it's
17 an opinion as opposed to based upon factual data of
18 how the sheet operated?

19 MR. DUFFY: Well, we'll stipulate for the
20 record that neither Mr. Wallis nor Mr. Kidd were
21 either one employed by either entity in 1982.

22 MS. MCGOWAN: That's fine.

23 MR. DUFFY: And so both of them are looking
24 at this tariff sheet and coming up with their own
25 calculations -- or their own opinion of what it says,

1 if that will shorten the inquiry.

2 MS. MCGOWAN: That's fine. That will get
3 that. I just wanted to go back to one real quick
4 question.

5 BY MS. MCGOWAN:

6 Q. One final question, Mr. Kidd, if ANG went
7 back to the original injection methodology, which, I
8 guess, was in place during that period between '82 and
9 '95 that we referenced earlier, when would ANG
10 ultimately recover the 1982 inventory balance,
11 assuming that ANG is correct and they have not yet
12 recovered those balances?

13 A. I better go with this one a little bit slow.

14 Q. Okay.

15 A. Please go over that again.

16 Q. Okay. Let's see. Assuming that ANG went
17 back to the injection methodology which would be the
18 method that you used to recover your injected storage
19 gas between July of '82 and November 30 of 1995 --

20 A. When would we switch back?

21 Q. If you switched back today. If you were
22 switched back today, when would you ultimately recover
23 those 1982 inventory balances that you claim you have
24 not yet recovered?

25 A. So you are -- are you implying that we've

1 been on the withdrawal method since December 1, 1995,
2 up through August 6th, 1998?

3 Q. I believe you switched methods on
4 November 30, 1995.

5 A. That is correct.

6 Q. I guess a way to rephrase the question, if
7 you had not switched your methods on November -- or, I
8 guess, December 1, 1995, when would you have recovered
9 those volumes that you claim are remaining from prior
10 to 1982?

11 A. If I had not switched storage methods
12 effective December 1st from the injection method to
13 the withdrawal method, you're asking when I would
14 recover the July 8th, 1982 inventory balances?

15 Q. Right.

16 A. If nothing -- if we went to -- if we had
17 never changed to the injection method, which is -- I
18 think is that not what you're saying? Is that what
19 you're saying?

20 Q. No. If you would not have changed to the
21 withdrawal method?

22 A. Okay. That sounds a little bit different
23 than what you had asked. Do you want to -- could you
24 restate your question, please?

25 Q. If you had not changed methods on

1 December 1, 1995, if you had stayed with the injection
2 method, when would you have recovered those balances
3 that you claim are still in storage from 1982?

4 A. As long as ANG remains on the injection
5 method, it's impossible to recover the balance that
6 had been -- that had been on the books at July 8th,
7 1982. The -- it's a -- it's just the way the
8 injection method works. If you -- by definition, as
9 you inject, you recover, so you can't inject
10 something -- I mean, you can't recover something that
11 occurred previously --

12 MS. MCGOWAN: That's it.

13 THE WITNESS: -- under the injection method.

14 MS. MCGOWAN: No further questions from me.

15 JUDGE GEORGE: Off the record, please.

16 (A discussion off the record.)

17 JUDGE GEORGE: Back on the record, please.

18 QUESTIONS BY JUDGE GEORGE:

19 Q. Mr. Kidd, what do you see as the primary
20 weakness in the Staff's case?

21 A. The primary weakness in the Staff's case is
22 their reliance on Sheet 44 to support their position
23 that ANG did not have a recoverable inventory balance
24 as of July 8th, 1982. The -- through its review of
25 Sheet 44, Staff came up with a flawed understanding of

1 how it works, and I have demonstrated in my exhibit --
2 excuse me -- Schedule MSK-9 how the Tariff Sheet 44
3 operates in regard to the issue at hand. I've clearly
4 demonstrated that Sheet 44 operates to provide
5 recovery of gas costs as consumed. Gas costs that are
6 injected into inventory are not consumed at that time.

7 I've demonstrated that Sheet 44, instead,
8 recovers the gas cost as it's withdrawn from storage,
9 completely counter to Staff's position that Sheet 44
10 operated to allow ANG up-front recovery, that is, as
11 injected into storage. That is, I see, a key -- the
12 key weakness in Staff's case.

13 Q. And what do you look at as the primary proof
14 that the Company has never recovered those storage
15 balances?

16 A. Well, the primary proof is probably -- not
17 probably -- is that there are several issues here.
18 Number one, ANG had a gas inventory balance recorded
19 on its books at that point in time. Second, Tariff
20 Sheet 44, as I've demonstrated through Schedule MSK-9,
21 didn't allow recovery up-front of that cost, so
22 whatever the balance of that storage inventory at that
23 point in time, Sept-- excuse me -- July 8th, 1982, had
24 not been recovered. It was -- it was in our storage
25 inventory. It couldn't have been recovered, as I've

1 demonstrated, through Schedule MSK-9, that it couldn't
2 have been recovered until withdrawn from storage and
3 consumed by customers.

4 It's at that point that customers are billed
5 based on their meter volumes of what they're
6 consuming. It's not possible for the customers to
7 have consumed or to have been billed for that gas
8 prior to that because they're billed on what's
9 consumed. Any other time other than that, in other
10 words, when flowing gas is going to the customers'
11 meters, they are being billed for recovery of that
12 gas, not the gas that may be purchased for injection.

13 Q. And you described earlier going to the
14 warehouse to look for documentation, and what was it
15 that you were looking for that you were not able to
16 find?

17 A. We were looking for ANG's monthly filings
18 pursuant to Tariff Sheet 44. Those filings include
19 calculations in accordance with the specifications or
20 provisions of Sheet 44.

21 Q. Do you know what happened to those
22 documents?

23 A. No, I do not.

24 JUDGE GEORGE: Recross based on questions
25 from the Bench. Ms. McGowan?

1 MS. MCGOWAN: I just have one, and I
2 think -- maybe I have two. Just a second. I want to
3 make sure I understand.

4 RE-CROSS-EXAMINATION BY MS. MCGOWAN:

5 Q. I'll ask the following question so that when
6 I ask a question you won't be confused.

7 Do you know what the GAAP based rates are?
8 It's my understanding that's the Generally Approved
9 Accounting Principles. Are you familiar with those?

10 A. I'm familiar with the term "GAAP," meaning
11 Generally Accepted Accounting Principles.

12 Q. Okay. I just wanted to clarify that so we
13 didn't get into a mess with this question.

14 Has ANG used the withdrawal method on its
15 books for its GAAP based financial statements from '82
16 to '95?

17 A. Yes, it has.

18 Q. Okay. The last question: I believe
19 Mr. Duffy and I agreed on the record to this, but I
20 just want to ask it. Do you have any personal
21 knowledge of how Sheet 44 was operated prior to 1982?
22 And this is personal knowledge. This is just a yes/no
23 question, I believe?

24 A. Please repeat that.

25 Q. Do you have any personal knowledge as to how

1 Sheet 44 operated prior to '82?

2 A. I've stated my opinion as to how it
3 operated.

4 Q. But you don't have any personal knowledge?
5 I think Staff is willing to admit that Mr. Wallis
6 doesn't either have the personal knowledge as to how
7 it operated. I just wanted this on the record. Do
8 you have any personal knowledge as to how Sheet 44
9 operated prior to 1982?

10 A. Well, I've examined the tariff sheet. I've
11 read the provisions. I've discussed it with
12 Mr. Gunter and --

13 Q. Do you have any personal knowledge?

14 A. -- and I do have all of that to --

15 Q. But do you have any personal knowledge as to
16 how Sheet 44 operated prior to 1982? I know Mr. Duffy
17 was making a statement that we could stipulate to
18 that, but you haven't, and I just want to ask, do you
19 have any personal knowledge --

20 A. Are you asking me was I employed by ANG and
21 did I -- in this period prior to 1982, and did I
22 actually have experience with it at that time? Is
23 that --

24 Q. Yes.

25 A. No. I was not employed by ANG until

1 December 1991, but I am able to read a tariff sheet
2 and determine the manner in which it operates.

3 MS. MCGOWAN: Your opinion of the manner in
4 which it operates, which I think is that what -- I
5 won't go there.

6 No further questions.

7 JUDGE GEORGE: Redirect. Mr. Duffy?

8 MR. DUFFY: I have a few questions.

9 REDIRECT EXAMINATION BY MR. DUFFY:

10 Q. Ms. McGowan asked you to -- in one question
11 to utilize the term expense in the context of ACA
12 purposes, and my memory is that you testified you were
13 reluctant to use the term "expense" for ACA purposes.
14 Can you explain your reluctance?

15 A. Yes, I can. In the situation that
16 Mrs. (sic) McGowan was asking me about, she was
17 referring to our ACA filings. In our ACA filings we
18 compare the amount of gas cost that ANG incurs in a
19 period, an ACA period, a 12-month period ending August
20 for ANG, to the amount of recovery that ANG has
21 accomplished during that same period. The cost of gas
22 during this period from July 8th, 1982, through
23 November 30, 1995, included costs that were expensed
24 as well as costs that were capitalized, that being
25 those costs for the injections that are at issue in

1 this case.

2 So I was reluctant because the injection
3 costs were capitalized, so I could not characterize
4 those as expenses. I knew that the reconciliation
5 sheet was referring to compared gas costs meaning
6 expenses as well as capitalized costs to the recovery
7 that ANG had incurred -- had accomplished over the
8 period from July 8th, 1982, through November 30th,
9 1995. I felt that she was asking me about expense in
10 a generally accepted accounting principle method or
11 sense as opposed to how it would -- might be utilized
12 in the context of an ACA filing.

13 Q. Did your -- was your reluctance to use that
14 term -- did that affect your testimony otherwise in
15 this case? I mean, would you change any testimony
16 that you have given in this case as a result of that?

17 A. Not at all.

18 Q. You were asked a question by Ms. McGowan
19 about could you explain why ANG waited 15 years, I
20 think she -- her phrasing was, to seek recovery of
21 these costs. And you said you couldn't explain.

22 Is it your position that ANG waited 15 years
23 to seek recovery of these costs?

24 A. Well, 15 years certainly elapsed. I think
25 everyone agrees about that.

1 Did ANG wait? I don't think ANG
2 intentionally waited 15 years to raise the issue. ANG
3 was aware that it was using the injection method all
4 of this time. It was also aware that if you're using
5 the injection method from the beginning at a certain
6 point in time, then inventory costs prior to that
7 couldn't be recovered under the injection method. ANG
8 was certainly aware of that over that period.

9 To answer your question about the
10 circumstances, perhaps, we were advised or we had a
11 recommendation from Staff in GR-93-169 that stated
12 that Company should change its -- change from the
13 injection method of recovering these costs, and ANG
14 set out from that point that that recommendation was
15 made, which, by the way, was never ordered, so ANG set
16 about from that time to try to accomplish a method of
17 making the change. And as of December 1st, 1995, ANG
18 did, in fact, change to the withdrawal method for LNG
19 and NGPL non-S2 storage.

20 Q. You were asked a question from the Bench
21 about these documents that you looked for in this
22 warehouse but you could not find. Did you find
23 another copy of those same documents in the records of
24 the Public Service Commission?

25 A. Yes, I did.

1 Q. Okay. So are there any -- are there any
2 missing documents in this case that you're aware of or
3 that you -- is there any documenting anywhere that you
4 wanted to find that you could not find?

5 A. No.

6 MR. DUFFY: That's all I have, your Honor.

7 JUDGE GEORGE: Thank you.

8 And, Mr. Kidd, you can step down.

9 (Witness excused.)

10 JUDGE GEORGE: Off the record.

11 (A recess was taken.)

12 JUDGE GEORGE: On the record, please.

13 We're continuing with the testimony of Staff
14 witness, Mr. Wallis.

15 Mr. Wallis, would you please state your full
16 name for the record?

17 MR. WALLIS: Michael J. Wallis.

18 JUDGE GEORGE: Please raise your right hand.

19 (Witness sworn.)

20 JUDGE GEORGE: Thank you, and be seated.

21 Ms. McGowan?

22 MICHAEL J. WALLIS testified as follows:

23 DIRECT EXAMINATION BY MR. MCGOWAN:

24 Q. Can you state your name and business address
25 for the record?

1 A. Michael J. Wallis, P.O. Box 360, Jefferson
2 City, Missouri, 65102.

3 Q. Are you the same Michael J. Wallis that
4 prepared and caused to be pre-filed direct, rebuttal
5 and surrebuttal testimony in this proceeding?

6 A. Yes, I am.

7 Q. And is your surrebuttal -- or excuse me --
8 direct, rebuttal and surrebuttal testimony now marked
9 Exhibits 5, 6 and 7 respectively?

10 A. Yes.

11 Q. Do you have any corrections to make to those
12 exhibits?

13 A. No.

14 Q. If I were to ask you the questions contained
15 in those exhibits today, would your answers be the
16 same as contained in those exhibits?

17 A. Yes.

18 Q. And are those answers true and accurate to
19 the best of your belief and knowledge?

20 A. Yes.

21 MS. MCGOWAN: Then I offer Exhibits 5, 6 and
22 7 into the record, and tender the witness for
23 cross-examination.

24 JUDGE GEORGE: Are there any objections to
25 the admission of 5, 6 and 7?

1 MR. DUFFY: No objection, your Honor.

2 JUDGE GEORGE: Exhibits 5, 6 and 7 are
3 received into the record.

4 (EXHIBIT NOS. 5, 6 AND 7 WERE RECEIVED INTO
5 EVIDENCE.)

6 JUDGE GEORGE: Mr. Duffy, you may proceed.

7 MR. DUFFY: I have no questions for this
8 witness, your Honor.

9 QUESTIONS BY JUDGE GEORGE:

10 Q. Mr. Wallis, can you outline briefly the --
11 and before you do that, you have reviewed the
12 pre-filed testimony of Mr. Kidd in this case?

13 A. Yes, I've read it.

14 Q. And can you briefly summarize the major
15 weakness you see in that reasoning of that testimony?

16 A. Well, obviously I disagree with Mr. Kidd's
17 interpretation of Tariff Sheet 44, with which I
18 believe -- let me briefly turn to the tariff sheet.

19 On Sheet 44, which is attached to my
20 rebuttal testimony, underneath Part A it says, "Each
21 month the Company will determine its average cost of
22 gas by using the most recent supplier invoices to
23 compute the appropriate adjustment applicable to its
24 rates as follows."

25 I believe that the most recent supplier

1 invoices in the pre-Order 636 environment, that would
2 have -- that would have been from the pipeline.
3 Again, prior to Order 636, the transportation
4 function, the storage function and the actual supply
5 itself was all provided by the pipeline, and so it's
6 clear to me that you're calculating your rate based on
7 storage costs. And what -- what goes on here is there
8 is a comparison of the wholesale base rates to -- and
9 then it's updated to compare that to current. Well,
10 again, that's also going to include storage costs. So
11 that's -- that's -- that's my interpretation of Tariff
12 Sheet 44.

13 And, again, as has been pointed out, by --
14 in Mr. Kidd's testimony, they don't have the sheets.
15 They didn't retain the sheets that are -- that are --
16 relate back to this time. And another thing that
17 really concerns me is -- is how -- why would an LDC
18 wait 15 years to try to collect this -- this
19 pre-existing balance that's -- that's on their books
20 when they convert from the PGA approach to the ACA
21 PGA? That doesn't make any sense to me. I've never
22 seen an LDC do anything other than try to collect
23 those moneys immediately.

24 Q. And you referred to this Tariff Sheet 44.
25 There is a line that's very difficult to read because

1 of the stamp on that. It's under Paragraph A, Line --
2 Part 1, Subparagraph A. Can you make out what that --
3 how that line reads?

4 A. I think it says "commodity," and there is a
5 dollar sign, and it looks like that's ".7634," and I'm
6 not even sure I can --

7 MR. DUFFY: I think it says "per Mcf."

8 MS. MCGOWAN: Yeah.

9 THE WITNESS: Okay. That could be.

10 MR. DUFFY: And then a semicolon.

11 JUDGE GEORGE: Okay.

12 BY JUDGE GEORGE:

13 Q. And, Mr. Wallis, if Company had never
14 switched methods from the injection to the withdrawal
15 method, when would the Company recover those storage
16 amounts?

17 A. Well, I think that -- again, that they've
18 already recovered those amounts. They've been
19 recovering those since prior to the July 8th, 1982
20 tariff revision. The reason that there is a
21 withdrawal balance of -- depending on which version of
22 Mr. Kidd's testimony you look at -- I guess the right
23 one would be the one in surrebuttal -- but there is an
24 \$835,000 balance sitting there, or like a \$670,000
25 balance sitting there.

1 What that means is that injections were
2 larger than the withdrawals, so you have a -- you have
3 a withdrawal balance there. But, again, based on my
4 interpretation of these tariffs, that amount was
5 recovered when the gas was actually purchased. So
6 they are already getting it.

7 And the other important thing here is
8 that -- is that there is a difference between what a
9 company may do on its books for financial reporting
10 purposes and how it recovers those amounts through
11 either -- either the ACA PGA process or potentially a
12 rate-case situation.

13 Q. So to clarify that, when exactly did the
14 Company recover that inventory balance?

15 A. In my deposition, I think I indicated that
16 because of the nature of the method that they use,
17 which is weighted average, that that could go back to
18 1960 when the PGA process started, when they started
19 to actually purchase the gas. And, again, I believe
20 that it's been recovered up-front.

21 But I looked -- after I looked at my
22 deposition and I thought about that, I think it really
23 depends on whether the -- whether or not the Company
24 cycled its storage, and my understanding in most -- in
25 most cases with LDCs, they don't completely cycle the

1 storage. There will be a piece left over, so the
2 incremental piece, you know, may very well go back to
3 1962, but the majority of that -- of that balance
4 probably was recovered over the course of the last
5 injection and withdrawal season, which would have been
6 1981, 1982 time frame.

7 QUESTIONS BY CHAIR LUMPE:

8 Q. Mr. Wallis, I hesitate to ask a question for
9 fear that you've already answered it, but in listening
10 to your -- what I've heard since I came in, you're
11 saying that there -- they did recover that alleged
12 amount of capacity back in 1982, but somewhere between
13 maybe '60 and '82 they did recover it? Is that what
14 you --

15 A. Yeah. My position is that they would have
16 recovered it. The question here isn't so much whether
17 they recovered it or not, but it goes to the question
18 that there is an \$835,000 balance there and when it
19 was recovered.

20 But the answer to the question really is
21 that they recovered that when they -- when they
22 actually purchased the gas, because the up-front
23 recovery methodology that they used allows them to, by
24 using the most recent supplier invoices, allows them
25 to calculate a rate based on a cost of gas that

1 already includes the storage. So they've -- they've
2 really recovered it in an up-front fashion. And even
3 though there is a withdrawal balance sitting there,
4 they've already received it.

5 And I've got an example of kind of the way
6 this works in my direct testimony that I can -- I can
7 go through that, if that would be helpful.

8 Q. I think that was very clear.

9 A. Okay.

10 Q. I just want -- the issue seems to be where
11 did this 800 -- where did this capacity -- when did it
12 begin and why was it not recovered over this long
13 period of time? If the methodology that had always
14 been used was to recover it when it was injected, then
15 why wasn't it recovered, and that seems to me to be
16 the crux of the issue, and the evidence -- I guess I'm
17 looking for the evidence that it was or was not
18 recovered, and I don't see an answer that tells me we
19 recovered it this year under this process and at this
20 time.

21 And the suggestion is that there is still
22 this 15-year-old recovery that needs to take place,
23 which I would think would be rather strange, but
24 that's what we're suggesting that we should assume,
25 and -- but what you're saying is that given that they

1 recovered it at the beginning of the year through
2 history, you're suggesting that it was recovered?

3 A. Yes. And your point is -- is -- is very
4 astute that the Company is telling us that there is a
5 balance on their books that goes back to 1982 that
6 they haven't recovered yet, so the Company has waited
7 15 years to come in and seek recovery for this money,
8 and I -- that's -- that's very, very strange to see an
9 LDC wait 15 years to recover any money at all.

10 The normal scenario is that they know that
11 they're out the money, and they'll come in and they'll
12 find some way to get that. And I guess my -- my view
13 of this is that they didn't wait 15 years to recover
14 the money, but because they already had recovered it.

15 Q. That a good management practice would have
16 been to recover it through the ACA or a rate case or
17 something?

18 A. Yes, through some mechanism, yes.

19 CHAIR LUMPE: Thank you, Mr. Wallis.

20 FURTHER QUESTIONS BY JUDGE GEORGE:

21 Q. And, also, Mr. Wallis, at what point do you
22 disagree with the calculations set forth in Mr. Kidd's
23 surrebuttal testimony?

24 A. Are you asking me if I believe his -- his
25 calculations are -- are accurate?

1 I think -- I think they are accurate in
2 terms of he's trying to show what the book balance is.
3 But, again, there is a difference between what you --
4 what you have on your books and what you actually are
5 seeking recovery for through, again, a rate case
6 process or an ACA PGA. So I'm not denying the
7 existence of the balance. It's a question of the
8 timing of when they would have recovered that.

9 Q. So you don't point to a specific item in the
10 calculations that you disagree with?

11 A. No, because the balance does -- it doesn't
12 exist to begin with, and Mr. Kidd goes back and makes
13 some adjustments to the \$835,000 balance, but the
14 adjustments -- if they've already recovered the
15 balance, the adjustments that they're making to the
16 balance are -- they are not -- they are not necessary
17 because they've recovered it for purposes of the PGA
18 and the ACA PGA after -- after July 8th of 1982.

19 Q. And how is it that you reconcile your
20 testimony in this case with that of the rate case as
21 far as any inconsistencies?

22 A. Yeah. The Company has pointed out that they
23 think there is an inconsistency between what we did in
24 the ACA PGA case and what we did in the rate case,
25 that's correct. There really is no inconsistency

1 because for rate case purposes, it's -- once the
2 Company changed its recovery balance -- its recovery
3 methodology on December 1st of 1995; they -- they
4 were -- at that point they were using the withdrawal
5 method. And what happens is, they are not recovering
6 up-- they are not recovering the balance up-front.
7 They are recovering at -- they are recovering it as
8 the gas is actually withdrawn from the storage, flowed
9 to the city gate and used by the customers. So under
10 that method, you have a balance -- you actually have a
11 non-recovered balance sitting in storage that for rate
12 case purposes it's necessary to give the Company
13 carrying costs on it, so you treat it effectively as
14 an asset. It goes into the rate base schedule in
15 the -- in the accountant's EMS run.

16 And so that's -- we -- we took that
17 approach. And, again, we're not denying the existence
18 of the balances on the books, so the approach where we
19 used -- as Mr. Duffy has accurately pointed out, we
20 used historical prices and historical volumes, but
21 that's a common practice to go to the books to develop
22 a way of, in effect, kind of estimating for future
23 periods what -- what is going to be the appropriate
24 carrying cost balance. And that's all we're doing, is
25 taking those historical numbers, which we don't deny

1 the existence of, and using those to set rates in a
2 rate case to be recovered over future periods until
3 the Company comes in for another rate case.

4 JUDGE GEORGE: Further questions from the
5 Bench. Madam Chairman?

6 CHAIR LUMPE: Just one more.

7 FURTHER QUESTIONS BY CHAIR LUMPE:

8 Q. You were talking about the balances that's
9 agreed to, that that number and that balance is an
10 agreed-upon number by both parties; is that correct?

11 A. The 835,000, yes.

12 Q. The question is, is it a 1982 balance or is
13 it a December balance? Is that correct?

14 A. It is -- my understanding of Mr. Kidd's
15 testimony -- which kind of brings up another issue
16 which is that they claim that Staff's changed its
17 approach in midstream -- what happened is that for the
18 first time in Mr. Kidd's direct testimony was I aware
19 that this balance was, in fact, related to 1982. So I
20 went back to the tariffs that would have been in
21 effect prior to that time and looked at those, and
22 came to the conclusion that it's an up-front recovery
23 methodology just like the one they were using between
24 July 8th of 1982 and November 30th of 1995. So they
25 have -- it's my view that they've always -- until

1 December 1st of 1995, they've always been recovering
2 this -- this storage up-front.

3 CHAIR LUMPE: Up-front.

4 JUDGE GEORGE: Commissioner Murray?

5 COMMISSIONER MURRAY: Thank you.

6 QUESTIONS BY COMMISSIONER MURRAY:

7 Q. The rate sheet that we have in -- as an
8 attachment to Mr. Wallis's testimony, Sheet 44 --

9 A. Yes.

10 Q. -- that rate sheet did not reference gas in
11 storage at all, did it?

12 A. No, it didn't. And it's not so much what
13 the tariff sheet says as what it doesn't say. And my
14 view is that it's implicit in the language that
15 they're -- that they're getting up-front recovery for
16 the storage because it says in Part A there that they
17 will determine their average cost of gas by using the
18 most recent supplier invoices.

19 In the pre-636 environment, the pipelines
20 provided not only the storage and the transportation,
21 but also the gas supplied itself. So it would be --
22 it would be in there. The storage cost would be in
23 that -- in those invoices.

24 Q. And the sheet that you looked up that was
25 prior to '82, did you enter that into evidence?

1 A. Yeah, that -- that -- I believe that's
2 attached as Schedule 1 to my rebuttal testimony. It
3 would look like that (indicated).

4 Q. Well, that's 44?

5 A. Yeah.

6 Q. That's Sheet 44.

7 A. I may have misunderstood your question, but
8 I -- I thought you -- you were getting at the sheet
9 that was in effect prior to that. That is the sheet.

10 Q. I'm sorry. That is the sheet prior to '82?

11 A. Yeah.

12 Q. Did you -- do you have the sheet that took
13 effect in 1982? Is that in evidence?

14 A. No, it's not. That -- that -- that sheet
15 would basically institute the ACA true-up mechanism
16 where you would take what was estimated and then true
17 that up to actuals. And that's been in effect from
18 19-- from July 8th of 1982 to the current time.

19 Q. Okay. I'm still confused about some of your
20 testimony.

21 On the one hand I think I hear you saying
22 that prior to '82 they were recovering up-front?

23 A. That's correct.

24 Q. And I thought I also heard you say that this
25 amount, this disputed amount, was recovered between

1 '82 and '95?

2 A. The -- well, that -- that was my -- that was
3 my interpretation of the Company's position initially
4 myself. And in direct testimony for the first time
5 Mr. Kidd brought up the fact that this -- that this
6 inventory, which -- well, let me back up.

7 The process I went through is I -- when they
8 changed their method on December 1st of 1995, I went
9 back into the storage schedules in the ACA case to see
10 what -- what balance was sitting in there that was
11 injected prior to December 1st of 1995. And it was
12 835-- it was eight-hundred-twenty-seven-thousand and
13 some -- some change.

14 And then I find out in Mr. Kidd's direct
15 testimony that this actually goes back to December 1st
16 of 1982. So I said, well -- I went back and looked at
17 the tariff sheet and -- and came to the conclusion
18 that prior to July 8th of 1982 they were recovering --
19 recovering the gas up-front just like they were
20 recovering the gas up-front from July 8th of 1982 to
21 November 30th of 1995.

22 So as I understand Mr. Kidd's testimony, the
23 only thing that takes place between July 8th of 1982
24 and November 30th of 1995 is an incremental amount,
25 which -- in the amount of about \$7,900, that -- that's

1 the difference between the injections and the
2 withdrawals, and that -- and that brings the \$835,000
3 balance down to the eight-twenty-seven that I actually
4 came up with.

5 But -- but it really -- they haven't -- in
6 my view they haven't used an up-front -- or they
7 haven't used an as-withdrawn method until December 1st
8 of 1995.

9 Q. So your claim is that that \$835,000 balance
10 or \$827,000 balance should not have been there --

11 A. That's correct --

12 Q. -- as of --

13 A. -- for recovery purposes. My -- my view is
14 that they've already recovered that as the gas was --
15 was purchased in prior periods.

16 Q. And do you have anything that shows us that
17 they recovered that other than your interpretation of
18 Sheet 44?

19 A. No.

20 COMMISSIONER MURRAY: Thank you.

21 JUDGE GEORGE: Other questions from the
22 Bench?

23 (No response.)

24 JUDGE GEORGE: This will be recross based on
25 questions from the Bench. Mr. Duffy?

1 MR. DUFFY: Give me just a second, please.

2 JUDGE GEORGE: Yes.

3 MR. DUFFY: I'm going to try to few
4 questions IF that's okay, your Honor.

5 JUDGE GEORGE: Yes, go ahead.

6 RE-CROSS-EXAMINATION BY MR. DUFFY:

7 Q. Please refer to the Sheet 44 that's attached
8 to your testimony, Mr. Wallis.

9 A. Okay.

10 Q. If the current cost of gas on that sheet is
11 equal to the base cost of gas, what would the
12 resulting PGA factor be pursuant to that tariff sheet?

13 A. Well, to the extent you're talking about
14 making an adjustment to the base gas cost to update it
15 for differences between current and wholesale, it
16 would be zero.

17 Q. Okay. You understand that there is a --
18 what I call a two-month lag in this tariff; is that
19 correct?

20 A. Well, I -- I'm aware of No. 3 under A there,
21 "The adjustment so determined shall be applied to
22 customer's billing in the next following revenue," so
23 yeah, there would be a lag.

24 Q. There would be a two-month -- there would be
25 a two-month lag?

1 A. One or two. That's -- that's possible.

2 Q. At that point, then, when it is applied, if
3 you -- isn't it true that you apply this PGA factor to
4 sales?

5 A. That's true.

6 Q. All right. And if, as you said, it's -- the
7 factor is zero and you apply -- and you apply the zero
8 factor to sales, then there would be no recovery as a
9 result of that; is that correct?

10 A. That's true, but, again, you're still going
11 to be getting recovery for those base rates, but you
12 wouldn't have any -- any adjustment to it.

13 Q. If ANG purchased gas to inject in the month
14 that this zero PGA factor was applied, would ANG
15 recover any of its storage costs?

16 A. In my view they would because your -- you're
17 talking about -- when you look at A, you're still
18 using the most recent supplier invoices, and you've
19 got -- you've got a historical level of gas costs
20 there that would include supplies that came from the
21 wellhead, from storage, whatever you've got in there,
22 so all you're talking about is whether you would
23 adjust it or not.

24 Q. Mr. Wallis, I've heard you testify a couple
25 of times that ANG waited 15 years to ask for recovery

1 of these amounts. I just want to ask you, didn't
2 this -- this case didn't start by ANG filing some
3 documents saying we want to recover \$835,000 that
4 we've been sitting on for 15 years. It started when
5 you filed a recommendation saying you wanted to
6 disallow \$234,000 of gas costs; isn't that true?

7 A. Well, I would argue that it actually did
8 start when ANG filed its ACA filing, and on
9 December 1st of 1995 you began to see withdrawals
10 of -- withdrawals of LNG and NGPL gas that was in
11 storage prior to December 1st of 1995.

12 Q. Did we put something in that filing that
13 said we want to recover 800,000 or 600,000 worth of
14 storage costs.

15 A. You said that you wanted to recover 234,000,
16 but the whole amount is actually over 800,000, and
17 that would be an issue in this case and in future
18 cases.

19 Q. Was that ACA filing any different than prior
20 ACA filings, except for the fact that this timing
21 method was changed in response to a Staff
22 recommendation to change it? Was there anything
23 fundamentally different in those ACA filings?

24 A. Well, the previous filings, the Company was
25 not including either -- they were not showing either

1 the injections or the withdrawals of the gas, and in
2 this filing, they were, so there is -- there is
3 certainly that difference.

4 Q. Okay. So this filing was the first time
5 that you had any knowledge that there was any gas
6 inventory in storage that the Company was
7 claiming that was there and should be recovered in
8 some fashion? Is that what you're saying?

9 A. Well, our -- I guess where you're headed
10 with that, are you referring to the --

11 Q. Just answer the question and don't worry
12 about where I'm headed.

13 A. Well, I'm aware of the -- there was a Staff
14 recommendation, a previous Staff recommendation, that
15 asked the Company to change its methodology, but this
16 is the first time I was aware that there was a double-
17 recovery situation going on.

18 Q. As -- and you're alleging a double recovery?

19 A. That's my opinion.

20 Q. In one of your prior answers -- I think it
21 was perhaps to Judge George -- I thought I heard you
22 say that ANG didn't have the sheets or the documents.
23 Can you refresh my recollection as to what your
24 testimony was about that? What documents are you
25 alleging that --

1 A. I was referring to Mr. Kidd's testimony
2 where he -- he -- I think he references a Q and A from
3 my deposition where I was asked if I had looked at
4 those -- at the backup sheets, and he apparently tried
5 to find those sheets himself at the Company and they
6 couldn't find them.

7 Q. Okay.

8 A. So that's what I was referring to.

9 Q. All right. And did you hear Mr. Kidd also
10 testify that he came up to Jefferson City and looked
11 in the microfiche records of the Commission for their
12 filings?

13 A. Yes.

14 Q. And he found those documents?

15 A. Yes. I believe that's in his testimony,
16 too.

17 Q. All right. So you're not alleging that
18 there are some missing documents, are you?

19 A. No.

20 Q. Okay. Does the example that you refer to in
21 one of the questions from the Bench of recovery that
22 you outline in your direct testimony, the example in
23 your direct testimony, does that demonstrate the
24 operation of Sheet 44?

25 A. Could you repeat that, please?

1 Q. In one of the questions -- excuse me. In
2 one of the answers to one of the questions from the
3 Bench, you referred to an example that you gave in
4 your direct testimony. Do you remember giving that
5 answer?

6 A. Yes. Yes.

7 Q. And my question is, does that example
8 demonstrate the operation of Sheet 44?

9 A. Well, that -- that sheet refers to when the
10 ACA process was in effect after July 8th of 1982.

11 Q. So by --

12 A. But I think it illustrates -- it does
13 illustrate prior to July 8th of 1982 what would be
14 going on, and that is the fact that you would be
15 expensing the gas up-front and receiving recovery for
16 it.

17 Q. Let me ask it again. Your example relates
18 to the ACA process. That's what you just said.
19 Right?

20 A. Yes. And, again, that was -- that was in
21 there before I found out that the Company -- that
22 these -- that these balances went back to 1982. Had I
23 known that at the time, you might see a somewhat
24 different example. But I still think it's accurate
25 for illustrative purposes of what would be going on

1 when you have an up-front recovery situation.

2 Q. Does Sheet 44 reflect an ACA process?

3 A. No.

4 MR. DUFFY: Thank you. That's all of the
5 questions we have.

6 JUDGE GEORGE: Redirect. Ms. McGowan?

7 MS. MCGOWAN: Yeah.

8 REDIRECT EXAMINATION BY MS. MCGOWAN:

9 Q. Mr. Wallis, was Canceled Tariff Sheet 44
10 that's attached to Schedule 1 to your rebuttal
11 testimony designed to recover all of the Company's gas
12 costs on a current basis?

13 MR. DUFFY: I'm going to object. Mr. Wallis
14 has already testified that -- and we've stipulated
15 that neither of the witnesses in this case were around
16 when this sheet was "designed," so I object to his
17 giving any testimony as to how a particular sheet was
18 designed.

19 BY MS. MCGOWAN:

20 Q. Mr. Wallis --

21 MR. DUFFY: He can certainly give his
22 opinion as to how he thinks it operates, but he can't
23 testify as to how it was designed.

24 MS. MCGOWAN: ANG's witness made numerous
25 references stating as statements of fact how the

1 tariff sheet operated, when in reality he admitted
2 that he was not even working for the Company in 1982,
3 and it was his opinion. And I think as we've stated,
4 Mr. Wallis was not there, and I don't have a problem
5 rephrasing the question, but I think it's obvious that
6 it's his opinion of how it operated and was designed.

7 JUDGE GEORGE: Could you rephrase that,
8 then?

9 MS. MCGOWAN: Sure.

10 BY MS. MCGOWAN:

11 Q. Mr. Wallis, in your opinion was Canceled
12 Tariff Sheet 44 designed to recover all of the
13 Company's gas costs on a current basis?

14 A. Are you getting at under the -- under the
15 PGA situation or under the --

16 Q. In total on an annual basis.

17 A. Yes.

18 Q. Okay. In response to a question from
19 Commissioner Murray, you stated that you didn't have
20 any written documentation other than your opinion of
21 Tariff Sheet 44 to support your position that ANG
22 recovered storage up-front prior to 1982. Do you
23 remember those comments?

24 A. Yes.

25 Q. Okay. Did Mr. Kidd in his testimony offer

1 any evidence in his support of the position that the
2 storage recovery was not up-front prior to 1982 other
3 than his interpretation?

4 A. No.

5 Q. Aside from the written evidence in this --
6 and I guess also the testimony on the record, is there
7 anything surrounding the facts in this case that
8 suggests that your interpretation of Tariff 44 is more
9 probable or less probable than Mr. Kidd's?

10 MR. DUFFY: Objection. That goes beyond the
11 scope of questions from the Bench.

12 MS. MCGOWAN: My redirect is not limited to
13 questions from the Bench.

14 MR. DUFFY: Well, there wasn't any
15 cross-examination, so the only questions that showed
16 up were the questions from the Bench. Your question
17 is beyond the scope of anything that has taken place.

18 MS. MCGOWAN: Well, I think it relates to
19 Commissioner Murray's questions because she asked if
20 he had any other evidence, and there are other things
21 in the record that suggest that Mr. Wallis's
22 interpretation is more probable than Mr. Kidd's, and I
23 just thought that Commissioner Murray -- Commissioner
24 Murray's question deserved that type of information as
25 well. I think she directed it specifically to written

1 information.

2 JUDGE GEORGE: The objection is overruled.

3 Could you please answer that?

4 THE WITNESS: In my opinion, yes, yes, my
5 approach is more likely than the Company's, or my view
6 of what went on is more likely than the Company's.

7 BY MS. MCGOWAN:

8 Q. Can you go on to expound on that and explain
9 why it is more likely?

10 A. Well, again, it goes to the operation of
11 Sheet 44. I believe that that allowed the Company, or
12 ensured that the Company would receive up-front
13 recovery for the storage costs because they are using
14 the most recent supplier invoices to calculate all of
15 this stuff, and that would implicitly include, since
16 we're in the pre-636 environment, the gas itself, the
17 storage, the transportation.

18 MS. MCGOWAN: Okay. No further questions.

19 JUDGE GEORGE: Commissioner Murray?

20 FURTHER QUESTIONS BY COMMISSIONER MURRAY:

21 Q. Your last statement there, is what you're
22 saying that when ANG bought gas, it was bundled with
23 transportation and storage prior to 636?

24 A. That's correct.

25 COMMISSIONER MURRAY: Okay. Thank you.

1 JUDGE GEORGE: Commissioner -- or any
2 further questions from the Commissioners?
3 (No response.)
4 JUDGE GEORGE: Mr. Duffy, do you have any
5 further recross based on the further question from the
6 Bench?
7 MR. DUFFY: The one that Commissioner Murray
8 just asked?
9 JUDGE GEORGE: Yes.
10 MR. DUFFY: No, sir.
11 JUDGE GEORGE: Thank you.
12 Mr. Wallis, you can step down.
13 (Witness excused.)
14 JUDGE GEORGE: Go off the record, please.
15 (A discussion off the record.)
16 JUDGE GEORGE: On the record, please.
17 We've concluded with Mr. Wallis's testimony.
18 The initial briefs will be simultaneously
19 filed by the parties on May 11th, with reply briefs on
20 June 1st.
21 Is there anything further from counsel
22 before we adjourn?
23 (No response.)
24 JUDGE GEORGE: Hearing nothing, we're now
25 adjourned and off the record.

1 WHEREUPON, the hearing of this case was

2 concluded.

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