

**Exhibit No.:** \_\_\_\_\_

**Issue(s):** Off-System Sales/Capacity Release

**Witness/Type of Exhibit:** Busch/Directl

**Sponsoring Party:** Public Counsel

**Case No.:** GR-2002-356

**DIRECT TESTIMONY**

**OF**

**JAMES A. BUSCH**

Submitted on Behalf of the Office of the Public Counsel

**LACLEDE GAS COMPANY**

**Case No. GR-2002-356**

June 20, 2002

**NP**

**DIRECT TESTIMONY**

**OF**

**JAMES A. BUSCH**

**CASE NO. GR-2002-356**

**LACLEDE GAS COMPANY**

Q. Please state your name and business address.

A. My name is James A. Busch and my business address is P. O. Box 7800, Jefferson City, MO 65102.

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

A. I am a Public Utility Economist with the Missouri Office of the Public Counsel (Public Counsel).

Q. Please describe your educational and professional background.

A. In June 1993, I received a Bachelor of Science degree in Economics from Southern Illinois University at Edwardsville (SIUE), Edwardsville, Illinois. In May 1995, I received a Master of Science degree in Economics, also from SIUE. I am currently a member of the American Economic Association and Omicron Delta Epsilon, an honorary economics society. Prior to joining Public Counsel, I worked just over two years with the Missouri Public Service Commission as a Regulatory Economist in the Procurement Analysis Department and worked one year with the Missouri Department of Economic Development as a Research Analyst. I accepted my current position with Public Counsel in September 1999. Furthermore, I am currently a member of the Adjunct Faculty of Columbia

1 College, Jefferson City Campus, teaching Managerial Economics in the MBA  
2 program.

3 Q. Have you previously testified before this Commission?

4 A. Yes. Attached is Schedule JAB-1 which is a list of the cases in which I have filed  
5 testimony before this Commission.

6 Q. What is the purpose of your testimony?

7 A. The purpose of my testimony is to provide Public Counsel's recommendation for  
8 the appropriate amount of off-system sales and capacity release revenues to be  
9 used as an imputed revenue in the determination of Laclede Gas Company's  
10 (Laclede or Company) cost of service.

## 11 INTRODUCTION

12 Q. Please describe off-system sales.

13 A. An off-system sale is generally the bundled sale of natural gas and unutilized  
14 pipeline capacity from a Local Distribution Company (LDC) to a non-customer  
15 third party. However, some off-system sales may simply involve the sale of extra  
16 natural gas to a third party.

17 Q. What is the current treatment of off-system sales?

18 A. Currently, off-system sales are included as a revenue in determining the  
19 Company's base rates.

20 Q. In which case did the Commission order off-system sales be considered in a rate  
21 case proceeding?

22 A. In Case No. GT-99-303, the Office of the Public Counsel recommended that off-  
23 system sales and capacity release revenues should be included in a base rate case.

1 The Commission, in its Report and Order dated September 1999, in Case No. GT-  
2 99-303, ordered that off-system sales should be removed from the Experimental  
3 Gas Supply Incentive Plan (GSIP) and should be addressed in Laclede's  
4 subsequent rate case, Case No. GR-99-315.

5 Q. Please describe capacity release.

6 A. Capacity release generally refers to the release of unutilized pipeline capacity  
7 from a shipper, such as Laclede, to a third party. This means that the third party  
8 now has the ability to transport its natural gas through the pipeline using the  
9 capacity it has purchased from the original holder of capacity. Capacity release  
10 does not involve the sale of natural gas.

11 Q. Should capacity release revenues be considered in a rate case proceeding?

12 A. Yes. The Commission approved a Stipulation and Agreement in Laclede's last  
13 rate case, Case No. GR-2001-629, to impute a given amount of revenues from  
14 both off-system sales and capacity release into the determination of rates for  
15 Laclede. Attached as Schedule JAB-2 is the appropriate sections of the approved  
16 Stipulation and Agreement discussing off-system sales and capacity release  
17 revenues.

18 Q. What amount of off-system sales and capacity release revenues are currently  
19 included as revenues in Laclede's rates?

20 A. An imputed revenue amount of \$3,000,000 was reflected in Laclede's cost of  
21 service.

22 Q. Please describe Laclede's activity concerning off-system sales since October  
23 1996.

A. Starting in October, 1996, Laclede has generated the following amounts of off-system sales on a yearly basis:

<u>YEAR</u>	<u>AMOUNT</u>
Oct 96 – Sep 97	** _____ **
Oct 97 – Sep 98	** _____ **
Oct 98 – Sep 99	** _____ **
Oct 99 – Sep 00	** _____ **
Oct 00 – Sep 01	** _____ **
Oct 01 – Mar 02*	** _____ **

\*Most recent data.

Q. Why have you chosen the time period October through September?

A. I chose this time frame because it coincides with Laclede's Actual Cost Adjustment (ACA) period.

Q. Have you estimated Laclede's amount of off-system sales through September 2002?

A. Yes. Using historical monthly amounts of off-system sales since October 1996, I developed a monthly average of off-system sales. Using these averages for the period for each month, April through September 2002, gives me an estimated amount of off-system sales for Laclede's 2002 fiscal year of \*\* \_\_\_\_\_ \*\*. This amount alone is above the total amount imputed into rates for off-system sales and capacity release revenues.

Q. Please describe Laclede's activity concerning capacity release revenues since October 1996.

A. Starting in October, 1996, Laclede has generated the following amounts of capacity release revenues on a yearly basis:

<u>YEAR</u>	<u>AMOUNT</u>
Oct 96 – Sep 97	**                      **
Oct 97 – Sep 98	**                      **
Oct 98 – Sep 99	**                      **
Oct 99 – Sep 00	**                      **
Oct 00 – Sep 01	**                      **
Oct 01 – Mar 02*	**                      **

\*Most recent data.

Q. Have you estimated Laclede's amount of capacity release revenues through September 2002?

A. Yes. Using the same methodology as described above for off-system sales, I have calculated an estimated amount of capacity release revenues for Laclede's 2002 fiscal year of \*\*                      \*\*

Q. What is the estimated combined amount of capacity release revenues and off-system sales for Laclede's current fiscal year?

A. I have estimated that Laclede will have combined revenues of \*\*                      \*\* during its current fiscal year. This means that Laclede would make an estimated \*\*                      \*\* above the imputed amount according to my estimates.

Q. What percentage of off-system sales and capacity release revenues does Laclede retain if its sales are above the imputed level?

1 A. If Laclede earns revenues in excess of the imputed level, the shareholders keep  
2 100% of those revenues. Conversely, if Laclede fails to earn the imputed amount  
3 of off-system sales and capacity release revenues there is no additional payment  
4 from the consumers.

5 Q. What have been the combined amounts of capacity release revenues and off-  
6 system sales since October 1996?

7 A. The yearly combined amounts of capacity release revenues and off-system sales  
8 have been as follows:

9	<u>YEAR</u>	<u>AMOUNT</u>
10	Oct 96 – Sep 97	** _____ **
11	Oct 97 – Sep 98	** _____ **
12	Oct 98 – Sep 99	** _____ **
13	Oct 99 – Sep 00	** _____ **
14	Oct 00 – Sep 01	** _____ **
15	Oct 01 – Mar 02*	** _____ **

16 \*Most recent data.

17 Q. What is the test year in this proceeding?

18 A. The test year in this proceeding is the 12-months ending November 30, 2002,  
19 updated for known and measurable changes through March 31, 2002, per order of  
20 the Commission in this proceeding.

21 Q. What was the combined amount of off-system sales and capacity release revenues  
22 that Laclede generated during the test year?

1 A. For the 12-months ended November 2001, Laclede generated \*\* \_\_\_\_\_ \*\* in  
2 off-system sales and capacity release revenues.

3 Q. Are Laclede's off-system sales and capacity release revenues known and  
4 measurable?

5 A. Yes.

6 Q. What was the combined amount of off-system sales and capacity release revenues  
7 for Laclede through March 31, 2002?

8 A. Updated through March 31, 2002, the 12-month amount of off-system sales and  
9 capacity release for Laclede was \*\* \_\_\_\_\_ .\*\*

10 Q. What factors may influence the amount of off-system sales and capacity release  
11 transactions Laclede enters into during the course of doing business?

12 A. The main factor affecting Laclede's ability to earn revenues from off-system sales  
13 and capacity release is weather. If the weather, especially in the winter, is normal  
14 or warmer than normal, Laclede will have unutilized capacity and excess natural  
15 gas supplies available at various times to release or sell to third parties. Colder  
16 than normal weather will curtail the amount of excess supplies or capacity that  
17 Laclede has available for resale or release.

18 Q. Please explain.

19 A. LDCs must insure that they have sufficient amounts of pipeline capacity and  
20 natural gas available to meet its demand on extremely cold days, when demand is  
21 at or near its peak. However, those peak days occur infrequently over the course  
22 of any given winter. Therefore, the LDC has unutilized capacity or supplies that





1 comparison of the treatment of off-system sales and capacity release revenues  
2 over the past five years. Upon this review of the empirical evidence, I believe  
3 that Laclede will be able to produce at least \$4,000,000 in additional revenue by  
4 continuing its efforts of making off-system sales and release under-utilized  
5 capacity.

6 Q. Please explain Schedule JAB-3.

7 A. Schedule JAB-3 is the monthly amounts off-system sales and capacity release  
8 revenues that Laclede has generated over the since October 1996 with my  
9 estimates through September 2002. This information is found in the monitoring  
10 reports Laclede has submitted in the Experimental GSIP and responses to OPC  
11 Data Requests in this case and previous cases. This information was then  
12 analyzed as described above to determine the appropriate amounts to include in  
13 the rate case.

## 14 SUMMARY

15 Q. Please summarize your testimony.

16 A. My recommendation is that an adjustment should be made in this proceeding to  
17 include an additional \$4,00,000 in revenues to account for Laclede's activities in  
18 the area of off-system sales and capacity release. This amount was determined by  
19 analyzing the monthly amounts of off-system sales and capacity release revenues  
20 that Laclede has realized since October 1996. Further, Laclede, for the  
21 foreseeable future, will have the ability to make these types of transactions due to  
22 the nature of selling natural gas. For example, Laclede already has an off-system

1 sales transaction through the summer of 2005 with UtiliCorp to provide natural  
2 gas to UtiliCorp's Pleasant Hill electric generation facility.

3 Q. Does this conclude your testimony?

4 A. Yes it does.

**Cases of Filed Testimony  
James A. Busch**

<u>Company</u>	<u>Case No.</u>
Union Electric Company	GR-97-393
Missouri Gas Energy	GR-98-140
Laclede Gas Company	GO-98-484
Laclede Gas Company	GR-98-374
St. Joseph Light & Power	GR-99-246
Laclede Gas Company	GT-99-303
Laclede Gas Company	GR-99-315
Fiber Four Corporation	TA-2000-23; et al.
Missouri American Water Company	WR-2000-281/SR-2000-282
Union Electric Company d/b/a AmerenUE	GR-2000-512
St. Louis County Water	WR-2000-844
Empire District Electric Company	ER-2001-299
Missouri Gas Energy	GR-2001-292
Laclede Gas Company	GT-2001-329
Laclede Gas Company	GO-2000-394
Laclede Gas Company	GR-2001-629
UtiliCorp United, Inc	ER-2001-672
Union Electric Company d/b/a AmerenUE	EC-2002-1

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a Session of the Public Service  
Commission held at its office in  
Jefferson City on the 29th day of  
November, 2001.

In the Matter of Laclede Gas Company's Tariff to Revise ) Case No. GR-2001-629  
Natural Gas Rate Schedules ) Tariff No. 200101125  
 ) Tariff No. 200200403

In the Matter of Laclede Gas Company's Tariff for a ) Case No. GT-2001-662  
Weather Normalization Clause ) Tariff No. 200101074

**ORDER APPROVING UNANIMOUS STIPULATION AND AGREEMENT**  
**AND**  
**GRANTING EXPEDITED TREATMENT**  
**AND**  
**REJECTING AND APPROVING TARIFF SHEETS FILED IN**  
**CASE NO. GR-2001-629**  
**AND**  
**REJECTING TARIFF SHEETS FILED IN**  
**CASE NO. GT-2001-662**  
**AND**  
**CLOSING CASES**

**Syllabus:**

This order approves the Unanimous Stipulation and Agreement (Exhibit 1, attached, hereafter Settlement) filed by all the parties on November 16, 2001. The settlement of the parties is implemented in this order including the rejection and approval of tariff sheets filed in these cases.

NOV 29 2001

Schedule JAB-2

ratemaking purposes. This is reflected in the revised tariff sheets filed in accordance with the Settlement.

The Settlement provides for two Accounting Authorization Orders related to replacement of certain service lines and cast iron mains and replacement or protection of steel mains as allowed in earlier Commission cases. However, the costs to survey and barhole buried fuel and copper service lines will no longer be deferred but instead will be expensed. The parties agree to reporting requirements for the deferrals under the Accounting Authorization Orders, their verification, and the procedure for Laclede to request consideration of the recovery of these costs. The costs may be deferred and booked as incurred by Laclede from July 31, 2001, until the earlier of the effective date of rates in Laclede's next general rate case or the beginning of a new deferral period granted by the Commission. The deferrals shall cease unless Laclede files a general rate relief request no later than two years after the effective date of a Commission order approving the Settlement.

The Settlement also fixes the balance of a previous deferral (\$2,755,688) and amortizes this amount in Laclede's cost of service with  $1/10^{\text{th}}$  of the balance recognized in this proceeding and the remainder over the next 9 years in equal installments.

The Settlement imputes \$3,000,000 of revenues (included in the rate increase) associated with release of contracted pipeline capacity and off-system gas sales. In return Laclede may retain 100% of any revenues derived from these transactions as long as the Settlement rates remain in effect. Laclede also agrees to withdraw these issues from consideration in Commission Case No. GT-2001-329.

### **Commission Approval and Expedited Treatment:**

The Commission has the legal authority to accept a stipulation and agreement as offered by the parties. The Settlement reflects the result of extensive negotiations between adverse parties representing diverse interests. The stipulations and agreements presented in the Settlement demonstrate that the parties have resolved the issues presented to arrive at tariff rates and terms that are just and reasonable.

Laclede has presented a reasonable basis for expedited treatment and its motion shall be granted.

The Settlement, attached as Exhibit 1, shall be approved. The tariff sheets filed on November 21, 2001, to implement the Settlement shall be approved to be effective on December 1, 2001. The tariff sheets filed prior to November 21 in these cases shall be rejected.

### **IT IS THEREFORE ORDERED:**

1. That the Unanimous Stipulation and Agreement filed on November 16, 2001, shall be incorporated in this order and is hereby approved and accepted in resolution of the issues presented in Case Nos. GR-2001-629 and GT-2001-662 (Exhibit 1, attached).
2. That the prefiled testimony of the parties relating to the issues resolved in the Unanimous Stipulation and Agreement shall be received into evidence.
3. That the Motion for Expedited Approval of Tariff Sheets on less than Thirty Days Notice and Notice of Waiver of Ten-Day Effective Date Period filed by Laclede Gas Company on November 21, 2001, is granted.
4. That the revised tariff sheets filed by Laclede Gas Company on April 20, 2001, in Case No. GT-2001-662, Tariff File No.200101074, are rejected.

the Safety Replacement Program accounting authorization granted in Paragraph 5 of the Stipulation and Agreement in Case No. GR-99-315 through July 31, 2001 shall be established with a balance of \$2,755,688. One tenth of this balance has been included in the cost of service recognized in this proceeding and one tenth of such balance shall continue to be amortized annually in cost of service for ratemaking consideration for the next subsequent nine years.

8. The Parties agree that Laclede shall, for book purposes, be authorized to continue to normalize the income tax timing differences inherent in: (a) the recognition of pension costs on a FAS 87 and 88 basis, and OPEB costs on a FAS 106 basis as authorized in Paragraph 4 of this Stipulation; and (b) the adoption and/or continuation of the deferred accounting referenced in Paragraphs 4 and 6 of this Stipulation; by recording and recognizing in any future rates deferred income tax expense for such differences, provided that the Parties shall have the right to review and propose a different treatment of such timing differences in Laclede's next general rate case proceeding.

9. The rates recommended herein reflect an imputed revenue level of three million dollars (\$3,000,000) for the release of pipeline capacity and off-system sales. In exchange for this imputation, the Company shall be permitted to retain 100% of any revenues realized from such



transactions during the period the rates established in this proceeding are in effect. Unless otherwise provided by tariff, it is expressly understood that during such period no other treatment of such revenues shall be implemented as the result of any action taken in another Commission case, and that Laclede shall not pursue its rights to rehearing or judicial review of the Commission's decision in Case No. GT-2001-329 as it specifically relates to the treatment of capacity release and off system sales revenues. The Parties further agree that during this period, any Party may propose and the Commission may approve and implement incentive provisions for other elements of the Company's gas supply costs. The Parties also agree that incentive provisions for capacity release and off system sales can also be proposed for implementation after the end of such period.

10. To resolve, for the future, any differences as to the appropriately adjusted temperature data for the weather station at Lambert St. Louis International Airport ("Lambert"), the Company, Staff and Public Counsel agree that for the purposes of establishing a temperature normal in any future rate proceeding for which such data has been published and made publicly available, the Parties shall use such adjusted 1971-2000 weather station temperature data published for Lambert by the National Oceanic and Atmospheric Administration ("NOAA"), unless within 120 days

SCHEDULE JAB-3  
HAS BEEN DEEMED  
“HIGHLY CONFIDENTIAL”  
IN ITS ENTIRETY