Exhibit No.:
Issues: *Compliance*
Purchasing Practices
Witness: *Phil S. Lock*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Direct Testimony*
Case No.: *GR-2001-394*
Date Testimony Prepared: *April 2, 2002*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

PHIL S. LOCK

GREELEY GAS COMPANY

CASE NO. GR-2001-394

Jefferson City, Missouri
April 2002

NP

Denotes Highly Confidential Information

DIRECT TESTIMONY

OF

PHIL S. LOCK

GREELEY GAS COMPANY

CASE NO. GR-2001-394

Q. Please state your name and business address.

A. Phil S. Lock, 200 Madison Street, Jefferson City, MO 65101.

Q. By whom are you employed and what is your position?

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

Q. Please describe your educational background and experience.

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

Q. What has been the nature of your duties with the Commission?

A. From 1987-1993 I conducted rate case audits under the direction of the Chief Accountant of the Commission's Accounting Department. From 1993 to the present, I have, under the direction of the Manager of Procurement Analysis, conducted audits and examinations of the books and records of gas utility companies operating within the state of Missouri. I have listed cases in which I have previously filed testimony on Schedule 1 which is attached to this direct testimony.

Q. What is the purpose of your direct testimony?

A. On January 18, 2002, Staff proposed several adjustments related to Greeley Gas Company's (Greeley or Company) 2000-2001 Actual Cost Adjustment (ACA) filing for Greeley's Southwest Missouri District, Case No. GR-2001-394. Greeley filed its response to Staff's ACA recommendation on March 4, 2002. The Company agreed with Staff's recommendation with the exception of two minor compliance adjustments and Staff's Purchasing Practices adjustment.

Q. Please describe the issues that were contested by the Company in its response to Staff's ACA recommendation.

A. The Company contested two compliance adjustments that are minor in nature. First, the Company believes that the Williams Natural Gas Storage and Transportation Demand adjustment of ($6,264) should be reduced to ($4,026). In addition, the Company believes that the Storage Injection/Withdrawal adjustment of ($17,396) should be reduced to ($15,868).

The Company also disagrees with Staff's proposed adjustment of ($13,925) relating to the Company's Gas Purchasing Practices during the 2000-2001 ACA period. ($13,925) is a prudence adjustment updated by Staff since it filed its ACA recommendation on January 18, 2002.

Q. Does Staff agree with Company's proposal regarding Staff's compliance adjustments?

A. In part, yes. Staff agrees with the Williams Storage and Transportation Commodity and Gas Commodity adjustment of ($4,026) proposed by the Company. Staff does not agree with Company's proposed adjustment of ($15,868) regarding Staff's storage adjustment. For further detail, please refer to Staff's proposed Adjustment Update, attached as Schedule 2 to this direct testimony, which constitutes Staff's response to Company's proposal in this case.

Q. Please explain why Company disagrees with Staff's adjustment relating to the Company's Gas Purchasing Practices during the 2000-2001 ACA period.

A. Based on the Company's response to Staff's ACA recommendation, Staff summarizes the Company's concerns as follows:

1) The magnitude of this adjustment on a per-customer basis may be unprecedented and financially detrimental to the Company if proposed for Atmos Energy Corporation's (Atmos) larger divisions. Atmos is the parent company of Greeley Gas Company.

2) The use of index pricing to purchase gas supplies was the principal method used by Local Distribution Companies (LDC's) during this ACA period.

3) The use of a 30% hedge requirement is inappropriate and unreasonable, given the facts and circumstances available to the Company at the time the Company made its decisions.

4) Estimating load requirements is difficult because of the weather-sensitive load on Greeley's system. This can have a considerable impact on the amount of gas injected or withdrawn. The Company believes, therefore, that the disallowance related to its use of storage facilities is inappropriate.

Q. Please comment on the Company's first concern.

A. The Company assumes that the same adjustment per customer also applies to United Cities Gas (Case No. GR-2001-397) and the former Associated Natural Gas service territory (Case No. GR-2001-396), Atmos' other LDC's in Missouri. However, since the ACA review of these LDC's is not yet completed, it is premature to make any assumptions regarding the outcome of those cases.

Q. Please respond to Company's second concern.

A. The Company indicated that the use of index pricing was the principal method used by the industry during this period. While this may be true, Staff believes that it was not prudent for Greeley to rely on index pricing to the extent they relied upon it during this winter season. This general observation (second concern) was made without regard to the volatility of gas prices and potential exposure of LDCs customers to price risk in the market.

In past ACA cases, the Staff has indicated to the Company the importance of providing adequate protection to its customers to mitigate price risk in the market. To illustrate this point, the Staff made the following recommendation in Greeley's prior ACA case, Case No. GR-2001-36:

> <u>PURCHASING PRACTICES</u>
>
> Staff's review of the Company's purchasing practices indicated a high degree of reliance on monthly index pricing. Given the volatility of the gas commodity market and the susceptibility of companies to price risk exposure in the market, all Requests for Proposals (RFP's) should include provisions for hedging to mitigate price risk and should include fixed term pricing provisions. If Greeley does not analyze and/or utilize viable options in developing its supply portfolio, Greeley is accepting market risk associated with such price fluctuations. See Staff recommendations in GR-97-74 and GR-96-124.

Q. Please respond to Company's comment on Staff's use of a 30% hedge requirement for each month of the 2000-2001 ACA winter period.

A. Staff believes that it is reasonable to expect that Greeley would have engaged in a minimal level of hedging for the winter months of the 2000-2001 ACA period (November 2000 to March 2001). In its analysis of this ACA period, Staff selected 30% of normal requirements as a minimum achievable level of hedging for this period (See highly confidential Schedule 3 attached to this direct testimony). The 30% minimum level is not intended as a precedent for future hedging but as an absolute minimal level that was clearly attainable for the winter of 2000-2001.

The Company did not hedge at least 30% of its requirements during the 2000-2001 ACA winter period. Staff believes, therefore, that there was not adequate price protection for its customers.

Q. Finally, please respond to Company's concern about the use of their storage facilities.

A. While weather can largely influence the customer demand for natural gas, Staff would expect that the Company revise its nomination volumes to assure that sufficient volumes of reasonably priced gas is available for colder days in January 2001 and February 2001. During the 2000-2001-winter season, Greeley's contracted storage services alone did not provide adequate price protection for its customers.

Q. Please discuss how Staff developed its total Purchasing Practices disallowance.

A. Staff's disallowance is composed of two component: a hedging component and a storage component. With regard to the hedging component, Staff compared Greeley's actual monthly-hedged volumes (storage volumes only) to the monthly-hedged volumes calculated at 30% of normal requirements for each winter month of the 2000-2001 ACA period. The Staff found that Greeley did not meet the 30% hedging requirement during the months of December 2000 through March 2001. Accordingly, Staff proposes a hedging adjustment of ($9,941) to reflect the Company's hedging activity shortfall during the 2000-2001 ACA period.

The Staff also reviewed the Company's monthly storage activity component during the 2000-2001 ACA period. The Staff compared the Company's actual storage withdrawals to the planned (normal) storage withdrawals that were adjusted based upon actual weather. The Company's actual storage withdrawals exceeded the planned storage withdrawals during the month of November 2000. During the months of December 2000 through March 2001, however, the Company's actual storage withdrawals were less than planned. Staff proposes a storage charge adjustment of ($3,985) to reflect a storage shortfall during the 2000-2001 winter season. As previously described in testimony, Greeley's storage services alone did not provide adequate price protection for its customers; therefore other hedging options were also necessary for the Company to meet the 30% hedging requirement outlined by Staff. Per highly confidential Schedule 3, the Staff proposes a total hedging and storage charge adjustment of ($13,926).

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Greeley Gas Company's Purchased Gas Adjustment Factors to be Reviewed in its 2000-2001 Actual Cost Adjustment.	)))	Case No. GR-2001-394

AFFIDAVIT OF PHIL S. LOCK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phil S. Lock, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 6 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Phil S. Lock

Subscribed and sworn to before me this 15th day of April 2002.

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

PHIL LOCK

COMPANY	CASE NO.
Grand River Mutual Telephone	TR-87-25
Kansas Power and Light Company	GR-89-48
St. Joseph Light and Power Company	GR-90-84
Associated Natural Gas Company	GR-90-152
United Cities Gas Company	GR-92-21
Laclede Gas Company	GR-92-165
United Cities Gas Company	GR-93-47
Laclede Gas Company	GR-93-149
Laclede Gas Company	GR-94-328
Missouri Public Service	GA-97-132
Gateway Pipeline	GM-01-585
Missouri Public Service	GR-99-435

UPDATED STAFF ADJUSTMENT

COMPLIANCE ADJUSTMENTS

The Company believes that two minor corrections to Staff's adjustments should be made. The Williams Storage and Transportation Demand adjustment of ($6,264) should be ($4,026) due to an offsetting adjustment of ($2,238) in December 2000. After further review, the Staff concurs with the Company that ($4,026) should be the proper adjustment for WNG Storage and Transportation Demand.

The Company also believes that the Storage adjustment of ($17,396) should be reduced to ($15,868) because Staff did not include a withdrawal of 13,768 Dekatherms (Dth) during March 2000. Based on the documentation furnished by the Company, Staff believes a discrepancy still exists for March withdrawals between the WNG Storage invoice (14,625 Dth withdrawals) and the Company response to Data Request No. 65 (28,393 Dth withdrawals). Staff believes that the Storage adjustment should remain unchanged at ($17,396).

The Company has agreed to the remainder of the compliance adjustments. Staff's adjustments are summarized in the table following Staff's proposed updated adjustment.

RELIABILITY STUDY

After reviewing the Staff's recommendations on this topic, the Company has determined that Staff's recommendations are acceptable.

PURCHASING PRACTICES

The Company disagrees with Staff's disallowance on purchasing practices. The adjustment would result in a $13,925 reduction of gas costs. The Staff believes that the Company did not have adequate price protection for its customers during the 2000-2001 ACA period, and that the $13,925 adjustment is appropriate and should be made.

Revised Table of Adjustments

Description	Beginning Balances Per Filing	Staff Adjustments	Ending Balances Per Staff
Prior ACA Balance	($60,960)	$0	($60,960)
Revenue Recovery	($373,786)	$0	($373,786)
WNG Storage &Transportation Demand	$32,331	($4,026)	$28,305
Storage Injection/Withdrawals	$22,192	($17,396)	$4,796
WNG-Storage-&-Transportation Commodity & Gas Supply	$316,184	($15,623)	$300,561
Interest on DCCB	($2,291)	$3,047	$756
State Line Fee	$227	($227)	0
Prior Period Adj. & Storage Adj. (1)	($29,294)	$0	($29,294)
Prudence Adjustment	($0)	($13,925)	($13,925)
Total (Over)/Under Recovery	($95,397)	($48,150)	($143,547)

Total ACA balance per filing slightly different due to rounding
1) Includes ($27,056) prior period adj. + ($2,238) storage adj.

SCHEDULE 3

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