

**ILLINOIS COMMERCE COMMISSION**

**DOCKET No. 15-0142**

**REBUTTAL TESTIMONY**

**OF**

**KENNETH C. DOTHAGE**

**Submitted on Behalf**

**Of**

**AMEREN ILLINOIS COMPANY  
d/b/a Ameren Illinois**

**July 8, 2015**

**TABLE OF CONTENTS**

	<b>Page No.</b>
<b>I. INTRODUCTION.....</b>	<b>1</b>
<b>A. Witness Identification.....</b>	<b>1</b>
<b>B. Purpose, Scope and Identification of Exhibits .....</b>	<b>2</b>
<b>II. RESPONSE TO COMMISSION STAFF WITNESS LOUNSBERRY.....</b>	<b>2</b>
<b>III. CONCLUSION .....</b>	<b>8</b>
<b>APPENDIX.....</b>	<b>1</b>

1 **ILLINOIS COMMERCE COMMISSION**

2 **DOCKET No. 15-0142**

3 **REBUTTAL TESTIMONY**

4 **OF**

5 **KENNETH C. DOTHAGE**

6 **Submitted on Behalf Of**

7 **Ameren Illinois**

8 **I. INTRODUCTION**

9 **A. Witness Identification**

10 **Q. Please state your name and business address.**

11 A. My name is Kenneth C. Dothage. My business address is One Ameren Plaza, 1901  
12 Chouteau Avenue, St. Louis, Missouri, 63103.

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

14 A. I am employed as Director, Gas Supply for Ameren Illinois Company d/b/a Ameren  
15 Illinois (AIC or Company).

16 **Q. What are your duties and responsibilities in your position?**

17 A. In this capacity, I oversee the daily operations and business activities related to providing  
18 gas supply to customers in the AIC service territory. My responsibilities include overseeing gas  
19 supply acquisition, price hedging, transportation and storage capacity acquisition, system  
20 operations and state and federal regulatory affairs. It is in this capacity that I am testifying on  
21 behalf of AIC.

22 **Q. Please summarize your educational background and relevant professional**  
23 **experience.**

24 A. See my Statement of Qualifications, attached as an Appendix to this testimony.

25 **B. Purpose, Scope and Identification of Exhibits**

26 **Q. What is the purpose of your rebuttal testimony?**

27 A. My testimony is provided on behalf of AIC and responds to the direct testimony of  
28 Illinois Commerce Commission (ICC or Commission) witness Mr. Eric Lounsberry.  
29 Specifically, I am responding to Mr. Lounsberry's adjustment to the Working Capital Allowance  
30 for Gas in Storage.

31 **Q. Are you sponsoring exhibits in support of your testimony?**

32 A. Yes. I'm sponsoring the following exhibits with my rebuttal testimony:

- 33 • Ameren Exhibit 30.1: EIA April 2015 Forecast
- 34 • Ameren Exhibit 30.2: J.P. Morgan May 2015 Forecast

35 **II. RESPONSE TO COMMISSION STAFF WITNESS LOUNSBERRY**

36 **Q. Have you reviewed the direct testimony of Mr. Lounsberry?**

37 A. Yes. Specifically, I have reviewed the portion of Mr. Lounsberry's testimony in which  
38 he presents Staff's adjustment to the Working Capital Allowance for Gas in Storage (ICC Staff  
39 Ex. 5.0, pp. 15-19).

40 **Q. Have any other parties proposed an adjustment to the Working Capital Allowance**  
41 **for Gas in Storage in this proceeding?**

42 A. No.

43 **Q. What is the purpose of maintaining a working capital allowance for gas in storage?**

44 A. A working capital allowance for gas in storage is intended to provide compensation to the  
45 utility for financing its investment in top gas storage inventory (also known as working gas  
46 inventory). This is the value of the amount of storage gas that is injected typically in the summer  
47 season and withdrawn in the winter season.

48 **Q. Why is this cost an appropriate cost to include in AIC's proposed rate base?**

49 A. AIC recovers the cost of its top gas storage inventory through the Purchased Gas  
50 Adjustment (PGA) mechanism during the winter season when the storage volumes are  
51 withdrawn from storage and delivered to AIC's sales customers but it does not recover the  
52 carrying cost of that investment between the time the gas is purchased and when the gas is  
53 delivered to the sales customers. Including an appropriate balance of the top gas storage  
54 investment in rate base compensates AIC for the holding cost of that investment.

55 **Q. How did AIC calculate its working capital allowance for the 2016 test year forecast?**

56 A. AIC utilized the average 13-month ending balances for top (working) gas storage during  
57 the test year period December 31, 2015 through December 31, 2016. The month-end balances  
58 are shown on ENG 8.07 Attach, Schedule WPB-8.1a, Page 2 of 2 and average \$80,893,000 for  
59 the test year. AIC used the same price forecasts as used in its 2015-2019 PGA Budget Forecast  
60 which was the 15 day average of NYMEX prices (July 16, 2014-August 6, 2014) for gas supplies  
61 not already price hedged. This NYMEX strip for 2016 was provided in ENG 2.10 Attach 1 and  
62 averaged \$4.0533/MMBtu for the year. The monthly NYMEX price forecasts were further  
63 adjusted for regional basis differentials applicable to each pipeline supplier. The resulting 2016  
64 monthly gas supply cost and average monthly unit rates are shown on ENG 2.10 Attach 2.

65 **Q. What adjustment to the Working Capital Allowance for Gas in Storage does Mr.**  
66 **Lounsberry propose on Staff's behalf?**

67 A. Mr. Lounsberry recommends that the Commission use a more recent estimation of  
68 natural gas prices for calendar 2016, based on the average of New York Mercantile Exchange  
69 (NYMEX) daily settlements during the period April 13, 2015-May 1, 2015, to revise AIC's  
70 requested working capital amounts.

71 **Q. What is the claimed basis for Mr. Lounsberry's adjustment?**

72 A. Mr. Lounsberry believes that "Ameren's natural gas price assumption is not consistent  
73 with the current prices expectations for natural gas during the 2016 test year." (ICC Staff Ex.  
74 5.0, p. 15:303-05.) He recommends that the Commission revise AIC's requested working capital  
75 amounts to account for a reduction in the expected price of gas during 2016.

76 **Q. Has the Company revised responses to Staff data requests that will impact Staff's**  
77 **adjustment?**

78 A. Yes. AIC has provided Staff with revised responses to two data requests, ENG 8.06 and  
79 ENG 8.08. The revised response labeled ENG 8.06R reflects the recalculation of gas supply  
80 expenses 2015 and 2016 including the cost of storage injections and withdrawals for those years.  
81 The original response to ENG 8.06 neglected to include 20 price hedges executed from  
82 September 2014 through April 2015 on natural gas supplies. This revision increased the  
83 estimated price of gas for 2016 by \$0.044/MMBtu (from \$2.998/MMBtu to \$3.042/MMBtu) and  
84 also impacted the monthly storage injection and withdrawal costs for the year. The revised  
85 monthly storage balances, 13-month average and resulting storage working capital allowance is  
86 reflected in AIC's revised response to ENG 8.08.

87 **Q. Should the Commission accept Staff's adjustment to the Working Capital**  
88 **Allowance for Gas in Storage?**

89 A. No. The average of NYMEX daily settlements used by Mr. Lounsberry results in a 2016  
90 NYMEX strip price of \$3.076/MMBtu, a drop of almost \$0.98/MMBtu over a period of nine  
91 months. Given that amount of fluctuation over a relatively brief period of time, it is quite  
92 possible that nine months from now the 2016 NYMEX strip price could be back to the  
93 \$4/MMBtu level. In fact, as recently as December 1, 2014 the 2016 NYMEX strip price was at  
94 \$3.91/MMBtu so the vast majority of the price drop has occurred in the five month period  
95 December 2014-April 2015. The NYMEX prices are a reflection of the market's forward price  
96 view for natural gas futures contracts and can be significantly impacted by short-term weather  
97 patterns and non-physical trading activity by natural gas producers, utilities and pure speculators.  
98 The NYMEX futures contracts for natural gas trade on a daily basis and it is not unusual for the  
99 forward price to increase or decrease by 5-10 cents or more in a single day. For example at the  
100 market close on Friday 6/5/2015 the NYMEX strip for 2016 was \$3.05/MMBtu. At the market  
101 close on the following Monday, 6/8/2015, the 2016 NYMEX strip had increased to  
102 \$3.1250/MMBtu and at the close on Tuesday, 6/9/2015, had increased further to  
103 \$3.2065/MMBtu.

104 **Q. Has the NYMEX 2016 strip price, in fact, moved significantly since the period relied**  
105 **upon by Mr. Lounsberry (April 13, 2015-May 1, 2015)?**

106 A. As mentioned previously, the NYMEX 2016 strip price relied upon by Mr. Lounsberry  
107 was \$3.076/MMBtu. Since then the NYMEX 2016 strip has been as high as \$3.27/MMBtu at  
108 the close on 5/15/2015 and as low as \$3.05/MMBtu on 6/5/2015. At the close on 6/30/2015, the  
109 NYMEX 2016 strip was \$3.1745/MMBtu.

110 **Q. Has the Company since examined other price estimates for natural gas for 2016?**

111 A. Yes. In his direct testimony, Mr. Lounsberry relied on the U.S. Energy Information  
112 Administration (EIA) April 7, 2015 Short-Term Energy Outlook (STEO) to adjust AIC's  
113 projected prices for gasoline and diesel fuel. AIC's projected prices for gasoline and diesel fuel  
114 were based on historical pricing information for the two commodities. Mr. Lounsberry used the  
115 EIA's STEO 2016 forecast for diesel and gasoline prices and stated that his price estimate was  
116 superior to that proposed by Ameren since his price estimate was more recent and is based on an  
117 independent governmental projection for 2016 prices. The EIA's April 7, 2015 STEO also  
118 contains a price forecast for natural gas during 2016 of \$3.45/MMBtu with quarterly prices of  
119 \$3.40, \$3.22, \$3.53 and \$3.64/MMBtu applicable for the 1st, 2nd 3rd and 4th quarters,  
120 respectively. Included with my rebuttal testimony, as Ameren Exhibit 30.1, is the EIA April  
121 2015 forecast for 2016 prices.

122 **Q. Has the EIA price forecast for natural gas for 2016 materially fluctuated since the**  
123 **April 7, 2015 STEO?**

124 A. Not materially. The latest EIA forecast for 2016 natural gas prices contained in its June  
125 2015 STEO is \$3.42/MMBtu.

126 **Q. What other price forecasts have you reviewed?**

127 A. I reviewed the May 28, 2015 Natural Gas Monthly & Storage Recap published by J.P.  
128 Morgan. Included with my rebuttal testimony, as Ameren Exhibit 30.2, is a copy of that price  
129 forecast. The J.P. Morgan Recap shows a current price forecast for natural gas of \$3.69/MMBtu  
130 for 2016.

131 **Q. Based on your examination of forecasted pricing data, do you have a**  
132 **recommendation for the price of natural gas to use in the calculation of the working capital**  
133 **allowance for gas in storage?**

134 A. Yes. I recommend that the EIA 2016 forecast prices for natural gas contained in their  
135 April 7, 2015 STEO be used in the calculation of the Working Capital Allowance for Gas in  
136 Storage which is consistent with the source relied upon and utilized by Mr. Lounsberry for the  
137 other two commodity fuels (gasoline and diesel fuel).

138 **Q. Why do you believe that the EIA STEO price is superior to the NYMEX strip price**  
139 **to calculate a price for natural gas for the 2016 test year?**

140 A. In stark contrast to the NYMEX forward market price forecasts that are impacted by  
141 heavy amounts of trading by speculators and producers, the EIA price forecasts are based more  
142 on the pure fundamentals of natural gas supply and demand. The EIA price forecasts are an  
143 independent governmental projection of future prices and free of any bias toward a particular  
144 industry segment. The EIA natural gas price forecast for 2016 of \$3.45/MMBtu also appears to  
145 be on the conservative side when compared to the recent forecast from J.P. Morgan projecting a  
146 2016 average price of \$3.69/MMBtu. J.P. Morgan's Commodities Research group states that  
147 2016 will be the first year that natural gas demand will grow more than natural gas supply with  
148 U.S. exports of LNG beginning, increasing exports to Mexico and increased natural gas demand  
149 for power generation due to coal plant retirements.

150 **Q. What is the working capital allowance for gas in storage that results from the use of**  
151 **the EIA STEO forecast prices for natural gas?**

152 A. AIC recalculated its 2015-2016 PGA Budget Forecasts utilizing the quarterly price  
153 forecasts for the Henry Hub Spot (dollars per Million Btu) contained in Table 2-U.S. Energy

154 Prices of the April 7, 2015 EIA STEO. These quarterly forecasts were used to price gas supplies  
155 not already price hedged for 2015-2016 and were further adjusted for regional basis differentials  
156 applicable to each pipeline supplier. The resulting 2015-2016 monthly gas supply cost and  
157 average monthly unit rates have been included as a workpaper to this rebuttal testimony. These  
158 workpaper calculations also include the 20 additional hedges included in AIC's revised response  
159 to ENG 8.06, plus five additional hedges that occurred in May 2015. AIC recalculated the  
160 average 13-month ending balances for top (working) gas storage during the test year period  
161 December 31, 2015 through December 31, 2016 which resulted in an average of \$76,040,000 for  
162 the test year. The forecasted monthly storage activity has been incorporated into Ameren Exhibit  
163 17.6 sponsored by Ameren witness Mr. Ronald Stafford.

164 **Q. In your expert opinion, should the Commission adopt that calculation of working**  
165 **capital allowance for gas in storage?**

166 A. Yes.

167 **III. CONCLUSION**

168 **Q. Does this conclude your rebuttal testimony?**

169 A. Yes, it does.

**APPENDIX**

**STATEMENT OF QUALIFICATIONS**

**KENNETH C. DOTHAGE**

I graduated from the University of Missouri-St. Louis in January 1977 with a Bachelor of Science Degree in Business Administration. I was employed by Monsanto Company as a Natural Gasoline Plant Accountant in the Production and Exploration Division and subsequently as a Revenue Control Accountant at Monsanto's Houston, Texas office. In August 1979, I accepted the position of Rate Analyst with Mississippi River Transmission Corporation (MRT) and held various positions in the Rate Department including Director of Rates beginning in January 1984. As Director of Rates for MRT, I was responsible for various rate functions including the preparation of general rate filings, purchased gas adjustment filings, transition cost recovery and tracking filings, cost allocation and rate design studies, the administration of jurisdictional tariff provisions, participation in rate aspects of financial planning, and the review and analysis of upstream pipeline rate and certificate filings. In April 2001, I accepted the position of Gas Supply Executive with Ameren Energy Fuels and Services Company, predecessor to Ameren Illinois Company. My primary responsibility was managing the gas supply, pipeline capacity and storage capacity for the Union Electric Company d/b/a AmerenUE and Central Illinois Public Service Company d/b/a AmerenCIPS' (AmerenCIPS) service areas supplied by Panhandle Eastern Pipe Line Company (PEPL). In December 2003, I was promoted to a supervisory role as Managing Executive over the AmerenUE service territory in Missouri, which was supplied by interstate pipelines PEPL, Natural Gas Pipeline Company of America (NGPL) and Texas Eastern Transmission, LP (TETCO) and intrastate pipelines Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC). In January 2005, I was promoted to the position of Manager, Gas Supply over the Central Illinois Light Company d/b/a

AmerenCILCO (AmerenCILCO), AmerenCIPS and Illinois Power Company d/b/a AmerenIP (AmerenIP) service territories in Illinois. Effective October 1, 2010, AmerenCILCO and AmerenIP were merged with and into AmerenCIPS, resulting in AmerenCIPS being the sole surviving legal entity. Simultaneously AmerenCIPS' name was changed to Ameren Illinois Company d/b/a Ameren Illinois. Effective January 1, 2013 my job title was changed to Director, Gas Supply for Ameren Illinois.