MEMORANDUM

TO: Missouri Public Service Commission Official Case File
GR-2021-0124, Summit Natural Gas of Missouri, Inc.

FROM: Kwang Y. Choe, PhD, Economics Analyst – Procurement Analysis
Jacob R. Robinett, Associate Engineer – Procurement Analysis
Kimberly Tones, CPA, Senior Utility Regulatory Auditor – Procurement Analysis

/s/ *David M. Sommerer* 12/15/2021
Project Coordinator / Date

/s/ *Karen Bretz* 12/15/2021
Staff Counsel's Office / Date

/s/ *Keenan B. Patterson*, PE 12/15/2021
Senior Professional Engineer / Date

SUBJECT: Staff Recommendation in Case No. GR-2021-0124, Summit Natural Gas of Missouri, Inc. 2019-2020 Actual Cost Adjustment Filing

DATE: December 15, 2021

EXECUTIVE SUMMARY

On October 30, 2020, Summit Natural Gas of Missouri, Inc. (Summit or Company) filed its Actual Cost Adjustment (ACA) for the 2019-2020 annual period for rates to become effective November 15, 2020. This filing revised the ACA rates based upon the Company's calculations of the ACA balance for the 2019-2020 period. Summit filed three proposed substitute tariff sheets on November 2, 2020 to change the proposed effective date to November 16, 2020.[1] The Commission approved those rates on an interim subject to refund basis, with an effective date of November 16, 2020.

The Procurement Analysis Department (Staff) of the Missouri Public Service Commission reviewed the Company's ACA filing. Staff's analysis consisted of:

1. A review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2019 to August 31, 2020;

2. A reliability analysis of the Company's estimated peak day requirements and the capacity levels to meet those requirements;

3. An examination of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions; and

[1] The change was made so the tariff sheets bear an effective date that it at least ten business days from the filing date.

Appendix A

** Denotes Confidential Information **

4. A hedging review to evaluate the reasonableness of the Company's hedging practices for this ACA period.

Based on Staff's review, adjustments to the Company's filed ACA balances have been recommended to reflect the actual billed revenues, less natural gas costs, for the period under review. Please see the Recommendations section for adjusted ACA balances and Staff's recommendations.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

Staff's discussion of its findings is organized into the following five sections, which include Staff's concerns and recommendations:

I. OVERVIEW

<u>Service Area</u>

During the 2019-2020 ACA period, Summit provided natural gas service to customers in three defined service areas: Rogersville/Branson (Rogersville), Warsaw/Lake of the Ozarks (Warsaw/LOO), and Gallatin. The Rogersville Service Area includes the counties of Greene, Webster, Wright, Douglas, Texas, Howell, Laclede, Christian, Barry, Lawrence, Taney, and Stone. The Warsaw/LOO Service Area includes Benton, Camden, Greene, Miller, Morgan and Pettis Counties. The Gallatin Service Area includes the counties of Harrison, Daviess, and Caldwell.

The Rogersville Service Area served an average of 12,020 sales customers during the ACA period under review, while the Warsaw/LOO Service Area served an average of 4,601 customers. Both the Rogersville and Warsaw/LOO Service Areas are supplied by the Southern Star Central Gas Pipeline (Southern Star Pipeline). Neither Rogersville nor Warsaw/LOO Service Areas contract for storage. The Gallatin Service Area served an average of 1,594 customers during the ACA period, and the ANR Pipeline Company (ANR) serves all customers in Gallatin Service Area.

The total customer count for all service areas is an average of 18,215 customers.

II. BILLED REVENUE AND ACTUAL GAS COST

ACA Balances
ACA balances are cumulative such that the ending balance of one period becomes the beginning balance of the next period. In this period, the Company's beginning ACA balance for each service area agrees with the Commission's Order in Case No. GR-2020-0123.

Billed Revenues
For each service area, Staff reviewed a sample of customer bills to ensure the PGA/ACA rates charged for natural gas reflected Commission approved PGA/ACA rates. All rates charged to natural gas consumers agreed with approved rates, without exception. In addition, Staff recalculated monthly billed revenue, applying approved rates to volumes of natural gas consumed. Staff identified an inconsistency between the total recoveries reported and the documents Summit submitted in support of its ACA total recoveries for the Rogersville Service Area, as noted below. Further, Staff tested the reasonableness of total revenues reported by comparing the total natural gas volumes billed to the sum of natural gas volumes purchased, plus/minus changes in inventory and lost and unaccounted natural gas summaries.

Rogersville – Staff accepted Summit's blended PGA/ACA rates for the months of November and December, which reflects the change in approved rates between ACA periods. Staff's recalculation of revenues showed a potential understatement of revenues. According to Summit, the variance was the result of incorrect volumes included in the ACA workbook, and related supporting Data Requests (DRs), that excluded adjustments made and recognized in the financial/billing records during the ACA period. Summit filed corrected volume schedules which allowed for recalculation of recoveries with immaterial differences noted. Staff does not recommend any adjustment to billed revenues related to this matter.

Natural Gas Costs
Summit submitted invoices for all natural gas purchases made during the review period. Staff agreed each natural gas invoice to Summit's ACA filing by service area. For the Gallatin Service Area, Staff also reconciled and recalculated storage balances, injections/withdrawals, and weighted average cost of gas (WACOG). On a test basis, Staff also agreed invoiced natural gas rates to gas supply contracts or other referenced rate sources, such as First of Month (FOM) index pricing, pipeline tariff, etc. Based upon testing, the following adjustment is recommended:

Gallatin – Staff noted that the total commodity volume purchases reflected on the Storage tab of the ACA workbook for the months of September 2019 – December 2019 did not agree with supporting documentation. Summit provided updated schedules and recalculated its ending storage balance and WACOG, resulting in adjustment of $462 to the ending ACA balance.

<u>Imbalance/Cash Outs</u>

Summit's transportation tariffs contain a Cash Out provision which reconciles a transportation customer's imbalance by requiring Summit to either buy or sell gas to the transportation customer equal to the customer's monthly imbalance[2]. Staff recalculated imbalances and cash out calculations on a test basis. Staff also compared cash out schedules to the ACA filing, noting several inconsistencies. Summit stated that the inconsistencies Staff noted were the result of meter issues that were corrected after the end of the ACA period, with cash out billing adjustments made on the November/December 2020 customer bills. Summit provided documentation that allowed Staff to reconcile the original cash out balances as of August 31, 2020 included in this ACA filing. Summit also agreed to provide detailed reports identifying the transactions that make up the billing adjustments. Any adjustment to the ACA balance as a result of the adjusted imbalance/cash out calculation will be made in the 2020-2021 ACA period; therefore, Staff does not recommend any adjustment to the 2019-2020 ending ACA balance related to this matter.

<u>Carrying (Interest) Cost</u>

Consistent with Summit's PGA Clause, interest is computed based upon the average of the accumulated beginning and ending monthly over/under recoveries in excess of +/- $50,000; therefore, any changes to either billed revenues or natural gas cost will impact monthly over/under recovery balances. Summit recalculated, and Staff validated, the adjusted carrying cost, incorporating the correction to natural gas costs noted above.

Please see the Recommendations section for a summary of the adjusted ACA ending balances by service area.

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas service to Missouri customers, Summit is responsible for both conducting reasonable long-range supply planning and implementing the decisions resulting from that planning. One purpose of the ACA process is to review whether Summit's planning for gas supply, transportation, and storage meet its customers' needs. For this analysis, Staff reviewed Summit's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff's review of Summit's service areas produced the following comments and concerns:

<u>Reserve Margins</u>

The reserve margin for the Branson and Rogersville Service Areas are 117.2% and 14.0%, respectively, when considering the upper 95% confidence interval. The reserve margin for the Gallatin Service Area is negative 8.9%, and the reserve margin for the Warsaw/LOO Service Area

[2] "Balancing" by a transportation customer or a pool of transportation customers means that the amount of gas put into Summit's system (receipts) is made equal to the amount used or taken out of Summit's system (deliveries). When a transportation customer puts more or less gas into Summit's system than it uses, this is referred to as an "imbalance."

is 88.1%, when considering the upper 95% confidence interval. Staff encourages the Company to continue to monitor its pipeline contracts and maintain an appropriate reserve margin for each service area.

The reserve margin for the Gallatin Service Area is at a negative 8.9%, when considering the upper 95% confidence interval. Summit indicated in its 2019-2020 Natural Gas Supply plan (attached to its response to DR 58) that it is aware of the negative reserve margin and is analyzing options to cover the design day. The considered options are (a) acquiring additional upstream capacity from ANR Pipeline, (b) increasing its storage volumes on ANR, or (c) contracting for a delivered winter service from a gas supplier.

Contract Capacity

The reserve margin for the Warsaw/LOO Service Area is a positive 88.1%, when considering the upper 95% confidence interval. The area is served by two contracts, for a total of 13,000 Dth of primary firm daily transport capacity on the Southern Star Pipeline. After releasing 48 Dth of the capacity to the Missouri School Board Association, Rogersville available firm capacity for the winter 2019-2020 will be 12,952 Dth per day. Summit stated in its 2019-2020 Natural Gas Supply plan (attached to its response to DR 58) that it intends to post some of its excess firm capacity for release on Southern Star Pipeline's electronic bulletin board. During each ACA review since the 2015-2016 period, Summit stated that it intended to release some of its excess firm capacity on Southern Star Pipeline.

In light these reserve margin and contract capacity issues, Staff recommends that the Commission order Summit to submit to Staff an analysis of its transportation capacity needs and a plan for addressing those needs, emphasizing the areas served from the Southern Star Pipeline. Staff requests that the analysis and plans be filed in Case No. GR-2022-0122 no later than June 30, 2022. Staff recommends that the analysis and plans contain all information needed to support Summit's decisions. Staff recommends that this filing include, at a minimum:

1. Realistic expectations of demand growth or reduction,
2. Cost recovery associated with capacity releases,
3. The potential benefits and challenges of pipeline storage services along with the availability and cost of such services,
4. Supply alternatives to pipeline transportation and storage along with availability, cost and an assessment of the reliability of such services,
5. Potential costs and savings of changing pipeline transportation capacity, and
6. An assessment of the pipeline firm transportation service offerings.

IV. HEDGING

Summit's winter hedging plans are primarily designed to achieve a reliable natural gas supply and to protect its customers against price spikes. The hedging plan establishes known prices for ** [redacted] ** of normal winter (November – March) weather requirements for each of Summit's three service areas.

The hedging plan for the Rogersville Service Area is to utilize fixed price purchases for this ACA period. Staff notes that Summit's storage agreement for the Rogersville Service Area expired in April 2016.

For the Company's Warsaw/LOO Service Area, the hedging plan is to utilize fixed price purchases. The Company does not contract for storage capacity for this service area.

Summit's hedging plan for its Gallatin Service Area calls for Summit to fill storage as close to its maximum capacity as possible by November 1, which is the beginning of the winter heating season. Similar to the Rogersville Service Area, fixed price purchases are a part of the hedging plan for the Gallatin Service Area.

For the Rogersville Service Area, Summit purchased fixed price volumes in July 2019, and also in August 2019, for delivery during the winter period of November 2019 through March 2020. These fixed price volumes represent about ** [redacted] ** of normal winter weather requirements for the former SMNG service area. In light of the April 2016 expiration of the Rogersville Service Area storage contract, the Company should continue to review the effects on hedging from this expiration.

Summit purchased fixed price volumes in July 2019, for delivery in the periods of November 2019 through March 2020, for the Warsaw/LOO Service Area. The fixed price volumes represent about ** [redacted] ** of normal winter weather requirements for this service area.

Summit's maximum storage quantity (MSQ) for the Gallatin Service Area represents about ** [redacted] ** of normal winter (November – March) weather requirements. Summit's actual storage injection by November 1, 2019 was about 92% of MSQ. Summit also purchased fixed price volumes in July 2019 for delivery during the periods of November 2019 through March 2020. These fixed price volumes, which represent about ** [redacted] ** of normal winter weathe requirements, combined with actual storage at the beginning of the winter season, represent abou ** [redacted] ** of normal winter weather requirements for the Gallatin Service Area.

Conclusion

Staff has the following comments about the Company's hedging practices for this ACA's winter period:

1. It is important for Summit to evaluate the expected level of the customers' natural gas requirements that are reasonably protected (hedged) under warmer than normal, normal, and colder than normal weather scenarios.

2. Summit should evaluate its hedging strategy in response to the changing market dynamics as to how much the existing hedging strategy actually benefits its customers while achieving the goal of stable price level.
3. A part of Summit's hedging goals is to capture the lowest price. However, this market-timing approach can lead to a situation where Summit waits too long for natural gas prices to go down until it perceives them to be favorable while running the risk of higher prices.
4. A part of Summit's hedging strategy utilizing storage is based on its plan of filling storage to its MSQ by November 1 and use of the entire MSQ by the end of March. However, the Company typically does not fill storage to MSQ and finishes the last month of the winter heating season (March) with a portion of MSQ left in storage. Therefore, its hedging plan utilizing storage could potentially overestimate an actual hedging outcome.

Hedging Recommendations

Staff recommends, for the 2020-2021 ACA period, and beyond, that the Company:

1. Establish and maintain a current and consistent hedging policy with stated objectives based on month-specific normal weather requirements while also considering the impacts of warmer and colder than normal weather scenarios.
2. Consider a combination of various alternatives such as storage withdrawals, call options, and other fixed price purchases for effective hedging during the winter months.
3. Establish what is a realistic amount of MSQ that the Company plans to inject into storage by November 1 and to withdraw by March 31. Thus, determine a realistic amount of storage that can be utilized toward hedging and calculate the hedging percent utilizing storage and the overall hedging percent accordingly.
4. Continue to monitor the market movements diligently and with regard to timing of hedge placements employ disciplined (time-driven) as well as discretionary (price-driven) approaches in its hedging practices.
5. Continue to document its reasoning for executing any hedging transactions or decisions, whether by means of storage, fixed price contracting or other financial hedging instruments.

V. RECOMMENDATIONS

Staff recommends that the Commission issue an order requiring Summit to:

1. Adjust the balances in its next ACA filing to reflect Staff's recommended ending (over)/under recovery ACA balances per the following tables:

Rogersville/Branson Description (+) Under-recovery (-) Over-recovery	Ending Balances Per Filing	Staff Adjustments for 2019-2020 ACA	Staff Recommended Ending Balances
Prior ACA Balance 8-31-19	$ (575,241.81)	$ 0	$ (575,241.81
Cost of Gas/Storage	$ 2,819,366.43	$ 0	$ 2,819,366.43
Cost of Transportation	$ 2,178,924.22	$ 0	$ 2,178,924.22
Revenues - PGA billed	$ (4,412,179.23)	$ 0	$ (4,412,179.23)
ACA Approach for Interest	$ (6,581.61)	$ 0	$ (6,581.61)
Cash Outs	$ (182,483.84)	$ 0	$ (182,483.84)
Total ACA Balance 8-31-20	$ (178,195.84)	$ 0	$ (178,195.84)

Gallatin Description (+) Under-recovery (-) Over-recovery	Ending Balances Per Filing	Staff Adjustments for 2019-2020 ACA	Staff Recommended Ending Balances
Prior ACA Balance 8-31-19	$ (17,613.26)	$ 0	$ (17,613.26)
Cost of Gas/Storage	$ 393,674.42	$462.26	$ 394,136.68
Cost of Transportation	$ 194,045.86	$0	$ 194,045.86
Revenues - PGA billed	$ (623,100.92)	$ 0	$ (623,100.92)
ACA Approach for Interest Calculation	($ 255.69)	$1.59	$ (254.10)
Cash Outs	$ (32,126.63)	$ 0	$ (32,126.63)
Total ACA Balance 8-31-20	$ (85,376.22)	$ 463.85	$ (84,912.37)

Warsaw/Lake of the Ozarks Description (+) Under-recovery (-) Over-recovery	**Ending Balances Per Filing**	**Staff Adjustments for 2019-2020 ACA**	**Staff Recommended Ending Balances**
Prior ACA Balance 8-31-19	$ 256,114.21	$ 0	$ 256,114.21
Cost of Gas/Storage	$ 910,225.17	$ 0	$ 910,225.17
Cost of Transportation	$ 529,160.87	$ 0	$ 529,160.87
Revenues – PGA billed	$ (1,881,850.35)	$ 0	$ (1,881,850.35)
ACA Approach for Interest Calculation	$ 2,144.30	$ 0	$ 2,144.30
Cash Outs	$ (7,562.14)	$ 0	$ (7,562.14)
Total ACA Balance 8-31-20	$ (191,767.94)	$ 0	$ (191,767.94)

A positive ACA balance indicates an under-collection that must be recovered from customers. A negative ACA balance indicates an over-recovery that must be returned to customers.

2. Respond to all Staff recommendations in Section II, Billed Revenue and Actual Gas Costs; Section III, Reliability Analysis and Gas Supply Planning; and Section IV, Hedging within 30 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc., Changes to Company's Purchase Gas Adjustment "PGA" Clause	)))	Case No. GR-2021-0124

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW Kwang Y. Choe, PhD, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in memorandum form*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Kwang Y. Choe

KWANG Y. CHOE, PhD

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of December, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
Commission Number: 15207377

Dianna L. Vaught

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc., Changes to Company's Purchase Gas Adjustment "PGA" Clause	)))	Case No. GR-2021-0124

AFFIDAVIT OF JACOB R. ROBINETT

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW Jacob R. Robinett, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in memorandum form*; and that the same is true and correct according to his best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Jacob R. Robinett

JACOB R. ROBINETT

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of December, 2021.

DIANNA L. VAUGHT
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State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
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Dianna L. Vaught

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc., Changes to Company's Purchase Gas Adjustment "PGA" Clause	)))	Case No. GR-2021-0124

AFFIDAVIT OF KIMBERLY K. TONES, CPA

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COME NOW Kimberly K. Tones, CPA, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation, in memorandum form*; and that the same is true and correct according to her best knowledge and belief, under penalty of perjury.

Further the Affiant sayeth not.

Kimberly K. Tones

KIMBERLY K. TONES, CPA

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 15th day of December, 2021.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2023
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Dianna L. Vaught

Notary Public