

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2003-0311, File No. YG-2004-0621,
Aquila Networks - MPS

FROM: James A. Gray, Energy Department - Tariffs/Rate Design

/s/Warren Wood 11/13/03
Energy Department/Date

/s/Robert Franson 11/13/03
General Counsel's Office/Date

SUBJECT: Supplemental Staff Recommendation For Aquila Networks - MPS' Scheduled Winter
Season PGA Filing Effective November 17, 2003

DATE: November 13, 2003

On November 13, 2003, the Missouri Public Service Commission (Commission) issued an ORDER DIRECTING FILING (Order). The Commission directed the Commission's Staff (Staff) for a further explanation of the proposed changes in the Purchased Gas Adjustment (PGA) factors for Aquila, Inc. (Aquila) d/b/a Aquila Networks – MPS (MPS or Company). On November 7, 2003, Staff filed its recommendation and indicated that the PGA filing was calculated in conformance with Aquila's PGA clause and recommended that the Commission approve the proposed tariff.

Staff was requested to explain why the PGA factor for the Eastern System increased while the PGA factors for the Southern and Northern Systems decreased. Schedule 1, attached to this recommendation, shows the proposed changes in the PGA components by System and customer class. The general natural gas (GNG) rate schedules for the Southern and Northern Systems had decreases in the cost of gas (Regular PGA), the refund factor, and the elimination of the Unscheduled Filing Adjustment (UFA). The ACA factor for the Southern System decreased while the ACA factor for the Northern System increased. The net effect of these proposed changes in the PGA factor result in an approximately nineteen (19) percent decrease for the Southern System and a sixteen (16) percent decrease for the Northern System. In contrast, the proposed changes for the Eastern System contained an increase in the Regular PGA and the ACA, resulting in an approximately twenty-two (22) percent net increase in the PGA factor.

The Eastern System's ACA factor went from a slight over-recovery to a significant under-recovery. Staff has not had the opportunity to perform a complete audit of the ACA factor represented in MPS' filing but believes there are likely two principal causes. The primary reason would be Aquila underestimating the cost of gas in its 2003 Spring PGA filing for its Eastern System. Storage in the Northern and Southern Systems made up for the underestimated cost of gas in those systems. Also, Aquila has consistently estimated the same 1993 gas volumes for the upcoming winter season. Historically, Aquila has not achieved those gas volumes. This results in an overly optimistic sales projection to spread costs for the

Attachment A

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upcoming winter season.

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The Northern System is similar to the Eastern System in that both rely on purchases that are delivered by Panhandle Eastern Pipe Line Company (PEPL). In comparing the regular PGA for the Eastern System to the Northern System from the past four winter PGA filings, the .37419 difference in the November 17, 2003, regular PGA is reasonable when compared to the prior three winter PGA filings (.25374 to .40614):

Proposed Effective Date	Eastern System's Winter Season Regular PGA Rate	Northern System's Winter Season Regular PGA Rate	Difference
11/15/00	.9269	.67316	.25374
11/19/01	1.08009	.67395	.40614
11/26/02	.85992	.50218	.35774
11/17/03	1.02659 (proposed)	.6524 (proposed)	.37419

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The Eastern System is the only system that incurs more than one pipeline charge. The Eastern System incurs three different “pancaked” pipeline charges. The intrastate pipeline charges, by Missouri Pipeline Company (MPC) and Missouri Gas Company (MGC), are approximately three times the interstate pipeline charges. ** C

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The Staff’s recommendation to approve Aquila’s filing was predicated solely on compliance with Aquila’s

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Commission-approved PGA clause.

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