MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2004-0539, Aquila-MPS/L&P

FROM: Dave Sommerer, Manager - Procurement Analysis Department
Phil Lock, Regulatory Auditor - Procurement Analysis Department
Lesa Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis Department

/s/ Dave Sommerer 11/18/05 /s/ Thomas R. Schwarz 11/18/05

Project Coordinator / Date General Counsel's Office / Date

SUBJECT: Staff Recommendation in Aquila-MPS/L&P 2003/2004 Actual Cost Adjustment Filing.

DATE: November 18, 2005

The Procurement Analysis Department (Staff) has reviewed the 2003/2004 Actual Cost Adjustment (ACA) filing of Aquila, Inc. d/b/a Aquila Networks (Company). The Purchased Gas Adjustment (PGA) rates are separated into 3 systems. The Northern and Southern systems are associated with the "MPS" name, while the St. Joseph system is designated "L & P." The 2003/2004 PGA factors for Aquila Network-L&P was initially docketed as Case No. GR-2004-0538. The 2003/2004 PGA factors for Aquila Network-MPS was docketed as Case No. GR-2004-0539. As a result of Aquila's last rate case, GR-2004-0072; Aquila requested that the two cases be consolidated for administrative efficiency under one case number with GR-2004-0539 being the lead case. An order was issued effective October 15, 2004 consolidating the cases. The 2003/2004 ACA filing was made on November 5, 2004, and was therefore docketed as Case No. GR-2004-0539. The review consisted of an analysis of the billed revenues and actual gas costs for the period of September 2003 to August 2004. An examination of the Company's gas purchasing practices was performed to determine the prudence of the Company's purchasing decisions. The Company's recovery balances include the ACA, Take-or-Pay (TOP), Transition Cost (TC), and Refund balances. Staff conducted a reliability analysis including a review of estimated peak day requirements and the capacity levels needed to meet those requirements. Staff also conducted a hedging review to determine the reasonableness of the Company's hedging policy for the 2003/2004 ACA.

The Company separates its gas operations into a Southern System, a Northern System, and an L & P system. The larger communities served on the Southern System include Marshall, Higginsville, Lexington and Richmond in west-central Missouri and Platte City near Kansas City. On the Northern System the larger communities include Chillicothe, Marceline and Trenton in north-central Missouri. The L & P System includes Maryville which is located in the northwest part of the state. Southern Star Central (SSC), formerly Williams Gas Pipeline Central (WGPC), serves customers on the Southern System, Panhandle Eastern Pipeline Company (PEPL) serves customers on the

Northern System while ANR Pipeline (ANR) serves customers on the L & P System. For the 2003/2004 ACA review period, the number of customers was approximately 32,000 on the Southern System, 10,500 on the Northern System, and 6,200 on the L & P System.

ACA & TRANSITION COST BALANCE

In the order adopting Staff's 2002-2003 ACA recommendation on February 27, 2005 (Case GR-2003-0311), the Commission established the August 31, 2003 balance and closed the case. Upon review of the Company's 2003-2004 ACA filing, a different August 31, 2003 ACA balance was carried forward for the Southern System. This is because the 2003-2004 ACA filing was made on November 5, 2004 and the balances in the 2002-2003 ACA were still in dispute until February 27, 2005 (order establishing ACA balance). The purpose of this adjustment is to carry-forward the proper 2002-2003 ending ACA balance for the Northern, Southern and L & P systems according to the Report and Order issued in Case GR-2003-0311 (MPS) and GR-2003-0369 (L&P). (See Attachments B & C). Staff therefore proposes adjustments to the August 31, 2003 Southern System balances per the table below.

The same situation exists for the L & P System. The 2003-2004 ACA filing was made on November 5, 2004 and the balances in the 2002-2003 ACA were still in dispute until February 27, 2005 (order establishing ACA balance). Staff therefore proposes adjustments to the August 31, 2003 L & P balances per the table below. This table reconciles the Company filed beginning ACA balances for the 2003-2004 ACA period to the Commission ordered ending ACA balances for the 2002-2003 ACA period. Footnotes “A” and “C” show that the beginning Company balances have already been adjusted for some prior year activity.

No adjustments were necessary for the Northern System.

Description **(+) Under-recovery** **(-) Over-recovery**	**8/31/03 Beginning Balance per Filing for 2003-04**	**Staff Adjustments**	**Order establishing Ending Balances for 2002-03 (GR-2003-0311)**
MPS South: Firm ACA	$370,204 (A)	($17,927) (B)	$352,277
Interruptible ACA	($9,563)	$0	($9,563)
Firm Refund	($60,556)	$0	($60,556)
Transition Cost	$0	$0	$0
MPS North: Firm ACA	$577,524 (C)	$0	$577,524
Interruptible ACA	$104,100	$0	$104,100
Firm Refund	($21,168)	$0	($21,168)
Transition Cost	$0	$0	$0

Description (+) Under-recovery (-) Over-recovery	8/31/03 Beginning Balance per Filing for 2003-04	Staff Adjustments	Order establishing Ending Balances for 2002-03 (GR-2003-0311)
L & P: Firm ACA	$636,061	($3,994)	$632,067
Interruptible ACA	$0	$0	$0
Firm Refund	$0	$0	$0
Transition Cost	($1,351)	$3,782	$2,431

(A) $816,139 + ($245,473) prior period adj + ($200,000) prior period adj + ($14) + ($448) Company use revenue

(B) ($5,195) prior period adj + ($13,194) prior period adj + $14 + $448 Company use revenue

(C) $582,888 + ($5,364)

In the order establishing ACA balances for the 2002/2003 ACA, Company use revenue listed in footnote (A) and (B) above is not included (amounts offset). Company use revenue is included in the 2003/2004 ACA recovery per filing.

L & P TRANSITION COST (TC) BALANCE

The Commission had not ordered a final TC balance when Aquila filed its August 31, 2003 TC balance of $1,024. The Commission later ordered an ending balance of $2,431 in Case GR-2003-0369 (Attachment C). In addition, the Company's filed transition cost (TC) balance improperly came from the September 2004 General ledger balance contributing to a different TC balance. Staff's proposed under-recovery TC balance of $3,617 at August 31, 2004 includes the August 31, 2003 under-recovery balance of $2,431, as ordered by the Commission (Attachment C), in addition to an under-recovery balance of $1,186 that occurred during this ACA period.

STORAGE

Staff has reviewed the Company's Southern System storage activity for the 2003-2004 ACA. The Company's cumulative storage balance of $3,651,882 is the result of all injections (i.e. additions to storage) and withdrawals that have occurred for the 12 month period ended August 2004. Staff calculated withdrawal costs of $3,138,044 for the period of November 2003 to March 2004. The Company's filing included withdrawal costs totaling $3,149,189. Staff believes that gas costs should be reduced on the Southern System by $11,145 ($3,138,044 - $3,149,189) due to reduced storage withdrawals. Approximately $10,000 of the total reduction is attributed to differences between the Company's filed withdrawal costs (Schedule 1) and withdrawal costs included in the Company's storage schedule in response to Data Request 72. This occurred during the months of November 2003 and December 2003. Staff's calculation, along with the Company's storage schedule provided in response to Data Request 72, agree with the storage activity included in the Southern Star storage invoices.

For the L & P System, the Company's cumulative storage balance totaled $1,655,570 for the 12 months ended August 2003, including withdrawal costs of $2,016,690. Staff believes withdrawal costs should total $2,134,830, resulting in an $118,140 ($2,134,830-$2,016,690) increase in gas costs for increased storage withdrawals. The Company included injection costs of $2,022,435 for the 12 month period ended August 2003, but Staff believes that the proper injection costs for the period should be $2,164,414. Storage injections increased by $141,979 thereby reducing gas costs for L & P firm sales customers.

An order establishing L & P ACA balances for Case No. GR-2003-0369 was in effect April 1, 2005. This was effective after the Company submitted its 2003-2004 ACA filing in November 2004. The Company therefore did not incorporate Staff's storage adjustment of $18,921 from the 2002-2003 ACA to the current ACA. The net effect of all storage injections and withdrawals result in a $23,839 ($141,979 - $118,140) reduction in the cost of gas for L & P firm sales customers. This adjustment is largely attributed to the $18,921 adjustment carried forward by Staff from the 2002-2003 ACA period and the timing of that adjustment on the monthly weighted average cost of gas. No storage adjustments were made on the Northern System.

CASH-OUTS

Daily and monthly balancing apply to customers under the Company's transportation service provisions. The customer is obligated to balance on both a daily and monthly basis. Daily Out-of-Balance charges occur when a customer, served by a pipeline that adopts daily scheduling charges, exceeds the daily scheduled gas volume tolerance allowed. In addition, customers are required to be within a specific tolerance on a monthly basis. Variances between the customer's receipts and deliveries can result in monthly cash-out charges. During the 2003-2004 ACA, many corrections were made to the monthly imbalance transactions that required cash-out adjustments for both Large Volume and Aggregation customers. The corrections apply during the period of November 2003 to November 2004. During the 2003-2004 ACA, gas costs should be reduced by $21,624 for Southern System firm customers and reduced by $9,015 for Northern System firm customers. Because some of the adjustments fall outside of the ACA period, a column for out of period adjustments was created in the table below.

The Company proposed many adjustments to the monthly cash-out imbalance transactions, many due to non-conformance with the tariffs. Those adjustments were discovered by the Company after the 2003-2004 ACA filing was made and are to be included on the Company books in 2005. To clarify those adjustments, Staff summarized the list of adjustments obtained thru phone and e-mail correspondence with the Company. Some of these adjustments are Staff corrections to the Company's proposed adjustments (footnote C, D, H, & I). Staff will review these adjustments in the 2004-05 ACA to insure that they are being properly carried forward by the Company (per list below).

System/Customer	Total Adjustment	2003-2004 ACA Period	Out of 2003-2004 ACA Period
South Aggregation (A)	($2,806)	($2,401)	($405)
South Aggregation (C)	($10,974)	($10,974)	$0
South Aggregation (H)	($3,729)	($3,729)	$0
South Large Volume (A)	($6,561)	($5,545)	($1,016)
South Large Volume (E)	$1,025	$1,025	$0
Total Southern System	($23,045)	**($21,624)**	($1,421)
North Aggregation (A)	($2,554)	($2,082)	($472)
North Aggregation (B)	($1,712)	($1,712)	$0
North Aggregation (D)	$582	$582	$0
North Aggregation (F)	($1,793)	($1,793)	$0
North Aggregation (G)	($98)	($98)	$0
North Aggregation (I)	($352)	($352)	$0
North Large Volume (A)	($4,190)	($3,560)	($630)
Total Northern System	($10,117)	**($9,015)**	($1,102)

A) Discrepancies occurred when applying the "spot" market price to the corresponding imbalance in determining monthly cash-out charges (4-5-05 Company response).
B) Adjustment due to wrong tariff sheet applied to 12/03 cash-out transactions (4-8-05 Company response).
C) Correction of aggregation cash-out charges. Charges s/b netted instead of added and charges were improperly included as Southern System charges. $88.18-$11,061.74 filed = ($10,973.56). (4-29-05 Company response – April 2004).
D) Correction of aggregation cash-out charges. Charges s/b netted instead of added and charges were properly included as Northern System charges. $5,767.91-$5,185.67 = $582.24. (4-29-05 Company response – April 2004).
E) Large volume cash-out activity during April 2004 not included by MPS in its filing (4-29-05 Company response).
F) To apply the proper rate to imbalance volumes for Aggregation customer - $17,926.87-$16,134.25 (6-28-05 Company response, part B-2).
G) Correction to 1/04 Aggregation cash-out calculation (6-28-05 Company response, part B-1).
H) To remove cash-out charge made on behalf of PNG. Not relevant transaction for MPS. (4-29-05 Company response).
I) Company had an error in calculating a prior period cash-out Aggregation adjustment. **$176.21**+$2.86 -$416.21-$152.03-$1,959.46 = ($2,348.62) per Company; **($176.21)** + $2.86 - $416.21-$152.03-$1,959.46 = ($2,701.04) per Staff. ($2,701.04) - ($2,348.62) = ($352.42) Staff Adj. (Dec-03 Northern System tracker).

BID DOCUMENTATION

In support of the documentation of bids received on the Northern System, MPS provided Staff with Term gas bids only (contracts greater than one month). Staff believes that documentation should also include monthly and daily bid activity that includes all terms and conditions of the request. Staff recommends that the Commission order Aquila to provide such additional documentation. Staff understands that the Company has verbally agreed to this proposal.

POOL GAS DOCUMENTATION

In support of the pool gas purchases on the Southern System, Staff believes that all gas packages designated for both MPS <u>and</u> KPS should be identified and the amounts allocated to each should be clearly noted on the monthly pool gas summary sheets. Gas is "pooled" for purposes of creating similar supply packages to assist in allocating the gas to various jurisdictions. In addition, all MPS designated gas packages should be clearly identified on the monthly pool gas summary sheets. Pool gas includes Baseload, Term, and Swing pool purchases.

HEDGING

MPS delivered total supplies (storage withdrawals plus flowing supplies of gas) of about 3.88 billion cubic feet to customers in heating season (November through March) 2003/2004. Weather was mild during the heating season. The company is composed of three different systems, each having distinctive gas supply portfolios.

The Company hedged more than 78% of the actual deliveries to customers by a combination of storage withdrawals, term fixed price, and term option contracts for the Southern system. Both the Northern and L & P systems depended heavily on storage utilization in their hedging strategies. The Northern system hedged about 77% of the actual deliveries by using storage withdrawals, while about 69% of the L & P system's delivered gas came from storage withdrawals.

The Company seems to have a reasonably specific hedging strategy in place at its corporate level and it also appears that the Company monitors market movements fairly closely by reading industry reports and publications. The Company's overall hedging strategy was appropriate for the 2003/2004 ACA, although longer term horizons should be considered given the increased impact of summer volatility. Staff recommends that the Company continue to keep abreast of the market developments to help its gas procurement decision-making and broaden its hedging evaluation practice to examine hedging opportunities several years in the future.

RELIABILITY ANALYSIS

The Company is responsible for operating its system in a safe and adequate manner. This objective requires the Company to conduct long-range supply planning in a reasonable manner and make prudent decisions using the information generated from this planning activity. A component of the ACA audit process is to examine the reliability of the LDC's gas supply, transportation, and storage capabilities. For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak-day requirements, the capacity levels needed to meet those requirements, peak-day reserve margin and the underlying rationale for the resultant reserve margin, and natural gas supply plans for various weather conditions.

Staff's review of the status of reliability for the Aquila-MPS Southern system and Northern system and the Aquila L&P system produced the following comments and concerns.

1. Southern and Northern System Supply Plans – Follow-up to Prior Staff Recommendations

   a. In the 2001/2002 ACA recommendation, GR-2002-392, Staff recommended that the Company submit a more complete supply plan that considers usage for warmest weather and coldest weather, instead of just planning for normal weather. In its response to the Staff Recommendation, the Company agreed to provide, effective with the winter plan year 2004/2005, a more detailed plan identifying customer usage requirements and the supply plans for warmer than normal, normal, and colder than normal weather and an explanation of how cost is considered in this analysis. In March 2004 and in May 2005, the Company provided a Missouri Gas Supply presentation that included a review of the prior winter hedging activities, gas supply/demand fundamentals, gas pricing fundamentals, peak day comparison, load duration curve, and supply portfolio. According to Aquila, the load duration curves were developed for normal weather and approximately 25% warmer and colder than normal weather. Thus, the Company addressed Staff's recommendation.

   b. In the 2002/2003 ACA recommendation, GR-2003-0311, Staff commented on the Company's storage plans that only included plans for normal weather and winters that are 10% warmer or colder than normal, even though a review of winter heating degree days shows that 35% of winters were outside the limits considered by the Company. In its response to the Staff Recommendation, the Company revealed amended storage guidelines beginning with the winter of 2005/2006. The Company will need to continue to monitor whether the revised storage guidelines, along with its other supply plans, adequately address requirements for varying winter weather.

2. Southern System Reserve Margin

   In the 2002/2003 ACA review, GR-2003-0311, Staff commented that the Southern System had a large reserve margin, and stated that the Company's decisions for capacity would be reviewed in more detail in the 2003/2004 ACA, when one of the capacity contracts expires. One of the Company's reasons for excess capacity in 2002/2003 was pipeline line segment constraints in this service area. Staff asked that the Company to provide with the 2003/2004 ACA reliability review more support for its concern about pipeline

line segment constraints related to this service area.

The Company provided no additional information about pipeline line segment constraints related to this service area. The Company has reduced its growth projections for the Southern system. The Company decided not to extend one of the transportation contracts for the 2005/2006 ACA period because of a lack of growth.

** Highly Confidential

	______	______	______	______	______	______	______	______

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The Company's review shows a ** ______________ ** reserve margin beginning with the 2005/2006 ACA period. (Data Request No. 5) This ** ____________________ ** does not consider that there may be variation in the estimated usage for any given temperature, meaning that even though the temperature may be zero degrees on two different days, the usage will not be identical on both of these days. This can occur because of cloud cover, greater winds on one day versus another, or general variation in customer usage such as a greater heatload because children are running in and out of the house more on a particular day, whether businesses are closed for the weekend or operating extended hours, etc. The above table shows that for a peak historic cold day occurring in 2003/2004, a regression analysis could be used to estimate usage at ** ______ ** MMBtu, but it could be as high as ** ______ **; the usage could also be as low as ** ______ ** MMBtu (this value is not shown in the table above). The above table shows the reserve margin using the regression results and also shows the reserve margin given a higher estimated usage for variability - shown using the standard-error of the y-estimate and using a 95% confidence interval. This review reveals reserve margin estimates of ** __________________________ ** beginning in 2005/2006.

Capacity release for the MPS- Southern system for the school aggregation program is 1,096 (Dth/day) and these are transportation customers. Capacity release is done on a recallable basis. This must be part of the Company's consideration when it determines adequate volumes for a potential peak cold day.

There may be other reasons that the Company is not concerned about this estimated ** ____
____
____
__________________ **. Regardless, the reserve margin is not an issue in the 2003/2004 ACA.

The Company is responsible for appropriately planning for its customers requirements. Because of competition with propane, some smaller LDC's are concerned about any positive reserve margin. Staff encourages the Company to continue to evaluate appropriate reserve margins for its service areas for current and future peak day estimates based on factors unique to its service area, including growth, availability of capacity, and cost of that capacity to customers.

3. Aquila L&P– Follow-up to Prior Staff Recommendations

a. In prior ACA reviews the Staff recommended that the Company review its estimates for peak day and how growth is considered in the estimates. The Company revised its growth estimates for its 2003/2004 analysis and thus has addressed Staff's comments.

b. In the 2001/2002 ACA recommendation, Case No. GR-2002-0468, Staff recommended that the Company submit a more complete storage plan that considers usage for colder than normal weather, instead of just planning for normal weather. Staff recommended that the Company identify minimum storage inventories that must be in place at the end of each winter month to assure sufficient storage volumes are available in later winter months. Staff had further concerns in the 2002/2003 ACA recommendation, Case No. GR-2003-0369. In its response to the 2002/2003 Staff ACA Recommendation, the Company agreed to amend the storage guidelines for the winter of 2005/2006, and thus, will be monitored in the 2004/2005 and 2005/2006 ACA.

4. Aquila L&P Peak Day Estimate

The Company models estimated usage by evaluating one winter's usage. The estimate of peak day for 2003/2004 is 90 to 96% of the estimate in the prior year. Rather than just looking at one year's data, the Company could consider a review of data for two years and may also want to plot the data to determine whether certain data anomalies or data trends should be considered in the determining what data to include in a regression analysis for peak day. However, for the Aquila L&P system, capacity is not an issue, and thus Staff is not pursuing this issue at this time.

5. Aquila L&P Reserve Margin

The reserve margins are extremely large for this system. However, because of the nature of the capacity contracts, customers do not pay material costs for these large reserve margins, and thus excess capacity is not an issue.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2004-0539 for Aquila-MPS/L&P:

1. Adjustments from the 2002-2003 ACA totaling ($17,927) on the Southern System were not included by the Company in the current ACA. The Commission's order adopting these adjustments was made only after the 2003-2004 ACA was filed on November 5, 2004. The same applies to the L&P System with adjustments totaling ($3,994). In addition, transition costs of $3,782 were not carried forward by the Company on the L&P System for the same reason as that mentioned above.

2. Staff believes that the L & P transition cost balance should be $3,617 at August 31, 2004. This includes a $2,431 under-recovery balance as ordered by the Commission in Case No. GR-2003-0369, in addition to an under-recovery balance of $1,186 that occurred during this ACA period.

3. Upon review of the Company's storage activity for the 2003-2004 ACA, Staff proposes to reduce the cost of gas on the Southern System by $11,145. On the L&P System, Staff proposes to reduce the cost of gas by $23,839 to summarize the net effect of all storage injection and withdrawal activity.

4. Corrections were made to monthly imbalance transactions that required cash-out adjustments for both Large Volume and Aggregation customers. Staff proposes to reduce gas costs by $21,624 on the Southern System and by $9,015 on the Northern System.

5. Staff believes that bids received on the Northern System should include monthly and daily bid activity in addition to the term gas bid detail currently provided.

6. In support of all Southern System pool gas purchases, Staff believes that all MPS and KPS gas packages should be clearly identified on the Company's pool gas summary sheets.

7. Details of Company’s hedging activity are described in the “Hedging” section of this recommendation. Staff believes that the Company should continue to pursue other hedging

tools available to it and consider longer term horizons. Overall, the Company's hedging strategy appears to be appropriate for the 2003/2004 ACA period.

8. There is no adjustment related to the Aquila – MPS or Aquila L&P reliability analyses. Comments related to the reliability analysis are documented in the Reliability Analysis section of this recommendation. Staff recommends that the Company respond to item number two in the reliability section of this memorandum.

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Aquila-MPS/L&P to:

1. Adjust the balances in its 2003/2004 ACA filing to reflect the ending (over)/under recovery balances for the ACA, TOP, TC, and Refund accounts per the following table:

Description **(+) Under-recovery** **(-) Over-recovery**	**8-31-04 Ending Balances Per Filing**	**Staff Adjustments**	**Staff Recommended 8-31-04 End. Balances**
Southern System: Firm ACA	$1,041,960	($32,769) (A) ($17,927) (B)	$991,264
Interruptible ACA	($9,563)	$0	($9,563)
Take-or-Pay (TOP)	$0	$0	$0
Transition Cost (TC)	$0	$0	$0
Refund	($121,530)	$0	($121,530)
Northern System: Firm ACA	$478,200	($9,015) (C)	$469,185
Interruptible ACA	$104,100	$0	$104,100
Take-or-Pay (TOP)	$0	$0	$0
Transition Cost (TC)	$0	$0	$0
Refund	($28,586)	$0	($28,586)
L & P System: Firm ACA	$363,882	($23,839) (D) ($3,994) (B)	$336,049
Interruptible ACA	$0	$0	$0
Take-or-Pay (TOP)	$0	$0	$0
Transition Cost (TC)	$1,024 (E)	($1,189) (F) $3,782 (B)	$3,617 (G)
Refund	$0	$0	$0

A) ($11,145) Storage + ($21,624) Cash-out.
B) 8-31-03 beginning balance adjusted to prior year ending balances (See ACA/TC balance section).
C) Cash-out adjustment.
D) Storage.

E) 8-31-04 TC balance per Enclosure 5 (DR 26).
F) 2003-2004 TC activity.
G) $2,431 per order + [($34,398) + $35,584] 2003-04 TC activity.

2. Respond to the comments/concerns in item number 2 of the reliability section of this memorandum by January 16, 2006.

3. Respond to recommendations included herein within 30 days.

STATE OF MISSOURI

PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 17th day of February, 2005.

In the Matter of Aquila Inc. d/b/a Aquila Networks–MPS's Purchased Gas Factors to be Reviewed in its 2002-2003 Actual Cost Adjustment	)))	**Case No. GR-2003-0311**

ORDER ADOPTING STAFF RECOMMENDATION AND REQUIRING ADJUSTMENT OF ACA BALANCE

This case was opened to receive the 2002-2003 Actual Cost Adjustment (ACA) filing of Aquila, Inc. d/b/a Aquila Networks–MPS. On December 22, 2004, the Staff of the Public Service Commission filed a recommendation and memorandum indicating that Staff had reviewed the ACA filing, including an analysis of the billed revenues and actual gas costs used in the company's computation of its ACA rates. Staff also reviewed Aquila's gas purchasing practices to determine the prudence of the company's purchasing decisions. In addition, Staff conducted a reliability analysis and a hedging review.

Staff recommended that the Commission issue an order requiring Aquila to:

1. Adjust the ACA balance in its 2002/2003 ACA filing to reflect the ending (over)/under recovery balances for the ACA, TOP, TC, DCCB, and Refund accounts.

2. Submit information by March 9, 2005, to address Staff's comments and concerns listed in the Reliability section of Staff's recommendation.

3. Respond to Staff's recommendation within 30 days.

On December 23, the Commission issued an order directing Aquila to respond to Staff's recommendation by January 24. Aquila filed its response on January 24, indicating that it accepted most of Staff's recommendations. Aquila also responded to Staff's comments and concerns about its reliability analysis. However, Aquila disagreed with one aspect of Staff's proposed imbalance adjustment. Furthermore, Aquila proposed procedures for the written documentation of gas purchase transactions of less than 31 days that differed somewhat from the procedures suggested by Staff. Because Aquila had not unequivocally accepted Staff's recommendation, the Commission ordered Staff to respond by February 10.

Staff responded on February 10 by filing a revised recommendation. Staff accepted the suggestions made by Aquila in its January 24 response and modified its recommendation accordingly. Staff also indicated that Aquila had satisfied Staff's concerns about the company's reliability analysis. On February 14, Aquila filed a notice indicating that it fully accepts Staff's revised recommendation and asking that the Commission issue an order consistent with that revised recommendation.

After reviewing Staff's recommendation and Aquila's response, the Commission concludes that Staff's recommendation should be implemented.

IT IS THEREFORE ORDERED:

1. That Aquila, Inc. d/b/a Aquila Networks–MPS shall adjust the ACA balance in its 2002-2003 ACA filing to reflect the revised ending (over)/under recovery balances for the ACA, TOP, TC, DCCB, and Refund accounts per the following table:

Description (+) Under-recovery (-) Over-recovery	Company Ending Balances per Filing	Staff Adjustments	Ending Balances
Southern System: Firm ACA	$816,139	($463,862)	$352,277
Interruptible ACA	($9,563)	$0	($9,563)
Take-or-Pay	$0	$0	$0
Transition Cost	$0	$0	$0
Refund	($60,556)	$0	($60,556)
Northern System: Firm ACA	$582,888	($5,364)	$577,524
Interruptible ACA	$104,100	$0	$104,100
Take-or-Pay	$0	$0	$0
Transition Cost	$0	$0	$0
Refund	($21,168)	$0	($21,168)
Eastern System: Firm ACA	$348,353	($118,530)	$229,823

2. That this order shall become effective on February 27, 2005.

3. That this case may be closed on February 28, 2005.

BY THE COMMISSION

Dale Hardy Roberts
Secretary/Chief Regulatory Law
Judge

(S E A L)

Davis, Ch., Gaw, Clayton and Appling, CC., concur
Murray, C., absent

Woodruff, Senior Regulatory Law Judge

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 22nd day of March, 2005.

In the Matter of Aquila Networks, L&P's Purchased Gas Adjustment (PGA) Factors to be Audited in Its 2002-2003 Actual Cost Adjustment.	)	**Case No. GR-2003-0369**

ORDER ESTABLISHING ACA BALANCE AND CLOSING CASE

This case was opened for the purpose of receiving the 2002-2003 Purchased Gas Adjustment filings and Actual Cost Adjustment filing of Aquila Networks, L&P. Aquila Networks, L&P, was formerly known as St. Joseph Light & Power Company. On April 10, 2003, the Commission on Staff's recommendation issued its Order Approving Interim Rates, subject to refund. The Commission again approved interim rates, subject to refund, on November 13, 2003, in accordance with Staff's recommendation. In that Order, the Commission ordered its Staff to file its recommendation regarding Aquila Networks, L&P's 2002-2003 ACA balance no later than December 31, 2004.

On December 28, 2004, the Procurement Analysis Department of the Staff of the Missouri Public Service Commission filed its Memorandum and Recommendation, stating that Staff had audited Aquila Networks, L&P's Actual Cost Adjustment (ACA) filing and its billed revenues and actual gas costs over the period September 1, 2002, through August 31, 2003, and setting out certain specific recommendations for inclusion in the Commission's order. Staff stated that it reviewed Aquila's gas purchasing practices for prudence and conducted a reliability analysis and hedging review. Staff recommended that the Commission issue an order requiring Aquila to (1) submit information addressing Staff's reliability concerns; (2) conduct an analysis of its hedging risk for each winter month under both normal and cold weather conditions, including a review of the volumes hedged and the associated cost; (3) respond in writing to Staff's recommendations; and (4) establish the ACA account balances and Transition Cost balances in its next ACA filing to reflect the following ending balances to be collected from (or refunded to) the ratepayers:

ACA Description	Balance Due From (or To) Customers per Company Filing	Staff Adjustments	Balance Due From (or To) Customers per Staff
ACA Balance, 8-31-02	$(140,812)	$ 0	$(140,812)
Prior Year Adjustments	$24,552	$(24,552)	$ 0
Purchased Gas Cost	$4,936,978	$ 0	$4,936,978
Storage Cost	$(637,075)	$18,921	$(618,154)
Recovery from Customers	$(3,551,802)	$ 0	$(3,551,802)
Miscellaneous Adjustments	$(63)	$ 0	$(63)
Net ACA Balance Before DCCB	$631,778	$(5,631)	$626,147
DCCB Interest for 9/02 to 8/03	$4,283	$ 0	$4,283
ACA Balance, 8-31-03	$636,061	$(5,631)	$630,430

Transition Cost Description	Balance Due From (or To) Customers per Company Filing	Staff Adjustments	Balance Due From (or To) Customers per Staff
Transition Cost Balance, 8-31-02	$7,932	$3,782	$11,714
Recovery from Customers	$(40,941)	$ 0	$(40,941)
Cost Invoiced by Pipeline	$31,658	$ 0	$31,658
Transition Cost Balance, 8-31-03	$(1,351)	$3,782	$2,431

Aquila filed its response to Staff's recommendations on January 31, 2005. Therein, with respect to the ACA Balances, Aquila stated that it did not agree with Staff's proposed Prior Year Adjustment of $(24,552). Aquila stated that the correct adjustment is $(22,915). Aquila stated that it did agree with Staff's proposed adjustment of $18,921 to Storage Costs. With respect to the Transition Cost Balances, Aquila stated that it agreed with Staff's proposed adjustment of $3,782. Aquila stated that it agreed with Staff's recommendations as to hedging and reliability.

Staff filed its Reply on February 7. Therein, Staff stated that it concurred with Aquila that the correct amount of the Prior Year Adjustment is $(22,915). Staff presented the following revised balances for Commission approval:

ACA Description	Balance Due From (or To) Customers per Company Filing	Staff Adjustments	Balance Due From (or To) Customers per Staff
ACA Balance, 8-31-02	$(140,812)	$ 0	$(140,812)
Prior Year Adjustments	$24,552	$(22,915)	$ 1,637
Purchased Gas Cost	$4,936,978	$ 0	$4,936,978
Storage Cost	$(637,075)	$18,921	$(618,154)
Recovery from Customers	$(3,551,802)	$ 0	$(3,551,802)
Miscellaneous Adjustments	$(63)	$ 0	$(63)
Net ACA Balance Before DCCB	$631,778	$(3,994)	$627,784
DCCB Interest for 9/02 to 8/03	$4,283	$ 0	$4,283
ACA Balance, 8-31-03	$636,061	$(3,994)	$632,067

Transition Cost Description	Balance Due From (or To) Customers per Company Filing	Staff Adjustments	Balance Due From (or To) Customers per Staff
Transition Cost Balance, 8-31-02	$7,932	$3,782	$11,714
Recovery from Customers	$(40,941)	$ 0	$(40,941)
Cost Invoiced by Pipeline	$31,658	$ 0	$31,658
Transition Cost Balance, 8-31-03	$(1,351)	$3,782	$2,431

Staff expressed no objection to the comments Aquila included in its Response respecting Staff's other recommendations.

On February 8, the parties filed a Notice of Agreement. Therein, Aquila indicated that it agreed with Staff's revised balances.

The Commission has reviewed the Memorandum and Recommendation filed by Staff, Aquila's Response, Staff's Reply and revised balances, and Aquila's Notice of

Agreement. The Commission determines that the revised ending balances shown in the are reasonable and should be approved. The Commission also determines that Staff's additional recommendations, to which Aquila raised no objections, should be ordered. The Commission further determines that this case should be closed.

IT IS THEREFORE ORDERED:

1. That Aquila Networks, L&P, shall establish the Actual Cost Adjustment account balances and Transition Cost balances in its next Actual Cost Adjustment filing as discussed herein, adopting the adjustments and ending (over)/under-recovery balances as shown in the revised table of adjustments filed by the Staff of the Missouri Public Service Commission on February 7, 2005.

2. That Aquila Networks, L&P, shall, by April 30, 2005, do the following:

   a. submit information to address Staff's comments and concerns as listed in the Reliability Analysis section of its Memorandum;
   b. conduct an analysis of the Company's hedging risk for each winter month under both normal and cold weather conditions, including a review of the volumes hedged and the associated cost.

3. That this order shall become effective on April 1, 2005.

4. That this case may be closed on April 2, 2004.

BY THE COMMISSION

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Davis, Chm., Murray, Gaw, Clayton,
and Appling, CC., concur.

Thompson, Deputy Chief Regulatory Law Judge