MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2002-0468, Aquila Networks – Light and Power

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Utility Services Division / Date	General Counsel's Office / Date

SUBJECT: Staff Recommendation for the Aquila Networks – Light and Power 2001-2002 Actual Cost Adjustment Filing

DATE: August 5, 2003

The Procurement Analysis Department (Staff) has reviewed the 2001-2002 Actual Cost Adjustment (ACA) filing of Aquila Networks – Light and Power (ANLP or Company). This filing was made on October 31, 2002, then was withdrawn to correct calculation errors and was replaced by a substitute filing on November 4, 2002 for rates to become effective November 15, 2002. It was docketed as Case No. GR-2002-0468. The filing includes the Company's calculations of the ACA, Refund and Transition Cost recovery balances. The Refund account was inactive with beginning and ending balances of zero.

ANLP was formerly the St. Joseph Light and Power Company before being merged with and into UtiliCorp (now Aquila, Inc.) effective December 31, 2000. ANLP provided natural gas to approximately 6,400 sales customers in 15 communities in the northwest portion of the state in the counties of Atchison, Nodaway and Holt. The ACA ending balance in the Company's 2001-2002 ACA filing is $48,851 over-recovery plus $5,804 Deferred Carrying Cost interest for a total of $54,655 over-recovery.

Staff's review consisted of an analysis of the billed revenues and actual gas costs for the period of September 1, 2001 to August 31, 2002, included in the Company's computation of the ACA rate. A comparison of billed revenue recovery with actual gas costs will result in an over-recovery or under-recovery of the ACA, Refund and Transition Cost balances. Staff also reviewed ANLP's gas purchasing practices to determine the prudence of the Company's purchasing decisions.

In addition, Staff conducted a reliability analysis for ANLP including review of estimated peak day requirements and the capacity levels to meet the requirements, peak day reserve margin and the rationale for this reserve margin, comparison of actual to estimated demand, seasonal and annual estimated demand and supply plans.

ACA BEGINNING BALANCE AUGUST 31, 2001

In its Order Establishing ACA Balance effective August 16, 2002, the Missouri Public Service Commission established the ACA balance as of August 31, 2001, to be $471,493.45. However, the Company's support for the 2001-2002 ACA filing showed the beginning balance at the end of August 2001 to be $464,631.12. The reason is that, in the Staff review of the 2000-2001 ACA balance, the Staff computed $6,862.33 interest on the Deferred Carrying Cost Balance and included that amount in the ending balance that the Commission established. However, the amount was never entered on the Company's PGA/ACA account. Therefore, Staff proposes an adjustment to increase the August 31, 2001, under-recovered ACA balance by $6,862.33.

COMPANY'S RECONCILING ADJUSTMENTS TO REVENUES AND COST OF GAS

On October 31, 2002, the Company reported that the ending ACA balance at August 31, 2002, was $48,851.21, per Enclosures 7 and 8 that accompanied the PGA/ACA filing. On March 14, 2003, in response to the Staff's Data Request No. 2, the Company provided a reconciliation between the Company's financial records and the ACA filing. That reconciliation showed the ending ACA balance at August 31, 2002, to be $121,316.45. The difference is $72,465.24.

The Company included the following comments with the reconciliation: "Upon researching the ACA filing in response to this data request it was found that the Net ACA Balance (8/31/02) of ($48,851.21), which can be found on enclosures 7 and 8 of case GR-2002-468 winter filing was inaccurate. Formula errors were discovered and have been corrected. The correction to the general ledger will occur in February's books."

The Company's changes to the reported ACA balance included:

Revenues: Increase for April 2002	$ (177,730.23)
Expenses: Elimination of multipliers that had reduced gas costs on the October 31 filing to a percentage of the actual incurred cost	$ 105,264.99
Net change in 8/31/02 reported ACA balance	$ (72,465.24)

The Staff's testing has confirmed that the Company's March 14, 2003, reconciliation was correct. Therefore, Staff proposes an adjustment to increase PGA/ACA Revenues by $177,730 and increase gas costs by $105,265.

IMBALANCES AND STORAGE COSTS

For both imbalances and storage costs the Staff noted discrepancies between the Company's PGA/ACA filing and the supporting documents. The Company investigated, then recalculated the imbalances. The Staff recalculated storage costs and verified the revised imbalances. Accordingly, the Staff proposes to decrease gas costs by $22,914.91 to correct the calculation of the monthly imbalances, and by $1,637.25 to correct the calculation of the monthly storage injection and withdrawal amounts. Together the proposed adjustments have an effect of decreasing gas costs by a total of $24,552.16.

DEFERRED CARRYING COST BALANCE

The Deferred Carrying Cost Balance (DCCB) is the cumulative under or over-recovery of gas costs at the end of each month for each annual ACA period. Each month, carrying costs at a simple interest rate equal to the prime rate minus 1% is credited to customers for any over-recovery of gas costs, or credited to the Company for any under-recovery of gas costs when the DCCB exceeds an amount equal to 10% of the Company's average annual level of gas costs for the three most recent ACA periods. Any DCCB amount existing at the end of the Company's ACA period, including interest, is included in the determination of the new ACA factor to be effective in the scheduled winter PGA filing.

In its 2001-2002 PGA/ACA filing the Company's DCCB calculation showed a cumulative over-recovery of $259,935.68 and related interest of $5,804.02 credited to customers. However, the Staff's changes to imbalances and storage affected the amounts of the DCCB over-recovery and interest. Accordingly, the Staff recalculated the Company's DCCB and determined that the interest credited to customers should be changed to $1,806.13. The Staff proposes a $3,998 decrease in the amount of DCCB interest to be credited to customers.

TRANSITION COSTS BILLED

The tariff revision effective November 19, 2001, changed the Transition Costs Factor from $0.19 per hundred cubic feet (CCF) to $0.27 per CCF. Because the change was in the middle of a month, the Company's filing should have pro-rated the transition costs for November based on the number of days at the old rate and at the new rate. Therefore, 18/30 (60%) of the November CCF usage should have had transition costs computed at the old rate $0.19 per CCF, and 12/30 (40%) should have been computed at the new rate $0.27 per CCF.

In computing the transition cost billings for the filing, the Company neglected to use the 60% and 40% fractions to pro-rate the CCF usage. Instead it computed transition costs on 100% of the CCF usage at the old $0.19 rate, and additionally 100% of the CCF usage at the new rate of $0.27. This caused a $1,570.96 overstatement of the billed transition costs for November 2001.

Accordingly, the Staff proposes a $1,570.96 adjustment to reduce the reported amount of billed transition costs.

HEDGING

ANLP hedged approximately 60% of normal requirements through the use of storage withdrawals. However, the actual deliveries to customers were 58% hedged by the use of storage withdrawals. The considerably mild winter weather may have contributed to the less utilization, albeit not substantial, of the storage withdrawals. For this ACA period, the Company appeared to have a reasonably specific hedging strategy in place at its corporate level and it also appeared that the Company monitored the market movement fairly closely by reading industry reports and publications. The overall hedging strategy using storage utilization for ANLP was appropriate for the 2001-2002 ACA period.

RELIABILITY STUDY

Staff has the following comments and concerns regarding the Company's reliability analysis and reserve margin:

1. In the 1999/2000 ACA review, Case No. GR-2000-574, Staff requested more complete documentation to support the Company's growth estimates and this issue has not been sufficiently addressed by the Company. The Company uses these growth estimates in the reliability reviews to estimate future usage requirements. Staff recommends that the Company provide estimates of growth for the ACA periods of 2002/2003, 2003/2004 and 2004/2005 and provide a detailed explanation for these estimates. If the forecasting model is re-evaluated based on these findings, an explanation and the updated model should be provided.

2. There is disagreement in the peak day weather data reported for Kansas City International Airport (KCI). The Company shows the historic peak day as 77 heating degree days (HDD). However, Staff's review shows the historic peak day as 80.5 HDD. Since the Company has excess reserve margin, this is not an issue at this time.

3. The Company does not consistently use the same weather station for its analyses of usage requirements. In the 1999/2000 ACA review the Company used the Sedalia HDD in the regression analysis and some of the HDD data was missing. Staff asked that the Company obtain updated HDD data and consider correlation when deciding on the choice of weather stations in the future. In the planning for this ACA period, the Company states that it uses KCI HDD data. The Company states that regression analysis of data using KCI data has a better correlation coefficient, and KCI has been the historical weather station used for ANLP. Although the Company states that it uses KCI HDD data, some of the Company analyses use the Sedalia HDD (Company daily averages and

monthly normals estimates). It is recommended that the Company review its procedures for use of HDD in its usage estimates.

4. There is excess capacity for this service area and the reserve margin for ANLP is large. However, because ANLP pays only for the capacity that is utilized, the large reserve margin is not a concern at this time. The transportation and storage contracts expire in October 2003. The Company planning must be considered many months prior to this expiration. Staff recommends that the Company estimate the peak day reserve margin for the 2002/2003 ACA period and for two years beyond that, explain any planned changes in contract volumes, submit details of the Company's evaluation for its plans to extend/modify/replace the transportation and storage contracts and explain the rationale for the reserve margin for each of these years.

5. Staff has concerns regarding the Company's stated plans for gas supply. Staff requests additional information regarding the Company's gas supply plans (flowing gas and storage withdrawals).

   a. The Company plans to use 100% of the natural gas in storage to meet normal weather usage requirements. However, storage was only filled to 85.9% at the end of October 2001, and the Company shows no injections for the month of November 2001. This was not an issue for this ACA period because the weather was mild. However, it could be an issue in other ACA periods. If there is a change in Company policy for storage inventory at the beginning of November, then Staff requests a description of the policy change.

   b. For colder than normal weather, the Company states that it would use more storage withdrawals. The Company states that if storage withdrawals exceeded guidelines in one month, then it would reduce the planned withdrawals for the next month by that excess amount, unless there are mitigating circumstances such as pipeline constraints, supply constraints, force majeure or higher gas prices than storage gas costs. The Company's comments, as regards to not reducing planned withdrawals when storage withdrawal guidelines have been exceeded because flowing gas prices are higher than storage gas costs, are not always appropriate. During a cold winter, prices may very well be rising and the Company could be exposing customers to excessive prices in later winter months because of this policy. Logically, there is some minimum level of storage that must be in place at the end of November, and another minimum level that must be in place at the end of December and another minimum level that must be in place at the end of January to assure that sufficient storage is available in the subsequent winter months. The Company's storage plans for colder than normal weather need to be more detailed. It is recommended that the Company identify the 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.

6. So that the reasonableness of the peak day estimate can continue to be monitored, it is recommended that the Company continue to provide comparisons of actual usage to that estimated by the modeled usage for each service area, especially as occurrences with higher HDD are experienced.

SUMMARY OF BALANCES

ACA Description	ACA Balance Per Filing	Company Adjustment 3/14/03	ACA Balance Per Company	Staff Adjustments	ACA Balance Per Staff
ACA Balance 8/31/01	$464,631		$464,631		$464,631
DCCB Interest for 9/00 – 8/01				$6,862	$6,862
Adjusted ACA Balance 8/31/01	$464,631		$464,631	$6,862	$471,493
Cost of Gas	$2,984,600	$105,265	$3,089,865	$(24,552)	$3,065,313
Revenues	$(3,498,082)	$(177,730)	$(3,675,812)		$(3,675,812)
Balance Before DCCB	$(48,851)	$(72,465)	$(121,316)	$(17,690)	$(139,006)
DCCB Interest for 9/01 – 8/02	$(5,804)		$(5,804)	$3,998	$(1,806)
ACA Balance 8/31/02	$(54,655)	$(72,465)	$(127,120)	$(13,692)	$(140,812)

Transition Cost Description	Transition Cost Balance Per Filing	Staff Adjustments	Transition Cost Balance Per Staff
Transition Cost Balance 8/31/01	$8,780		$8,780
Billed Transition Costs 9/01 – 8/02	$(26,827)	$1,571	$(25,256)
Vouchers 9/01 – 8/02	$28,191		$28,191
Transition Cost Balance 8/31/02	$10,144	$1,571	$11,715

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Aquila Networks – Light and Power to:

1. Increase the August 31, 2001, under-recovered ACA balance by $6,862 to reflect the interest accrued on the Deferred Carrying Cost Balance during the 2000-2001 ACA period.

2. Increase Revenues by $177,730 and increase gas costs by $105,265 to reflect the Company's corrections to their filing per their reconciliation of those accounts.

3. Reduce the reported Cost of Gas by $24,552 to reflect corrections in the calculation of the monthly imbalances and the storage injection and withdrawal amounts.

4. Reduce the amount of DCCB interest due to customers by $3,998 to bring the net interest to $1,806 at August 31, 2002.

5. Reduce the reported amount of billed transition costs by $1,571 to adjust for double-claimed costs in months when the PGA/ACA rates changed.

6. Submit information by November 1, 2003, to address Staff's comments and concerns listed in the reliability summary section of this document, in order to assure sufficient capacity, but not excess capacity, is available to meet firm customer peak day capacity and natural gas supply requirements.

7. File a written response to the above recommendations within 30 days.