

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

| | | |
|--|---|-----------------------|
| In the Matter of Aquila, Inc. d/b/a Aquila |) | |
| Networks-MPS's Purchased Gas |) | |
| Adjustment Factors to be Reviewed in its |) | Case No. GR-2004-0539 |
| 2003-2004 Actual Cost Adjustment |) | |

STAFF RECOMMENDATION

COMES NOW the Staff (Staff) of the Missouri Public Service Commission (Commission) in the above-captioned matter and for its recommendation states as follows:

1. On November 21, 2005, Staff filed its 2003/2004 ACA Recommendation.
2. On December 22, 2005, Aquila filed its response to Staff's Recommendation.

Aquila filed an amended response to Staff's Recommendation on December 28, 2005.

3. Staff's updated Staff Recommendation is attached hereto as Appendix A. Staff believes that this resolves all issues in the case.

WHEREFORE, Staff recommends that the Commission issue its order in this case consistent with Staff's recommendations and order Aquila to respond by January 23, 2005.

Respectfully submitted,

/s/ Robert V. Franson

Robert V. Franson

Senior Counsel

Missouri Bar No. 34643

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Missouri Public Service Commission

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 13th day of January, 2006.

/s/ Robert V. Franson

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF AQUILA NETWORKS-)
MPS'S PURCHASED GAS ADJUSTMENT) Case No. GR-2004-0539
FACTORS TO BE REVIEWED IN ITS 2003-2004)
ACTUAL COST ADJUSTMENT)

AFFIDAVIT OF PHIL LOCK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phil Lock, of lawful age, on his oath states: that he has participated in the preparation of the following Staff Memorandum and Summary of Issues; that the information is given by him; that he has knowledge of the matters set forth; and that such matters are true and correct to the best of his knowledge and belief.



Phil Lock

Subscribed and sworn to before me this 12th day of January 2006.





Notary Public

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

**MEMORANDUM
SUMMARY OF ISSUES**

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

| | |
|-----------------------------------|-------------------------------------|
| <u>/s/ Dave Sommerer 01/13/06</u> | <u>/s/Robert V. Franson 1/13/06</u> |
| Project Coordinator / Date | General Counsel's Office / Date |

SUBJECT: Aquila-MPS/L&P – Staff's Summary of Issues in Case No. GR-2004-0539

DATE: January 13, 2006

Staff filed its 2003/2004 ACA recommendation on November 21, 2005. On December 22, 2005 the Company filed its response to Staff's Recommendation. On December 28, 2005 the Company filed an amended response to Staff's Recommendation to address a concern regarding L & P storage calculations. This **updated** Staff Recommendation includes Staff's reply to the issues identified in Company's (initial and amended) responses.

ACA & TRANSITION COST BALANCE

Company and Staff are in agreement with the adjustments associated with the Transition Cost (TC) balances and ACA balances to be carried forward from Case Nos. GR-2003-0311 and GR-2003-0369.

L & P TRANSITION COST (TC) BALANCE

Company and Staff agree to carry forward an under-recovery TC balance of \$3,617 at August 31, 2004, that includes adjustments from Case No. GR-2003-0369.

STORAGE

On the Southern System, the Company believes that a gas cost reduction of \$11,150 should be made. Staff's recommendation included a gas cost reduction of \$11,145. As a result of some formula changes, a minor difference of \$5 resulted. Staff agrees with Company's gas cost reduction of \$11,150. After the revision, Staff believes the cumulative storage balance should be \$3,651,454 as of August 2004.

On the L & P System, the Company believes that a gas cost reduction of \$32,602 (\$3,521 + \$29,081) should be made. Staff recommended a gas cost reduction of \$23,839 (\$29,584 - \$5,745). The difference is largely attributed to an in-field transfer (30,000/MMBtu) that occurred between Michigan Gas Utilities (a Division of Aquila) and L & P. Upon further review, Staff had pulled the correct storage balances from the ANR storage statement for the months of March 2004 and April 2004 but these statements had included the in-field transfer. The transfer was necessary for Aquila to meet ANR's storage inventory requirements in March 2004 and to avoid additional storage costs for not meeting those requirements. Although this transaction resulted in a different storage WACOG (weighted average cost of gas), no additional storage costs resulted from this transfer. In addition, the storage MMBtu balance for the 12 months ended August 2004 did not change (March 2004 and April 2004 activity offset). Staff, therefore, believes that it is not necessary to include the in-field transfer in the storage inventory calculation and agrees to revise its adjustment which increases the gas cost reduction from \$23,839 to \$32,602. Staff also believes the cumulative storage balance should be \$1,653,797 as of August 2004.

CASH-OUTS

The Company agrees with adjustments A, B, E, F, G and H. The Company indicated that adjustments have been made for adjustments A, B, F and G in the 2004/2005 ACA period. These adjustments will, therefore, be reviewed by Staff in the context of the 2004/2005 ACA review.

After further discussions with the Company, and after further documentation was received from the Company, Staff agrees to withdraw adjustments C, D, and I included in its ACA Recommendation filed on November 21, 2005. The following is an updated table of cash-out adjustments reflecting what Staff believes are the remaining agreed upon adjustments:

| System/Customer | Total Adjustment | 2003-2004 ACA Period | Out of 2003-2004 ACA Period |
|------------------------------|-------------------------|-----------------------------|------------------------------------|
| South Aggregation (A) | (\$2,806) | (\$2,401) | (\$405) |
| 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 | (\$12,071) | (\$10,650) | (\$1,421) |
| North Aggregation (A) | (\$2,554) | (\$2,082) | (\$472) |
| North Aggregation (B) | (\$1,712) | (\$1,712) | \$0 |
| North Aggregation (F) | (\$1,793) | (\$1,793) | \$0 |
| North Aggregation (G) | (\$98) | (\$98) | \$0 |
| North Large Volume (A) | (\$4,190) | (\$3,560) | (\$630) |

| | | | |
|------------------------------|------------|------------------|-----------|
| Total Northern System | (\$10,347) | (\$9,245) | (\$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).
- 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).

BID DOCUMENTATION

Effective April 1, 2005 the Company indicated that it began documenting monthly and daily bid activity as requested by the Staff that includes the days of delivery, supplier, volumes and price. Staff will review these transactions in the context of its 2004-2005 ACA review.

POOL GAS DOCUMENTATION

The Company indicated that effective April 1, 2004 Southern Star Central Gas Pipeline split its transportation and storage contracts that specifically identifies MPS's Southern System and the Kansas gas operations. The Company also indicated that all packages of gas are now placed in gas pool(s) designated specifically for Kansas or MPS's Southern System. Staff will review these transactions in the context of its 2004-2005 ACA review.

HEDGING

The Company agrees with Staff's comments regarding its hedging strategies for the 2003/2004 ACA. The Company also agrees to consider longer term horizons in hedging strategy.

RELIABILITY ANALYSIS

The Company agrees to respond to the comments/concerns in item number 2 of the Reliability section of Staff's memorandum by January 16, 2006.

RECOMMENDATION

The Staff recommends that Aquila-MPS/L&P:

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

Revised Balances

| Description (+) Under-recovery (-) Over-recovery | Company Ending Balances Per Filing | Staff Adjustments | Staff Recommended Ending Balances |
|---|---|----------------------------------|--|
| Southern System: Firm ACA | \$1,041,960 | (\$21,800) (A) (\$17,927) (B) | \$1,002,233 |
| 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 | (\$9,245) (C) | \$468,955 |
| 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 | (\$32,602) (D) (\$3,994) (B) | \$327,286 |
| Interruptible ACA | \$0 | \$0 | \$0 |
| Take-or-Pay (TOP) | \$0 | \$0 | \$0 |
| Transition Cost (TC) | \$1,024 (E) | \$1,186 (F) \$1,407 (B) | \$3,617 (G) |
| Refund | \$0 | \$0 | \$0 |

- A) (\$11,150) Storage + (\$10,650) 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 Staff's recommendation by January 23, 2006.