

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

In the Matter of Aquila Network - MPS and L&P)
Purchased Gas Adjustment (PGA) Filing) Case No. GR-2006-0297

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”) and for its Recommendation in this case states:

1. On January 12, 2006, Aquila, Inc., d/b/a Aquila Networks – MPS and L&P of Kansas City, Missouri, filed a tariff sheet proposed to become effective January 30, 2006. The tariff sheets were filed to reflect an optional change in Aquila’s Purchased Gas Adjustment (PGA) factors to decrease the PGA rates for all of its territories as a result of the change in the cost of natural gas.

2. In 2006, Empire District Gas Company (EDG) purchased Aquila, Inc.’s gas operations. On April 18, 2006, the Commission issued an Order in Case No. GO-2006-0205, with an effective date of May 1, 2006, in which EDG was granted a certificate of convenience and necessity.

3. On June 1, 2006, EDG announced it had completed its purchase of the Missouri natural gas operations of Aquila, Inc.

4. The Procurement Analysis Department (Staff) has reviewed the 2005/2006 Actual Cost Adjustment (ACA) filing of Empire/Aquila, Inc. Empire/Aquila filed their PGA factors in Case No. GR-2006-0297. The 2005/2006 ACA filing was made on November 3, 2004, and was docketed as Case No. GR-2006-0297.

5. Staff’s review consisted of an analysis of the billed revenues and actual gas costs for the period of September 2005 to August 2006. Staff performed an

examination of the Company's gas purchasing practices to evaluate the prudence of the Company's purchasing decisions. Staff's analysis also included a review of estimated peak day requirements and the capacity levels needed to meet those requirements. Staff also conducted a review of the Company's hedging policy for the 2005/2006 ACA.

6. Staff recommends that the Commission issue an order requiring EDG to comply with the following recommendations:

1. Adjust the balances in its 2005/2006 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 | 8-31-06 Ending Balances Per Filing | Commission Approved Adjustments Prior to 2005- 2006 ACA | Staff Adjustments For 2005-2006 ACA | Staff Recommended 8-31-06 Ending Balances |
|---|---|--|--|--|
| South System: Firm ACA | \$2,318,683 | (\$39,727) (A) | (\$203,450) (B) (\$322,656) (C) | \$1,752,850 |
| Interruptible ACA | (\$9,563) | \$0 | \$9,563 (D) | \$0 |
| Take-or-Pay (TOP) | \$0 | \$0 | | \$0 |
| Transition Cost (TC) | \$0 | \$0 | | \$0 |
| Refund | (\$75,518) | \$0 | | (\$75,518) |
| North System: Firm ACA | \$105,488 | (\$9,245) (A) | \$83,970 (B) | \$180,213 |
| Interruptible ACA | \$104,100 | \$0 | (\$104,100) (D) | \$0 |
| Take-or-Pay (TOP) | \$0 | \$0 | | \$0 |
| Transition Cost (TC) | \$0 | \$0 | | \$0 |
| Refund | (\$12,346) | \$0 | | (\$12,346) |
| Northwest System: Firm ACA | (\$115,450) | (\$42,586) (A) | \$119,480 (B) | (\$38,556) |
| Interruptible ACA | \$0 | \$0 | | \$0 |
| Take-or-Pay (TOP) | \$0 | \$0 | | \$0 |

| | | | | |
|-----------------|-----------|-----|--|-----------|
| Transition Cost | (\$2,586) | \$0 | | (\$2,586) |
| (TC) | | | | |
| Refund | \$0 | \$0 | | \$0 |

A) 8-31-05 beginning balance adjusted to prior year ending balances (See order in GR-2005-0271, effective July 6, 2007).

B) Hedging re-allocation from South system to North and Northwest systems.

C) Reliability Analysis and Gas Planning.

D) All Interruptible ACA balances were eliminated at the close of 2006. This is because there were no Interruptible customers on the Northern and Southern system for several years. EDG's North and South system Interruptible ACA balances are reflected on the November 2007 PGA filing as a zero balance. ***

2. Respond to the comments/concerns in the Reliability Analysis and Gas Supply Planning section of this memorandum within 30 days.
3. Respond to recommendations included herein within 30 days.

WHEREFORE Staff recommends the Commission issue its order as discussed above and The Staff recommends that the Commission issue an order requiring EDG to:

1. Adjust the balances in its 2005/2006 ACA filing to reflect the ending (over)/under recovery balances for the ACA, TOP, TC, and Refund accounts per the table above.:
2. Respond to the comments/concerns in the Reliability Analysis and Gas Supply Planning section of this memorandum within 30 days.
3. Respond to recommendations included herein within 30 days.

Respectfully submitted,

/s/ Lera L. Shemwell

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 17th day of December 2007.

/s/ Lera L. Shemwell