

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

In the Matter of)	
Summit Natural Gas of Missouri, Inc.'s)	<u>File No. GR-2014-0096</u>
Purchased Gas Adjustment)	Tracking No. YG-2014-0179

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Recommendation* in this matter hereby respectfully states:

1. On October 15, 2013, Summit Natural Gas of Missouri (“Summit,” or “Company,”) filed tariff sheets reflecting changes in the Company’s PGA rate. This filing represents Summit’s Winter PGA filing as required by its tariff.¹

2. Staff reviewed the filings and confirmed their compliance with Summit’s Commission-approved PGA Clause. On October 30, 2013, the Commission approved the tariffs to take effect subject to refund.

3. Meanwhile, the Commission’s Procurement and Analysis Unit (PAU) Staff commenced its review of the ACA factors included in Summit’s October 15 filings. The Commission’s order required Staff to file any further results or recommendations from the review no later than December 19, 2014. In compliance with that order, the Staff hereby submits the results of its ACA review in this matter.

4. Summit Natural Gas of Missouri began operating in Missouri with the merger of Southern Missouri Natural Gas (SMNG) and Missouri Gas Utility (MGU), approved by the Commission in September 2011. Summit operates pursuant to two tariffs—one for the former SMNG service area, and one for the former MGU service

¹ PSC MO No. 1, Sheets 44 through 52.

area. This case pertains to the area formerly served by MGU. Case No. GR-2014-0097 refers to the area formerly served by SMNG.

Background on the PGA/ACA process in Missouri

5. Historically, the Missouri Public Service Commission has approved PGA clauses as the most efficient mechanism for LDCs to manage fluctuations in their cost of gas that result from changes in rates that LDCs are charged by their wholesale suppliers.² The PGA mechanism is not expressly authorized by a specific statute; rather, the Commission's approval of PGA mechanisms is grounded in the Commission's broad regulatory authority over gas corporations, including its duty to set just and reasonable rates.³ Each natural gas LDC in Missouri has its own PGA clause, which is approved during a general rate case and codified in the utility's tariffs.

6. Generally, a PGA clause has two parts: 1) a purchased-gas adjustment (PGA) factor, which is defined to include a company's best estimate of its expected gas costs for the upcoming period; and 2) an actual cost adjustment (ACA) factor, which is designed to recover (or credit) any of a company's under- (or over-) recovery of gas costs. The ACA factor is based on the Company's analysis of the difference between the estimated charges collected through the PGA and the actual cost of gas during the period the PGA is in effect.

7. Staff analyzes the company's actual gas costs for prudence, the same standard governing any item of utility operating expense.⁴ The utility may not recover any imprudently-incurred gas costs.⁵

² *State ex rel. Midwest Gas Users' Association*, 976 S.W.2d 470, 474-75 (Mo.App.W.D. 1998).

³ *Office of Public Counsel v. Missouri Public Service Commission*, 409 S.W.3d 371, fn 3.

⁴ 976 S.W.2d at 473.

⁵ *Id.*

Staff's Review in GR-2014-0096

8. This case relates to the Summit service area formerly served by Missouri Gas Utility (MGU). This includes separate PGA and ACA amounts for two different regions, a Northern service area and a Southern service area. The ACA factor in this filing is based on the actual cost of gas during the 2012-2013 annual period.

9. As described in Staff's *Memorandum*, attached here as Appendix A and incorporated by reference, Staff analyzed Summit's ACA filing by comparing billed revenue to actual gas costs. Staff also analyzed the reliability of this system by reviewing peak-day requirements and the capacity needed to meet those requirements, and Staff reviewed Summit's supply plans for various weather conditions. Staff evaluated the prudence of Summit's gas purchasing decisions for this ACA period, as well as the reasonableness of Summit's hedging practices. Charts on page 2 of Staff's *Memorandum* summarize Staff's recommended adjustments for the Northern and Southern service areas in GR-2014-0096.

Northern service area

10. For its Northern service area, Summit's filing shows an under-recovery of \$3,204. However, Staff's review recommends adjustments that would result in the ACA account reflecting Summit's over-collection of \$5,129. This reflects a total adjustment of \$8,333. That total adjustment includes one adjustment for \$3,215 related to Summit's use of its storage capacity, and another adjustment for \$5,118 related to Summit's under-collection of revenue from one of its transportation customers. The bases for these adjustments are fully explained in Staff's *Memorandum*.

Southern service area

11. In Summit's Southern service area, the Company's filing includes an ACA balance showing an under-recovery of \$19,644. Staff determined that this amount reflected a misstatement of certain gas supply and transportation costs, so Staff made corrections to increase the under-recovered ACA balance by \$2,952 to \$22,596.

WHEREFORE, Staff hereby submits its recommendations in this matter and recommends the Commission issue an order requiring Summit to:

1) Adjust the balances in its next ACA filing to reflect the Staff recommended ending (over)/under recovery ACA balances per the tables on page 17 of Staff's *Memorandum*;

2) Respond to Staff's recommendations in the *Memorandum's* Section II—Billed Revenues and Actual Gas Costs;

3) Respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section of the *Memorandum* (Section III) related to reserve margins for Summit's Northern and Southern service areas' natural gas supply planning and decisions, including storage;

4) Respond to Staff's recommendations in the *Memorandum's* Section IV—Hedging; and

5) Respond to Staff's *Memorandum* within 60 days.

Respectfully Submitted,

/s/ John D. Borgmeyer

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 10th day of October, 2014.

/s/ John D. Borgmeyer