

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

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

STAFF MEMORANDUM IN SUPPORT OF
UNANIMOUS STIPULATION AND AGREEMENT

Comes now the Staff of the Commission and for its Memorandum in Support of Unanimous Stipulation and Agreement in this case states:

1. On January 12, 2006, Aquila, Inc., d/b/a Aquila Networks – MPS and L&P (Aquila), filed tariff sheets 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. On January 13, 2006, Staff filed its Recommendation that the proposed rates be permitted to go into effect on an interim, subject to refund, basis. The Commission approved the rate change on January 13.

3. On April 13, in this same PGA period, Aquila filed tariff sheets to change its Purchased Gas adjustment factor and Staff recommended approval on an interim subject to refund basis in its April 13 Staff Recommendation. The Commission approved the rate change, subject to refund, on April 14.

4. In 2006, Empire District Gas (EDG) purchased Aquila's gas operations in Case No. GO-2005-0205, *In the matter of the Joint Application of Aquila, Inc. d/b/a Aquila Networks - MPS and Aquila Networks - L&P ("Aquila"), The Empire District Gas*

Company ("EDG") and The Empire District Electric Company ("EDE") for an order authorizing the sale, transfer and assignment of certain assets and liabilities from Aquila to EDG and in connection therewith, certain other related transactions.

5. On November 3, 2006, EDG filed tariff sheets to change the PGA factor, which Staff recommended on November 7, 2006, should be approved by the Commission on an interim subject to refund basis. The Commission approved the November 3 tariff filing on November 9, 2006.

6. 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 the Commission approved the sale, transfer, and assignment of the assets and liabilities involved in Aquila's gas distribution operations in Missouri to EDG and granted EDG a certificate of convenience and necessity.

7. On June 1, 2006, EDG announced it had completed its purchase of Aquila's Missouri natural gas operations.

8. On November 3, 2006, EDG filed tariff sheets to reflect a change in PGA (Purchased Gas Adjustment) rates and the filing was docketed as Case No. GR-2006-0297.

9. On January 31, 2007, Aquila filed an Application to Intervene in this case noting: "Aquila continues to have financial interests in and information related to this case, and, therefore desires to continue to participate in this case." The Commission granted Aquila's request to intervene on February 13, 2007.

10. The Procurement Analysis Department (Staff) reviewed the 2005/2006 Actual Cost Adjustment (ACA) and filed its recommendation on December 17, 2007.

The Recommendation included a Memorandum, which set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 2005 through August 2006, as well as the results of Staff's examination of gas purchasing practices.

11. Aquila and EDG each filed their response to Staff's Recommendation on January 18, 2008.

12. On January 31, 2008, the Commission scheduled a prehearing conference at which the parties met and reached resolution of the issues in this case. Below are Staff's comments in support of the provisions of the February 26 Unanimous Stipulation and Agreement (Stipulation) appear in italics and are followed by Staff's remarks.

1. *EDG shall adjust its balances for "Commission Approved Adjustments prior to 2005-2006 ACA" to \$371 for Southern System, \$0 for Northern System, and (\$5,990) for the Northwest System, as per the Attached Table.*

Staff comments: EDG accepted Staff's recommended balances.

2. *For the Southern System reliability analysis and gas planning issue related to Aquila's Setup Spreadsheet, EDG shall adjust (credit) its balance by \$189,329.*

Staff comments: Aquila provided updated information regarding its monthly supply planning for normal weather (revised Data Request No. 72) which supports the "math error" primarily impacted the month of November 2005. When considering an adjustment only for the month of November 2005, the original \$322,656 adjustment proposed by Staff due to the error is reduced to \$189,329, which is Staff's recommended adjustment for the month of November 2005. This adjustment, related to the spreadsheet error, is limited to the Southern System.

3. *EDG shall record all storage injection (commodity) costs as a component of its storage inventory balances for all systems.*

Staff comments: EDG agrees with Staff's recommendation concerning recording of commodity costs as a component of storage inventory balances.

4. *EDG shall continue to keep abreast of gas market developments and continue to include a review of hedging opportunities more than one year in the future.*

Staff comments: EDG agrees with Staff's recommendation in this matter to stay informed concerning gas market developments and to consider hedging opportunities more than one year ahead.

5. *EDG shall retain the information it used to develop its gas transportation and gas supply plans for future ACA periods and make this information available to the Staff. To the extent spreadsheets or spreadsheet models are developed by EDG as part of this supply planning process EDG shall make such spreadsheets available to the Staff in a fully executable format.*

Staff comments: Staff accepts the EDG response in the January 18, 2008 docket filing, The Empire District Gas Company's Response to Staff Recommendation, for this matter that EDG will retain the information it uses in making its gas transportation and commodity planning for future ACA periods, and when possible will provide that information to staff in fully executable format.

6. *EDG shall maintain and provide documentation supporting its monthly usage estimates for supply planning, including data, analyses, and findings/conclusions.*

Staff comments: Staff accepts the EDG response in the January 18, 2008 docket filing, The Empire District Gas Company's Response to Staff Recommendation, that EDG will keep and provide Staff the information supporting its monthly use estimates for natural gas supply planning.

7. ***EDG shall document the methodology used to estimate usage in winter months (November through March) and usage in the summer months (April through October) including any changes it makes to its gas purchasing plans and provide this information to Staff.***

Staff comments: Staff accepts the EDG response in the January 18, 2008 docket filing, The Empire District Gas Company's Response to Staff Recommendation, that EDG will provide staff documentation concerning the methods it uses to estimate customer gas usage in the winter months including any changes EDG makes to its plans.

8. ***EDG will provide documentation supporting its growth estimates used in its peak day estimates for the winter season.***

Staff comments: A company's growth estimates are an important component of peak day planning and EDG has responded that it will provide documentation supporting its growth estimates for peak day planning. See EDG response in the January 18, 2008 docket filing, The Empire District Gas Company's Response to Staff Recommendation.

9. ***EDG shall consider for future winter planning the potential for both warmer and colder than normal weather in planning its supply portfolio for the upcoming winter seasons. Information supporting EDG plans shall be retained and available for Staff review.***

Staff comments: In planning gas supplies, a company should plan for both colder than normal weather and warmer than normal weather. EDG has agreed to consider the potential for warmer and colder weather in its planning and to retain the supporting information for Staff's review. See EDG response in the January 18, 2008 docket filing, The Empire District Gas Company's Response to Staff Recommendation, for this matter.

10. **EDG agrees to discuss with Staff the safeguards currently employed by EDG to protect the integrity of the spreadsheets or models it uses as part of its natural gas procurement process.**

Staff comments: To help prevent spreadsheet errors, EDG and Staff will discuss what safeguards are used to protect the integrity of the information EDG uses as part of its planning. See EDG response in the January 18, 2008 docket filing, The Empire District Gas Company's Response to Staff Recommendation, for this matter.

WHEREFORE for all of the reasons noted above, Staff recommends the Commission approve the Stipulation and Agreement, as it was submitted, as being in the public interest.

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, or transmitted by facsimile or electronic mail to all counsel of record this 13th day of March, 2008.

/s/ Lera L. Shemwell