

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

In the Matter of Fidelity Natural Gas, Inc.'s)
Purchased Gas Adjustment (PGA) Factors to) Case No. GR-2004-0466
be Audited in its 2003-2004 Actual Cost)
Adjustment)

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On October 15, 2004, Fidelity Natural Gas, Inc. ("Fidelity") filed with the Commission a tariff sheet with a proposed effective date of November 1, 2004. The tariff sheet reflected scheduled changes in Fidelity's Purchased Gas Adjustment ("PGA") factors, as a result of changes in the estimated cost of natural gas for the 2004-2005 winter season.

2. On October 26, 2004, the Staff filed a memorandum recommending that the Commission approve the tariff sheet on an interim-subject-to-refund basis, and order the Staff to file its recommendation regarding Fidelity's Actual Cost Adjustment ("ACA") account on or before December 31, 2005. On October 28, 2004, the Commission issued an Order approving the interim rates and establishing December 31, 2005 as the deadline for Staff to file its recommendation regarding the Company's 2003-2004 ACA account.

3. Attached as Appendix A is Staff's Memorandum setting forth its recommendations in this case.

WHEREFORE, Staff respectfully requests that the Commission issue its Order in accordance with the Memorandum attached hereto.

Respectfully submitted,

DANA K. JOYCE
General Counsel

/s/ Dennis L. Frey

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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 14th day of April 2005.

/s/ Dennis L. Frey

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2004-0466, Fidelity Natural Gas, Inc.

FROM: David M. Sommerer, Manager - Procurement Analysis Department
Phil S. Lock, Regulatory Auditor - Procurement Analysis Department
Lesa A. Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
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/s/ Dave Sommerer 04/11/05

/s/ Dennis Frey 04/13/05

Project Coordinator / Date

General Counsel's Office / Date

SUBJECT: Staff Recommendation for Fidelity Natural Gas, Inc.'s 2003-2004 Actual Cost Adjustment Filing

DATE: April 11, 2005

The Procurement Analysis Department (Staff) has reviewed Fidelity Natural Gas, Inc.'s (FNG or Company) 2003-2004 Actual Cost Adjustment (ACA) filing. This filing was made on October 15, 2004, for rates to become effective November 1, 2004, and was docketed as Case No. GR-2004-0466. The audit consisted of an analysis of the billed revenues and actual gas costs for the period of September 1, 2003, to August 31, 2004, included in the Company's computation of the ACA rate. FNG provided natural gas to a maximum of 1,303 sales customers in the counties of Franklin and Crawford, which include the City of Sullivan, Oak Grove Village and the unincorporated areas of Crawford County. The ACA ending balance in the Company's 2003-2004 ACA filing is \$107,494 under-recovery.

Because of internal resource limitations, the Staff conducted no reliability review for this ACA period. However, in the 2002-2003 ACA, Case No. GR-2003-0323, Fidelity provided information that adequately addressed the reliability issue for the 2003-2004 ACA. A major reliability concern in the GR-2003-0323 case was the negative reserve margin. Fidelity addressed the negative reserve margin issue beginning with the 2003-2004 ACA by increasing the maximum daily quantity of the transportation capacity. Thus, reserve margin is not an issue in the 2003-2004 ACA. The details of this issue were contained in item number three in the Reliability section of the Staff recommendation in Case No. GR-2003-0323.

ACA APPROACH FOR INTEREST CALCULATION

As a replacement for the Deferred Carrying Cost Balance (DCCB) methodology for calculating interest on over/under-recovery balances, interest is now calculated based on the average of the accumulated beginning and ending monthly over or under-recoveries of all PGA related costs that exceed \$200,000 (per tariff sheet 23, effective September 19, 2003). Carrying costs, at a simple interest rate equal to the prime rate minus 2%, is credited monthly to customers for any over-recovery of gas costs, or credited to the Company for any under-recovery of gas costs when the average ACA balance exceeds \$200,000. The Company inadvertently calculated interest using the previous DCCB methodology that resulted in no interest costs. FNG acknowledges that the new methodology for calculating interest should have been used, and has indicated it will do so in the future.

During the 2003-2004 ACA, FNG had cumulative under-recovered gas costs that exceeded the \$200,000 threshold during the months of December 2003 through February 2004. Staff believes that interest costs of \$218 should be included in the Company's cost of gas.

HEDGING

The Company delivered a total of 174,751 million British thermal units (MMBtu's) of gas to its customers during the winter months of November 2003 – March 2004. ** _____

The Company needs to carefully evaluate the price movements as the gas market continues to develop, as it appears that the Company factors this in when determining the ** _____ ** as well as in executing hedging transactions.

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SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2004-0466 for Fidelity Natural Gas, Inc:

1. Staff proposes to increase the cost of gas by \$218 to reflect interest costs associated with ACA (over)/under-recovery balances.

Description	Ending ACA Balance Per Filing	Staff Adjustments	Ending ACA Balance Per Staff
2002-2003 ACA Balance	\$128,243	\$0	\$128,243
Cost of Gas	\$1,273,744	\$0	\$1,273,744
Cost of Transportation	\$354,347	\$0	\$354,347
Revenues	(\$1,648,840)	\$0	(\$1,648,840)
ACA Approach for Interest Calculation	\$0	\$218	\$218
Total (Over)/Under Recovery	\$107,494	\$218	\$107,712

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Fidelity Natural Gas to:

1. Adjust the firm sales ACA balance by \$218 increasing the filed under-recovery balance of \$107,494 to the Staff adjusted under-recovery balance of \$107,712, to reflect interest costs associated with (over)/under-recovery ACA balances.
2. File a written response to the above recommendations by May 6, 2005.