MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2001-387, Laclede Gas Company

FROM: Dave Sommerer, Manager- Procurement Analysis Department
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/S/Dave Sommerer 6/28/02	/S/ Tim Schwarz 6/28/02
Dave Sommerer,	Tim Schwarz,
Project Coordinator/Date	General Counsel's Office/Date

SUBJECT: Staff's Recommendation in Laclede Gas Company's 2000-2001 Actual Cost Adjustment Filing and Monitoring Report

DATE: June 28, 2002

The Staff has reviewed the 2000-2001 Actual Cost Adjustment (ACA) filing (docketed as Case No. GR-2001-387) for Laclede Gas Company (Laclede or Company). The Staff's review consisted of an analysis of the billed revenues and actual gas costs, for the period of October 1, 2000 to September 30, 2001, included in the Company's computation of the ACA rates.

Staff conducted a reliability analysis for the Laclede distribution system including a review of estimated peak day requirements and the capacity levels needed to meet those requirements.

MONITORING REPORT

Laclede, as part of its 2000-2001 ACA filing, provided the Staff with a copy of its monitoring report for its Gas Supply Incentive Plan (GSIP). Based upon a review of the monitoring report, and supporting GSIP documentation, the Staff believes that no GSIP adjustments to the ACA balances are necessary for this ACA period. The GSIP expired on September 30, 2001.

DEFERRED CARRYING COST BALANCE (DCCB)

The Staff has reviewed the operation of Laclede's Deferred Carrying Cost Balance for this period. Laclede's ACA filing included ($964,924.84) for carrying costs to be paid to Laclede by its customers for this period. Laclede provided to Staff a revised carrying costs calculation reflecting ($956,553.94). The difference of $8,370.90 will be corrected in Laclede's 2001-2002 ACA case.

As stated in Staff's recommendation filed in Case No. GR-2000-622 (Laclede's 1999-2000 ACA case), Staff expressed concern with Laclede's application of the tariff regarding the method for calculating the DCCB and would review this issue in more detail in the 2000-2001 ACA case. Staff has made its review and determined that Laclede carries forward to its next ACA period the cumulative DCCB amount from its then current ACA period. Laclede has been consistent in its application of the tariff regarding the DCCB since the inception of the DCCB calculation. However, most other LDCs do not carry the remaining balance forward even though the DCCB tariff language is similar. The DCCB methodology is an issue in Case No. GO-2002-252, the generic PGA proceeding, and will be reviewed in that proceeding.

PRICE STABALIZATION PROGAM (PSP)

The Staff reviewed the operation of the PSP. Based on that review, the Staff noted that approximately $5,000,000 was not distributed back to customers as a reduction to gas costs. According to documents reviewed by Staff, Laclede has proposed to book $4,872,997 as income.
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HC ** Overall, there were no savings to be shared between the Company and the customers based upon that comparison. Therefore, the Staff is proposing to flow back to customers the proceeds that were not distributed from the PSP account from the winter of 2000-2001.

RELIABILITY ANALYSIS

To assure that sufficient capacity, but not excess capacity, is available to meet firm customer peak day capacity and natural gas supply requirements, Staff conducts a reliability analysis. The objective is to assure that a company has adequate capacity to provide natural gas to its firm customers on even the coldest days without maintaining excess capacity because when a company maintains excess capacity it costs consumers money without any related benefit.

Staff has the following concerns regarding the Company's reliability analysis and reserve margin:

1. The Company calculates the $0^?$ sendout and a base sendout using the total estimated customers that includes customer growth. The Company adds an additional slope value to the consolidated $0^?$ sendout for all customer classes, and this slope also seems to be for growth. When asked about this, the Company first stated that this was done to account for the movement of the airport thermometer (moved in May 1996) and later stated that the slope addition has been taken into consideration as long as the reliability reports have been prepared. Staff recommends that this additional growth or adjustment factor not be included in the sendout equation.

2. Staff's analysis shows that the Company reviews residential heating, commercial heating, industrial heating, and residential general for the Laclede Division, Midwest Division, and Missouri Natural Division and for each of these calculates a $0^?$ sendout and a base sendout. The Company's analysis

includes winter normalization factors (NAF) that are based on a ten-year old study of 1990/1991 water-heating requirements for each month of the year. Although Staff does not propose changing the NAF values at this time, Staff recommends that this analysis be updated to determine whether these NAF factors are still appropriate. The rationale for the different winter normalization factors for each district should be shown. Additionally, the Company should check the embedded formulas in the spreadsheets so that for each district the correct NAF factor is used (or backed out).

3. The Company also shows a $0^{?}$ Sendout and Base Sendout for the three divisions for the customer classes of commercial-other, industrial-other, and firm transportation. Sendout is calculated from a review of annual usage using average use/day and an assumed load factor. No adjustment is proposed for the peak day estimate for these customer classes at this time. However, for future ACA reviews Staff recommends that more detail be provided for derivation of the sendout for these customer classes.

4. Since none of these recent cold days are near the peak cold day of 73 heating degree days, it is recommended that the Company continue to submit comparisons of actual usage to estimated usage to determine whether the model for peak day usage is reasonable or should be revised.

5. The Company provides assumed capacity ratings for the propane facilities and states that these numbers have been used for years, but the sources for these capacity ratings are unknown. One of these facilities has had new equipment installed, and Staff would expect that the capacity would increase for this facility.

6. For the Company's analysis of a cold winter, the 1935/1936 weather pattern that includes a late winter cold snap, Laclede's Lange Underground Storage facility (UGS) is only utilized to a maximum of 64.5% of working gas capacity (using the Company number for working gas capacity) or, 77.4% of what the Company has commented as the maximum cumulative winter season withdrawal. Even though the winter of 1935/1936 is not the coldest on record, it is close with 4,814 heating degree days (HDD) compared to 5,017 for the coldest November through March that occurred in 1977/1978. So Staff is concerned that Lange UGS will not be used to full capacity or even to near full capacity even if the St. Louis area were to encounter the coldest winter temperatures.

7. The Company 2000/2001 Reliability Report shows lower pipeline capacity than that shown in 1999/2000, but the contracts are the same.

8. The reserve margin for early to mid-winter is high, but as storage is drawn down, the reserve margin reduces. Staff evaluated a reserve margin that could be considered appropriate for a late winter peak day. In the Company analysis, a late winter peak of –1 degree is shown on February 18^{th}, but

St. Louis weather data shows a colder day for February of -4.75 degrees on February 3, 1996, so Staff proposes adjusting the Company's 1935/1936 analyses for February 18th to show a colder day and thus higher demand for this date. The Company shows a reserve margin of 4.2% to 5.3%. As noted previously Staff does not accept the Company's additional slope in the sendout equation and thus Staff shows the reserve margin as 5.5% to 6.7%. The Company provides no estimate of standard error of the Y-estimate and no other estimate of variability or rationale for a specific reserve margin. Since the demand estimate may change based on other information that is recommended for submittal (update of winter normalization factors, re-evaluation of the additional slope adjustment, and updated information for the estimated sendout for the customer classes of commercial-other, industrial-other, and firm transportation), Staff is not proposing any disallowance of the reserve margin at this time.

SUMMARY

1. The Staff is proposing an adjustment to flow to customers the remaining undistributed funds in the PSP account.

2. To adequately review Laclede's estimated peak day requirements and the rationale for the reserve margins, Staff recommends that additional information be submitted.

RECOMMENDATIONS

The Staff recommends the Commission issue an order requiring Laclede to:

1. Establish the following account balances in its next ACA filing to reflect the (over)/under recovery of ACA and Refund balances to be (refunded)/collected from the ratepayers:

	Co. Filing (over)/under-recovery	Staff Adjustment	ACA Balance (over)/under-recovery	Refund Balance
Firms Sales non-LVTSS	($10,021,938)	($4,844,131)	($14,866,069)	
Firms Sales LVTSS	($920,584)			
Interruptible Sales	($304,181)	($28,866)	($333,047)	
LP Sales	$2,943			
Firm Transportation	($52,232)			
Basic Transportation	0			
Refund Total	$179,000			$179,000

2. Take the following actions by November 1, 2002:

   a. Submit an updated Reliability Report that includes information regarding the 2001/2002 and 2002/2003 ACA periods.

   b. For the updated Reliability Report, eliminate inclusion of the additional slope value in the estimation of $0^{?}$ Sendout.

   c. For the updated Reliability Report, evaluate whether the winter normalization factors from the 1990/1991 study are still appropriate. If the winter normalization factors are revised, provide the analysis supporting the revision. If different winter normalization factors continue to be used for each division, provide supporting detailed documentation for each division.

   d. For the updated Reliability Report, provide supporting documentation for the derivation of the load factors used in the sendout model for each division for the customer classes of commercial-other, industrial-other, and firm transportation. Also for these customer classes and divisions, show the $0^{?}$ Sendout and Base Sendout and the analyses supporting these numbers for 1997/1998, 1998/1999, 1999/2000, and 2000/2001.

   e. Submit a summary of actual usage and actual heating degree days (HDD) for five or more of the coldest days from the 2000/2001 and 2001/2002 winters. Compare the usage on these actual cold days to the usage estimated by the Company's sendout model for those days. Include a calculation of the percent over (under) estimation by the sendout model. Explain and show the calculations of how the actual usage data is adjusted so that it only includes the same customer classes as the Company's sendout model. Provide an explanation when the modeled usage does not reasonably agree with the actual usage encountered. If the sendout model is re-evaluated based on these findings, provide the re-evaluated sendout model.

   f. Provide updated capacity ratings (theoretical capacity and operational capacity) for the Lange and Catalan propane facilities.

   g. Provide updated justification for the capacity held in the Laclede Lange underground storage facility. Include an analysis showing under what circumstances this facility would be nearly fully utilized.

   h. Provide justification for the lower pipeline capacity shown in the Company 2000/2001 Reliability Report. Additionally, if the pipeline capacity is different in the Reliability Report to be submitted that addresses the 2001/2002 and 2002/2003 ACA periods, provide documentation supporting the revised capacity.

i. Submit a reserve margin estimate for the 2001/2002 ACA period and for three years beyond that. Explain the rationale for the reserve margin for each of these years.

j. Provide an estimate of the variability of the sendout model and rationale for a reasonable reserve margin.

3. Respond to this document pursuant to the procedural schedule.