

8-1-00

BEFORE THE MISSOURI PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's)
PGA Tariff to be Reviewed in its 1998-) Case No. GR-99-304
1999 Actual Cost Adjustment)

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its Recommendation in the above-captioned case, respectfully states as follows:

1. On January 15, 2000, Missouri Gas Energy filed its ("MGE") filed its 1998 - 1999 Actual Cost Adjustment ("ACA") with the Commission. Pursuant to Section 393.140.7, RSMo (1994), the Staff conducted an audit of and has reviewed MGE's ACA filing.

2. The Staff proposed significant adjustments in MGE's ACA Recovery Balance in Case No. GR-96-450 and Case No. GR-98-167. These cases are currently pending before the Commission. Staff is proposing adjustments in the present case that are consistent with Case No. GR-96-450 and Case No. GR-98-167.

3. In the attached Memorandum, which is labeled Appendix A, the Staff recommends that the Commission, if it agrees with the Staff's proposed adjustments in Case No. GR-96-450 and Case No. GR-98-167, issue an Order requiring MGE to 1) adjust its ACA recovery balance by \$13,699,225.28, from a \$7,296,499.47 over-recovery to a \$20,995,724.75 over-recovery; 2) establish the Take-or-Pay Account balance, as filed, at zero; 3) establish the Transition Cost Account balance, as filed, at a \$3,509,627.73 under-recovery; 4) establish the Refund Account balance for the Residential Service, Small General Service, Large General

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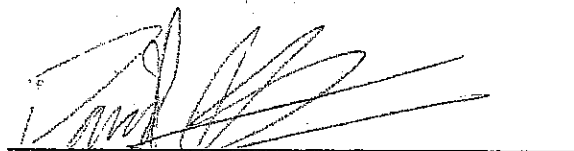
Service, and Unmetered Gaslight Service customer classes, as filed, at \$10,167,501.26; and 5) establish the Refund Account balance for the Large Volume Service customer class, as filed, at \$715,531.70.

4. Staff also recommends that MGE continue to provide an updated annual Reliability Report and that this case remain open pending an Order from the Commission in Case No. GR-96-450 and Case No. GR-98-167.

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

Respectfully submitted,

DANA K. JOYCE
General Counsel

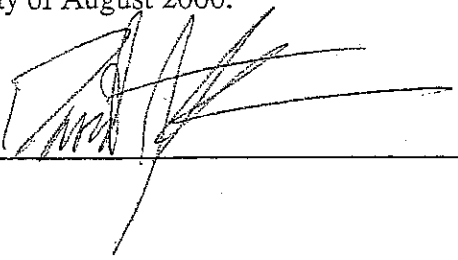


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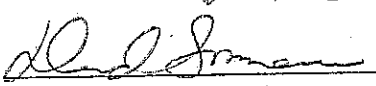
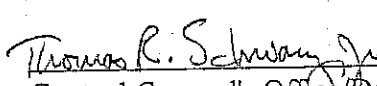
I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 1st day of August 2000.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-99-304, Missouri Gas Energy, a Division of Southern Union
Company

FROM: Dave Sommerer, Manager-Procurement Analysis Department
Mike Wallis, Regulatory Auditor IV-Procurement Analysis Department
Lesa A. Jenkins, P.E., Regulatory Engineer, Procurement Analysis Department

 Project Coordinator/Date
 General Counsel's Office/Date

SUBJECT: Staff's Recommendation in Missouri Gas Energy's 1998-1999 Actual Cost
Adjustment Filing

DATE: August 1, 2000

The Staff has reviewed the 1998-1999 Actual Cost Adjustment (ACA) filing (docketed as Case No. GR-99-304) for Missouri Gas Energy (MGE or Company). The Staff's review consisted of an analysis of the billed revenues and actual gas costs, for the period of July 1998 to June 1999. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA, Refund, Take-or-Pay (TOP), and Transition Cost balances. MGE transports its gas supply over Panhandle Eastern Pipeline (PEPL), Williams Natural Gas (WNG), Mid-Kansas Partnership/Riverside Pipeline Company (MKP/RPC), and KN Interstate Pipeline (KNIP). The Staff has reviewed MGE's KNIP pipeline capacity and has no adjustments at this time.

In addition, Staff conducted a reliability analysis for the MGE distribution system including a review of MGE information regarding a) estimated peak day requirements and the capacity levels to meet those requirements, b) peak day reserve margin and the rationale for this reserve margin, and c) annual estimated demand. No concerns were noted at this time.

MKP/RPC PIPELINE ADJUSTMENT

The Staff, in ACA Case No. GR-96-450 (MGE's 1996-1997 ACA filing), proposed an adjustment to reduce MGE's gas costs by \$4,532,449.60 (Staff will revise its original adjustment,

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APPENDIX A

in its surrebuttal testimony, to \$3,490,082.81). In addition, the Staff, in ACA Case No. GR-98-167 (MGE's 1997-1998 ACA filing) proposed an adjustment to reduce MGE's gas costs by \$4,330,731.88. Staff's adjustments in both cases were proposed because Staff believes that MGE incurred natural gas costs (fixed and variable transportation charges and gas supply costs), with respect to its gas supply and transportation contract with MKP/RPC, that are substantially greater than market. Case No. GR-96-450 and Case No. GR-98-167 are currently pending before the Commission.

The Staff (pending a Commission Order in Case No. GR-96-450 and Case No. GR-98-167) will propose for this ACA case, Case No. GR-99-304 an adjustment to reduce MGE's gas costs by \$5,914,199.59. The Staff believes this adjustment is necessary for the same reasons as the Staff expressed in its direct and rebuttal testimony filed in Case No. GR-96-450 and in its recommendation in Case No. GR-98-167.

If the Commission agrees with the Staff's proposed adjustments in Case No. GR-96-450, Case No. GR-98-167, and in this ACA case, Case No. GR-99-304, the Staff recommends that the Commission order MGE to (1) adjust its ACA recovery balance by \$13,699,225.28 $[(\$3,490,082.81 + \$4,330,731.88 + \$5,914,199.59) - \$35,789]$ from a \$7,296,499.47 over-recovery to a \$20,995,724.75 over-recovery; (2) establish the Take-or-Pay Account balance, as filed, at zero; (3) establish the Transition Cost Account balance, as filed, at a \$3,509,627.73 under-recovery; (4) establish the Refund Account balance for the Residential Service, Small General Service, Large General Service, and Unmetered Gaslight Service customer classes, as filed, at \$10,167,501.26 (amount includes the June 1999 Amoco Tight Sands payment); and (5) establish the Refund Account balance for the Large Volume Service customer class, as filed, at \$715,531.70 (amount includes the June 1999 Amoco Tight Sands payment).

DEFERRED CARRYING COST BALANCE ADJUSTMENT

The Staff, during its audit of MGE's Deferred Carrying Cost Balance (DCCB), discovered that MGE had not used the actual billed sales volumes for the months of December 1998 and January 1999. As a result, Staff proposes an adjustment of \$35,789 to MGE's ACA balance in order to reflect actual billed sales volumes in the DCCB calculation. This adjustment will have the effect of increasing any final Commission approved under-collected ACA balance and/or decreasing any final Commission approved over-collected ACA balance.

SUMMARY

- The Staff (pending a Commission Order in Case No. GR-96-450 and Case No. GR-98-167) will propose for this ACA case, Case No. GR-99-304 an adjustment to reduce MGE's gas costs by \$5,914,199.59. The Staff believes this adjustment is necessary for the

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same reasons as the Staff expressed in its direct and rebuttal testimony filed in Case No. GR-96-450 and in its recommendation in Case No. GR-98-167.

- Staff proposes an adjustment of \$35,789 to MGE's ACA balance. This adjustment will correct the DCCB balance and will have the effect of increasing any final Commission approved under-collected ACA balance and/or decreasing any Commission approved over-collected ACA balance.

RECOMMENDATIONS

- In order to assure that sufficient capacity, but not excess capacity, is available to meet peak day requirements, Staff recommends that the Company continue to provide an updated annual Reliability Report. Details of the Reliability Report requirements are contained in the Amended Stipulation and Agreement, Case Number GO-2000-705, which was filed May 15, 2000.
- The Staff recommends that this ACA case remain open pending an Order from the Commission in Case No. GR-96-450 and Case No. GR-98-167.

Service List for
Case No. GR-99-304
August 1, 2000

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