MEMORANDUM

TO: Missouri Public Service Commission Official Case File
GR-2020-0123, Summit Natural Gas of Missouri, Inc.

FROM: Kwang Y. Choe, PhD, Economics Analyst – Procurement Analysis
Jacob R. Robinett, Associate Engineer – Procurement Analysis
Anne M. Crowe, Senior Utility Regulatory Auditor – Procurement Analysis

/s/ *David M. Sommerer* 12/15/20
Project Coordinator / Date

/s/ *Karen Bretz* 12/15/20
Staff Counsel's Office / Date

/s/ *Keenan B. Patterson*, PE 12/15/20
Senior Professional Engineer / Date

SUBJECT: Staff Recommendation in Case No. GR-2020-0123, Summit Natural Gas of Missouri, Inc. 2018-2019 Actual Cost Adjustment Filing

DATE: December 15, 2020

EXECUTIVE SUMMARY

On October 31, 2019, Summit Natural Gas of Missouri, Inc. (Summit, Company, or SNGMO) filed its Actual Cost Adjustment (ACA) for the 2018-2019 annual period for rates to become effective November 15, 2019. This filing revised the ACA rates based upon the Company's calculations of the ACA balance for the 2018-2019 period.

The Procurement Analysis Department (Staff) of the Missouri Public Service Commission reviewed the Company's ACA filing. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA balance. An over-recovery by the Company is shown as a negative ACA balance that must be returned to customers; an under-recovery is shown as a positive ACA balance that must be collected from customers.

Staff conducted the following analyses:

- A review of billed revenue compared with actual gas costs;
- A reliability analysis including a review of estimated peak-day requirements and the capacity levels needed to meet these requirements and a review of supply plans for various weather conditions;
- A review of the Company's gas purchasing practices to evaluate the prudence of the Company's purchasing decisions for this ACA period; and,

Appendix A

- A hedging review to evaluate the reasonableness of the Company's hedging practices for this ACA period.

Based on its review, Staff recommends the following adjustments to the Company's **former SMNG service area**[1] (Rogersville and Branson Divisions) filed 2018-2019 (over)/under-recovery ACA balances:

SMNG Service Area Description (+) Under-recovery (-) Over-recovery	Ending Balances Per Filing	Staff Adjustments for 2018-2019 ACA	Staff Recommended Ending Balances
Prior ACA Balance 8-31-18	$ 178,827.00	$ (64,437.00)	$ 114,390.00
Cost of Gas/Storage	$ 3,894,360.22	$ 0	$ 3,894,360.22
Cost of Transportation	$ 1,949,027.92	$ 0	$ 1,949,027.92
Revenues - PGA billed	$ (6,406,618.93)	$ 0	$ (6,406,618.93)
ACA Approach for Interest Calculation	$ (177.14)	$ 0	$ (177.14)
Cash Outs	$ (128,422.06)	$ (79,422.00)	$ (207,844.06)
Total ACA Balance 8-31-19	$ (513,002.99)	$ (143,859.00)	$ (656,861.99)

continued on next page

[1] The former SMNG (Southern Missouri Natural Gas) service area is now known as the Rogersville and Branson Divisions.

Based on its review, Staff recommends one adjustment to the Company's **Northern service area** (Gallatin Division) filed 2018-2019 (over)/under-recovery ACA balances:

Northern Service Area Description (+) Under-recovery (-) Over-recovery	Ending Balances Per Filing	Staff Adjustments for 2018-2019 ACA	Staff Recommended Ending Balances
Prior ACA Balance 8-31-18	$ (16,448.62)	$ 9,225.62	$ (7,223.00)
Cost of Gas/Storage	$ 619,225.01	$ 0	$ 619,225.01
Cost of Transportation	$ 278,211.94	$ 0	$ 278,211.94
Revenues - PGA billed	$ (838,584.83)	$ 0	$ (838,584.83)
ACA Approach for Interest Calculation	$ (11.63)	$ 0	$ (11.63)
Cash Outs	$ (69,345.53)	$ 0	$ (69,345.53)
Total ACA Balance 8-31-19	$ (26,953.66)	$ 9,225.62	$ (17,728.04)

Based on its review, Staff recommends the following adjustment to the Company's **Southern service area** (Warsaw and Lake of the Ozarks Divisions) filed 2018-2019 (over)/under-recovery ACA balances:

Southern Service Area Description (+) Under-recovery (-) Over-recovery	Ending Balances Per Filing	Staff Adjustments for 2018-2019 ACA	Staff Recommended Ending Balances
Prior ACA Balance 8-31-18	$ (82,443.07)	$ (17,234.93)	$ (99,678.00)
Cost of Gas/Storage	$ 1,504,236.04	$ 0	$ 1,504,236.04
Cost of Transportation	$720,194.51	$ 0	$720,194.51
Revenues – PGA billed	$ (1,844,200.30)	$ 0	$ (1,844,200.30)
ACA Approach for Interest Calculation	$ 4,905.19	$ 0	$ 4,905.19
Cash Outs	$ (22,722.64)	$ 0	$ (22,722.64)
Total ACA Balance 8-31-19	$ 279,969.73	$ (17,234.93)	$ 262,734.80

Staff recommends the Commission order the Company to respond to Staff's concerns and recommendations within 45 days.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

Staff's discussion of its findings is organized into the following five sections, which include Staff's concerns and recommendations:

I. Overview
II. Billed Revenue and Actual Gas Cost
III. Reliability Analysis and Gas Supply Planning
IV. Hedging
V. Recommendations

I. OVERVIEW

During the 2018-2019 ACA period, Summit provided natural gas service to customers in the south and west-central portion of the state, including the counties of Benton, Camden, Greene, Miller, Morgan and Pettis, also known as the "Southern service area." Summit served an average of 4,623 sales customers in the Southern service area. Southern Star Central Gas Pipeline (SSCGP) serves all customers in Summit's Southern service area. Summit also provides natural gas service to customers in the Northwest Missouri counties of Caldwell, Daviess and Harrison, also known as the "Northern service area." Summit served an average of 1,646 sales customers in the Northern service area. ANR Pipeline Company (ANR) serves all customers in Summit's Northern service area.

During the 2018-2019 ACA, Summit also provided natural gas service to customers in the south and south-central portion of the state including communities in Greene, Webster, Wright, Howell, Texas, Douglas, Laclede, Stone and Taney counties, also known as the "former SMNG service area." Summit served an average of 12,214 sales customers in the combined Branson and Rogersville systems. Southern Star Central Gas Pipeline (SSCGP) serves all customers in Summit's former SMNG service area.

II. BILLED REVENUE AND ACTUAL GAS COST

Beginning ACA Balances

ACA balances are cumulative so that the ending balance of one period becomes the beginning balance of the next period. In this period, the Company's beginning ACA balance for each service area is inaccurate. Therefore Staff recommends the following adjustments: $(64,437) for the former SMNG service area, $9,256 for the Northern service area, and $(17,235) for the Southern service area. These adjustments align the Company's beginning balances with the balances established by the Commission in the prior ACA case, Case No. GR-2019-0125.

Cash Outs

Summit's transportation tariffs contain a Cash Out provision which reconciles a transportation customer's imbalance by requiring Summit to either buy or sell gas to the transportation customer equal to the customer's monthly imbalance[2]. At the end of each month, if the transportation customer used more gas than it put into Summit's system, the transportation customer pays the Company for the additional gas it used. If the transportation customer used less gas than it put into the system, the Company purchases this gas from the transportation customer through a credit on the customer's bill. The cost of the gas purchased or sold to transportation customers through the Cash Out process flows through the PGA/ACA account. In the SMNG service area, Staff found in this period the Company made billing adjustments to the cash out amount on four transportation customer's bills that were not carried through to the ACA filing. Therefore Staff proposes an adjustment to increase the Cash Out credit by $(79,422.00) in the SMNG service area.

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas service to Missouri customers, Summit is responsible for both conducting reasonable long-range supply planning and the decisions resulting from that planning. One purpose of the ACA process is to review Summit's planning for gas supply, transportation, and storage to meet its customers' needs. For this analysis, Staff reviewed Summit's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff's review of Summit's service areas produced the following comments and concerns:

Reserve Margins

The reserve margin for the Branson and Rogersville Divisions in the SNGMO service area are 122% and 16.9% respectively when considering the upper 95% confidence interval. The reserve margin for the North region is negative 9.7%, and the reserve margin for the South region is 81.2%, when considering the upper 95% confidence interval. Staff encourages the Company to continue monitoring its pipeline contracts and maintain an appropriate reserve margin for each service area.

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[2] "Balancing" by a transportation customer or a pool of transportation customers means the amount of gas put into Summit's system (receipts) is equal to the amount used or taken out of Summit's system (deliveries). When a transportation customer puts more or less gas into Summit's system than they use, this is referred to as an "imbalance."

The reserve margin for the North region is a negative 9.7%, when considering the upper 95% confidence interval. From the 2018-2019 Natural Gas Supply plan attached to its response to Data Request No. 0058, Summit indicated that it is aware of the negative reserve margin and is analyzing options to cover the design day. Summit stated that its options include (a) acquiring additional upstream capacity from ANR Pipeline, (b) increasing its storage volumes on ANR, or (c) contracting for a delivered winter service from a gas supplier. Staff recommends the Company continue to analyze the options and update Staff on the solution to the negative reserve margin.

The SMNG service area experienced two curtailments, which were on January 3-4, 2018 and January 16-18, 2018. Staff found that residential customers lost pressure. As a result, Summit installed a larger compressor at the Diggins Compressor station that is located south of Lebanon. A new liquefied natural gas (LNG) facility was installed in the fall of 2018 to help with the Lebanon system's reliability. Staff recommends Summit continue to monitor the LNG facility's impact on peak day reliability.

IV. HEDGING

Summit's winter hedging plans are primarily designed to achieve a reliable natural gas supply and to protect its customers against price spikes. The hedging plan establishes known prices for ** ____ ** of normal winter (November – March) weather requirements for each of Summit's three service areas. Summit's hedging plan for its Northern service area calls for Summit to fill storage as close to its maximum capacity as possible by November 1, which is the beginning of the winter heating season. Additionally, fixed price purchases are a part of the hedging plan for the Northern service area.

For the Company's Southern service area, the hedging plan is to utilize fixed price purchases. The Company does not contract for storage capacity for the Southern service area.

For the former SMNG service area, the hedging plan is also to utilize fixed price purchases for this ACA period. Staff notes that Summit's storage associated with the SMNG service area expired April 2016.

Summit's maximum storage quantity (MSQ) for the Northern service area represents about ** ____ ** of normal winter (November – March) weather requirements. Summit's actual storage injection by November 1, 2018 was about 97% of MSQ. Summit also purchased fixed price volumes in June 2018 for delivery during the periods of November 2018 through March 2019. These fixed price volumes, which represent about ** ____ ** of normal winter weather requirements, combined with actual storage at the beginning of the winter season, represent about ** ____ ** of normal winter weather requirements for the Northern service area.

For the Southern service area, Summit purchased fixed price volumes in June 2018 for delivery in the periods of November 2018 through March 2019. Summit purchased additional fixed price volumes in July 2018 for delivery in the same periods. The fixed price volumes represent about ** ____ ** of normal winter weather requirements for the Southern service area.

For the former SMNG service area, Summit purchased fixed price volumes in June 2018 and also in July and August 2018 for delivery during the winter periods, November 2018 through March 2019. These fixed price volumes represent about ** ____ ** of normal winter weather requirements for the former SMNG service area. In light of the April 2016 expiration of the SMNG area storage contract, the Company should continue to review the effects on hedging from this expiration.

Conclusion

Staff has the following comments about the Company's hedging practices for this ACA's winter period:

1) It is important for the Company to evaluate the expected level of the customers' natural gas requirements that are reasonably protected (hedged) under warmer than normal, normal, and colder than normal weather scenarios.
2) The Company should evaluate its hedging strategy in response to the changing market dynamics as to how much the existing hedging strategy actually benefits its customers while achieving the goal of stable price level.
3) A part of Summit's hedging goals is to capture the lowest price. However, this market-timing approach can lead to a situation where Summit waits too long for natural gas prices to go down until it perceives them to be favorable while running the risk of higher prices.
4) A part of Summit's hedging strategy utilizing storage is based on its plan of filling storage to its MSQ by November 1 and use of the entire MSQ by the end of March. However, the Company typically does not fill storage to MSQ and finishes the last month of the winter heating season (March) with a portion of MSQ left in storage. Therefore, its hedging plan utilizing storage could potentially overestimate an actual hedging outcome.

Hedging Recommendations

Staff recommends, for the 2019-2020 ACA period, and beyond, that the Company:

(a) Establish and maintain a current and consistent hedging policy with stated objectives based on month-specific normal weather requirements while also considering the impacts of warmer and colder than normal weather scenarios.

(b) Consider a combination of various alternatives such as storage withdrawals, call options, and other fixed price purchases for effective hedging during the winter months.

(c) Establish what is a realistic amount of MSQ that the Company plans to inject into storage by November 1 and to withdraw by March 31. Thus, determine a realistic amount of storage that can be utilized toward hedging and calculate the hedging percent utilizing storage and the overall hedging percent accordingly.

(d) Continue to monitor the market movements diligently and with regard to timing of hedge placements employ disciplined (time-driven) as well as discretionary (price-driven) approaches in its hedging practices.

(e) Continue to document its reasoning for executing any hedging transactions or decisions, whether by means of storage, fixed price contracting or other financial hedging instruments.

V. RECOMMENDATIONS

Staff recommends that the Commission issue an order requiring Summit to:

1) Adjust the balances in its next ACA filing to reflect Staff's recommended ending (over)/under recovery ACA balances per the following tables:

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2) Respond to the recommendations and concerns included herein within 45 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc., Changes to Company's Purchase Gas Adjustment "PGA" Clause	)))	Case No. GR-2020-0123

AFFIDAVIT OF KWANG Y. CHOE, PhD,
JACOB R. ROBINETT, ANNE M. CROWE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KWANG Y. CHOE, PhD, JACOB R. ROBINETT and ANNE M. CROWE and on their oath declare that they are of sound mind and lawful age; that they contributed to the foregoing *Staff Recommendation* in Memorandum form; and that the same is true and correct according to their best knowledge and belief.

Further the Affiant sayeth not.

/s/ Kwang Y. Choe
KWANG Y. CHOE, PhD

/s/ Jacob R. Robinett
JACOB R. ROBINETT

/s/ Anne M. Crowe
ANNE M. CROWE