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MEMORANDUMMissouri Public
Service Commission

TO: Missouri Public Service Commission Official Case File,
Case No. GR-98-399, Associated Natural Gas Company

FROM: Mike Wallis *mw OS*
Procurement Analysis Department

R.E. Schellberg 8-6-99 *Thomas R. Schwanz Jr. 8/6/99*
Utility Services Division/Date General Counsel's Office/Date

SUBJECT: Staff's Recommendation in Associated Natural Gas Company's 1997-1998
Actual Cost Adjustment Filing

DATE: August 6, 1999

The Procurement Analysis Department (Staff) has reviewed Associated Natural Gas Company's (ANG or Company) 1997-1998 Actual Cost Adjustment (ACA) filing. This filing is docketed as Case No. GR-98-399.

Associated Natural Gas Company [a division of Arkansas Western Gas Company (AWG)] separates its Missouri gas operations into the following districts: SEMO, Kirksville, and Butler. The SEMO, Kirksville, and Butler districts serve approximately 57,000 customers, 6,000 customers, and 4,000 customers, respectively.

Staff's review consisted of an audit and evaluation of the billed revenues and gas costs for the period of September 1, 1997 to August 31, 1998. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA, Refund, Transition Cost, and Take-or-Pay balances. An examination of Associated Natural Gas Company's gas purchasing practices was also performed to determine the prudence of the Company's purchasing decisions.

STORAGE WITHDRAWAL ADJUSTMENT

On December 1, 1995, ANG changed its ACA recovery methodology with regard to Liquefied Natural Gas (LNG) storage and Natural Gas Pipeline Company (NGPL) non-S2 storage by showing both the injections and withdrawals of gas as separate components in its ACA filing. Prior to December 1, 1995, ANG did not reflect the LNG and NGPL non-S2 storage injections or storage withdrawals as separate components of the ACA filing, but instead ANG accounted for the storage injections and withdrawals as part of the invoiced flowing supplies in the months in which the gas was purchased by ANG.

Staff agrees with ANG's decision to change its ACA recovery methodology with regard to LNG and NGPL non-S2 storage. However, Staff believes that ANG's approach of changing its storage recovery methodology over a one month period (which ignores the fact that the only

storage withdrawals that should be shown in the filing are those associated with gas supplies injected into storage after December 1, 1995) results in ANG receiving a double recovery of the November 31, 1995 storage inventory balance of LNG and NGPL non-S2 gas supply subsequently withdrawn from storage.

Staff refers the Commission to the record established in ACA Case No. GR-96-227 (ANG's 1995-1996 ACA filing) wherein Staff, ANG, and the Office of Public Counsel fully litigated the issue of ANG's receiving a double recovery of all LNG and NGPL non-S2 gas withdrawn from storage during the 1995-1996 ACA period. In its Report and Order in Case No. GR-96-227, the Commission adopted the Staff's proposed storage withdrawal adjustment. ANG subsequently appealed the Commission's decision and ANG's appeal is currently pending in circuit court.

The Staff, in ACA Case No. GR-97-191 (ANG's 1996-1997 ACA filing) proposed a second storage withdrawal adjustment to reduce the SEMO District's Firm customer gas costs by \$343,388 (\$73,441 for LNG storage withdrawals and \$269,947 for NGPL non-S2 storage withdrawals) and to reduce the SEMO District's Interruptible customer gas costs by \$38,774 (\$9,391 for LNG storage withdrawals and \$29,383 for NGPL non-S2 storage withdrawals). Case No. GR-97-191 is currently pending before the Commission.

The Staff (in this ACA case, Case No. GR-98-399) proposes a third and final LNG storage withdrawal adjustment to reduce the SEMO District's Firm customer gas costs by \$25,060.66 and to reduce the SEMO District's Interruptible customer gas costs by \$3,125.52. Staff believes its 1997-1998 ACA period storage withdrawal adjustment is necessary in order to remove, from ANG's 1997-1998 ACA filing, all storage withdrawal costs associated with gas volumes injected into LNG storage prior to December 1, 1995.

As a result, the Staff requests that the Commission approve the (over)/under recovered ACA, Transition Cost, Take-or-Pay (TOP), and Refund balances in the third column of the table shown below [which includes the total of the Staff's proposed storage withdrawal adjustments in ACA Case No. GR-96-227 (\$254,476), ACA Case No. GR-97-191 (\$382,162), and the current ACA case, Case No. GR-98-399 (\$28,186)].

	Balance per ANG Filing	Staff Adjustments	Ending ACA Balances
SEMO District: Firm ACA	\$ 344,865	\$ (603,358)	\$ (258,493)
Interruptible ACA	\$ 235,222	\$ (61,467)	\$ 173,755
Firm Refund	\$ (187,305)	\$ 0	\$ (187,305)
Interruptible Refund	\$ (11,053)	\$ 0	\$ (11,053)
Transition Cost	\$ (20,813)	\$ 0	\$ (20,813)

	Balance per ANG Filing	Staff Adjustments	Ending ACA Balances
Transportation TOP Costs	\$ 353,156	\$ 0	\$ 353,156
Transportation Transition Cost	\$ 214,502	\$ 0	\$ 214,502
Kirksville District: Firm ACA	\$ (105,455)	\$ 0	\$ (105,455)
Interruptible ACA	\$ 25,193	\$ 0	\$ 25,193
Firm Refund	\$ (270,735)	\$ 0	\$ (270,735)
Interruptible Refund	\$ (43,017)	\$ 0	\$ (43,017)
Transportation TOP	\$ 33,564	\$ 0	\$ 33,564
Transportation Transition Cost	\$ 12,912	\$ 0	\$ 12,912
Butler District: Firm ACA	\$ (137,209)	\$ 0	\$ (137,209)
Interruptible ACA	\$ (2,799)	\$ 0	\$ (2,799)
Firm Refund	\$ (21,432)	\$ 0	\$ (21,432)
Interruptible Refund	\$ (635)	\$ 0	\$ (635)
Transition Cost	\$ 5,551	\$ 0	\$ 5,551
Transportation TOP	\$ 294	\$ 0	\$ 294

GATHERING & TRANSMISSION CHARGES

The Commission, in its Report and Order (dated December 13, 1997) for ANG rate case, Case No. GR-97-272, ordered the removal (from ANG's transportation and PGA clause tariffs) of all references to the recovery of gathering and transmission facilities charges. The Commission further indicated that the recovery of gathering and transmission charges (through the ACA/PGA mechanism) should be based on a comparison of market rates.

Subsequent to the Commission's Order (1) ANG appealed the Commission's decision to the circuit court, (2) the circuit court affirmed the Commission's decision, and (3) ANG appealed the Western District Circuit Court's decision to the appellate court, which is currently pending before the Western District Court of Appeals.

The Staff, during its audit of ANG's 1997-1998 ACA filing, discovered that ANG (for the

period of January 1, 1998 to August 31, 1998 and subsequent to the date of the Commission's Report and Order) is seeking ACA/PGA recovery of \$326,777 in cost based, historical AWG gathering and transmission facilities charges. These gathering charges are excessive by market standards.

ANG incurs its marketed based gathering charges as part of the into-the-pipeline delivered indexed commodity price of gas (which ANG's gas supply contracts are tied to) as published, by pipeline, in the various natural gas industry reports. Thus, the historical AWG gathering and transmission facilities charges which ANG has included in its 1997-1998 ACA filing are duplicative of the market based gathering charges which ANG is already paying as part of the into-the-pipeline delivered indexed commodity price of gas. As a result, Staff will propose (pending a final appellate order in review of Case No. GR-97-272) an adjustment to reduce the SEMO District's Firm customer gas costs by \$283,962 and to reduce the SEMO District's Interruptible customer gas costs by \$42,815.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-98-399 for Associated Natural Gas Company:

- The Staff requests that the Commission approve the (over)/under recovered ACA, Transition Cost, Take-or-Pay, and Refund balances in the third column of the table shown above [which includes the total of the Staff's proposed storage withdrawal adjustments in ACA Case No. GR-96-227 (\$254,476), ACA Case No. GR-97-191 (\$382,162), and the current ACA case, Case No. GR-98-399 (\$28,186)].
- Staff will propose (pending a final appellate order in review of Case No. GR-97-272) an adjustment to reduce the SEMO District's Firm customer gas costs by \$283,962 and to reduce the SEMO District's Interruptible customer gas costs by \$42,815.

RECOMMENDATIONS

The Staff recommends that this ACA case remain open, pending (1) an Order from the Commission in Case No. GR-97-191, and (2) final appellate orders in review of Case No. GR-97-272 and Case No. GR-96-227.

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