

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

Exhibit 34  
**Case No(s)** GR-2001-389 et al  
**Date** 11-21-03 **Rptr** xs

In the matter of Atmos Energy )  
Corporation's Purchased Gas Adjustment )  
Factors to be Reviewed in Its )  
2000-2001 Actual Cost Adjustment. )

Case No. GR-2001-396

In the matter of United Cities Gas )  
Company's Purchased Gas Adjustment )  
Tariff Revisions to be Reviewed in Its )  
2000-2001 Actual Cost Adjustment. )

Case No. GR-2001-397

**FILED**

DEC 15 2003

Missouri Public  
Service Commission

**SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT**

**COMES NOW** the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully submits its Suggestions In Support Of Unanimous Stipulation And Agreement.

**BACKGROUND**

1. This case concerns the 2000-2001 ACA filing for Atmos Energy Corporation's "Atmos" division in Case No. GR-2001-396, and the 2000-2001 ACA filing for what was formerly Atmos' United Cities Gas Company division in Case No. GR-2001-397.<sup>1</sup> On November 27, 2002, the Commission consolidated these cases under Case No. GR-2001-396. The Staff, Atmos Energy Corporation ("Company"), and the Office of the Public Counsel ("Public Counsel") are parties to this proceeding. On March 19, 2003, the parties jointly filed a motion to suspend the remainder of the procedural schedule, based on the fact that they had

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<sup>1</sup> Since October 1, 2002, Atmos Energy Corporation has operated all of its various divisions using the name "Atmos Energy." For purposes of the tariff currently in effect in Missouri, the former United Cities Gas Company division, which is the subject of Case No. GR-2001-397, is now referred to as "Area P" (Palmyra area) and "Area U" (remaining areas of United Cities division; i.e., Hannibal/Canton, Bowling Green, and Neelyville). The Atmos division, which is the subject of Case No. GR-2001-396, services the area formerly operated by Associated Natural Gas Company, and is now referred in the Atmos tariff as "Areas B, K, and S" (Butler, Kirksville, and SEMO areas, respectively).

reached an agreement in principle. The Commission granted the motion on March 20, 2003. The parties filed their Unanimous Stipulation And Agreement ("Agreement") on April 4, 2003. Paragraph 9 of the Agreement indicates that the Staff would file suggestions in support of the Agreement by April 18, 2003.

2. The parties were able to reach a resolution of all of the issues that remained contested in both of the consolidated cases; namely:

Case No. GR-2001-396

(a) Staff's proposed adjustment to disallow agency fees in the amount of \$4,886 and \$576 for firm and interruptible customers respectively;

(b) Staff's proposed adjustment to disallow overrun gas costs in the amount of \$5,500 and \$2,697 for firm and interruptible customers respectively;

(c) Staff's proposed adjustment to reduce gas costs by \$20,824, based upon Staff's concern about the Piedmont District's gas supply exceeding peak day requirements for the 2000-2001 ACA period;

(d) Staff's proposed adjustment to reduce gas costs by \$1,119,105, based upon Atmos' purchasing practices related to flowing gas and storage withdrawals during the 2000-2001 ACA period; and

(e) Staff's recommendation that the Company submit to the Staff, by January 1, 2003, a copy of the Company's policies and procedures for those employees responsible for nominating natural gas.

Case No. GR-2001-397

(a) Staff's proposed adjustment to reduce gas costs by \$15,875 in the Neelyville District, and by \$105,326 in the Consolidated District, based upon Staff's

concern regarding Atmos' minimum hedging practices;

(b) Staff's proposed adjustment to reduce gas costs by \$454,763, based upon Atmos' purchasing practices related to flowing gas and storage withdrawals during the 2000-2001 ACA period; and

(c) Staff's recommendation that the Company submit to the Staff, by December 1, 2002, a copy of the Company's policies and procedures for those responsible for nominating natural gas.

### **RESOLUTION OF ISSUES**

3. These contested issues are categorized below as either "Prudence Issues" or "Other Contested Issues," along with a discussion including, where applicable, the associated settlement amounts. The settlement amounts for the contested issues are then aggregated by case number in a third section, entitled "Overall Settlement Amounts for Contested Issues."

#### **A. Prudence Issues:**

##### **Case No. GR-2001-396**

Issue (c): The parties agreed that, pending Commission approval, gas costs on Atmos' Piedmont District will be reduced by \$10,412, based upon Staff's concern about the Piedmont District's gas supply exceeding peak day requirements for the 2000-2001 ACA period. Staff's evidence in this case showed that the Company had more storage deliverability and supply deliverability than needed on even a peak cold day and further, that the supply deliverability had fixed demand charges. Customers were therefore paying for demand that the Company would not expect to use.

Issue (d): The parties agreed that, pending Commission approval, gas costs on Atmos' Southeast Missouri ("SEMO") Integrated District will be reduced by \$190,248,

based upon Staff's concerns about the Company's purchasing practices related to flowing gas and storage withdrawals during the winter of 2000-2001. Staff presented evidence showing that Atmos relied too heavily on flowing supplies rather than planned and available storage withdrawals in January 2001, and that Company decisions exposed customers to the higher flowing gas costs in January 2001.

Case No. GR-2001-397

Issue (a): The parties agreed that, pending Commission approval, gas costs on United Cities' Neelyville District and Consolidated District will be reduced by \$7,938 and \$52,663, respectively, based upon Staff's concerns about minimal level of hedging needed to at least partially protect customers from the potential for rising prices. Staff presented evidence that 30% hedging of normal requirements, as a minimum level of hedging for each month of November 2000 through March 2001, is reasonable.

Issue (b): The parties agreed that, pending Commission approval, gas costs on United Cities Consolidated District will be reduced by \$77,310, based upon Staff's concerns about the Company's purchasing practices related to flowing gas and storage withdrawals during the winter of 2000-2001. Staff presented evidence showing that United Cities relied too heavily on flowing supplies rather than planned and available storage withdrawals in January 2001 and February 2001, and that these decisions exposed customers to the higher flowing gas costs in these months.

4. During the course of discussions in this case, it became clear to Staff that there were valid reasons to support this settlement for the above-noted prudence issues. There was the specter of extended litigation, as well as litigation risk. This was certain to be a highly contentious case, one that very likely would entail a protracted hearing and appeals process. In

particular, in deciding to enter into the Agreement, the Staff was mindful of the inherent complexity of the prudence issues. Specific concerns are discussed below by type of issue:

(1) The existence of more storage deliverability and supply deliverability than needed on even a peak cold day on Atmos' Piedmont District.

This issue is complicated by the Company's argument that it maintained all of its previous year's supply arrangements in order to allow time for the Company to compile a historical load profile from which it could make prudent supply decisions. Although the Staff believes that the Company should have had access to current data to perform this analysis or should have at least reviewed information provided earlier by its predecessor in interest (Associated Natural Gas), Staff nonetheless considers the settlement amount for this issue to be reasonable under the circumstances.

(2) Failure to have an adequate minimal level of hedging needed in order to at least partially protect customers from the potential for rising prices on United Cities' Neelyville District and Consolidated District.

This issue did not result in a recommended prudence disallowance in any ACA cases prior to the 2000-2001 ACA cases. Due to the lack of case history involving the minimal hedging expectation, Staff believes that this issue would be time-consuming and difficult. Staff considers the agreed-to settlement amount to be fair and reasonable, based on the facts and the circumstances that existed for the Company.

(3) Imprudent purchasing practices related to the use of flowing gas and storage withdrawals on Atmos' SEMO Integrated District and United Cities' Consolidated District during the winter of 2000-2001.

This issue is complex because of the variety of weather conditions that must be considered in planning for appropriate levels of flowing supplies and storage withdrawals. The Company must plan for adequately cycling its storage resources, and it must maintain sufficient storage inventory to provide for peaking resources if the

weather turns out to be cold in the later winter months.

5. In view of the foregoing and in consideration of the overall settlement of the case, Staff believes that the agreed-upon adjustments related to the prudence issues are fair and reasonable. For convenience, these adjustments are restated in summary form below:

- (1) excess storage deliverability and supply deliverability (Piedmont District): \$10,412
- (2) failure to hedge to an adequate minimal level: \$7,938 (Neelyville District)  
\$52,663 (Consolidated District)
- (3) imprudent purchasing practices  
(flowing gas/storage withdrawals): \$190,248 (SEMO District)  
\$77,310 (Consolidated District)

**B. Other Contested Issues:**

Case No. GR-2001-396

Issue (a): The Company incurred agency fees for services (*e.g.*, nomination, balancing) provided by Mississippi River Transmission Energy Resources under an agency agreement. The parties agreed that, pending Commission approval, gas costs for firm and interruptible customers on Atmos' SEMO District will be reduced by \$2,443 and \$288 respectively, based on Staff's contention that agency fees are more appropriately recovered in the context of a rate case, rather than in an ACA case.

Issue (b): The Company incurred overrun charges on ANR pipeline for exceeding the Company's contracted peak levels of storage and transportation on ANR. The parties agreed that, pending Commission approval, gas costs for firm and interruptible customers on the Company's Kirksville District will be reduced by \$2,750 and \$1,349 respectively, based on Staff's belief that Atmos customers should not be held responsible for these overrun charges.

Issue (e): The Staff Recommendation, filed in Case No. GR-2001-396 on September 30, 2002, contained a recommendation that the Company submit, by January 1, 2003, a copy of its policies and procedures for those employees responsible for nominating natural gas. The Company has agreed to provide the requested information by July 15, 2003, so that Staff has time to conduct its 2001/2002 ACA review for Case No. GR-2003-0150.

Case No. GR-2001-397

Issue (c): As in Case No. GR-2001-396 (Issue (e), immediately above), the Staff Recommendation filed in Case No. GR-2001-397 on August 29, 2002 contained a recommendation that the Company submit a copy of its policies and procedures for employees responsible for nominating natural gas. (In this instance, the recommended submission deadline was December 1, 2002.) Again, Staff regards the Company's agreement to provide the requested information by July 15, 2003 as sufficiently timely to enable the Staff to complete its 2001/2002 ACA review for Case No. GR-2003-0150.

**C. Overall Settlement Amounts for Contested Issues**

6. Upon Commission approval of the Agreement, as stated in Paragraph 4 thereof, beginning with the Company's scheduled winter filings for 2003, overall gas costs related to Case No. GR-2001-396 and Case No. GR-2001-397 will be reduced by \$207,490<sup>2</sup> and \$137,911<sup>3</sup>, respectively.

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<sup>2</sup> excess storage deliverability and supply deliverability (Piedmont District): \$10,412 plus imprudent purchasing practices related to flowing gas and storage withdrawals (SEMO District): \$190,248 plus agency fees (SEMO District): \$2,731 plus excess ANR pipeline charges (Kirksville District): \$4,099

<sup>3</sup> failure to hedge to an adequate minimal level: \$60,601 (Neelyville and Consolidated Districts) plus imprudent purchasing practices related to flowing gas and storage withdrawals): \$77,310 (Consolidated District)

**WHEREFORE**, the Staff respectfully submits its Suggestions In Support Of Unanimous Stipulation And Agreement, and recommends that the Commission issue an Order approving the Unanimous Stipulation And Agreement, filed in this proceeding on April 4, 2003.

Respectfully submitted,

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/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 e-mailed to all counsel of record this 18th day of April 2003.

/s/ Dennis L. Frey