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November 27, 2001

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Director, Utility Services
DONNA M. KOLILIS
Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GR-2000-425

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
(573) 751-9285 (Fax)

TRS:sw
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

NOV 27 2001

Missouri Public
Service Commission

In the Matter of Missouri Gas Energy's)
Purchased Gas Adjustment Factors to be)
Reviewed in Its 1999-2000 Actual Cost)
Adjustment.)

Case No. GR-2000-425

STAFF RECOMMENDATION

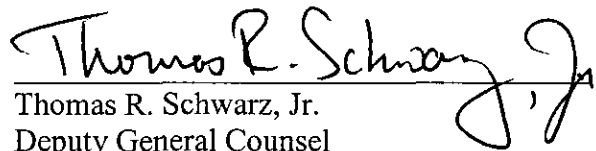
COMES NOW Staff of the Public Service Commission of Missouri, and for its recommendation in this case states:

1. By order dated October 31, 2000, the Commission ordered Staff to file its recommendation in this case not later than December 1, 2001.
2. There are currently pending before the Commission prior ACA/PGA cases of Missouri Gas Energy (MGE) in which the Staff has recommended adjustments: GR-96-450; GR-98-167; and GR-99-304. The parties in the lead case, GR-96-450, are scheduled to file reply briefs on November 30, 2001.
3. In this case the Staff recommends an adjustment of \$5,886, 058.13 to reduce MGE's gas costs attributable to excessive transportation costs. Staff additionally recommends that this case be held open pending resolution of the earlier MGE ACA cases, and that MGE provide additional information regarding reliability of its gas supply and the need for additional capacity. See the Staff Memorandum attached as Attachment A.

4. Staff recommends that the Commission direct MGE to respond to this recommendation within thirty days.

Respectfully submitted,

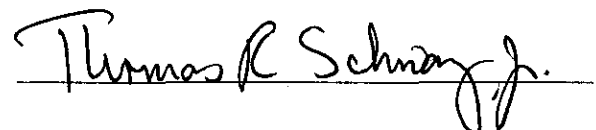
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Certificate of Service

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 27th day of November, 2001.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2000-425, Missouri Gas Energy, a Division of Southern Union
Company

FROM: *DS* Dave Sommerer, Manager- Procurement Analysis Department
Lesa Jenkins, P.E., Regulatory Engineer, Procurement Analysis Department *LJ*

Dave Sommerer / 11-27-01 *Thomas R. Schwaninger Jr.* 11/27/01
Project Coordinator/Date General Counsel's Office/Date

SUBJECT: Staff's Recommendation in Missouri Gas Energy's 1999-2000 Actual Cost
Adjustment Filing

DATE: November 27, 2001

The Staff has reviewed the 1999-2000 Actual Cost Adjustment (ACA) filing (docketed as Case No. GR-2000-425) 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 1999 to June 2000. 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).

In addition, Staff conducted a reliability analysis for MGE including a review of estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, comparison of actual demand to estimated demand, and annual estimated demand.

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 \$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. The Staff also proposed, in ACA Case No. GR-99-304 (MGE's 1998-1999 ACA filing) an adjustment to reduce MGE's gas costs by \$5,914,199.59. Staff's adjustments in all three 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 comparable pipelines. Case No. GR-96-450, Case No. GR-98-167 and Case No. GR-99-304 are currently pending before the Commission.

The Staff (pending a Commission Order in Case No. GR-96-450, Case No. GR-98-167 and Case No. GR-99-304) will propose for this ACA case, Case No. GR-2000-425 an

Attachment A

adjustment to reduce MGE's gas costs by \$5,886,058.13. The Staff believes this adjustment is necessary for the same reasons as the Staff expressed in its direct, rebuttal and surrebuttal testimony filed in Case No. GR-96-450 and in its recommendations in Case No. GR-98-167 and Case No. GR-99-304. This includes the fact that the Commission found in Case no GR-93-140 that the heart of the problem with the 1991 contract was the excessive transportation charges when compared to the WNG alternative. These excessive transportation charges were simply continued in the 1995 contracts, with some mitigation that Staff fully credits in its proposed adjustments for the relevant periods.

If the Commission agrees with the Staff's proposed adjustments in Case No. GR-96-450, Case No. GR-98-167, Case No. GR-99-304 and in this ACA case, Case No. GR-2000-425, the Staff recommends that the Commission order MGE to (1) adjust its ACA recovery balance by \$19,621,072.41 (\$3,490,082.81 + \$4,330,731.88 + \$5,914,199.59 + \$5,886,058.13) from a \$12,258,431.45 under-recovery to a \$7,362,640.96 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 \$2,636,606.09 over-recovery; (4) establish the Refund Account balance for the Residential Service, Small General Service, Large General Service, and Unmetered Gaslight Service customer classes at \$5,405,104.80 and (5) establish the Refund Account balance for the Large Volume Service customer class at \$776,166.90.

RELIABILITY ANALYSIS

The Company submitted a 2000/2001 Reliability Report that shows peak day estimates for the 11 years of 2000/2001 – 2010/2011. The previous Reliability Report was for 1998/1999. The peak firm usage is estimated for the entire Missouri system – no separate analysis is done for the 3 major service areas of Kansas City, Joplin, and St. Joseph.

The Company states that a series of regression analyses are performed on the historic daily firm sales to determine the baseload and weather sensitive heatload factors. However, the information provided to-date does not support that regression analyses are used to develop the baseload and heatload estimates. Staff recommends that the input and output sheets of the regression analyses be submitted to support the Company's method of estimating peak day demand.

The coldest heating degree day (HDD) experienced during this and the previous ACA period was 62 HDD, which is not close to the Company's peak design day of 85 HDD. Staff recommends that comparisons of actual usage to that estimated by the modeled usage continue to be provided, especially as occurrences with higher HDD are experienced so that the reasonableness of the peak day estimate can be better evaluated.

In the 2000/2001 Reliability Report, the Company states that additional capacity is needed prior to 2003/2004, however, Staff's review of peak day estimates and capacity shows that additional capacity is not needed until 2005/2006.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2000-425 for Missouri Gas Energy:

1. The Staff (pending a Commission Order in Case No. GR-96-450, Case No. GR-98-167 and Case No. GR-99-304) will propose for this ACA case, Case No. GR-2000-425 an adjustment to reduce MGE's gas costs by \$5,886,058.13. The Staff believes this adjustment is necessary for the same reasons as the Staff expressed in its direct, rebuttal and surrebuttal testimony filed in Case No. GR-96-450 and in its recommendations in Case No. GR-98-167 and Case No. GR-99-304.
2. To adequately review the MGE estimated peak day requirements and the rationale for the reserve margins, Staff is recommending that additional information be submitted.

RECOMMENDATIONS

1. The Staff recommends that this ACA case remain open pending an Order from the Commission in Case No. GR-96-450, Case No. GR-98-167 and Case No. GR-99-304.
2. To assure sufficient capacity, but not excess capacity, is available to meet firm customer peak day capacity and natural gas supply requirements, Staff recommends that the Commission issue an order requiring MGE to submit the following information by August 1, 2002.
 - a. Submit the regression analyses input and output sheets supporting the Company's baseload and heatload factor for estimating peak day demand.
 - b. Submit a summary of actual usage, actual HDD, and HDD adjusted for wind speed for five, or more, cold days in the winter of 2000/2001 or 2001/2002. Compare the actual usage on these cold days to the usage estimated by the Company's forecasting model for those days. Include a calculation of the percent over (under) estimation by the forecasting model. List firm and interruptible volumes separately or show how the model treats these. Provide an explanation when the modeled usage does not reasonably agree with the actual usage encountered. If the model is re-evaluated based on these findings, please explain.
3. The Staff recommends that the Commission order the Company to respond to recommendations 1-2 herein within 30 days.

Service List for
Case No. GR-2000-425
Revised: November 27, 2001 (SW)

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