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Missouri Public
Service Commission
File,

FROM: Daniel I. Beck, Gas Department - Tariffs / Rate Design

Tariffs / Rate Design *tom*
Thomas R Schwarz Jr. 11/2/98
 General Counsel's Office/Date

DATE: November 3, 1998

The changes incorporated in this filing will decrease the firm PGA factor for the 1998-1999 winter season to \$0.3144 per Ccf from the current firm PGA factor of \$0.3187 per Ccf. This represents an approximate decrease of 1% in gas costs to consumers.

Staff believes that use of Company's estimated sales volumes will result in an under-collection of gas revenues. This under-collection will impact SMGC's customers in 2 ways: (1) next year's ACA factor would be higher to reflect this year's under-recovered gas cost plus the gas costs for the gas delivered that year; and (2) SMGC's customers could

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end up paying interest at prime minus 1% to SMGC pursuant to the PGA Clause on the Deferred Carrying Cost Balance (DCCB) if the under-recovery is greater than 15% of SMGC's annual gas cost. The Company's efforts to keep rates competitive is understandable however forcing an under-collection could ultimately cause customers to pay more for costs when the interest penalty is applied to the under-collected balance. If interest on the DCCB under-recovery were eliminated for a one-year period, Staff could support the factor. Therefore, Staff would recommend that the Commission consider issuing a one-time waiver to SMGC whereby interest on DCCB under-collections would not be charged.

Account Balances and Recovery Periods

The ACA account tracks the over-collection and under-collection of gas costs usually for a one year period. The over- or under-collected balances are subsequently returned or collected during the following year. In Case No. GR-99-178, under which these changes were filed, the Company proposes to recover an under-collected ACA balance for the 1997-1998 ACA period during the next year.

In addition, the Company proposes to collect the audited under-collected balance for the 1996-1997 ACA period (see Staff's report in Case No. GR-97-234) of \$219,357 over the next three years. This three year collection period is not provided for in the Company's tariffs, therefore, the Commission must specifically order a collection period if it is beyond one year. Staff and SMGC have reached an agreement in principle in Case No. GR-97-234 that Staff believes reasonably balances the concerns of the ratepayer and the shareholders. For this reason, Staff recommends a one-time waiver from the Company's tariff provisions is appropriate and is needed respecting the \$219,357 balance from Case No. GR-97-234. Interim subject to refund status should be maintained pending final Commission decisions in Case Nos. GR-97-234 and GR-99-178.

Because of the short time available to review the documentation supporting the ACA factor represented in this filing, the Procurement Analysis Department (PAD) has requested permission to submit its results and recommendations regarding information included in this ACA filing to the Commission on or before August 1, 1999.

On November 3, 1998, SMGC filed a letter which requested a waiver from the DCCB interest provisions for under-collection of gas revenues and a three year recovery period for the unrecovered 1996-1997 ACA balance of \$219,357 instead of the standard one year recovery period.

Staff's Recommendation

The Commission's Gas - Tariffs / Rate Design Staff (Staff) has reviewed this filing and recommends that the Commission: (1) grant a one-time

waiver to allow the tariff to become effective on November 5, 1998 as requested by the Company; (2) grant the request that DCCB interest provisions for under-collection of gas revenues should not be applied for a one year period; and 3) a three year recovery period should be granted for the unrecovered 1996-1997 ACA balance of \$219,357 instead of the standard one year recovery period.

Staff is of the opinion that good cause for approval of this tariff sheet on less than thirty days notice is demonstrated by SMGC's Commission-approved PGA Clause allowing for ten (10) business days notice for PGA change filings. Therefore, Staff recommends that the following tariff sheet with an effective date of November 5, 1998, be approved, interim subject to refund:

P.S.C. MO. No. 1

5th Revised Sheet No. 27 Cancelling 4th Revised Sheet No. 27

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Director - Utility Services Division
General Counsel
Manager - Financial Analysis Department
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Case No. GR-97-234