

FILED

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MEMORANDUM

Missouri Public
Service Commission

TO: Missouri Public Service Commission Official Case File
Case No. GR-99-178, Southern Missouri Gas Company, Inc.

FROM: ^{BL} Phil Lock ^{JS}
Procurement Analysis Department

R.E. Schellberg 7-30-99
Utility Services Division/Date

Thomas R. Schwanz Jr. 7/30/99
General Counsel's Office/Date

SUBJECT: Staff's recommendation in Southern Missouri Gas Company's 1997-98 Actual
Cost Adjustment Filing

DATE: July 30, 1999

The Procurement Analysis Department (Staff) has reviewed the 1997-98 Actual Cost Adjustment (ACA) filing (docketed as Case No. GR-99-178) dated November 1, 1998 for Southern Missouri Gas Company, Inc. (SMG or Company). The audit consisted of an analysis of actual billed revenues and actual gas costs, for the period of September 1997 to August 1998. Effective August 1998, SMG had approximately 5,840 customers on their system.

1996-97 ACA BALANCE

SMG carried forward an under-recovery balance of \$73,119 (\$219,357/3) from the 1996-97 ACA filing, Case No. GR-97-234. This consists of Staff's 1996-97 ACA adjustment of \$219,357, which is to be recovered in the next three ACA periods beginning with the 1997-98 ACA period, pursuant to the Commission's order in Case No. GR-97-234. The Staff believes that an under-recovery balance of \$433,209 (\$360,090 1996-97 ACA ending balance + \$73,119 adjustment) should be carried forward from the 1996-97 ACA period. As a result, the Company has not carried forward the ending balance of \$360,090 from the 1996-97 ACA filing. Staff, therefore, proposes to include the ending balance in the calculation of the 1997-98 ACA balance which increases the under-recovery balance by \$360,090 (increase gas cost).

4

AGENCY PROGRAM

On November 1, 1994 SMG entered into a Gas Management Agreement with its affiliate. Under this agreement, the affiliate provides gas supply procurement and transportation services to SMG. As compensation for services provided, SMG pays a monthly agency fee that is based on volumes delivered to SMG's system. The agency fees were incurred during the months of September and October 1997.

SMG's PGA tariffs do not allow for recovery of fees related to agency agreements. The Staff views agency fees as more closely related to consulting services which are typically reviewed in a general rate case. As a result, Staff proposes an adjustment to reduce the Company's gas costs by \$3,992.

GAS SUPPLY REALIGNMENT COSTS

SMG paid, in three monthly installments, costs associated with Gas Supply Realignment Costs pursuant to Article 14 of the General Terms and Conditions of Williams Natural Gas (WNG) tariff filing in Docket No. RP98-105, dated February 1998. These costs were previously not included in the filing. The Staff proposes to increase the cost of gas by \$19,434 to recognize these costs.

EXCESS CAPACITY

The Staff believes that the Company's contract with WNG overstated its peak day requirements during the 1997-98 ACA period. The overstatement represents the difference between SMG's transportation capacity with WNG and Staff's proposed level of transportation capacity.

The Staff has developed a projected peak day requirement for the ACA period based on actual customer levels which includes the effects of load factor requirements and weather. The actual peak day requirement developed by Staff is 9,633 Dth/day which represents the requirement for 6,328 customers as of March 1998 at the maximum peak heating degree day per customer class.

As a result, the Staff believes that the appropriate level of transportation costs to include in this filing is \$871,148, not the invoiced cost of \$1,069,674 (a difference of \$198,526).

SMG filed transportation costs equivalent to 80% of the maximum peak day quantity that was contracted with Williams Natural Gas. The remaining 20% was capitalized and deferred by SMG.

DEFERRED CARRYING COST BALANCE (DCCB)

Carrying costs are applied to certain deferred gas cost balances (those exceeding 10% of the Company's annual gas cost level) in the Company's ACA through the operation of the DCCB. Staff determined that SMG's deferred gas cost balance exceeded 10% by its under-

collection of gas costs. SMG should therefore collect from its customer's DCCB interest of \$485. Staff therefore believes gas costs should increase by \$485.

ACA BALANCE CALCULATION

Staff reconstructed the As Billed revenue recovery for the 12 month ACA period ended August 1998. According to the Company's PGA tariffs, the cost recovery for a particular month shall be determined by multiplying the volumes billed during the month times that month's Purchased Gas Cost and prior years Actual Cost Adjustment factor. The Staff's revenue recovery for this ACA period is \$2,661,782.

The As Billed cost of gas consists of the invoiced cost from SMG's gas supplier and the invoiced cost of transportation provided by WNG. The actual cost of gas is \$2,127,181 and the actual cost of transportation is \$1,069,674 during this ACA period. Thus, the resulting under-recovery of costs during this ACA period is \$535,073 [$\$2,661,782 - (\$2,127,181 + \$1,069,674)$] before the Staff adjustments for ACA balance, agency fees, excess capacity and the deferred carrying cost balance. The adjusted ACA balance after the Staff adjustments is \$785,683 [$(\$535,073 + \$433,209 + \$19,434 + \$485) - (\$3,992 + \$198,526)$].

REFUND BALANCE

During the 1997-98 ACA period the Company has not included any refunds in its ACA filing. The Staff has researched several Williams Natural Gas Company (WNG) dockets and discovered that SMG has received numerous refunds from WNG totaling \$133,409. Due to the deadline associated with Staff's ACA recommendation (7-30-99), Staff currently cannot make a determination of the extent to which these refunds apply to Missouri customers. Unless the Company provides support that these refunds do not apply to Missouri customers, the Staff proposes that Company include these refunds in its next PGA filing, effective November 1999, in accordance with the Missouri Public Service Commission refund provision of its PGA tariffs. A Refund factor is calculated for all refunds received by SMG. Refunds are not included in the calculation of the ACA factor.

SUMMARY

- Staff proposes to carry-forward an under-recovery balance of \$433,209 ($\$360,090 + \$73,119$) from the 1996-97 ACA filing, not the \$73,119 under-recovery balance filed by SMG. This increases the cost of gas by \$360,090.
- Staff proposes to reduce the firm customers gas costs by \$3,992 because SMG does not have tariff authority to recover agency fees as a gas cost in this ACA filing.
- Staff proposes to increase the cost of gas by \$485 to reflect carrying charges associated with SMG's Deferred Carrying Cost Balance.
- To reflect the proper as billed revenues and as billed cost of gas, the Staff developed a modified revenue recovery and gas cost recovery (including all previous adjustments)

to reflect an adjusted ACA balance of \$785,683. This includes a projected transportation cost of \$871,148.

- Staff proposes that Company include WNG refunds totaling \$133,409 in its next PGA filing, effective November 1999.

Description	Beginning ACA Balance Per Filing	Staff Adjustments	Ending ACA Balance Per Staff
Cost of Gas	\$2,131,975 *	\$11,133	\$2,143,108
1996/97 ACA Balance	\$73,119	\$360,090	\$433,209
Transportation Cost	\$794,002 **	\$77,146	\$871,148
Revenue Recovery	\$2,563,489 *	\$98,293	\$2,661,782
DCCB	\$0	\$485	\$485
Total (Over)/Under Recovery	\$435,607	\$350,561	\$786,168

* Data Request 1A

** This is a derived number. In order to attain the \$435,667 under-recovery included in the Company's filing, Staff combined the following filed gas costs and revenues: \$2,131,975 COG + \$73,119 adjustment from 1996/97 ACA - \$2,563,489 revenue recovery = \$358,395 over-recovery. \$435,667 under-recovery + \$358,395 over-recovery = \$794,002.

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Southern Missouri Gas to :

- 1) Adjust the Firm sales ACA balance by \$350,561 from the filed under-recovery balance of \$435,607 to the Staff adjusted under-recovery balance of \$786,168. The total adjustment should be included as a separate line item adjustment applied to the beginning 1998-99 ACA balance.
- 2) Adjust the refund balance by \$133,409 in the calculation of Company's refund factor. The adjustment should be reflected in the Company's next PGA filing, effective November 1999.
- 3) File a written response to Staff's recommendation within 30 days.

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