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August 1, 2000

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

RE: Case No. GR-99-392

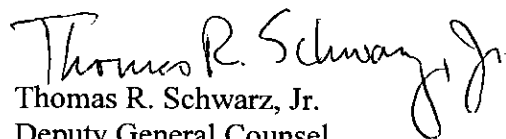
Dear Mr. Roberts:

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

FILED²

AUG 01 2000

Missouri Public
Service Commission

In the Matter of Associated Natural Gas)
Company's Purchased Gas Adjustment)
Factors to be reviewed in its 1998-1999)
Actual Cost Adjustment.)

Case No. GR-99-392

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. Associated Natural Gas Company ("ANG" or "Company") filed its tariff on October 15, 1999, to establish Purchase Gas Adjustment factors to be effective November 1, 1999. ANG also filed revised Actual Cost Adjustment ("ACA") Transition Cost and Refund factors. ANG filed changes for each of its three operating districts, Butler, Kirksville and Southeast Missouri ("SEMO").

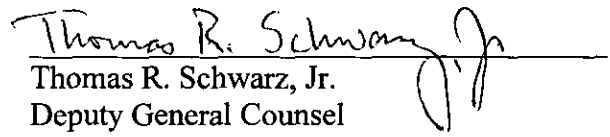
2. Staff has conducted an audit of ANG's billed revenues and gas costs for the period of September 1, 1998 to August 31, 1999, and has reviewed the reliability of ANG's distribution system. Staff's recommendation is attached hereto as Exhibit A. Staff's recommendation relies upon the Commission's decisions in Case No. GR-97-272, ANG's most recent rate case, and Case Nos. GR-96-227 and GR-97-191, ANG's most recent ACA cases, all of which are subject to further Commission and judicial action.

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3. Staff further notes that, since the filing initiating this case, Company has transferred its Missouri properties to Atmos Energy Corporation. Because ANG remains liable for any adjustments prior to the transfer pursuant to the sales agreement, Staff will continue to show Company in the caption of this case.

Respectfully submitted,

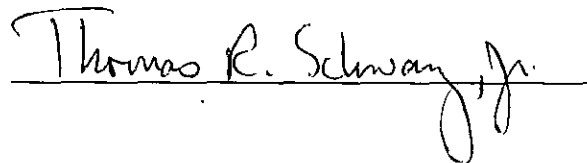
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Certificate of Service



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 1st day of August, 2000.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-99-392, Associated Natural Gas Company

FROM: Dave Sommerer, Manager- Procurement Analysis Department
Mike Wallis, Regulatory Auditor IV-Procurement Analysis Department
Lesa A. Jenkins, P.E., Regulatory Engineer, Procurement Analysis Department

 Project Coordinator/Date
 General Counsel's Office/Date 8/1/00

SUBJECT: Staff's Recommendation in Associated Natural Gas Company's 1998-1999
Actual Cost Adjustment Filing

DATE: August 1, 2000

The Procurement Analysis Department (Staff) has reviewed Associated Natural Gas Company's (ANG or Company) 1998-1999 Actual Cost Adjustment (ACA) filing. This filing is docketed as Case No. GR-99-392.

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, 1998 to August 31, 1999. 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.

In addition, Staff conducted a reliability analysis for the ANG distribution system including a review of ANG information regarding a) estimated peak day requirements and the capacity levels to meet those requirements, b) peak day reserve margin and the rationale for this reserve margin, c) comparison of actual demand to that estimated by the peak day model, and d) annual estimated demand. The Company submitted reliability information for the five service areas of Butler/Panhandle Eastern Pipeline, Kirksville/ANR Pipeline, Jackson/Natural Gas Pipeline, Mississippi River Transmission, and Southeast Missouri Integrated.

STORAGE WITHDRAWAL ADJUSTMENT

Staff refers the Commission to the record established in ACA Case Nos. GR-96-227 (ANG's 1995-1996 ACA filing) and GR-97-191 (ANG's 1996-1997 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 and 1996-1997 ACA periods. In its Report and Order in both Case No. GR-96-227 and Case No. GR-97-191, the Commission adopted the Staff's proposed storage withdrawal adjustment. Case No. GR-96-227 and Case No. GR-97-191 are currently under appeal.

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 Commission ordered storage withdrawal adjustments in ACA Case No. GR-96-227 (\$254,476) and ACA Case No. GR-97-191 (\$382,162)].

	Balance per ANG Filing	Staff Adjustments	Ending ACA Balances
SEMO District: Firm ACA	\$ (64,688)	\$ (578,296)	\$ (642,984)
Interruptible ACA	\$ 102,167	\$ (58,342)	\$ 43,825
Firm Refund	\$ (43,523)	\$ 0	\$ (43,523)
Interruptible Refund	\$ (3,106)	\$ 0	\$ (3,106)
Transition Cost	\$ (7,175)	\$ 0	\$ (7,175)
Transportation TOP Cost	\$ 79,100	\$ 0	\$ 79,100
Transportation Transition Cost	\$ 139,375	\$ 0	\$ 139,375
Kirksville District: Firm ACA	\$ 22,729	\$ 0	\$ 22,729
Interruptible ACA	\$ 52,124	\$ 0	\$ 52,124
Firm Refund	\$ (37,153)	\$ 0	\$ (37,153)
Interruptible Refund	\$ (4,506)	\$ 0	\$ (4,506)
Transportation TOP Cost	\$ 10,095	\$ 0	\$ 10,095
Transportation Transition Cost	\$ 8,406	\$ 0	\$ 8,406

	Balance per ANG Filing	Staff Adjustments	Ending ACA Balances
Butler District: Firm ACA	\$ (90,771)	\$ 0	\$ (90,771)
Interruptible ACA	\$ (13,388)	\$ 0	\$ (13,388)
Firm Refund	\$ 7,949	\$ 0	\$ 7,949
Interruptible Refund	\$ 6,547	\$ 0	\$ 6,547
Transition Cost	\$ 4,357	\$ 0	\$ 4,357

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, (3) ANG appealed the Western District Circuit Court's decision to the appellate court, and (4) the Western District Court of Appeals remanded the Commission's Order back to the Commission for further explanation and elaboration of the facts.

The Staff, during its audits of ANG's 1997-1998 ACA filing and ANG's 1998-1999 ACA filing, discovered that ANG (for the period of January 1, 1998 to August 31, 1999 and subsequent to the date of the Commission's Report and Order) is seeking ACA/PGA recovery of a total of \$1,031,753 (\$326,777 from Case No. GR-98-399 and \$704,976 from this ACA case, Case No. GR-99-392) in cost based, historical AWG gathering and transmission facilities charges. These gathering charges are excessive by market standards.

ANG's gas supply costs are based on into-the-pipeline delivered indexed commodity prices as reported in the various natural gas industry publications. These prices include gathering and transmission charges incurred to process and to transport the gas supplies from the field to the interstate pipeline. Thus, the historical AWG gathering and transmission facilities charges which ANG has included in its 1997-1998 and 1998-1999 ACA filings 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) (1) adjustments, in Case No. GR-98-399, 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 and (2) adjustments, in Case No. GR-99-392, to reduce the SEMO District's Firm customer gas costs by \$576,549 and to reduce the SEMO District's Interruptible customer gas costs by \$128,427.

RELIABILITY ANALYSIS

The Butler/Panhandle system has a large reserve margin, but according to ANG a portion of this is reserved for growth and the transportation does not carry any cost unless ANG actually transports this volume. Without this additional capacity, the reserve margin is reasonable.

When comparing three recent peak loads to that estimated by the ANG Kirksville/ANR system model, ANG showed that the model underestimated demand for all three dates. The greatest underestimation was for a date with only 57 heating degree days (HDD).

For the Integrated system, ANG only compares load on one date to that estimated by the model. For this date, the model underestimates demand by 5.6%. Staff would expect to see a comparison of estimated to actual load for at least two recent peak days, with an explanation if the model does not reasonably estimate demand.

For the Integrated system, the maximum withdrawal quantity for TETCO storage contract number 400184 is dependent on the total storage inventory. As a result, the withdrawal capacity is reduced as the volume in storage is reduced. Staff would expect the peak day analysis to include a discussion of how peak demand would be met late in the winter season when the deliverability from this storage contract has been reduced.

ANG uses an Economic Dispatch Model to project monthly gas purchases for the Integrated system. An ANG response to a Staff question regarding the final iteration shows that the model could assign more volume than the estimated demand. The model does not put up a red flag or any warning when this occurs. ANG relies on its Staff to catch these occurrences. Also, ANG indicated several times that the person who developed this model is no longer with the Company and thus it takes some time for current ANG Staff to respond to questions about the model.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-99-392 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 Commission ordered storage withdrawal adjustments in ACA Case

No. GR-96-227 (\$254,476) and ACA Case No. GR-97-191 (\$382,162)].

- Staff will propose (pending a final appellate order in review of Case No. GR-97-272) (1) adjustments, in Case No. GR-98-399, 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 and (2) adjustments, in Case No. GR-99-392, to reduce the SEMO District's Firm customer gas costs by \$576,549 and to reduce the SEMO District's Interruptible customer gas costs by \$128,427.
- In order to assure that sufficient capacity, but not excess capacity, is available to meet peak day requirements, Staff recommends that ANG continue to (1) provide an estimation of the peak day demand and annual demand for each of the five districts/pipeline service areas with each year's ACA submittal, (2) review and update Company assumptions made to estimate the peak and annual demand, (3) provide an explanation of how the capacity will meet this demand and (4) include the following information:
 - a. For the Integrated system, include a discussion of how capacity would meet the demand of a peak day occurrence in February when the TETCO Storage volume may be at a reduced inventory level.
 - b. For each of the five ANG districts/pipeline service areas, (1) submit (with the 1999/2000 ACA filing) a comparison of actual sendout and heating degree days for two or more recent peak days to the estimated demand for those conditions (heating degree days and number of customers) and (2) provide an explanation when the model does not reasonably agree with the actual load encountered.
 - c. For each of the five ANG districts/pipeline service areas, estimate, and submit with the 1999/2000 ACA filing, the reserve margin for the 1999/2000 ACA period and for three to five years beyond that.

RECOMMENDATIONS

The Staff recommends that this ACA case remain open, pending final appellate orders in review of Case No. GR-97-272, Case No. GR-96-227, and Case No. GR-97-191.

**Service List for
Case No. GR-99-392
August 1, 2000**

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