Missouri Public Service Commission

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July 2, 2001

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-2001-388/GR-2001-39

Dear Mr. Roberts:

Enclosed for filing in the above-captioned cases 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,

Robert V. Franson

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RVF:ccl
Enclosure
cc: Counsel of Record

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BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the matter of Southern Missouri Gas Company, L.P.'s Purchased Gas Adjustment factors to be reviewed in its 1999-2000 Actual Cost Adjustment.	))))	Case No. GR-2001-39
In the matter of Southern Missouri Gas Company, L.P.'s Purchased Gas Adjustment factors to be reviewed in its 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-388

STAFF RECOMMENDATION

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

1. On July 18, 2000, Southern Missouri Gas Company ("SMG or Company") filed a tariff sheet with the Commission, with an effective date of September 1, 2000. On July 19, 2000, SMG filed a substitute tariff sheet to reflect the proper effective date of August 1, 2000. The tariff sheet reflected unscheduled changes in SMG's Purchased Gas Adjustment (PGA) factors as a result of changes in the estimated cost of natural gas for the remainder of the summer season.

2. On July 27, 2000, the Staff filed its Memorandum and Recommendation. Staff recommended that SMG's proposed tariff sheet be approved for service on and after August 1, 2000, as an interim rate, subject to refund.

3. On October 18, 2001, SMG filed a tariff sheet with the Commission, with an effective date of November 2, 2000. The tariff sheet reflected scheduled changes in the cost of natural gas

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for the upcoming winter heating season as well as a change in SMG's Actual Cost Adjustment (ACA) and the Refund factor. SMG also filed a motion requesting a variance from two provisions of its tariff. SMG requested that it be allowed to recover the ACA balance over a three-year period and for an effective date of November 2, 2001. Staff filed its recommendation on October 23, 2000. Staff recommended that the tariff be approved as an interim rate, subject to refund. Staff also recommended that the variance be granted on a one-time basis.

4. On October 26, 2000, the Commission issued an Order Approving Interim Rates. The Order approved the Interim rates subject to refund. The Commission also approved the one – time variance.

5. On April 12, 2001, the Commission issued an Order Adopting Procedural Schedule in this case. Pursuant to that Order the Staff's Recommendation is due July 2, 2001.

6. SMG provides natural gas service to some 7,374 sales customers in the southern portion of the state including communities in Greene, Webster, Wright, Howell, Douglas, and Texas counties.

7. Staff completed an audit of billed revenues and actual gas costs for the period September 1999 to August 2000, included in the Company's computation of the ACA rate. Staff also conducted a reliability analysis for SMG.

8. In the attached Memorandum (Appendix A), Staff recommends that the Commission issue an order requiring SMG to adjust the firm sales ACA balance by $5,675 from the filed under-recovery balance of $551,152 to the Staff adjusted under-recovery balance of $556, 727. The total adjustment should be included as a separate line item adjustment applied to the beginning 2000-2001 ACA balance. Staff also recommends that the Commission order SMG to

submit the information recommended in the Reliability Study section of Appendix A by November 15, 2001.

WHEREFORE, Staff recommends that the Commission issue its order in this case consistent with Staff's recommendations.

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 2nd day of July, 2001.

Robert V. Franson

Service List for
Case No. GR-2001-388/GR-2001-39
Revised: July 2, 2001 (ccl)

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MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2001-39, Southern Missouri Gas Company

FROM: Phil Lock, Lesa Jenkins, and Dave Sommerer - Procurement Analysis Department

Project Coordinator/Date 6-29-01 General Counsel's Office/Date 7/2/01

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

DATE: June 29, 2001

The Procurement Analysis Department (Staff) has reviewed Southern Missouri Gas Company's (SMG or Company) 1999-2000 Actual Cost Adjustment (ACA) filing. This filing was made on October 18, 2000, for rates to become effective November 2, 2000, and was docketed as Case No. GR-2001-39. The audit consisted of an analysis of the billed revenues and actual gas costs, for the period of September 1999 to August 2000, included in the Company's computation of the ACA rate. SMG provided natural gas to a maximum of 7,374 sales customers during this ACA period. There are also two transportation customers. SMG serves customers in the southern portion of the state including communities in Greene, Webster, Wright, Howell, Douglas, and Texas counties. The ACA ending balance in the Company's 1999-2000 ACA filing is $1,653,149 under-recovery.

ACA BALANCE

The Commission issued an Order in Case GR-97-234 that required the Company to recover a firm sales ACA under-recovery balance of $219,357 over three years beginning with the 1997-1998 ACA period, for a recovery of $73,119 per year ($219,357/3). The 1999-2000 ACA filing includes the **final** years' recovery of this balance.

Another calculation of the ACA balance is required. On October 18, 2000, the Company requested a variance from its PGA tariff provisions to allow the Company to recover the August 2000 ACA under-recovery balance over a three year period beginning with the 1999-2000 ACA filing. The Commission approved this request effective November 2, 2000. This variance requires another calculation that is separate and distinct from the calculation described in the previous paragraph. To assure that recovery of $73,119 ends at the conclusion of the third year (1999-2000 ACA), as noted in the previous paragraph, it should be deducted from the August 2000 balance for determining the 2000-2001 and 2001-2002 ACA balances.

Under Staff's calculation, $556,727 (the adjusted ACA balance as of August 2000 divided by three) should be included in the 1999-2000 ending ACA under-recovery balance.

$532,354 (Adjusted ACA balance as of August 2000 less $73,119 divided by three) should be included as a separate line item adjustment in the ACA (under-recovery) balance for the 2000-2001 and 2001-2002 ACA periods.

CURRENT ACA PERIOD

GAS SUPPLY REALIGNMENT COSTS

SMG filed gas supply realignment (GSR) costs totaling $69,400 for the twelve-month period ended August 2000. This includes the principal amount only. During this ACA period, principal and interest amounts totaling $85,823 were billed by Williams Pipeline and paid by SMG. The difference represents interest costs. Staff therefore proposes a $16,423 ($85,823 - $69,400) increase in the cost of gas during this ACA period.

DEFERRED CARRYING COST IMBALANCE

The Deferred Carrying Cost Balance (DCCB) is the cumulative under or over-recovery of gas costs at the end of each month for each annual ACA period. Each month, carrying costs at a simple interest rate equal to the prime rate minus 1% is credited to customers for any over-recovery of gas costs, or credited to the Company for any under-recovery of gas costs when the Deferred Carrying Cost Balance (DCCB) exceeds an amount equal to 10% of Company's average annual level of gas costs for the three most recent ACA periods. Any DCCB amount existing at the end of the Company's ACA period, including interest is included in the determination of the new ACA factor to be effective in the scheduled winter PGA filing.

During the audit, SMG had under-recovered gas costs during the months of July 2000 and August 2000 that exceeded the 10% threshold. Staff believes that interest of $602 should be added to the Company's cost of gas.

REFUNDS

Gas Research Institute (GRI) refunds of $1,655 were distributed to SMG during the1998-1999 ACA period. The Company has not included these refunds in the current ACA filing. In addition, refunds of $2,460 and $6,509 were not included in the Company's calculation of their refund factor. Staff proposes that the Company include these refunds, $10,624 in total, on their next PGA/ACA filing, effective November 2001, in accordance with the Missouri PSC refund provision of its PGA tariffs (sheet 26.1 and 26.2). Refunds are not to be included in the calculation of the ACA factor.

CUSTOMER BILLINGS

SMG's Transportation customer billings include Ccf's (100 cubic feet) and Mmbtu's (1000 cubic feet) as billing units on the same billing. According to the Company's tariffs, all billing units should be stated in Ccf's.

Large Volume customer PGA rates are lagged one month after the effective date of change (i.e. November 1 PGA rate applied to December usage). For Large Volume customers whose meter is read on the first day of the month, this is not necessary. Staff suggests that the Large Volume customer billings reflect PGA changes on a timelier basis (i.e. November usage should reflect PGA rate effective November 1).

BIDDING PROCESS

SMG has not established a formal RFP process (Request For Proposal). The RFP should include the terms and conditions of the bid request, list of potential suppliers, proposals by the suppliers, evaluation of the bids, and criteria for acceptance or rejection of each bid proposed.

RELIABILITY STUDY

Staff conducted a reliability analysis of SMG 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, curtailment plans, annual sales forecast, and procedures for capacity release.

Staff is concerned about the negative reserve margins for 2001 and 2002. Depending on the assumptions used by the Company, the reserve margin for 2001 range from <u>negative 9.6% to negative 21.3%</u>. The Company's assumptions for the year 2002 result in a reserve margin of negative 13.9%. Staff's review also estimates negative peak day reserve margins - negative 9.4% to negative 14.5% for 2001 and negative 12.7% to negative 17.7% for 2002.

Regardless of the methodology used, each shows that sufficient firm capacity is not available should a peak cold day of 73 heating degree days (HDD) recur. The Company states that when needed, additional transportation capacity will be obtained. Staff is concerned that additional <u>firm</u> transportation capacity will not be available and that the Company is relying on an interruptible transportation agreement for needed firm capacity. Using the Company's methodology of average use per customer per HDD, sufficient capacity is only available to meet a peak day of 57 HDD in 2001 and 54 HDD in 2002. Peak days of 57 and 54 HDD are well below the peak day of 72.0 HDD in Springfield, Missouri and 73.2 HDD in West Plains, Missouri. In the past 30 years, Springfield data shows 21 days colder than 57 HDD and 23 days colder than 54 HDD.

Because of this identified shortfall of firm transportation capacity for a peak day, the Staff recommends that the Commission issue an order requiring SMG to submit the following information by November 15, 2001.

A. Conduct and submit a well documented revised peak day and annual demand study. Fully explain the rationale for the assumptions used in the study. Show the estimated peak demand for the 2000/2001 ACA period and for three years beyond that.

B. Submit a summary of actual usage, actual heating degree days (HDD), and customer counts for a minimum of 3 cold days in the winter of 2000/2001. Compare the usage on these actual 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 of 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.

C. Estimate the reserve margin for the 2000/2001 ACA period and for the following three ACA periods. Explain the rationale for the reserve margin for each of these years. For any negative reserve margin shown, provide an explanation of the firm transportation capacity that will be used to meet demand requirements beyond the firm contract maximum daily quantities. For any shortfall of capacity, provide details about the actions the Company will take for firm residential, commercial, and large volume customers whose demand will not be met should a peak day recur. Submit an economic analysis comparing the cost of additional firm capacity to the cost of the penalties for exceeding the contract maximum daily quantities by the amount of the negative reserve quantity. Also, provide an economic analysis of any other options considered by the Company for minimizing the possibility of interruption of natural gas service to firm residential, commercial, and large volume customers. Submit this information with the revised peak day and annual demand study.

SUMMARY

- Staff proposes to carry-forward an under-recovery balance of $556,727 ($1,670,180/3) based on the August 2000 ACA balance, not the $551,052 ($1,653,155/3) under-recovery balance filed by SMG.
- Staff proposes to include GSR costs totaling $85,823 to reflect principal and interest costs paid by SMG. This increases the cost of gas by $16,423 ($85,823 - $69,400).
- Staff proposes to increase the cost of gas by $602 to reflect the carrying cost of the DCCB.
- Staff proposes that Company include WNG refunds totaling $10,624 ($1,655 + $2,460 + $6,509) in its next PGA filing, effective November 2001.
- Staff proposes that billing units for all Transportation customers should be stated in Ccf's. In addition, PGA rates for Large Volume customers should become effective on a timelier basis.
- SMG has not established a formal RFP process in its bidding process. Staff believes that Company should adopt a formal RFP as part of its bidding process.
- Staff recommends that the Company address the peak day and annual demand study, comparison of estimated usage to actual usage, and negative reserve margin comments in the Reliability Study section of this ACA recommendation.

Description	ACA Balance Per Filing	Staff Adjustments	ACA Balance Per Staff
1998/1999 ACA Ending Balance (A)	$1,141,667	$0	$1,141,667
Cost of Gas	$2,280,015	$0	$2,280,015
Cost of Transportation	$1,170,386	$16,423	$1,186,809
Revenues	$3,012,032	$0	$3,012,032
DCCB	$0	$602	$602
3rd year Cost Recovery (B)	$73,119	$0	$73,119
Total (Over)/Under Recovery (8/00 balance)	$1,653,155	$17,025	$1,670,180
Recovery over 3 years	$551,052		$556,727 **(C)**

(A) Per GR-2000-288 Order
(B) Per GR-97-234 Order
(C) Represents 1st of 3 year recovery of August 2000 balance. $532,354 is to be included in the 2000-2001 **and** 2001-2002 ACA periods ($1,670,180 – $73,119 = $1,597,061/3 = $532,354). Per GR-2001-39 Order.

RECOMMENDATIONS

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

1. Adjust the firm sales ACA balance by $5,675 from the filed under-recovery balance of $551,052 to the Staff adjusted under-recovery balance of $556,727. The total adjustment should be included as a separate line item adjustment applied to the beginning 2000-2001 ACA balance.

2. Increase the refund balance by $10,624 in the calculation of Company's refund factor. The adjustment should be included in the Company's next PGA filing, effective November 2001.

3. Submit the information recommended in the Reliability Study section by November 15, 2001.