MEMORANDUM

TO: Missouri Public Service Commission Official Case File, Case No. GR-2001-495, Fidelity Natural Gas, Inc.

FROM: Dave Sommerer, Manager- Procurement Analysis Department
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/S/ Dave Sommerer 6/26/02	/S/ Tim Schwarz 06/26/02
Dave Sommerer,	Tim Schwarz,
Project Coordinator/Date	General Counsel's Office/Date

SUBJECT: Staff's Recommendation in Fidelity Natural Gas, Inc.'s 2000-2001 Actual Cost Adjustment Filing

DATE: June 26, 2002

The Procurement Analysis Department (Staff) has reviewed Fidelity Natural Gas, Inc.'s (FNG or Company) 2000-2001 Actual Cost Adjustment (ACA) filing. This filing was made on October 15, 2001 for rates to become effective November 1, 2001, and was docketed as Case No. GR-2001-495. The audit consisted of an analysis of the billed revenues and actual gas costs for the period of September 1, 2000 to August 31, 2001, included in the Company's computation of the ACA rate. FNG provided natural gas to a maximum of 1,216 sales customers in the counties of Franklin and Crawford, which include the City of Sullivan, Oak Grove Village, and the unincorporated areas of Crawford County.

In addition, Staff conducted an abbreviated reliability analysis for FNG including a review of information required to be submitted in response to the reliability recommendations in the 1999/2000 Staff ACA recommendation, GR-2001-250, estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and comparison of actual demand to estimated demand.

COMPLIANCE ADJUSTMENTS

REVENUES

In November 2000 when FNG prepared customer bills for October 2000 gas usage, they used the PGA rate increase that was authorized to be effective November 1, 2000. This increase should not have been applied until the bills for November gas usage were prepared in December. Therefore the bills for October usage were overstated. Customers were given proper credit. However, the credits were not deducted from the PGA Billed amount on FNG's filing with the PSC on October 15, 2001. As a result, Staff proposes an adjustment to decrease the PGA Billed amount by $10,572.

RELIABILITY STUDY

The Company has changed its methodology for estimating customer usage and Staff has numerous concerns with this changed methodology, especially for estimates of usage for cold days. These concerns are as follows:

1. The Company now uses an average usage per degree day per customer (UPDD/customer) at each heating degree day (HDD) and Staff is concerned that these averages are calculated from insufficient data. The maximum number of values used to calculate these averages is 30 and this was only found for calculating UPDD/ customer at 6 HDD. For colder temperatures of 50 or more HDD, the averages were calculated from two or less actual values. Staff does not believe that two values are sufficient for estimating usage.

2. Staff is concerned that the estimates are based on other estimated information, not actual data. The Company states that the values used to calculate the average UPDD/customer are based on actual data from 1998 – June 2001. However, the Company later stated that the data provided to Staff for September – December 2000 were based on estimates.

3. Staff is concerned that the Company is significantly underestimating the usage for a peak cold day. The Company estimate of a peak day for 2000/2001 is ** HC ** MMBtu. This is significantly less than the peak day estimate provided in the 1999/2000 ACA period of ** HC ** for the year 2000. When Staff reviewed the limited data provided by the Company for recent actual cold days, usage on four of the eleven dates exceeded the ** HC ** peak day estimate, with the highest usage being ** HC ** MMBtu. The highest heating degree days for these four dates was 55 HDD (+10$^{?}$). So Staff believes that usage of ** HC ** is not a reasonable estimate for 74 HDD (-9$^{?}$).

4. Because of the concerns noted above, Staff could not reasonably accept the Company's 2000/2001 estimate of peak day customer usage. So Staff used the Company estimate of UPDD/customer from the 1999/2000 ACA review. This resulted in a reserve margin of negative 13.0% for the capacity contracted on Missouri Pipeline Company and negative 20.9% for the capacity contracted with ** HC ** on the Panhandle Eastern Pipe Line. Staff is concerned that even though the pipelines had sufficient available capacity to meet increased customer usage requirements in December 2000, this does not mean that additional firm capacity will be available should a peak cold day of 74 HDD recur.

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b. ** HC
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SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2001-495 for Fidelity Natural Gas, Inc.:

1. Staff proposes to reduce revenue recovery by $10,572 due to early application of a PGA rate increase.

Description	ACA Balance Per Filing	Staff Adjustments	ACA Balance Per Staff
1999/2000ACA Balance	$37,105	$0	$37,105
Cost of Gas	$641,977	$0	$641,977
Cost of Transportation	$333,337	$0	$333,337
Revenues	$990,994	$(10,572)	$980,422
*** Total (Over)/Under Recovery**	$21,425	$10,572	$31,997

* ACA balance + Cost of gas + Cost of Transportation – Revenues = (Over)/Under Recovery

2. To adequately review FNG's estimated peak day requirements and the rationale for the reserve margins, Staff recommends that FNG reevaluate the data and assumptions used to develop the peak day estimate. Staff recommends that additional information be submitted and suggests that FNG could use its spreadsheet software to analyze known usage, HDD, and customer data for 2 to 3 years to develop a regression analysis that would be more sound than the Company's current methodology.

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Fidelity Natural Gas to:

1. Adjust the firm sales ACA balance by $10,572 increasing the filed under-recovery balance of $21,425 to the Staff adjusted under-recovery balance of $31,997. The total adjustment should be included as a separate line item adjustment applied to the beginning 2001-2002 ACA balance.

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 Fidelity Natural Gas Company to take the following actions by October 1, 2002.

   a. Review, revise, and submit to Staff the Company's peak day and annual demand study to address the concerns raised by Staff in the Reliability Study and Summary sections of this memorandum. Show the estimated demand for the 2001/2002 ACA period and for three years beyond that.

   b. Submit to Staff the reserve margin estimate for the 2001/2002 ACA period and for three years beyond that. Explain the rationale for the reserve margin for each of these years. For any negative reserve margin shown, provide an explanation of the firm 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, large volume, and commercial flex customers whose demand will not be met should a peak day recur. Submit an updated 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.

   c. Submit to Staff an updated summary of actual usage, actual heating degree days (HDD), and customer counts for 5 or more recent cold days from the 2000/2001 or 2001/2002 ACA period. Compare the usage on these actual cold days to the usage estimated by the Company's peak day 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. If the model is re-evaluated based on these findings, please provide details of the re-evaluation.

3. The Staff recommends that the Commission order the Company to respond to recommendations 1-2 herein by August 1, 2002, as per the procedural schedule in this case.