BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Aquila Network - MPS and L&P	)	
Purchased Gas Adjustment (PGA) Filing	)	Case No. GR-2006-0297

RESPONSE TO STAFF RECOMMENDATION

Comes now Aquila, Inc. (Aquila or Company), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Staff Recommendation in this Case (Recommendation):

I. BACKGROUND

1. On December 17, 2007, the Commission Staff (Staff) filed its Recommendation in this matter. The Recommendation included a Memorandum, which set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 2005 through August 2006.

2. Aquila was the owner of the subject gas systems at the beginning of the actual cost adjustment (ACA) period in question. However, on June 1, 2006, The Empire District Gas Company (EDG) completed its purchase of the Aquila natural gas properties (See Case No. GO-2006-0205).

3. The Commission's Order Directing Filing, issued on December 20, 2007, directed that EDG respond to the Recommendation by January 18, 2008. Aquila has been granted status as an intervener in this matter and continues to have financial interests in and information related to this case. Therefore, Aquila provides herein a response to those issues found in the Recommendation that it has an interest. Aquila understands that the remaining issues will be addressed by EDG.

II. ADJUSTMENTS

4. Staff has recommended that EDG adjust the balances in its 2005/2006 ACA filing to reflect the ending (over)/under recovery balances for the ACA, TOP, TC, and Refund accounts per the table on page 8 of 8 of its "Official Case File Memorandum" Case No. GR-2006-0297. Aquila wishes to address the following adjustments included in that table:

A. Commission Approved Adjustments Prior to 2005-2006 ACA

5. Aquila does not agree with the inclusion of the adjustments proposed by Staff in column three of the table titled "Commission Approved Adjustments Prior to 2005-2006 ACA." In review of the proposed prior period adjustments for the South, North, and Northwest systems, Aquila has identified and verified that each adjustment has been previously recorded and properly included in the 8-31-06 balances filed for each system based on prior Staff recommendations. To also include them in this table as an adjustment to the 8-31-06 ending balances per filing as recommended by Staff, would result in a double counting of the adjustments. There are only two exceptions; $(371) related to a South System Aggregation Cashout adjustment and $(5,990) related to a Northwest storage adjustment. All other adjustment amounts included in this category under column three should be eliminated from the table to avoid double counting the adjustments. In support of its position, Aquila includes **Appendix A** which outlines each issue and the disposition of each issue relative to the (over)/under recovery balance for each system.

B. Hedging Allocation

6. Aquila agrees with Staff's recommendation to re-allocate a portion of the option transactions that occurred during the months of December 2005, January 2006, and February 2006 from the Southern System to the Northern and L&P systems. Aquila agrees that the South

system hedging losses should be reduced by $203,450 ($1,133,085 - $929,635). These costs should then be re-allocated to the North system which would increase their costs by $83,970 and to the Northwest system which would increase their costs by $119,480. This is consistent with the response provided by Aquila in Data Request (DR) No. 116.

C. Southern System Adjustment Reliability Analysis and Gas Planning

7. Aquila disagrees with Staff's proposed adjustment to reduce Southern system gas costs by $322,656 as discussed in paragraph 5 on pages 6 and 7 of the Reliability Analysis and Gas Planning section of the Staff Recommendation. Aquila disagrees with Staff on several points. To begin with, the spreadsheet error was confined to November 2005. It was discovered prior to December set up and therefore had <u>no</u> impact beyond November. The error was on a <u>monthly</u> set up spreadsheet, which is <u>not</u> the source for the winter plan.

8. Staff is incorrect in its assertion that the error, although found in November, impacted subsequent months and is also incorrect in its assertion that Aquila contracted for more gas than its winter plan called for during those months. As an example, in January 2006, based on normal weather, Aquila's monthly set up sheet forecasted a daily requirement of 25,170 Dth per day. Aquila's term purchases only totaled 19,486 Dth per day.. Therefore, Aquila showed an additional daily requirement of 5,684 Dth per day, which it planned to cover with storage. The same is true for the other subsequent months -- total projected requirements exceed the term purchases in each month.

9. In addition, the reason Aquila had to sell gas in January 2006 was because it was a historically warm month. Sedalia temperatures were a staggering <u>34.3%</u> warmer than normal for the month, with all 31 days being warmer than normal. As a result of the warm weather, Southern Star Central Gas Pipeline issued a Critical Notice for high line pack on two occasions

during the month, which is unprecedented. Therefore, Aquila's January sales for resale had nothing to do with the November spreadsheet error. Consequently, the impact of January's sales of gas supplies should be excluded from consideration in this adjustment. The sales of gas supplies for the month of February 2006 and March 2006 should also be excluded.

10. Aquila agrees with Staff's allowance for the sales on Southern Star Critical Days in November. However, it further believes that daily sales would have been required even if the error had not occurred, because November's weather was extremely warm. Overall it was 16% warmer than normal in Sedalia (20 of the 30 days were warmer than normal) and the first 13 days of November had less than half of the normal heating degree days (112 actual vs. 235 normal). Therefore, all sales should be reviewed on a daily basis. Any loss from a November sale in excess of the 3,205 Dth on a daily basis should not be disallowed. Planned storage withdrawals were over 4,500/day in November and the extra gas purchased was only 3,205/day. Had the weather been normal, Aquila would not have sold any gas.

11. Finally, Aquila also believes that the L&P system and Northern system benefited from the sales. The analysis attached and included as **<u>Appendix B</u>** shows that by receiving the gas that was transferred from the Southern System in November 2005, both systems avoided buying First-of-the-Month (FOM) and daily gas in December, and the L&P system avoided First-of-the-Month gas in January. Aquila's winter plan calls for both First-of-the-Month and Daily Index purchases in both December and January. The weighted average cost of the gas that was transferred was less than December FOM and Gas Daily averages and January FOM. Therefore, Aquila believes that the L&P system and Northern system should transfer the amounts on **<u>Appendix B</u>** to the Southern system as a result of the avoided costs in December 2005 and January 2006.

12. Based on the information in the above paragraphs, Aquila believes the adjustment should at most be $(28,326). This recognizes the removal of sales-for-resale gains and losses in January, February, and March 2006, and the transfers for the benefits received by the L&P and the Northern system customers. The calculation of this amount is found in the following table:

	TOTAL	SOUTHERN	NORTHERN	L & P
Staff Recommendation:	($322,656)	($322,656)	$0	$0
Exclude January:	$133,726	$133,726	$0	$0
Exclude February:	($2,350)	($2,350)	$0	$0
Exclude March:	$1,951	$1,951	$0	$0
November 2005	($189,329)	($189,329)		
Avoided Costs:				
L & P	$42,438	$0	$0	$42,438
Northern System	$118,565	$0	$118,565	$0
Net Impact	($28,326)	($189,329)	$118,565	$42,438
Transfer Benefits Between Systems	$0	$161,003	($118,565)	($42,438)
Net Adjustment	($28,326)	($28,326)	$0	$0

13. Furthermore, if the remaining sales are looked at on a daily basis as mentioned above, Staff's recommended adjustment would further be reduced an additional $35,207; therefore, no net adjustment would be due.

III. RELIABILITY AND PLANNING SECTION

A. Company Documentation

14. Staff alleges that Aquila did not provide complete or consistent documentation supporting its analyses (page 3 in the Reliability Analysis and Gas Supply Planning section).

15. Aquila disagrees with Staff's contention. Aquila believes it provided complete responses and its responses and documentation were consistent with what it provided in previous years in response to similar questions.

16. Staff further alleges that Aquila did not have a reasonable estimate of what its customers use in normal weather (paragraph 1.b on page 4). Staff further alleged that Aquila

provided Staff three (3) different estimates of its normal requirements with differences of 7.2% to 16.4%.

17. The basis for at least a portion of the Staff position is a data request response provided by Aquila that was later discovered to be in error and which should be disregarded (Data Request 72). That response was erroneously based on data that was to be used in projections for the winter of 2006-2007 and was subsequently revised.

18. The revised data is what was used to prepare Aquila's plan for the winter of 2005-2006. Therefore, using the revised data in the comparison as shown in the following table, most months are very close (less than ½ percent difference). The one exception is December, and the reason for the difference is that DR72 Revised is based on 30 year actual weather averages and is done prior to the start of hedging (in this case the file was put together in April 2005), while DR67 is a monthly file that is adjusted based on weather forecasts. On November 21, 2005 when the December setup sheet was prepared the weather forecast for December 2005 was warm, so Aquila adjusted its load based on that warm forecast.

Normal Requirement Estimate	DR 67 & 129	DR72 Revised	% Difference between 0067 and 0072
Nov-05	462,458	463,122	-0.14%
Dec-05	610,166	710,256	-16.40%
Jan-06	780,257	778,104	0.28%
Feb-06	599,360	601,542	-0.36%
Mar-06	475,519	474,376	0.24%
	2,927,760	3,027,400	-3.40%

B. Aquila Methodology for Estimating Peak Day

19. As noted in the 2004/2005 ACA review (Case No. GR-2005-0271), Aquila began considering data from two winters in its regression analysis beginning with the gas supply planning for the 2006/2007 winter. Staff alleges that in using two years worth of data, Aquila

must provide Staff the data it used to support the decisions it made prior to the ACA period being reviewed (paragraph 2.a. on pages 4 and 5).

20. Aquila is confused by Staff's contention. Aquila did not intentionally use any data from the 2005-2006 winter in its responses. All planning was done based on data from the period prior to start of the 2005-2006 winter. As alluded to earlier, an error was made in Aquila's initial response to a data request when data from 2005-2006 was inadvertently provided. Aquila corrected that error when it submitted the referenced revised response.

WHEREFORE, Aquila respectfully requests the Commission issue an Order that is consistent with the above response.

Respectfully submitted,

Dean L. Cooper MBE #36592
BRYDON, SWEARENGEN & ENGLAND P.C.
312 E. Capitol Avenue
P. O. Box 456
Jefferson City, MO 65102
(573) 635-7166
(573) 635-3847 facsimile
Email: **dcooper@brydonlaw.com**

ATTORNEYS FOR AQUILA INC.

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on January 18, 2008, to the following:

Lera Shemwell
Office of the General Counsel
Governor Office Building
Jefferson City, MO 65101
lera.shemwell@psc.mo.gov

Marc Poston
Office of the Public Counsel
Governor Office Building
Jefferson City, MO 65101
marc.poston@ded.mo.gov

Jeffrey A. Keevil
Stewart & Keevil, L.L.C.
4603 John Garry Drive, Suite 11
Columbia, MO 65203
per594@aol.com

Dean L. Cooper