BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company's	)	
Purchased Gas Adjustment Tariff Filing	)	Case No. GR-2009-0397

<u>RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM</u>

COMES NOW The Empire District Gas Company (EDG or Company), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Staff Recommendation and Memorandum:

INTRODUCTION

1. On December 30, 2010, the Commission Staff (Staff) filed its Recommendation and Memorandum in this matter. This document set out the results of Staff's analyses and recommendations concerning EDG's 2008-2009 Actual Cost Adjustment (ACA) filing.

2. On January 3, 2011, the Commission issued its Order Directing Response, wherein it directed EDG to respond to Staff's Recommendation by January 31, 2011.

3. EDG will respond to the various issues identified by Staff in the following paragraphs. EDG's response will reference the Recommendation and Memorandum by use of the same section titles utilized by the Staff.

INTERRUPTIBLE SALES

4. EDG intends to re-evaluate the Large Volume Interruptible PGA calculations used on all three of its delivery systems, South, North and Northwest. To the extent the LVI PGA calculations need to be modified, EDG will file the PGA revisions with the Commission as soon as practicable.

PROPERTY TAXES

5. As EDG stated in its response to the discussion of this issue in the GR-2008-0368, the property taxes at issue are directly related to gas held in storage on the interstate pipelines supplying EDG. These property tax charges simply reflect additional storage costs and the cost of storage on the interstate pipelines has historically been recovered using the Purchases Gas Adjustment (PGA) mechanism in Missouri. In addition, these storage charges, from the state of Oklahoma, are clearly and directly related to gas supply costs on individual pipelines, not local delivery. As such, there is no more equitable way to recover these costs than through the PGA/ACA process.

6. The stipulation and agreement reached by the parties to Case No. GR-2009-0434, as it relates to the potential property taxes on gas held in storage in Kansas by the pipelines that serve EDG, does not resolve the issue as to how the property taxes on gas held in storage should be recovered. Moreover, it is an active issue because, unlike Kansas, the state of Oklahoma is currently assessing property taxes on gas held in storage by the pipelines that serve EDG.

7. The PGA/ACA process is the best and most equitable way to recover property taxes on gas held in storage since the taxes can be directly attributed to the gas storage costs on each of the individual pipelines that cause the tax to be incurred. The recovery of these costs through base rates (the ultimate result if Staff's recommendation is accepted) is inefficient and will ultimately lead to disputes in the level of property taxes to be recovered, the allocation of these costs between the three pipeline systems and the ultimate recovery of these costs in a general rate case. In addition, recovery in base rates could result in property tax costs incurred for the benefit of sales service customers being recovered from transport customers who potentially derive no direct benefit from gas held in storage. Moreover, because these taxes are

based on the value of the gas held storage, they are likely to vary with the market price for gas and be difficult to predict.

8. Utilizing the PGA/ACA recovery mechanism would ensure that only those sales service customers being served from pipeline systems incurring property taxes on gas held in storage pay for those costs. It would be more efficient and accurate to recover this cost as part of a differential in PGA/ACA rates between the three systems than to have a base rate differential as a result of an estimate of property tax costs in a general rate case.

9. Even though the Staff's proposed adjustment is immaterial ($14,430 out of a total gas cost of $41.6 million) for the property taxes assessed on the natural gas in storage, EDG does not agree that an adjustment to the ACA balance is reasonable for purposes of this ACA period.

CASH-OUTS – All Systems

10. EDG corrected the billing cash-out errors it created in September 2008 in the November 2008 bills. Attached as highly confidential **Appendix A** is a spreadsheet showing the corrections. There is no adjustment necessary since the correction of the cash out error was made during the current ACA period under review.

CASH-OUTS – Northern System

11. In September 2009, EDG corrected the cash-out errors made in August 2009. Such adjustments will be included in the next ACA review. EDG accepts Staff's proposed adjustment to this ACA period for this Northern System cash out error.

HEDGING

12. EDG will continue to include information concerning the effectiveness of the prior winter season gas supply plan in its annual meeting with Staff that is held in the late spring

of each year. EDG will continue to analyze the potential impact of weather variations from normal heating degree days on each of its three delivery systems and provide that information to Staff at the annual supply meeting. EDG has expanded its hedging activities to include summer and longer term planning horizons. EDG will continue to provide the Staff with an analysis of the potential impact of weather variations on each of the three delivery systems at the annual gas supply planning meeting held with the Staff and Office of the Public Counsel in the spring of each year.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

1. Regression Models

Interruptible Load:

13. EDG's design day forecast and the regressions used to develop the design day peak for the ACA period 2008/2009 appear to be accurate. The Staff's comparison of the peak day system load of 70,044 at 62 HDD, compared to EDG's peak day estimate of 63,083 at 81 HDD, is invalid. The daily demand of 70,044 that occurred on January 15, 2009, included all gas volumes moving through EDG's system (sales (firm and interruptible) and transportation), not just the sales service customers' gas volume. More specifically, on that particular day, the interruptible sales volumes were 2,350 and the large and small volume transportation gas volumes were 15,717.

14. In addition, the large volume transportation customers were in an under-delivered status on January 15^{th} (3,561). Using the actual HDD of 62.5 on January 15^{th} and EDG's peak day regression model produces a predicted sales service peak of 48,854. When the peak day model result of 48,854 is adjusted for the transport customers' delivery shortage of 3,561 and the interruptible sales service load of 2,350, it results in a 54,765 system supply peak. Adding the

actual January 15th transportation volume of 15,717 to the adjusted regression results of 54,765, results in an expected total system demand of 70,482 using the EDG regression model versus an actual total system demand of 70,044. Thus, EDG's design day regression model produces a reasonably accurate result.

15. EDG agrees to take into account the impact of interruptible sales volumes in the future development of its design day model.

Estimates of Monthly, Seasonal, and Badeload Usage:

16. EDG does not use the design day model to predict annual system throughput volumes. The estimate of EDG's system(s) throughput comes from EDG's annual budget process and the budget model used to forecast system volumes. EDG's annual budget volumes, excluding non-weather sensitive load, are based upon normal weather conditions (HDD). EDG's "weather normalized" volumes are adjusted for weather variations of 10 and 20 percent. These throughput variation are provided to the Staff as part of the annual supply meeting held in the spring each year. The regression model used to develop the annual throughput volumes are separate and apart from EDG's design day model.

17. EDG will continue to provide the annual budget sales and throughput data to the Staff as part of the annual gas supply meeting and adjust this data for variations of 10 percent and 20 percent in HDDs.

2. Reserve Margin

Reserve Margin All systems:

18. EDG continues to use a maximum heating degree day (HDD) of 81to forecast the system design day. This maximum hearting degree day was established on the system in the late 1980's. This level of maximum HDDs had been used by the previous owner of the system for

many years in the calculation of the system(s) design day. Due to the lengthly term of EDG's current pipeline contracts and the low value of released capacity on the pipelines serving EDG, any refinements made to the peak day calculation would appear to be purely academic at this time and of very limited value. In addition, on EDG's South system the pipeline capacity is directly tied to EDG's access to the pipeline's storage facilities. Any release of pipeline transportation capacity must be structured so that EDG's access to the pipeline's storage facilites is not disturbed. EDG is open to the discussion of the refinement of the design day calculation at the next annual gas supply meeting (ACA period 2011/2012) with the Staff.

Southern System Reserve Margin:

19. EDG believes it has provided the Staff with a further analysis of its Southern system by segment. If the Staff can not locate this analysis, EDG requests that the Staff submit a formal data request for the analysis. This formal request will enable EDG to properly track its response to the Staff.

ADJUSTMENTS

20. EDG recommends that it be ordered to adjust the balances in its 2008/2009 ACA filing to reflect the ending (over)/under recovery balances for the ACA, TOP, TC and Refund accounts per the following table:

Description (+) Under-recovery (-) Over-recovery	8-31-09 Ending Balances Per Filing	Commission Approved Adjustments Prior to 2007-2008 ACA	EDG Adjustments For 2007-2008 ACA	EDG Recommended 8-31-08 Ending Balances
South System: Firm ACA	$1,166,886	$0	$0	$1,166,886
Interruptible ACA	($33,443)	$0	$0	$33,443
Refund	$0	$0	$0	$0
North System: Firm ACA	($786,980)	$0	($11,780) (A)	($798,760)
Interruptible ACA	$57,167	$0	$0	$57,167
Refund	$0	$0	$0	$0
NW System: Firm ACA	($162,322)	$0	$0	($162,322)
Interruptible ACA	$0	$0	$0	$0
Transition Cost	($2,586)	$0	$0	($2,586)
Refund	$0	$0	$0	$0

(A) Cash-out August 2009

WHEREFORE, The Empire District Gas Company respectfully requests that the Commission consider this response to the Staff Recommendation and Memorandum and issue such orders as it believes to be reasonable and just.

Respectfully submitted,

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ATTORNEYS FOR THE EMPIRE
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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on January 31, 2011, to the following:

Robert S. Berlin	Marc Poston
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