MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2013-0256, Summit Natural Gas of Missouri

FROM: Phil Lock, Regulatory Auditor – Procurement Analysis
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis
Derick Miles, P.E., Regulatory Engineer – Procurement Analysis

/s/ David M. Sommerer 06/06/13
Project Coordinator / Date

/s/ Bob Berlin 06/06/13
Staff Counsel's Office / Date

/s/ Lesa Jenkins P.E. 06/06/13
Utility Regulatory Engineer II / Date

SUBJECT: Staff Recommendation in Case No. GR-2013-0256, Summit Natural Gas of Missouri 2011-2012 Actual Cost Adjustment Filing (formerly Southern Missouri Natural Gas Company)

DATE: June 06, 2013

EXECUTIVE SUMMARY

On April 27, 2011 Southern Missouri Gas Company (SMNG) and Missouri Gas Utility (MGU) filed an application for authority from the Commission for SMNG and MGU to merge, with MGU as the surviving entity. The parties filed a Unanimous Stipulation and Agreement on September 15, 2011, which the Commission approved on September 28, 2011.

On February 23, 2012, Summit Natural Gas of Missouri, Inc. (SNG or Summit) informed the Commission that SMNG has merged with Summit. SMNG and MGU are now more commonly known as "Summit". Summit filed tariff sheets to adopt SMNG's Missouri tariffs. Those tariff sheets bear an effective date of March 24, 2012.

On November 2, 2012 Summit (successor in interest to SMNG) filed its Actual Cost Adjustment (ACA) for the 2011-2012 annual period for rates to become effective November 16, 2012. The Procurement Analysis Unit (Staff) of the Missouri Public Service Commission has reviewed the Company's ACA filing. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA balance.

Staff conducted the following analyses:

- a review of billed revenue compared with actual gas costs,
- a reliability analysis including a review of estimated peak-day requirements and the capacity levels needed to meet these requirements and a review of supply plans for various weather conditions.
- a review of the Company's gas purchasing practices to evaluate the prudence of the Company's purchasing decisions for this ACA period; and
- a hedging review to evaluate the reasonableness of the Company's hedging practices for this ACA period.

Based on its review, Staff recommends the following adjustments to the Company's filed 2011-2012 ACA balances:

Prior ACA Balance 8-31-11	$204,714	$0	$0	$204,714
Cost of Gas	$3,611,581	$0	($21,398)	$3,590,183
Cost of Transportation/Storage	$2,368,554	$0	$90,084	$2,458,638
Revenues	($5,809,050)	$0	($295,431)	($6,104,481)
ACA Approach for Interest	$1,074	$0	$2,323	$3,397
Staff prior period adjustment	$112,482	$0	$0	$112,482
Total ACA Balance 8-31-12	$489,355	$0	($224,422)	$264,933

Staff has no adjustments related to reliability analysis and gas supply and planning, however Staff's recommendations regarding this topic are discussed within the Reliability Analysis and Gas Supply and Planning section of the memorandum. **Staff recommends the Commission order the Company to respond to these concerns within 30 days and provide the requested natural gas supply and storage plans on or before the Company's 2013/2014 PGA filing.**

Staff has no adjustments related to hedging; however Staff's concerns/comments are addressed in the Hedging section of the memorandum. **Staff recommends the Commission order the Company to respond to Staff's concerns/recommendations within 30 days.**

In summary, Staff's accounting adjustments for the 2011-2012 ACA period reduce the Company's filed under-recovery balance of $489,355 by a total of $224,422 to an adjusted under-recovery balance of $264,933. These adjustments are described in detail in Section II – Billed Revenue and Actual Gas Costs.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

Staff's discussion of its findings is organized into the following five sections which explain Staff's concerns and recommendations:

I. Overview
II. Billed Revenue and Actual Gas Costs
III. Reliability Analysis and Gas Supply Planning
IV. Hedging
V. Recommendations

I. OVERVIEW

During the 2011/2012 ACA, Summit provided natural gas service to customers in the south and south-central portion of the state including communities in Greene, Webster, Wright, Howell, Texas, Douglas, Laclede, Lawrence, Barry, Stone and Taney counties. Summit served an average of 616 system sales customers on the Branson system and an average of 9,985 system sales customers on the Rogersville system, for a total average customer base of 10,601 customers for the 12-month ACA period. Southern Star Central Gas Pipeline (SSCGP) serves all customers on Summit's former SMNG service territory.

II. BILLED REVENUE AND ACTUAL GAS COSTS

COMPLIANCE ADJUSTMENTS

<u>Revenue Recovery</u>

Summit books its revenues on an accrual basis. In doing so, they included unbilled revenues in the PGA revenue recovery of their filing. According to Summit's PGA tariffs (Sheet 25), there shall be a monthly comparison of the actual "as billed" cost of gas to the cost recovery recorded on the books and records of the Company. Staff requested that Summit provide monthly billed sales volumes by customer class. To meet this requirement, Summit removed the unbilled revenues from its initial filing and restated its revenue recovery on an "as billed" basis. The revenue recovery should be increased from $5,809,050 as originally filed to $6,104,481, an increase of $295,431.

Transportation Imbalances

Summit's filing includes the monthly cash out of transportation imbalances. According to Summit's tariffs, imbalances are addressed when the Company notifies the transporter of the existence of the imbalance and the transporter takes all appropriate actions to eliminate the imbalance within 2 subsequent billing periods. There is no monthly cash out provision in Summit's tariffs. Summit's revised ACA balance for 8-31-12 does not include any cost effect for imbalances nor do any prior ACA's. As a result, the total imbalance cost adjustment of ($45,381) as filed should be reduced to zero. This increases the cost of gas by $45,381.

Gas Supply

The filed cost of gas in the months of November 2011, December 2011 and March 2012 did not reflect the invoiced cost of gas. Staff adjusted the filed amounts to reflect the proper invoiced costs. The cost of gas should be reduced by $28,746. $346,357 + $976,496 + $275,573 = $1,598,426 invoiced costs less $346,315 + $976,833 + $304,024 = $1,627,172 costs as filed.

Gas was purchased from Enbridge during June 2012 and was delivered on SMNG's transportation contract. It was consumed by SMNG's customers but was not included in SMNG's cost of gas. The costs were inadvertently included in MGU's cost of gas. These costs totaled $7,348. The cost of gas should therefore be increased by $7,348.

In summary, the cost of gas should be reduced by $21,398 ($28,746-$7,348).

Storage

The storage costs included in Summit's filing was lacking documentation during this ACA period. Upon further review, Summit prepared a revised storage inventory schedule to restate the storage inventory balance. Summit's update resulted in a net withdrawal cost of $322,781 ($1,208,472 beginning balance - $817,981 ending balance - $33,300 - $34,410) for this ACA period. Upon further review, Staff agrees with the net withdrawal cost of $322,781. The original filing reflects a net withdrawal cost of $278,078. The cost of gas should therefore increase by $44,703 ($322,781-$278,078).

ACA Approach for Interest Calculations

For each month during the ACA period interest shall be credited to customers for any over-recovery of costs or credited to Summit for any under-recovery of gas costs. As a result of the changes in the billed revenues and cost of gas previously described, the amounts used to calculate the monthly ACA balances have changed. Interest was re-calculated on the revised monthly ACA balances resulting in $3,397 due Summit. An increase of $2,323 ($3,397-$1,074 filed) is due Summit resulting in an increased cost of gas.

<u>School Aggregation</u>

According to the Company's tariffs, Sheet No. 18.5, "The monthly commodity charges and customer charges equivalent in the applicable companion sales rate will be billed each transporter within the Pool Group by the Company in accordance with non-gas charges set forth in the Company's tariff for applicable sales service." Currently, Summit only bills these charges once for each school district which typically has several schools (and multiple meters) within each district. According to Summit, this is because each school district is treated as a single pool group with one monthly fee assessed for each pool group. Staff believes that this tariff language should be re-examined in the context of the next general rate case. The definition of a transporter should be further evaluated at that time. Staff does not propose any adjustment in this ACA.

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a gas corporation providing natural gas service to Missouri customers, Summit Natural Gas of Missouri, Inc. (SNG) is responsible for conducting reasonable long-range supply planning to meet its customer needs. SNG must make prudent decisions based on that planning. One purpose of the ACA process is to examine the reliability of the Local Distribution Company's (LDC) gas supply, transportation, and storage capabilities. For this analysis, Staff reviewed the LDCs' plans and decisions regarding estimated peak-day requirements and the LDC's pipeline capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

<u>Reserve Margin for Rogersville Take Point</u>

SNG conducts a calculation of reserve and refers to this as "excess (deficient) capacity" in its estimates for the 2011/2012 winter and forward. SNG calculates a reserve for the two take-points on its system, the Aurora take-point for the Branson area, and the Rogersville take-point for the remainder of its service area. SNG does not consider capacity release in this calculation. Although schools in the aggregation program are transport customers, they obtain capacity through capacity release from SNG and obtain their own supply of natural gas. Because Tariff Sheet No. 18.5, capacity release provisions for school aggregation, states the release will be made on a recallable basis, but the <u>Company agrees not to recall capacity unless requested to do so by Customer</u>, capacity release to schools must be considered in the available capacity for peak day planning and the associated reserve margin for all years in the planning review. However, the supply that the Company brings to the take-point would not include the supply from school aggregation because these schools contract for their own supply. When the capacity release to schools is removed from the total available for the Company's firm customers, the reserve margin for the Rogersville take-point becomes negative for the 2014/2015 ACA period.

Staff will seek clarification of the Company methodology in the 2012/2013 ACA review for its treatment of capacity release for schools in its "excess (deficient) capacity" calculation.

Gas Supply Planning and Decisions, Including Storage

The Company's newly contracted storage went into effect during the prior ACA for the injection season, but this is the first ACA period that the storage was available for withdrawals to meet its winter gas supply needs. For the reasons described below, the Company's actions regarding gas supply decisions, including storage injections and withdrawals, are of Staff's concern during this ACA period.

The table below shows the storage activity for this ACA period:

Firm Storage (SA16455) MSQ=300,000 dth					
Month	Beginning Balance	Injection	Withdrawal	End Balance	% of MSQ
Sep-11	216,289	-	-	216,289	72%
Oct-11	216,289	-	-	216,289	72%
Nov-11	216,289	-	15,000	201,289	67%
Dec-11	201,289	-	37,200	164,089	55%
Jan-12	164,089	-	7,600	156,489	52%
Feb-12	156,489	-	10,089	146,400	49%
Mar-12	146,400	-	-	146,400	49%
Apr-12	146,400	-	-	146,400	49%
May-12	146,400	-	-	146,400	49%
Jun-12	146,400	-	-	146,400	49%
Jul-12	146,400	-	-	146,400	49%
Aug-12	146,400	-	-	146,400	49%

As shown in the table, the Company began the winter season with a 72% balance of maximum storage quantity (MSQ) (216,289 of 300,000 dth.) The Company did not provide a plan or explanation that filling storage to only 72% is an appropriate level (or that this was the level to be obtained). In other words there is no explanation as to why it wouldn't fill storage to near the contracted capacity level.

During the winter of 2011/2012, SNG had a balance of 201,289 available for withdrawals, but only withdrew 69,889. This was a very warm winter, approximately 82% of normal. The Company decisions regarding storage withdrawals are reviewed in conjunction with its decisions regarding natural gas supply purchases.

The Company has no injections in the non-winter months of September 2011 and October 2011 and April 2012 through August 2012 of this ACA period. SNG storage at the end of winter is 49% full and continues to be 49% full at the end of August 2012. Thus, SNG actions taken in the 2011/2012 ACA period may impact its storage availability for the 2012/2013 winter. Staff questioned the Company regarding its balance at the end of October 2012, and it was stated that the balance remained at 146,400 dth (or 49% full) going into the winter of 2012/2013. The decision to only fill storage to 49% will be reviewed in the 2012/2013 ACA review.

In DR No. 9 Staff inquired about supply studies, reports, and/or analyses performed by the Company or on behalf of the Company for the ACA period. Staff also requested documentation of actions the LDC took for this ACA period to address supply reliability. The Company response states:

> No formal analyses were performed.
> Company has contracted for 300,000 dth of Storage Capacity as a mean of added reliability to serve its customers."

Staff requested a copy of the Company's storage injection and withdrawal plans and any updates to the plans. (DR18) The Company responded by stating: "No formal storage injection or withdrawal plans are available."

Staff inquired about targeted storage levels and the Company responded:

> Company is able to withdraw from its storage a minimum of 2,100 dth/day up to a maximum of 3,000 dth/day (subject to available storage inventories). As such, Company does not have specific date or storage level targets. (DR19)

For the Company's response to DR18, it provided a spreadsheet that showed that the Company also transferred imbalance volumes (natural gas that exceeded requirements at its take points) into an interruptible storage contract. The Company noted in the spreadsheet:

> Due to the mild winter experienced by SMNG during 2011 and 2012, the Company was carrying a significant imbalance with Southern Star in December and January. The Company worked out an agreement [with Southern Star] to transfer the imbalance to an interruptible storage contract (SA18578) in February 2012 to avoid being cashed out…

Although the Company's concern above pertains to an imbalance in January, a review of the purchases indicates the supply decisions (including storage) in December 2011 contributed to the imbalance.

Staff evaluated the Company's natural gas supply purchased volumes compared with the Company's estimated normal weather volumes. They are shown in the following table:

Comparison of Supply Contract Volumes to Normal Month Req.	**Nov-11**	**Dec-11**	**Jan-12**	**Feb-12**	**Mar-12**
Normal Month Requirements (Mcf) (from 2011/2012 Natural Gas Supply Plans for Mt. Grove, Branson, and Lebanon)	107,356	220,590	247,932	209,451	119,536
Total Invoiced Volumes	87,343	268,626	161,634	132,878	65,193
Total Flowing Volumes as % of Normal Mo Req. (includes peaking actual & spot)	81%	122%	65%	63%	55%
Heating Degree Days as % of Normal Weather	92%	90%	84%	92%	42%

Comparison of Supply Contract Volumes to Normal Month Req.	**Nov 2011**	**Dec 2011**	**Jan 2012**	**Feb 2012**	**Mar 2012**
Normal Month Requirements (Mcf) (from SNG 2011/2012 Natural Gas Supply Plans for Mt. Grove, Branson, and Lebanon)	107,356	220,590	247,932	209,451	119,536
Total Invoiced Volumes (dth.)	87,343	268,626	161,634	132,878	65,193
Total Flowing Volumes as % of Normal Mo Req. (includes peaking actual & spot)	81%	**122%**	65%	63%	55%
Storage withdrawals (dth.)	15,000	37,200	7,600	10,089	-
Flowing Volumes and Storage Withdrawals	102,343	305,826	169,234	142,967	65,193
Total Flowing Volumes & Storage as % of Normal Mo Req.	95%	**139%**	68%	68%	55%
Volumes injected into storage	-	-	-	-	-
Volumes injected into interruptible storage	-	-	-	72,491	-
Heating Degree Days as % of Normal Weather	92%	90%	84%	92%	42%

The December supply volumes were 139% of volumes expected for normal weather. December 2011 had warm weather that was approximately 90% of normal weather. The Company's nominated supply and nominated storage withdrawals were in excess of its supply requirements for normal December weather.

As shown in the table above, the Company supply for the months of January and February 2012 were reduced so that the flowing volumes and storage were 68% of normal for each of these months. However, SNG still had to adjust for the imbalances from the excess supply in December. The Company was able to contract for interruptible storage in February 2012 to inject the excess volumes. This was done to avoid either: (1) any losses in selling the gas back in the market during a warm winter, or (2) costs associated with pipeline cash outs.

Staff's review of the Company decisions, including the added cost of interruptible storage, shows the impact on customers was immaterial. Thus, no adjustment is proposed.

Staff had meetings with the Company on May 2nd and May 17th, 2013. The Company and Staff agreed at the May 2nd meeting that the Company would address Staff's concerns with storage at the subsequent meeting. Although some of Staff's concerns were addressed during the May 17th meeting, storage injection and withdrawal plans were not fully addressed. Staff recommends that the Company develop a Natural Gas Supply and Storage plan that demonstrates how storage operations and supply purchases are integrated to fulfill monthly normal, warmer, and colder estimated requirements. The storage plan should include a discussion of SNG requirements, targets, and/or guidelines for filling storage. Staff recommends that the Company perform a comprehensive review of its integration of storage as part of its natural gas supply plan. Staff recommends SNG provide this plan on or before its 2013 fall Purchased Gas Adjustment filing, but no later than 11/1/2013 for the 2013/2014 winter.

IV. HEDGING

SNG hedged with fixed price purchases (contracts) from gas supplier BP for the winter heating season (November 2011 through March 2012). Additionally, SNG utilized storage for the winter heating season. SNG's hedging percentage target for the winter (November 2011 through March 2012), implemented as a result of a Commission order in GC-2006-0180, was to secure hedging of a minimum of 20%, 40%, and 55% of normal winter heating–season gas supply at fixed prices or otherwise hedged against market exposure no later than April 30, July 15, and October 1, 2010, respectively, unless good cause is shown for deviating from these bench marks. SNG hedged, with fixed price purchases and storage, 62% by October 1, 2011. SNG also hedged with fixed price purchases toward the end of October, 2011 for the winter heating season. However, SNG hedged about 19% and 28% by April 30 and July 15, 2011, respectively.

Despite SNG's hedging practice using fixed price purchases and storage, as a result of a Commission order, SNG hedged less than required by the Commission order during April and July, 2011 as noted in the above paragraph. Nevertheless, there were no additional costs to SNG's ratepayers from the less than required hedges during April and July, 2011 because of a downward market price trend throughout the year 2011. During the 2013-2014 winter gas supply presentation conducted on May 17, 2013, the Company indicated that it placed the April portion of fixed price hedges for the upcoming winter season as required by the Commission order.

Staff recommends the Company continue to stay current with market developments in order to make prudent gas procurement decisions. SNG should use market based, as well as dollar-cost-average approaches, to implement a reasonable hedging strategy that is partially responsive to the changing market dynamics. In particular, Staff recommends that the Company evaluate its hedging strategy in the changed market conditions where the market prices have become less volatile. Staff further recommends the Company carefully plan diversification of its gas supply portfolio, as storage is a part of hedging instruments. SNG should evaluate how best to balance the fixed price purchases in its gas supply portfolio, given the storage capacity, to achieve a cost effective hedging outcome. Additionally, SNG should evaluate further diversification of its gas supply portfolio and include a gas supply planning horizon of multiple years.

V. RECOMMENDATIONS

The Staff recommends that Summit:

1. Adjust the balances in its next ACA filing to reflect the Staff recommended ending (over)/under recovery ACA balances per the following table:

TABLE 1

Description (+) Under-recovery (-) Over-recovery	Ending Balances Per Filing	Commission Approved Adjustments prior to 2011-2012 ACA	Staff Adjustments For 2011-2012 ACA	Staff Recommended Ending Balances
Prior ACA Balance 8/31/11	$204,714	$0	$0	$204,714
Cost of Gas	$3,611,581	$0	($21,398) (B)	$3,590,183
Cost of Transportation **Cost of Storage** **Imbalance Costs**	$2,135,857 $278,078 ($45,381)	$0	$0 $44,703 $45,381	$2,135,857 $322,781 $0
Revenues	($5,809,050)	$0	($295,431)	($6,104,481)
ACA Approach for Interest Calculation	$1,074	$0	$2,323	$3,397
Staff prior period adjustment	$112,482 (A)	$0	$0	$112,482
Total ACA Balance 8/31/12	$489,355	$0	($224,422)	$264,933

A) ($11,500) (Pre 2010-11 ACA) + $123,982 (2010-11 ACA Case No. GR-2012-0123)
B) ($28,746) + $7,348

2. Respond to Staff's recommendations in Section II – Billed Revenues and Actual Gas Costs.

3. Respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section (Section III) related to reserve margins for the Rogersville area and Natural Gas Supply and Storage Plans.

4. Respond to Staff's recommendations in Section IV - Hedging.

5. Respond to recommendations included herein within 30 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri's Purchased Gas Adjustment	))	File No. GR-2013-0256

AFFIDAVIT OF KWANG Y. CHOE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Kwang Y. Choe, being of lawful age, on his oath states: that as a Regulatory Economist II in the Procurement Analysis Unit of the Utility Services Department, he has participated in the preparation of the foregoing memorandum consisting of 11 pages to be presented in the above case; that he has knowledge of the matters set forth in the Memorandum pertaining to Hedging; and that such matters are true and correct to the best of his knowledge and belief,

Kwang Y. Choe

Subscribed and sworn to before me this 5th day of June, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri's Purchased Gas Adjustment	))	File No. GR-2013-0256

AFFIDAVIT OF PHIL S. LOCK

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Phil S. Lock, being of lawful age, on his oath states: that as a Utility Regulatory Auditor III in the Procurement Analysis Unit of the Utility Services Department, he has participated in the preparation of the foregoing memorandum consisting of 11 pages to be presented in the above case; that he has knowledge of the matters set forth in the Memorandum pertaining to Billed Revenues and Actual Gas Costs; and that such matters are true and correct to the best of his knowledge and belief,

Phil S. Lock
Phil S. Lock

Subscribed and sworn to before me this 5th day of June, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D. Suzie Mankin
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri's Purchased Gas Adjustment	))	File No. GR-2013-0256

AFFIDAVIT OF DERICK MILES, P.E.

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Derick Miles, being of lawful age, on his oath states: that as a Utility Regulatory Engineer I in the Procurement Analysis Unit of the Utility Services Department, he has participated in the preparation of the foregoing memorandum consisting of 11 pages to be presented in the above case; that he has knowledge of the matters set forth in the Memorandum pertaining to Reliability Analysis and Gas Supply Planning; and that such matters are true and correct to the best of his knowledge and belief,

Derick Miles
Derick Miles, P.E.

Subscribed and sworn to before me this 5th day of June, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D. Mankin
Notary Public