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August 12, 2002

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

FILED⁴
AUG 12 2002

Re: GR-2000-520 and GR-2001-461

Missouri Public
Service Commission

Dear Mr. Roberts:

Enclosed for filing on behalf of Aquila, Inc. d/b/a Aquila Networks - MPS, please find an original and eight (8) copies of Response to Staff Memorandum and Recommendation.

A copy of this filing is being provided to Office of the Public Counsel.

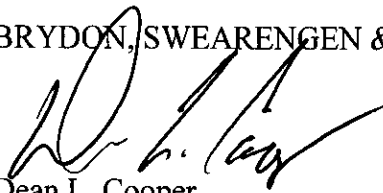
Please see that this filing is brought to the attention of the appropriate Commission personnel.

I thank you in advance for your cooperation in this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND, P.C.

By:



Dean L. Cooper

DLC/lar

Enclosure

cc: Robert Franson
Doug Micheel

FILED⁴
AUG 12 2002

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

Missouri Public
Service Commission

In the Matter of Aquila Networks - MPS')
Purchased Gas Adjustment factors to be reviewed)
in its 1999-2000 Actual Cost Adjustment.)

Case No. GR-2000-520

In the Matter of Aquila Networks - MPS')
Purchased Gas Adjustment factors to be reviewed)
in its 2000-2001 Actual Cost Adjustment.)

Case No. GR-2001-461

RESPONSE TO STAFF MEMORANDUM AND RECOMMENDATION

COMES NOW Aquila, Inc. ("Aquila"), d/b/a Aquila Networks - MPS ("MPS"), and hereby respectfully provides to the Missouri Public Service Commission ("Commission") the following response to the Staff Memorandum and Recommendation:

1. These cases were consolidated by the Commission's Order Consolidating Cases and Order Establishing Procedural Schedule issued on May 22, 2001. The Commission later amended the procedural schedule with its Order Adopting Amended Procedural Schedule and Order Amending Caption issued May 2, 2002.

2. On July 9, 2002, the Commission Staff ("Staff") filed its Recommendation in this matter. The Recommendation included a Memorandum which set out the results of Staff's review of both the 1999-2000 and 2000-2001 Actual Cost Adjustment ("ACA") filings of MPS. MPS will respond to the various issues identified by Staff in the following paragraphs.

PUT/CALL TRANSACTIONS (1999-2000 & 2000-2001)

3. Staff has proposed adjustments to reduce costs by \$128,729 on the Northern System and by \$116,146 on the Southern System for the 1999-2000 ACA period. Staff has proposed to reduce costs by \$45,007 on the Northern System and by \$182,236 on the

Southern System for the 2000-2001 ACA period. These proposed adjustments are related to MPS' use of certain put and call transactions. The adjustments represent a complete refunding of the premiums associated with these transactions.

4. MPS respectfully disagrees that refunding the premiums associated with put/call transactions is the appropriate remedy for the risk to which Staff perceives regulated customers have been exposed. MPS instead proposes that the gas costs be adjusted to ensure that there has been no impact on regulated customers as a result of the put/call transactions. This remedy will more appropriately address this perceived risk.

5. The effect of the Staff proposal would be to accept the gas cost adjustments previously proposed by MPS and, in addition, also request that regulated customers also benefit through the crediting of premiums. MPS believes while one might argue that it is appropriate for the regulated customers to receive either the gas cost adjustments or the premiums, it is inconsistent to make both adjustments.

6. The approach of assigning the premiums to offset shareholder risk and holding regulated customers harmless represents a symmetrical sharing of risk. The premiums serve to offset the risk of entering into the transactions for non-regulated purposes. In order to fulfill the intent that regulated customers be shielded from any adverse consequences of these transactions, MPS has determined that certain gas cost adjustments were appropriate. The value of these gas cost adjustments should be applied against the premiums rather than requiring both the gas cost adjustments and the crediting of premiums to regulated customers.

7. For the 1999-2000 ACA, MPS feels the appropriate adjustment for the Southern System is a cost reduction of \$78,044. In addition to the above reasons, MPS

feels the Staff's calculated impact for the Northern System for the 1999-2000 ACA is incorrect for an additional reason. Staff is assuming that 28.57% of Put/Call gas is allocated to the Northern System, which is not the case. The 28.57% allocated percentage is true for transportation but not for gas costs. MPS feels the calculated impact is \$28,769, which is based on actual Put/Call gas directly allocated to the Northern System.

8. For the reasons identified above, MPS feels that for the 2000-2001 ACA period, the appropriate adjustment for the Southern System is a cost reduction of \$151,400. Additionally, because there was no put/call activity on the Northern System for the 2000-2001 ACA period, MPS believes that there is no impact for the Northern System and, thus, no adjustment is appropriate for the Northern System for this time period.

RELIABILITY ANALYSIS (1999-2000 & 2000-2001)

9. While MPS does not agree with all of the Staff's conclusions, MPS does not object to providing a copy of its policies and procedures, as a guideline for those responsible for nominating natural gas. The policies and procedures will include, at a minimum, the interaction between short-term weather forecasts, pricing information, nomination deadlines, demand forecasts, end-user analysis, required storage targets, actual storage balances, storage telemetry, existing gas supply contracts and constraints, and first-of-the-month flowing versus daily market levels. These variables will be considered, at least implicitly, in spreadsheet summaries containing the various inputs that eventually result in determination of the amount of flowing supply to nominate.

10. Similarly, MPS does not object to providing the information requested by the Staff in Recommendation 4a-4f.

DEFERRED CARRYING COST BALANCE (2000-2001)

11. MPS agrees with the staff's recommendation to increase gas costs to the Southern System by \$12,289 and the increase gas costs to the northern System by \$5,978.

NORTHERN SYSTEM STORAGE (2000-2001)

12. MPS disagrees with the Staff's recommendation as to Northern System storage. The Staff recommendation would essentially change the pricing methodology for one month of the year. The is not logical or reasonable. Additionally, this change has no lasting impact as inventory change would merely move costs to the 2001-2002 ACA period that are should legitimately be found in the 2000-2001ACA period.

PURCHASING PRACTICES – EASTERN SYSTEM (2000-2001)

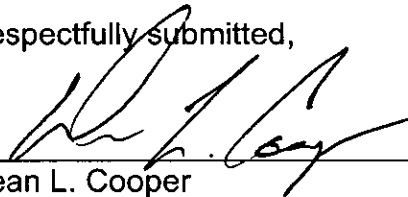
13. Staff is recommending a reduction in gas costs of \$197,771 for the Eastern System due to its allegation that MPS did not adequately manage price protection to reduce the volatility of gas prices during the 2000-2001 heating season. Staff bases this conclusion on applying a 30% reasonableness standard to normal requirements. MPS believes Staff has no basis to apply this reasonable test. At no time before or during the 2000-2001 heating season was the expectation of having a minimum of 30% of normal requirements hedged ever mentioned by Staff. On the MPS Southern and Northern Systems, MPS hedged more than 30% of normal requirements during the winter of 2000-2001. It appears that Staff is not willing to allow recovery of additional gas costs for those systems. If the winter had been warmer than normal, MPS suspects there would not having been any 30% reasonableness standard. This recommendation improperly seeks disallowances based upon a hindsight review.

PURCHASING PRACTICES – SOUTHERN SYSTEM (2000-2001)

14. Staff is recommending a reduction in gas costs of \$1,010,503 due to Staff's belief that MPS didn't prudently manage its purchasing decisions and use of storage on the MPS Southern System. Staff is basing this reduction on the belief that MPS should have ordered a higher level of flowing supplies in November and December 2000 and a lower level of flowing supplies in January, February, and March 2001. MPS doesn't agree with Staff's recommendation. Staff fails to recognize that November 2000 and December 2000 were the coldest two months period on record. This recommendation improperly seeks disallowances based upon a hindsight review.

WHEREFORE, Aquila Networks - MPS respectfully requests the Commission issue its order consistent with the response herein and issue such further orders as the Commission should find reasonable and just.

Respectfully submitted,



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ATTORNEYS FOR AQUILA, INC. D/B/A
AQUILA NETWORKS - MPS

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered on August 12, 2002 to the following:

Robert Franson
Office of the General Counsel
Governor Office Building
Jefferson City, Mo 65101

Douglas Micheel
Office of the Public Counsel
Governor Office Building
Jefferson City, MO 65101

