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November 1, 2001

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Missouri Public  
Service Commission

**RE: Case No. GR-2000-573**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION (HC VERSION)** and an original **STAFF RECOMMENDATION (NP VERSION)**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Dennis L. Frey  
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DLF:ccl  
Enclosure  
cc: Counsel of Record

**NP**

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

In the Matter of Atmos Energy	)	
Corporation's Purchased Gas Adjustment	)	
Factors to be Reviewed in its 1999-2000	)	Case No. GR-2000-573
Actual Cost Adjustment.	)	

**STAFF RECOMMENDATION**

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its Recommendation in the above-captioned case, respectfully states as follows:

1. On March 15, 2001, Associated Natural Gas Company ("ANG"), a division of Arkansas Western Gas Company, filed with the Commission a tariff sheet with a proposed effective date of April 1, 2000. On March 27, 2000, Staff filed a recommendation that the tariff sheet be approved, interim subject to refund, and the Commission so ordered on March 28, 2000.

2. As of June 1, 2000, Atmos Energy Corporation ("Atmos"), pursuant to a Commission-approved Unanimous Stipulation And Agreement in Case No. GM-2000-312, involving the sale of ANG's Missouri properties to Atmos, became the owner and operator of said properties.

3. On July 17, 2000, Atmos filed with the Commission a proposed tariff sheet reflecting an unscheduled summer change (effective August 1, 2000) in its Purchased Gas Adjustment ("PGA") factors for Atmos's Butler, SEMO and Kirksville districts. That same day, Atmos also filed its Request For Variance From Tariff Provisions. On July 25, 2000, the Staff

filed a memorandum recommending that the request for a variance be granted and that the tariff sheet be approved, interim subject to refund. The Commission so ordered on July 31, 2000.

4. On October 18, 2000, Atmos filed with the Commission a proposed tariff sheet for its Butler, Kirksville and Southeast Missouri ("SEMO") districts, carrying an effective date of November 1, 2000. The tariff sheet was filed to reflect scheduled changes in Atmos's Purchased Gas Adjustment ("PGA") factors, as a result of changes in the cost of natural gas for the 2000-2001 winter season. A substitute tariff sheet was filed on October 23rd to reflect a modification in the PGA factors for the SEMO District. The Staff filed its recommendation of approval on October 25, 2000, interim subject to refund, and the Commission so ordered on October 30, 2000.

5. On October 17, 2001, the parties filed a Settlement Agreement And Release ("Agreement") involving this case as well as the four prior Actual Cost Adjustment ("ACA") cases. The Agreement is in the process of being modified, and the Staff expects that a final agreement among the parties will soon be reached and submitted for Commission consideration. The Agreement (including any modifications) is intended to resolve the ACA audit only as to ANG. Accordingly, the Agreement (including any modifications), as it pertains to the instant case, seeks to separate the time period relating to ANG's natural gas purchasing practices and operations in Missouri (*i.e.* September 1, 1999 through May 31, 2000) from the time period relating to the gas purchasing practices and operations of Atmos (*i.e.*, June 1, 2000 through August 31, 2000). The analysis and recommendations presented by the Staff in the Attached Memorandum (Appendix A) pertain only to what Staff believes is Atmos's obligation under the Agreement (including any modifications).

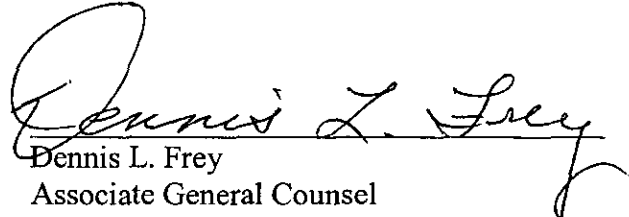
6. Although there is no procedural schedule in this case, this Recommendation is being filed on November 1, 2001, which is consistent with the proposed procedural schedule, as submitted in the subsequent ACA case for Atmos. (See Attachment C to Staff Notification, filed March 27, 2001, in Case No. GR-2001-396.) Among the recommendations in the Memorandum attached hereto is that the Commission order Atmos to respond to the Staff's recommendations within thirty days.

7. The Memorandum attached hereto is being filed, contemporaneous with a Motion For Protective Order, in both "Highly Confidential" and Non-Proprietary" versions. An "NP" stamped atop this pleading denotes the fact that the non-proprietary version is attached. An "HC" appearing atop this pleading indicates that it is attached to the version for which highly confidential treatment is requested.

WHEREFORE, Staff respectfully requests that the Commission issue its Order in accordance with the Staff's Memorandum attached hereto, including a directive that Atmos file its response within thirty days.

Respectfully submitted,

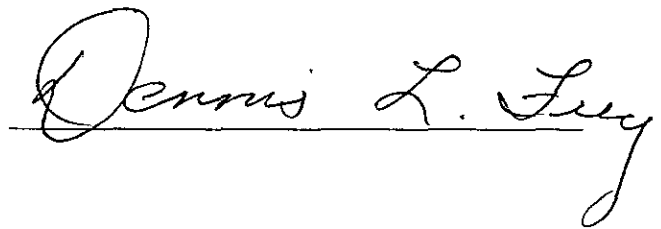
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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 1st day of November 2001.



**MEMORANDUM**

TO: Missouri Public Service Commission Official Case File,  
Case No. GR-2000-573, Atmos Energy Corporation

FROM: Dave Sommerer, Manager- Procurement Analysis Department  
Mike Wallis, Regulatory Auditor IV-Procurement Analysis Department *MTW*  
Lesa A. Jenkins, P.E., Regulatory Engineer, Procurement Analysis Department *Laf*

*[Signature]* / 10-29-01  
Project Coordinator/Date

*Thomas R. Schwegler* 10-30-01  
General Counsel's Office/Date

SUBJECT: Staff's Recommendation in Atmos Energy Corporation's 1999-2000  
Actual Cost Adjustment Filing

DATE: October 29, 2001

The Procurement Analysis Department (Staff) has reviewed Atmos Energy Corporation's (Atmos or Company) 1999-2000 Actual Cost Adjustment (ACA) filing. This filing is docketed as Case No. GR-2000-573.

Atmos Energy Corporation separates its Missouri gas operations into the following districts: SEMO, Kirksville, and Butler. The SEMO, Kirksville, and Butler districts serve approximately 57,000 customers, 6,000 customers, and 4,000 customers, respectively. For purposes of the reliability review, Atmos separates its Missouri gas operations into the following five service areas: Butler/Panhandle Eastern Pipe Line (PEPL), Kirksville/ANR, Jackson/Natural Gas Pipeline (NGPL), Piedmont/ Mississippi River Transmission (MRT), and Southeast Missouri Integrated system.

Staff's review consisted of an audit and evaluation of the billed revenues and gas costs for the period of September 1, 1999 to August 31, 2000. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA, Refund, Transition Cost, and Take-or-Pay balances. An examination of Atmos Energy Corporation's gas purchasing practices was also performed to determine the prudence of the Company's purchasing decisions.

In addition, Staff conducted a reliability analysis for the Atmos distribution system including a review of Atmos information regarding a) estimated peak day requirements and the capacity levels to meet those requirements, b) peak day reserve margin and the rationale for this reserve margin, c) comparison of actual demand to that estimated by the peak day model, and d) annual estimated demand.

ANG/\*\* \_\_\_\_\_ \*\* CONTRACT ADJUSTMENT

The Missouri Commission, in Case No. GM-2000-312, approved the sale of Associated Natural Gas Company's (ANG) assets to Atmos. Atmos became the owner and operator of the

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SEMO District on June 1, 2000.

Prior to June 1, 2000 (the first nine months of the 1999/2000 ACA period), ANG owned and operated the SEMO District. ANG, as part of its gas supply portfolio, negotiated a gas supply contract with \*\*

\*\*

As part of the sale of assets, Atmos agreed to purchase from \*\*

\*\*

Atmos purchased \*\*

\*\* Staff believes that during this period, the SEMO District customers paid excessive additional gas costs of \$60,626 \*\*

As a result of Atmos' imprudent contracting practices, Staff proposes an adjustment to reduce the SEMO District's Firm Customer gas costs by \$45,603 and to reduce the SEMO District's Interruptible Customer gas costs by \$15,023. Staff's allocation of its adjustment between the firm and interruptible customer classes was derived by using Atmos' billed volumes for the months of June, July and August of 2000.

#### NGPL CASHOUT CREDITS

The Staff, during its audit of Atmos' 1999/2000 ACA filing, discovered that Atmos did not include \$54,600 of NGPL cashout credits (related to the months of July and August of 2000) in its ACA filing. As a result, Staff proposes an adjustment to reduce the SEMO District's Firm Customer gas costs by \$41,070 and to reduce the SEMO District's Interruptible Customer gas costs by \$13,530. Staff's allocation of its adjustment between the firm and interruptible customer classes was derived by using Atmos' billed volumes for the months of June, July and August of 2000.

#### DCCB ADJUSTMENT

The Staff, during its audit of Atmos' 1999/2000 ACA filing, discovered that Atmos had incorrectly calculated the interest component of its Deferred Carrying Cost Balance (DCCB). Atmos calculated the DCCB interest based on the ACA period-ending cumulative DCCB balance. However, Atmos' Missouri PSC PGA tariffs specify that DCCB interest must be

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calculated on a month-ending cumulative basis for each month of the ACA period. As a result, Staff proposes (1) a \$10,619 adjustment to the SEMO District's Interruptible Customer ACA balance, (2) a \$6,666 adjustment to the Kirksville District's Interruptible Customer ACA balance and (3) a \$7,578 adjustment to the Butler District's Interruptible Customer ACA balance.

### **RELIABILITY ANALYSIS**

As agreed to in GM-2000-312, Atmos submitted peak day information for the five Missouri service areas of Butler/Panhandle Eastern Pipe Line (PEPL), Kirksville/ANR, Jackson/Natural Gas Pipeline (NGPL), Piedmont/ Mississippi River Transmission (MRT), and Southeast Missouri Integrated system. These estimates pertain to peak day needs beginning in 2000/2001. No reliability analysis was presented by ANG or Atmos for the 1999/2000 winter. There are substantial differences in the peak day estimates provided by ANG in the 1998/1999 ACA review and the estimates provided by Atmos for 2000/2001, and these differences cannot be explained merely by positive or negative growth in the five service areas. It appears that there may have been a change in the load due to a shift of some customers to Transportation only (from the time of ANG's review for the 1998/1999 ACA to the time of Atmos' review for the 2000/2001 winter). To confirm that the Atmos peak day model is reasonable, Staff recommends that Atmos re-examine the peak day estimate for the following reasons:

1. Although the Company submitted estimates of demand requirements for a 30-year peak day, baseload and heatload factors used in the Company's analysis were developed from usage data experienced during warm winters.
2. The Atmos estimated growth rate for Kirksville/ANR commercial customers is much lower than that used by ANG.
3. The Atmos estimated growth rate for Piedmont/MRT residential and commercial customers is somewhat lower than that used by ANG.
4. A comparison of recent cold days shows that the Atmos model overestimates usage for recent cold days in Piedmont. There are also large differences in actual usage versus estimated usage for recent cold days in Jackson.
5. Atmos' estimates of baseload per residential and commercial customer for the service areas of Butler/PEPL, Kirksville/ANR, Jackson/NGPL, and Southeast Missouri Integrated system are much lower than the previous estimates of ANG. Atmos' estimate of baseload per commercial customer for the Piedmont/MRT service area is much lower than the previous ANG estimate.



6. Atmos' estimates of heat use per commercial customer- HDD for the service areas of Butler/PEPL and Southeast Missouri Integrated are lower than the previous ANG estimates.
7. The correlation coefficient for the Atmos model for the Southeast Missouri Integrated system for estimated residential use is only 0.8460.
8. Large reserve margins were identified for Butler/PEPL, Kirksville/ANR, Jackson/NGPL, Piedmont/MRT, and the Southeast Missouri Integrated system.
9. Atmos' estimates of annual demand for Jackson/NGPL and Piedmont/MRT were considerably different from that previously reported by ANG. It appears that the Atmos estimate is not normalized for weather.

#### SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2000-573 for Atmos Energy Corporation:

1. Atmos was imprudent because it failed to retain the eighteen-cent reduction to the IFGMR Reliant East index. As a result, Staff proposes an adjustment to reduce the SEMO District's Firm Customer gas costs by \$45,603 and to reduce the SEMO District's Interruptible Customer gas costs by \$15,023.
2. Atmos did not include the July and August NGPL cashout credits in its 1999/2000 ACA filing. As a result, Staff proposes an adjustment to reduce the SEMO District's Firm Customer gas costs by \$41,070 and to reduce the SEMO District's Interruptible Customer gas costs by \$13,530.
3. Atmos incorrectly calculated the interest component of its DCCB. As a result, Staff proposes (1) a \$10,619 adjustment to the SEMO District's Interruptible Customer ACA balance, (2) a \$6,666 adjustment to the Kirksville District's Interruptible Customer ACA balance and (3) a \$7,578 adjustment to the Butler District's Interruptible Customer ACA balance.
4. Since Atmos' peak day study is for the 2000/2001 winter, and Staff's reliability review in this case is for the 1999/2000 winter, Staff is not proposing an adjustment at this time. To adequately review the Atmos estimated peak day requirements and the rationale for the reserve margins for the 2000/2001 ACA period, Staff is recommending that additional information be submitted.

### RECOMMENDATIONS

1. The Staff recommends that the Commission approve the (over)/under recovered ACA, Transition Cost and Refund balances in the third column of the following table.

	Balance per Atmos Filing	Staff Adjustments	Ending ACA Balances
SEMO District:			
Firm ACA	\$ 1,576,496	\$ (86,673)	\$ 1,489,823
Interruptible ACA	\$ 296,191	\$ (39,172)	\$ 257,019
Firm Refund	\$ 7,795	\$ 0	\$ 7,795
Interruptible Refund	\$ 1,345	\$ 0	\$ 1,345
Transportation Transition Cost	\$ 54,672	\$ 0	\$ 54,672
Kirksville District:			
Firm ACA	\$ 210,018	\$ 0	\$ 210,018
Interruptible ACA	\$ 68,498	\$ (6,666)	\$ 61,832
Firm Refund	\$ 16,066	\$ 0	\$ 16,066
Interruptible Refund	\$ 5,455	\$ 0	\$ 5,455
Transportation Transition Cost	\$ 3,709	\$ 0	\$ 3,709
Butler District:			
Firm ACA	\$ 60,644	\$ 0	\$ 60,644
Interruptible ACA	\$ 722	\$ (7,578)	\$ (6,856)
Firm Refund	\$ (456)	\$ 0	\$ (456)
Interruptible Refund	\$ 5,086	\$ 0	\$ 5,086

2. To assure that 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 Atmos to submit the following information by **February 28, 2002**.
  - a. Since the winter of 2000/2001 had a colder November and December, it is recommended that Atmos recalculate the baseload and heatload factors for each of the five Missouri service areas using the 2000/2001 data. Staff recommends that

these factors be compared to those currently being used in the Company's estimates for heatload and baseload and that the peak day estimates be revised if appropriate for 2001/2002 and beyond.

- b. Submit a summary of actual usage, actual heating degree days (HDD), and customer counts for five or more recent cold days from the 2000/2001 or 2001/2002 winters for each service area. Compare the usage on these actual cold days to the usage estimated by the Company's 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 encountered. If the model or peak day estimated demand is re-evaluated based on these findings, please explain.
- c. Submit updated estimates of growth for each of the five service areas.
- d. For each of the five Atmos service areas show the estimated demand and estimated reserve margin for the 2000/2001 ACA period and for two years beyond that.
  - i. Explain the rationale for the reserve margin for each of these years.
  - ii. For any delivered capacity that exceeds the estimated peak day requirements for a service area, provide an estimate of the cost of this reserve capacity. Also explain why the Company believes this cost is reasonable.
  - iii. For supply deliverability resources (flowing gas and storage) that exceeds the estimated peak day requirements for a service area, provide an explanation of why the Company would need to contract for more supply deliverability than estimated for a peak cold day. Also provide the estimated cost of the supply reserve.
  - iv. If the justification for a larger reserve margin is tied to reduction in storage deliverability due to ratcheted storage withdrawals, then please fully explain the assumptions and how the reserve margin changes for an early winter peak day versus a peak day occurrence in February.

- v. For transportation, storage, and supply contracts that expire after Atmos' acquisition of the properties, please explain any changes or planned changes in contract volumes, the rationale, and the timing of these changes. At a minimum, provide this information for the 2000/2001 and 2001/2002 ACA periods.
  - e. For each of the Atmos service areas, provide estimates of annual sales demand for a normal, cold, and warm winter for 2000/2001, 2001/2002, and 2002/2003. Explain how interruptible sales are considered in these estimates.
- 3. The Staff recommends that the Commission order the Company to respond to recommendations 1-2 herein within 30 days.

**Service List for**  
**Case No. GR-2000-573**  
**Revised: October 30, 2001 (ccl)**

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