STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 24th day of September, 1997.

In the Matter of the Operation of Associated Natural Gas Company, a Division of Arkansas Western Gas Company's Purchased Gas Adjustment Clause.	)))))	**Case No. GO-97-402**

ORDER APPROVING STIPULATION AND AGREEMENT

On April 1, 1997, the Staff of the Missouri Public Service Commission (Staff) and Associated Natural Gas Company (ANG) filed a Joint Motion to Open Docket and Joint Motion to Establish a Procedural Schedule. On April 10 the Commission issued an Order establishing this docket and adopting a procedural schedule as suggested by Staff and ANG. On May 5 the Staff filed a Notice and Motion which stated that an agreement in principle had been reached in this case.

On September 12 Staff and ANG filed a Stipulation and Agreement in this case. Staff and ANG are the signatories to the Stipulation and Agreement. The Certificate of Service states that a copy of the Stipulation and Agreement was mailed or hand-delivered to all counsel of record on September 12, 1997. The Commission's rules provide that non-signatory parties have five days after receipt of the notice that a Stipulation and Agreement has been filed to request a hearing regarding the Stipulation and Agreement and, if no such request is made, the Commission should treat the Stipulation and Agreement as a Unanimous Stipulation and Agreement. (4 CSR 240-2.115(3)). The Commission may approve the Stipulation and Agreement without having an on-the-record presentation in this case because the due process requirements as set out in State ex rel. Deffenderfer Enterprises, Inc. v. Public Service Commission, 776 S.W.2d 494, 496 (Mo. App. 1989) have been met. Non-signatory parties had an opportunity to request a hearing and have waived their rights by not requesting a hearing.

The agreement reached by Staff and ANG in this case each involve the function of ANG's PGA clause. The PGA clause is designed to allow natural gas local distribution companies to recover the cost of natural gas that they pay to wholesale suppliers of the commodity.

I. Frequency of PGA Filings

Under its current tariff ANG may make a PGA filing whenever changes in gas costs would result in an aggregate annual increase or decrease of more than $25,000 in the Butler District, $50,000 in the Kirksville District and $500,000 in the Southeast Missouri District. If the Stipulation and Agreement is approved and ANG is authorized to implement tariff changes, ANG would be permitted to make no more than three PGA changes per year. Two of these PGA changes are scheduled changes and they consist of a "winter filing" between October 15 and November 4 of 1997 and each succeeding year, and a "summer filing" between March 15 and April 4 of 1998 and each succeeding year. ANG could make an unscheduled winter PGA filing in between the scheduled winter filing and scheduled summer filing if at the time such unscheduled filing is made there is a projected under-recovery of 15 percent or more of ANG's annual gas costs or a projected over-recovery of 10 percent or more of ANG's annual gas costs.

II. **Proration of PGA changes**

Currently, ANG does not prorate its PGA factors. Under the agreement, increases and decreases in PGA factor shall be applied prorata to customer's bills for service rendered on and after the effective date of the change.

III. **Reevaluation of PGA Clause**

ANG agrees to cooperate with the Staff, Office of the Public Counsel and other interested parties in examining the desirability and feasibility of implementing further changes to its tariff in advance of the 1998/99 winter heating season, based on a review of how well the PGA clause, as modified by this agreement operates during the 1997/98 winter heating season.

The Commission finds that the proposed Stipulation and Agreement is in the public interest and should be approved. The proposed Stipulation and Agreement is consistent with the Commission's obligation to ensure just and reasonable rates. ***See*** Section 393.130.[1]

IT IS THEREFORE ORDERED:

1. That the Stipulation and Agreement filed by the Staff of the Missouri Public Service Commission and Associated Natural Gas Company on September 12, 1997 is hereby approved (Attachment A).

2. That Associated Natural Gas Company shall file tariff sheets in compliance with this order no later than September 30, 1997, in substantially the same form as those attached to the Stipulation and Agreement, said tariff sheets bearing an effective date of October 15, 1997.

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[1] All statutory references are to Revised Statutes of Missouri 1994.

3. That the Staff of the Missouri Public Service Commission shall file a memorandum in this docket no later than October 10, 1997, indicating whether the tariff sheets filed pursuant to ordered paragraph 2 are in compliance with this order.

4. That this order shall become effective on October 15, 1997.

BY THE COMMISSION

Cecil I. Wright

Cecil I. Wright
Executive Secretary

(S E A L)

Lumpe, Ch., Crumpton, Murray,
and Drainer, CC., concur.

ALJ: Luckenbill

FILED

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MISSOURI
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the operation of Associated Natural Gas Company, a division of Arkansas Western Gas Company's Purchased Gas Adjustment Clause.	)))))	Case No. GO-97-402

Stipulation and Agreement

I. Procedural History

On April 1, 1997, the Staff of the Missouri Public Service Commission (Staff) and Associated Natural Gas Company, a division of Arkansas Western Gas Company ("ANG or Company") filed a Joint Motion to Open Docket and a Joint Motion to Establish Procedural Schedule. In the Joint Motion, Staff stated that events during the last heating season had raised general questions regarding the frequency of Purchased Gas Adjustment ("PGA") filings and the extent to which changes in various PGA factors should be prorated for billing purposes. Staff and ANG requested that the Commission open this docket for the purpose of examining these two issues, and these two issues alone, in advance of the next winter heating season.

On April 10, 1997, the Commission issued an Order in Case No. GO-97-402 in which it opened this docket, established the procedural schedule recommended by Staff and ANG, and directed that notice of this proceeding be provided. The Commission also issued Orders opening similar dockets applicable to the other local distribution companies which operate in Missouri.

Subsequent to the issuance of these Orders, representatives of the Staff, ANG and other gas utilities met in an effort to discuss the issues raised in each docket and to determine whether agreements resolving the issues could be reached. As a result of those discussions, Staff and ANG have reached the following stipulations and agreements for each operating district of ANG:

ATTACHMENT A

II. Frequency of PGA Filings

For purposes of resolving the issue relating to the frequency of PGA filings, ANG and Staff have agreed to certain significant revisions to ANG's PGA tariff which, if approved by the Commission, would substantially reduce the number of PGA filings made by ANG each year. These proposed PGA tariff revisions are set forth in Attachment A to this Stipulation and Agreement (the "Proposed PGA Tariff") and include the following modifications:

A. Number and Timing of PGA Filings -- Under its existing tariffs, ANG may make a PGA filing whenever changes in gas costs would result in an aggregate annual increase or decrease of more than $25,000 in the Butler District, $50,000 in the Kirksville District and $500,000 in the Southeast Missouri District. Under the Proposed PGA Tariff, ANG shall be permitted for each district to make no more than two scheduled PGA filings each calendar year and one unscheduled PGA filing each winter period pursuant to the following terms:

1. Scheduled PGA Filings -- The first scheduled PGA filing (hereinafter the "Winter PGA Filing") shall be filed between October 15 and November 4, 1997 and between October 15 and November 4 of each succeeding calendar year thereafter. The second scheduled PGA filing (hereinafter the "Summer PGA Filing") shall be filed between March 15 and April 4, 1998 and between March 15 and April 4 of each succeeding calendar year thereafter.

2. Unscheduled Winter PGA Filing -- In addition to these two scheduled PGA filings, ANG shall also be permitted to make one unscheduled winter PGA filing on an annual basis (hereinafter the "Unscheduled Winter PGA Filing") in the period between the effective date of the Winter PGA Filing and the next Summer PGA Filing, provided that at the time of such Unscheduled Winter PGA Filing, there is: (a) a projected under-recovery in ANG's Deferred

Carrying Cost Balance ("DCCB"), as defined in paragraph II. D.1 herein, equal to or greater than fifteen percent of ANG's Annual Gas Cost Level or (b) a projected over-recovery equal to or greater than ten percent of ANG's Annual Gas Cost Level. The projected under- or over-recovery shall be determined by adding: (1) the actual net over- or under-recovery amount in the DCCB at the time the Unscheduled Winter PGA Filing is made, and (2) the estimated over- or under-recovery amount which, based on ANG's actual gas commodity costs at the time of the Unscheduled Winter PGA Filing, would otherwise occur in the ensuing monthly period absent the filing.

3. Notice Period -- Each PGA filing shall be filed with the Commission no less than ten business days prior to the proposed effective date.

B. Contents of PGA Filings

1. The scheduled Winter and Summer PGA Filings shall contain rates reflecting: (a) refunds, (b)Take-Or-Pay (TOP) costs, (c) Transition Costs (TC), and (d)ANG's estimate of annualized gas cost revenue requirements for the period between the date of such filing and the next scheduled PGA Filing.

2. In the Winter PGA Filing, ANG shall file revised ACA factors relating to the immediately preceding twelve months ending August (prior ACA period).

3. For an Unscheduled Winter Filing ANG may file for a change in rate not to exceed:

(a) ANG's actual commodity gas procurement cost per Ccf in the month in which the filing is made, plus

(b) An additional debit or credit of not more than five cents ($.05) per Ccf in order to recover or return any additional under- or over-recoveries of gas procurement cost revenue requirements since the Winter PGA filing.

4. The Unscheduled Winter PGA Filing Adjustment Factor shall remain in effect only until the effective date of the next scheduled Summer PGA Filing.

C. Estimate of Annualized Gas Costs -- The level of annualized gas costs to be reflected in each PGA filing shall be subject to the following conditions:

1. Fixed Gas Costs -- The gas cost revenue requirement relating to fixed pipeline transportation and storage charges, fixed gas supply charges, and other FERC authorized charges, shall be determined in the same manner as under ANG's now existing PGA procedures.

2. Commodity Gas Cost Cap --The level of gas costs relating to gas supply commodity costs, variable transportation charges, and other FERC-authorized variable charges shall be determined by ANG for purposes of estimating this component in each PGA filing, provided that:

(a) for any scheduled PGA filing, such estimate shall not exceed a per Ccf cost equal to the higher of:

(1) ANG's actual commodity gas cost per Ccf for currently purchased gas supplies in the month in which the PGA filing is made; or

(2) The average of (i) the single highest weighted average commodity gas cost per Ccf and (ii) the overall weighted average commodity gas cost per Ccf actually incurred by ANG, for currently purchased gas supplies in the applicable winter or summer period during the then three most recent ACA periods.

(b) for any Unscheduled Winter PGA Filing, such estimate shall not exceed a per Ccf cost equal to ANG's actual per Ccf commodity cost of gas, for currently purchased gas supplies in the month in which such Unscheduled Winter PGA Filing is made.

(c) ANG will provide to Staff and OPC information necessary to show how the factor was developed.

D. Carrying Costs -- Carrying costs shall be applied to certain deferred gas cost balances in the following manner:

1. No carrying costs shall be applied until such time as the net DCCB exceeds an amount equal to ten percent of ANG's average annual level of gas costs for the three then most recent ACA periods, beginning with the three ACA periods immediately preceding the 1997/98 winter period (hereinafter "Annual Gas Cost Level"). The DCCB shall include the cumulative under- or over-recoveries of gas costs at the end of each month for each annual ACA period. The under- and over-recoveries of gas costs to be included in the DCCB shall be defined as the product of: (a) the difference between ANG's actual annualized unit cost of gas (blended with storage) and the estimated annualized unit cost of gas factor included in ANG's then most recent PGA filing, times (b) the total volumes of gas sold during such month.

2. In the event the DCCB (whether over- or under-recovered) exceeds ten percent of ANG's Annual Gas Cost Level, a carrying cost equal to simple interest at the prime rate as noted in the Wall Street Journal on the first business day of the following month, minus one percentage point shall be applied to such portion of the balance amounts as exceeds ten percent for the period such excess balance amounts exist.

III. Proration

Currently, ANG does not prorate its PGA factors. To resolve this issue, the undersigned parties agree that any increase or decrease in any PGA factor shall be applied prorata to customer's bills for service rendered on and after the effective date of the change. The parties further agree that bills which contain multiple PGA rate changes during a customer's billing cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's billing cycle that such rates were in effect.

IV. Ancillary Matters

A. Variance from PGA Provisions -- Nothing in this Stipulation and Agreement shall expand or limit whatever authority ANG may have to seek a variance or waiver from any ANG tariff provisions or Commission rules. The tariff changes in Attachment A represent a negotiated solution to perceived concerns and involve implementation of a new, untested method of gas cost recovery. As a result, this Stipulation and Agreement shall not be construed as affecting in any way ANG's right to seek emergency or permanent rate relief or to propose changes to its tariffs, including those in Attachment A, pursuant to law.

B. Reevaluation of PGA Clause -- The parties agree that the PGA Clause revisions proposed herein address the immediate concerns raised in Case No. GO-97-402 as such concerns relate to ANG. ANG agrees to cooperate with the Staff, Office of Public Counsel and other interested parties in examining the desirability and feasibility of implementing further changes to its tariffs in advance of the 1998/99 winter heating season, based on a review of how well the PGA Clause, as modified herein, operates during the 1997/98 winter heating season. The parties also acknowledge that the PGA structure provided for herein would need to be significantly altered in the event any further, significant unbundling of ANG's services were to be implemented by the Commission.

C. Data Requests -- All data requests previously submitted by Staff to ANG in these dockets shall be withdrawn. Staff may resubmit Data Request No. 5001 and ANG will provide its response to such data request within 20 days, provided that such response will be furnished without any prejudice to ANG's right to object subsequently to the relevancy or admissibility of the information provided.

V. General Matters

A. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of cost determination or cost allocation, or any service or payment standard; and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

B. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation and Agreement in total, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

C. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.080.1 (RSMo. 1994) to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 (RSMo. 1994); and their respective rights to judicial review pursuant to Section 386.510 (RSMo. 1994).

D. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each Party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's memorandum, a responsive memorandum which shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules; shall be maintained on a confidential basis by all Parties; and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding, whether or not the Commission approves this Stipulation and Agreement. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests; provided that the Staff shall, to the extent reasonably practicable, promptly provide other Parties with advance notice of when the Staff shall respond to the Commission's request from Staff, (and afford all such parties, to the maximum extent practicable, the right to be present at such oral explanation). Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

E. In order for ANG to have adequate time to implement all aspects of this Stipulation and Agreement prior to the Winter PGA Filing, the parties urge the Commission to issue an order adopting the Stipulation and Agreement with an effective date of no later than October 1, 1997.

WHEREFORE, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement to be effective October 1, 1997.

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 12th day of September, 1997.

Thomas R Schwarz, Jr.

PURCHASED GAS ADJUSTMENT CLAUSE

I. PGA Filing Requirements and Applicability

The Purchased Gas Adjustment (PGA) Clause applies to all sales and transportation services provided under all natural gas rate schedules and contracts, including back-up sales for transportation customers. For purposes of this clause the term "cost of gas" shall include the cost paid to suppliers for the purchase, transportation and storage of gas. In addition, the cost of gas includes take-or-pay costs and transition costs incurred from the Company's suppliers as defined in this clause. TOP and TC costs shall be separately accounted for pursuant to Sections III and IV of this Clause, respectively. The cost of gas shall also include $0.183 per Mcf times the volume of sales gas transported over AWG Northwest Arkansas transportation facilities to Ark-La for redelivery to the ANG service areas.

ANG will apply increases and decreases in rates to customers' bills for service rendered on and after the effective date of the rate change. Bills rendered to customers which are computed using multiple rates during a customer's billing (usage) cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's usage period that such rates were in effect.

All PGA factors are subject to review and approval by the Commission. All PGA factors are interim and subject to adjustment as part of the ACA review. Any PGA filing shall not be approved unless it has first been on file with the Commission for a period of ten (10) business days. The PGA factors approved by the Commission shall remain in effect until the next PGA becomes effective hereunder, or until otherwise changed by law or order of the Commission. Each PGA factor filed hereunder shall cancel and supersede the previously effective PGA factors and shall reflect the current purchased gas cost to be effective thenceforth.

The Company shall file a "Total PGA" factor which shall consist of five parts:

a) The Regular Purchased Gas Adjustment "RPGA" factor as defined later in Section II;
b) The Take-or-Pay Cost Recovery factor as defined later in Section III;
c) The Transition Cost Recovery factor as defined later in Section IV;
d) The Actual Cost Adjustment ("ACA") factor which results from the corrections made through the Deferred Purchased Gas Cost-Actual Cost Adjustment Accounts, described later in Section V of this clause, and;
e) The "Refund" factor which is described later in Section VI of this clause.

Attachment A

ASSOCIATED NATURAL GAS COMPANY
A Division of Arkansas Western Gas Company

For All Districts - See Index
COMMUNITY, TOWN OR CITY

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

At least ten (10) business days before applying November and April effective filed rates, the Company shall file with the Commission an Adjustment Statement and related information showing:

a) The computation of the revised purchased gas costs factors as described herein; and,
b) A revised Sheet No. 16P setting forth the service classifications of the Company to which the cost changes are to be applied, the net amount per Ccf, expressed to the nearest $0.00001 to be used in computing customers' bills, and the effective date of such revised change.

The Company shall also file with the Commission copies of any orders, contracts, or other pertinent information applicable to the wholesale rates charged the Company by its natural gas suppliers. The Company shall adequately and completely document purchasing and delivery activities for purposes of its annual gas cost audit.

PGA Filings:

A. Scheduled PGA Filings:

The Company shall have the opportunity to make two Scheduled PGA Filings each year: A Winter PGA and a Summer PGA. The Winter PGA shall be filed between October 15 and November 4 each year and the Summer PGA, if filed, shall be filed between March 15 and April 4 each year. The Company must file a Winter PGA each year, but is not required to file a Summer PGA.

If the Company chooses to make only one Scheduled PGA Filing, the Winter PGA, that filing shall contain rates reflecting; (1) all of the Company's ACA adjustments, Transition Cost adjustments, TOP adjustments and Refund factor adjustments relating to or arising during the immediately preceding 12 month ACA period; (2) the Company's then current estimate of gas cost revenue requirements for the period between the effective date of filing and the next Winter PGA Filing; and (3) any Deferred Carrying Cost Balance (DCCB) adjustments.

If the Company chooses to make both Scheduled PGA Filings, the Winter PGA filing shall contain the rates reflecting: (1) all of the Company's ACA adjustments, TOP adjustments, Transition Cost adjustments and Refund adjustments relating to or arising during the immediately preceding 12 month ACA period; (2) the Company's estimate of annualized gas cost revenue requirements for the period between the

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

effective date of the Winter PGA and effective date of the Summer PGA ; and (3) any DCCB adjustments. The Summer PGA shall contain rates maintaining (1) all of the Company's ACA adjustments, TOP adjustments, Transition Cost adjustments and Refund adjustments relating to or arising during the prior ACA period; and adjusting rates for (2) the Company's estimate of annualized gas cost revenue requirements for the period between the effective date of the Summer PGA and the effective date of its next Winter PGA ; and (3) any DCCB adjustments.

B. **Unscheduled Winter PGA Filings:**
In addition to the two Scheduled PGA Filings mentioned above, the Company may file one Unscheduled Winter PGA to be effective during the Winter PGA effective period, provided that at the time of such Unscheduled Winter PGA filing, there is: (a) a projected under recovery in ANG's Deferred Carrying Cost Balance (DCCB), as defined below, equal to or greater than fifteen percent (15%) of ANG's Annual Gas Cost Level, as defined below; or (b) a projected over recovery in the DCCB equal to or greater than 10% of ANG's Annual Gas Cost Level. The projected under or over recovery shall be determined by adding: (1) the actual net over or under recovery amount in the DCCB at the time the Unscheduled Winter PGA Filing is made, and (2) the estimated over or under recovery amount which, based on ANG's actual gas commodity costs at the time of the Unscheduled PGA Filing, would otherwise occur in the ensuing monthly period, absent the filing.

The <u>Deferred Carrying Cost Balance</u> (DCCB) shall include the cumulative under or over recoveries of gas costs for each month since the last PGA Filing. The under or over recoveries of gas costs at the end of each month to include in the DCCB will be defined and computed as the product of: (a) the difference between ANG's actual annualized unit cost of gas (blended with storage) and the estimated annualized unit cost of gas factor included in ANG's then most recent PGA filing, times (b) the total volumes of gas sold during such month.

<u>Annual Gas Cost Level</u> is defined as the annual gas cost level as determined in ANG's latest effective PGA rate calculation. Under no circumstances will the Company make more than one Unscheduled PGA Filing per year.

If the Company qualifies for, and chooses to make, an Unscheduled Winter PGA filing, that filing: (1) must contain rates reflecting the Company's then current

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

estimate of the annualized gas cost revenue requirements for the period from the effective date of such filing to the next scheduled filing; and (2) may contain a further adjustment factor to such rates not to exceed +/-five cents ($0.05), which is designed to return to, or receive from, ratepayers any under or over recoveries of gas costs revenue requirements that have been deferred by ANG since its last PGA filing. The Unscheduled Winter PGA Factor made effective through action of the Commission shall remain in effect only until the next scheduled PGA filing. With its Unscheduled Winter PGA, the Company shall file a current estimate of annualized gas costs revenue requirements between the date of such filing and the effective date of the next Scheduled PGA.

All necessary supporting documentation must be provided with the Unscheduled PGA Filing, including a worksheet of the actual monthly ACA balances along with all entries that have been used to record changes in the monthly balances. In addition all workpapers supporting the newly proposed PGA rate shall be provided with the filing. This newly proposed PGA rate will be calculated using the same methodology approved for the Scheduled PGA rates and will only reflect changes to the elements that have changed significantly from the currently effective factor.

II. <u>REGULAR PURCHASED GAS ADJUSTMENTS:</u>

Charges for gas service contained in the Company's then effective retail rate schedules, by individual district, on file with the Missouri Public Service Commission shall be adjusted by a Regular Purchased Gas Adjustment (RPGA) factor, determined in the following manner.

A. Calculation of Demand Cost Component:

<u>Calculating demand costs by district</u> - The gas cost revenue requirement component of the RPGA factor, relating to fixed pipeline transportation and storage charges, fixed gas supply charges, and other fixed FERC authorized charges, shall be the sum of the fixed charges of each of the Company's suppliers obtained by multiplying the latest effective fixed charges of each supplier by the annualized reservation related determinants applicable to such supplier.

<u>Allocating district demand costs to sales classes</u> - The Company shall apply firm and

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

interruptible demand allocation factors for each district. The firm and interruptible demand allocation factors shall be determined by application of the average and peak demand allocation methodology. For the SEMO district factors shall be calculated and applied by supply area (Interconnected, NGPL, and MRTC). These demand allocation factors shall be reviewed annually in conjunction with the ACA filing.

<u>Calculating demand cost factor</u> - The demand cost component of the RPGA shall be calculated by dividing demand costs allocated to each customer class by the annualized and normalized level of sales volumes for each respective class and rounding the result to the nearest $0.00001 per CCF.

B. Calculation of Commodity Cost Component:

<u>Calculating commodity costs by district</u> - For the gas commodity component of the RPGA factor, including variable transportation costs, gas supply commodity costs, and other FERC authorized commodity charges, the Company will utilize any technique or method it deems reasonable for purposes of estimating the gas cost revenue requirement to be reflective for this component in each RPGA filing, provided that:

(a) for any Scheduled PGA Filing, such estimate shall not exceed a per Ccf cost equal to the higher of :
   (1) the Company's actual commodity gas cost per Ccf for currently purchased gas supplies in the month in which the PGA filing is made; or
   (2) the average of (i) the single highest weighted average commodity gas cost per Ccf and (ii) the overall weighted average commodity gas cost per Ccf actually incurred by ANG for the purchased gas supplies in the applicable winter or summer period during the then three most recent ACA periods.
(b) for any Unscheduled Winter PGA Filing, such estimate shall not exceed the per Ccf cost equal to ANG's actual per Ccf commodity cost of gas for currently purchased gas supplies in the month in which such Unscheduled Winter PGA Filing is made; and,
(c) ANG must justify the gas costs included in its filings.

The gas costs shall include the commodity cost of storage withdrawals and exclude the commodity cost of storage injections.

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

Allocating district commodity costs to sales classes - The Company shall apply the firm and interruptible commodity allocation factors to the total commodity cost for each district. The firm and interruptible commodity allocation factors rounded to four decimal places shall be calculated as the ratio of class sales to total sales for each district.

Calculating commodity cost factor - The commodity cost component of the RPGA shall be calculated by dividing the estimated commodity costs allocated to each customer class for the time period from the effective date of the current filing to the next scheduled PGA filing by the normalized level of sales volumes for each respective class for the same time period. This factor shall be rounded to the nearest $0.00001 per CCF

C. RPGA Factor Calculation:

The demand cost factors and the commodity cost factors as calculated above shall be added together for each class. The base cost of gas applicable to each sales class as listed below shall be subtracted from the sum of the demand and commodity factors for each class to produce the RPGA factor for each class.

BUTLER DISTRICT
Base Gas Costs:

Firm	$0.40262 per Ccf
Interruptible	$0.40262 per Ccf

KIRKSVILLE DISTRICT
Base Gas Costs:

Firm	$0.45178 per Ccf
Interruptible	$0.31126 per Ccf

SOUTHEAST MISSOURI (SEMO) DISTRICT
Base Gas Costs:

Firm	$0.35871 per Ccf
Interruptible	$0.25672 per Ccf

For transportation customers that purchase gas from the Company, ANG shall bill transportation customers the highest price gas taken during the billing month instead of the

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

average rates contained in the RPGA computation. The Company shall use the revenues of such billings as gas cost recovery for the development of the ACA factor herein provided.

III. TAKE-OR-PAY COST RECOVERY FACTOR:

Federal Energy Regulatory Commission (FERC) authorized fixed Take-or-Pay (TOP) costs shall be recovered from all classes of customers on a volumetric basis by the application of TOP Cost Recovery factors applicable to each district to all Ccfs billed for both natural gas sales and transportation volumes under rate schedules and under contracts on file with the Missouri Public Service Commission.

The TOP account balance will be the net balance of all revenue recovered from the application of the TOP Cost Recovery factor using the monthly actual billed sales by cycle for sales customers and each unit transported for transportation service customers and all fixed FERC-authorized TOP charges paid to its suppliers for service.

TOP Cost Recovery factors for each operating district will be computed by dividing the estimated annualized TOP costs by the estimated volumes of the total sales and transportation Ccfs for the twelve-month period beginning with the effective date of the TOP Cost Recovery factor. Annualized TOP costs shall be the fixed TOP charges, including supplier paid interest, the Company has been billed and/or reasonably expects to be billed, for service in a twelve-month period as a result of the application of FERC approved tariffs relating to the recovery of TOP by the Company's natural gas suppliers, plus any over or under-recovery of such costs from the previous period as discussed below. This adjustment shall be filed at the time of the scheduled Winter PGA Filing and shall be rounded to the nearest $0.00001 per Ccf.

The TOP account balance will be the net balance of all revenue recovered from the application of the TOP Cost Recovery factor using the monthly actual billed sales by cycle for sales customers and each unit transported for transportation service customers and all fixed FERC-authorized TOP charges billed for service by its suppliers for the above twelve month period.

<u>TOP Review</u>
The TOP accounts will be audited simultaneously with the Company's Deferred Purchased Gas Cost Accounts (Section IV of this PGA Clause). The Company will keep such records so as to allow for an accurate accounting of such costs actually paid to suppliers and recovery

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

actually received from customers. Any over or under-recovery of such costs shall be refunded or recovered by inclusion in the subsequent TOP Cost Recovery factor determination. Notwithstanding the foregoing, the lump sum direct billed take-or-pay refunds made to the Company by its suppliers pursuant to FERC action will be refunded by the Company to customers in a manner consistent with the recovery of such TOP costs from customers.

TOP Termination
After termination of the TOP Cost Recovery factor, any remaining over or under-recovery TOP account balance shall be carried forward and included in the calculation of the next Actual Cost Adjustment (ACA) factor.

TOP Factor Procedures
The TOP Cost Recovery factor shall remain in effect until superseded by a subsequent TOP Cost Recovery factor calculated according to this provision. The Company shall file any revised TOP Cost Recovery factor on Sheet No. 16P in the same manner as all other Purchased Gas Adjustments.

The TOP accounts shall be reviewed concurrently with the Refund, TC and ACA factor audits.

Jurisdictional Allocation
Certain supply areas in the Southeast Missouri District are interconnected with the Arkansas District. Thus, the jurisdictional allocation of take-or-pay costs shall be accomplished by directly assigning to the Southeast Missouri District those costs related to NGPL and MRTC service areas and allocating those costs related to areas served by TETC, TGTC and Ark-La based on the ratio of each jurisdictions' respective prior ACA year Ccf usage for these supply areas to the prior ACA year total Ccf usage for these supply areas.

IV. TRANSITION COST RECOVERY FACTOR:

Federal Energy Regulatory Commission (FERC) authorized direct billed (fixed) Transition Costs (TC) shall be recovered on a volumetric basis from customers receiving either sales and transportation service under the Company's rate schedules on file with the Missouri Public Service Commission by the application of the following TC recovery factors for all Ccfs billed.

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

TC costs are those FERC authorized costs resulting from the implementation of the FERC's Order No. 636, including Account 191 balances and gas supply realignment costs which are direct billed to the Company by its natural gas transporters. The direct billed TC costs to be used in the computation of the factors shall be those the Company has paid or reasonably expects to pay, during a specific period as explained below. Subsequent periods shall additionally include over or under-recovery of such costs from the previous recovery periods as explained below. The costs to be used in the computation of the factors shall include FERC authorized interest which is direct billed by the transporter to the Company and FERC authorized direct billed carrying costs on unrecovered transitions costs. The costs and balances shall be segregated by district.

TC Recovery factors explained below shall include, in their computation, all amounts of previously paid or reasonably expected to be paid TC costs refunded to the Company by the transporter(s) for the applicable periods except that refunds of amounts billed for periods prior to March 1, 1996 shall be allocated in the same manner as originally allocated and subject to the provisions of Part VI. The TC recovery factors shall be calculated and applied by district.

<u>TC Recovery Factors:</u>

"Subsequent Periods" are defined as the 12-month periods starting with the September revenue month.

The "TC Factors" costs are defined as the estimated annualized fixed TC costs the Company has been billed and/or reasonably expects to be billed, for service during each of the Subsequent Periods as a result of the application of FERC approved tariffs relating to the recovery of TC costs by the Company's natural gas transporters.

The "TC Factor 1" costs are those (Account 191 costs) which relate solely to the most recent annual pipeline PGA period. This factor will be charged to all sales customers only. The TC Factor 1 will be computed by dividing the annual TC Factor 1 costs, plus any over or under-recovery of such costs from the previous TC Factor 1 recovery period, by an estimate of the total sales volumes expected to be billed during this next subsequent period.

The "TC Factor 2" costs are all other direct billed Order No. 636 costs not included as Factor 1 costs. The TC Factor 2 shall be charged on a volumetric basis to both sales customers and transportation customers. This factor shall be computed by dividing the TC Factor 2 costs plus any over or under-recovery of such costs from the previous TC Factor 2 recovery

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

period, by an estimate of the total sales and total transportation volumes expected to be billed during the next subsequent period.

TC factors shall be rounded to the nearest $0.00001 per Ccf and shall be filed at the time of the scheduled Winter PGA filing.

The TC account balances at the end of each subsequent period will reflect (l) the account balance at the end of the previous period, (2) the net balance of all revenue recovered from the billing of each of the TC Recovery Factors applied to the monthly actual billed sales for sales customers and the billed volumes transported for transportation customers, and (3) the actual direct billed FERC-authorized TC charges paid by the Company to its transporters for the preceding TC recovery period.

<u>TC Review:</u>
After termination of all the TC Recovery factors, any remaining over or under-recovery TC account balance shall be (1) allocated to firm sales, interruptible sales, and transportation on the basis of the annual Ccf usage for the most recent ACA period and (2) carried forward and included in the calculation of the next Actual Cost Adjustment (ACA) factor except in the case of transportation where the TC Recovery factor shall be activated to reduce the net balance to less than +/- $1,000 at which point the remaining balance shall be written off. The TC accounts will be audited simultaneously with the Company's Deferred Purchased Gas Cost Accounts (Section V of this PGA Clause). The company will keep such records so as to allow for an accurate accounting of such costs and all volumes billed.

<u>TC Factor Procedures:</u>
The TC Recovery factors shall remain in effect until superseded by a subsequent TC Recovery factor calculated according to this provision. The Company shall file any revised TC Recovery factors on Sheet No. 16P in the same manner as all other Purchased Gas Adjustments. The TC recovery factors to be filed for Commission approval on the PGA "Adjustment Statement" and billed customers shall consist of:

For Sales Customers - the sum of TC Factor 1 and TC Factor 2, and

For Transportation Customers - TC Factor 2.

The TC accounts shall be reviewed concurrently with the Refund, TOP, and ACA factor audits.

ASSOCIATED NATURAL GAS COMPANY
A Division of Arkansas Western Gas Company

FOR All Districts - See Index
COMMUNITY, TOWN OR CITY

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After the refunding period is completed, the difference between the refunds received from the Company's suppliers (including the Company' s own additional interest) and the amounts refunded to the respective customer groups shall be determined and the difference retained in the refund accounts until such time as a subsequent refund is received. The balance in said refund accounts shall be added to any subsequent refund before computing a new refund adjustment.

The Company shall file refund factors at the time of the scheduled Winter PGA filing, and shall file refund factors in the same manner as all other adjustments made to this clause.

DATE OF ISSUE ____ DATE EFFECTIVE ____

ISSUED BY Stanley D. Green — Executive Vice President - Finance and Corporate Development — Fayetteville, Arkansas
NAME OF OFFICER — TITLE — ADDRESS

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

of 9 percent per annum compounded annually. For each refund distribution period, the interest to be added by the Company shall be included in determining the refund credits to be applied to bills.

Allocation of refunds to the firm and interruptible sales classifications shall depend on when the costs refunded were incurred. For refunds of charges incurred prior to November 1, 1996, the amount of the refund related to a supplier's commodity related charges, if readily determinable, shall be allocated to firm and interruptible sales based on the actual sales made by the Company to each such sales classification during the period to which the refunds are applicable. The amount of refund related to remaining charges shall be allocated only to the firm sales classification. If a refund of charges cannot be readily identified as demand and/or commodity then such charges shall be allocated to firm and interruptible sales as if they were commodity related charges.

For refunds of charges incurred on and after November 1, 1996, the amount of the refund related to a supplier's commodity related charges, if readily determinable, shall be allocated to firm and interruptible sales based on the actual sales made by the Company to each such sales classification during the period to which the refunds are applicable. The amount of refund related to demand charges shall be allocated to the firm and interruptible sales classifications in the same proportion that the refunded costs were allocated when incurred. If a refund of charges cannot be readily identified as demand and/or commodity then such charges shall be allocated to firm and interruptible sales as if they were commodity related charges.

The amount of refund applicable to firm sales as determined from the preceding paragraphs shall be divided by the amount of Ccfs estimated to be sold in the succeeding 12 months to customers who purchase gas on a firm basis. The resulting $ per Ccf adjustment, rounded to the nearest $0.00001, shall be applied as a credit to bills of such customers over the succeeding 12 months by multiplying such unit refund credit by the total Ccfs billed to each customer in each billing period.

The amount of refund applicable to interruptible sales as determined from the preceding paragraphs shall be divided by the amount of Ccfs estimated to be sold in the succeeding 12 months to customers who purchase gas on an interruptible basis. The resulting $ per Ccf adjustment, rounded to the nearest $0.00001, shall be applied as a credit to bills of such customers over the succeeding 12 months by multiplying such unit refund credit by the total Ccfs billed to each customer in each billing period.

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

three recent ACA periods (hereinafter "Annual Gas Cost Level"), beginning with the three ACA periods immediately preceding the 1997/98 winter period.

The Deferred Carrying Cost Balance shall include the cumulative under or over recoveries of gas costs at the end of each month for each annual ACA period. The under or over recoveries of gas costs at the end of each month to include in the DCCB will be defined and computed as the product of : (a) the difference between ANG's actual annualized unit cost of gas (blended with storage) and the estimated annualized unit cost of gas factor included in ANG's then most recent PGA filing, times (b) the total volumes of gas sold during such month.

(b) In the event the DCCB exceeds ten percent of the ANG's Annual Gas Cost Level, a carrying cost equal to simple interest at the prime rate minus one percentage point shall be applied to such portion of the balance amounts as exceeds ten (10) percent for the period such excess balance amounts exist. The prime lending rate, (prime), is that rate reported in *The Wall Street Journal* on the first business day of the following month.

VI. **REFUNDS:**

For the purpose hereof, unless the Missouri Public Service Commission shall otherwise order, refunds and/or a balance in the refund account received by the Company from charges paid for natural gas resold to and recovered from its customers, shall be refunded to such customers as a reduction in their PGA.

The Company shall file with the Commission and propose to make effective, the appropriate PGA Adjustment Statement reflecting the decrease and an associated statement showing the computation of the refund adjustment in the same manner as all other adjustments performed in the PGA clause, once annually.

The Refund accounts shall be reviewed concurrently with the TC, TOP, and ACA factor audits.

The Company will add interest to the refunds received from its suppliers applicable to (1) the amount of the refund from the date of its receipt by the Company to the beginning date of the refund adjustment period, and (2) the average amount of the total refund estimated to be outstanding during the refund adjustment period. Such interest shall be calculated at the rate

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

system supply needs. The Company shall submit a copy of the complete demand study with source documentation at the time it submits its ACA filing. The Company shall include in its demand study the allocation of demand costs to each specific customer rate classification (for both Arkansas and Missouri).

The allocated Missouri demand charges shall be allocated to firm sales and to sales classified as interruptible.

All remaining allocated Missouri costs of purchased gas will be assigned to firm sales and to sales classified as interruptible based on the ratio of each classes' respective actual Ccf sales to total Ccf sales for the related revenue month.

The cost recovery shall be calculated by multiplying the PGA class Ccf sales by the applicable effective revenue component related to the cost of gas purchased. Such revenue component (on a per Ccf basis) shall be the sum of the base tariff gas cost specified in Section I above, the appropriate RPGA factor, and the then effective "Actual Cost Adjustment" (ACA) factor, as hereinafter defined.

For each twelve month billing period ended with the August revenue month, differences of the comparisons described above, including the balance or credit for the previous year, shall be accumulated to produce a cumulative balance of over-recovered or under-recovered costs. "Actual Cost Adjustment" (ACA) factors shall be computed by dividing the cumulative balance of the over-recoveries or under-recoveries by the estimated volumes of sales by district, by PGA class during the subsequent twelve month period. These ACA factors shall be filed at the time of the Scheduled Winter Filing and shall be-rounded to the nearest $0.00001 per Ccf. These ACA factors shall remain in effect until superseded by subsequent ACA factors calculated according to this provision. The Company shall file any revised ACA factors in the same manner as all other adjustments performed in the PGA clause.

<u>Carrying costs shall be determined in the following manner:</u>

Carrying costs shall be applied to certain excesses or deficiencies in gas cost recoveries which excesses or deficiencies shall comprise a Deferred Carrying Cost Balance (DCCB).

a) No carrying costs shall be applied in connection with any PGA-related item, until such time as the net "Deferred Carrying Cost Balance" exceeds an amount equal to ten percent (10%) of the ANG's average annual level of gas costs for the then most

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

All remaining actual costs of gas incurred will be allocated to firm sales and to sales classified as interruptible based on the ratio of each classes' respective actual Ccf sales to total Ccf sales for the related revenue month.

3. For the SEMO District:
The monthly jurisdictional allocation of wholesale gas costs and transportation gas costs to Missouri operations that are billed on a commodity basis will be accomplished by the Company through the use of a commodity allocation study. This study shall show the specific, step by step allocation of all volumes by supplier and transporter to each of the following service areas historically served by:

(a) Natural Gas Pipeline Company of America (NGPL);
(b) Mississippi River Transmission Corporation (MRTC),
(c) Texas Eastern Transmission Corporation (TETC) at take point #110;
(d) TETC called the Northeastern System (historically served exclusively by TETC take points #061 and #532);
(e) TETC and others called the Southern System (historically served by TETC's take points #079 and #1141, by Ark-La and Texas Gas Transmission Corporation (TGTC), excluding the Northeastern System).

The monthly jurisdictional allocation of the ANG northwest Arkansas transportation rate of $0.183/Mcf times those volumes actually transported over the Arkansas Western's northwest Arkansas facilities and re-delivered to the ANG service areas for sales purposes during the same billing month shall be included in the above study.

The study shall also show the monthly sales by rate classification for all ANG customers in both (i) Arkansas and (ii) Missouri for the service areas listed above in (a) through (e).

The monthly jurisdictional allocation of demand costs of purchased gas shall be allocated by the Company using a specific detailed demand study that reflects the Company's current demand requirements, by tariff rate classification. This specific detailed demand study shall show the complete step by step development from source data of the allocation factors. This study shall classify volumes and costs for each of the service areas as detailed in (a) through (e).

Demand cost of gas purchased shall include contracted demand levels and transportation reservation charge levels contracted for by the Company to meet firm

PURCHASED GAS ADJUSTMENT CLAUSE (Cont'd.)

Jurisdictional Allocation
Certain supply areas in the Southeast Missouri District are interconnected with the Arkansas District. Thus, the jurisdictional allocation of Transition Costs shall be accomplished by directly assigning to the Southeast Missouri District those costs related to NGPL and MRTC service areas and allocating those costs related to areas served by TETC, TGTC and Ark-La based on the ratio of each jurisdiction's respective prior ACA year Ccf usage for these supply areas to the prior ACA year total Ccf usage for these supply areas.

V. DEFERRED PURCHASED GAS COST - ACTUAL COST ADJUSTMENT ACCOUNTS:

For each district and for each class of sales having a separate PGA factor determined hereunder, the Company shall establish and maintain a Deferred Purchased Gas Cost - Actual Cost Adjustment Account (ACA) which shall be credited with any over-recovery resulting from the operation of the Company's PGA procedure or debited for any under-recovery resulting from the same.

Such over or under-recovery shall be determined by a monthly comparison of the actual (as billed) cost of gas as shown on the books and records of the Company for each cost month, exclusive of refunds and penalties, plus (for the SEMO District), the costs related to the transportation of sales gas to Ark-La for re-delivery to ANG's Missouri service areas ($0.183/Mcf times the Missouri volumes transported for sales purposes over the facilities), to the cost recovery by the Company for the revenue month corresponding to the cost month.

1. For the Butler District:
The portion of the cost of gas representing demand charges incurred for this district shall be allocated to firm sales and to sales classified as interruptible.

All remaining actual costs of gas incurred will be allocated to firm sales and to sales classified as interruptible based on the ratio of each classes' respective actual Ccf sales to total Ccf sales for the related revenue month.

2. For the Kirksville District:
The portion of the cost of gas representing demand charges incurred for this district shall be allocated to firm sales and to sales classified as interruptible.