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October 23, 2000

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

**RE: Case No. GR-2000-288**

Dear Mr. Roberts:

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

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,

Robert V. Franson  
Assistant General Counsel  
(573) 751-6651  
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RVF:sw  
Enclosure  
cc: Counsel of Record

FILED<sup>2</sup>

OCT 23 2000

Missouri Public  
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>2</sup>  
OCT 23 2000  
Missouri Public  
Service Commission

In the Matter of Southern Missouri Gas )  
Company L.P.'s Purchased Gas )  
Adjustment factors to be reviewed in its )  
1998 - 1999 Actual Cost Adjustment. )

Case No. GR-2000-288

STAFF RECOMMENDATION

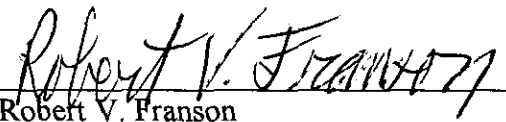
COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. Southern Missouri Gas Company ("SMG") provides natural gas service to some 6,900 customers in the southern portion of the state. SMG made its filing in this case on October 5, 1999, for rates to become effective November 1, 1999.
2. The Request for Variance from Tariff Provisions filed by SMG and the tariff sheet were approved by the Commission in an Order that became effective on November 4, 2000. The tariff sheet was approved on an interim basis, subject to refund.
3. Staff completed an audit of billed revenues and actual gas costs for the period September, 1998 to August, 1999, and has also conducted a reliability study on SMG's distribution system. Staff filed its initial recommendation on August 1, 2000.
4. On August 3, 2000, the Commission issued an Order directing SMG to file its response to the Staff's memorandum and Recommendation by September 1, 2000.

5. On August 30, 2000, SMG filed its Response to Staff Recommendation.
6. After further discussions with the Office of the Public Counsel ("OPC") and SMG, Staff is filing additional recommendations, which are contained in its Memorandum, attached as Appendix A hereto.
7. Staff asks the Commission to issue its order in this case consistent with its recommendations.

Respectfully submitted,

DANA K. JOYCE  
General Counsel

  
Robert V. Franson  
Assistant General Counsel  
Missouri Bar No. 34643

Attorney for the Staff of the  
Missouri Public Service Commission  
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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 23<sup>rd</sup> day of October, 2000.

\_\_\_\_\_

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
Case No. GR-2000-288, Southern Missouri Gas Company

FROM: *PL* Phil Lock and *DS* Dave Sommerer - Procurement Analysis Department

*Paul Sommerer* 10-18-00 Project Coordinator/Date  
*Thomas R. Schumacher* 10/19/00 General Counsel's Office/Date

SUBJECT: Staff Recommendation Update in Southern Missouri Gas Company's 1998-1999 Actual Cost Adjustment Filing

DATE: October 18, 2000

The Procurement Analysis Department (Staff) has reviewed Southern Missouri Gas Company's (SMG or Company) 1998-1999 Actual Cost Adjustment (ACA) filing. This filing was made on October 15, 1999, for rates to become effective November 1, 1999, and was docketed as Case No. GR-2000-288. The Company filed a response to Staff's ACA recommendation on August 30, 2000 that included several exceptions. Discussion of the ACA balance, Commodity cost of gas, Transportation costs, and Revenues were included in Company's response. Upon review of the Company's written response and conversation with the Company, the Staff has developed its response to each of those issues. The Staff also notes that the Company erroneously stated in their response that they would agree to carry-forward an under-recovery balance of \$768,168 from the 1997-1998 ACA filing. This balance should be \$786,168. This is included in part (a) of the Company's response to Staff's ACA recommendation.

### PRIOR ACA BALANCES

The Company agrees with the Staff to not reduce the ACA balance by \$241,187, but they contend that this amount is already contained in the under-recovered gas cost balance. They further stated that this reduction was made for calculation purposes only.

The \$241,187 resulted from a prior year under-recovery balance. The Commission's Order in Case GR-97-234 indicated that these costs were to be recovered over three years beginning with the 1997-1998 ACA period and continuing into the 1998-1999 ACA and 1999-2000 ACA. As indicated earlier, Staff believes that the recovery of these costs in the 1997-1998 and 1998-1999 ACA filing is proper in accordance with the Commission order in Case GR-97-234. The Staff does not believe that these costs should be deducted in this filing because there was an agreement and Commission order to spread these costs over three ACA periods. No further adjustment of \$241,187 should be made by SMG in this ACA period.

### **COMMODITY GAS COST**

Company did not agree with Staff's adjustment of \$28,093 but offered further discussion with the Staff to resolve this difference. Company filed for gas cost recovery of \$2,013,861 for the 12-month period ended August 1999. After further review, Staff determined that supply invoices that were billed and paid totaled \$1,988,359, not \$1,985,768 as originally filed. The difference of \$2,591 reflects refunds from Williams Natural Gas (WNG) that were already included in the Refund section of Staff's recommendation. Staff proposes a \$25,502 (\$1,988,359 - \$2,013,861) reduction in the cost of gas during the ACA period.

### **TRANSPORTATION COST**

Company did not agree to increase the cost of transportation by \$66,708 because a portion of the cost has already been capitalized. After further discussion with the Company, Staff has reviewed the WNG transportation invoices that were included in this filing. The Staff confirmed that the proper transportation costs to include in this filing is \$1,167,276, not the \$1,100,568 filed by the Company. Of the \$66,708 difference, \$55,981 represents costs that Company elected to capitalize rather than expense during this ACA period and the other \$10,727 includes numerous revised billings. The Staff recommends that the Company include \$66,708 in this ACA filing as transportation expenses (included in \$1,167,276).

### **REVENUES**

Company did not agree with Staff's adjustment to increase revenues by \$4,835, but offered further discussion with Staff. Staff developed revenue recovery using the monthly "as billed" sales volumes by month and by customer class. After further discussion with the Company, Staff determined the proper revenue recovery to be \$2,739,846. SMG filed for revenue recovery of \$2,743,614. Staff's correction decreases revenues by \$3,768 (\$2,739,846 - \$2,743,614) from the filed revenue amount.

### **REFUNDS**

Company agrees to include refunds of \$1,655 in the next ACA filing.

### **AMORTIZATION OF WNG COSTS**

In addition to the issues addressed in the 1998-1999 ACA filing, Staff has established criteria that limit the amount of transportation costs that may be deferred (capitalized) on the Company's books. The Company has agreed to include all transportation expenses proposed by the Staff in the ACA balance from November 1995 to August 1998. The only unresolved amount is described in the Transportation Cost section of this memorandum. From January 1995 to August 1999 WNG costs totaled \$3,632,315 and expenses allowed by Staff totaled \$2,648,544. The difference represents costs that may be deferred (capitalized) up to a

maximum of \$983,771 on the Company's books. According to the Uniform System of Accounts, items of this nature may be treated as extraordinary and included in a Miscellaneous Deferred Debit account without Commission approval if the item is more than five percent of the Company's income. All parties reserve the right to assert a position on the proper ratemaking treatment of any amortization resulting from the described deferred (capitalized) costs in the Company's next general rate case.

### **MAGNITUDE OF ACA UNDER-RECOVERY**

According to the Company's tariffs, the Company's PGA factor shall be determined by using its best estimate of the purchased volumes for resale and the ACA factor is determined based upon a reasonable estimate of sales volumes. In the past, the Company has used 1,797,000 Mcf sales volumes in its PGA and ACA calculations. As a result of the approach used in past cases, the under-recovery balance has been increasing each year since it did not reflect the actual volumes experienced. In this proceeding, the Company has agreed to determine its PGA and ACA factor using sales volumes for the most recently audited ACA filing (currently the 1998-1999 period for the November 2000 PGA filing).

Since the under-recovery balance is \$1,141,667 as of August 1999, and is expected to rise to approximately \$1,600,000 as of August 2000, the Staff and Company recommend that the August 2000 balance be amortized over a three (3) year period to avoid an adverse impact upon customers' rates in the current period.

No further amortizations of ACA under-recovery balances may occur. All future under-recoveries (after August 2000) may only be recovered over a twelve (12) month period, and will be subject to review.

<b>Description</b>	<b>ACA Balance Per Filing</b>	<b>Staff Adjustments</b>	<b>ACA Balance Per Staff</b>
<b>1997/1998 ACA Ending Balance</b>	\$581,845 (A)	\$204,323	\$786,168 (B)
<b>Cost of Gas</b>	\$2,013,861	\$(25,502)	\$1,988,359
<b>Cost of Transportation</b>	\$1,100,568	\$66,708	\$1,167,276
<b>Revenues</b>	\$2,743,614	\$(3,768)	\$2,739,846
<b>Total 3 year Cost Recovery</b>	\$(241,187)	\$241,187	\$0
<b>Refunds</b>	\$(133,409) (C)	\$0	\$(133,409)
<b>2<sup>nd</sup> year Cost Recovery (D)</b>	\$73,119	\$0	\$73,119
<b>Total (Over)/Under Recovery</b>	\$651,183	\$490,484	\$1,141,667

A) Per Data Request No. 55

(B) Includes 1<sup>st</sup> year cost recovery per GR-97-234 Order.

(C) Refunds included in ACA account in this filing only.

(D) Per GR-97-234 Order

### **RECOMMENDATIONS**

The Staff recommends that the Commission issue an order requiring Southern Missouri Gas to:

1. Adopt Staff's adjustments and the ending (over)/under recovery balance per table of adjustments (Staff's original under-recovery balance was \$1,130,473);
  2. Adjust the refund balance by \$1,655 in the calculation of Company's refund factor.
- The adjustment should be reflected in the Company's next PGA filing, effective November 2000.



**Service List for**  
**Case No. GR-2000-288**  
**Revised: October 23, 2000 (SW)**

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