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Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
<http://www.psc.state.mo.us>

August 1, 2000

BRIAN D. KINKADE
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Director, Utility Operations

ROBERT SCHALLENBERG
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Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

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,

Thomas R. Schwarz, Jr.

Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
(573) 751-9285 (Fax)

TRS:sw
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

AUG 01 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:

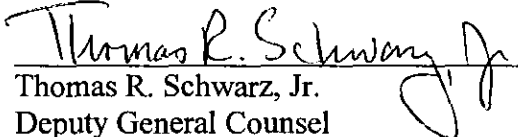
1. Southern Missouri Gas Company ("SMG") provides natural gas service to some 6,900 customers in the southern portion of the state. SMG made its filing in this case on October 5, 1999, for rates to become effective November 1, 1999.

2. Staff has audited 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's recommendation for adjustments to SMG's ACA balance, and its recommendations for future reliability studies by SMG, are contained in its Memorandum, attached as Exhibit A hereto.

3. Staff asks the Commission to issue its order in this case consistent with its recommendations.

Respectfully submitted,

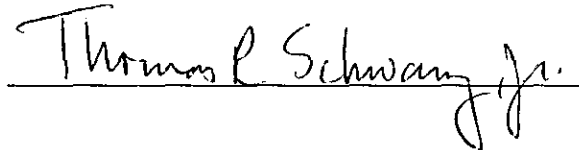
DANA K. JOYCE
General Counsel


Thomas R. Schwarz, Jr.
Deputy General Counsel
Missouri Bar No. 29645

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-5239 (Telephone)
(573) 751-9285 (Fax)
e-mail: tschwarz@mail.state.mo.us

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 August, 2000.



MEMORANDUM

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

FROM: *Phil* Lock, *Lesa* Jenkins, and *Dave* Sommerer - Procurement Analysis Department

Dave Sommerer / 8-1-00
Project Coordinator/Date

Thomas R Schwamy Jr. 8/1/00
General Counsel's Office/Date

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

DATE: August 1, 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 audit consisted of an analysis of the billed revenues and actual gas costs, for the period of September 1998 to August 1999, included in the Company's computation of the ACA rate. SMG provided natural gas to a maximum of 6,909 customers during this ACA period. SMG serves customers in the southern portion of the state including communities in Greene, Webster, Wright, Howell, Douglas, and Texas counties. The ACA ending balance in the Company's 1998-1999 ACA filing is \$651,183 under-recovery.

PRIOR ACA BALANCES

The Commission issued an Order in Case GR-97-234 that required the Company to recover a firm sales ACA under-recovery balance of \$219,357 over three years beginning with the 1997-1998 ACA period, for a recovery of \$73,119 per year (\$219,357/3). The Company included the ordered charge of \$73,119 in the 1998-1999 ACA period as a separate line item. Staff filed its 1997-1998 ACA recommendation that required the Company to carry forward an under-recovery balance of \$786,168 to the beginning 1998-1999 ACA balance. The Company's proposed ACA under-recovery balance of \$581,845 should therefore be increased by \$204,323. Staff believes that the recovery of \$73,119 in the 1997-1998 and 1998-1999 ACA filings is proper in accordance with the Commission order in GR-97-234. Staff does not believe that \$241,187 should be deducted in this filing because these costs are properly recovered in the ACA filings described above (1997-1998 and 1998-1999).

CURRENT ACA PERIOD

COMMODITY GAS COST

SMG filed for gas cost recovery of \$2,013,861 for the 12-month period ended August 1999. Staff's audit of SMG's gas supplier invoices totaled \$1,985,768. Unbilled gas costs were not included in Staff's review. Staff proposes a \$28,093 (\$1,985,768 - \$2,013,861) reduction in the cost of gas during this ACA period.

TRANSPORTATION COST

SMG filed transportation costs of \$1,100,568 for the twelve-month period ended August 1999. Staff's audit included a review of Williams Natural Gas (WNG) transportation invoices totaling \$1,167,276. The increase is largely attributed to transportation costs (September 1998 to November 1998) that are not booked as current expenses by SMG but are capitalized by the Company. Transportation costs that are prudently incurred and paid qualify as gas cost expenses in the period in which they occur. Staff therefore proposes a \$66,708 (\$1,167,276 - \$1,100,568) increase in the cost of gas during this ACA period.

REVENUES

Staff developed revenue recovery using the monthly "as billed" sales volumes by month and by customer class. A total revenue recovery of \$2,748,449 was developed for all customer classes. SMG filed for revenue recovery of \$2,743,614. Staff increased revenues by \$4,835 (\$2,748,449 - \$2,743,614) to reflect the "as billed" revenue recovery for all customer classes during the 1998-1999 ACA period.

REFUNDS

Gas Research Institute (GRI) refunds of \$1,655 were distributed to SMG during this ACA period. The Company has not calculated any refunds in this ACA filing. Staff proposes that the Company include this refund in its next PGA/ACA filing, effective November 2000, in accordance with the Missouri PSC refund provision of its PGA tariffs (sheet 26.1 and 26.2). Refunds are not to be included in the calculation of the ACA factor.

RELIABILITY STUDY

Staff conducted a reliability study on SMG's distribution system including a review of the estimated peak day and capacity levels, reserve margin, and annual estimated demand. Staff's recommendation is based on the differences between actual events that have occurred on SMG's distribution system and Company estimates that are based on the 1993 Feasibility Study and 1994 Supplement. Staff's recommendations are based on the following concerns: (a) lower than

expected customer conversion rates, (b) average usage per residential customer is less than estimated, (c) three years of historical data are now available for Company review in its development of a peak day demand estimate, (d) temperature or heating degree-days are not used by the Company to estimate peak day demand, (e) Company estimated peak day usage per customer is the same for both residential and commercial customers, and (f) lack of a propane air plant as noted in the Feasibility Study.

As a result of this study, Staff recommends that the Company submit the following analysis in all future ACA periods:

- An updated study of the Company's peak day demand and pipeline capacity to assure adequacy of the Company's supply and transportation portfolio to meet firm requirements on a peak day and throughout the winter season. In this study, Staff recommends that the Springfield peak of 72 heating degree days (HDD) that occurred on 12/22/89, or the West Plains peak day of 73.2 HDD that occurred on 1/20/85, be used as the peak HDD, rather than the 1/4/99 date currently used by SMGC. (1/4/99 had only 59 and 57 HDD - Springfield and West Plains weather data, respectively.)
- An estimate of growth by customer class for three to five years to be used in the peak day study and annual estimated demand.
- A calculation of reserve margin for the 1999/2000 ACA period and for three to five years beyond that.
- A comparison of actual usage and HDD for 2 or more recent peak days to the estimated volume. An explanation should be provided by SMG when the estimated demand does not reasonably agree with the actual demand encountered.
- An updated estimate of average annual usage per residential customer and commercial customer for a normal weather pattern.

SUMMARY

- Staff proposes to carry-forward an under-recovery balance of \$786,168 from the 1997-1998 ACA filing, not the \$581,845 under-recovery balance filed by SMG. This increases the cost of gas by \$204,323.
- The Company has filed for recovery of \$73,119 (\$219,357/3) in the 1997-1998 and 1998-1999 ACA filings in accordance with the Commission order in Case GR-97-234. Staff does not believe that \$241,187 should be deducted in the 1998-1999 ACA filing. Staff proposes to increase the cost of gas by \$241,187.
- Staff proposes to reduce the cost of gas by \$28,093 to reflect the invoiced cost of gas from SMG's suppliers.
- Staff proposes to increase the cost of transportation by \$66,706 to reflect WNG

invoiced costs.

- Staff proposes to increase revenue recovery by \$4,835 to reflect the "as billed" sales volumes by month and by customer class.
- Staff proposes that Company include WNG refunds totaling \$1,655 in its next PGA filing, effective November 2000.
- Staff conducted a reliability study on SMG's distribution system in this ACA filing and had some concern over the reliability of the system. Staff's recommendations are included in the "Reliability Study" section of this ACA recommendation.

Description	ACA Balance Per Filing	Staff Adjustments	ACA Balance Per Staff
1997/1998 ACA Ending Balance	\$581,845 (A)	\$204,323	\$786,168 (B)
Cost of Gas	\$2,013,861	\$(28,093)	\$1,985,768
Cost of Transportation	\$1,100,568	\$66,708	\$1,167,276
Revenues	\$2,743,614	\$4,835	\$2,748,449
Total 3 year Cost Recovery	\$(241,187)	\$241,187	\$0
Refunds	\$(133,409) (C)	\$0	\$(133,409)
2nd year Cost Recovery (D)	\$73,119	\$0	\$73,119
Total (Over)/Under Recovery	\$651,183	\$479,290	\$1,130,473

(A) Per Data Request No. 55

(B) Includes 1st 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. Adjust the firm sales ACA balance by \$479,290 from the filed under-recovery balance of \$651,183 to the Staff adjusted under-recovery balance of \$1,130,473. The total adjustment should be included as a separate line item adjustment applied to the beginning 1999-2000 ACA balance.
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.
3. File a written response to Staff's recommendation within 30 days.

**Service List for
Case No. GR-2000-288
August 1, 2000**

**Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102**

**James M. Fischer
Fischer & Dority, P.C.
101 Madison Street, Suite 400
Jefferson City, MO 65101**