BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of The Empire District Gas Company's	)	
Purchased Gas Adjustment Tariff Filing	)	Case No. GR-2008-0368

Denotes Highly Confidential Information

RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM

COMES NOW The Empire District Gas Company (EDG or Company), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Staff Recommendation and Memorandum:

INTRODUCTION

1. On December 30, 2009, the Commission Staff (Staff) filed its Recommendation and Memorandum in this matter. This document set out the results of Staff's analyses and recommendations concerning EDG's 2007-2008 Actual Cost Adjustment (ACA) filing.

2. On December 31, 2009, the Commission issued its Order Directing Response, wherein it directed EDG to respond to Staff's Recommendation by February 1, 2010. EDG subsequently requested, and was granted by the Commission, an extension until February 11, 2010.

3. EDG will respond to the various issues identified by Staff in the following paragraphs. EDG's response will reference the Recommendation and Memorandum by use of the same section titles utilized by the Staff.

****______________** SETTLEMENT AGREEMENT**

4. This dispute arose in September 2007 as a result of a compressor station fire on the Cheyenne Plains Gas Pipeline. The fire restricted gas flows on the pipeline to around fifty percent (50%) of normal and restricted EDG's ability to schedule deliveries of natural gas from

______________. In early October 2007, **______________** presented EDG with an analysis that indicated that it was going to bill EDG for **________** in "book-out" charges for not taking natural gas during the period of restricted flow on Cheyenne Plains due to the compressor station fire. The "book-out" charge represented the month of September 2007 and the first 4 days in October 2007. EDG disputed this billing and indicated that the Cheyenne Plains fire was clearly a force majeure event and that EDG had claimed force majeure in a timely manner and would not pay any "book-out" charges related to the pipeline accident. Given the "book-out' charge that covered September 2007, and the first few days of October, EDG estimated that it could expect to see additional "book-out" charges in excess of **________** related to this contract if it were not terminated.

5. In early October 2007, EDG terminated the **______________** gas supply contract and replaced the contract volumes with other gas supplies at a lower cost. As a result of this change in gas supplies, EDG saved approximately $244,000 in gas supply costs in October 2007. EDG did not pay any of the book-out charges levied by **_____________**, but did pay **______________________** to terminate the gas supply contract and the resulting billing dispute. EDG does not view this payment as litigation costs, but a settlement payment related to a gas supply dispute. In addition to resolving the dispute, the payment avoided litigation expenses. Overall, EDG was able to save its customers in excess of $362,000 for September and October by terminating this **______________** contract. The **_______** payment made to **______________** was a settlement of a gas supply dispute and the early termination of the **______________** gas supply contract.

6. The early termination of this contract resulted in significant gas cost savings for EDG customers, which the Staff has included in gas costs, and therefore the settlement payment

should be considered as part of Empire's gas supply costs and not eliminated from EDG's gas supply costs as recommended by Staff.

CHEYENNE PLAINS ALLOCATION ADJUSTMENT

7. As indicated earlier in the EDG response, EDG does not agree with the Staff's recommended treatment of the settlement payment made to **______________**. If the Commission agrees with EDG and does not accept Staff's **______________** settlement recommendation, there is no need for the Staff's recommended Cheyenne Plains Allocation Adjustment. If the Staff's **____________** recommendation is accepted by the Commission, then the Staff's Cheyenne Plains Allocation adjustment is required.

PROPERTY TAXES

8. Since there is no adjustment proposed during this ACA period, there are no ACA dollars in dispute concerning property taxes. However, EDG would like to take this opportunity to respond to the Staff's position on property taxes related to gas held in storage. EDG believes that the property taxes are directly related to gas in storage, simply reflect additional storage costs, and are clearly and directly related to gas supply costs on individual pipelines. As such, there is no more equitable way to recover these costs than through the PGA/ACA process.

9. The stipulation and agreement reached by the parties to Case No. GR-2009-0434, as it relates to the potential property taxes on gas held in storage in Kansas by the pipelines that serve EDG, is not precedent setting and does not resolve the issue as to how the property taxes on gas held in storage should be recovered. Moreover, it is an active issue because, unlike Kansas, the state of Oklahoma is currently assessing property taxes on gas held in storage by the pipelines that serve EDG.

10. The PGA/ACA process is the best and most equitable way to recover property taxes on gas held in storage since the taxes can be directly attributed to the gas storage costs on each of the individual pipelines that cause the tax to be incurred. The recovery of these costs through base rates (the ultimate result if Staff's recommendation is accepted) is inefficient and will ultimately lead to disputes in the level of property taxes to be recovered, the allocation of these costs between the three pipeline systems and the ultimate recovery of these costs in a general rate case. In addition, recovery in base rates could result in property tax costs incurred for the benefit of sales service customers being recovered from transport customers who potentially derive no direct benefit from gas held in storage. Moreover, because these taxes are based on the value of the gas held storage, they are likely to vary with the market price for gas and be difficult to predict. Utilizing the PGA/ACA recovery mechanism would ensure that only those customers being served from pipeline systems incurring property taxes on gas held in storage pay for those costs. It would be more efficient and accurate to recover this cost as part of a differential in PGA/ACA rates between the three systems than to have a base rate differential as a result of an estimate of property tax costs in a general rate case.

NORTH AND SOUTH SYSTEM - CASH-OUTS

11. EDG agrees with the Staff recommendation concerning the North and South System cash-outs. EDG's fuel accounting group printed the monthly cash-out sheets from the transportation data base prior to its finalization for billing. This created the incorrect documentation, noted by Staff. There are always routine transportation volume and price reconciliation issues that occur early to mid-month until EDG finalizes the transportation data base for billing. As noted by Staff, the actual customer bills reflected the correct volumes and

prices. EDG will institute steps to ensure that fuel accounting uses the finalized transportation data base to record cash-outs in the future.

SOUTH SYSTEM – FINANCE CHARGES

12. EDG agrees with the Staff adjustment as to the South System finance charges.

SOUTH SYSTEM – PRIOR PERIOD ADJUSTMENT

13. EDG disagrees with the Staff recommendation as to the South System prior period adjustment. The adjustment referred to by the Staff was required to true-up a prior estimate. As part of the normal closing process, EDG's fuel accounting department routinely records an estimate of gas supply costs prior to receiving the actual producer/pipeline invoices. This enables EDG's accounting department to complete its analysis of revenue shortly after month end and close a given month's business activity in a timely manner. These routine estimates of gas cost are trued-up by reversing the estimate and recording the actual invoiced costs when the invoices are received.

14. Since the **______________** supply contract was in dispute during this period, and EDG did not get an invoice from **______________** until November of 2007, the adjustment referred to by the Staff was necessary to correct the prior estimates recorded by EDG's fuel accounting department. The fuel accounting departments estimates are normally very close to the actual invoices received, but due to the confusion related to the Cheyenne Plains fire, pipeline curtailment and the ensuing **______________** dispute, this adjustment was necessary to true up the prior period estimates once the appropriate documentation was received.

CUSTOMER BILLINGS

15. As indicated in the Staff Recommendation, EDG has agreed to include additional information on its customer billings by the summer of 2010.

HEDGING

16. EDG'S sales budget volumes in 2007/2008 were based on its customers' consumption at the meter. A customer's usage at the meter excludes the gas used for fuel during pipeline transportation and gas lost during its transportation and storage. The hedging percentages developed by the Staff appear to be based upon gas volumes delivered into the interstate pipelines, excluding fuel and losses. If the gas volumes are adjusted for fuel, losses and the planned storage balances at the end of the winter season of approximately 5%, the percentage of gas price protected on the South system for the 2007/2008 ACA period is 95%, rather than the 99% specified by Staff in its recommendation. EDG is currently in the process of developing a new gas supply data base, which will provide its operations personnel with enhanced supply and usage information and enhanced reporting and planning capabilities that track supply and usage information on a timely basis. This new data base should also result in improvements in gas supply planning. EDG plans to have this new gas data base operational by the 2nd quarter of 2011.

17. EDG developed its gas supply plan (hedging), for the 2009/2010 ACA period using a comparison of pipeline inputs and customer usage that was adjusted to reflect the fuel and loss factors discussed above. The 2009/2010 plan was presented to the Staff in May 2009. Consistent with past practice, EDG's basic supply plan was based upon "normal" heating degree day statistics.

18. During the supply planning process, EDG analyzes the potential impact of weather variations from "normal" heating degree days. To ensure an adequate supply of gas for our customers in extremely cold weather, Empire purchases a Gas Daily Daily ("GDD") option that gives Empire the right to call up to 10,000 dths per day for delivery into Southern Star, Panhandle, and/or ANR during the winter. During January and February 2008, EDG purchased 94,850 dths of GDD option gas to avoid any potential shortfall of supply. Warmer than normal weather variations are handled through the storage contracts EDG has on each system. If gas volumes decline due to warmer than normal weather, it simply results in more gas remaining in storage.

19. As part of its annual planning meeting with the Staff in the spring of each year, EDG will include information concerning the effectiveness of the prior winter season gas supply plan. Given the regulatory lag associated with the annual prudence reviews and the timing of the Staff recommendations, the first winter season this additional analysis can cover will be the current winter season of 2009/2010.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

Customer growth/decline and projected peak day estimation

20. EDG will provide estimates of three years of future gas usage at the annual gas supply meeting it conducts with the Staff. Historically, this type of information has been provided to the Staff at the annual gas supply meetings. Due to the regulatory lag associated with the Staff's ACA audit process and the timing of the Staff recommendations, the next annual supply meeting with the Staff will cover the winter season of 2010/2011, not the 2008/2009 winter season specified in the Staff recommendation.

Peak Day Model Development and Usage

21. EDG will reconfigure the planning models it uses to include monthly, seasonal and base load usage for all three of the companies systems.

South System Reserve Margin

22. The existing pipeline transportation contracts are an important part of the business assets that EDG purchased in June 2006. These contracts were negotiated and signed by the previous owner(s) some years earlier based upon the system(s) requirements at that time. As pointed out by the Staff in its recommendation, EDG has only changed the capacity at one delivery point on the South system since the property was purchased. EDG acknowledges that the decline in overall customer count and the increasing efficiency with which customers consume gas has contributed to a decline in design day requirements on the system(s). In addition, changes in residential construction practices and current economic slowdown have also contributed to low or declining customer growth rates.

23. EDG is also in the process of analyzing its South system on a city gate and line segment basis to identify where the contract Maximum Daily Quantity (MDQ) has become somewhat higher than currently required and to determine if the MDQ can be moved to another city gate where the design day volume is closer to the MDQ or is eligible for capacity release.

24. EDG has also adopted an aggressive capacity release program for any unused pipeline capacity identified on the Southern Star Central and Panhandle Eastern pipelines. Any revenue gained through this program is credited against EDG’s gas supply costs and flows back to EDG’s sales service customers through the PGA.

25. There is a complicating factor associated with EDG’s pipeline capacity on the Southern Star Central system and the transportation customers located behind EDG’s city gates on the South system. EDG must maintain enough pipeline capacity to meet the storage

withdrawal requirements established by the Southern Star Central transportation tariff and it can be difficult to determine the exact level of pipeline capacity that can be released, due to the daily imbalance volumes that can be created by the transportation customers, which in turn have an impact upon EDG's storage arrangements with Southern Star Central.

26. EDG is committed to maximizing the capacity release revenue stream for the benefits of its sales service customers. In addition, in EDG's recent rate case a Daily Balancing fee on large volume transportation was approved by the Commission. If EDG's large volume transportation customers do not match their receipts and deliveries of gas on a daily basis, they will pay a fee to EDG that will offset some of the pipeline transportation cost that EDG incurs for its sales service customers. This new revenue stream will flow through the PGA to reduce the PGA rate the sales service customers pay.

Cheyenne Plains Supply

27. EDG will continue to evaluate its supply arrangements on Cheyenne Plains and keep the Staff informed of any decisions made with respect to Cheyenne Plains.

Cheyenne Plains Compressor Fire

28. This matter is addressed in paragraphs 4-6 above.

ADJUSTMENTS

29. EDG recommends that it be ordered to adjust the balances in its 2007/2008 ACA filing to reflect the ending (over)/under recovery balances for the ACA, TOP, TC and Refund accounts per the following table:

Description (+) Under-recovery (-) Over-recovery	8-31-08 Ending Balances Per Filing	Commission Approved Adjustments Prior to 2007-2008 ACA	Staff Adjustments For 2007-2008 ACA	Staff Recommended 8-31-08 Ending Balances
South System: Firm ACA	$1,286,283	$38,936 (1A)	$34,980 (B)	$1,360,199
Interruptible ACA	$47,099	$0	$0	$47,099
Refund	$0	$0	$0	$0
North System: Firm ACA	$293,668	($46,172) (2A)	$661 (C)	$248,157
Interruptible ACA	$56,098	$0	$0	$56,098
Refund	$0	$0	$0	$0
NW System: Firm ACA	$395,903	($11,231) (3A)	(3,169) (D)	$381,503
Interruptible ACA	$0	$0	$0	$0
Transition Cost	($2,586)	$0	$0	($2,586)
Refund	$0	$0	$0	$0

1A-3A - Prior period adjustments (all adjustments in GR-2008-0123)
1A) $55,853 + ($11,039) + ($5,878)
2A) ($43,226) + ($2,946)
3A) ($12,627) + $1,396.
B) Cash-out $35,655 + finance charge ($675)
C) Cash-out $661
D) Cash-out ($3,169)

WHEREFORE, The Empire District Gas Company respectfully requests that the Commission consider this response to the Staff Recommendation and Memorandum and issue such orders as it believes to be reasonable and just.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on February 11, 2010, to the following:

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