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Missouri Public  
Service Commission

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service  
Commission held at its office in  
Jefferson City on the 13th day of  
March, 2003.

In the Matter of Missouri Public Service's  
Purchased Gas Adjustment Factors to be  
Reviewed in its 2000-2001 Actual Cost  
Adjustment

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Case No. GR-2001-461

**ORDER APPROVING UNANIMOUS STIPULATION AND AGREEMENT**

**Syllabus:** This order approves the stipulation and agreement, which settles all the  
remaining actual cost adjustment issues and which is agreed to by all the parties.

**Brief Procedural History**

This case concerns the 1999-2000 (GR-2000-520) and the 2000-2001 Purchased  
Gas Adjustment (GR-2001-461) filing and the Actual Cost Adjustment filings of Aquila, Inc.  
d/b/a Aquila Networks-MPS. Cases numbered GR-2000-520 and GR-2001-461 were  
consolidated by the Missouri Public Service Commission on May 22, 2001, under case  
number GR-2001-461.

**The Stipulation and Agreement**

On January 29, 2003, Aquila, the Office of the Public Counsel, and the Staff of the  
Commission filed a unanimous stipulation and agreement. In that pleading, the parties  
agreed that four issues remain in this case: (a) Staff has proposed that storage  
withdrawals for Aquila's Northern System be priced at the prior month weighted average

Exhibit No. 32  
Case No(s). GR-2001-382, et al  
Date 11-24-03 Rptr YF

cost of gas, resulting in a reduction in gas costs to the Northern System in the 2000-2001 case of \$28,830; (b) Staff has proposed an adjustment to reduce gas costs on Aquila's Eastern System by \$197,771, based upon Aquila's purchasing practices during the 2000-2001 ACA period; (c) Staff has proposed an adjustment to reduce gas costs on Aquila's Southern System by \$1,010,503, based upon Aquila's use of flowing gas and storage withdrawals purchasing practices during the 2000-2001 ACA period; and (d) Staff and Aquila previously reached an agreement concerning \$76,466 in put (i.e., a right to sell) and call (i.e., a right to buy) adjustments.

All the parties agreed that the unanimous stipulation and agreement (attached hereto) settled all the issues.

On March 3, 2003, all the parties filed a joint motion for leave to amend the unanimous stipulation and agreement by replacing the existing paragraph 9 with a new paragraph 9. The Commission will allow this amendment.

#### **The Staff's Memorandum**

On February 5, 2003, the Staff filed its suggestions in support of the unanimous stipulation and agreement.

#### **RESOLUTION OF ISSUES**

Staff's pleading stated that the parties initiated discussions to determine whether an amicable settlement of the remaining issues was possible. As a result of those discussions, Staff said, the parties reached a resolution and settlement of the above issues that they believed to be reasonable and beneficial to ratepayers in this case and recommended that the Commission approve the stipulation and agreement as being in the public interest.

The pleading noted that, consistent with the Direct Testimony of Staff witness Phil S. Lock, the parties agreed that Aquila will forego carrying costs (interest) associated with the deferred carrying cost balance from March 2001 to August 2001 and not to defer these costs into the future.

The parties agreed that Aquila will recalculate storage withdrawals for Aquila's Northern System utilizing Staff's method. That is, such withdrawals will be priced at the prior month weighted average cost of gas, resulting in a reduction in gas costs to the Northern System in the 2000-2001 ACA case of \$28,830. Staff argued that due to the timing of Aquila's 2001-2002 ACA filing (case number GR-2002-392), Aquila was not able to incorporate Staff's method for storage withdrawals in this ACA filing. Aquila's storage withdrawals will, therefore, be amended by Staff as part of its audit in this ACA filing to utilize Staff's method only. All subsequent ACA filings will be amended by Aquila to use the same method. Staff believes that this is in the public interest and noted that there is a consistent procedure agreed upon by the parties in the calculations of the weighted average cost of gas for the Northern and Southern Systems. Under the stipulation and agreement, Aquila's 2001-2002 ACA filing will be amended as part of Staff's audit in that case.

The parties further agreed that gas costs on Aquila's Eastern System will be reduced by \$100,000 and gas costs on Aquila's Southern System will be reduced by \$200,000, beginning with Aquila's November 1, 2003 filing. This resolves the issue of gas purchasing practices on Aquila's Eastern System and Southern System.

Staff said that, due to price volatility in the natural gas market, it was reasonable to expect that Aquila would have engaged in a minimal level of hedging for the 2000-2001

winter season. Staff further alleged that Aquila did not effectively manage its supply portfolio because no fixed priced gas was purchased for the Eastern System, no storage contracts were in place for the Eastern System as a hedge, and no other hedged volumes were specifically in place for the Eastern System. This, Staff said, resulted in customers on Aquila Eastern System being totally exposed to price risks during the 2000-2001 heating season.

Staff noted that thirty percent hedging of normal requirements, as a minimum level of hedging for each month of November 2000 through March 2001, is reasonable. Staff said that its evidence supported a reduction in gas costs in the amount of \$197,771 on the Eastern System. Staff does not believe that Aquila's position to shift costs from the Eastern System to the Southern System was correct because the tariff has separate PGA rates for each of these two districts. Furthermore, Staff does not believe that it was reasonable to shift costs based on Aquila's intent to have hedged on the Eastern System.

Because customer usage of natural gas varies greatly as the weather becomes warmer or colder, Staff believes that it is reasonable to expect that Aquila would have guidelines or supply plans in place for supplying natural gas under normal weather, warmest month weather conditions, and coldest month or coldest season weather conditions. Staff presented evidence showing that Aquila failed to develop and follow a reasonable plan for using flowing gas and storage withdrawals for the winter months of November 2000 through March 2001. Staff supported a \$1,010,503 reduction in gas costs for Aquila's Southern System to quantify the negative impact to Aquila's customers.

Staff noted that its minimal hedging issue for Aquila's Eastern System has not included a recommended prudence disallowance in any ACA cases prior to 2000-2001.

Due to the lack of case history involving the minimal hedging expectation, Staff believes that this issue would be time-consuming and difficult. Staff believes, however, that Aquila's customers were overly-exposed to price volatility during this ACA period and therefore believes that this represented a fair and reasonable settlement based on the facts and circumstances that existed at that time. The Staff and Aquila agreed that it is prudent to have some volumes hedged for the winter months to protect customers from the volatility of prices. Staff said that Aquila acknowledged that it planned to hedge for the Eastern System, but due to an oversight, the volumes were purchased for another system.

In view of the foregoing and in consideration of the overall settlement of the case, Staff believes that an adjustment of \$100,000 for the Purchasing Practices on the Eastern System and \$200,000 for the Purchasing Practices-Southern System is reasonable.

#### PUTS AND CALLS AND OTHER ISSUES

The parties agreed to split the \$76,466 difference involving Puts and Calls. This, Staff argued, will reduce the cost of gas by \$38,233 on the Southern System and is a reasonable settlement of this issue. This adjustment is included in the 1999-2000 and 2000-2001 ACA balance tables developed by Staff.

The parties agreed that Staff's recommendation regarding the deferred carrying cost balance will be implemented. Staff said that its recommendation increases gas costs to the Southern System by \$12,289 and increases gas costs to the Northern System by \$5,978.

The parties agreed that Staff's adjustments referred to in paragraphs 5, 6, and 8 of the stipulation and agreement will be included in Aquila's November 2003 PGA filing. These paragraphs refer to the timing of the adjustments for gas cost reductions on Aquila's Eastern and Southern Systems, Puts and Calls, and the deferred carrying cost balance.

Staff said that the adjustment referred to in paragraph No. 7, weighted average cost of gas, will be included in Aquila's Spring 2003 filing. According to Staff, the timing of this adjustment was requested by Aquila. Staff believes that all of these adjustments are appropriate and in the public interest and that each of these matters is resolved in an equitable manner as part of the overall settlement of the case.

The parties further agreed that the Staff recommendation in the consolidated cases, case numbers GR-2000-520 and GR-2001-461, that was filed on July 9, 2002, contained other recommendations. Staff believes that Aquila has complied with these recommendations and provided the required information to Staff. Staff further believes that this is reasonable as part of the overall settlement of the case. Staff pointed out that the most notable aspect of these matters is that Aquila is providing a copy of its policies and procedures for nominations of natural gas. Staff said that it welcomed this information.

Based on the discussion above, Staff recommended that the Commission approve the stipulation and agreement.

### **Response**

On February 7, 2003, Aquila filed its response to Staff's suggestion. Aquila stated that it agreed with the primary conclusion drawn by Staff, i.e., that the parties reached a settlement of the remaining issues that is "reasonable and beneficial to ratepayers in this case" and that the Commission should "approve this Stipulation and Agreement as being in the public interest." Aquila noted, however, that this does not indicate agreement with the entirety of Staff's suggestions. Aquila alleged that a stipulation may be based on many different conclusions and motivations. Consequently, while Aquila supports the stipulation and recommended that the Commission approve it, Aquila reiterated that the Staff's

suggestions are Staff's own and are not adopted by Aquila.

No other party filed a response to Staff's pleading.

### **Findings and Decision**

There is no need for a hearing since no party requested a hearing. If no party requests a hearing, the Commission may determine that a hearing is not necessary and that the Commission may make a decision based on the stipulation and agreement.

The Commission concludes that all issues were settled by the stipulation and agreement. The Commission has the legal authority to accept a stipulation and agreement offered by the parties as a resolution of issues raised in a case. Section 536.060, RSMo 2000, as currently supplemented, allows parties to dispose of cases by stipulation and agreement with summary action that waives procedural requirements, and states:

Contested cases...may be informally resolved by consent agreement or agreed settlement or may be resolved by stipulation, consent order, or default, or by agreed settlement where such settlement is permitted by law. Nothing contained in sections 536.060 to 536.095 shall be construed (1) to impair the power of any agency to take lawful summary action in those matters where a contested case is not required by law, or (2) to prevent any agency authorized to do so from assisting claimants or other parties in any proper manner, or (3) to prevent the waiver by the parties (including, in a proper case, the agency) of procedural requirements which would otherwise be necessary before final decision, or (4) to prevent stipulations or agreements among the parties (including, in a proper case, the agency).

Thus, the Commission will approve the stipulation and agreement.

### **IT IS THEREFORE ORDERED:**

1. That the Missouri Public Service Commission approves the stipulation and agreement filed on January 29, 2003, and amended on March 3, 2003, by Aquila, Inc.

d/b/a Aquila Networks-MPS, the Office of the Public Counsel, and the Staff of the Missouri Public Service Commission, and whose terms are set forth in Attachment A (which includes the pleading filed by the parties on March 3, 2003).

2. That this order will become effective on March 23, 2003.



3. That this case may be closed on March 24, 2003.

**BY THE COMMISSION**

**Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge**

( S E A L )

Simmons, Ch., Murray, Lumpe, Gaw and Forbis, CC., concur

Hopkins, Senior Regulatory Law Judge