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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 11, 2000

BRIAN D. KINKADE
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Director, Utility Operations

ROBERT SCHALLENBERG
Director, Utility Services

DONNA M. KOLILIS
Director, Administration

DALE HARDY ROBERTS
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. GT-2001-61

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STAFF RECOMMENDATION IN SUPPORT OF EXPERIMENTAL AGGREGATION PROGRAM AND SUGGESTIONS IN OPPOSITION TO OPC'S MOTION TO SUSPEND.**

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.
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 11 2000

*Missouri Public
Service Commission*

In the matter of Missouri Public Service, a division)
of UtiliCorp United, Inc. to establish an experimental)
small volume aggregation program in Missouri.)

Case No. GT-2001- 61

**STAFF RECOMMENDATION IN SUPPORT OF EXPERIMENTAL AGGREGATION
PROGRAM AND SUGGESTIONS IN OPPOSITION TO OPC'S MOTION TO SUSPEND**

COMES NOW the Staff of the Missouri Public Service Commission (Staff), and for its Recommendation in Support of Experimental Aggregation Program and Suggestions in opposition to OPC's Motion to Suspend respectfully states the following:

I. Program Description

1. On July 20, 2000 UtiliCorp United, Inc. d/b/a Missouri Public Service (MPS or Company) filed natural gas tariff sheets to initiate a new service entitled EXPERIMENTAL SMALL VOLUME TRANSPORTATION SERVICE-AGGREGATED (SVTS-A). The Experimental SVTS-A program is designed to allow small non-residential end-users on MPS' system an opportunity to band together into groups (aggregation pools) for the purpose of procuring their natural gas supplies from a source other than MPS. On August 8, and on August 11, 2000, MPS substituted several tariff sheets to correct minor clerical errors.

2. The voluntary experimental program contains the following features:

- A. Any small non-residential end-user (using under 150,000 Ccf per year) may participate to transport without the need to install expensive metering equipment;
- B. End-users may sign up or drop off from the SVTS-A program only in April and October;
- C. Pipeline capacity needed to serve the end-user goes with the end-user, and pipeline capacity payments are credited to the system supply Purchased Gas Adjustment (PGA);

- D. ACA (Actual Cost Adjustment), TOP (Take or Pay), TC (Transition Costs) and Refunds which existed while SVTS-A end-users were system supply customers will apply for an interim period until the winter 2001 PGA;
 - E. MPS will perform the daily balancing;
 - F. Gross receipts tax and energy seller issues have been addressed by the program's tariffs;
 - G. This is a two-year experimental program (September 1, 2000 to August 31, 2002).
3. UtiliCorp currently administers a program similar to this in Kansas. Many of the same aggregators participating in UtiliCorp's Kansas program may participate in the Experimental SVTS-A Missouri program. There is no guarantee that this program will result in lower gas bills to participating end-users, but it does provide an opportunity for choice of gas supply and transportation, which was previously only available to larger end-users.
4. This experimental service is being made available in response to requests from small non-residential end-users for transportation options and choices. One of the goals in this experiment will be to see if natural gas transportation can be performed for smaller end-users without the need for expensive telemetry equipment and at the same time not detrimentally affect costs, gas supply, or service to remaining system supply customers.

II. Concerns of the Office Of The Public Counsel

5. On August 1, 2000, the Office of the Public Counsel (OPC) filed PUBLIC COUNSEL'S MOTION TO SUSPEND AND REQUEST FOR ESTABLISHMENT OF PROCEDURAL SCHEDULE AND HEARING (Motion). In its Motion, OPC summarized seven broad areas of concern, which they believe should cause the Commission to suspend the proposed tariffs and establish a procedural schedule to further review the proposed program.
6. For almost a year, MPS, an interested potential end-user, Staff, and OPC have met on a variety of occasions, both in person and over the phone, to discuss the proposed program and related tariffs prior to filing. As a result of those meetings and discussions, many changes were made to accommodate the different parties' points of view. The filed tariffs reflect those efforts to the extent practicable.

7. In an effort to respond to the comments made and concerns voiced by OPC, Staff will briefly address the issues as summarized on page two of OPC's Motion (OPC's statements are in italics):

A. *The proposal does not have adequate provisions to protect from harm residential customers who are not eligible for the program and other customers who do not choose to take advantage of the aggregation option;*

Significant time and effort were spent on various features of this experimental program to prevent negative impacts on the remaining system supply customers. The capacity assigned to aggregation participants, and the corresponding payments they make, would be credited to the PGA thereby reducing gas costs for the system supply customers. The revenues which MPS will receive for performing the mandatory balancing activities for all of the aggregators at a cost of \$0.0075 per Ccf will be collected and credited to the PGA, a benefit to system supply customers. These two items alone should insure that there will be no negative impact on remaining system supply customers due to this program.

To ensure that potential aggregation end-users do not escape any costs they may have helped to cause over the past year as a system supply customer, as well as to make sure they receive any credits they were entitled to for past activities, the ACA, TOP, TC and Refund components of the PGA were required to be charged the program participants for the first year of the experiment. These interim charges would terminate on the effective date of the winter 2001 PGA/ACA filing because by that date the prior years' charges would have been collected/returned through the PGA. Because aggregation participants would not be causing the accumulation of those types of charges for the next ACA period, they should not be assessed those reconciliation type charges beyond the first year. To continue to assess these PGA type of charges beyond the interim period would be unfair and a burden to those aggregation end-users.

Additionally, issues, which relate to the collection and payment of gross receipts tax and the certification of energy sellers have been addressed by this experimental program. This was done to make sure that taxing municipalities were not detrimentally affected because of the availability of this program and that the program participants complied with the energy seller certification requirements passed by the Missouri legislature several years ago. All of these modifications were incorporated into the program to prevent detrimental effects to MPS and the public.

B. The program does not create a level playing field among potential new gas suppliers, including the distribution Company's gas marketing affiliate;

The identity and number of participating end-users and aggregators will be two of the items the experiment will reveal. The Commission has two affiliated transactions rules in place that cover the costing and the marketing aspects relative to affiliated activities. With the rules in place, the participants must conduct their activities in a manner consistent with and as permitted by the rules.

The issues of whether aggregators need storage; whether storage is even available on MPS' system; whether the capacity formula may force aggregators to assume more capacity than they need, are questions which need to be considered and evaluated after the experiment has developed a track record. The program is already complicated, and contains so many protective features and requirements, that potential participants may be discouraged from even trying the experimental program. If few participants engage in this experimental program, only limited information and experience will be gained. In order for a program to succeed, it must provide something for each participant group. One element is to keep the program as simple as possible, at least until the operation of the program can be better understood.

C. The proposed tariff, and other documents that will be used to implement the program lack sufficient clarity and internal consistency to ensure that the program would operate in the manner intended;

MPS expressed a desire early in the discussions to retain as much of the existing Kansas aggregation program as possible in an effort to minimize different program details, which they would have to administer. This desire included the need to retain much of the routine paperwork they currently use in Kansas, including basic forms and service agreements.

The Kansas program has been in effect for several years and the aggregators are familiar with its operation. Many of the same aggregators participating in Kansas might participate in Missouri. Building on the experience of the Kansas program and maintaining a similar program would work to the mutual convenience and benefit of all. To the extent necessary, the tariffs and program were structured for purposes of clarity and to remove as much ambiguity as possible. A new program which contains many variables and which requires a new mindset may be somewhat difficult for

people to understand. Once the participants are familiar with the program, confidence and comfort will follow.

D. The program does not have sufficient protections for small unsophisticated consumers that are choosing a competitive gas supplier for the first time;

This is a voluntary program and one of a relatively short duration. Some conditions must be established for this type of experiment to work. Currently the larger transportation customers must sign up for periods of one year, and this experimental program is no different. Aggregators must have a defined time to group their end-users, arrange for supplies and collect fundamental information. A one-year period is not a burdensome requirement.

As far as the issue of sophistication, the job of program developers is to develop a reasonable plan. How end-users use or benefit from that plan will be for the participants to decide. Customers are on their own in the marketplace, not everyone is motivated by the same factors. The market assumes that customers will be careful and watch out for their own welfare.

As in any situation, tariffs need to address how customers will be treated if they fail to honor their commitments. Certainly if an aggregator fails to perform, tariff provisions must describe what actions would be available to the LDC to deal with the default. If a reasonable solution is not reached, termination of the aggregator's participation is an option. Having a provision in the tariff that covers this topic does not necessarily mean that there would be no options for the end-users. They could be transferred to another aggregator or returned to system supply service if adequate capacity remains to serve them.

By design, and for the protection of system supply customers and the participating end-user, the capacity need to serve the load of the end-user is to remain with the end-user. Simply put, the end-user will have to be responsible for the capacity it needs. When an end-user decides to leave system supply and participate in aggregation, it is transferred an adequate amount of pipeline capacity. It is assumed that the end-user will hold onto whatever amount it needs to continue service. It cannot be assumed that the end-user will release the permanent capacity needed to serve him. Basically the end-user is in control of its own destiny with this activity.

E. OPC believes that key documents that are referenced in the proposed tariff which contain important terms and conditions for implementing the program should be included as a part of the tariff that implements the proposed program;

While having copies of the various agreements and forms in the tariff would give participants and others more comfort, it is not necessary. Copies of these documents have previously been provided to OPC and Staff and are also available on the Internet for participants to review and use.

The Commission's Affiliated Transactions Rules have been promulgated and are in effect to the extent they have not been stayed by the courts. MPS's use of the **EnergyOne** logo and other affiliated activities must conform to and comply with the rules.

F. The proposed tariff contains numerous new charges to aggregators and end-users that need to be analyzed to determine MPS' cost basis for the proposed charges and to ensure that the Company is not attempting to put rates in place for new or modified services without the consideration of all relevant factors;

There are a few new charges for the services contemplated in this experimental program. There are also a few different ways the charges are handled. MPS recognized that they would not be doing certain things for aggregation end-users that they were doing for them as system supply customers. The delivery charge developed for this service is virtually identical to the General Service sales rate schedule, with one small change. Each of the first three steps of the four-step rate was reduced by \$0.001 per Ccf. The final step remains the same as the GS rate schedule, the schedule from which all aggregation end-users will come from.

It is the intent of the Staff to collect information over the course of the experiment to establish the types of costs, which need to be recovered in providing this type of service. It is the purpose of an experiment to collect data and modify conditions if the original assumptions are too off base.

G. *The proposed tariff lacks crucial elements of reporting requirements and an evaluation at the end of the experimental period.*

Like any new or experimental program undertaken by an LDC, there is always a need to know how things are progressing and capture information. This program is no different than many others, which were reviewed. The program does contain a commitment from the company to submit quarterly reports and collect relevant end-user and aggregator information. While not all of the data which will be collected or tracked is described in the tariff, there is never the less a commitment on behalf of MPS to report at a minimum certain information.

Also it is anticipated that, after the program has run its 2 year course, an evaluation of the experimental program will be done. MPS, Staff, OPC, and any other entity having a desire will have the opportunity to review and evaluate the performance of the program and also have the opportunity to recommend adjustments or alternatives based on that evaluation.

III. Staff Recommendation

8. After working on this experimental program for almost a year, the Staff believes it has put together the best available plan, which is mutually beneficial to all participants. While perhaps not perfect or as simple as some would want, it is a workable plan and one which includes built-in protections for non-participating system supply customers. There is little in this new experiment for the company and we doubt there is much in terms of savings for small end-users. But these parties have expressed a desire to try this program as an experiment.

9. An experiment is just that, an opportunity to move forward under controlled conditions and in a cautious manner. If mistakes occur or if problems arise, the participants should be willing to address those areas, make the needed corrections.

10. In summary, the Staff has reviewed the tariff sheets filed on July 20, 2000 and as substituted on August 8 and on August 11, 2000 and recommends they be approved and allowed to go into effect on and after September 1, 2000, the requested effective date. The tariff sheets recommended for approval are:

P.S.C. Mo. No. 5

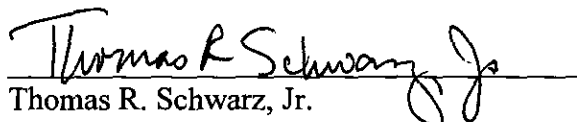
Original SHEET NOs. 32.1 Through 32.20, Inclusive
6th Revised SHEET NO. 36 Canceling 5th Revised SHEET NO. 36
20th Revised SHEET NO. 43 Canceling 19th Revised SHEET NO. 43

23rd Revised SHEET NO. 44 Canceling 22nd Revised SHEET NO. 44
13th Revised SHEET NO. 44.1 Canceling 12th Revised SHEET NO. 44.1

WHEREFORE, the Staff recommends the Commission approve the experimental aggregation tariffs filed by MPS and allow small non-residential gas consumers the opportunity to procure natural gas supplies from a source other than MPS and explore the transportation options previously available only to larger natural gas consumers.

Respectfully submitted,

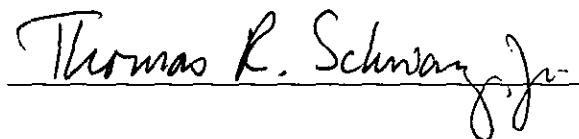
DANA K. JOYCE
General Counsel


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 11th day of August, 2000.



Service List for
Case No. GT-2001-61
August 11, 2000

Douglas E. Micheel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Dean L. Cooper
Brydon, Swearengen & England
P.O. Box 456
Jefferson City, MO 65102-0456

Robert J. Amdor
Regulatory Services-UtiliCorp United
1815 Capitol Avenue
Omaha, NE 68102