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Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Aquila Networks - MPS' Purchased Gas Adjustment factors to be reviewed in its 1999-2000 and 2000-2001 Actual Cost Adjustment.	))))	Case No. **GR-2001-461** (Consolidated)

SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and respectfully submits these Suggestions in Support of the Unanimous Stipulation and Agreement:

BACKGROUND

This case concerns the 1999-2000 (GR-2000-520) and the 2000-2001 (GR-2001-461)Purchased Gas Adjustment (PGA) filing and Actual Cost Adjustment (ACA) filings of MPS. Case Numbers GR-2000-520 and GR-2001-461 were consolidated by the Commission on May 22, 2001 under Case No. GR-2001-461. Staff, Aquila Networks-MPS (MPS) and the Office of the Public Counsel (OPC) are parties to this case. On December 24, 2002, the Staff, with the concurrence of the other parties, filed a Motion to Suspend the Procedural Schedule. On January 3, 2003, the Commission issued an Order Suspending the Procedural Schedule. On January 29, 2003, the Parties filed a Unanimous Stipulation and Agreement.

The Parties agreed in the Unanimous Stipulation and Agreement that four issues remained in the case. These four issues were:

(a) Staff has proposed that storage withdrawals for MPS's Northern System be priced at the prior month weighted average cost of gas (WACOG) resulting in a reduction in gas costs to the Northern System in the 2000-2001 case of $28,830;

(b) Second, Staff has proposed an adjustment to reduce gas costs on MPS's Eastern

Exhibit No. 31
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System by $197,771 based upon MPS's purchasing practices during the 2000-2001 ACA period;

(c) Third, Staff has proposed an adjustment to reduce gas costs on MPS's Southern System by $1,010,503, based upon MPS's use of flowing gas and storage withdrawals during the 2000-2001 ACA period;

(d) Fourth, Staff and MPS previously reached an agreement concerning $76, 466 in puts and call adjustments.

This Stipulation and Agreement resolves all remaining issues in these cases.

RESOLUTION OF ISSUES

The Parties initiated discussions to determine whether an amicable settlement of the remaining issues was possible. As a result of those discussions, the Parties reached a resolution and settlement of the above issues that they believe to be reasonable and beneficial to ratepayers in this case and recommend the Commission approve this Stipulation and Agreement as being in the public interest.

Consistent with the Direct Testimony of Staff witness, Phil S. Lock, the parties agreed that Company will forego carrying costs (interest) associated with the Deferred Carrying Cost Balance (DCCB) from March 2001 to August 2001 and not to defer these costs into the future. As set out in the direct testimony of Staff Witness Lock, this was Staff's understanding of how the matter had been resolved in Case No. GR-2001-461.. Staff believes that this merely puts the agreement from that case into effect.

The Parties agreed that MPS will recalculate storage withdrawals for MPS's Northern System utilizing Staff's methodology. That is, such withdrawals will be priced at the prior month weighted average cost of gas (WACOG) resulting in a reduction in gas costs to the Northern System in the 2000-2001 ACA case of $28,830. Due to the timing of MPS's 2001-

2002 ACA filing (Case No. GR-2002-392), MPS was not able to incorporate Staff's methodology for storage withdrawals in this ACA filing. MPS's storage withdrawals will, therefore, be amended by Staff as part of its audit in this ACA filing only to utilize Staff's methodology. All subsequent ACA filings will be amended by Company to utilize this same methodology. Staff believes that this is in the public interest. There is a consistent procedure agreed upon by the parties in the calculations of the WACOG for the Northern and Southern Systems. Pursuant to the Stipulation and Agreement MPS'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 MPS's Eastern System will be reduced by $100,000 and gas costs on MPS's Southern System will be reduced by $200,000, beginning with the Company's November 1, 2003 filing. This resolves the issue of gas purchasing practices on MPS's Eastern System and Southern System.

Staff's evidence in this case showed that due to price volatility in the natural gas market, it was reasonable to expect that the Company would have engaged in a minimal level of hedging for the 2000-2001 winter season. Staff further believed that the Company 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 resulted in customers on the MPS Eastern System being totally exposed to price risks during the 2000-2001 heating season.

Staff has presented evidence that 30% hedging of normal requirements, as a minimum level of hedging for each month of November 2000 through March 2001, is reasonable. Staff's evidence supported a reduction in gas costs in the amount of $197,771 on the Eastern System. Staff did not believe that the Company's position to shift costs from the Eastern System to the

Southern System because the tariff has separate PGA rates for each of these two districts. Furthermore, Staff did not believe that it was reasonable to shift costs based on MPS'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 the Company 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 the Company 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. This had a negative impact on customers of MPS's Southern System and supported a $1,010,503 reduction in gas costs for MPS's Southern System to quantify the negative impact to MPS's customers.

During the course of discussions in this case, it became clear to Staff that there were valid reasons to support this settlement. There was the specter of extended litigation, litigation risk. This was certain to be a contentious case and there would be lengthy hearings and appeals.

Furthermore, in this particular case, the prudence issue regarding the use of flowing gas and storage withdrawals on the Company's Southern System is an inherently complex issue. Staff's case argued that the majority of this adjustment was based on Company decisions for the month of January 2001. If the Company had presented adequate information and support for its actions to the Commission for increased volumes of first-of –the-month nominations out of concern for the availability of swing flowing supplies in the event of cold weather. In effect, this would have reduced the amount of planned storage withdrawals in January 2001 and this would have reduced Staff's proposed adjustment for the Southern System.

Staff's minimal hedging issue for the Company's Eastern System has not included a recommended prudence disallowance in any ACA cases prior to the 2000-2001 ACA cases. 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, the MPS's customers were overly exposed to price volatility during this ACA period and therefore believes that this represents a fair and reasonable settlement based on the facts and circumstances that existed at that time. The Staff and Company agree that it is prudent to have some volumes hedged for the winter months to protect customers from the volatility of prices. The Company acknowledges 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. (See Direct Testimony on Staff Witness Phil Lock at 3). This will reduce the cost of gas by $38,233 on the Southern System (Id. at 3). This adjustment is included in the 1999-2000 and 2000-2001 ACA balance tables developed by Staff. Staff believes that this is a reasonable way to settle this issue.

As indicated in MPS's response to the Staff Recommendation, the parties agree that Staff's Recommendation regarding the DCCB will be implemented. Staff's 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 Nos. 6, 7, and 8 of the Stipulation Agreement will be included in the Company's November 2003 PGA filing. These paragraphs refer to the timing of the adjustments for gas cost reductions on MPS's Eastern and Southern Systems, Puts and Calls and the DCCB. The adjustment referred to in paragraph No. 5, WACOG, will be included in MPS's Spring 2003 filing. The timing of this adjustment was requested by MPS. Staff believes that all of these adjustments are appropriate and in the public interest. 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 Nos. GR-2000-520 and GR-2001-461, that was filed on July 9, 2002 contained other recommendations. MPS has complied with these recommendations and provided the required information to Staff. Staff believes that this is reasonable as part of the overall settlement of the case. The most notable aspect of these matters is that MPS is providing a copy of its policies and procedures for nominations of natural gas. Staff welcomes this information.

CONCLUSION

WHEREFORE, Staff respectfully submits these Suggestions in Support of the Unanimous Stipulation and Agreement and requests that the Commission approve all of the specific terms and conditions of this Unanimous Stipulation and Agreement.

Respectfully submitted,

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/s/ Robert V. Franson

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or e-mailed to all counsel of record this 5th day of February 2003.

/s/ Robert V. Franson