

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office in
Jefferson City on the 19th day of
February, 2009.

In the Matter of The Empire District Gas Company's)
Purchased Gas Adjustment Tariff Filing) **Case No. GR-2008-0123**

**ORDER ESTABLISHING ACA BALANCE
AND CLOSING CASE**

Issue Date: February 19, 2009

Effective Date: March 1, 2009

Procedural History

On October 24, 2007, The Empire District Gas Company – Northern, Southern, and Northwest (L&P) (hereafter “Empire”), filed tariff sheets to reflect a change in its Purchased Gas Adjustment (hereafter “PGA”) factors. The Commission issued an Order Approving Interim Rates on November 1, 2007.

Actual Cost Adjustment Balances:

On December 31, 2008, the Procurement Analysis Department of the Staff of the Missouri Public Service Commission filed a Memorandum and Recommendation. It indicated that Staff has reviewed Empire’s 2006/2007 Actual Cost Adjustment (“ACA”) filing and audited Empire’s billed revenues and actual gas costs from September, 2006, through August, 2007.

Staff states that it has also conducted a reliability analysis and hedging review for Empire. Staff recommends that the Commission issue an order requiring Empire to establish the ACA account balances to reflect the following ending balances:

Description (+) Under-recovery (-) Over-recovery	8-31-07 Ending Balances Per Filing	Commission Approved Adjustments Prior to 2006- 2007 ACA (1)	Staff Adjustments For 2006- 2007 ACA	Staff Recommended 8-31-07 Ending Balances
Southern System: Firm ACA	\$653,401	\$0	\$55,853 (A) (\$11,039) (B) (\$5,878) (D)	\$ 692,337
Interruptible ACA	\$0	\$0		\$0
Take-or-Pay (TOP)	\$0	\$0		\$0
Transition Cost (TC)	\$0	\$0		\$0
Refund (C)	\$0	\$0		\$0
Northern System: Firm ACA	(\$137,944)	\$0	(\$43,226) (A) (\$2,946) (D)	\$(184,116)
Interruptible ACA	\$0	\$0		\$0
Take-or-Pay (TOP)	\$0	\$0		\$0
Transition Cost (TC)	\$0	\$0		\$0
Refund (C)	\$0	\$0		\$0
Northwest System: Firm ACA	(\$214,017)	\$0	(\$12,627) (A) \$1,396 (D)	(\$225,248)
Interruptible ACA	\$0	\$0		\$0
Take-or-Pay (TOP)	\$0	\$0		\$0
Transition Cost (TC)	(\$2,586)	\$0		(\$2,586)
Refund (C)	\$0	\$0		\$0

- 1) All Commission approved adjustments prior to 2006-2007 ACA were included in Schedule 4 of the 2007-2008 PGA/ACA filing (Case No. GR-2008-0368).
- A) June 07 Cheyenne Plains accounting adjustment.
- B) Ad Valorem Refund.
- C) The refund balance on 8-31-07 was transferred to the ACA account.
- D) Cash-out.

In addition to the ACA balance, Staff made the following observations and recommendations:

Hedging

Staff noted that Empire's hedging coverage was appropriate for the 2006/2007 ACA heating season. But Staff recommended that Empire should continue to keep abreast of market developments to make the best gas procurement decisions, and that it broaden its evaluation to examine hedging opportunities several years in the future. Also, Staff recommends that Empire analyze its hedging risk for each winter month under normal, cold, and warm weather conditions.

Reliability Analysis and Gas Supply Planning

Regression Analysis and System Load Estimates

Staff begins by stating that Empire's regression analysis should include the last two years of winter data. Also, Staff recommends that Empire evaluate and provide storage and supply plans that consider warmer, colder, and normal winters.

Reserve Margins

According to Staff, Empire had not performed a reserve margin analysis for this ACA. Staff recommends that for Empire's 2007/2008 ACA, Empire should provide reserve margin estimates for the 2007/2008 winter as well as the next four winters.

Cheyenne Plains

Staff says that Empire acquired additional upstream capacity from the Rockies in the summer of 2007. Even including transportation costs, gas from the Rockies tends to be cheaper than mid-continent priced gas. Staff recommends that Empire continue to monitor

and evaluate the operational and economic reasons for its selection of gas supply and capacity on Cheyenne Plains.

Adjustments

Cheyenne Plains

Staff states that natural gas was purchased for delivery on Cheyenne Plains during June 2006 to benefit all three systems (Southern, Northern, and Northwest). Thus, all three systems should share equally in the cost of delivering that gas, rather than Empire having separate wacogs (weighted average cost of gas) for each system. Staff proposes a \$55,853 increase for the Southern System, a \$43,226 decrease for the Northern System, and a \$12,627 decrease for the Northwest system.

Ad Valorem Refunds

Staff believes interest on ad valorem refunds should have been calculated through February 25, 2007 (the date the refunds became effective) rather than December 1, 2006. This increases the interest owed the customer and reduces the cost of gas by \$11,039.

Interruptible ACA Balances

Staff proposes no adjustment for this ACA period. However, because Empire acquired a new Interruptible Sales customer in March, 2007, Staff recommends that revenues and costs for this and any other Interruptible customer should be tracked separately and included as Large Volume Interruptible sales.

Cash-Out Provisions

Staff claims Empire made errors in January and July, 2007, because the monthly summaries used to close Empire's books failed to reflect finalized Metrotek meter reads. Staff proposes an additional \$5,878 is due Empire on the Southern System, \$2,946 is due

Empire on the Northern System, and \$1,396 is due the Large Volume and Aggregation customers on the Northwest System.

Empire's Response

On January 28, 2009, Empire responded to the Staff's recommendation. Empire stated that it agreed with all of Staff's conditions and adjustments.

Commission Rule 4 CSR 240-2.080(15) allows parties ten days to respond to pleadings. Staff responded to Empire on February 9, stating that Staff and Empire agree that Empire will consider the NOAA reported monthly weather extremes in planning its system load estimates.

Decision

The Commission has reviewed Staff's memorandum and Empire's response. The Commission determines that the ending balances shown in the Staff recommendation are reasonable and should be approved. The Commission further determines that the above recommendations from Staff, to which Empire agreed, are reasonable, and should also be approved.

THE COMMISSION ORDERS THAT:

1. The Empire District Gas Company shall establish the Actual Cost Adjustment account balances in its next Actual Cost Adjustment filing as discussed herein.
2. The Empire District Gas Company shall provide information to the Procurement Analysis Department of the Staff of the Missouri Public Service Commission as requested by Staff in its Memorandum and Recommendation.

3. This order shall become effective on March 1, 2009.
4. This case may be closed on March 2, 2009.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read 'Colleen M. Dale', written over a faint rectangular stamp.

Colleen M. Dale
Secretary

(S E A L)

Clayton, Chm., Murray, Davis,
Jarrett, and Gunn, CC., concur.

Pridgin, Regulatory Law Judge