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April 3, 2001

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Missouri Public Service Commission  
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Jefferson City, MO 65102

**RE: Case No. GR-2001-388**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF NOTIFICATION**.

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,

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RVF:ccl  
Enclosure  
cc: Counsel of Record

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

**FILED<sup>2</sup>**  
APR 3 2001  
Missouri Public  
Service Commission

In the Matter of Southern Missouri Gas     )  
Company, L.P.'s Purchased Gas             )  
Adjustment Factors to be Reviewed in Its    )  
2000-2001 Actual Cost Adjustment.         )

Case No. GR-2001-388

**STAFF NOTIFICATION**

The Commission has ordered Staff to explain why this case, and the other 2000/2001 ACA cases, cannot be resolved by December 31, 2001. Staff will do so by outlining the ACA process, and describing the limits of process and resources that limit acceleration of the ACA process.

**I. The ACA Process**

**A. Purpose and Function of the ACA Process**

1. The ACA process has a number of purposes. A primary purpose is the reconciliation of the actual gas costs incurred by an LDC to its billed revenues. In this function the Procurement Analysis Department ("PAD") Staff audits the gas purchases of the LDC to insure that the claimed costs are properly attributed to the period under audit; that the LDC has received the gas that it ordered from the appropriate vendor; and that suppliers have invoiced the LDC for the volumes nominated and received at the proper contract rates.

2. Another purpose of the ACA process is to review the LDC's gas supply management. In this function the staff reviews and analyzes the LDC's utilization of its gas supply and

transportation portfolio in the interest of ratepayers. The PAD audit Staff will consider the financial impact on customers of the LDC's use of its gas supply, transportation and storage contracts in light of the conditions when the operational decisions were made.

3. A third purpose of the ACA process is to examine the reliability of the LDC's gas supply, transportation, and storage capabilities. In this function the PAD engineer reviews the expected demand of each of the LDC's customer classes, the combined customer class demand, and compares the anticipated demand to the LDC's gas supply plan for supply, transportation, and storage. Both physical and financial aspects of the gas supply plan are considered.

4. Compliance audit adjustments are usually small, and are usually resolved by the parties without resort to litigation. Adjustments based upon asserted operational deficiencies – "prudence" adjustments – are usually larger, and are usually litigated. Completion of these contested ACA cases does not take longer than a rate case, if the rate case is measured from the beginning of the test year as is an ACA case. Further, the non-contested adjustments from the ACA process, recovery of under-collections or refund of over-collections, begin promptly with the filing of the next ACA factor.

#### **B. Steps in the ACA Process**

5. At first blush, reconciliation of the LDC's gas costs and its billed revenues might appear to be a routine regulatory audit. However, conduct of the audit requires a working knowledge of the LDC's gas supply, transportation, and operational practices. The auditor must be familiar with the sources of the utility's gas supply, the contract terms with those suppliers, and the fit of particular contracts into the overall gas supply portfolio. The auditor must know the interstate pipelines available to the LDC, and the terms of the transportation, particularly

maximum and minimum quantities, prices and discounts, penalty terms, and nomination requirements. The auditor must also be familiar with storage assets, and the terms for use of storage, both injection and withdrawal.

6. Gas supply reliability audits are even more specialized. Critical to this function is the ability to analyze LDC data to estimate the peak day demand requirements both by class and in the aggregate. A gas supply reliability audit then reviews and analyzes the LDC's portfolios of gas supply, transportation, and storage assets to gauge the LDC's ability to meet the needs of its customers. Again, a working knowledge of gas supply reliability by source, interstate pipeline operating practices, and storage operating limitations are needed for this work.

7. The gas supply management audit requires knowledge and judgment of operational practices of suppliers, pipelines, and the LDC, and the fiscal impacts on customers of operational practices. Some considerations are the LDC's contracted-for volumes for supply and transportation; incurring of penalties on pipelines; use of off-system sales of gas; and release of unneeded transportation capacity.

8. To provide perspective on the ACA review process, Attachment A outlines Staff's ACA audit program.

## **II. Limits to acceleration of the ACA Process**

9. The number and complexity of the elements of an ACA audit suggest that there are limitations on acceleration of the process. Attachment B is a timetable for a pro forma ACA audit, assuming that the Staff audit team has no other intervening or conflicting assignments. The nature of the audit process, demands of hearing preparation, and the Commission's decision-making process set the minimum time needed for completion of an ACA audit. Adding additional resources will not compress the schedule below this time frame. Further compression

will come only at the cost of degraded audit quality, and this is a dangerous area in which to be compromising audit quality.

10. The time to complete an ACA audit must be applied to each LDC's ACA period. One LDC's ACA period ends March 31 (Ameren); two end May 31 (Greeley, United Cities); one ends June 30 (MGE); five end August 31 (Fidelity, Southern Missouri, Missouri Public Service, SJLP, Atmos/ANG), and one ends September 30 (Laclede). Given the time needed to process an ACA audit, and the dates on which the 2000/2001 ACA periods end, it appears to Staff that completion of all ten audits cannot be accomplished by the end of calendar year 2001, no matter how many additional reasonable resources are brought to bear.

### **III. Limits on Commission and Staff Resources**

11. In addition to the time limits imposed by the nature of the ACA process, the resources available to the Commission and the Staff also limit the compression of ACA schedules. The Commission's current case schedule includes resolution of major gas and electric rate cases; a major ACA case; two gas incentive plan cases; and numerous telecommunications cases. It appears to Staff that it is not feasible to add an additional ten cases for Commission decision in November and December.

12. There are also limits on Staff resources for accelerated ACA audits. Each of the three functions of the ACA review process require different skills and different experience. Three Staff auditors, one engineer, one economist and one manager make up the entire Staff that provides the mix of skills needed to conduct ACA audits on ten LDC's each year.

13. There are, of course, significant other demands on Staff resources. Staff is currently working on the ACA audits of all ten LDC's for the 1999/2000 ACA period that are in various stages of completion (30% to 60%). Staff is currently preparing for hearing in MGE's

1996/1997 ACA period, Case No. GR-96-450, which has been delayed by appellate activity; it is preparing for Case No. GT-2001-329, concerning possible extension of Laclede's gas supply incentive program; it is preparing for hearing of MGE's current rate case, Case No. GR-2001-282; it is preparing for Case No. GO-200-394, concerning possible extension of Laclede's incentive price stabilization program; it is investigating allegations of improper gas purchasing practices by UtiliCorp United in Case No. GO-2001-249; it is preparing to play some role in Case No. GW-2001-398, the Commission's task force review of this winter's gas price spikes; it is addressing a major natural gas fuel issue in Empire District's currently pending rate case; and it is dealing with the appeals of a number of Commission natural gas rate case issues. All of these commitments limit the resources that Staff can devote to accelerate ACA cases.

14. The Staff is exploring the availability of additional resources for ACA reviews. Other Staff auditors and engineers will be pressed into ACA audit service, with guidance from PAD Staff. The Staff is seeking Requests for Proposal for a consultant on the issue of risk management/hedging for these ACA dockets, and also for turnkey ACA audits for all ten LDC's. The Staff does not know if it will receive proposals for either or both requests, if any proposals submitted will provide the requisite expertise to complete the ACA audit in a compressed timeframe, nor if proposals will be cost prohibitive. Staff hopes that the bid process might be completed by June 1, 2001. Even if turnkey contracts for ACA audits are awarded, the limits imposed by the ACA process will govern completion dates. See attachment B. Attachment C is a preliminary list of PAD Staff activity in the next eighteen months. Although many of the dates are not yet confirmed, it should provide an idea of Staff's view of how this work can be done.

15. The Commission suggested in its order that the task force would review each LDC's gas supply plan, implying that Staff would no longer need to do so. This expectation is

unwarranted. The Commission's order establishing the task force (Case No. GW-2001-398) stated that the purpose of the task force was to review gas cost recovery methods and recommend possible improvements. It is not realistic to expect the task force to review the detailed and extensive planning documents of ten LDC's in addition to the duties already imposed. Such a review would pose confidentiality problems, as well as logistical problems of copying and distributing massive documents for the task force members. Permitting the task force to review these types of documents might also result in LDC objections and a reduced spirit of cooperation. The reviews will pull the task force off course as a large part of its effort will be redirected to educating task force members on understanding and reviewing the documents. Finally, Staff will still need to conduct its own reviews for use in contested ACA cases.

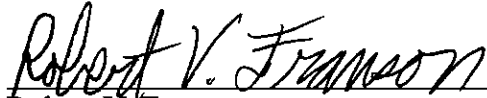
## **Conclusion**

The Staff has reviewed each case for percentage of the project already completed; when the LDC's would have the necessary records available; the possible dollar value of the case; the resources available for the case; existing procedural schedules; litigation prospects and requirements. Attachment C does not reflect all of the projects and cases Staff considered, some of which are anticipated, but not yet filed. The Staff filings will reflect the Staff's best judgment in light of the Commission's expressed desire to deal with all of these cases as expeditiously as possible.

WHEREFORE, the Staff makes this filing in compliance with the Commission's Order dated February 27, 2001 in this case.

Respectfully submitted,

DANA K. JOYCE  
General Counsel

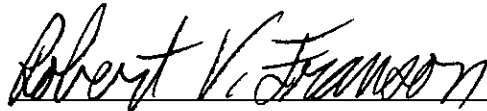


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### **Certificate of Service**

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 3<sup>rd</sup> day of April, 2001.





## ACA CASE AUDIT PROGRAM

### I. GENERAL

- A. Review the "permanent file" and work papers from the last Actual Cost Adjustment (ACA) audit.
  - 1. Note any special problems, questions or concerns the previous auditor(s) encountered during the last ACA audit.
  - 2. Contact the previous lead auditor with any questions about the previous case.
  
- B. Create a permanent file (or add to existing one.) This step can be completed throughout the audit. Include:
  - 1. General Company information such as:
    - a) Number of customers served per district
    - b) Location of service territory
    - c) Total annual revenues
    - d) Total purchased gas expense
  - 2. All Company Contracts
  - 3. Peak Day Study
  - 4. Comparison of gas supply and pipeline service contracts to the contract demand
  - 5. Storage Schedules
  - 6. Capacity Release Information
  - 7. Refund Information
  - 8. Transition Cost Information
  - 9. Off-System Sales
  - 10. Previous Filings (retain at least 3 years)
  - 11. Previous Recommendation
  - 12. Any other important information
  - 13. Write-up of audit
  
- C. Review the Company's current filing and work papers.
  - 1. Recompute any Company prepared calculations in the filing and work papers.
  - 2. Verify that any out-of-period adjustments are included in the proper ACA period.
  - 3. Compare prior years' ACA calculations with the current filing to confirm the ACA balances incorporated into the current filing.
  - 4. Note any problems, questions or concerns regarding the current filing.
  
- D. Review the current and canceled tariff sheets applicable to the ACA period.

1. Read the Company's tariffs regarding the Purchased Gas Adjustment (PGA) clause, the deferred purchase gas cost account, transportation provisions, etc.
2. Note any part of the tariffs that need to be clarified or changed and discuss revisions with the Gas Department.
3. Summarize the Refund, ACA, TOP and PGA rates from the tariff sheets canceled during the ACA period.
4. Review applicable pipeline tariffs in effect during the ACA period. Pipeline tariffs are available in the Federal Department. (Current FERC tariffs linked at FERC website)

E. Obtain and review the Company's System of Accounts.

1. Develop an understanding of the methodology the Company utilizes when recording gas costs and revenues in their books and records. Examples of how each Company records various transactions are attached as Appendix A.
2. Verify that the Company is booking items according to the Uniform System of Accounts (USOA) for Natural Gas Companies. The USOA is located in Title 18, Section 201 of the Code of Federal Regulations (CFR). After opening the CFR web page, follow these steps to locate the USOA:
  1. Scroll down to "Search the entire set of CFR databases by key word."
  2. Type in "natural gas uniform system of accounts."
  3. Scroll down until you locate "[1998] 18 CFR 201—Part 201—Uniform System of Accounts Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act." (It should be number ten on the list.)
  4. Move the mouse to the symbol that says "txt" and left click. This will pull up the USOA for Natural Gas Companies.

The CFR can be located at <http://www.access.gpo.gov/nara/cfr/>.

Note that Mo. PSC CSRs contain reference to the currently authorized version of the USOA.

F. Schedule a pre-audit conference with the Company to discuss any areas deemed necessary.

1. Discuss tentative audit schedule.
2. Discuss procedures to access records and documents.
3. Discuss any significant changes the Company has made during the past year. For example, the Staff would need to be aware of any changes in the Company's accounting system, any changes in key personnel, etc.
4. Discuss any questions or problems with the Company filing.

5. Discuss any special circumstances included in the filing that the Staff needs to be aware of in order to complete the ACA audit.
  6. Document discussions/findings from this conference.
- G. Prepare initial ACA data requests (DR). Examples of initial DRs are attached to this Audit Program in Appendix B or can be found electronically in file p:/data requests.
1. Let the lead auditor review DRs before submitting them to the Company.
  2. Include with the initial DRs a letter explaining to the Company that it has 20 days to respond to the DRs. If the Company is not able to answer the DRs within 20 days, then within 10 days it must provide in writing the reason(s) why it cannot answer the DRs and the date the DRs will be answered. An example of this letter can be found following the data requests in the same file as the data requests.
- H. Determine the attorney assigned to the case. (This information is available through the docket system.)
1. Contact the attorney to find out if he/she will file a protective order.
- I. If the Company's main office is located outside of Missouri, then:
1. Ask an administrative assistant to prepare an out-of-state authorization form. (This is a precaution in case out-of-state travel is necessary.)
  2. Ask an administrative assistant to draft a letter from the Executive Director asking the Company if it prefers to ship its books & records to MO or if it prefers to pay for the Staff's travel expenses. (An example of this letter is in Administrative assistant's desk book.)
- J. FERC
1. Obtain a listing of all pipeline cases the Company has participated in during the ACA period.
  2. Obtain copies of comments filed at the FERC during the ACA period.
  3. Have the Company describe their efforts to protect customers before the FERC.
- K. Obtain understanding of Gas System (this info may only need to be provided once by the Co and updated only as changes occur)
1. Obtain maps of the Company service territories.

- a) Obtain a description of all Company owned or leased pipelines 4" and larger.
  - b) Obtain all interstate pipeline locations.
  - c) Obtain location of Company owned storage fields.
  - d) Obtain location of any propane facilities.
  - e) Obtain location of interconnects with interstate pipelines and other LDCs.
  - f) Determine from which basin Company is getting gas.
2. Determine the location and a description of each interconnection that each service territory has with any other service territory and with other gas utilities.
3. Determine the maximum daily gas flow at each interconnection.
4. Obtain a list and description of all active pipeline take points.

## II. Revenues

- A. Obtain a sample of customer bills for each month during the ACA period.
  1. Verify the Company applied the correct commodity rates to the customer bills.
  2. Recalculate the customer bills.
  3. Analyze the proration methodology if the Company prorates customer bills.
  4. Follow up on any discrepancies or unusual items through discussions with the Company and DRs if necessary.
  5. The Gas Department analyzes the Companies' billing process in the context of rate cases. If the Company has recently undergone a rate case, contact the Gas Department for information and insight on the Company's billing process.
- B. Prepare a worksheet listing all sales volumes and tariffed rates (including TOP, transition costs, refunds, etc.) by customer class.
  1. Calculate the Company's revenue by multiplying the sales volumes by the tariffed rates for each customer class.
  2. Reconcile this worksheet with the revenues recorded in the Company filing.
  3. Trace the Company's filed revenue recovery to the underlying source documents.
  4. Follow up on any discrepancies discussions with the Company and by submitting DRs.

5. If adjustments are necessary, determine the amount of adjustments.
- C. Examine Company billing adjustments (especially significant errors and adjustments).
1. Ensure the Company is including revenues received due to billing adjustments as revenues in their ACA filing.
  2. Check with Consumer Services Dept. to establish significant complaints or inquiries related to billing problems that could affect accurate recording of PGA recoveries.
- III. Gas Procurement Plans.
- A. Interview Company's gas supply personnel to obtain an understanding of gas supply operations, analytical gas supply tools such as automated spreadsheets and gas supply models, and any studies effecting gas procurement and storage that have been performed.
- B. Obtain and examine the Company's description of current markets and supply arrangements.
1. Ensure the Company has a thorough knowledge of:
    - a) The size of each customer class (quantification),
    - b) The type of service taken by each customer class, and,
    - c) The firmness of each customer classes' requirements.
  2. Confirm that the Company has a plan which includes a description of contractual rights and obligations for:
    - a) Pipeline system supply (including flexibilities, renegotiation rights, imbalance penalties, etc.),
    - b) Third-party gas supply (including imbalance provisions, receipt point flexibilities or constraints, etc.),
    - c) Pipeline transportation, and ,
    - d) Storage facilities (including pipeline, third party and LDC).
  3. Examine the Company's description of spot purchase expectations (including volumes, regions, producers, delivery routing, etc.). Establish levels of spot gas the Company has purchased as % of total.

- C. Obtain and examine the Company's description of future gas supply arrangements that includes:
  - a) A forecast and discussion of availability and price of spot, short-term contract and long-term contract gas supplies;
  - b) A discussion of major factors that could create results in performance that differs from the forecast (e.g., proposed expansion of the production in a major basin, pending regulatory changes, etc.).
- 2. Ensure the Company has a plan for future transportation services that includes:
  - a) A discussion of the outlook for transportation services available from interstate pipelines serving the LDC;
  - b) A discussion of major factors which could result in performance being different from the forecast (e.g., proposed expansion of the capacity of an interstate pipeline, etc.).
- 3. Ensure the Company has a plan for future storage services that includes:
  - a) A discussion of the availability and price of storage services;
  - b) A discussion of major factors which could result in performance being different from the forecast (e.g., proposed expansion or contraction of a storage field, etc.)
- D. Review the Company gas supply policies and procedures.
  - 1. Ensure the Company has a plan that includes its objectives.
    - a) The Company should have current objectives they are trying to meet (e.g., the most stable price, or the price closest to market price, or different price objectives according to which customer class being served, etc.). Objectives should include a goal to address prices spikes and gas volatility. Hedging objective should be included.
    - b) The Company should state conditions under which these objectives would be changed or need to be re-evaluated.
  - 2. Ensure the Company has a strategy plan which includes:
    - a) A discussion of how the LDC procurement personnel plan to meet the objectives;
    - b) Identification of key assumptions and conditions in the marketplace which would cause the LDC to re-evaluate its strategies.
  - 3. The Company's plan should include purchasing policies for:

- a) The contract/spot mix,
  - b) Purchasing in the after market,
  - c) Baseload supply,
  - d) The type of supply/transportation arrangements upon which the LDC wants to "swing",
  - e) Use of storage, and
  - f) Use of hedging tools.
4. The Company's plan should include purchasing procedures for:
- a) Solicitation of bids,
  - b) Criteria for selecting suppliers (e.g., financial strength, security of reserves, pricing/contractual terms, volume flexibility, location of gas supply, etc.),
  - c) Making new commitments for transportation and
  - d) Making new storage commitments.

E. Obtain internal memos relating to gas supply analysis.

F. Obtain Company's annual report to get a general background of outside auditors' opinion on internal controls and notes to Financial Statements.

#### IV. Gas Costs

- A. Obtain all invoices for all gas costs during the ACA period (including spot gas, transportation, storage and take or pay invoices, etc.).
- 1. Review dates on invoices to substantiate that the costs were included in the Company filing for the proper ACA period.
  - 2. Prepare a worksheet from these invoices summarizing all gas costs during the ACA period.
  - 3. Verify that rates on invoices agree with the LDCs corresponding contracts.
  - 4. Quantify any voluntary GRI contributions paid to pipelines. Review for potential disallowance. (The voluntary contributions begin 11/98).
  - 5. Determine whether Company personnel verify invoice amounts before payment. Recalculate a sample of gas supply invoices.
  - 6. Reconcile all gas costs summarized in the worksheet with the gas costs contained in the Company's ACA filing.
  - 7. Obtain support from the Company verifying that these gas costs were actually paid.

8. Note any discrepancies and discuss them with the Company.
  9. If adjustments are necessary, determine the amount of these adjustments.
- B. Request all spot gas bids the Company received during the ACA period.
1. Analyze the bids on the basis of price and other non-price factors such as dependability and supplier diversity.
  2. Compare the bids received to the bids the Company selected.
  3. Obtain the Company's evaluation of bids accepted and rejected.
  4. Obtain the Company's criteria for accepting certain suppliers.
  5. Compare the spot gas prices the Company paid with the spot gas prices obtained by other LDCs during the same period.
  6. Determine if any of the bid selections were questionable. If so, request any supporting documentation the Company possess that would help demonstrate to the Staff that the Company's bid selections were justifiable, reasonable and prudent based on the information available to the Company at that time.
- C. Examine spot gas purchases.
1. Prepare an analysis of the percentages of spot gas purchases on a monthly and annual basis.
  2. Compare the monthly and annual percent of spot gas purchased with the total system requirements.
  3. Inquire about amounts of spot gas purchases. What was the rationale for various usage of spot gas?
  4. Obtain support (i.e. copies of canceled checks or cash disbursement vouchers) verifying that the Company has actually paid for spot purchases.
- D. Review the Company's gas dispatch for the ACA period.
1. Make a worksheet listing the producer, the volumes purchased, and the commodity price.
  2. Did the Company purchase all of the cheapest gas that they could have purchased? If not, an adjustment may be necessary.
  3. Was storage effectively cycled and economically utilized? If not, an adjustment may be necessary.



- E. Examine any affiliate transactions.
  - 1. Establish the extent of affiliate transactions, if any.
  - 2. Obtain volumes purchased from the affiliate and the percentage of total purchases.
  - 3. Obtain contracts, contract evaluations, competitive bids obtained, bid evaluations, etc.
  - 4. Obtain market data from outside sources such as spot publications and other LDC filings in order to better evaluate affiliate terms and conditions.
  - 5. Summarize all terms and conditions of contracts to ascertain any preferential treatment.
  - 6. Determine if any adjustments are necessary.
  
- F. Review any lost and unaccounted for gas costs. (June is one of the best months to examine because the heating season is over.)
  - 1. Evaluate the lost and unaccounted for gas costs for reasonableness.
  - 2. Review the Company's methodology of allocating these costs to their customers.
  - 3. Recalculate the Company's lost and unaccounted (L&U) for gas cost allocation.
  - 4. Obtain engineering support if questions arise regarding excessive levels of L&U.
  - 5. If adjustments are necessary, determine the amount of these adjustments.
  
- G. If the Company serves more than one jurisdiction, analyze the Company's methodology of distributing gas costs between jurisdictions.
  - 1. Take preliminary steps to ensure that the gas costs allocated to Missouri are reasonable by establishing the methodology used and ascertaining the basis of the Company's decision.
  - 2. Recalculate the Company's allocation percentages.
  - 3. After discussion with the lead auditor, obtain support from the Gas Department for complex rate design issues.
  - 4. If any adjustments are necessary, determine the amount of these adjustments.
  
- H. Obtain support for all take-or-pay payments and transition costs.
  - 1. Analyze take-or-pay costs & TC and the Company's methodology of allocating these costs to customers.
  - 2. Test the Company's calculations that allocate these costs to customers.

3. Determine the portion of take-or-pay & TC costs that are being recovered by the LDC.
  4. Determine the amount of any necessary adjustments.
- I. Examine any curtailments that occurred on the pipeline system during the ACA period.
1. Determine the reason for the curtailment.
  2. Quantify the effect of the curtailment on the cost of gas.
  3. Determine, if any, the amount of penalty gas acquired by the Company due to the curtailment.
  4. Compare the rate the Company used to compute the cost of penalty gas with the appropriate FERC approved tariffed rates and note any differences.
  5. Determine the amount of any necessary adjustments.
- J. Review the costing of any peak shaving capacity of the Company.
1. Analyze each source used to meet peak requirements to ensure the Company is utilizing the peak shaving sources in a prudent and efficient manner.
- K. Obtain and review storage contracts that are effective in the ACA period. Including "service agreements," "letter agreements" and "all amendments."
1. Summarize the relevant terms of the Company's storage contract(s).
  2. Analyze any storage facility.
  3. Review the storage facility location, the transportation mechanisms, etc.
  4. Determine the gas storage inventory costing utilized. Determine whether or not the method has been consistently applied.
  5. Evaluate the Company's mix of storage services (i.e. Winter Storage, Peaking Storage, In Out Storage.)
  6. Evaluate any changes (i.e. change in provider, maximum storage quantity, etc) in the Company's storage services.
  7. Evaluate the Company's forecasted injection and withdrawal amounts for reasonableness.
  8. Test the Company's calculation of the cost of inventory gas storage injections and withdrawals.
  9. Review the injection and withdrawal timing.
  10. Compare actual storage injections and withdrawals to forecasted and evaluate variances.
  11. Determine that pipeline reservation charges are **not** included in storage inventory.

12. If a pipeline provides storage services, verify the rates paid with the FERC tariffs.
  13. If a third party provides storage services, compare the rates paid to the third party versus the relevant pipeline FERC tariffs.
  14. If any adjustments are necessary, determine the amount of these adjustments.
- L. Obtain and review the gas supply contracts of the Company that are effective in the current ACA period. Including "service agreements," "letter agreements" and "all amendments."
1. Summarize the relevant terms (type, price, length, etc.) of all the contracts the Company has entered into with each supplier.
  2. Determine what options and constraints the LDC has in purchasing its gas supply.
  3. Analyze each contract for provisions the Staff feels may not be prudent. Review provisions such as: conversions or reductions of contract demand, level of reservation charges, etc.
  4. Evaluate the bid process for obtaining supply contracts.
  5. Evaluate the price in any long-term contracts. Is it tied to an index? Was the contract obtained through competitive bids? Did the Company use a gas dispatch model to determine proper selection?
  6. Determine the amount of any necessary adjustments.
- M. Obtain and review the transportation contracts that are effective in the current ACA period. Including "service agreements," "letter agreements" and "all amendments."
1. Summarize the relevant terms of each pipeline contract.
  2. Analyze any transportation constraints the LDC's system faces.
  3. Verify the rates on the invoices are consistent with the tariffed rates.
  4. Analyze each contract for provisions the Staff feels may not be prudent. Note any contracts or portions of the contracts the Staff feels may not be reasonable. Discuss concerns with the Company and submit DRs if necessary.
- Determine if any adjustments are necessary.
- N. Review external audit work papers regarding FAS 133 and gas supply issues and PGA revenue areas.

Review internal audit work papers regarding gas procurement area.

Review Board of Director's minutes for important gas issues.

Review Business/Strategic Plan for key gas areas.

- O. Review structure of gas buying operation and determine if non-jurisdictional and non-regulated gas is being allocated fairly.

Obtain understanding of Put and Call use and other embedded derivatives that could affect cost of gas.

Review all areas of common buying regarding off-system sales, capacity release, gas allocation, power plant gas sales and purchases to ascertain fair and well-documented buying practices.

- P. Review adequacy of Company internal audit program regarding gas procurement area.

Review documentation of gas buying process for adequate controls and documentation.

Obtain a listing of all gas contract #s to ensure that all copies have been received for review.

- Q. Perform review of the Companies hedging and risk management practice.

Compare to other in state and out of state LDCs.

Obtain any plans the company has made regarding gas supply risk management and hedging. Access these plans and resulting Company actions.

Analyze various %s of supply portfolio - Spot, Storage, fixed, capped to review portfolio volatility.

Review for prudence.

- R. Review internal Company spreadsheets and nomination process for procuring gas to establish process of estimating requirements, and adjustments to weather and impact of non-regulated purchases and nominations.

- S. Audit Program may not be all-inclusive, is subject to change, and should be modified in light of specific audits to address all material gas procurement issues.

V. Imbalances

- A. Perform a volume reconciliation based on the following equation to help verify what volumes the Company is using in its ACA filing:

Pipeline Deliveries to City Gate\* = Producer Invoices\*\* + Storage Withdrawals – Storage Injections - Transportation deliveries to End-User Customers +/- Imbalances

\*This amount is equal to actual gas "burned" and used.

\*\* This amount may need to be adjusted for gas kept by the pipeline for line-loss reimbursement.

- B. Review the system imbalances.

1. Evaluate Company monitoring of imbalances.
2. Determine the tolerance levels.
3. Determine if the Company has ever exceeded those tolerance levels.
  - a) If so, what penalties were imposed and what effect did they have on gas costs.

- C. Review any end-user imbalances.

1. Review the Company's procedures for determining end-user imbalances.
2. Gain an understanding of how imbalance penalties are booked. Make sure that penalties imposed on transportation customers are included in revenues in the ACA filing.

VI. Refunds

- A. Obtain copies of the refund checks.

1. Trace the checks to the Company's refund account.
2. May need to send inquiries/confirmations to the producers to make sure the Company has recorded all of the refunds it has received.

- B. Review the Company's methodology of allocating refund amounts to the Missouri jurisdiction. (Ensure that refunds are properly allocated between customer classes.)

- C. Recalculate interest calculations

- D. Ensure the interest rates are in compliance with the Missouri tariffs.

- E. Review the supporting documentation to ensure the refunds are made within the period allowed.

## VII. Capacity Release Program

- A. Inquire as to whether or not the Company is utilizing capacity release.
  - 1. If so, evaluate the following:
    - a) The Company's bid process,
    - b) The offers accepted,
    - c) The criteria used to determine which offer to accept, and
    - d) The Company's EBB transactions.
    - e) Does the Staff believe the Company is utilizing capacity release in an efficient manner?
    - f) Ensure the Company is getting a credit on their reservation charge invoices.
  - 2. If not, determine why.
    - a) Is it prudent for the Company not to use capacity release? If so, why?
    - b) Are all bids posted? Examine "internal releases", affiliated deals, pre-arranged deals, for prudence.

## VIII. Off-System Sales

- A. Determine whether the Company is making these types of sales.
  - 1. On the supply and transportation invoices, examine the details of the gas deliveries. Note any volumes that aren't delivered to the LDC.
  - 2. Get clarification from the Company, through follow-up DRs and/or through discussions with Company personnel, to understand the details of the volumes that are not delivered to the LDC.
- B. If the Company is making off-system sales:
  - 1. Determine how the Company is booking the revenues, expenses and profits from these transactions.
  - 2. Determine the location of the revenues, expenses and profits in the ACA filing. (i.e. Is the allocation of profit between Company and Customer appropriate? Some Companies have incentive plans, which allow for the Companies to keep a portion of the profits from these types of sales.)

## IX. Price Stabilization Fund

- A. Review the Company's Price Stabilization Fund tariff language and the Stipulation & Agreement that was signed by the Company.
- B. Verify the Company's Price Stabilization Fund as shown in the ACA filing to insure a proper and accurate comparison among the actual revenue generated by the Company, the costs of the financial instruments, and any gain associated with the financial instruments.
  - 1. Check revenues with billed sales.
  - 2. Check expense with brokerage invoices.
  - 3. Compare to reports submitted to Staff.
- C. Verify that the Company only collected up to the dollar amount it was permitted under the Stipulation & Agreement/tariffs.
- D. Verify any balance in the Price Stabilization Fund, net of amounts expended or committed by Company, was returned or charged to the customers as part of the ACA adjustment.
- E. Verify that any carrying costs were accounted for properly.
- F. Review Company's internal controls.

X. Monitoring Report

- A. Obtain a copy of the Company's Gas Incentive Plan Monitoring Report.
- B. Obtain copies of all invoices for all gas supply procurement costs, capacity release credits, off-system sales costs and revenues, and transportation and storage discounts during the ACA period (including spot gas, transportation and storage invoices, etc.).
  - 1. Tie all invoices for all gas supply procurement costs (and actual gas supply volumes), capacity release credits, off-system sales profits, and transportation and storage discounts to the Company's Gas Incentive Plan Monitoring Report.
  - 2. Review the dates of all Monitoring Report invoices to substantiate that they were included in the proper ACA/Gas Incentive Plan period.
- C. Review the Company's calculation of its Gas Incentive Plan savings

1. Verify that all Monitoring Report benchmark gas supply prices tie to the monthly first-of-the-month index prices in *Inside FERC's Gas Market Report*.
  2. Review the Company's PGA incentive plan tariffs to determine the proper sharing percentages for gas supply procurement costs, capacity release credits, off-system sales profits, and transportation and storage discounts.
  3. Review FERC tariffs to insure that incentive plan savings associated with transportation and storage discounts were calculated in accordance with the proper maximum FERC tariffed rates.
  4. Review all supporting documentation associated with transportation and storage discounts to insure that the timing and nature of the discounts is in agreement with the Company's PGA incentive plan tariffs.
  5. Review all Monitoring Report calculations for mathematical accuracy and tariff compliance.
- D. Tie all Monitoring Report savings amounts (including the Company sharing portion of the savings amounts) to Company's ACA filing and tariffs.
- E. Obtain support from the Company verifying that all Monitoring Report invoices were actually paid.
- F. Note any discrepancies and discuss them with the Company.
- G. If adjustments are necessary, determine the amount of these adjustments.
- XI. Deferred Carrying Cost Balance (DCCB)
- A. Review the Company's DCCB tariff language and the Stipulation and Agreement that was signed by the Company.
- B. Verify the Company's DCCB as shown in the ACA filing to insure a proper and accurate comparison between the actual storage and flowing weighted commodity costs and the estimated seasonal commodity related PGA rate charged to the ratepayer.
- C. Verify the accuracy of Company's calculation of interest on the DCCB.
1. Determine if the net DCCB exceeds (either an over or under recovery) an amount equal to 5% of the Company's average annual level of gas costs for the three most recent ACA periods.



2. Determine the proper simple interest factor by using the prime rate as noted in the *Wall Street Journal* on the first business day of the following month minus one percentage point.
3. Determine if the interest factor in (2) above has been applied to the portion of the balance amount in (1) above which exceeds 5% for the period such excess balance amount was in existence.

## XII. Reliability

- A. Review past Reliability reviews and reports and talk with Company's gas supply personnel to obtain an understanding of gas supply operations, analytical gas supply tools such as automated spreadsheets and gas supply models, and any studies effecting gas procurement and storage that have been performed.
- B. Obtain the Company's contract demand study and peak day demand study for the ACA period and the most recent period reviewed by the Company.)
  1. Ensure the Company has a plan that discusses current matching of demand and supply for:
    - a) Peak days,
    - b) Winter months,
    - c) Summer months, and,
    - d) Shoulder months.
  2. Develop an understanding of how the contract demand level was established.
  3. Review demand requirements based on normal and extreme weather scenarios. (Some LDCs look at normal, design, and peak). Determine whether Company's selection of a peak day is reasonable.
  4. Review Company's procedures for ensuring a reliable supply including historical reliability of supplier, capacity split among base/swing capacity, consideration of storage/peaking services, and curtailment plans.
  5. Develop an understanding of how the transportation, storage, peaking, and supply sources are used to meet the Company's historical peak day and the peak day experienced during the ACA period.
  6. Review the Company's comparison of recent actual peak day sendouts to the usage estimated by the Company's model. If usage estimation is not reasonably close, determine Company's plans to review the contract demand and peak day demand.

7. If the Company serves more than 1 jurisdiction/ district, analyze the Company's methodology of assuring adequate supply in each area. Determine whether the transportation, storage, and peaking capacity allocated to the jurisdiction/ district are reasonable by reviewing the methodology used and the rationale for the Company's decisions for these allocations.
- C. Obtain and review the gas transportation, supply, and storage contracts of the Company that are effective in the current ACA period. Including "service agreements," "letter agreements" and "all amendments."
1. Review provisions for force majeure, curtailment, and any other provisions affecting reliability of the capacity for firm customers.
  2. Note any contracts or provisions of the contracts that may not be reasonable. Discuss concerns with the Company, submit DRs if appropriate, and discuss concerns with supervisor and Staff Attorney as appropriate.
  3. Compare the gas supply and pipeline service contracts to the contract demand study to assure agreement.
  4. In addition, for the storage contracts and for any Company peaking or storage facilities:
    - a) Develop an understanding of the MDQs at the start and end of the heating season, storage capacity, any cushion gas required to maintain operations, and any limitations or constraints on daily and seasonal withdrawals.
    - b) Evaluate the Company's forecasted injection and withdrawal amounts for reasonableness.
    - c) Compare actual storage withdrawals on peak days to maximum forecasted for peak days and evaluate differences.
- D. Evaluate the Company's arrangements for both short and long-term gas demand and supply forecasts.
1. Ensure the Company has a forecast for gas supply and transportation services that includes the following:
    - a) An estimate of growth by customer class.
    - b) The rationale for the growth.
    - c) A discussion of factors affecting forecasts and which of these factors could produce results that differ from the forecast (e.g., pending regulatory changes, service area expansions, proposed expansion of an industrial customer, etc.).

2. Review the Company's comparison of ACA period forecast against actual Sendout requirements for the ACA period.
- E. Reserve Margin.
1. Review Company's calculation of Reserve Margin for peak day in ACA period and for a historical or design peak day.
  2. Determine whether Company's explanation of the Reserve Margin is appropriate for this service area.
- F. Review the Company gas dispatch/supply models.
1. Obtain a written explanation of model's assumptions, constraints, basic logic, etc., used to aid in its gas procurement and nomination function.
  2. Obtain copies (including diskettes where possible) of computer runs supporting the Company's decisions along with a basic explanation of the runs.
  3. Obtain all scenarios the Company utilized to review purchasing decisions, including underlying peak day analysis studies with associated weather information, along with the Company's evaluations of such output.
- G. Summarize review and recommendation regarding the adequacy of the LDC's gas supply, storage, and pipeline service plans/strategies to address reliability of service.

### XIII. Recommendation

- A. Write a memorandum explaining any adjustments made to the ACA balance. See Internal Procedures #17 and #34 and PAD procedures for the Memorandum format. **Note:** When preparing the CC list at the end of memo, be sure to include the individuals on the Service List. The list is available in the case file in Central File or on the computer in the docket system.
- B. Give recommendation to the lead auditor and supervisor for review approximately two weeks before recommendation due date.
- C. After lead auditor and supervisor have reviewed the draft and any suggested changes have been completed, circulate a draft to other members of the Staff involved in the case, division director and attorney. In some cases, the Gas Department may be consulted and need to review draft.

- D. Schedule and have an exit conference with the Company after everyone has reviewed recommendation and changes have been made,
1. Give the Company a copy of the draft recommendation.
  2. Give the Company a copy of indexed work papers supporting the Staff's adjustments.
  3. Go over any adjustments made to the ACA balances.
  4. Ask the Company to review the recommendation for highly confidential material that should be redacted and for any errors. (Try to do this approximately a week before the recommendation due date. This gives the Company a couple of days to review recommendation and gives the Staff time to redact any information that is deemed highly confidential.)

## ACA Audit Timetable

### End of ACA period

Company closes its books 30 – 45 days  
Staff completes audit 60- 90 days  
Staff issues report 10 – 15 days  
LDC's response 30 days

130 – 180 days

(With prefiled testimony)

Company direct - 30 days

Staff rebuttal - 30 days

Company surrebuttal – 30 days

90 days

(With no prefiled testimony)

Hearing preparation – 45 days

45 days

Hearing – 3 days

Briefs - 20 days

Reply Briefs – 10 days

PSC Report and Order – 30 days

63 days

ACA process with prefiled testimony - 283 to 333 days

ACA process without prefiled testimony – 238 to 288 days

### Assumptions:

1. That the LDC has all requested information and supporting documentation readily available and expedites its answers to discovery.
2. That the ACA auditor/consultant is unencumbered by other cases and deadlines and can devote full time to this effort. In addition, the expert reviewing reliability will also devote full time to the review, and have unfettered access to reliability information.

# PAD STAFF CASE SCHEDULES

March 19, 2001

GR-96-450; MGE ACA Case  
 July 18 Surrebuttal  
 September 17-21 Hearing

GT-2001-329; Laclede GSIP Extension  
 April 30 Staff rebuttal  
 May 15 Prehearing  
 June 18 Hearing

ER-2001-299; Empire Rate Case  
 April 3 Staff direct  
 May 3 Staff rebuttal  
 May 17 Staff surrebuttal  
 May 29-June 8 Hearing

GR-2001-292; MGE Rate Case  
 April 19 Staff direct  
 May 22 Staff rebuttal  
 June 12 Staff surrebuttal  
 June 25-29 Hearing

GR-2001-387; Laclede 00/01 ACA  
 February, 2002 Staff recommendation  
 March 28 Laclede response  
 April 25 Staff direct  
 May 30 Staff rebuttal  
 June 20 Staff surrebuttal  
 June 28 Hearing

GR-2001-382; MGE 00/01 ACA  
 August 15 MGE's books closed  
 November 29 Staff recommendation  
 December 20 MGE response  
 January 24, 2002 Staff direct  
 February 28 Staff rebuttal  
 March 28 Staff surrebuttal  
 April 11 Hearing

Ameren 00/01 ACA  
 GR-2000-579; Ameren 99/00 ACA  
 November 1 Staff recommendation  
 December 3 Ameren response  
 January 4, 2002 Staff direct  
 February 5 Staff rebuttal  
 March 5 Staff surrebuttal  
 March 18-22 Hearing

GR-2000-394; Laclede PSP Extension  
 July 1 Direct  
 August 16 PHC  
 September 7 Rebuttal  
 October 12 Surrebuttal  
 November 18-19 Hearing

GR-2000-392; UCG 99/00 ACA  
 GR-2001-397; UCG 00/01 ACA  
 May 15, 2002 Staff recommendation  
 June 13 UCG response  
 July 16 Staff direct  
 August 15 Staff rebuttal  
 September 17 Staff surrebuttal  
 September 30 Hearing

GO-2001-249; UCU Investigation  
 July 1 Staff report

GR-2000-573; ANG/Atmos 99/00 ACA  
 GR-2001-396; Atmos 00/01 ACA  
 November 1 Staff Rec (573)  
 December 1 Company response (573)  
 June 4, 2002 Staff Rec (396)  
 July 2 Company response (396)  
 August 6 Direct  
 September 5 Rebuttal  
 September 12 Issues  
 September 19 Position  
 October 3 Surrebuttal  
 October 9-11 Hearing

GR-2001-394; Greeley 00/01 ACA  
 GR-2001-36; Greeley 99/00 ACA  
 May 1, 2001 Staff Rec (36)  
 June 4 Company Resp. (36)  
 December 4 Staff Rec (394)  
 Jan 4, 2002 Company Resp. (394)  
 February 5 Direct (Both)  
 March 7 Rebuttal (Both)  
 March 14 Issues List  
 March 21 Position Statement  
 April 1 Surrebuttal  
 April 8 Hearing

GR-99-435; MoPub 98/99 ACA  
 GR-2000-520; MoPub 99/00 ACA  
 MoPub 00/01 ACA  
 June 6, 2001 Status Report (435)  
 May 15, 2002 Staff Rec (All)  
 June 12 Company Response  
 July 12 Direct  
 August 13 Rebuttal  
 August 20 Issues  
 August 27 Position  
 September 10 Surrebuttal  
 September 16 Hearing

GR-2001-497 ; SJLP 00/01 ACA  
 July 1, 2002 Staff Rec (00/01)  
 July 29 SJLP Resp. (00/01)  
 August 28 Direct  
 September 26 Rebuttal  
 October 3 Issues List  
 October 10 Position  
 October 24 Surrebuttal  
 November 4 Hearing

GR-2001-39; SoMo 99/00 ACA  
 GR-2001-388; SoMo 00/01 ACA  
 July 2, 2001 Staff Rec (39)  
 August 1 SoMo Response (39)  
 July 15, 2002 Staff Rec (388)  
 August 14 SoMo Response (388)  
 September 17 Direct (Both)  
 October 16 Rebuttal  
 October 23 Issues List  
 October 30 Position Statement  
 November 13 Surrebuttal  
 November 18 Hearing

GR-2001-250; Fidelity 99/00 ACA  
 GR-2001-495; Fidelity 00/01 ACA  
 June 1, 2001 Staff Rec (250)  
 July 2, 2001 Fidelity Resp. (250)  
 July 1, 2002 Staff Rec (00/01)  
 August 1 Fidelity Resp. (00/01)  
 September 5 Direct (Both)  
 October 3 Rebuttal  
 October 10 Issues List  
 October 17 Position Statement  
 November 5 Surrebuttal  
 November 13 Hearing

GR-2000-574; SJLP 99/00 ACA

August 31, 2001	Staff Rec.
September 28, 2001	SJLP Response
November 1, 2001	Direct Testimony (All Parties wishing to file)
December 4, 2001	Rebuttal Testimony (All Parties wishing to file)
January 15, 2002	Issues list to be filed
January 22, 2002	Surrebuttal (All Parties wishing to file)
January 29, 2002	Position Statement
February 13-15, 2002	Hearing



**Service List for  
Case No. GR-2001-388  
Revised: April 3, 2001 (ccl)**

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