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



In the Matter of the Operation of )  
United Cities Gas Company's )  
Purchased Gas Adjustment Clause. )

Case No. GO-97-410

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**REPORT AND ORDER**

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**Issue Date: November 26, 1997**

**Effective Date: December 9, 1997**

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

In the Matter of the Operation of                    )  
United Cities Gas Company's                        )  
Purchased Gas Adjustment Clause.                )            Case No. GO-97-410

**APPEARANCES**

Gary W. Duffy, Attorney at Law, Brydon, Swearngen & England, P.C., Post Office Box 456, 312 East Capitol Avenue, Jefferson City, Missouri 65102-0456, for United Cities Gas Company.

Douglas E. Micheel, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Thomas R. Schwarz, Jr. and Penny G. Baker, Deputy General Counsel, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

**REGULATORY**  
**LAW JUDGE:**

Thomas H. Luckenbill, Deputy Chief.

**REPORT AND ORDER**

**Procedural History**

On April 1, 1997, the Staff of the Missouri Public Service Commission (Staff) and United Cities Gas Company (United Cities or Company) filed a Joint Motion to Open Docket and Joint Motion to Establish Procedural Schedule. The Joint Motion to Open Docket indicated that United Cities and the Staff agreed to open this case "to address the general policy issues of proration and frequency of filing PGA changes . . . and those issues directly relating to them and no other issue." On April 10 the Commission issued an order establishing this case and adopting the

procedural schedule proposed by Staff and United Cities. The parties prefiled testimony and an evidentiary hearing was held on July 15.

### **Findings of Fact**

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

#### **I. Proration of PGA Changes**

The Purchased Gas Adjustment (PGA) provisions in a local distribution company's tariff provide a mechanism by which the utility can pass through estimated wholesale gas costs to customers. Proration of PGA charges means that customers are billed based strictly on the volume of gas used and the PGA factor in effect when the gas is used.

Staff recommended that the Commission order United Cities to prorate all PGA charges. Staff recommended this to ensure that a customer is billed at the rate in effect when service is received. The Office of the Public Counsel (Public Counsel) stated that it supports Staff's position on proration of PGA charges.

United Cities opposes any requirement to prorate PGA charges. United Cities opposes proration of PGA charges because it would be burdensome, confusing to customers and Company personnel, increase the difficulty of accounting for Actual Cost Adjustment (ACA) recoveries, and increase the likelihood of billing errors.

The Commission finds that United Cities need not prorate PGA charges. However, if in the future United Cities changes its billing system it should implement proration of PGA charges as a part of any new billing system.

## **II. Frequency of PGA Filings**

This issue involves the number of times per year that the local distribution company changes the PGA factor. Between September 1, 1996 and April 2, 1997, United Cities made six PGA changes in the Palmyra and Hannibal/Canton districts, and seven in the Neelyville and Bowling Green districts. In this proceeding Staff advocates changing to a single, annual PGA filing. Staff maintains that use of a single, annual PGA filing would reduce customer confusion and "rate shock" from frequent price changes, increase Commission oversight of the change in the PGA factor, and reduce opportunities for billing errors. Public Counsel took no position on this issue.

Under its current tariff United Cities must make a PGA filing whenever the rate increase or decrease is more than three percent (3%) for firm customers. United Cities states that the Company's ability to change the PGA rate in concert with wholesale gas price changes allows recovery of gas costs on a timely basis and sends timely market signals to customers. United Cities states that residential customers may avoid frequent price changes, if they wish, through the use of a levelized billing plan which is available.

There are ten natural gas local distribution companies (LDCs) in Missouri. Pursuant to 4 CSR 240-2.130(2), the Commission will take official notice of the stipulation and agreements approved by the Commission in cases GO-97-401 through 409 for the specific limited purpose

of demonstrating that each of the other nine regulated LDCs in this state will operate with a tariff requiring a scheduled winter PGA filing, a scheduled summer PGA filing, and an unscheduled PGA filing. The unscheduled filing is triggered by a specified change in gas costs defined in each company's tariff. In the interest of administrative efficiency and common sense, the Commission will order United Cities to implement similar tariff provisions.

The Commission finds that United Cities shall implement two scheduled and one unscheduled PGA filing per year. These PGA filings shall consist of a scheduled winter filing, a scheduled summer filing and one unscheduled winter PGA filing in between the scheduled winter filing and scheduled summer filing. Each of the other nine LDCs in Missouri have defined the specific circumstances that would permit an unscheduled winter filing. Each of them have agreed that an unscheduled winter PGA filing could be made in between the scheduled winter filing and scheduled summer filing if at the time such unscheduled winter filing is made there is a projected underrecovery of 15 percent or more of the LDC's annual gas costs, or a projected overrecovery of 10 percent or more of the LDC's annual gas costs. United Cities' tariff changes filed in compliance with this order should specify circumstances which authorize an unscheduled winter filing in a manner consistent with the other LDCs.

This will cause United Cities' PGA mechanism to be similar in this regard to that of the other nine regulated local distribution companies in the state. United Cities must determine when it will file the first PGA factor pursuant to this mechanism.

### **III. Hedging**

The wholesale spot market price of natural gas fluctuates as a result of market forces coming to bear on the commodity. This is particularly true in the natural gas market because demand for this commodity increases as temperatures fall. Thus, demand increases during cold winter months which places upward pressure on prices. Hedging is the use of financial instruments, the price of which fluctuates with the underlying commodity. These financial instruments, which include derivatives such as futures and options, can be used to mitigate the impact of wholesale spot market natural gas price changes upon a particular local distribution company's natural gas expense.

Staff states that large price impacts can be reduced by limiting the frequency of PGA filings and, in order to prevent the eventual recovery of large price increases through the ACA, United Cities should take steps in its procurement practices to limit the exposure to large unanticipated price increases. Staff states that the use of future's market hedging instruments are a necessary part of an LDC's gas supply strategy and planning process.

United Cities states that Staff's raising of this matter is beyond the scope of the case and contrary to the terms of the joint motion filed on April 1, 1997 which requested the Commission to open this case to consider the issues of proration and frequency of PGA filings only. United Cities is opposed to the use of these types of financial instruments and stated that its Board of Directors prior to their sale to Atmos barred their use of hedging.

Public Counsel took no position on this issue.

The Commission finds that this issue is not so closely related to proration of PGA changes and frequency of PGA filings as to properly come before the Commission in this case given the language of the Joint Motion which initiated it.

#### **IV. Gas Supply Plan**

A gas supply plan is an approach to ensure that the local distribution company will have a reliable and sufficient supply of natural gas to meet firm demand. Firm demand is demand for natural gas which should not be subject to interruption. Staff supports use of a "linked" spreadsheet which, according to Staff, would allow the Staff and Company to: 1) quickly and accurately perform price sensitivity analyses; 2) quickly approximate over and under recovery balance levels under different combinations of weather, price, and operation scenarios; 3) integrate index trends and hedging plans into gas cost studies; 4) factor storage withdrawals into the delivered price of gas; 5) compare planned and actual performance at the end of the annual period; 6) estimate annual gas cost on a forward-looking basis; and 7) provide consistent data presentations in scheduled changes to the current PGA rate. Staff states that a new method of calculating the PGA rate is necessary when moving towards fewer filings and the use of plans to develop the rate provides for the use of the most complete information on which to base the filing.

United Cities states that consideration of this issue is beyond the scope of this case since the motion establishing the case was specifically limited to proration and frequency of PGA filings only.

Public Counsel took no position on this issue.

The Commission finds that this issue is beyond the scope of the motion which established this case and does not properly come before the

Commission in this case given the language of the Joint Motion which initiated this case.

## **V. Tariffs**

Staff has proposed tariff provisions to implement its proposed changes. United Cities states that its current tariffs are just and reasonable and no changes are necessary.

Public Counsel took no position on this issue.

The Commission finds that United Cities shall file tariff changes consistent with this Report and Order no later than December 24, 1997.

### **Conclusions of Law**

The Missouri Public Service Commission has reached the following conclusions of law.

The Missouri Public Service Commission has jurisdiction over sale or distribution of gas under 386.250, RSMo 1994.

United Cities is a gas corporation under Section 386.020(18), RSMo Supp. 1996.<sup>1</sup> United Cities Gas Company is a gas corporation subject to the jurisdiction of the Missouri Public Service Commission pursuant to Chapters 386 and 393 RSMo Supp. 1996.

The requirement in this order that the Company change its PGA mechanism to a scheduled winter filing, a scheduled summer filing, and an unscheduled winter filing is consistent with the Commission's obligation to ensure just and reasonable charges under Section 393.130 RSMo.

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<sup>1</sup>All statutory references are to Revised Statutes of Missouri 1994, unless otherwise indicated.

**IT IS THEREFORE ORDERED:**

1. That the Commission shall take official notice of the stipulation and agreements filed in Case Nos. GO-97-401 through GO-97-409 for the specific purpose of demonstrating the industry standard for the frequency of purchased gas adjustment (PGA) filings in this state.

2. That United Cities Gas Company shall file tariff sheets in compliance with this order no later than December 24, 1997, to effectuate the filing of one scheduled winter PGA filing, one unscheduled winter filing, and one scheduled summer filing in a manner similar to the other nine local distribution companies in the state as reflected by the stipulation and agreements of those companies in Cases GO-97-401 through GO-97-409.

3. That the Staff of the Missouri Public Service Commission shall file a memorandum in this case no later than January 21, 1998, indicating whether the tariff sheets filed pursuant to ordered paragraph 2 are in compliance with this order.

4. That late-filed Exhibits 14, 16, 18 and 19 are received into evidence.

5. That this order shall become effective on December 9, 1997.

**BY THE COMMISSION**



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

( S E A L )

Lumpe, Ch., Crumpton, Murray,  
and Drainer, CC., concur.

Dated at Jefferson City, Missouri,  
on this 26th day of November, 1997.

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

**I have compared the preceding copy with the original on file in this office and  
I do hereby certify the same to be a true copy therefrom and the whole thereof.**

**WITNESS my hand and seal of the Public Service Commission, at Jefferson City,  
Missouri, this 26th day of November, 1997.**



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

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION  
JEFFERSON CITY**

**November 26, 1997**

**CASE NO: GO-97-410**

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

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**Penny G. Baker**, Deputy General Counsel, Missouri Public Service Commission, P.O. Box 360,  
Jefferson City, MO 65102

**Enclosed find certified copy of ORDER in the above-numbered case(s).**

Sincerely,



**Dale Hardy Roberts**

**Secretary/Chief Regulatory Law Judge**

**Uncertified Copy:**