

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

In the Matter of Aquila Network – MPS and)
L&P Purchased Gas Adjustment (PGA)) Case No. GR-2006-0297
Filing¹)

**RESPONSE OF THE EMPIRE DISTRICT GAS COMPANY
TO STAFF RECOMMENDATION**

COMES NOW The Empire District Gas Company (“EDG”, “Empire” or “Company”), and respectfully provides to the Missouri Public Service Commission (“Commission”) the following response to the Staff Recommendation in this Case (“Recommendation”):

1. On December 17, 2007, the Commission Staff (“Staff”) filed its Recommendation in this matter. The Recommendation included a Memorandum, which set out the results of Staff’s audit of the billed revenues and actual gas costs for the period September 2005 through August 2006, as well as the results of Staff’s examination of gas purchasing practices.

2. The Commission’s *Order Directing Filing*, issued on December 20, 2007, directed that EDG respond to the Recommendation by January 18, 2008. However, Aquila, Inc. (“Aquila”) was the owner of the subject gas systems for a significant portion of the actual cost adjustment (ACA) period in question. Aquila has been granted status as an intervener in this matter and continues to have financial interests in and information related to this case. Therefore, it is EDG’s understanding that Aquila will be filing a response to certain recommendations, particularly the monetary adjustments proposed by

¹ This is the case caption used in the Commission’s *Order Directing Filing* issued herein on December 20, 2007.

Staff, contained in Staff's Recommendation and EDG would refer the Commission to Aquila's response in addition to the responses of EDG set forth below.

3. As a preliminary matter, EDG would note that it has attempted to respond below to each of the recommendations applicable to EDG contained within Staff's Recommendation. However, since some of the recommendations were buried within the body of the Staff Memorandum, in some cases it was difficult for EDG to determine exactly what, if anything, it needed to respond to. Therefore, to the extent that EDG has failed to respond below to anything which the Commission (or Staff) considers to be a "recommendation" such failure should not be considered as acquiescence thereto by default – rather, EDG respectfully requests that it be informed of exactly what it failed to respond to (if anything) and given the opportunity to respond further. With this caveat, EDG provides the following responses.

4. The following is Empire's response to Staff recommendation on Storage, which is located at page 2 of the Staff memo². The Staff recommendation in this paragraph is as follows:

Staff believes that Empire should include all storage injection (commodity) costs in its storage inventory balances for all systems beginning with the 2006-2007 ACA period.

Response:

The Empire District Gas Company ("EDG") agrees to record all storage injection (commodity) costs as a component of its storage inventory balances for all systems.

5. The following is EDG's response to Staff recommendation on Hedging at page 3 of the Staff memo³. The Staff recommendation in this section of the memo is as follows:

² And Item 1 of Summary on page 7 of the Staff memorandum.

Staff recommends EDG continue to keep abreast of market developments to make the best gas procurement decisions, and that it broaden its hedging evaluation practice to examine hedging opportunities several years in the future.

Response:

EDG will continue to keep abreast of gas market developments and continue to include a review of hedging opportunities more than one year in the future.

6. The following is EDG's response to Staff recommendation on record retention at page 4, paragraph 1a of the Staff memo. The Staff recommendation in this section of the memo is as follows:

[For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak-day requirements and the LDC's pipeline capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions. . . .] For all systems, the Company must retain documentation supporting the analyses of the aforementioned for Staff review in the ACA review so that Staff has the data, analyses, and any other documentation considered by the Company when it was making decisions for the ACA period. The files must be maintained in a fully executable format.

Response:

EDG will retain the information it used to develop its gas transportation and gas supply plans for future ACA periods and make this information available to the Staff. To the extent spreadsheets or spreadsheet models are developed internally as part of this supply planning process they will be made available to the Staff in a fully executable format.

³ And Item 4 of Summary on page 7 of the Staff memorandum.

7. Empire Response to Staff recommendation on Reliability Analysis and Gas Supply Planning at page 4, 1b second paragraph. The Staff recommendation in this paragraph is as follows:

For the next ACA review, the 2006/2007 ACA, EDG should provide documentation supporting its monthly usage estimates for supply planning, including data, analyses, and findings/conclusions. EDG must document the methodology used to estimate usage in winter months (November through March) and usage in the summer months (April through October).

Response:

EDG will maintain and provide this type of documentation to the Missouri Public Service Commission Staff (“Staff”). EDG has modified the approach used to develop the “design day” for gas supply planning from that previously used by Aquila to incorporate several suggestions made by the Staff. The revised approach to design day planning for the winters of 2006/2007 and 2007/2008 have previously been provided to the Staff as part of the annual gas supply presentations. The analysis used for the winter of 2006/2007 was provided to the Staff in November of 2006, and the analysis used for the winter of 2007/2008 was provided to the Staff in May of 2007. EDG has been in contact with the Staff during the summer and fall of 2007 to discuss any refinements or changes it has made to the gas purchasing plan for the winter season of 2007/2008 since May of 2007.

8. Empire Response to Staff recommendation on Reliability Analysis and Gas Supply Planning at page 4, paragraph 1c. The Staff recommendation is as follows:

For the next ACA review, the 2006/2007 ACA, EDG should provide documentation supporting its growth estimates used in its peak day estimates.

Response:

EDG will provide documentation to the Staff that supports any growth estimates used in EDG's peak day estimates for the winter season.

9. Empire Response to Staff recommendation on Reliability Analysis and Gas Supply Planning at pages 5 and 6, paragraph 4. The Staff recommendation to EDG is as follows:

Staff recommends that EDG consider both warm and cold extremes in planning its supply portfolio. . . .Staff recommends that EDG evaluate its supply plan for both normal and extreme weather situations. For the next ACA review, the 2006/2007 ACA, EDG should provide the details of its supply plan to address the above comments. If EDG has no such plans for the 2006/2007 ACA period, then Staff recommends that EDG submit those plans for the 2007/2008 ACA period and that those plans be submitted within 30 days.

Response:

EDG has considered in the past and will consider for future winter planning the potential for both warmer and colder than normal weather in planning its supply portfolio for the upcoming winter seasons. Information supporting EDG plans will be retained and available for Staff review. As stated above, EDG's approach to design day planning for the winters of 2006/2007 and 2007/2008 have previously been provided to the Staff as part of the annual gas supply presentations. The analysis used for the winter of 2006/2007 was provided to the Staff in November of 2006, and the analysis used for the winter of 2007/2008 was provided to the Staff in

May of 2007. To the extent that EDG has refined its gas supply plan for the winter of 2007/2008 since the annual meeting held with the Staff in May of 2007, EDG will provide the Staff with information supporting any refinements to the plan.

10. The following is EDG's response to the Staff recommendations concerning the safeguarding of spreadsheets used during the gas procurement process at page 6 of the Staff memo. The Staff recommendation is as follows:

Staff recommends that "safeguards" or "checks" are put in place to ensure that these types of errors cannot occur for future supply purchases.

Response:

As recognized in Staff's memorandum, the alleged error underlying this Staff recommendation occurred during Aquila's ownership of the system rather than during EDG's ownership. EDG agrees to discuss with the Staff the safeguards currently employed by EDG to protect the integrity of the spreadsheets or models it uses as part of its natural gas procurement process.

11. The following is EDG's response to Staff's recommended adjustment of \$322,656 due to what Staff describes as Recommended Adjustment for Math Error in Aquila's Spreadsheet.

Response:

As recognized in Staff's memorandum, the alleged error underlying this Staff recommendation occurred during Aquila's ownership of the system rather than during EDG's ownership. Accordingly, it is EDG's understanding that Aquila will be filing a response to Staff's recommended adjustment of \$322,656. Although EDG, rather than Aquila, was ordered to respond to the recommendations

contained in Staff's memorandum, EDG requests that Aquila's response to this recommendation be accepted as in response to the Commission's order and Staff's memo and EDG accordingly refers the Commission to Aquila's response.

12. The following is EDG's response to Staff's recommendations regarding adjusting the balances in the 2005/2006 ACA filing.

Response:

Several of the recommendations included in the Staff memo pertain to adjustments to balances that pre-date EDG's ownership of the Aquila system. Accordingly, it is EDG's understanding that Aquila will be filing a response to Staff's recommended ACA balances. Although EDG, rather than Aquila, was ordered to respond to the recommendations contained in Staff's memorandum, EDG requests that Aquila's response to these recommendations be accepted as in response to the Commission's order and Staff's memo and EDG accordingly refers the Commission to Aquila's response.

13. EDG has taken into account the responses it anticipates to be made by Aquila in this case concerning the Staff's recommended EDG ACA balances and the Staff's adjustments to those balances. EDG recommends that the following ACA balances be approved in this case:

Description	Balance Per Filing	Note A: Prior MPSC Approved Adj	Note B: Current Period Adjustments	EDG ACA Bal. Recommendation
South System:				
Firm ACA	\$2,318,683	\$(371)	\$(203,450)	\$2,114,862
Inter. ACA	(9,563)	0	9,523	0
TOP	0	0		0
TC	0	0		0
Refund	(75,518)	0		(75,518)
North System:				
Firm ACA	\$105,488	\$0	\$83,970	\$189,458
Inter. ACA	104,100	0	(104,100)	0
TOP	0	0		0
TC	0	0		0
Refund	(12,436)	0		(12,436)
NW System:				
Firm ACA	\$(115,450)	\$(5,990)	\$119,480	\$(1,960)
Inter. ACA	0	0		0
TOP	0	0		0
TC	(2,586)	0		(2,586)
Refund	0	0		0
Total	\$2,312,718	\$(6,361)	\$(94,537)	\$2,211,820

Note A: The majority of the prior ACA period adjustments approved by the MPSC have been recorded by Aquila prior to the close of the ACA period ending August 31, 2006. See the Aquila response to the Staff's recommendation in this case.

Note B: The current ACA period adjustments are related to the Staff recommended reclassification of hedging costs, and the write-off of Interruptible ACA costs made by EDG in the latter part of 2006. These have been designated as Staff adjustments (B) and (D) in the Staff memorandum dated December 17, 2007. Staff's recommended adjustment (A) allegedly related to a spreadsheet error has been totally eliminated. See the Aquila response to the Staff's recommendation in this case.

WHEREFORE, EDG respectfully requests the Commission issue an Order that is consistent with the above response.

Respectfully submitted,

/s/ Jeffrey A. Keevil

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#33825

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing was sent by electronic mail transmission, this 18th day of January, 2008, to the following:

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