Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.psc.state.mo.us

May 1, 2001

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Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GR-2001-36

Dear Mr. Roberts:

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

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,

Dennis L. Frey

Dennis L. Frey
Associate General Counsel
(573) 751-8700
(573) 751-9285 (Fax)
dfrey03@mail.state.mo.us

DLF:ccl
Enclosure
cc: Counsel of Record

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MAY 01 2001
Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Greeley Gas Company's Purchased Gas Adjustment factors to be Reviewed in its 1999-2000 Actual Cost Adjustment.	))))	Case No. GR-2001-36

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") in the above-captioned matter, and for its Recommendation respectfully states as follows:

1. On November 3, 2000, Greeley Company ("Greeley" or "Company"), a division of Atmos Energy Corporation, filed with the Missouri Public Service Commission ("Commission") a tariff sheet with a proposed effective date of December 1, 2000. The filing was made in order to reflect scheduled changes in the Company's PGA factors due to anticipated changes in the price of natural gas for the upcoming winter season.

2. On November 27, 2000, the Staff filed a memorandum recommending approval of the proposed tariff sheet, interim subject to refund, and requesting that the Procurement Analysis Department be given until May 1, 2001 to submit its results and recommendations regarding the Actual Cost Adjustment ("ACA") factor represented in this filing.

3. On November 28, 2000, the Commission issued an order approving the tariff rates, interim subject to refund, and ordered the Staff to file its results and recommendations regarding this ACA filing on or before May 1, 2001.

4. Attached as Appendix A is Staff's Memorandum setting forth its recommendations in this case.

WHEREFORE, Staff respectfully requests that the Commission issue its Order in accordance with the Memorandum attached hereto.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Dennis L. Frey

Dennis L. Frey
Associate General Counsel
Missouri Bar No. 44697

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-6651 (Telephone)
(573) 751-9285 (Fax)
e-mail: dfrey03@mail.state.mo.us

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 1st day of May 2001.

Dennis L. Frey

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2001-36, Greeley Gas Company

FROM: DS Dave Sommerer, Manager - Procurement Analysis Department
PL Phil Lock - Procurement Analysis Department
LaJ Lesa Jenkins – Procurement Analysis Department

Project Coordinator/Date 4-30-01 General Counsel's Office/Date Thomas R. Schwarz Jr. 4/30/01 4-30-01

SUBJECT: Staff Recommendation in Greeley Gas Company's 1999-2000 Actual Cost Adjustment Filing for its Southwest Missouri district

DATE: May 1, 2001

The Procurement Analysis Department (Staff) has reviewed Greeley Gas Company's (Greeley or Company) 1999-2000 Actual Cost Adjustment (ACA) filing for its Southwest Missouri District. This filing was made on November 3, 2000, for rates to become effective December 1, 2000, and was docketed as Case No. GR-2001-36. The audit consisted of an analysis of the billed revenues and actual gas costs, for the period of June 1999 to May 2000, included in the Company's computation of the ACA rate. There are approximately 550 customers on Greeley's Southwest Missouri District.

COMPLIANCE ADJUSTMENTS

Reallocation of Williams Storage, Transportation, and Gas Commodity

Staff allocated Williams Natural Gas (WNG) transportation, WNG storage, and gas commodity costs to Missouri by identifying each cost to the proper demand or commodity related component. The transportation, storage, and gas commodity costs were then multiplied by the allocation factors developed by the Staff. The Staff proposes a net decrease of $18,966 ($1,050 + $17,916) to the demand cost of storage and transportation (using a demand allocation factor of 1.96% versus 3.86% filed allocation factor to Missouri). In addition, the Staff proposes a net increase of $29,454 in the cost of gas and a $6,426 ($6,443 - $12,869) decrease in the commodity cost of storage and transportation. The overall result is a gas cost increase of $4,062 ($29,454 - $18,966 - $6,426).

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Appendix A

Storage

Staff reconstructed Company's storage inventory schedule to reflect Greeley's storage injection and withdrawal levels with WNG (Contract TAO544) and to reflect the allocation factors developed by Staff. Staff then determined the cost of storage injections/withdrawals by using the current weighted average cost method. The Staff proposes a net increase of $437 in the cost of storage injections, which results in a corresponding decrease in the cost of gas.

Gas Supply Realignment Costs

To reflect the proper Williams Gas Supply Realignment (GSR) costs for the 1999-2000 ACA period, Staff has increased GSR costs by $3,439 ($51,865.76 * 6.63%) per Docket RP98-105 and $454 ($6,846.75 * 6.63%) per Docket RP98-12, for a total increase of $3,893. These costs were previously included by the Company in the 1998-99 ACA filing but were disallowed by the Staff as out-of-period costs.

Supplier Refunds

As filed, total refunds of $23,850 were owed to Greeley's customers during the refund period of December 2000 to November 2001. Staff determined that a refund amount of $24,050 should be returned to Greeley's customers, not $23,850 as shown in Exhibit E of the filing. An additional $200 ($24,050 - $23,850) refund amount should therefore be carried forward in the Company's 2000-2001 ACA filing or when further refunds occur. This change does not affect the ACA balance.

PURCHASING PRACTICES

Staff's review of the Company's purchasing practices indicated a high degree of reliance on monthly index pricing. Given the volatility of the gas commodity market and the susceptibility of companies to price risk exposure in the market, all Requests for Proposals (RFP's) should include provisions for hedging to mitigate price risk and should include fixed term pricing provisions. If Greeley does not analyze and/or utilize viable options in developing its supply portfolio, Greeley is accepting market risk associated with such price fluctuations. See Staff recommendations in GR-97-74 and GR-96-124.

RELIABILITY STUDY

Staff conducted a reliability analysis for Greeley including a review of estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, comparison of actual demand to estimated demand, and monthly sales forecasts. The Company's peak day information is for the Market area, and Missouri is only a portion of this service area.

Staff is concerned about the negative reserve margins for 2001 and 2002. The Company's calculations show a negative 4.6% and negative 7.1% reserve margin for 2001 and 2002, respectively. In addition, Staff is concerned that the Company is underestimating the residential heatload factor and may actually have a higher peak heating degree day. Staff analysis shows that the shortfall could be greater – negative 9.7% to negative 12.9% in 2001 and negative 11.0% to negative 14.1% in 2002. Even if the Company's numbers are accepted, sufficient firm capacity is not available should a peak cold day recur. The Company states that it is investigating the availability and feasibility of adding additional annual or seasonal capacity to cover the estimated capacity deficit.

Because of this identified capacity shortfall for a peak day, Staff recommends that the Commission issue an order requiring Greeley Gas Company to take the following actions by July 31, 2001.

A. Update and submit a well documented revised peak day and annual demand study. Show the estimated demand for the 2000/2001 ACA period and for three years beyond that. Include 2000/2001 in the Company's analysis of baseload and heatload factors and provide a detailed explanation of the Company's selection of factors for estimating future demand. In the 1999/2000 ACA submittal, the Company only reviews January and February usage to consider appropriate heatload factors. Since November and December 2000 were cold months, it is recommended that the Company include these months in the analysis of heatload factors. Also, provide detailed information supporting the selection of 75 HDD as the peak day.

B. Submit a summary of actual usage, actual heating degree days (HDD), and customer counts for 3 or more recent cold days from the 2000/2001 ACA period. Compare the usage on these actual cold days to the usage estimated by the Company's forecasting model for those days. Include a calculation of the percent over (under) estimation by the forecasting model. List firm and interruptible volumes separately or show how the model treats these. Provide an explanation when the modeled usage does not reasonably agree with the actual usage. If the model is re-evaluated based on these findings, please explain.

C. Estimate the reserve margin for the 2000/2001 ACA period and for three years beyond that. Explain the rationale for the reserve margin for each of these years. For any negative reserve margin shown, provide an explanation of the firm capacity that will be used to meet demand requirements beyond the firm contract maximum daily quantities. For any shortfall of capacity, provide details about the actions the Company will take for firm residential, commercial, public authority, and industrial customers whose demand will not be met should a peak day recur. Submit an updated economic analysis comparing the cost of additional firm capacity to the cost of the penalties for exceeding the contract maximum daily quantities by the amount of the negative reserve quantity. Submit this information with the revised peak day and annual demand study.

D. Provide a summary of the Company's investigation of the availability and feasibility of adding annual or seasonal capacity to cover the estimated capacity deficit.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2001-36 for Greeley Gas Company's Southwest Missouri District and proposes the following:

- That Greeley apply the Staff adjusted WNG storage, WNG transportation, and gas commodity charges, which will increase the cost of gas by $4,062 ($29,454 - $18,966 - $6,426).
- That Greeley adopt Staff's revised storage inventory schedule that results in increased injections and reduced gas costs of $437.
- That Greeley adopt the Staff adjusted Gas Supply Realignment (GSR) cost of $3,439 on Docket RP98-105 and $454 on Docket RP98-12. This reflects a gas cost increase of $3,893.
- That Greeley increase the refund amount due to its customers by $200. This amount should be carried forward in the 2000-2001 ACA period (or when further refunds occur). This change does not affect the ACA balance.
- That Greeley include hedging provisions in its RFP to mitigate price risk and to reduce the volatility in gas prices.
- That Greeley address the heatload factor, selection of peak HDD, comparison of estimated usage to actual usage, and negative reserve margin comments in the Reliability Study section of this ACA recommendation.

Description	ACA Balance Per Filing	Staff Adjustments	ACA Balance Per Staff
Prior ACA Balance	($82,244)	$0	($82,244)
Revenue Recovery	($153,992)	$0	($153,992)
GSR Costs	$0	$3,893	$3,893
Storage Injection/Withdrawals	($1,793)	($437)	($2,230)
WNG Storage /Transport & Gas	$168,947	$4,062	$173,009
Interest on DCCB	$604	$0	$604
Total (Over)/Under Recovery	($68,478)	$7,518	($60,960)

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Greeley Gas Company to:

1. Adjust the ACA balance in its next ACA filing by $7,518 [$3,893 + $4,062 + ($437)] from $68,478 over-recovery balance to $60,960 over-recovery balance to reflect the adjustments discussed above.

2. Increase the Refund balance owed by Greeley to its customers by $200.

3. Include hedging provisions in its RFP to mitigate price risk and reduce its exposure to price volatility in the market.

4. Submit the information recommended in the Reliability Study section by July 31, 2001.

5. Respond to recommendations included herein within 30 days.

Service List for
Case No. GR-2001-36
May 1, 2001 (ccl)

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

James M. Fischer
Fischer & Dority, P.C.
101 Madison Street, Suite 400
Jefferson City, MO 65101