MEMORANDUM

TO: Missouri Public Service Commission Official Case File
GR-2024-0157, Summit Natural Gas of Missouri, Inc.

FROM: Kwang Y. Choe, PhD, Economics Analyst – Procurement Analysis
David Buttig, P.E, Senior Professional Engineer – Procurement Analysis
Lisa Schlup, Lead Sr. Utility Regulatory Auditor – Procurement Analysis

/s/ *David M. Sommerer* 12/16/2024	/s/ *David Buttig P.E.* 12/16/2024
Project Coordinator / Date	Senior Professional Engineer / Date

SUBJECT: Staff Recommendation in Case No. GR-2024-0157, Summit Natural Gas of Missouri, Inc. 2022-2023 Actual Cost Adjustment Filing

DATE: December 12, 2024

EXECUTIVE SUMMARY

On November 3, 2023, Summit Natural Gas of Missouri, Inc. ("Summit" or "Company") filed its Actual Cost Adjustment ("ACA") for the 2022-2023 annual period with an effective date of November 13, 2023. On November 6, 2023, Summit filed two additional sets of substitute tariff sheets with effective dates of November 14, 2023, and November 21, 2023, respectively. This filing revised the PGA ("Purchase Gas Adjustment") as set forth in the Company's tariffs, as well as the carrying cost rates for Winter Storm Uri. Revisions also included adjustments to the Regular Purchase Gas Adjustment ("RPGA") and the ACA factors. The Commission approved those rates on an interim subject to refund basis, with an effective date of November 21, 2023.

The Procurement Analysis Department Staff ("Staff") of the Missouri Public Service Commission has reviewed the Company's ACA filing. Staff's analysis consisted of:

1. A review and evaluation of the Company's billed revenues and its natural gas costs for the period of September 1, 2022, to August 31, 2023;

2. A reliability analysis of the Company's estimated peak day requirements and the capacity levels to meet those requirements;

3. An examination of the Company's gas purchasing practices to determine the prudence of the Company's purchasing decisions; and

4. A hedging review to evaluate the reasonableness of the Company's hedging practices for this ACA period.

** Denotes Confidential Information **

Based on Staff's review, adjustments to the Company's filed ACA balances have been recommended to reflect the actual billed revenues, less natural gas costs, for the period under review. Please see the Recommendations section for adjusted ACA balances and Staff's recommendations.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

Staff's discussion of its findings is organized into the following five sections, which include Staff's concerns and recommendations:

I. OVERVIEW

<u>Service Area</u>

During the 2022-2023 ACA period, Summit provided natural gas service to customers in three defined service areas: Rogersville/Branson ("Rogersville"), Warsaw/Lake of the Ozarks ("Warsaw/LOO"), and Gallatin. The Rogersville service area includes the counties of Greene, Webster, Wright, Douglas, Texas, Howell, Laclede, Christian, Barry, Lawrence, Taney, and Stone. The Warsaw/LOO service area includes Benton, Camden, Greene, Miller, Morgan and Pettis Counties. The Gallatin service area includes the counties of Harrison, Daviess, and Caldwell.

The Rogersville service area served an average of 12,704 sales customers during the ACA period under review, while the Warsaw/LOO service area served an average of 4,947 customers. Both the Rogersville and Warsaw/LOO service areas are supplied by the Southern Star Central Gas Pipeline ("SSCGP"). In this period, neither Rogersville nor Warsaw/LOO service areas contracted for storage. The Gallatin service area served an average of 1,689 sales customers during the ACA period, and the ANR Pipeline Company ("ANR") serves all customers in Gallatin service area.

The total sales customer count for all service areas is an average of 19,340 customers.

II. BILLED REVENUE AND ACTUAL GAS COST

ACA Balances

ACA balances are cumulative such that the ending balance of one period becomes the beginning balance of the next period. In this period, the Company's beginning ACA balance for each service area was adjusted to agree with the ending ACA Balance in accordance with the Commission's Order in Case No. GR-2022-0191, as noted in the table below (under-recovery represented by a positive balance and over-recovery represented by a negative balance.

August 31, 2022 Ending ACA Balance						
Regular		**Reported 8.31.2022**		**Adjustments**		**Adjusted 8.31.2022**
Rogersville/Branson	$	2,204,948.25	$	712,945.15	$	2,917,893.40
Warsaw/LOO	$	812,180.13	$	(59,285.88)	$	752,894.25
Gallatin	$	15,937.38	$	38,893.21	$	54,830.59
Storm Uri						
Rogersville/Branson	$	19,418,217.01	$	(631,039.96)	$	18,787,177.05
Warsaw/LOO	$	6,941,090.35	$	(33,528.65)	$	6,907,561.70
Gallatin	$	515,323.53	$	(40,687.32)	$	474,636.21

Billed Revenues

For each service area, Staff reviewed a sample of customer bills to ensure the PGA/ACA rates charged for natural gas reflected Commission approved PGA/ACA rates. In addition, Staff recalculated monthly billed revenue, applying approved rates to volumes of natural gas consumed, recalculating the ACA revenues allocated to Storm Uri. Further, Staff tested the reasonableness of total revenues reported by comparing the total natural gas volumes billed to the sum of natural gas volumes purchased, plus/minus changes in inventory and lost and unaccounted natural gas summaries. Based on testing, adjustments were made to ACA revenues to reflect actual revenues billed (rather than estimated revenues – Storm Uri) and allocated between Storm Uri and regular ACA balances. The table below summarizes the impact of these adjustments.

Revenues						
Regular		**Reported**		**Corrected**		**Adjustment**
Rogersville/Branson	$	(13,899,108.34)	$	(13,897,703.30)	$	1,405.04
Warsaw/LOO	$	(4,583,633.47)	$	(4,603,560.97)	$	(19,927.50)
Gallatin	$	(1,778,124.77)	$	(1,778,062.72)	$	62.05
Storm Uri						
Rogersville/Branson	$	(4,861,450.11)	$	(4,861,450.11)	$	-
Warsaw/LOO	$	(1,906,232.38)	$	(1,761,655.87)	$	144,576.51
Gallatin	$	(118,853.42)	$	(119,852.75)	$	(999.33)

Natural Gas Costs

Summit submitted invoices for all natural gas purchases made during the review period. Staff compared each natural gas invoice to Summit's ACA filing by service area. For the Gallatin service area, Staff also reconciled and recalculated storage balances, injections/withdrawals, and weighted average cost of gas ("WACOG"). On a test basis, Staff also verified invoiced natural gas rates to gas supply contracts or other referenced rate sources, such as First of Month ("FOM") pricing, pipeline tariff, etc. Based on testing, no difference was noted.

Imbalance/Cash Outs

Summit's transportation tariffs contain a cash out provision which reconciles a transportation customer's imbalance by requiring Summit to either buy (shown as a billing credit on the transporters bill) or sell (shown as a billing charge on the transporters bill) gas to the transportation customer equal to the customer's monthly imbalance.[1] A billing credit increases gas costs whereas a billing charge reduces gas costs for PGA sales customers. Staff recalculated imbalances and

[1] "Balancing" by a transportation customer or a pool of transportation customers means that the amount of gas put into Summit's system (receipts) is made equal to the amount used or taken out of Summit's system (deliveries). When a transportation customer puts more or less gas into Summit's system than it uses, this is referred to as an "imbalance."

cash out calculations, on a test basis, and compared the recalculated charges/credits to transportation customer invoices and the ACA filing. Staff also compared the calculated cash outs to the sample of transportation customer bills provided. Based on testing, no difference was noted.

Carrying (Interest) Cost

Summit's tariff provides that interest equal to the prime rate minus 2% shall be computed based upon the average of the accumulated beginning and ending monthly over or under recoveries of all PGA related costs that exceed $50,000.

On November 5, 2021, Summit filed an application (GR-2022-0122) to extend cost recovery of approximately $30.7 million of winter storm gas supply costs for a period of five years at the last Commission approved pre-tax rate of return. The Commission issued an order on November 17, 2021, approving Summit's request to extend recovery but not the interest rate proposed by Summit and a procedural schedule was set. In mid-July 2022, a Unanimous Stipulation and Agreement was reached regarding the treatment of carrying (interest) cost associated with the February 2021 cold weather event, Winter Storm Uri.

In GR-2022-0191, Staff proposed adjustments including splitting the under recovered balances between regular ACA balances and Storm Uri balances. On January 31, 2024, Summit responded to Staff's recommendation, agreeing with Staff's recommended allocation of the beginning ACA balances between regular and Storm Uri as well as other proposed adjustments but objected to Staff's method of calculation of interest for the Storm Uri ACA balances. Staff and Summit worked to define an appropriate method for calculating carrying costs on the Storm Uri balances such that those calculations more closely approximated the actual cost of debt used to finance the deferred Storm Uri costs. On June 14, 2024, an order was issued by the Commission modifying the method for the interest calculation for the Storm Uri ACA balances and approving the ending ACA balances calculated using the modified interest calculation method.

Staff recalculated regular carrying costs consistent with the method prescribed in their tariff. Storm Uri carrying costs were recalculated at the interest rate and method defined in the

Commission approved stipulation agreement. The table below summarizes the adjustments made to reflect the corrections to the formulas as noted above. The large increase in carrying costs, $496,673.98 in the Rogersville/Branson service area was due to the exclusion of natural gas costs from the carrying cost calculations by the Company, creating an artificial over collected balance each month as a result of excluding all natural gas costs. All transportation and supply costs were validated by Staff and their exclusion from the carrying cost calculations appeared to be an oversight requiring recalculation by Staff.

Carrying (Interest) Cost						
Regular		**Reported**		**Corrected**		**Adjustment**
Rogersville/Branson	$	(313,914.26)	$	182,759.72	$	496,673.98
Warsaw/LOO	$	43,740.90	$	42,852.95	$	(887.95)
Gallatin	$	(1,800.11)	$	(1,885.55)	$	(85.44)
Storm Uri						
Rogersville/Branson	$	1,159,954.45	$	1,136,571.56	$	(23,382.89)
Warsaw/LOO	$	408,921.49	$	415,027.76	$	6,106.27
Gallatin	$	30,918.58	$	25,149.46	$	(5,769.12)

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a regulated gas corporation providing natural gas services to Missouri customers, a local distribution company ("LDC"), such as Summit, is responsible for conducting reasonable long range supply planning and implementing the decisions resulting from that planning. A purpose of the ACA process is to review whether the LDC's planning for gas supply, transportation, and storage meets its customers' needs. For this analysis, Staff reviewed Summit's plans and decisions regarding estimated peak day requirements and the capacity levels to meet those requirements, peak day reserve margin and the rationale for this margin, and natural gas supply plans for various weather conditions.

<u>Reserve Margins</u>

When reviewing the reserve margins for Summit, staff compared the contracted capacity to the Upper 95% Confidence Interval peak day for each service area. Reserve margin is calculated by subtracting the supply demand from the contracted supply capacity, and then dividing that value by the supply demand.

The reserve margin for the Gallatin Service Area is at a ** [redacted] ** when considering the upper 95% confidence interval. From the 2022-2023 Natural Gas Supply plan, Summit has indicated that they are aware of the negative reserve margin and are analyzing options to cover the design day. The options indicated are (a) acquiring additional upstream capacity from ANR Pipeline, (b) increasing its storage volumes on ANR, or (c) contracting for a delivered winter service from a gas supplier.

The reserve margin for the Branson and Rogersville are ** [redacted] ** and ** [redacted] ** respectively when considering the upper 95% confidence interval. From the 2022-2023 Natural Gas Supply Plan, for the Branson area, Summit intends to post much of its excess firm capacity for release on SSCGP's electronic bulletin board.

The reserve margin for the Warsaw/LOO Service Area is at a ** [redacted] ** when considering the upper 95% confidence interval. From the 2022-2023 Natural Gas Supply plan, Summit has indicated that it intends to post some of its excess firm capacity for release on SSCGP's electronic bulletin board.

The Branson and Warsaw/LOO Service Areas are relatively new and are experiencing variable growth. They are small systems, and interstate pipelines do not readily accommodate the levels of capacity or capacity adjustments that a small growing system might prefer. Staff finds that the high reserve margins in these service areas are reasonable in light of these circumstances.

Staff encourages Summit to evaluate its capacity needs for each service area on an annual basis based on contracted peak day supply.

Staff has no proposed financial adjustments for the 2022-2023 ACA period related to reliability analysis and gas supply planning.

IV. HEDGING

Summit's winter hedging plans are primarily designed to achieve a reliable natural gas supply and to protect its customers against price spikes. The hedging plan establishes known prices for ** [redacted] ** of normal winter (November – March) weather requirements for each of Summit's three service areas.

Summit's hedging plan for its Gallatin Service Area calls for Summit to fill storage as close to its maximum capacity as possible by November 1, which is the beginning of the winter heating season and utilize portions of the storage for delivery during the periods of November 2022 through March 2023. Additionally, fixed price purchases are a part of the hedging plan for the Gallatin Service Area.

The hedging plan for the Rogersville Service Area is to utilize fixed price purchases for this ACA period. Staff notes that Summit's storage agreement for the Rogersville Service Area expired in April 2016.[2]

For the Company's Warsaw/LOO Service Area, the hedging plan is to utilize fixed price purchases. The Company does not contract for storage capacity for this service area.

Summit's maximum storage quantity ("MSQ") for the Gallatin Service Area represents about ** [redacted] ** of normal winter (November – March) weather requirements. Summit's actual

[2] Staff notes that the Company indicated that it would continue to search for storage agreement, Staff will continue to monitor the change in the Company's hedging strategy.

storage injection by November 1, 2022, was about ** [redacted] **of MSQ. Summit also purchased fixed price volumes in June 2022 for delivery during the periods of November 2022 through March 2023. These fixed price volumes, which represent about ** [redacted] ** of normal winter weather requirements, combined with storage withdrawal, represent about ** [redacted] ** of normal winter weather requirements for the Gallatin Service Area.

For the Rogersville Service Area, Summit purchased fixed price volumes in June, July and August 2022 for delivery during the winter period of November 2022 through March 2023. Additionally, Summit purchased fixed price volumes in September 2022 for delivery during the winter period of December 2022 through March 2023. These fixed price volumes represent about ** [redacted] ** of normal winter (November – March) weather requirements.

Summit purchased fixed price volumes in June and July 2022 for delivery in the periods of November 2022 through March 2023, for the Warsaw/LOO Service Area. These fixed price volumes represent about ** [redacted] ** of normal winter (November – March) weather requirements for this service area. In its supplemental response on the rationale for the fixed price volumes less than the planned ** [redacted] ** for delivery in the periods of November 2022 through March 2023 for the Warsaw/LOO Service Areas, Summit states, "*As a result of review, an error was identified within the workbook that calculates the tier volumes for the winter RFP. The result of this error was that SNGMO under-contracted the Warsaw/LOO hedge volume for the months of December 2022 through March 2023, hedging ** [redacted] ** rather than the planned ** [redacted] **. With that said, it is worth noting that those 2022-2023 winter fixed price deals were very expensive, with Tier 1 and 2 PMI gas being locked in at ** [redacted] ** and ** [redacted] ** respectively. Gas Daily index pricing ended up being significantly lower than the fixed price hedges. For example, January 2023 SSC index averaged around ** [redacted] **, and February 2023 was around ** [redacted] **. While an unfortunate error, the result was that we purchased more daily gas at significantly lower pricing. We have since changed our process and this was the last year we used that file to calculate percentage/volumes for the RFP.*"[3] Staff notes that the market prices declined

[3] Staff will continue to monitor the change in the Company's process.

during the winter periods of November 2022 through March 2023 and Summit took advantage of some of the lower prices.

V. CONCLUSION

Staff has the following comments/concerns about the Company's hedging practices for this ACA's winter period:

1. It is important for Summit to evaluate the expected level of the customers' natural gas requirements that are reasonably protected (hedged) under warmer than normal, normal, and colder than normal weather scenarios.
2. Summit should evaluate its hedging strategy in response to the changing market dynamics as to how much the existing hedging strategy actually benefits its customers while achieving the goal of stable price level.
3. A part of Summit's hedging goals is to capture the lowest price prior to the beginning of winter months. However, this market-timing approach can lead to a situation where Summit waits too long for natural gas prices to go down until it perceives them to be favorable while running the risk of higher prices.
4. A part of Summit's hedging strategy utilizing storage is based on its plan of filling storage close to its MSQ by November 1 and using at least ** [redacted] ** of the storage during the heating season. When the storage is filled substantially below its MSQ, it could potentially overestimate an actual storage hedging outcome.

V. RECOMMENDATIONS

Staff recommends that the Commission issue an order requiring Summit to:

1. Adjust the balances in its next ACA filing to reflect Staff's recommended ending (over)/under recovery ACA balances per the following table:

August 31, 2023 Ending ACA Balance						
Rogersville/Branson		**Reported**		**Adjustments**		**Staff Recommended**
Regular ACA	$	529,299.85	$	1,211,024.17	$	1,740,324.02
Storm Uri ACA	$	15,716,721.35	$	(654,422.85)	$	15,062,298.50
Total ACA	$	16,246,021.20	$	556,601.32	$	16,802,622.52
Warsaw/LOO						
Regular ACA	$	354,870.00	$	(80,101.34)	$	274,768.66
Storm Uri ACA	$	5,443,779.46	$	117,154.13	$	5,560,933.59
Total ACA	$	5,798,649.46	$	37,052.79	$	5,835,702.25
Gallatin						
Regular ACA	$	(342,695.00)	$	38,870.00	$	(303,825.00)
Storm Uri ACA	$	427,389.00	$	(47,456.00)	$	379,933.00
Total ACA	$	84,694.00	$	(8,586.00)	$	76,108.00

A positive ACA balance indicates an under-collection that must be recovered from customers. A negative ACA balance indicates an over-recovery that must be returned to customers.

2. Respond to all concerns, comments, and recommendations summarized below within 30 days:

   A. Staff recommends Summit to evaluate its capacity needs for each service area on an annual basis based on contracted peak day supply. (Section III. Reliability Analysis and Gas Supply Planning)

   B. Summit should evaluate the expected level of the customers' natural gas requirements that are reasonably protected (hedged) under warmer than normal, normal, and colder than normal weather scenarios. (Section IV. Hedging)

   C. Summit should evaluate its hedging strategy in response to the changing market dynamics as to how much the existing hedging strategy actually benefits its customers while achieving the goal of stable price level. (Section IV. Hedging)

D. A part of Summit's hedging goals is to capture the lowest price prior to the beginning of winter months. However, this market-timing approach can lead to a situation where Summit waits too long for natural gas prices to go down until it perceives them to be favorable while running the risk of higher prices. (Section IV. Hedging)

E. A part of Summit's hedging strategy utilizing storage is based on its plan of filling storage close to its MSQ by November 1 and using at least ** [redacted] ** of the storage during the heating season. When the storage is filled substantially below its MSQ, it could potentially overestimate an actual storage hedging outcome. (Section IV. Hedging)

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc. Changes to Company's Purchased Gas Adjustment "PGA" Clause	)))	Case No. GR-2024-0157

AFFIDAVIT OF KWANG Y. CHOE, PhD

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW KWANG Y. CHOE, PhD and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Kwang Y. Choe
KWANG Y. CHOE, PhD

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 10th day of December 2024.

Dianna L. Vaught
Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc. Changes to Company's Purchased Gas Adjustment "PGA" Clause	)))	Case No. GR-2024-0157

AFFIDAVIT OF DAVID T. BUTTIG, PE

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW DAVID T. BUTTIG, PE, and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

David T. Buttig

DAVID T. BUTTIG, PE

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of December 2024.

Dianna L. Vaught

Notary Public

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc. Changes to Company's Purchased Gas Adjustment "PGA" Clause	)))	Case No. GR-2024-0157

AFFIDAVIT OF LISA SCHLUP

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW LISA SCHLUP, and on her oath declares that she is of sound mind and lawful age; that she contributed to the foregoing *Staff Recommendation, in Memorandum form*; and that the same is true and correct according to her best knowledge and belief.

Further the Affiant sayeth not.

Lisa Schlup
LISA SCHLUP

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 11th day of December 2024.

DIANNA L. VAUGHT
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: July 18, 2027
Commission Number: 15207377

Dianna L. Vaught
Notary Public