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June 1, 2001

FILED³

JUN 01 2001

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

Missouri Public
Service Commission

RE: Case No. GR-2001-250

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,

Robert V. Franson
Assistant General Counsel
(573) 751-6651
(573) 751-9285 (Fax)
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RVF:ccl
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

JUN 01 2001

Missouri Public
Service Commission

In the Matter of Fidelity Natural Gas,)
Inc.'s Purchased Gas Adjustment factors)
to be reviewed in its 1999 - 2000 Actual)
Cost Adjustment.)

Case No. GR-2001-250

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On October 16, 2000, Fidelity Natural Gas, Inc. ("FNG") filed a tariff sheet with the Commission, with an effective date of November 1, 2000. The tariff sheet reflected scheduled changes in FNG's Purchased Gas Adjustment (PGA) factors.
2. On October 18, 2001, the Staff filed its Memorandum and Recommendation. Staff recommended that FNG's proposed tariff sheet be approved for service on and after November 1, 2000, as an interim rate, subject to refund.
3. On October 24, 2000, the Commission issued an Order Approving Interim Rates. The Order approved the Interim rates subject to refund.
4. On April 2, 2001, the Commission issued an Order Adopting Procedural Schedule in this case. Pursuant to that Order the Staff's Recommendation is due June 1, 2001.

5. FNG provides natural gas service to some 1,107 sales customers in Crawford and Franklin counties.

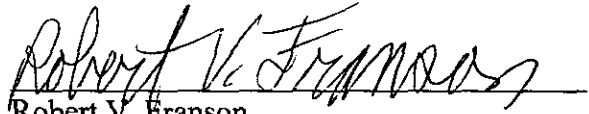
6. Staff completed an audit of billed revenues and actual gas costs for the period September 1999 to August 2000, included in the Company's computation of the ACA rate. Staff also conducted a reliability analysis for Fidelity.

7. In the attached Memorandum (Appendix A), Staff recommends that the Commission issue an order requiring FNG to adjust the firm sales ACA balance by \$3,189 from the filed under-recovery balance of \$40,294 to the Staff adjusted under-recovery balance of \$37,105. The total adjustment should be included as a separate line item adjustment applied to the beginning 2000-2001 ACA balance. Staff also recommends that the Commission order FNG to submit the information recommended in the Reliability Study section of Appendix A by March 1, 2002.

WHEREFORE, Staff recommends that the Commission issue its order in this case consistent with Staff's recommendations.

Respectfully submitted,

DANA K. JOYCE
General Counsel

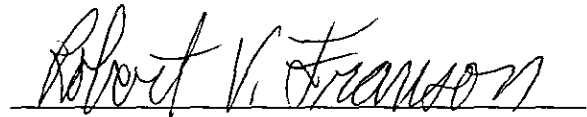


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Certificate of Service

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 1st day of June, 2001.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2001-250, Fidelity Natural Gas Company, Inc.

FROM: *Phil Lock*, *Lesa Jenkins*, and *Dave Sommerer* - Procurement Analysis Department

Dave Sommerer 5-31-01
Project Coordinator/Date

Thomas R. Schwab, Jr. RF 6-1-01
General Counsel's Office/Date

SUBJECT: Staff Recommendation in Fidelity Natural Gas Company's 1999-2000 Actual Cost Adjustment Filing

DATE: June 1, 2001

The Procurement Analysis Department (Staff) has reviewed Fidelity Natural Gas Company's (Fidelity or Company) 1999-2000 Actual Cost Adjustment (ACA) filing. This filing was made on October 16, 2000, for rates to become effective November 1, 2000, and was docketed as Case No. GR-2001-250. The audit consisted of an analysis of the billed revenues and actual gas costs, for the period of September 1999 to August 2000, included in the Company's computation of the ACA rate. FNG provided natural gas to a maximum of 1,107 sales customers during this ACA period. There were no transportation customers. FNG serves customers in the counties of Franklin and Crawford, which include the City of Sullivan, Oak Grove Village, and the unincorporated areas of Crawford County.

COMPLIANCE ADJUSTMENTS

PEPL FUEL ADJUSTMENT

A net credit of \$346 was included on Company's supplier invoice (November 1999) for correction of Panhandle Eastern Pipeline (PEPL) fuel charges for the period of April 1999 through November 1999. The credit was not included in the Company's filing. The cost of gas should therefore be reduced by \$346.

Staff developed PEPL fuel charges for the period of December 1999 through August 2000 based on the fuel rates included in the PEPL tariffs. This resulted in a \$625 reduction in the cost of gas.

The fuel adjustments referenced above result in a total reduction of \$971 (\$346 + \$625) in the cost of gas.

TRANSPORTATION CHARGES

During April 2000, Missouri Pipeline (MPC) commodity charges of \$2,356 were included in the filing as both PEPL and MPC costs. These costs should be excluded from the PEPL cost of gas. In addition, PEPL fuel charges of \$1,037 (excluded from filing) should be included as a cost of gas. This results in a net reduction of \$1,319 ($\$1,037 - \$2,356$).

REVENUES

The Company's "Base versus Use" report is used to generate the monthly PGA revenues by customer class. During July 2000, the "Base versus Use" report was revised to include the proper-billed sales volumes for the Commercial customer class for that month (Mcf sales volumes increased from 14,545 per filing to 17,644, a difference of 3,099). Revenues should therefore increase by \$899 ($3,099 * \0.2901) to reflect the proper revenue recovery for that month.

RELIABILITY STUDY

Staff conducted a reliability analysis for Fidelity 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, annual sales forecasts, and curtailment plans.

Staff is concerned about the reserve margins of negative 12.0% for calendar year 2000 and the reduction in Westar (Oneok) capacity for 2001 that shows an even greater shortfall with a reserve margin of negative 28.6%. Sufficient firm capacity is not available should a peak cold day of 74 heating degree days (HDD) recur. This concern is supported by the fact that the Company exceeded the Westar (Oneok) and the Missouri Pipeline MDQ on 12/19/00 and 12/21/00 when the HDD was 55.0 and 47.5 or 19 and 26.5 degrees warmer than the peak of 74 HDD used for peak day planning purposes.

Because of this identified shortfall of capacity for a peak day, the Staff recommends that the Commission issue an order requiring Fidelity to take the following actions by March 1, 2002.

- A. Conduct 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.
- B. Submit a summary of actual usage, actual HDD, and customer counts for 3 or more recent cold days. 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 encountered. 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, commercial flex, and large volume customers whose demand will not be met should a peak day of 74 HDD recur. Submit an 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.

SUMMARY

- Staff proposes to reduce the cost of transportation by \$971 due to adjustments to PEPL fuel charges.
- Staff proposes to reduce the cost of transportation by \$1,319 to reflect the proper MPC and PEPL commodity costs.
- Staff proposes to increase revenue recovery by \$899 to reflect the proper "as billed" revenue recovery for July 2000.
- Staff recommends that the Company address the peak day and annual demand study, 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
1998/1999 ACA Balance	(\$4,487)	\$0	(\$4,487)
Cost of Gas	\$271,486	\$0	\$271,486
Cost of Transportation	\$317,651	(\$2,290)	\$315,361
Revenues	\$544,356	\$899	\$545,255
* Total (Over)/Under Recovery	\$40,294	\$(3,189)	\$37,105

* ACA balance + Cost of gas + Cost of Transportation – Revenues = (Over)/Under Recovery

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring Fidelity Natural Gas to:

1. Adjust the firm sales ACA balance by \$3,189 from the filed under-recovery balance of \$40,294 to the Staff adjusted under-recovery balance of \$37,105. The

total adjustment should be included as a separate line item adjustment applied to the beginning 2000-2001 ACA balance.

2. Submit the information recommended in the Reliability Study section by March 1, 2002.

Service List for
Case No. GR-2001-250
Revised: June 1, 2001 (ccl)

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