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January 18, 2002

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JAN 1 8 2002
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-2001-394

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
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DLF:ccl
Enclosure
cc: Counsel of Record

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 2000-2001 Actual Cost Adjustment.	))))	Case No. GR-2001-394

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 January 18, 2001, Greeley Gas Company ("Greeley" or "Company"), a division of Atmos Energy Corporation, filed with the Missouri Public Service Commission ("Commission") a tariff sheet carrying an effective date of February 1, 2001. The proposed tariff sheet was filed to reflect unscheduled changes in the Company's Purchased Gas Adjustment ("PGA") factors as a result of high natural gas prices, in excess of those contained in Greeley's scheduled PGA tariff filing for the winter heating season.

2. The Staff filed a memorandum on January 25, 2001, recommending that the Commission grant interim-subject-to-refund approval, pending final Commission decisions in the preceding Actual Cost Adjustment ("ACA") case (Case. No. GR-2001-36) and in the instant case. The Commission so ordered on January 30, 2001.

3. On January 26, 2001, the Office of the Public Counsel ("Public Counsel") filed with the Commission a request for an emergency review of Greeley's purchasing practices for the 2000-2001 winter season. This filing, which was similar to an earlier request in Case No.

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GR-2001-382, involving Missouri Gas Energy ("MGE"), was one of three such January 26 filings affecting the Missouri operating divisions of Atmos Energy Corporation.

4. On January 31, 2001, the Commission ordered the Staff to file in the instant case its response to Public Counsel's request regarding MGE by February 2, 2001. Staff filed its Response and its Supplemental Response on February 2 and February 13, 2001, respectively. Included in the Supplemental Response was a recommendation that a single docket be opened to cover all Missouri LDCs.

5. In its Order Setting Prehearing Conference And Requiring Filing Of Procedural Schedule, dated March 2, 2001, the Commission denied the request for a single docket, finding that a case already established (Case No. GW-2001-398) was adequate to deal with common issues, and electing instead to proceed within the context of the existing ACA process. The Commission set a goal of resolving any contested issues in the various cases by the end of 2001. A prehearing conference was set for March 28, with a proposed procedural schedule to be filed by April 4, 2001.

6. On April 4, 2001, the parties to the instant case filed their Proposed Procedural Schedule, along with a supporting Staff Notification, detailing why the Commission's goal of a year-end 2001 resolution could not be realized. The Commission adopted the proposed schedule in its Order of April 10, 2001.

7. The procedural schedule called for the filing of the Staff Recommendation on December 4, 2001, with the Company's response and any subsequent pre-filed testimony scheduled to permit an evidentiary hearing on April 8, 2002.

8. On June 15, 2001, Greeley filed, along with proposed tariff sheets, a Request For Variance From Tariff Provisions in order to permit the Company to make an unscheduled

summer filing reducing the cost of natural gas. The Staff, on June 26, recommended approval, interim subject to refund, and the Commission so ordered on June 28 (as corrected on June 29).

9. On October 16, 2001, Greeley filed a tariff sheet reflecting scheduled changes in the Company's PGA factors as a result of changes in the cost of natural gas for the November 2001-March 2002 winter season, along with changes in the Actual Cost Adjustment and Refund factors that determine the net PGA. The Staff, on October 26, recommended approval, interim subject to refund, and the Commission adopted Staff's recommendation on October 31.

10. Citing difficulties and resultant delays in completing the award of the contract to the consultant, as well as problems with the formatting of data provided to Staff by the Company, the Staff, on November 21, 2001, requested an extension of the deadline for filing its ACA recommendation in this case to January 18, 2002. By Commission order of November 27, 2001, the Staff was required to propose revisions in the remaining dates of the procedural schedule.

11. On November 29, 2001, the Staff filed its Proposed Revised Procedural Schedule with the acquiescence of the other parties to the case. On November 30, the Commission adopted the proposed revision, which, among other things, moves the evidentiary hearing date to June 11, and requires that Staff's ACA recommendation be filed by January 18, 2002. Accordingly, the Staff hereby submits its recommendation.

WHEREFORE, the Staff respectfully requests that the Commission issue its Order in accordance with the recommendations in the Memorandum, which is attached hereto as Appendix A.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Dennis L. Frey

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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 18th day of January 2002.

Dennis L. Frey

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2001-394, Greeley Gas Company

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

Project Coordinator/Date 1-17-02 General Counsel's Office/Date 1-18-02 D.L.S. 1-17-02

SUBJECT: Staff Recommendation in Greeley Gas Company's 2000-2001 Actual Cost Adjustment Filing for its Southwest Missouri district

DATE: January 18, 2002

The Procurement Analysis Department (Staff) has reviewed Greeley Gas Company's (Greeley or Company) 2000-2001 Actual Cost Adjustment (ACA) filing for its Southwest Missouri District. This filing was submitted on October 16, 2001, for rates to become effective November 1, 2001, and was docketed as Case No. GR-2001-394. The audit consisted of an analysis of the billed revenues and actual gas costs, for the period of June 2000 to May 2001, included in the Company's computation of the ACA rate. There are approximately 530 customers on Greeley's Southwest Missouri District.

COMPLIANCE ADJUSTMENTS

Reallocation of Williams Storage and Transportation Commodity and Gas Commodity

Staff first identified the proper commodity-related costs associated with Williams Natural Gas (WNG) transportation, WNG storage, and gas supply costs. The transportation, storage, and gas supply costs were then multiplied by the Missouri allocation factors developed by the Staff (for commodity costs). As a result of Staff's findings, Staff proposes a net decrease of $14,532 in the cost of gas and a $1,091 ($79 - $1,170) decrease in the commodity cost of storage and transportation. The adjustment resulted primarily from inaccurate state line meter reads during December 2000, February 2001 and March 2001. Staff revised the meter reads based on more current information resulting in revised allocation costs to Missouri. Staff proposes an overall commodity cost decrease of $15,623 ($14,532 + $1,091).

Reallocation of Williams Storage and Transportation Demand

Staff identified the proper demand-related costs associated with WNG transportation and WNG storage. The transportation and storage demand costs were then multiplied by the Missouri allocation factors developed by the Staff (for demand costs). For the period of June 2000 to October 2000 Staff used a demand allocation factor of 1.96% (carried forward from the 1999-2000 ACA) versus 3.86% filed allocation factor to Missouri. For the period of November 2000 to May 2001 Staff developed a demand allocation factor of 3.04% versus 2.76% filed allocation factor. The Staff proposes a net decrease of $6,264 ($226 + $3,833 + $2,205) to the demand cost of storage and transportation.

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 of gas method. The Staff proposes a net decrease of $17,396 in the cost of storage injections, which results in a corresponding decrease in the cost of gas. This decrease is primarily the result of a Williams meter malfunction during April 2001 and May 2001 that affects the allocation factor to Missouri.

Deferred Carrying Cost Balance

The Staff discovered in its review of Greeley's 2000-2001 ACA filing that Greeley had incorrectly calculated the interest component of its Deferred Carrying Cost Balance (DCCB). Greeley calculated the DCCB interest based on the ACA period-ending cumulative DCCB balance. According to Greeley's PGA tariffs, DCCB interest must be calculated on a month-ending cumulative basis for each month of the ACA period. As a result, Staff proposes a $3,047 ($756 – [$2,291]) adjustment to increase gas costs.

State Line Meter Fee

During the month of July 2000, Greeley included state line fees as a cost of gas in its filing. State line fees are "intra-company transportation costs" that are not allowed in Missouri. The Staff proposes to reduce the cost of gas by $227.

PURCHASING PRACTICES

Staff's review of the Company's purchasing practices indicated a high degree of reliance of monthly and daily index pricing. As was indicated in ACA Case Nos. GR-96-124, GR-97-74, GR-01-36, and in the current Case GR-01-394, Greeley did not engage in any hedging activities to mitigate price risk, or engage in any fixed term price contracts to control the volatility of gas prices. Instead, Greeley relied solely on its storage services to mitigate its exposure to the price risk experienced in the 2000-2001-winter season.

The Staff believes that the Company did not have adequate price protection for its customers. Staff, therefore, proposes that a disallowance of $14,419 be made to account for the lack of fixed pricing provisions and/or hedging tools in its portfolio and the additional costs resulting from the timing of Company's storage withdrawals.

RELIABILITY STUDY

To assure that sufficient capacity, but not excess capacity, is available to meet firm customer peak day capacity and natural gas supply requirements, Staff conducted a reliability analysis, 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, and comparison of actual demand to estimated demand. The Company's peak day information is for the Market area, and Missouri is only a portion of this service area. Staff has the following concerns regarding the Company's peak day estimates:

1. To estimate peak day requirements the Company assumes a peak cold day of 75 heating degree days (HDD). However, Kansas City weather data shows an actual peak of 80.5 HDD on 12/22/89 and the second highest peak of 77.5 HDD on 12/22/83. The weather station in Appleton City is nearest to the Missouri service area and this shows that a peak day of 77.9 HDD occurred on 12/22/89. Although these are higher peak HDD, Missouri makes up only 3.5% of the Company's market area customers. Therefore, at this time, Staff is proposing no change to the Company's peak cold day of 75 HDD.

2. Staff is concerned about the reserve margin of negative 14.2 % for 2000/2001. The Company states that additional capacity has been acquired for 2001/2002 and 2002/2003, and this provides for reserve margins of 1.2% and negative 1.9% respectively for these years.

3. A comparison of actual usage on recent cold days to the usage estimated by the Company's model shows that the model tends to overestimate demand. Since none of the recent cold days are near the Appleton City 30-year record cold day of 77.9 HDD, Staff recommends that the Company continue to submit comparisons of actual usage to estimated usage to determine whether the model for peak day usage is reasonable or should be revised.

Staff Workpapers

As a result of the numerous adjustments contained within this memorandum, Staff will submit its workpapers to the Company upon the filing of this memorandum.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2001-394 for Greeley Gas Company's Southwest Missouri District and proposes the following:

- That Greeley adopt the Staff-adjusted WNG storage, WNG transportation, and gas commodity charges, which will decrease the cost of gas by $15,623 ($14,532 + $1,091).
- That Greeley adopt the Staff-adjusted WNG storage, WNG transportation, and gas demand charges, which will decrease the cost of gas by $6,264 ($226 + $3,833 + $2,205).
- That Greeley adopt Staff's revised storage inventory schedule that results in increased injections and reduced gas costs of $17,396.
- That Greeley increase gas costs by $3,047 ($756 – [$2,291]) to reflect the proper calculation of interest on the DCCB balance.
- That Greeley reduce the state line meter fee of $227 included in its July 2000 gas costs.
- Staff proposes a disallowance of $14,419 to account for the lack of fixed pricing provisions and/or hedging tools in its portfolio and to reflect the timing of Company's storage withdrawals.
- That Greeley continues to submit updated information on natural gas capacity and supply requirements to address peak day and reliability concerns.

Description	ACA Balance Per Filing	Staff Adjustments	ACA Balance Per Staff
Prior ACA Balance	($60,960)	$0	($60,960)
Revenue Recovery	($373,786)	$0	($373,786)
WNG Storage &Transportation Demand	$32,331	($6,264)	$26,067
Storage Injection/Withdrawals	$22,192	($17,396)	$4,796
WNG-Storage-&-Transportation Commodity & Gas Supply	$316,184	($15,623)	$300,561
Interest on DCCB	($2,291)	$3,047	$756
State Line Fee	$227	($227)	0
Prior Period Adj. & Storage Adj. (1)	($29,294)	$0	($29,294)
Prudence Adjustment	($0)	($14,419)	($14,419)
Total (Over)/Under Recovery	($95,397)	($50,882)	($146,279)

Total ACA balance per filing slightly different due to rounding
1) Includes ($27,056) prior period adj. + ($2,238) storage adj.

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 $50,882 [($6,264) + ($17,396) + ($15,623) + $3,047 + ($227) + ($14,419)] from $95,397 over-recovery balance to $146,279 over-recovery balance to reflect the adjustments discussed above.

2. Take the following actions by October 1, 2002.

    a. Submit a reserve margin estimate for the 2001/2002 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 with respect to firm residential, commercial, public authority, and industrial customers whose demand will not be met should a peak day recur.

    b. Submit an updated summary of actual usage, actual heating degree days (HDD), and customer counts for five or more recent cold days from the 2000/2001 or 2001/2002 ACA period. Compare the usage on these actual cold days to the usage estimated by the Company's peak day 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 provide details of the re-evaluation.

3. Respond to recommendations included herein within 30 days.

Service List for
Case No. GR-2001-394
Revised: January 18, 2002 (ccl)

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