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March 4, 2002

Mr. Dale Hardy Roberts
Chief Regulatory Law Judge/Secretary
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102

FILED[3]
MAR 04 2002
Missouri Public Service Commission

RE: *Greeley Gas Company*
Case No. GR-2001-394

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter is an original and eight (8) copies of Greeley Gas Company's Response To Staff Recommendation.

Thank you for your attention to this matter.

Sincerely,

James M. Fischer

James M. Fischer

/jr
Enclosures
cc: Parties of Record

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MAR 0 4 2002

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 2000-2001 Actual Cost Adjustment	)))	<u>Case No. GR-2001-394</u>

GREELEY GAS COMPANY'S
<u>RESPONSE TO STAFF RECOMMENDATION</u>

COMES NOW Greeley Gas Company, a division of Atmos Energy Corporation ("Greeley" or "Company"), and pursuant to the Commission's Third Order Directing Response issued on January 31, 2002, states its response to the Staff's Recommendation filed on January 18, 2002, as follows:

1. On January 18, 2002, the Commission Staff filed its recommendation following the completion of the audit of the 2000-2001 Actual Cost Adjustment ("ACA") filing for Greeley's Southwest Missouri District. The Staff's audit consisted of an analysis of the billed revenues and actual gas costs included in the Company's computation of the ACA for the period of June 1, 2000 to May 31, 2001.

2. As a result of its audit, the Staff recommended that the Commission issue an order requiring Greeley 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

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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 customers 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.

(Staff Recommendation, Appendix A, p. 5)

3. On January 31, 2002, the Commission issued its Third Order Directing Response which required Greeley to file a response to the Recommendation of the Staff no later than March 4, 2002.

4. After reviewing the Staff's Recommendation in this matter, the Company has determined that Staff's recommendations are generally acceptable to the Company, with certain exceptions discussed herein.

5. In the Purchasing Practices section of its Recommendation, Staff stated:

"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." (Staff Recommendation, Appendix A, p. 2)

6. The Company strongly disagrees with the above-quoted Staff's disallowance on purchasing practices. Currently, Greeley serves a total of 503 customers in Missouri (as of December 2001) of which 445 are residential customers. As a result, the Staff's proposed disallowance represents, on average, a $28.67 annual disallowance per Missouri customer. The Company believes the magnitude of the proposed disallowance per customer may be unprecedented. If this magnitude on a disallowance for purchasing practices was proposed for Atmos' larger divisions, it could result in a total disallowance of approximately $ 1.7 million! A disallowance of this magnitude would be financially detrimental to the Company's ability to provide reliable service throughout its Missouri service areas. In addition, the Staff's proposed adjustment appears to be based primarily on the use of hindsight since few, if any, LDCs in Missouri were utilizing financial instruments and hedging techniques during the ACA period in question. Most, if not all, of the LDCs in Missouri (especially smaller LDC systems) relied primarily upon index pricing contracts to obtain supplies of natural gas during this ACA period. It is unreasonable and unlawful to hold the Company to an after-the-fact purchasing standard that had not been previously articulated or adopted by the Commission or otherwise considered reasonable by the LDC industry, at the time the Company was making its purchasing decisions.

Based upon Staff's workpapers, it appears that Staff is suggesting that it was imprudent for the Company to utilize index pricing contracts to purchase its gas supplies during this ACA period, despite the fact that index pricing contracts were the principal method used by the LDC industry during this period. It further appears that Staff has determined that the Company should have hedged 30% of the total requirements of Greeley during each month of the winter of the ACA period to avoid a prudence disallowance. This purchasing practices standard is inappropriate and unreasonable, given all the facts and circumstances known at the time that the

Company made its purchasing decisions. Due to the size of Greeley's Missouri service area, it was not practical to fix a physical forward price because of the small daily requirements and variable load characteristics of the service area. To fix a daily quantity requires that an LDC take that quantity each day of the month. Any financial instrument is purchased in quantities of 10,000 MMBtu minimum per contract. If one contract had been purchased for any winter month, Greeley would have hedged more than 100% of the net purchases for that month. This is simply not realistic, practical or prudent given the size of the Missouri Greeley system. Given the reasons stated above, Greeley did not hedge any quantities other than the physical storage.

The Staff's proposed disallowance related to the Company's use of storage facilities is also inappropriate. On the Williams Central pipeline system that encompasses the Missouri service area, Greeley serves over 15,000 customers of which 14,000 are residential customers (including Kansas customers). Greeley is contracted for No Notice Storage ("NNS") service as a part of its transportation contract portfolio. The NNS service allows Greeley to balance the flowing gas supply with the customer's requirements. This flexibility is crucial in providing a reliable service to meet it's firm customer's requirements.

Greeley's load requirements are very weather-sensitive due the residential core customer base and therefore is very difficult to manage on a daily basis. The weather can have a significant impact on the amount of gas that is withdrawn or injected during the course of a month. The contractual nature of the NNS service does not allow Greeley to preset the daily or monthly withdrawal quantities. The withdrawal quantities are determined by the customers' requirements which are subject to daily fluctuations due primarily to weather. As the storage inventory is depleted, Greeley is required to make adjustments based on estimated customer requirements in the flowing gas supplies to ensure that adequate storage levels are maintained through out the winter season. Since the NNS service is primarily used for operational balancing, in November and December when the weather was significantly colder than "normal" the result was heavier than anticipated withdrawals from storage. As a result of the high level of storage withdrawals in November and December, Greeley increased the amount of flowing gas supply on the system during January to protect the storage levels from being depleted early and to avoid having inadequate storage deliverability to meet any late February or March peak day requirements. The weather in January turned out to be warmer than "normal" which resulted in less gas being withdrawn from storage.

For these reasons, the Staff should reconsider its $14,419 disallowance related to Greeley's purchasing practices.

7. The Company has also completed the review of the Staff's workpapers related to the Staff's other proposed adjustments. The Company believes that two minor corrections to the remaining Staff adjustments should be made. The WNG Storage & Transportation Demand adjustment of ($6,264) should be ($4,026). Staff includes in the ($6,264) an amount of $2,205 for November 2000, but Company had an offsetting amount in December of $(2,238), which Staff is shown on the Staff's workpapers, but the Company does not believe Staff included this offsetting amount in the proposed adjustment. The Company believes that the Storage Injection/Withdrawals adjustment of ($17,396) should be ($15,868). Staff did not include a withdrawal of 13,768 Dth during March 2001. Staff's workpapers show the storage inventory balance which is 13,768 Dth higher than the balance shown on the supplier invoice. Other than these two minor changes, the Company agrees with the Staff's recommendations, with the exception of the purchasing practices adjustment discussed above.

WHEREFORE, Greeley Gas Company respectfully requests the Commission Staff reconsider its position as discussed herein.

Respectfully submitted,

James M. Fischer

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Attorneys for Greeley Gas Company

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of this document has been hand-delivered or mailed, First Class, postage prepaid, this 4th day of March, 2002, to:

Dana K. Joyce, General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

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

James M Fischer

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