

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of an Amendment to)
Commission Rule 4 CSR 240-13.055.) Case No. GX-2006-0181

STAFF'S RESPONSE TO DECEMBER 21, 2005 ORDER

COMES NOW Staff of the Public Service Commission of Missouri, and for its response to the Commission's order directing filing, states:

In its order directing filing the Commission asked interested parties to file responses to the following three questions, on or before December 23, 2005:

A. What is your expectation of the Mid-Continent price of natural gas per MMBtu during the years 2006 and 2007? On what do you base this expectation?

Forecasting natural gas prices, especially considering the extreme volatility and current high prices being experienced in the natural gas market, is problematic and results of these forecasts carry a significant risk of being incorrect. However, Staff does follow and analyze the natural gas market and reviews various types of reports from organizations that provide estimates of natural gas prices. One organization that provides forecasted prices of natural gas is the Energy Information Administration (EIA), an agency within the Department of Energy. Even though the EIA provides forecasted prices for natural gas on a monthly basis, Staff has reservations using these forecasted prices as a basis for making decisions. EIA's forecasts, historically, like many other forecasts, have not been reliable. This is mainly due to the impact short-term events have on the price of natural gas in the current market (i.e. hurricanes, storage reports, extreme hot

weather in the summer, and extreme cold weather in the winter). For instance, the May 2005 Short-Term Energy Outlook (STEO) released by the EIA indicated that natural gas prices at the Henry Hub would average nearly \$7 per MMBtu for 2005. In reality, prices at the Henry Hub averaged over \$8.50 per MMBtu. Furthermore, in the same May forecast, EIA projected 2006 prices for natural gas to average about \$7 per MMBtu. In its latest forecast, EIA has now increased its 2006 forecast for the Henry Hub to over \$9 per MMBtu. As a rough estimate of possible prices for the purposes of this filing, Staff notes that EIA's base case for the 2006 average wellhead price is approximately \$8.50 per MMBtu for 2006 and approximately \$8 per MMBtu for 2007. Staff's view of these forecasted prices is that they indicate a significant probability that Mid-continent prices will actually fall between \$7 and \$9 per MMBtu in 2006 and 2007 if significant supply or demand disruptions are not observed. The EIA has forecasted natural gas prices through 2030. Within that forecast, prices are shown to moderate and then slightly decrease between now and 2015. This forecast represents a reduction from current prices and assumes recovery of supplies from the gulf region and no significant changes to the forecasted balance between supply and demand. As previously noted, this forecast may change significantly as market conditions change through early 2006.

B. The PSC Staff roughly estimates that application of the \$60/month payment proposal on natural gas bills for low-income may cost in the tens of millions of dollars. How may the Commission allow for the recovery of those costs? Specifically, who will ultimately pay those costs?

Staff still believes that the best way for the Commission to allow for the recovery of the costs associated with the Emergency Cold Weather Rule (ECWR) is through an Accounting Authority Order (AAO). Through an AAO, prudently incurred costs to implement the ECWR by the local distribution companies (LDCs) in Missouri will be considered for recovery from ratepayers in

the next general rate case, resulting in higher rates to all customers, including those that are low-income customers. How much more each class of customers will pay will depend on the rate designs ultimately approved in the rate cases where these AAOs are addressed.

C. If the average winter heating bill is expected to be approximately \$1200, how will low-income customers ever clear their arrearages if the most the utility can require is \$60/month? Taking into account the current retail price of gas, including PGA amounts for January through March, at what point will gas prices be sufficiently low to allow an average-using customer to enter the 2006-2007 winter heating season on November 1, 2006, without arrearages (assuming a \$60 monthly payment).

First, Staff would like to clarify that it is Staff's opinion that the average winter heating bill for 2005-2006 will be approximately \$955, before taxes. Based on the \$955 average, if low-income customers are required to pay \$60 per month, the likelihood of their staying current on their bills and the likelihood of their eliminating any arrearages significantly declines if no other funding sources are available to assist in paying these bills. Such small monthly payments may ultimately pose greater hardship on low-income customers as they try to control and eliminate growing debt to the utility. Assuming \$60 per month for 12 months means that a customer will pay only \$720 for the entire year. With Staff's estimate of a winter heating bill of \$955, a customer paying \$60 per month will still owe approximately \$235 at the end of 12 months. This amount does not include taxes or any usage throughout the rest of the year. Staff's calculation for a customer paying \$60 per month and remaining current on their annual bill shows that the yearly PGA rate would have to fall to approximately \$0.40 to \$0.45 per Ccf. This includes a rough estimate of an average monthly customer charge of \$10 and an energy rate of approximately \$0.20 per Ccf. PGA rates in Missouri currently average approximately \$1.14 per Ccf.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronic mail to all counsel of record this 23rd day of December, 2005.

/s/ Thomas R. Schwarz, Jr.