

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

In the Matter of an Investigation into the)	
Status of Missouri's Natural Gas Local)	
Distribution Companies' Compliance with)	Case No. GW-2006-0110
Commission Rule 4 CSR 240-40.018)	

STAFF'S MEMORANDUM

On September 12, 2005, the Office of the Public Counsel (OPC) filed a motion to open this case to investigate compliance with the Commission's Rule (4 CSR 240-40.018) that encourages Missouri local natural-gas-distribution companies (LDCs) to hedge natural gas prices. The Staff agrees with OPC that such an investigation may prove helpful to the Commission. As a first step, the Staff suggests that the Commission incorporate into the record in this case all the presentations that the natural gas LDCs under the Commission's rate jurisdiction have or will make to the Commission in its agenda sessions.

I. Things That the Investigation Should Consider

1. An investigation of the LDCs' hedging activities this year will provide the Commission the ability to consider what might be an appropriate time cycle for hedging natural gas prices and the factors that influence this decision.
2. The investigation will give the Commission the opportunity to review and evaluate the instrumentalities available to Missouri utilities to hedge.
3. The investigation will give the Commission the opportunity to review and consider the costs of the different hedging vehicles available to Missouri utilities. These include, but are not limited to: storage, fixed price contracts, swaps, call options, futures contracts, and other financial instruments.

4. The investigation might provide an opportunity for the Commission to develop some common hedging elements that could be incorporated into its hedging rule.
5. Unlike OPC, Staff does not believe that this case should result in the Commission ordering Staff to file complaint cases. The Staff, and OPC if it wishes to do so, will audit each of the LDCs for prudence of its gas purchasing practices, and can recommend or file complaints after that review.
6. The investigation will provide the Commission with the opportunity to advise, if it deems appropriate, the participants in the current SB 179 Roundtable to explicitly consider appropriate fuel cost hedging practices in light of these proceedings.
7. The investigation will also permit the Commission to direct additional customer notifications concerning the price of natural gas if the Commission determines that additional notice is necessary.

II. Some Cautions

1. The Staff notes that purchased-gas factors are calculated in accord with each utility's tariffed Purchased Gas Adjustment (PGA) clause. Missouri LDCs plan to meet cash-flow needs, particularly the cost of buying natural gas, in conformity with their approved tariffs. If properly calculated natural gas costs are not timely billed financial disruptions might ensue.
2. The prudence evaluation of each LDC's purchasing practice is undertaken in the ACA audit at the end of each LDC's ACA period. To attempt such a review before the end of the ACA period would be premature.
3. Past task force, working group and case related reviews of LDC hedging practices has shown that rigid specifications for utility hedging practices or actions in a rule is fraught

with problems. Market and utility specific conditions can change rapidly and these, as well as other factors, can change what the reasonable or appropriate course of action would be at any given point in time. While the Commission can offer guidance to utilities' making these decisions through past orders and rules, utility management has the obligation to act prudently in light of customer needs and changing conditions.

WHEREFORE, Staff recommends that the Commission proceed with this investigation, promptly advise Missouri's LDCs, the OPC, and the Staff of the information it desires, and the manner in which it wishes to proceed.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronically mailed to all counsel of record this 26th day of September, 2005.

/s/ Thomas R. Schwarz, Jr.