MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. GE-2013-0536, Summit Natural Gas of Missouri

FROM: David M. Sommerer, Manager – Procurement Analysis

/s/ David M. Sommerer 07/29/13	/s/ Robert S. Berlin 07/29/13
Project Coordinator / Date	Staff Counsel's Office / Date

SUBJECT: Staff Recommendation in File No. GE-2013-0536, Summit Natural Gas of Missouri

DATE: July 29, 2013

EXECUTIVE SUMMARY

On June 20, 2013, Summit Natural Gas of Missouri (SNG or Company) filed an Application for Waiver requesting a waiver from specific provisions of a Stipulation and Agreement filed in Case No. GC-2006-0180. These provisions in the Stipulation and Agreement require certain mandatory hedging requirements for the system historically known as Southern Missouri Natural Gas Company (SMNG). The Procurement Analysis Staff (Staff) has reviewed this filing and the requested relief, and does not oppose the requested waiver. Staff does not oppose the requested waiver because of the following factors:

- The Company has obtained experience in hedging the volatility of gas prices in the Company's other service territory without these mandatory hedging requirements
- The Company has a new storage contract that offers an additional hedging tool
- The Company and its predecessor have had additional experience in operating under the hedge rule and the GC-2006-0180 hedge requirements

BACKGROUND

This application seeks a waiver of certain provisions contained within the 2006 Stipulation and Agreement filed on March 13, 2006 in Case No. GC-2006-0180. In the fall of 2005, a period of significant natural gas price increases occurred. These price increases were related to devastating hurricane activity along the Gulf Coast, specifically in an area that provided a major source of US domestic natural gas supply. Hurricanes Katrina and Rita created damage to gas infrastructure and were responsible for limiting gas production during the latter parts of 2005.

The Commission had previously adopted a hedging rule in 2003 (CSR 240-40.018 Natural Gas Price Volatility Mitigation) that in part was designed for natural gas utilities to structure their portfolios of contracts with various supply and pricing provisions in an effort to mitigate upward natural gas price spikes.

SMNG, Summit's predecessor, had filed for a Purchased Gas Adjustment (PGA) increase in the fall of 2005 as part of its PGA tariff requirements. This PGA increase led to inquiries into SMNG's hedging practices in light of the Commission's hedging rule. Ultimately, the Office of Public Counsel filed a complaint case (Case No. GC-2006-0180) where it expressed concerns over SMNG's hedging practices and alleged that those practices failed to mitigate upward natural gas price spikes in the context of the Commission's hedging rule. The complaint case was ultimately settled with minimum hedge targets put in place, among other provisions, that SMNG agreed to adhere to. These minimum targets pertained to both quantities that should be hedged as well as deadlines for attaining these hedging targets.

The Company has operated its Northern service area since 2004 with no similar mandatory hedging requirements. No other Local Distribution Company (LDC) in Missouri is required to hedge certain minimum volumes and meet hedging deadlines. The hedge minimums in the Stipulation and Agreement were set out due to concerns over SMNG's hedging practices in 2005.

The hedging rule is still in place for all LDCs in Missouri and is still be applicable to the Company's operations. Staff also conducts an annual review of the Company's purchasing practices for all of its PGA rate areas. A prudence and compliance review remains part of the annual actual cost adjustment process.

The Company has since acquired storage, in the past two years, on Southern Star Central Gas Pipeline for its South system. Storage provides another possible tool to hedge winter natural gas prices. With storage providing another incremental alternative to existing hedging instruments, the Company might benefit from additional flexibility in its placement of hedges, a discretionary element of a hedging program that many other Missouri LDCs already possess.

SMNG, the Company's predecessor, operated for many years under the 2006 Stipulation and Agreement and the Company's current management has the capability to hedge natural gas price risk.

The Office of Public Counsel (OPC) brought the complaint in GC-2006-0180 and is a signatory to the Stipulation and Agreement filed in that case. Staff understands the OPC has been given the opportunity to respond to the Company's application.

RECOMMENDATION

Because the Company has operated a hedge program for many years in its Northern service territory, has an additional hedging tool available through storage, and management's gas purchasing and hedging decisions are still under Actual Cost Adjustment review for prudence, the Staff does not oppose this waiver request and recommends the Commission approve the application of this waiver.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Summit Natural Gas of Missouri, Inc., for a Waiver of Certain Hedging Requirements	)))	Case No. GE-2013-0536

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer

David M. Sommerer

Subscribed and sworn to before me this 29th day of July, 2013.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public