

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GR-2006-0170, File No. JG-2006-0273,
Fidelity Natural Gas, Inc.

FROM: Henry Warren, Energy Department - Tariffs/Rate Design *HW*

/s/ Thomas Imhoff 10/26/05
Utility Operations Division/Date

/s/ Lera Shemwell 10/26/2005
General Counsel's Office/Date

SUBJECT: Staff Recommendation for Fidelity Natural Gas, Inc.'s Winter Season PGA Filing
Effective November 1, 2005

DATE: October 26, 2005

On October 14, 2005, Fidelity Natural Gas, Inc. (Fidelity or Company) of Sullivan, Missouri, filed a tariff sheet proposed to become effective November 1, 2005. The tariff sheet was filed to reflect scheduled changes in Fidelity's Purchased Gas Adjustment (PGA) factors as a result of estimated changes in the cost of natural gas for the upcoming winter season and changes in the Actual Cost Adjustment (ACA) factor. On October 24, 2005 Fidelity filed a substitute tariff sheet to correct typographical errors in the previously filed sheet. The winter season includes the months of November through March.

For Fidelity's service area, which includes the city of Sullivan, the effect of these changes will increase the firm PGA factor for the 2005-2006 winter season to \$1.1983 per Ccf, from the 2004-2005 winter season PGA factor \$0.8366 per Ccf. A typical residential customer last winter season using 546 Ccf had a bill of \$671; if weather is normal this winter, the same customer would use approximately 605 Ccf for a bill of \$959, before taxes. This is a 43% increase.

The Energy Department - Tariffs/Rate Design Staff (Staff), the Office of the Public Counsel, and local distribution companies have been monitoring the rapidly changing natural gas market situation. If it appears that Fidelity's PGA rate should be reduced, Staff will promptly notify the Company. The Staff's Procurement Analysis Department (PAD) will address Fidelity's procurement of its natural gas for this upcoming winter season. Due to the limited time available to review the documentation supporting the ACA factors represented in this filing, PAD has requested permission to submit its results and recommendations regarding information included in this ACA filing to the Commission on or before December 29, 2006.

Also, in Case No. GW-2006-0110, Staff is currently reviewing several aspects of the procurement policies of Missouri's local distribution companies, including Fidelity's. This highly abbreviated review of Fidelity's purchasing policies may result in Staff or other parties filing a complaint against Fidelity if any of these parties believe that Fidelity has been imprudent in their purchasing practices.

Staff does not believe that this abbreviated review obviates the need for a thorough PAD audit as is now provided for in the normal process. Also, Staff does not believe that a lack of any findings by parties in this abbreviated review should be treated by any parties as a final determination that a utility has been prudent in its purchasing practices as is now determined through a thorough PAD audit.

At this time, Staff does not render an opinion as to the gas purchasing practices of Fidelity. Staff's review of this PGA filing has focused on the compliance of Fidelity's calculations, market assumptions, and other relevant factors in support of its tariff filing in accordance with its approved PGA Clause.

Case No. GR-2006-0170, under which this change was filed, was established to track the Company's PGA factors to be reviewed in its 2004-2005 ACA filing. Interim subject to refund status should be maintained pending a final Commission decision in Case No. GR-2006-0170.

Staff has verified that Fidelity has filed its annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is affected by this filing. The following Cases involving this Company are pending before the Commission:

Merger

GM-2006-0183

Working Group

GW-2006-0110

Having reviewed this filing, Staff has determined that the rates on the proposed tariff sheet were calculated in conformance with Fidelity's PGA Clause. Staff is of the opinion that good cause for approval of this tariff sheet with less than thirty days notice is demonstrated by Fidelity's Commission-approved PGA clause allowing for ten (10) business days notice for PGA change filings. Therefore Staff recommends that the following tariff sheet filed October 14, 2005 as substituted on October 24, 2005, be approved, interim subject to refund:

P.S.C. MO. No. 1

18th revised Sheet No. 29 Cancelling 17th revised Sheet No. 29

Copies: Director - Utility Operations Division
Director - Utility Services Division
General Counsel
Manager - Financial Analysis Department
Manager - Procurement Analysis Department
Manager - Energy Department
John Davis, President (Fidelity)
James M. Fischer, Attorney (Fidelity)
Office of the Public Counsel

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

In the Matter of In the Matter of Fidelity
Natural Gas, Inc.'s Purchased Gas
Adjustment (PGA) Factors to be Audited in
its 2004-2005 Actual Cost Adjustment

Case No. GR-2006-0170


AFFIDAVIT OF HENRY E. WARREN

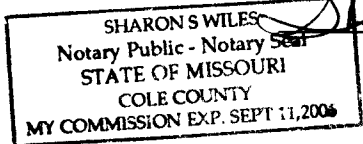
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Henry E. Warren, of lawful age, on oath states: that has participated in the preparation of the foregoing written report, consisting of 2 pages to be presented in the above case, that the information in the attached written report were given by; that has knowledge of the matters set forth in such report; and that such matters are true to the best of knowledge and belief.



Subscribed and sworn to before me this 26th day of October 2005.


Notary Public



My commission expires _____