BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Utility's Purchased Gas Adjustment Filing for the 2009-2010 Actual Cost Adjustment Period.	)))	**File No. GR-2011-0117** Tariff No. YG-2011-0218

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), by and through its attorney, and submits to the Missouri Public Service Commission ("Commission") its Staff Recommendation in the PGA filing of Missouri Gas Utility, Inc. ("MGU" or "Company"), further states:

1. On October 28, 2010, MGU filed tariff sheets proposed to become effective November 11, 2010, for each of its two systems.

2. The tariff sheets were filed to reflect a change in MGU's Purchased Gas Adjustment (PGA) factors as the result of an estimated change in the cost of natural gas for the upcoming winter season.

3. On November 10, 2010, the Commission issued an order approving the proposed tariff sheets to be effective on November 11, 2010, on an interim basis, subject to refund, pending final Commission decision in the case. At that time, the Commission also ordered Staff's Procurement Analysis Department to submit its results and recommendations regarding MGU's ACA filing on or before December 31, 2011. This filing is meant to comply with that order.

4. Staff has reviewed MGU's 2009/2010 Actual Cost Adjustment (ACA) filing and is making the following overall recommendations and suggests the Commission issue its order requiring MGU to:

a. Respond to those recommendations beneath the Reliability Analysis and Gas Supply Planning Section and respond with any additional actions being taken by MGU to address Staff's recommendations related to Peak Day Methodology and Supply Planning.

b. Respond to Staff's comments and recommendations in the ACA Approach for Interest Calculation Section.

c. Respond to Staff's comments and recommendations in the Swing Gas Purchases Section.

d. Respond to Staff's comments in the Hedging Section.

e. Respond to the recommendations herein within 30 days.

WHEREFORE Staff recommends the Commission issue its order directing MGU to comply with Staff's recommendations and file its response to Staff's recommendations within thirty days.

Respectfully submitted,

/s/ Meghan E. McClowry

Meghan E. McClowry
Legal Counsel
Missouri Bar No. 63070

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-6651 (Telephone)
(573) 751-9285 (Fax)
Meghan.mcclowry@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, emailed, sent by facsimile or hand-delivered to all counsel of record this 6th day of April 2011.

/s/ Meghan E. McClowry

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2011-0117, Missouri Gas Utility, Inc.

FROM: David M. Sommerer, Manager – Procurement Analysis Department
Phil Lock, Regulatory Auditor – Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis Department
Derick Miles, P.E., Regulatory Engineer – Procurement Analysis Department
Lesa A. Jenkins, P.E., Regulatory Engineer – Procurement Analysis Department

/s/ David M. Sommerer 04/05/11	/s/ Lera L. Shemwell 04/05/11
Project Coordinator, Date	Staff Counsel Division, Date

SUBJECT: Staff's Recommendation for the 2009-2010 Actual Cost Adjustment Filing of Missouri Gas Utility, Inc.

DATE: April 5, 2011

The Procurement Analysis Department (Staff) has reviewed Missouri Gas Utility, Inc.'s (MGU or Company) 2009/2010 Actual Cost Adjustment (ACA) filing. This filing was made on October 28, 2010, for rates to become effective November 11, 2010, and was docketed as Case No. GR-2011-0117.

The Utility and Its Service Areas

Missouri Gas Utility, Inc., a Colorado Corporation, is a subsidiary of Summit Utilities, Inc. Summit Utilities' principal office is located in Littleton, Colorado. MGU provides natural gas service to both residential and commercial customers in the Missouri communities of Coffey, Jameson, Gallatin, Hamilton, Jamesport, Ridgeway, and Pattonsburg in the counties of Harrison, Daviess, and Caldwell, which encompass MGU's Northern System. ANR Pipeline Company serves the Northern System which, during the 2009-2010 ACA, provided natural gas to an average of 1,474 gas sales customers and one transportation customer in the north-central portion of the state.

MGU began serving customers on its Southern System on December 15, 2009. This district serves the Missouri communities of Green Ridge, Cole Camp, Lincoln and Warsaw in west-central Missouri. These communities are served by the Southern Star Central Gas Pipeline (SSCGP), providing natural gas to an average of 641 gas sales customers (December 2009 to August 2010).

STAFF'S REVIEW

INTRODUCTION

Staff's review consisted of an analysis and evaluation of the billed revenues and actual gas costs for the period of September 1, 2009, through August 31, 2010, included in the Company's computation of the ACA rate. A comparison of billed revenue recovery with actual gas costs yields either an over-recovery or under-recovery of the ACA balance. In addition to this comparison, Staff conducted a hedging review to determine the reasonableness of the Company's hedging practices for this ACA period. Staff also conducted a reliability analysis, to determine the adequacy of the Company's plans to meet its customers' expected maximum usage requirements by reviewing MGU's estimated peak day requirements and the adequacy of its interstate pipeline capacity levels needed to meet these requirements. Finally, Staff reviewed MGU's gas purchasing practices to determine the prudence of the Company's purchasing decisions.

HEDGING

MGU's winter hedging plans are primarily designed to achieve a reliable natural gas supply at a stable price level. The hedging plan for the Northern System calls for the Company to begin purchasing gas supply for storage injections in April. The plan is to fill storage by November 1. Additionally, fixed price purchases are a part of the hedging plan for the Northern System.

For the Southern System, the hedging plan is to utilize fixed price purchases. There was no storage capacity contracted for the Southern System.

MGU's maximum storage quantity (MSQ) represents 40% of normal winter weather requirements for the Northern System. For the 2009-2010 winter period (November 2009 – March 2010), storage injections exceeded storage MSQ at the beginning of November 2009. In addition, MGU purchased fixed price volumes toward the end of June 2009, earlier; however, the Company fixed a basis (i.e., a discount off of NYMEX) at the beginning of May 2009, for delivery during November 2009 through February 2010. These fixed price volumes, combined with storage at the beginning of the winter season, represents 94% of customers' normal winter weather requirements for the Northern System. The above-MSQ storage injection resulted in the higher hedging percentage.

For the Southern System, MGU purchased the fixed price volumes in the middle of July 2009 for delivery in November 2009 through March 2010. However, before establishing the complete hedged price, MGU fixed a basis at the beginning of May 2009 for the fixed price volumes. The fixed price volumes represent about 50% of normal winter weather requirements. The lower percentage of the hedged priced volumes for the Southern System reflects the uncertainty of customers' normal winter weather requirements in the new service territory.

Conclusion

MGU's overall hedging practice for this winter's ACA period (2009-2010), utilizing storage and fixed price purchases, was consistent with its hedging plan to moderate price fluctuations. Staff has the following comments about the Company's hedging practice for this winter's ACA period:

1. It is important for the Company to evaluate the expected level of the customers' natural gas requirements that are reasonably protected (hedged) under warmer than normal, normal, and colder than normal weather scenarios. Additionally, the Company should evaluate its hedging strategy in response to the changing market dynamics as to how much the existing hedging strategy actually benefits its customers while achieving the goal of stable price level. Although Staff is not necessarily suggesting that the Company should develop its hedging strategy in order to beat the market, part of the Company's hedging plan should be flexible enough to incorporate the changing market circumstances in its hedging strategy.

2. A part of MGU's hedging practice essentially calls for purchasing gas whenever it is less expensive compared to the current storage WACOG, and injecting the gas into storage. However, this market-timing approach in filling storage can lead to a situation where MGU waits too long for natural gas prices to go down, though Staff recognizes MGU's past efforts in reducing gas costs by utilizing this method.

3. MGU utilized a basis differential to partially fix only the discount off the NYMEX futures prices for the fixed price volumes. A basis differential is the difference in natural gas price from one delivery location to another. In this case, it is the difference between the MGU's delivery locations, the ANR pipeline for the Northern System and the SSCG pipeline for the Southern System, and the Henry Hub in Louisiana which is the delivery point of the NYMEX natural gas futures. Although MGU eventually established the complete hedged price by fixing the NYMEX futures portion of the hedge during early summer 2009 for the winter season, the Company should use caution in utilizing basis differential as a hedging method since the Company might indefinitely delay triggering the NYMEX fixed price until the NYMEX futures prices become more favorable. There is no guarantee that the NYMEX futures prices move in the Company's favor so Staff recommends the Company should not be overly reliant on a "price view" that may prove wrong and ultimately expose the customers to potentially significant price increases. This is especially true of the Southern System where there are no other planned hedges (e.g., storage). Additionally, the Company should closely monitor its exposure to summer and winter price increases so that it is not significantly un-hedged in the months just prior to the winter that is being hedged or delay hedge placement until just prior to the winter being hedged.

Hedging Recommendations

Staff recommends, for the 2010-2011 ACA periods and beyond, that the Company:

(a) Establish and maintain a current and consistent hedging policy with stated objectives based on month-specific normal weather requirements while also considering the impacts of warmer and colder than normal weather scenarios,

(b) Continue to start placing hedges early enough to protect, for example, against potential hurricane-related price spikes during summer months,
(c) Consider a combination of various alternatives such as storage withdrawals, call options, and other fixed price purchases for hedging during the winter months.
(d) Continue to document its reasoning for executing any hedging transactions or decisions, whether by means of storage, fixed price contracting or other financial hedging instruments.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

Introduction

As a gas corporation providing natural gas service to Missouri customers, Missouri Gas Utility is responsible for conducting reasonable long-range supply planning to meet its customer needs. MGU must make prudent decisions based on that planning. One purpose of the ACA process is to examine the reliability of the Local Distribution Company's (LDC) gas supply, transportation, and storage capabilities. For this analysis, Staff reviewed the LDCs' plans and decisions regarding estimated peak-day requirements and the LDC's pipeline capacity levels to meet those requirements, peak day reserve margin and the rationale for this reserve margin, and natural gas supply plans for various weather conditions.

Staff has the following comments and concerns regarding the reliability analysis:

Peak Day Methodology

Staff reviewed the Company's regression analysis for the 2009-2010 ACA to estimate its capacity requirements. Staff accepts the Company's methodology of performing regression by usage per customer as appropriate as the Company's system continues to experience growth. However, the Company's usage of 66 heating degree days (HDD) for establishing a peak day estimate contradicts its prior practice of using a peak heating degree day of 81 HDD. In the Company's Natural Gas Supply Plans provided in Data Request No. 11, the Company states its actual peak day for the period of November 2008-March 2009 as being 2,018 dth, which exceeded the Company's 2009-2010 planned peak day of 1,646 dth. Exceeding the planned peak day during this ACA should have caused the Company to question the validity of its peak day model. In the February 23, 2011 conference call between MGU and Staff, the Company agreed it will revert to its prior practice of using 81 HDD in establishing a peak day estimate. Staff recommends that MGU consider variability (standard error or confidence interval) in the regression models for the Northern and Southern Systems and use those results in its consideration of capacity for these systems.

Supply Planning

1. Monthly and Seasonal:

The Company considers supply plans for normal weather and for warm and cold weather. The Company's planning considers seasonal normal heating degree days plus or minus one standard deviation. However, when Staff reviews the last 30 years of winters for heating degree days, there were 5 winters that exceeded the plus one standard deviation for colder weather and 3 winters that were warmer than the minus one standard deviation. The Company did not consider variations in requirements for monthly variations in weather, only the variation for the winter season. Staff encourages the Company to expand its supply planning to consider the extreme warmer and colder seasonal and monthly weather requirements and evaluate the flexibility and sufficiency of its supply planning for those extremes. Staff will be looking for additional detail and analyses for the Northern and Southern Systems in the next ACA period, 2010-2011. If no such planning exists, Staff recommends MGU expand its planning beginning with the 2011-2012 ACA.

2. Peak Day Supply Planning:

For the Northern System, MGU nominated 600 and 150 dth respectively on the Firm Transportation Service and Small Transportation Service contracts for the months of December 2009 through February 2010 (months in which a peak day is most likely to occur). If MGU had experienced a peak day during this ACA, MGU would have had approximately 73% of its supply contracted, to fulfill the peak day requirement, by using flowing supply and storage. The Company would have had to purchase the remaining 27% on the daily market.

For the Southern System, MGU has no contracted storage. Thus, all supplies to serve the Southern system are currently flowing supplies. The Southern System is expected to expand into the Lake of the Ozarks area during the summer of 2011. The lack of storage on this system makes it is more imperative for the Company to have flexible supply plans to meet its customers' needs.

3. Recommendations

Staff recommends the Company's Supply Plans be expanded to demonstrate how it would serve a peak day, not only from a capacity stand-point, but also from a supply perspective. Details of how storage, baseload, swing or peaking supplies, and spot supplies are considered in its plans for peak day should be included in its Supply Plans. Staff will be looking for additional detail and analyses for the Northern and Southern Systems in the next ACA review. If no such planning exists, Staff recommends that MGU expand its planning beginning with the 2011-2012 ACA.

ACA APPROACH FOR INTEREST CALCULATIONS

MGU did not provide an interest calculation on ACA balances for the Southern System. The Company's tariff sheet No. 46 states the Company shall maintain detailed workpapers that provide the interest calculation on a monthly basis. Staff developed an interest calculation for the Southern System but the amount was not material so no adjustment was made. Staff recommends that MGU maintain detailed workpapers, as required by its tariffs, that include a monthly interest calculation for all monthly over or under-recoveries of PGA related costs (>$50,000) for the Northern and Southern System.

SWING GAS PURCHASES

In the Company's response to Data Request No. 69, the Company reported that swing purchases were made through an informal verbal process and written documentation is not available. Staff recommends that the Company maintain written documentation of all swing gas purchases, whether by notes, e-mail, instant messaging (IM), or other written format.

PSF TRANSPORTATION

PSF is a large transport customer on MGU's Northern System. When PSF over-delivers gas (PSF nomination > usage) on any given month, ANR pipeline charges are passed through to PSF and MGU gives a credit to its sales customers. The Company multiplies the over-delivered volumes by the ANR pipeline commodity rate and the result is credited to the system sales customers. During the month of March 2010, an over-delivery by PSF occurred and the ANR pipeline charges were billed to PSF. The PSF charges of $309.34 (338 x $.9152), however, were not credited back to MGU's sales customers in the filing. The Company indicated the credit was inadvertently not included in March 2010 and the error was ultimately corrected in November 2010. Staff will review the November 2010 error correction in the context of the 2010-2011 ACA review. MGUs tariff requires, "In cases such as this where a positive imbalance has occurred, MGU shall notify PSF of the existence and extent of the imbalance and PSF shall take all appropriate actions to eliminate this positive imbalance within the next two billing periods next following the billing period in which the transporter is notified of the imbalance." (See tariff sheet No. 28).

Staff is not recommending any financial adjustments for this ACA period.

RECOMMENDATIONS

Staff recommends the Commission issue an order requiring MGU to:

1. Establish the following ACA account balance in its next ACA filing to reflect the August 31, 2010 (over)/under-recovered ACA balance shown in the "Staff Recommended" column of the following table. An over-recovery reflects an amount owed to the customer by the Company, while an under-recovery is an amount owed to the Company by the customers.

Description **NORTHERN SYSTEM**	**Company's ACA Balance**	**Staff Adjustments**	**Staff Recommended ACA Balance**
Beginning ACA Balance @ 9/1/09 – (Over-recovered)/Under-recovered	$72,006	$0	$72,006
Total Cost MGU Gas Delivered to City Gate	$1,001,852	$0	$1,001,852
Total Revenue Recovery	($1,097,701)	$0	($1,097,701)
Ending ACA Balance @ 8/31/10- (Over-recovered)/Under-recovered	($23,843)	$0	($23,843)

Description **SOUTHERN SYSTEM**	**Company's ACA Balance**	**Staff Adjustments**	**Staff Recommended ACA Balance**
Beginning ACA Balance @ 9/1/09 – (Over-recovered)/Under-recovered	$0	$0	$0
Total Cost MGU Gas Delivered to City Gate	$339,700	$0	$339,700
Total Revenue Recovery	($275,828)	$0	($275,828)
Ending ACA Balance @ 8/31/10- (Over-recovered)/Under-recovered	$63,872	$0	$63,872

2. Respond to those recommendations beneath the Reliability Analysis and Gas Supply Planning Section and respond with any additional actions being taken by MGU to address Staff's recommendations related to Peak Day Methodology and Supply Planning.

3. Respond to Staff's comments and recommendations in the ACA Approach for Interest Calculation Section.

4. Respond to Staff's comments and recommendations in the Swing Gas Purchases Section.

5. Respond to Staff's comments in the Hedging Section.

6. Respond to the recommendations herein within 30 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter In the Matter of Missouri Gas Utility's Winter Purchased Gas Adjustment Filing	))))	File No. GR-2011-0117

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that as a Utility Regulatory Manager in the Procurement Analysis Department of the Utility Services Division, he has participated in the preparation of the foregoing report, consisting of 8 pages to be presented in the above case; that he has verified that the following Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

Phil S. Lock, Utility Regulatory Auditor III:	Billed Revenues and Actual Gas Costs
Derick Miles, P.E., Regulatory Engineer I:	Reliability Analysis and Gas Supply Planning
Lesa A. Jenkins, P.E., Regulatory Engineer II:	Reliability Analysis and Gas Supply Planning
Kwang Y. Choe, Regulatory Economist II:	Hedging

that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.

David M. Sommerer

David M. Sommerer

Subscribed and sworn to before me this 5th day of April, 2011.

Nikki Senn

Notary Public

NIKKI SENN
Notary Public - Notary Seal
State of Missouri
Commissioned for Osage County
My Commission Expires: October 01, 2011
Commission Number: 07287016