

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

In the Matter of Missouri Gas Energy                    )  
Purchase Gas Adjustment Change.                    )       Case No. GR-2008-0367

**STAFF RECOMMENDATION**

COMES NOW the Staff of the Missouri Public Service Commission and files its Purchased Gas Adjustment Memorandum. In support of its Recommendations in this case Staff states:

1.       On October 17, 2007, Missouri Gas Energy (MGE or Company), a division of Southern Union Company filed a tariff sheet having an effective date of November 1, 2008.

2.       This proposed tariff sheet changes MGE's Purchased Gas Adjustment (PGA) factors as a result of estimated changes in the cost of natural gas for the upcoming winter season.

3.       Staff reviewed and evaluated the revenues MGE billed its customers in its purchased gas adjustment estimates and MGE's actual gas costs for the period of July 1, 2007, to June 30, 2008.

4.       The Staff also examined MGE's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions, including: (1) a reliability analysis of estimated peak-cold-day requirements and the adequacy of MGE's pipeline capacity levels needed to deliver sufficient gas to its customers on an exceptionally cold or peak day; (2) the Company's methodology and rationale for determining its reserve margin for a peak cold day; (3) a review of the Company's planning to manage normal, warm, and cold weather conditions and the gas supply plans for dealing with meeting these situations; and (4) a review of MGE's hedging practices and policies to determine the reasonableness of the Company's hedging plans.

5. Staff has not proposed any dollar adjustments to the Company's ACA account balances as of June 30, 2008, but provides recommendations concerning the Company's gas purchasing practices.

6. Staff's recommendations are:

(1) the Commission hold this ACA case open pending resolution of the prior ACA Case, GR-2007-0256, and the transportation customer billing issue. In the prior ACA case, GR-2007-0256 Staff recommended an adjustment to the Company's ACA balance due to the Company's incorrect computer coding which led to an MGE transportation customer being underbilled. The Company has indicated the billing error occurred through June 2008 which is the last month of the ACA period under this review. Thus the issue of under-collection from this customer continues into this current ACA period.

(2) the Company evaluate the process it uses in matching its off-system sales natural gas purchases with its sales commitments.

(3) the Company respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply and Planning Improvement section related to capacity planning, supply planning, and storage planning.

(4) the Company carefully consider the risk of placing reliance on winter hedges that are placed during the same winter periods that are intended to be protected, and are actually underway.

(5) the Company analyze its hedging risk for each winter month under normal conditions and cold weather conditions, including cold weather that may occur late in the winter season. This analysis should include a review of the volumes hedged and the

associated cost of making the hedges. MGE should analyze each month where price exposure exists, to evaluate the costs and risks of not covering, or minimally covering, the unhedged price volatility for that particular month.

(6) the Company continue to update its price risk management and hedging decisions reflecting any fundamental shifts in the market dynamics while being cautious on market views, and also document the updates and decisions, and provide the documentation to the Staff during each ACA review. This documentation should include an overall hedging plan that addresses hedging goals, objectives, and strategies for each month of each ACA review.

(7) the Company should update its hedging plan, document the plan and complete its planning well in advance of each approaching winter season. The Company should also continue to evaluate longer-term time horizons for placing hedges.

(8) finally, the Staff recommends the Company continue to assess and document the effectiveness of its hedges for the 2008-2009 ACA and beyond. The analysis should include but not be limited to: whether the hedging implementation was consistent with the hedging plan, testing in detail for hedge effectiveness for any financial instruments that attempt to hedge the physical price risk exposure, identifying the benefits/costs based on the outcomes from the hedging strategy, and thus evaluating any potential improvements on the future hedging plan and its implementation.

7. The Commission should order the Company to respond to all recommendations included herein within 30 days.

WHEREFORE the Staff requests the Commission issue its Order leaving this case open pending resolution of the billing issue discussed in Case No. GR-2007-0256 and also requiring

MGE to comply with Staff's recommendations and to report its progress in complying within thirty (30) days.

WHEREFORE Staff recommends that the proposed tariff sheet be approved, interim subject to refund with a November 1, 2008 effective date.

Respectfully submitted,

**/s/ Lera L. Shemwell**  
Lera L. Shemwell  
Deputy General Counsel  
Missouri Bar No. 43792

Attorney for the Staff of the  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 751-7431 (Telephone)  
(573) 751-9285 (Fax)  
lera.shemwell@psc.mo.gov

### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 30th day of December 2009.

**/s/ Lera L. Shemwell**