

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

In the matter of Missouri Gas Energy)
Purchased Gas Cost Adjustment Change)

Case No. GR-2006-0291

MISSOURI GAS ENERGY'S RESPONSE TO STAFF RECOMMENDATION

Comes now Southern Union Company, through its Missouri Gas Energy ("MGE") division, and for its response to the Recommendation of the Staff of the Missouri Public Service Commission ("Staff"), respectfully states the following:

1. On December 31, 2007, the Staff filed its Recommendation and Memorandum herein in which it states that it has reviewed MGE's 2005-2006 Actual Cost Adjustment (ACA) filing covering the period of July 1, 2005 through June 30, 2006. By order dated January 7, 2008, the Commission directed MGE to respond to the Staff's recommendation no later than February 6, 2008. This is MGE's filing in compliance with that order.
2. The Staff Memorandum makes three substantive recommendations. Unlike recommendations for previous years, this one does not allege any imprudence on the part of MGE and does not recommend any monetary disallowances. MGE's review of the recommendation leads it to the conclusion that there are no issues presented that require either a procedural schedule or resolution by the Commission. There are, however, some comments contained in the Memorandum that justify a response.
3. Regarding the Highly Confidential material under the heading "II. Buy/Sell Transactions" on page 2, MGE's response is that the last sentence accurately reflects the current status of this matter.

4. Regarding the material under the heading “III. Transportation and Storage Discounts” on page 3, MGE’s response is that Staff is correct. Through inadvertence, MGE did not adjust gas costs in this ACA period by \$414,650.51 to reflect the discounted transportation and storage rates as agreed in Case No. GM-2003-0238. MGE has, however, as noted by Staff in its comments, already adjusted its ACA balance for the 2006-2007 ACA period in order to reflect this amount owed to ratepayers.

5. Regarding the material under the heading “IV. Capacity Release and Off-System Sales Revenues,” MGE’s response is that Staff is correct that \$187,209.12 should have been credited to MGE for this. Through inadvertence, MGE did not reflect that credit for this period. MGE has, however, recently adjusted its ACA balance for the 2007-2008 ACA period by journal entry to reflect this.

6. Regarding the material under the heading “V. Reliability Analysis And Gas Supply Planning Improvement Recommendations,” MGE has several comments in response, generally for the purpose of clarification.

A. In its discussion of Highly Confidential material under “A. Capacity Planning, Item 1”, Staff indicates that it perceives there to be a contradiction between what MGE has stated in Demand/Capacity Analyses provided to Staff, as compared to what MGE has stated to Staff in certain responses to data requests concerning the topic of market area capacity. By way of response and clarification, MGE states that there is no contradiction because the two discussions reflect different factual assumptions. In an attempt to clarify the point, MGE states that all of MGE’s contracted market area capacity is deliverable into the market area involved and all contracted market area capacity can be scheduled to MGE’s city gate delivery points on

a peak day, unless Southern Star Central (SSC) pipeline requires compliance with the FERC tariff provisions for minimum levels of flowing supplies into the SSC market area.

B. Staff, under the same heading, also makes certain comments that indicate Staff has different views from MGE about appropriate capacity levels. Since Staff does not recommend any disallowances based upon its particular viewpoint, it appears that this is something akin to an academic or theological dispute that does not rise to the level of requiring the Commission to resolve it. The Commission should recognize that Staff and MGE have different perspectives on what are best practices. MGE is certainly willing to discuss these matters in more detail with appropriate Staff members and provide additional background about MGE's practices and approach.

7. Regarding the material under the heading "V. B. Supply Plans," MGE has the following response. Staff makes several comments that are critical of MGE because the Demand/Capacity Analyses MGE performs and submits to Staff do not directly examine certain things that the Staff considers appropriate. As with other matters in this Memorandum, this is not something where Staff alleges imprudence, but rather simply reflects a different viewpoint on the subject that does not require resolution by the Commission. MGE is willing to meet with the Staff to discuss these matters in greater detail.

8. Regarding the material under the heading "V. C. Storage Planning," MGE has the following response. As the Staff notes, this discussion is merely a continuation of the same topic the Staff has unsuccessfully litigated before the Commission in the cases noted. Therefore, this is not something that requires resolution by the Commission.

9. Regarding the material under the heading "VI. Hedging," MGE has the following response. Staff found MGE's hedging for the period to be "reasonable and adequate." Despite

that, however, Staff discusses several topics that it considers a “concern.” In reality, these simply reflect different viewpoints. For example, Staff makes the statement that it does not view basis swaps as hedges. MGE disagrees, as a basis swap, in addition to a NYMEX-based swap, provides for a total hedge against a physical delivery at a given pricing location. The basis swap is one hedging component of the two hedging components required to fix the price at a given location. MGE is willing to meet with the Staff to discuss these and related matters, but this is not something that requires resolution by the Commission.

10. Regarding the material under the heading “V. Recommendations,” MGE has the following responses.

A. MGE agrees the two monetary adjustments recommended by Staff in paragraph 1 are appropriate but notes that because they are appropriate, they have already been made by MGE. As the Staff indicates in the Note in this portion of the Memorandum, the \$414,650.51 adjustment has already been made by MGE for the 2006-2007 ACA period. Additionally, MGE has recently made an adjustment by journal entry to the ACA balance for the 2007-2008 period to reflect the \$187,209.12 amount. MGE agrees the net effect of these two offsetting entries equals the \$ (227,441.35) amount shown in the Staff adjustments column on page 8. However, since both accounting adjustments are undisputed, and have already been included in the ACA period under review or noted by journal entry in a future ACA period, MGE believes that for accounting purposes and to reduce the potential for confusion, they should not be duplicated through an order in this case. Accordingly, MGE recommends that the ending balances as shown on page 8 in the column entitled “6/30/06 ending balances per MGE filing” should be the ones ordered by the Commission as the closing balances for

purposes of this case. In this fashion, the two undisputed adjustments will be reflected in the respective future cases.

B. Recommendation number 2 calls for MGE to “review the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section” and respond herein with appropriate action items. MGE has reviewed Staff’s concerns and recommends that MGE and Staff members meet at a mutually convenient time and place to discuss these topics in greater detail.

C. Recommendation number 3 essentially calls for MGE to review the concerns and recommendations expressed by Staff regarding hedging. MGE has reviewed Staff’s concerns and recommends that MGE and Staff members meet at a mutually convenient time and place to discuss these topics in greater detail. MGE disputes the necessity for it to submit the requested information by the artificial deadline of May 30, 2008. MGE has worked with both the Staff and the Commission to make them fully aware of MGE’s intentions regarding hedging and MGE intends to continue to do that. Most recently, MGE personnel on their own initiative briefed the Staff on June 27, 2007 and again on November 30, 2007 as to MGE’s hedging plans and status for the winter of 2007-2008, as have other natural gas providers. Moreover, MGE participated in Case No. GW-2006-0110, a working docket opened by the Commission at the request of the Office of the Public Counsel to look into the status of Missouri’s natural gas distribution companies’ compliance with regard to that topic. Given that MGE has already demonstrated a willingness to provide information regarding its hedging status and plans on a timely basis in such settings, and the fact that Case No. GW-2006-0110 has been closed with no formal actions having been taken by the Commission in response to

recommendations made regarding the current hedging rule, MGE sees no compelling reason why it should be ordered to make the suggested filing on May 30, 2008.

D. Recommendation number 4 calls for MGE to respond to the Staff's recommendations. MGE is doing so within the time ordered by the Commission.

WHEREFORE, MGE respectfully offers the foregoing response to the Staff's Recommendation and Memorandum as ordered, and suggests that the Commission enter an order establishing the closing balance as per the MGE filing and close this case.

Respectfully submitted,

/s/ Gary W. Duffy

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ATTORNEYS FOR
MISSOURI GAS ENERGY

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was electronically transmitted this 6th day of February, 2008, to all counsel of record.

/s/ Gary W. Duffy

Gary W. Duffy