

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy)
Purchase Gas Adjustment Change) Case No. GR-2006-0291

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission in the above-captioned matter and, files its Recommendation in this case.

1. The Procurement Analysis Department (Staff) has reviewed the Missouri Gas Energy (MGE or Company) 2005-2006 Actual Cost Adjustment (ACA) filing. This filing was made on October 27, 2006, and was docketed as Case No. GR-2006-0291. The filing contains the Company's calculations of the ACA and Refund account balances. The 2005-2006 ACA filing rates became effective on November 10, 2006.

2. Staff reviewed and evaluated MGE's billed revenues and actual gas costs for the period of July 1, 2005, to June 30, 2006. The Staff also reviewed MGE's gas purchasing practices to determine the prudence of the Company's purchasing and operating decisions. Staff conducted a reliability analysis of estimated peak day requirements and the capacity levels needed to meet those requirements; peak day reserve margin and the reasons for this reserve margin; and a review of normal, warm and cold weather requirements.

3. Besides, its gas purchasing practices, Staff also reviewed MGE's hedging for the period to determine the reasonableness of the Company's hedging plans.

4. Staff expects MGE will address the transactions discussed in the Staff Recommendation under highly confidential section II.

5. It is Staff's recommendation the Company should do the following:

1. Adjust the account balances in its next ACA filing to reflect the recommended Staff adjustments and to reflect the (over)/under-recovered ACA and Refund balances in the “Staff Recommended” column of the table in the attached Staff Recommendation.
2. Review the concerns expressed by Staff in the Reliability Analysis and Gas Supply and Planning section and respond within 30 days with any additional actions items being taken by Company to address Staff’s concerns.
3. Carefully evaluate the types of financial instruments that are to be utilized for hedging as to whether the instruments truly represent hedges.
4. Consider the risk of placing too much reliance on late winter hedges that are placed during the same winter periods that are intended to be protected, and are actually underway.
5. 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. 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 Staff further recommends that the Company continue to update and document its hedging 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. The hedging plan should be documented and completed well in advance

of each approaching winter season. The Company should also evaluate longer term time horizons for placing hedges.

7. Test for hedge effectiveness for any financial instruments that attempt to hedge the physical price risk exposure.
8. Submit its hedging information for the 2008-2009 no later than May 30, 2008.

WHEREFORE, the Staff recommends that the Commission issue its order directing MGE to respond to these recommendations within 30 days and to comply with the recommendations noted above.

Respectfully submitted,

/s/ Lera L. Shemwell
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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 31st day of December 2007.

/s/ Lera L. Shemwell