BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Purchased Gas Adjustment Filing for the 2012-2013 Actual Cost Adjustment Period	)))	File No. GR-2013-0422

MISSOURI GAS ENERGY'S RESPONSE TO STAFF RECOMMENDATION

COMES NOW Laclede Gas Company d/b/a Missouri Gas Energy ("MGE" or "Company"), and for its response to the Recommendation of the Staff of the Missouri Public Service Commission ("Staff"), respectfully states as follows:

1. On October 14, 2014, the Staff filed its Recommendation with the Commission in which it states that it has reviewed MGE's 2012-2013 Actual Cost Adjustment (ACA) filing covering the period of July 1, 2012 to June 30, 2013. By order dated October 31, 2014, the Commission directed MGE to respond to the Staff's Recommendation no later than December 15, 2014. This is MGE's filing in compliance with that order.

2. Staff's Recommendation proposes an adjustment to decrease the Company's 2012-2013 ACA account balance by $9,738. MGE agrees with the adjustment and has already made the correction to its 2013-2014 ACA account balance. Accordingly, MGE does not believe that there are any issues that require either a procedural schedule or resolution by the Commission.

3. Staff provides certain comments, concerns and recommendations in its Recommendation related to MGE's reliability analyses, gas supply planning, school transportation program, transportation customer agent agreements and hedging.

While MGE responds to those points below, the Company does not believe that these matters present an issue requiring Commission resolution or a procedural schedule.

A. Capacity Planning

(1) MGE's Peak Day/Design Day Estimates for the Three Service Areas. Staff's concerns with MGE's methodology in calculating peak day requirements in its Demand/Capacity Analysis include MGE's use of July/August usage to compute baseload usage in the winter months, Staff's concern that too few data points were used in MGE's regression analysis computation, and MGE'S process for estimating growth.

a. Regarding the Staff's baseload usage concerns, MGE believes that its methodology is reasonable. This methodology presumes that the July/August usage represents a load that would be in effect throughout the year. This load would include pilots, hot water, dryers, and other equipment that is unrelated to heat load. MGE does include Trend in the analysis of baseload volumes in order to identify year over year changes. In addition, as demand and peaks are analyzed for winter months the y-intercept is included as a variable until analysis determines that it is not significant.

b. Regarding the Staff's concern with the number of data points, MGE responds by stating that it currently utilizes the three highest volume days selected from the ten coldest days each winter season for 10 years as the data set for Peak Day analysis. In addition, Trend is included as an independent variable during the analysis (if significant). MGE believes that the Trend variable will account for changing customer habits. MGE understands Staff's position, but is concerned that lowering the time frame to something less than 10 years, or adding additional points for more recent years, may place too much emphasis on recent weather trends.

c. Regarding the Staff's concern over MGE's regression analysis computation, MGE responds by stating that it includes y-intercept as part of the analysis, and strikes it if results show it to be insignificant. With MGE's current method of utilizing a baseload (intercept, expected usage at 65 degrees or 0 HDD) for Demand and Peak coefficients, MGE believes the risk of dropping the y-intercept coefficient to obtain a better R-square has not been detrimental.

(2) Capacity and Reserve Margin for MGE's Three Service Areas. With regard to comments regarding Capacity Analysis, capacity available for the three service areas, and capacity changes for the Kansas City service area, MGE responds that it will consider Staff's recommendations when completing future studies and plans. With regard to Staff's recommendation that MGE routinely review its ability to flow natural gas on its Tallgrass contracts on cold days, MGE responds that MGE did flow gas on cold days last winter without issue.

B. Pipeline Capacity Reporting

Staff expressed that MGE has not provided an addendum to the Demand/Capacity Analysis as required by the Stipulation and Agreement (S&A) in Case No. GM-2013-0254 for pipeline capacity changes made that impacted the 2013/2014 winter. MGE responds that there were no modifications to contracts which changed pipeline capacity. The only changes made were to extend the term of the contracts with Southern Star from October 2013 to October 2018.

Staff also complains that it has no details as to the quantity and term of new capacity awarded to MGE effective in April 2014 via a Southern Star Open Season. While this was a minor addition of capacity, MGE agrees to promptly apprise the Staff of the quantity and term involved.

C. Supply Bid Analysis and Supply Selection.

With regard to comments regarding MGE's RFP process and response summary, MGE states that it will consider Staff's recommendations when conducting future RFPs and summarizing bids.

D. Monthly Supply/Demand Summary.

(1) Source of Peak Day Estimate. MGE agrees that the Company should use the correct estimates in performing its Demand/Capacity Analyses, and also agrees with Staff that the error Staff identified is immaterial.

(2) Supply Planning for Warm Weather. Staff recommends that the estimates for "Average Ultimate Warm" should be updated routinely and the MGE calculation should be re-evaluated. MGE responds by stating that it will review the methodology used to calculate Average Ultimate Warm. MGE also agrees with Staff that a temperature estimating methodology should be reviewed where estimates deviate significantly from actual.

(3) Monthly Usage Estimates. MGE agrees to consider whether or not to reconcile the factors it uses to estimate monthly demand in its Demand/Capacity Analysis with the factors it uses in its Monthly Supply/Demand Summary.

E. School Transportation Program(STP).

(1) Balancing Fees. Staff made an adjustment to credit the balancing fee paid by the schools to the Purchased Gas Adjustment Clause in accordance with the MGE tariff. MGE agrees with the adjustment and has made an adjustment to credit the ACA account in the amount of $9,738 to adjust for the school balancing fees for this ACA period.

(2) Cash Outs. Staff indicates that MGE's practice with regard to the imbalances of its STP customers is not consistent with its tariff. MGE is carrying over the STP customers' imbalances from month-to-month rather than cashing out the imbalances for these customers on a monthly basis. MGE responds that because the STP customers are billed on a cycle basis in a manner similar to sales customers, MGE is simply not able to monthly balance STP customers. MGE can monthly balance other transportation customers, because they are billed on a calendar month basis which coincides with the period for which pipeline deliveries are measured. It makes no sense for MGE's tariff to provide for STP cash out when it is not feasible to do so. Staff suggests that MGE should seek to change its tariff going forward to

address this issue. MGE agrees to work with Staff on this matter.

(3) Transportation Customer Agent Agreements. Staff made an audit finding that two provisions of MGE's Agent Aggregation Service Agreements were inconsistent with MGE's tariffs. Staff recommends that MGE modify the agreements to be consistent with its tariff. MGE will review these agreements and address the issue.

F. Hedging.

Regarding the recommendations under Section VI, "Hedging," Staff encourages the Company to evaluate its hedging strategy in response to changing market circumstances, its use of swaps, and its use of call options. Staff also asks that MGE continue to assess and document the effectiveness of its hedges. In response, the Company states that it regularly evaluates its hedging strategy. The Company also evaluates changing market dynamics in order to balance the cost of hedging against the goal of price stabilization, and thus to achieve a cost-effective hedging outcome. As Staff notes, the Company updated its price risk management and procurement program (PRIMAP) in order to reflect the current market, incorporating a call option in its hedging program to supplement the use of swap instruments. Further, the Company constantly tracks its hedging gains and losses. Finally, MGE will continue its annual formal presentations to Staff and OPC in advance of the winter period, outlining its gas supply strategies including current hedging strategies.

WHEREAS, with these responses to Staff's comments, concerns and recommendations, MGE believes that there are no issues presented that require either a procedural schedule or resolution by the Commission, and therefore requests that the Commission accept this response, approve the ACA balance set forth in the Staff's Recommendation and close this case.

Respectfully Submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic transmission to all counsel of record on this 15th day of December, 2014.

/s/ Rick Zucker