BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of	)	
Summit Natural Gas of Missouri, Inc.'s	)	**File No. GR-2014-0097**
Purchased Gas Adjustment	)	Tracking No. YG-2014-0180

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission, by and through counsel, and for its *Recommendation* in this matter hereby respectfully states:

1. On October 15, 2013, Summit Natural Gas of Missouri ("Summit," or "Company,") filed tariff sheets reflecting changes in the Company's PGA rate. This filing represents Summit's Winter PGA filing as required by its tariff.[1]

2. Staff reviewed the filings and confirmed their compliance with Summit's Commission-approved PGA Clause. On October 30, 2013, the Commission approved the tariffs to take effect subject to refund.

3. Meanwhile, the Commission's Procurement and Analysis Unit (PAU) Staff commenced its review of the ACA factors included in Summit's October 15 filings. The Commission's order required Staff to file any further results or recommendations from the review no later than December 19, 2014. In compliance with that order, the Staff hereby submits the results of its ACA review in these matters.

4. Summit Natural Gas of Missouri began operating in Missouri with the merger of Southern Missouri Natural Gas (SMNG) and Missouri Gas Utility (MGU), approved by the Commission in September 2011. Summit operates pursuant to two tariffs—one for the former SMNG service area, and one for the former MGU service

[1] 13 P.S.C. MO. No. 1, Sheets 20 through 27.

area. In this matter, Case No. GR-2014-0096 pertains to the area formerly served by MGU. This case refers to the area formerly served by SMNG.

5. Staff's pleading in GR-2014-0096 includes a brief background on the Commission's PGA/ACA mechanism, incorporated here by reference.

6. As described in Staff's *Memorandum*, attached here as Appendix A and incorporated by reference, Staff analyzed Summit's ACA filing by comparing billed revenue to actual gas costs. Staff also analyzed the reliability of this system by reviewing peak-day requirements and the capacity needed to meet those requirements, and Staff reviewed Summit's supply plans for various weather conditions. Staff evaluated the prudence of Summit's gas purchasing decisions for this ACA period, as well as the reasonableness of Summit's hedging practices.

7. The Company's filings reflected an over-recovery of $24,953. As described in Staff's *Memorandum*, in this case Staff recommended a negative adjustment of $143,936 pertaining to the Company's storage decisions. Staff's recommended ACA balance, reflecting Staff's storage adjustment, reflects the Company's over-collection of a total of $168,889 during the 2012-13 ACA period.

8. As part of its obligation to provide safe and adequate service at just and reasonable rates, Summit must conduct reasonable long-range supply planning to meet its customer needs, and its planning decisions—which ultimately determine what cost of gas its customers will pay—must be prudent. This includes prudent use of storage capacity, which allows an LDC to purchase natural gas during the summer (when demand and prices are traditionally lower) for use during the winter heating season.

Generally, LDCs inject gas into storage from April to October, and withdraw gas from storage from November through March.

9. Summit did not inject any gas into storage during the summer of 2012. As a result, the Company's storage inventory prior to the winter of 2012-13 was at approximately 49 percent of its maximum capacity. Summit's failure to fill storage meant that less stored natural gas was available for use on a peak day, and therefore Summit had to purchase an additional volume of gas during the winter using a fixed price contract and the spot/daily market.

10. To determine whether this had a negative impact on Summit's customers, Staff looked at two reasonable scenarios to analyze what Summit would have paid for gas had it prudently utilized its storage capacity. The result of this evaluation is that Summit paid between $143,935.99 and $157,239.48 more for natural gas that winter than it reasonably should have—a cost of between $12.65 to $13.82, respectively, per customer in this service area. Staff's analysis ultimately shows that Summit's decision not to fully use its storage capacity was imprudent and resulted in harm to its customers, therefore Staff recommends the Commission disallow recovery of $143,936, the low end of its analysis scenarios.

WHEREFORE, Staff hereby submits its recommendation in this matter and recommends the Commission issue an order requiring Summit to:

1. Adjust the balances in its next ACA filing to reflect the Staff recommended ending (over)/under recovery ACA balances per the table on page 11 of Staff's *Memorandum*:

2. Respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section of the *Memorandum* (Section III) related to (a) Weather Normal Data, (b) Reserve Margin for the Rogersville Area and (c) Natural Gas Supply Planning and Decisions, including Storage.

3. Respond to Staff's recommendations in the *Memorandum* Section IV - Hedging.

4. Respond to recommendations and concerns included in Staff's *Memorandum* within 60 days.

Respectfully Submitted,

/s/ John D. Borgmeyer

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CERTIFICATE OF SERVICE

I hereby certify that true and correct copies of the foregoing were served electronically to all counsel of record this 10th day of October, 2014.

/s/ John D. Borgmeyer

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2014-0097, Summit Natural Gas of Missouri

FROM: Phil Lock, Regulatory Auditor – Procurement Analysis
Kwang Choe, Ph.D., Regulatory Economist – Procurement Analysis
Kathleen McNelis, Utility Engineering Specialist III – Procurement Analysis

/s/ David M. Sommerer 10/10/14
Project Coordinator / Date

/s/ John Borgmeyer 10/10/14
Staff Counsel's Office / Date

/s/ Lesa Jenkins P.E. 10/10/14
Utility Regulatory Engineer II / Date

SUBJECT: Staff Recommendation in Case No. GR-2014-0097, Summit Natural Gas of Missouri 2012-2013 Actual Cost Adjustment Filing (formerly Southern Missouri Natural Gas Company or SMNG)

DATE: October 10, 2014

EXECUTIVE SUMMARY

On April 27, 2011 Southern Missouri Gas Company (SMNG) and Missouri Gas Utility (MGU) filed an application for Commission authority to merge, with MGU as the surviving entity (Case No. GM-2011-0354). The parties filed a Unanimous Stipulation and Agreement on September 15, 2011, which the Commission approved on September 28, 2011.

On February 23, 2012, Summit Natural Gas of Missouri, Inc. (Summit or Company) informed the Commission that SMNG has merged with Summit. SMNG and MGU are now more commonly known as "Summit". Summit filed tariff sheets to adopt SMNG's Missouri tariffs. Those tariff sheets bear an effective date of March 24, 2012 (Per Adoption Notice).

On October 15, 2013 Summit (successor in interest to SMNG) filed its Actual Cost Adjustment (ACA) for the 2012-2013 annual period for rates to become effective November 1, 2013. The Procurement Analysis Unit (Staff) of the Missouri Public Service Commission has reviewed the Company's ACA filing. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA balance.

Staff conducted the following analyses:

- a review of billed revenue compared with actual gas costs,
- a reliability analysis including a review of estimated peak-day requirements and the capacity levels needed to meet these requirements and a review of supply plans for various weather conditions.
- a review of the Company's gas purchasing practices to evaluate the prudence of the Company's purchasing decisions for this ACA period; and
- a hedging review to evaluate the reasonableness of the Company's hedging practices for this ACA period.

Based on its review, Staff recommends the following adjustments to the Company's filed 2012-2013 (over)/under-recovery ACA balances:

Description (+) Under-recovery (-) Over-recovery	**Ending Balances Per Filing**	**Staff Adjustments**	**Staff Recommended Ending Balances**
Prior ACA Balance 8-31-12	$264,933	$0	$264,933
Cost of Gas/Storage	$4,972,477	($143,936)	$4,828,541
Cost of Transportation	$2,145,223	$0	$2,145,223
Revenues	($7,409,286)	$0	($7,409,286)
ACA Approach for Interest	$1,700	$0	$1,700
Total ACA Balance 8-31-13	($24,953)	($143,936)	($168,889)

Staff has no compliance adjustments for the Billed Revenue and Actual Gas Cost (Section II). Staff has one adjustment of $143,936 related to Reliability Analysis and Gas Supply Planning (Section III) pertaining to the Company's decision to only fill storage to 49 percent. Additionally, Staff's concerns regarding various aspects of this topic are discussed within the Reliability Analysis and Gas Supply and Planning section of the memorandum. Staff has no adjustments related to Hedging (Section IV); however Staff's concerns/comments are addressed in the Hedging section of the memorandum.

Staff recommends the Commission order the Company to respond to Staff's concerns/recommendations within 60 days.

In summary, Staff's adjustments for the 2012-2013 ACA period represent a $143,936 reduction in the cost of gas for the Company's sales customers.

STAFF'S TECHNICAL DISCUSSION AND ANALYSIS

Staff's discussion of its findings is organized into the following five sections which includes Staff's concerns and recommendations:

I. Overview
II. Billed Revenue and Actual Gas Cost
III. Reliability Analysis and Gas Supply Planning
IV. Hedging
V. Recommendations

I. OVERVIEW

During the 2012-2013 ACA, Summit provided natural gas service to customers in the south and south-central portion of the state including communities in Greene, Webster, Wright, Howell, Texas, Douglas, Laclede, Lawrence, Barry, Stone and Taney counties. During January 2013, Summit served approximately 11,375 sales customers for the combined Branson and Rogersville systems. Southern Star Central Gas Pipeline (SSCGP) serves all customers on Summit's former SMNG service territory.

II. BILLED REVENUE AND ACTUAL GAS COST

Compliance Adjustments

Staff does not have any compliance adjustments for the 2012-2013 ACA.

III. RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

As a natural gas corporation providing natural gas service to Missouri customers, Summit is responsible for conducting reasonable long-range supply planning to meet its customer needs. Summit 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) natural 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.

A. Weather Normal Data

In planning for normal, warmer and colder winters, the Company uses the 30-year normal weather data as a basis of estimating demand in response to normal, warmer and colder winters weather conditions. In the 2012-2013 ACA, the Company used the 30-year normal weather data from 1971-2000, however the most updated 30-year normal weather data from 1981-2010 was available. Staff recommends the Company use the 30-year normal weather data from 1981-2010.

B. Reserve Margin for Rogersville Area

The Company does not consider variability (e.g. the upper 95 percent confidence interval or standard error) in its peak day estimates when calculating reserve margins. (Reserve is the transportation capacity available in excess of the estimated peak day usage.) The Company has not taken into account capacity released to schools when determining whether it has sufficient firm transportation capacity to cover its requirements for an estimated peak day usage.

By using the Company's projected customer counts in future years, the Company's peak day demand estimates and the capacity the Company released to schools in 2012-2013, Staff estimates a negative reserve margin (-0.62 percent) for Rogersville as early as the winter of 2013-2014 (considering variability of the peak day estimate by using the 95 percent upper confidence interval estimate of peak day), or by the winter of 2014-2015 (reserve margin of -5.74 percent) when not considering the variability of the peak day estimate.

Staff recommends that the Company review its reserve margin when considering the sufficiency of its transportation capacity for peak day for Rogersville and take actions necessary to secure sufficient capacity for its peak day requirement.

C. Natural Gas Supply Planning and Decisions, Including Storage

1. Supply Bid Documentation

There were two natural gas supply transactions for natural gas purchased in October 2012 for which the Company was unable to locate supporting documentation. These two transactions were separate from Summit's formal RFP process and accounted for 95 percent of the total natural gas purchased in October 2012.

The Company indicated the likely reasons for the lack of documentation are one of the following:

- The bid process took place over the phone rather than via e-mail due to either timing or logistic constraints; or
- The email support was simply overlooked for recordkeeping purposes.

In its response to Data Request (DR) 0045, the Company indicated that swing purchases made during this ACA may have been obtained by an informal verbal or e-mail communication process and therefore written documentation may not be complete. Staff recommends that the

Company review the processes that are being implemented to ensure compliance with Company recordkeeping procedures. If the Company does not have a formal procedure for documenting transactions completed by telephone, Staff recommends the Company develop such a procedure and monitor for compliance.

2. Peak Day Planning

The Company's peak day demand estimate for the 2012-2013 winter could have been met by a combination of storage withdrawal, baseload and daily supply contract flowing volumes. The Company had no firm swing/call contracts set up for the winter months.

An LDC typically has natural gas supplies from various types of supply agreements including baseload, swing/call, or daily/spot agreements. An LDC may have storage contracts for injections and withdrawal of natural gas.

- Baseload supply agreements are for the same contracted quantity to flow each day of the month during the term of the agreement (one month or multiple months). Baseload supply agreements may be set up in the month prior to the date of flow or may be set up many months in advance of the flow month.
- Swing (or Call) supply agreements have a specified maximum daily quantity, but allow nominations of zero up to the maximum daily quantity. Swing supply agreements may be for one or multiple months and are generally set up prior to the beginning of the winter. Swing agreements provide the LDC with flexibility to increase or decrease nominations, daily if needed, in response to changing weather and customer requirements and for flexibility in managing storage balances, but without the necessity to be in the daily market trying to find natural gas supplies.
- Daily (or spot) agreements can be contracted for a term of one day or multiple days. Daily/spot gas can be set up one day or many days prior to the date of flow.

There are generally no reservation charges (also called supply demand charges) for base load supply agreements or daily/spot supply agreements. Swing/Call supply agreements generally have either fixed reservation charges (a fixed cost even when no natural gas is nominated), or are priced at an index (average of actual trades complied by a gas trade journal) price plus an adder (premium).

During the winter of 2012-2013, the sum of the Company's storage maximum daily withdrawal quantities (adjusted for applicable ratchets[1]) and baseload supply contract resources could have supplied the following percentages for a peak day occurring in the months of:

[1] Ratchets means the injection and/or withdrawal rates are reduced as a function of inventory level. An example of withdrawal ratchets would be: for storage inventory >75% and ≤100% full, MDWQ = 1,000 MMBTU/day. For storage inventory > 50% and ≤ 75% full, MDWQ = 800 MMBTU/day. For storage inventory ≤ 50% full, MDWQ = 500 MMBTU/day.

- December 2012: 45%
- January 2013: 51%
- February 2013: 40%

Thus, if the weather had been cold the Company would have been in the daily/spot natural gas market to purchase 49 percent (January 2013) to 60 percent (February 2013) of its estimated peak day requirements. This reliance on high percentages of daily/spot natural gas to meet peak day requirements is a concern.

Staff recommends the Company review the reliability of its supply plans to meet peak day requirements, including an evaluation of whether swing/call agreements should be used in its supply portfolio.

3. Storage

The demand for natural gas has traditionally been greater in the winter than summer, partly due to its use in residential and commercial heating.[2] Because the demand for natural gas is cyclical, it has been a common practice for LDCs to purchase gas during periods of lower demand and inject it into storage for later use, providing both a financial hedge against potential price increases and a physical hedge for winter season and peak day loads.[3] Natural gas is generally injected into storage during the summer (non-heating season), which usually runs from April through October, and withdrawn from storage for use during the winter (heating season), usually from November to March.[4]

The Company's storage contract with Southern Star Central Gas Pipeline (SSCGP) allows a Maximum Storage Quantity (MSQ) of 300,000 Million British Thermal Units (MMBTU)[5] of

[2] http://naturalgas.org/naturalgas/storage/

[3] "Natural Gas and Energy Price Volatility", prepared for the Oak Ridge National Laboratory by the American Gas Foundation, October 2003, Chapter 1, pp. 15 and 23 and Chapter 4, pp.4-5; http://www.gasfoundation.org/ResearchStudies/volatility.htm

[4] http://naturalgas.org/naturalgas/storage/

[5] 1 Million British Thermal Units (MMBTU) = 1 Dth (dekatherm) = 10 therms = approximately 1 thousand cubic feet (Mcf) of natural gas. Note: the exact conversion of units which represent the heating value of a fuel (e.g. Dth, therms, MMBTU) to units representing volumetric quantities (e.g. cubic feet) depends on the heating (caloric) content of the natural gas. The heating value can vary depending on the gas source. Energy Information Administration (EIA) reports that the average heat content in 2011 for residential, commercial and industrial sectors was approximately 1,023 BTU/Cubic Foot, which would correspond to 1 Dth = 0.977 Mcf.

natural gas. The Company pays a fixed reservation charge[6] on the available storage capacity regardless if the storage capacity is filled or not. The Company did not inject any natural gas into storage during the summer of 2012 (prior to the 2012-2013 winter). The Company's storage inventory was at approximately 49 percent of its maximum storage quantity (MSQ) going into the 2012-2013 winter. The Company's failure to fill storage meant that less natural gas was available for use on a peak day (see recommendation above regarding Peak Day planning) and for the winter months.

Initially the Company stated that the reason it had not injected additional natural gas into storage was that Staff previously recommended that the Company discontinue its practice of including reservation charges in its weighted average cost of natural gas (WACOG) in storage on a moving forward basis.[7] There was no disallowance associated with that recommendation made by Staff in the 2011-2012 ACA, GR-2013-0256. The Company decided not to inject any additional natural gas into storage until it had withdrawn the existing inventory that included the reservation charges in the WACOG, and as a result, went into the winter of 2012-2013 with only 49 percent of its maximum storage quantity filled. The Company's decision not to fill storage is not reasonably supported.

The Company later stated that it "…attempted to shed 50 percent of the storage capacity during the 2012 summer because Summit did not believe that the available deliverability from storage outweighed the demand charge burden on its retail sales customers."[8] What the Company is referring to by "demand charge burden" is the fixed reservation charge for storage capacity of $0.0037/Dth/day. The Company's workpapers consisted of a comparison of natural gas futures pricing published by the New York Mercantile Exchange (NYMEX) on July 24, 2012 for the months of August through October 2012 compared to November 2012 – March 2013 and subtracting the potential savings if it could avoid payment of ½ of the storage demand charge during the period of August 2012 – March 2013.

According to the Company, it began considering the release of its unused storage capacity on July 24, 2012. On August 14, 2012, the Company offered the availability of 150,000 MMBTU of its storage capacity at the full reservation rates on the SSCGP electronic bulletin board (EBB). The offer allowed bids for any quantity between 100 and 150,000 MMBTU between August 14, 2012 and August 21, 2012 which would have allowed the capacity release to occur no sooner than August 22, 2012. Another party interested in the storage capacity would have to consider

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[6] The component of rates charged to a customer that is expected to cover the capital-related costs and the costs of operation and maintenance of transmission, distribution, and storage facilities. The reservation charge is also referred to as a demand charge.
[7] Staff data request and Company response to GR-2014-0097 DR 0054.1
[8] Staff data request and Company response and attachments to GR-2014-0097 DR 0054.2

that injections typically begin in April and it would now only have part of August and September and October to inject natural gas into storage instead of a normal April through October injection season.

The Company's storage contact is subject to Maximum Daily Injection Quantity (MDIQ) limitations that include ratchets based on the Company's storage inventory (as the natural gas in storage inventory increases, the MDIQ decreases). The Company stated that had it been successful in releasing storage capacity, the "…MSQ, MDIQ and MDWQ would have been prorata based on the capacity assigned."[9] Since 150,000 MMBTU is ½ of the Company's MSQ, according to the Company's response the MDIQ limits on the released 150,000 capacity would also be ½ of the Company's MDIQ (1/2 of 2,250 MMBTU/day = 1,125 MMBTU/day). Staff calculated that given the prorated MDIQ limits, the maximum amount that could have been added to storage between August 22, 2012 and October 31, 2012 would have been 79,875 MMBTU. Thus, any party bidding on the storage capacity release would know that the maximum it could inject into storage would have been 53 percent of the available storage capacity of 150,000 MMBTU. There were no bidders.

On September 5, 2012, the Company again offered storage capacity using the same EBB, this time at a discounted rate ($0.0020/Dth/day). The bid period ended September 11, 2012 which would have allowed the capacity release to occur no sooner than September 12, 2012. Staff calculated that given the prorated MDIQ limits, the maximum amount that could have been added to storage between September 12, 2012 and October 31, 2012 would have been 56,250 MMBTU. Thus, any party bidding on the storage capacity release would know that the maximum it could inject into storage would have been 38 percent of the available storage capacity of 150,000 MMBTU. There were no bidders.

If the Company desired to release 150,000 MMBTU of storage capacity to save the expense of fixed reservation charges, it should have made this storage available to prospective bidders earlier in the summer injection season (which typically begins in April and ends in October). That would have allowed prospective bidders time to secure gas supplies at lower summer rates, and have time to inject the full 150,000 MMBTU into storage.

Going into the winter of 2012-2013, the Company had only filled its storage capacity to 49 percent, and still had the full reservation costs associated with the 300,000 MMBTU MSQ capacity. Because less gas was available to the Company in storage to meet its normal winter demand load, the Company had to purchase an additional volume of natural gas during the winter. The Company purchased a fixed price contract on October 19, 2012 (just prior to the

[9] Company response to GR-2014-0097, DR 0104.

winter 2012-2013) and additional natural gas in the spot/daily market during the winter in lieu of filling and utilizing its contracted storage.

Staff evaluated the Company's decisions to not ratably[10] fill storage during the summer prior to the 2012-2013 winter to determine whether the imprudent decision had a negative impact on costs to its customers. Staff reviewed the Company's decision not to fill its storage contract in conjunction with its decisions regarding natural gas supply purchases. Staff compared the costs of purchasing natural gas to ratably fill storage to 95 percent capacity prior to November 1, 2012, the start of the gas supply winter season, with the costs that the Company actually paid for that same volume of flowing (incremental) natural gas during the winter 2012-2013. Because there is uncertainty regarding what the Company would have paid for natural gas that it would have injected into storage during the summer, Staff looked at two reasonable price scenarios. In both scenarios, Staff assumed the Company ratably filled its storage to 95 percent capacity prior to the start of winter. The difference between the two scenarios is as follows:

- Scenario 1 assumes the Company would have paid the monthly index price of Inside FERC plus an adder of $0.0195. Inside FERC is a monthly price often used as a price reference, especially for monthly, regularly purchased gas. It is reported by *Inside FERC Gas Market Report*, a Platt's publication. This is the maximum adder paid by the Company during the 2012-2013 ACA for IF trades.
- Scenario 2 uses the average monthly cost that the Company actually paid for flowing natural gas during the months of injection. Staff calculated a monthly WACOG for each of these months and assumed that monthly WACOG for the flowing natural gas is also what the Company would have paid for additional natural gas to inject into storage during these months.

The result of this evaluation is that the Company paid between $143,935.99 (Scenario 2) and $157,239.48 (Scenario 1) more for natural gas in the winter than it would have paid for the same volume of natural gas had the Company purchased the natural gas in the summer and injected it into storage for winter use. This is a cost of $12.65 (Scenario 2) and $13.82 (Scenario 1) per customer. It was imprudent not to fill storage prior to the winter of 2012-2013. This imprudent decision caused a higher cost of gas to customers and thus Staff recommends a reduction in cost of gas of $143,936 for the Company's sales customers.

[10] Ratable filling refers to an apportioned injection schedule which takes into account the storage contract MSQ and MDIQ limitations (including applicable ratchets) and involves nominating appropriate daily quantities of natural gas to be injected into storage during the summer to achieve a desired inventory going into the winter season.

IV. HEDGING

Summit hedged with fixed price purchases (contracts) for the winter heating season (November 2012 through March 2013). Additionally, Summit utilized storage for the winter heating season. Summit's hedging percentage target for the winter (November 2012 through March 2013), implemented as a result of a Commission order in GC-2006-0180, was to secure hedging of a minimum of 20 percent, 40 percent, and 55 percent of normal winter heating–season gas supply at fixed prices or otherwise hedged against market exposure no later than April 30, July 15, and October 1, 2012, respectively, unless good cause is shown for deviating from these bench marks.[11] Summit hedged, with fixed price purchases and storage, 46 percent by October 1, 2012. Summit also hedged about 10 percent of normal winter heating-season gas supply with fixed price purchases on October 19, 2012 and thus, hedged in total, 56 percent of normal winter heating-season gas supply for the winter heating season (November 2012 through March 2013).

Despite Summit's hedging practice using fixed price purchases and storage, Summit hedged less than the targeted level by October 1, 2012. Additionally, Summit decided to not inject any gas into storage during the summer prior to the winter 2012-2013, which resulted in additional costs to Summit's ratepayers. (See Staff recommendation above on storage.)

Staff recommends the Company continue to stay current with market developments in order to make prudent gas procurement decisions. Summit should use market based, as well as dollar-cost-average approaches, to implement a reasonable hedging strategy that is partially responsive to the changing market dynamics. However, Staff cautions that the Company be not overly reliant on the market view that triggers the purchasing decision based only on favorable prices since it may lead the Company to indefinitely delay in purchasing fixed prices while the market continues to rise. Staff further recommends the Company carefully plan diversification of its gas supply portfolio, as storage is a part of hedging instruments. Summit should evaluate how best to balance the fixed price purchases in its gas supply portfolio, given the storage capacity, to achieve a cost effective hedging outcome. The Company should also regularly examine the balance between storage and other financial hedging instruments in the overall hedging portfolio for a warmer weather scenario as well as for normal load. Staff further recommends the Company 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 and the circumstances under which certain hedging transactions occurred. The hedging plan should be updated, documented and completed well in advance of each approaching winter season.

[11] Summit filed a waiver request from the hedge requirements on 6/20/2013 and Commission granted the waiver on 8/21/2013 to be effective on 9/20/2013.

V. RECOMMENDATIONS

The Staff recommends that Summit:

1. Adjust the balances in its next ACA filing to reflect the Staff recommended ending (over)/under recovery ACA balances per the following table:

Description **(+) Under-recovery** **(-) Over-recovery**	**Ending Balances Per Filing**	**Commission Approved Adjustments prior to 2012-2013 ACA**	**Staff Adjustments For 2012-2013 ACA**	**Staff Recommended Ending Balances**
Prior ACA Balance 8/31/12	$264,933	$0	$0	$264,933
Cost of Gas/Storage	$4,972,477	$0	($143,936)(A)	$4,828,541
Cost of Transportation	$2,145,223	$0	$0	$2,145,223
Revenues	($7,409,286)	$0	$0	($7,409,286)
ACA Approach for Interest Calculation	$1,700	$0	$0	$1,700
Total ACA Balance 8/31/13	($24,953)	$0	($143,936)	($168,889)

A) Storage adjustment

2. Respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section (Section III) related to (a) Weather Normal Data, (b) Reserve Margin for the Rogersville Area and (c) Natural Gas Supply Planning and Decisions, including Storage.

3. Respond to Staff's recommendations in Section IV - Hedging.

4. Respond to recommendations and concerns included herein within 60 days.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of	)	
Missouri, Inc.'s Purchased Gas Adjustment	)	File No. GR-2014-0097

AFFIDAVIT OF KWANG Y. CHOE, PHD

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Kwang Y. Choe, PhD, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

Kwang Y. Choe

Kwang Y. Choe, PhD

Subscribed and sworn to before me this 2nd day of October, 2014.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D. Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of	)	
Missouri, Inc.'s Purchased Gas Adjustment	)	File No. GR-2014-0097

AFFIDAVIT OF PHIL LOCK

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Phil Lock, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.

Phil Lock

Phil Lock

Subscribed and sworn to before me this 2nd day of October, 2014.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri, Inc.'s Purchased Gas Adjustment	))	File No. GR-2014-0097

AFFIDAVIT OF KATHLEEN A. MCNELIS

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Kathleen A. McNelis, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.

Kathleen A. McNelis

Subscribed and sworn to before me this 2nd day of October, 2014.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2016
Commission Number: 12412070

D Suzie Mankin
Notary Public