BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Staff's Recommendation	**)**	
In Missouri Gas Energy's 2003-2004	**)**	**Case No. GR-2005-0104**
Actual Cost Adjustment.	**)**	

REPLY TO MGE'S RESPONSE

TO STAFF'S RECOMMENDATION IN THIS CASE

COMES NOW the Staff of the Missouri Public Service Commission ("Staff") and files its Response to Missouri Gas Energy's Response to Staff's Recommendation in this ACA case.

1. On October 15, 2004, Missouri Gas Energy (MGE or Company) filed proposed tariff sheets to make scheduled changes in its Purchased Gas Adjustment (PGA) factors as the result of an estimated change in the cost of natural gas for the upcoming winter season.

2. The Procurement Analysis Department (Staff) reviewed the Missouri Gas Energy (MGE or Company) 2003-2004 Actual Cost Adjustment (ACA) filing and Staff's Memorandum was filed on December 29, 2005.

3. Staff audited and evaluated MGE's billed revenues and actual gas costs for the period of July 1, 2003, to June 30, 2004. 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 and cold weather requirements. Staff also reviewed MGE's hedging for the period to determine the reasonableness of the Company's hedging plans.

4. On January 30, 2006, MGE responded to Staff's Recommendations in the 2003/2004 ACA, GR-2005-0104. Staff proposes two adjustments to MGE's gas costs, and makes six recommendations to improve MGE's gas supply planning to serve its customers.

5. Staff adjustments of $2,233,540 for MKP/RPC pipeline and $2,044,795 excess reserve margin were disputed by MGE as well as documentation or analysis recommendations in the following areas: 1) upstream pipeline capacity; 2) storage planning/usage; 3) planning for non-normal weather; and 4) hedging.

6. MGE also provided comments regarding Staff's recommendation for documentation of short-term gas purchasing practices and Staff's comments regarding MGE's peak day estimates.

7. Staff agrees with MGE that the Commission has chosen to bifurcate the MKP/RPC issue from other subjects in several recent MGE ACA cases on the basis that there is still an appeal pending regarding the MKP/RPC issue in Case No. GR-96-450. The MKP/RPC issue in Case Nos. GR-98-167, GR-99-304, GR-2000-425, GR-2001-382, GR-2002-348, GR-2003-0330, and GR-2005-0104 is open (held in abeyance) pending the outcome of GR-96-450.

8. The issue of hedging and storage utilization in the 2000/2001 ACA, Case No. GR-2001- 382, also appears to be held in abeyance by the Commission, since this case also included the bifurcated issue of the MKP/RPC recommended adjustment. The Staff believes the MKP/RPC issue in GR-2005-0104 should remain open (held in abeyance), pending the outcome of GR-96-450.

9. The excess reserve margin issue in this case is tied to the excess reserve margin issue in the 2001/2002 and 2002/2003 ACAs, Case Nos. GR-2002-348 and GR-2003-0330,

which were consolidated and are scheduled for hearing in April 2006. Thus, Staff believes the excess reserve margin issue in GR-2005-0104 should remain open (held in abeyance), pending the outcome of Case Nos. GR-2003-0330 and GR-2002-348.

10. Staff's recommendation also addressed documentation of short-term gas purchasing practices. Staff recommended written documentation of the gas supply purchases of less than one month, including volumes and pricing between the company and the supplier. MGE commented that it was uncertain what the Staff is specifically recommending in this topic. As noted in the Staff recommendation, documentation of these short-term gas purchasing practices could be in the form of supply confirmations or instant messages (online messages between the Company and supplier negotiating the contract). Staff clarifies that the "Deal Sheets," currently prepared by MGE, do assist Staff in understanding the decisions made by MGE, but are not the actual documents supporting the short-term transactions. As noted in Staff's recommendation, the additional documentation recommended by Staff should not replace the "Deal Sheets," but should act as a supplement to the short-term gas purchasing documentation. Staff understands that MGE, on March 11, 2004, began utilizing online messages with the suppliers to document these short-term gas purchasing transactions.

11. Staff's recommendation also indicated that since MGE's reports and analyses pertaining to peak day estimates for 2003/2004 were the same as those provided by MGE in the 2002/2003 ACA, Case No. GR-2003-0330, Staff's comments are the same as in Case No. GR-2003-0330. The issue of MGE's peak day methodology for 2003/2004 also relates to Staff's recommended disallowance for excess reserve margin in this case and the prior two ACAs, Case Nos. GR-2003-0330 and GR-2002-348, which have been consolidated, and are currently scheduled for hearing in April 2006.

12. MGE makes comments throughout its response that Staff is seeking to implement standards though the ACA and should do this through a rulemaking process. Staff's comments are not intended to set a standard for all local distribution companies, but to specifically address that portion of MGE's gas supply plans that cause Staff concern for the current ACA period. Additionally, since these concerns do not end just because the ACA period ended, Staff may also comment on MGE's gas supply plans as they pertain to future ACA periods.

13. In the PGA/ACA process, the PGA is approved, subject to refund. The PGA/ACA process is not just a pass through of documented gas costs. The ACA review must consider whether these costs were prudent. To make a recommendation for approval or adjustment of gas costs for a particular ACA, Staff must consider the Company's decisions, and the documentation and analyses that the Company considered or should have considered when making its gas purchasing decisions. Each LDC makes plans and decisions based upon its specific conditions. This means that Staff must consider each Company's planning process when determining whether gas costs were prudently incurred. A Company does not have a prudent gas supply planning process if it has not documented that process. The failure by an LDC to document its gas supply plans can cause many problems. For example, an employee "knowing" the undocumented procedures or plans, is not sufficient for Staff review, especially in the event of planned or unplanned employee absences or employee turnover.

14. Additionally, a documented planning process does not imply that an LDC's planning process was prudent. However, a Company's failure to adequately plan will not always have negative impacts on customers but it is not a prudent business practice. Thus, Staff may have comments regarding a Company's plan that may have no associated cost adjustment in a particular ACA period.

15. Staff proposed two adjustments to MGE's gas costs, and made six recommendations to improve MGE's gas supply planning process to reasonably and prudently serve its customers.

WHEREFORE, the Staff recommends that the Commission accept Staff's Reply to MGE's Response to the Staff.

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Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, emailed, sent by facsimile or hand-delivered to all counsel of record this 23rd day of February 2006.

/s/ Lera L. Shemwell