BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Utility, Inc.'s Purchased Gas Adjustment Tariff Filing.	)))	Case No. GR-2006-0200

STAFF MEMORANDUM AND RECOMMENDATIONS

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and files its Memorandum and Recommendations in this case.

1. On November 4, 2005, Missouri Gas Utility, Inc. (MGU or Company) filed a proposed tariff sheet to make scheduled changes in its Purchased Gas Adjustment (PGA) and Actual Cost Adjustment (ACA) factors as the result of an estimated change in the cost of natural gas for the upcoming winter season. The winter season includes the months of November 2005, through March 2006.

2. The Staff filed its Memorandum and Recommendation on November 15, 2005. On November 18, 2005, the Commission issued its Order Approving Interim Rates.

3. On April 7, 2006, the Commission issued its Notice Closing Case stating, in pertinent part:

"This case was opened to consider Missouri Gas Utility, Inc.'s PGA tariffs and its 2004-2005 Actual Cost Adjustment. There has been no formal activity in this case while the Commission's Staff conducts its audit of the company's gas costs. Rather than leave this inactive file open while that audit proceeds, the Commission will close the case. … When any party needs to do so, they may file a pleading in the closed case and thereby automatically reopen the case."

4. The Staff's Procurement Analysis Department has completed its audit of MGU gas costs. Staff has reviewed MGU's January through August 2005 ACA filing. Staff's review

consisted of an audit and evaluation of the billed revenues and actual gas costs for the period of January 1 through August 31, 2005, included in the Company's computation of the ACA rate. Staff also evaluated the Company's compliance with its tariff regarding its activities with transportation customers. Included in its audit, the Staff conducted (1) a hedging review to determine the reasonableness of MGU's hedging practices for this ACA period; (2) a reliability analysis including a review of estimated peak day requirements and the capacity levels needed to meet these requirements; and (3) a review of MGU's gas purchasing practices to determine the prudence of the Company's purchasing decisions. Please see Staff's Memorandum, attached as Appendix A and incorporated by reference herein.

5. As a result of Staff's audit and review of MGU's ACA filing for the period of January through August 2005, the Staff submits its Recommendations as shown on pages 11 and 12 of Staff's Memorandum.

WHEREFORE, for the reasons stated in Staff's Memorandum, the Staff respectfully requests that the Commission issue an order requiring MGU to comply with Staff's recommendations.

Respectfully submitted,

/s/Robert S. Berlin
Robert S. Berlin
Associate General Counsel
Missouri Bar No. 51709

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 526-7779 (Telephone)
(573) 751-9285 (Fax)
email: bob.berlin@psc.mo.gov

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 30th day of August 2006.

/s/ Robert S. Berlin

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Utility, Inc.'s Purchased Gas Adjustment (PGA) Factors to be Audited in its 2004-2005 Actual Cost Adjustment.	)))	Case No. GR-2006-0200

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that as Manager of the Procurement Analysis Department of the Utility Services Division he has participated in the preparation of the foregoing report, consisting of 12 pages to be presented in the above case, that he has verified that the following Staff Memorandum was prepared by Staff of the Procurement Analysis Department that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his/her knowledge and belief,

Annell Bailey:	Billed Revenues and Actual Gas Costs, ACA Account Balance.
Lesa Jenkins:	Reliability Analysis and Gas Supply Planning
Kwang Choe:	Hedging

that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.

David M. Sommerer
David M. Sommerer

Subscribed and sworn to before me this 29th day of August 2006.

Toni M. Charlton

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

M. CHARLTON
NOTARY SEAL
STATE OF MISSOURI

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2006-0200, Missouri Gas Utility, Inc.

FROM: David M. Sommerer, Manager - Procurement Analysis Department
Annell Bailey, C.P.A., Regulatory Auditor - Procurement Analysis Department
Lesa A. Jenkins, P.E., Regulatory Engineer - Procurement Analysis Department
Kwang Choe, Ph.D., Regulatory Economist - Procurement Analysis Department

/s/ David M. Sommerer 8/28/06	/s/Robert S. Berlin 8/28/06
Project Coordinator	General Counsel's Office

SUBJECT: Staff's Recommendation for the January through August 2005 Actual Cost Adjustment Filing of Missouri Gas Utility, Inc.

DATE: August 28, 2006

The Procurement Analysis Department (Staff) has reviewed Missouri Gas Utility, Inc.'s (MGU or Company) January through August 2005 Actual Cost Adjustment (ACA) filing. This filing was made on November 4, 2005, for rates to become effective November 21, 2005, and was docketed as Case No. GR-2006-0200. There are only eight months in this ACA period because MGU was in the process of purchasing the gas utility, and January of 2005 was MGU's first full month of operation.

Missouri Gas Utility, Inc., a Colorado corporation, was incorporated October 13, 2004, originally as a wholly owned subsidiary of CNG Holdings, Inc. (Holdings), for the purpose of acquiring the assets and related rights to serve two gas utility service areas in Gallatin and Hamilton, Missouri. In December 2004, the common stock of MGU held by Holdings was distributed to the individual shareholders of Holdings as a property distribution. According to MGU, these ownership changes related to the Public Utility Companies Holding Act (PUCHA). From December 2004 through October 2005, Holdings and MGU were entities under common control through the same Board of Directors and owned by the same shareholders. Ownership changed again in November 2005. Since then, MGU is again a wholly owned subsidiary of Holdings. The original shares of MGU stock held by the common group were exchanged for additional shares of Holdings stock issued for that purpose, on November 1, 2005. Shareholders' percentage in each company remained the same as before the change.

Staff's review consisted of an audit and evaluation of the billed revenues and actual gas costs for the period of January 1 through August 31, 2005, included in the Company's computation of the ACA rate. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA balance. Staff also evaluated the Company's compliance with its tariff regarding its activities with transportation customers. Staff conducted a hedging review to determine the reasonableness of the Company's hedging practices for this ACA period. Staff conducted a reliability analysis including a review of estimated peak day requirements and the capacity levels needed to meet these requirements. Finally, Staff reviewed MGU's gas purchasing practices to determine the prudence of the Company's purchasing decisions.

ANR Pipeline Company serves MGU, which during the first eight months of 2005 provided natural gas to a maximum of 730 sales customers and two transportation customers in the north central portion of the state including communities of Coffey, Jameson, Gallatin and Hamilton in the counties of Harrison, Daviess and Caldwell.

COMPANY'S REVISIONS AFTER THE ACA FILING

On November 4, 2005, the Company reported that the ending ACA balance at August 31, 2005, was $5,795 over-recovered, per Enclosure 2 that accompanied MGU's first PGA/ACA filing.

On February 2, 2006, in response to the PSC Staff's Data Request Number 0001, the Company provided an electronic Storage and ACA Worksheet for each month, showing the August 31, 2005, ending ACA balance to be $43,350 over-recovered. In a telephone call with the PSC Staff on February 2, 2006, the Company Senior Vice President, Tim Johnston, said that the $5,765 balance was wrong in the filing. He explained that, after the filing, the Company developed the electronic model for the Storage and ACA Worksheets.

Again on August 4, 2006, in response to the PSC Staff's Data Request Number 0056.2, the Company provided a revised and simplified electronic Monthly ACA and Gas in Storage Balance Worksheet. This again changed the ending balance. The net change from the original $5,795 is an additional $29,560 over-recovered, for a final $35,355 over-recovery per the Company's revised calculations. The Staff agrees with these revised calculations.

AGENCY FEES

MGU had an agency agreement with KTM, Inc. for nomination and balancing services from March through August 2005. For the months of January and February 2005, MGU incurred agency costs under the prior owners' agency agreement with West Central Energy. As compensation for services provided, MGU paid a monthly agency fee.

The Purchased Gas Adjustment/Actual Cost Adjustment (PGA/ACA) sections of the Company's tariffs do not allow for recovery of fees related to agency agreements. The Staff views agency fees as more closely related to consulting services that are typically reviewed in a general rate case. As a result, Staff proposes an adjustment to reduce MGU's gas costs by $3,861.

TRANSPORTATION CUSTOMERS' STORAGE BALANCES

1. Premium Standard Farms

The Transportation Service section of MGU's tariff does not authorize transporters to inject gas into, or withdraw gas from, MGU's contracted storage facilities. However, from the previous owners of the system, MGU inherited an arrangement with Premium Standard Farms (PSF) that included these activities, with MGU accounting for a storage balance for PSF. MGU is already addressing the tariff compliance issue. Tim Johnston, Senior Vice President of CNG Holdings, Inc., proposed in a July 28, 2006, e-mail message to Staff: "While we have all been talking of PSF having gas in storage, I think the proper way to be looking at this is in terms of the tariff, which speaks of imbalances but not of allowing transporters to have gas in storage. I intend to re-do our spreadsheet in compliance with the tariff provisions for imbalances, based on the original invoices…." However, Staff has additional concerns about the operational aspects of the arrangement between MGU and PSF, as described in the following paragraphs.

Under the MGU tariff, PSF is a transport customer responsible for its own gas supply. MGU explained that PSF does not balance on the system, but excess or insufficient gas nominated was put in or taken out of storage. MGU then bills PSF for storage fuel. PSF would pay the higher of actual cost (from gas that MGU was acquiring for its gas supply customers) or MGU's storage weighted average cost of gas (WACOG). There are no limits on PSF injections or withdrawals. In fact, since there is no daily metering, PSF and MGU do not know what PSF has injected or withdrawn from storage until the end of month meter reads. MGU asserts that so far, the PSF injections and withdrawals have not caused a problem. Staff is concerned that if PSF has not nominated enough gas and daily prices are high, PSF could be better off just balancing on MGU – its currently nominated supply and/or withdrawal of gas from storage. For example if daily prices were $25 and MGU's cost was the higher of actual or WACOG and MGU had an actual cost of say $15 and a WACOG of $8, PSF would be better off not buying any additional gas in the daily market since the tariff language would result in a charge of the higher of actual cost or WACOG, which in this example would be $15, compared to a daily price of $25. Staff is concerned that this practice could result in MGU using lower cost storage gas for PSF and having to replace it with higher priced gas.

MGU commented to Staff that this issue is already being addressed in two manners. First, beginning in May 2006, telemetry is being installed on all PSF meters that will record daily data. Thus, daily imbalances will be known. Second, MGU is considering a change to the tariff that would put higher costs on PSF for balancing with MGU gas. (Source: Phone call with Tim Johnston, MGU, April 11, 2006).

Premium Standard Farms, a transport customer, withdrew 2,358 Dth for the non-winter months of April through August 2005 (Data Request Number 0056). PSF withdrawals accounted for 96.4% of the total withdrawals during April through August 2005. If PSF had purchased sufficient volumes of gas during the months of April through August, then the MGU storage would have been at 5,314 Dth, which represents 9.7% full (% of maximum storage quantity) instead of the actual level of 5.4% full at the end of August 2005.

The actions being taken and contemplated by MGU are expected to address Staff's concerns regarding use of storage gas for balancing by a transport customer. These recommended actions include:

a. Accounting for PSF's over- and under-nominations as transportation imbalances and cash outs, in compliance with MGU's tariff Sheets Nos. 28 – 30, instead of as storage transactions;
b. Installing telemetry on all PSF meters that will record daily data; and
c. Considering a change to the tariff that would put higher costs on PSF for balancing with MGU gas.

2. Gallatin Schools

The Company was sending monthly bills to Gallatin Schools for Transportation Service, but the service and charges did not comply with the Company's tariff. According to Sheet No. 24 of the tariff, "Natural Gas Transportation Service is available… to customers having requirements in excess of 35,000 Ccf's in any one month…." Gallatin Schools did not qualify because their maximum usage, in January 2005, was only 771 dekatherms, or approximately 7,710 Ccf's (hundred cubic feet). Also, per the tariff, the Transportation Customer Charge is $125 per meter, but MGU was charging only $50 per meter. MGU's tariff includes a Missouri School Pilot Program, which provides for aggregation of all schools' gas deliveries. However, in response to Data Request Number 0061, MGU stated, "None of the schools on the MGU system are part of the school aggregation program. Instead, MGU provides sales or transportation services to them under an institutional rate described in our tariff."

The Company's explanation was, "When we took over the Gallatin system, the city had allowed the school district to purchase gas and put it into storage and then withdraw that gas as needed for the schools. Over the first year all that gas finally got used up, and since March 2006 they are now buying gas from MGU on the CSI (Commercial Service Institutional) rate schedule. Prior to March 2006, we charged the Gallatin Schools a transportation rate under the transportation tariff TS that was equal to the commodity charge in the CSI Rate Schedule. Their bill each month showed their initial storage balance, their usage for the month, the storage withdrawal fuel incurred for the month for their withdrawal, and their final storage balance. In March, their bill showed that they used the last of their storage gas and began buying gas from MGU." (Source: June 13, 2006 e-mail message from MGU to Staff.)

The PSC Staff believes that no further action is needed because:

a. The arrangement was temporary, a holdover from before MGU took over the system.
b. Gallatin Schools had previously purchased the stored gas from outside suppliers, so they were simply withdrawing gas that already belonged to them.
c. MGU sold no gas to Gallatin Schools while the Schools were still transportation customers.
d. There was no effect on the ACA balance because transportation revenue and customer charges are not included in the tariff-authorized ACA computations.
e. Currently, since March 2006, sales to Gallatin Schools are in compliance with MGU's tariff.

HEDGING

Deliveries to MGU's city-gate were 12,891 MMBtu in January 2005, and 9,182 MMBtu in February 2005, and 6,815 MMBtu in March 2005. The January and February deliveries were from fixed price purchases transacted in late December 2004 for the January deliveries and in early February 2005 for the February deliveries, while the March deliveries came from storage.

MGU had no formally established hedging plan/policy for this ACA period. Instead, the Company developed a target to keep enough gas in storage to cover normal weather usage for the next 30 days, and also to keep the storage gas at a certain weighted average cost. Storage, under the terms of the ANR pipeline contract, was the Company's only hedging method. The Company's response to a Staff data request (Data Request Number 0090) was, "MGU, due to the use of the storage capacity in the STS contract on ANR Pipeline, does not hedge prices through the use of financial instruments. Instead, MGU purchases gas for delivery onto the ANR pipeline for injection into storage whenever that gas can be purchased for less than a target price established in the PGA for that month." However, the Company did not maintain documented hedging reports. The Company stated in its response to Data Request Number 0100, "These reports were all informal and verbal, and consisted only of the reports of the storage balance and daily gas prices on the ANR Pipeline system."

Staff is concerned about the Company's lack of a hedging policy, especially because the short-term nature of the Company's gas purchasing practice could subject the Company to a potential market risk. This concern includes, but is not limited to, the Company's lack of storage injections during the summer months leading up to September 2005 for the 2005-2006 winter (the period that follows this ACA review). Furthermore, documentation of the Company's hedging is critical for the PSC Staff to review the Company's gas purchasing practice. For example, it is virtually impossible for Staff to evaluate the reasonableness of the Company's hedging practice without reviewing the circumstances under which the Company triggers gas purchases. The Staff also believes it is important to evaluate the amount of each month's requirements that are protected under warmer than normal, normal, and colder than normal weather scenarios. If storage is not sufficient to maintain reasonable price protection, fixed priced gas supply contracts should be considered. The Company should not be overly reliant on a "price view" that may prove wrong and ultimately expose the customers to catastrophic price increases.

Therefore, Staff recommends, for the 2005-2006 ACA period and beyond, that the Company:

a. establish and maintain a current hedging policy based on month-specific normal weather requirements (with impacts of warmer and colder than normal scenarios),
b. document the reasoning for executing any hedging transactions or decisions, whether by means of storage, contracting or financial hedging instruments, and
c. make the hedging documents available to the Staff for its reviews of subsequent ACA periods. Staff also recommends that,
d. if no hedging plan existed for the 2005-2006 ACA period, the Company state that and provide the hedging plan for 2006-2007 no later than October 1, 2006.

RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

The Company is responsible for conducting reasonable long-range supply planning and the decisions resulting from that planning. One purpose of the ACA process is to examine the reliability of the LDC's gas supply, transportation and storage capabilities. For this analysis, Staff reviews the LDC's plans and decisions regarding estimated peak day requirements and the 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.

Staff has the following comments and concerns regarding the Company's reliability and gas supply planning information:

1. Selection of Weather Station

   MGU did not review HDD when establishing its peak day estimate for this ACA period. It states that in the future it will use weather data for Gallatin, but Staff is concerned that the weather data for the Gallatin weather site has missing data for historical information.

2. Model Development for Peak Day Estimate and Monthly Normal Estimates

   There is not adequate support for the MGU 2004/2005 ACA peak day estimate. MGU calculated the peak day estimate by dividing the January 2004 volume of natural gas by eighteen (Data Request Number 0043). The Company has provided no evaluation verifying that this is a reasonable method for estimating peak day requirements. MGU states that this estimation was done because of a lack of information available from the two municipal systems (Gallatin and Hamilton). However, because of the nature of MGU's capacity contract, the peak day estimate is not an issue in this ACA review, just the methodology for future ACA periods.

   MGU states it estimated the January through August requirements by using the actual throughput from the prior January to August 2004. MGU does not state any consideration for adjustments for weather. The weather in January through March 2004 was 99%, 108% and 83% of normal. Thus, its estimate for March 2004 is based on usage when the weather was 17% warmer than normal.

MGU states that the planned purchases are tied more to projected desired storage levels than to monthly nominations; monthly projected usages are used only to determine the desired storage levels. (Data Request Numbers 0080 and 0081) Thus, the Company does not look closely at customer load, but rather monitors the storage balance as an indirect reflection of customer usage. MGU states that forecasting is somewhat unnecessary on this system because of the functionality of the transportation and storage contract (Data Request Number 0087). Based on Staff's evaluation of peak day requirements, Staff does not dispute this comment. However, to evaluate the desired storage level, MGU must have a reasonable estimation of normal month requirements and warm and cold month requirements, not just rely on the prior year's actual month usage, regardless of the conditions at that time. These estimates must be documented at the time the planning and analysis takes place, including supporting workpapers.

3. Concerns with MGU's Gas Supply Plans and Decisions

a. MGU Natural Gas Supply Plans

In MGU's second status report submitted to the Commission on May 23, 2005, it states it is evaluating two options for long-term gas supply. Option one was to purchase gas on the cash market and place it into storage. It states that the advantage of this option is that the gas price would be known and locked in for the period of time that this quantity of gas is used. It states that a disadvantage of this approach was the ANR condition that storage must be down to 20% (of MSQ) by April 1. Another disadvantage that it noted was the fuel usage assessed on storage gas of approximately 2%.

The second option considered was to contract with a supplier to deliver the volumes required on a monthly basis. It states that this approach would result in lower fuel assessments but would also require MGU to pay for gas at higher prices through the winter months.

MGU states that based on its analysis of these two methods, it will likely use a combination of these approaches to secure gas supplies for the next winter PGA period starting in November 2005.

MGU's plan requires maintaining a minimum storage balance sufficient to cover the next 30 days of normal weather usage. (Data Request Numbers 0047, 0078 and 0083). However, MGU also states that its intent is to have storage essentially full prior to submitting the PGA in October. It states that when full, the contracted storage will serve approximately 90% of the annual load. (July 14, 2005, Letter from MGU) Staff estimates storage, when filled to 95%, can serve approximately 77% of MGU's normal winter load.

MGU states that it purchases 900 Dth/day of gas onto the ANR system when the price is below the target price (PGA) until storage reaches a target quantity; MGU states this allows it to manage both the price and the storage balance to meet peak day and monthly usage requirements (Data Request Number 0046). Thus, MGU's storage plan appears to be much more PGA price driven than a plan for winter month supply.

MGU further states that it expects to be able to finish filling storage in late August or early September 2005, once the national summer peak usage has passed (July 14, 2005Letter from MGU).

b. MGU Actual Natural Gas Supply

For the non-winter months of this ACA period in which the LDC was operated by MGU, the months of April through August 2005, net injections of natural gas occurred only in the month of April. MGU had net withdrawals for the summer months of May through August 2005. At the end of August storage was only filled to 5.4% of the maximum storage quantity. Storage inventory levels at the end of August are only enough to cover 4% of Staff's estimate of normal November through March requirements. MGU acknowledges that the original plan described in a report to the Commission in May 2005 was to add additional gas to storage during the summer, but states this was not done due to prices that were at historically high levels (Data Request Number 0079).

Staff observes that flowing gas can provide 78.5% of MGU customers' peak day requirements, and the remaining 21.5% or 246 MMBtu/day must be withdrawn from storage for a peak cold day. This requirement for natural gas from storage on a historic peak cold day is less than 1% of the maximum storage quantity (MSQ). Thus, flowing gas and minimal storage withdrawal could cover peak cold day requirements. However, MGU must have firm supply contracts in place to provide this gas for a cold day. Additionally, MGU and its customers could be paying high prices for gas supply (if storage is low or sufficient flowing gas supply has not been hedged, especially if the weather is very cold.

Staff found no negative cost impacts to customers in this ACA period that ended August 2005 from MGU's decisions concerning the low summer storage volumes. However, Staff is concerned that the MGU actions regarding summer storage levels could negatively impact costs to customers for the 2005/2006 ACA period.

DOCUMENTATION OF GAS PROCUREMENT PLANS, POLICIES AND PROCEDURES

The PSC Staff sent several data requests for MGU's plans, policies and procedures related to gas procurement. The Company responded that MGU does not have a set policy and procedure for natural gas supply planning and procurement, and there is no formal strategic plan.

The lack of a written plan means that knowledge of the Company's gas procurement plans and activities are known only by those who directly perform the tasks. Without documentation, necessary and protective procedures may erode over time. Staff is therefore concerned that MGU may be vulnerable to changes in many areas (i.e. staff turnover at decision-making level, interruption of supply, market volatility, contract revisions, regulatory changes.)

A planning document can:

1. assist the Company in ensuring that its purchasing practices have been thoroughly evaluated and are performed consistently,
2. be used as further support for the Company in awarding gas contracts,
3. be useful in the event of turnover in gas procurement positions, and
4. serve as further communication to auditors and regulatory bodies regarding the company's gas supply practices. The document should include, at a minimum:

- How does the Company intend to meet its customers' gas supply needs?
- What are the Company's major gas procurement goals?
- What strategies does the Company plan to use to meet the goals?
- What potential situations might prevent the Company from meeting its goals?
- What contingency plans has the Company made to deal with those situations?
- Who is responsible for gas procurement plans, policies and procedures?
- Who is authorized to make gas procurement contracts and transactions?
- What documentation is required for personnel in gas procurement positions? How should performance and time reporting be documented? What should position descriptions include (i.e. responsibilities, prior experience and educational requirements)?
- What vendors/sources does the Company expect to use to supply anticipated gas needs?
- What criteria are considered in selecting vendors/sources of gas? How is each vendor's financial solvency and reliability verified and documented?
- How should vendors' bids or verbal offers be documented? (Might a log provide evidence of verbal agreements in the absence of formal requests for proposals?)
- What criteria are used for determining acceptable rates?
- What is the procedure for entering into gas supply contracts?
- What documentation should be maintained which supports the Company's gas purchasing decisions and contracts?
- What reports and procedures are used to monitor quantities of gas purchased and in storage, and to verify that the available quantities are sufficient to meet estimated requirements?

- What is the procedure for making nominations and gas purchasing transactions? How do these procedures vary for first-of-the month nominations and daily changes to the nominations?
- What is the procedure for verifying and approving gas supply invoices before paying them?

Staff recommends that the Commission issue an order requiring MGU to document the Company's gas procurement plans, strategies, policies, procedures and practices into a document or manual.

SUMMARY

The Staff has addressed the following concerns regarding Case No. GR-2006-0200 for Missouri Gas Utility, Inc., and recommends the following:

1. Staff audited and evaluated the billed revenues and actual gas costs for the period of January 1, 2005, to August 31, 2005, included in the Company's computation of the ACA rate and ACA account balance. Staff recommends that MGU adjust its August 31, 2005, ACA account balance to agree with the Company's final revised calculation of $35,355 over-recovered, adjusted by a $3,861 reduction in gas costs to eliminate agency fees.

2. Staff evaluated the Company's compliance with its tariff, in its activities with its two transportation customers, and recommends that:

    - For Premium Standard Farms, MGU is already addressing Staff's concerns by: (a) accounting for PSF's over- and under-nominations as transportation imbalances and cash outs, in compliance with MGU's tariff Sheet Nos. 28 – 30, instead of as storage transactions; (b) installing telemetry on all PSF meters that will record daily data; and (c) considering a change to the tariff that would put higher costs on PSF for balancing with MGU gas.
    - For Gallatin Schools, no further action is needed beyond the changes that MGU has made already by closing out the Schools' storage balance, and by converting the Schools from a transportation customer to a PGA/ACA gas sales customer.

3. Staff reviewed and evaluated the Company's hedging activities, and proposes that, for the 2005-2006 ACA period and beyond, the Company:
    a. establish and maintain a current hedging policy based on month-specific normal weather requirements (with scenario analysis for warmer and colder than normal monthly weather),
    b. document the reasoning for executing any hedging transactions or decisions, whether by means of storage, contracting or financial hedging instruments, and
    c. make the hedging documents available to the Staff for its reviews of subsequent ACA periods. Staff also recommends that,

d. if no hedging plan existed for the 2005-2006 ACA period, the Company state that and provide the hedging plan for 2006-2007 no later than October 1, 2006.

4. Staff is not proposing a dollar adjustment related to reliability and gas supply planning. However, Staff has expressed concerns regarding MGU's gas supply planning. MGU should address the Staff's concerns in the reliability analysis and gas supply planning section of this recommendation.

5. Staff reviewed MGU's gas purchasing practices, and proposes that MGU should document its gas procurement plans, policies and procedures.

RECOMMENDATIONS

The Staff recommends that the Commission issue an order requiring MGU to:

1. Adjust the ACA account balance in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balance in the "Staff Recommended" column of the following table:

Description	Company's ACA Balance Per Filing	Company's Revisions Submitted 8/4/06	Company's ACA Balance As Revised	Staff Adjustments	Staff Recommended ACA Balance
Beginning Balance 1/1/05	$0		$0		$0
Cost of Gas	$248,218	$10,097	$258,315	$(3,861)	$254,454
Recoveries	$(254,013)	$(39,657)	$(293,670)		$(293,670)
Ending Balance 8/31/05	$(5,795)	$(29,560)	$(35,355)	$(3,861)	$(39,216)

2. Respond to the concerns expressed by Staff in the Transportation Customers' Storage Balances section within 30 days with a detailed plan of action to address Staff's concerns.

3 Establish and maintain a current hedging policy based on month-specific normal weather requirements (including scenario analysis for warmer and colder monthly weather), document the reasoning for executing any hedging transactions or decisions, make the hedging documents available to the Staff for its reviews of subsequent ACA periods and, if no hedging plan existed for the 2005-2006 ACA period, state that and provide the hedging plan for 2006-2007 no later than October 1, 2006.

4. Respond to the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section within 30 days with a detailed plan of action to address Staff's concerns.

5. Document MGU's gas procurement plans, policies and procedures and submit the documentation for Staff review by November 15, 2006.

6. File a written response to the above recommendations within 30 days.