



that the gas price is then known and locked in for the period of time that this quantity of gas will cover. The disadvantage of this approach at this time of the year is that the STS contract requires that gas in storage be drawn down to a level of 20% by April 1 each year, which limits its usefulness for the remainder of this heating season. This is an option that MGU will almost certainly use for a portion of the natural gas supply for the 2005/2006 heating season;

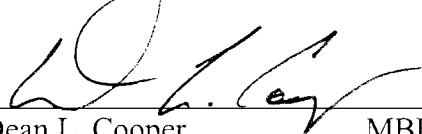
b) MGU could purchase natural gas from a supplier based on the NYMEX price, less a basis discount. This is the method that was used to purchase the gas for January, 2005. The advantage of this approach is that the quantity of gas is locked in for the term of the contract, although the price will fluctuate based on the NYMEX index. The disadvantage of this type of contract is that to ensure long term price stability, the price will generally be higher than the cash price. To minimize this “time premium”, MGU will generally lock in gas pricing just prior to the expiration of the next month gas futures. For the month of February, 2005, natural gas futures will expire on January 27. One variation of this approach is to lock in the volumes and basis discount with a supplier but not lock in the NYMEX futures price until closer to the futures expiration date. MGU has requested basis discount bids from several suppliers for the natural gas supply for February, March and April, 2005, and will be locking in these volumes by January 27.

4. MGU, in the Stipulation and Agreement in this case, agreed to supply the Staff of the Commission and the Office of the Public Counsel with the storage balance at the beginning of each month, as well as plans for confirming that supplies will be in place for each of the winter months. Concurrent with the filing of this Status Report, MGU will provide to the Staff and Office of the Public Counsel a storage report and supporting documents for the statements made herein.

WHEREFORE, MGU respectfully requests that the Commission consider this Gas

Purchasing Status Report to have satisfied MGU's obligations under the Order Directing Status Report.

Respectfully submitted,



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ATTORNEYS FOR MISSOURI GAS UTILITY, INC.

### **CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered, or sent by electronic mail, on January 14<sup>th</sup>, 2004, to the following:

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