

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

|   |   |                       |
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| In the Matter of Missouri Gas Energy's  | ) |                       |
| Purchased Gas Adjustment Filing for the | ) | File No. GR-2010-0372 |
| 2009-2010 Actual Cost Adjustment Period | ) |                       |

**MISSOURI GAS ENERGY'S RESPONSE TO STAFF RECOMMENDATION**

COMES NOW Southern Union 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 the following to the Missouri Public Service Commission ("Commission"):

1. On December 21, 2011, the Staff filed its Recommendation with the Commission in which it states that it has reviewed MGE's 2009-2010 Actual Cost Adjustment (ACA) filing covering the period of July 1, 2009 to June 30, 2010. By order dated January 3, 2012, the Commission directed MGE to respond to the Staff's Recommendation no later than February 2, 2012. This is MGE's filing in compliance with that order.

2. Staff's Recommendation proposes a reduction to the Company's June 30, 2010 ACA account balance by \$66,399.64. Staff also asks MGE to establish certain ACA and Refund account balances in Item 2 on p. 7 of 8 of its Recommendation to reflect the \$66,399.94 adjustment. MGE agrees with this adjustment and has already booked this adjustment to the ACA and Refund account. MGE agrees with the recommended ACA and Refund account balances. MGE does not believe that there are any issues that require either a procedural schedule or resolution by the Commission related to this agreed-upon adjustment.

3. Staff asks the Company to monitor its ACA balance throughout the year and make adjustments to its PGA rate as appropriate. Consistent with its usual practice, MGE agrees to monitor its ACA balance throughout the year, make adjustments to its PGA rate as appropriate, and to prevent the ACA balance from reaching an unreasonable level.

4. \*\*

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]\*\*

5. Staff asks the Company to respond to its comments in the Reliability Analysis and Gas Supply and Planning Improvement section of its Recommendation. Staff's observations in these areas relate to differences of approach on MGE's planning and study methodology, but Staff does not allege imprudence. Since the noted issues do not appear to give rise to a procedural schedule, MGE suggests that this would be a good opportunity for MGE's new (as of May 2011) Director of Gas Supply to discuss Staff's observations with Staff. MGE commits to contact Staff within the next thirty days to set up a meeting to discuss Staff's observations.

6. Regarding the recommendations under Section VII, "Hedging," Staff encourages the Company to continually evaluate its hedging strategy in response to changing market dynamics, be aware of fundamental shifts in market dynamics, to make informed hedging decisions, document its hedging decisions, and analyze its hedging decisions. Consistent with its past practice, MGE will continue its efforts to have a diversified and documented hedging strategy and to make informed hedging decisions. Also consistent with past practice, MGE will notify the

Staff of changes in hedging strategies.<sup>1</sup>

7. As noted above, MGE commits to coordinate a meeting with Staff within the next 30 days to discuss their observations and recommendations, but does not believe that there are issues that require Commission resolution.

Respectfully Submitted,

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/s/

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<sup>1</sup> MGE provided a presentation to Staff in the fall of 2011 in which it described the addition of a new call option strategy to its hedging program as well as a general overview of its hedging program. MGE will continue to update Staff on changes to its Hedging Strategy and looks forward to continued constructive engagement with Staff on these and other issues.

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 2nd day of February, 2012.

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/s/  
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Todd J. Jacobs