

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

In the Matter of Missouri Gas Energy)
Actual Cost Adjustment)

Case No. GR-2009-0268

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 13, 2010, the Staff filed its Recommendation with the Commission in which it states that it has reviewed MGE's 2008-2009 Actual Cost Adjustment (ACA) filing covering the period of July 1, 2008 to June 30, 2009. By order dated December 27, 2010, the Commission directed MGE to respond to the Staff's Recommendation no later than January 12, 2011. This is MGE's filing in compliance with that order.

2. Staff's Recommendation does not recommend any monetary disallowances, nor does it allege any imprudence. MGE does not believe that there are any issues that require either a procedural schedule or resolution by the Commission.

3. Staff notes that the ACA balance in this case was reasonable. MGE will continue to monitor its ACA balance throughout the year and make adjustments to its PGA rate as appropriate.

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.

A. Demand/Capacity Analysis for MGE's Three Service Areas. In its discussion of Capacity Planning, Staff states that it has concerns with MGE's methodology for estimating peak cold day requirements and asks the Company to continue to evaluate its methodology, as noted in GR-2008-0367. As noted in GR-2008-0367, the Company has noted Staff's comments for its peak day planning, will continue to evaluate the methodology it uses for planning, and will revise its methodology as necessary to adequately prepare for peak day requirements. As Staff notes, MGE provided Staff with a copy of its Demand/Capacity Analysis dated November 30, 2009 ("November 2009 Analysis") that it used for the 2009/2010 ACA period. MGE expects continuing discussion with the Staff on the methodology used in that November 2009 Analysis in subsequent ACA cases.

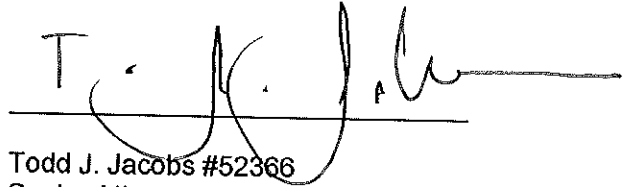
B. Other MGE Capacity Studies. As noted in GR-2008-0367 with regard to peak day estimates for North Kansas City, the Company will continue to consider the use of Staff's recommendations when completing future studies and plans for pipeline capacity serving the areas generally described as North Kansas City. With regard to the Panhandle Eastern Pipeline (PEPL) Capacity and Warrensburg Capacity Studies, Staff's comments are addressed prospectively for MGE's 2009/2010 ACA case and will be addressed in those cases. MGE notes that the PEPL contracts were renegotiated and signed in 2010 based in part on those capacity studies.

C. Monthly Supply Planning. As in GR-2008-0367, Staff recommends that MGE (1) review its early winter warm weather supply plans and the possible cost to customers for excess gas for warmer days in those months and (2) that in future studies that MGE include monthly estimates beyond a one-year period for the warm, normal, and cold weather supply requirement estimates. As noted in GR-2008-0367 and in response, MGE notes that a warm day in an early winter month may require MGE to fully utilize the injection capacity of storage and cause the Company to sell flowing supplies of gas back into the market on a warm day. A review of MGE's supply and storage planning and historical operation of storage assets over the last eight years, however, has shown that such a situation has not resulted in MGE selling gas back to the market. MGE will, however, continue to assess its warm weather supply plans and will continue to assess the possible cost to customers for excess gas for warmer days in those months.

6. Regarding the material under Section V, "Hedging," Staff notes correctly that natural gas market prices were highly volatile during the 2008-2009 period, with market prices rising to above \$13/MMBtu in July 2008 and later plunged below \$4/MMBtu in March 2009. Staff also noted correctly that the Company used a diversified portfolio approach to hedge against market risks for the winter heating season from November 2008 through March 2009. These significant swings in market prices presented significant challenges to the entire industry. MGE continually evaluates the effectiveness of its hedging program throughout the year, with the intent to be able to react to shifts in market dynamics. With regard to Staff's documentation recommendations, MGE will continue to document its hedging decisions and provide that information to the Staff during each ACA review. MGE is in the process of evaluating its hedging plan documentation process.

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

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'T. J. Jacobs', is written over a horizontal line.

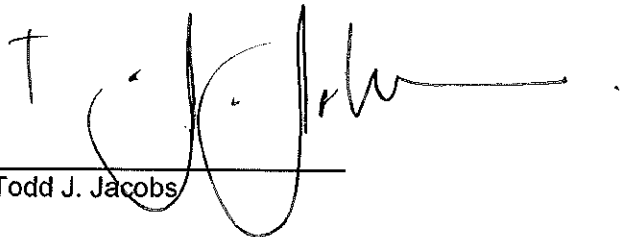
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CERTIFICATE OF SERVICE

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 12th day of January, 2011.

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Todd J. Jacobs