

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

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

RESPONSE TO STAFF MEMORANDUM AND RECOMMENDATIONS

Comes now Missouri Gas Utility, Inc. (MGU or Company), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Staff Memorandum and Recommendations:

1. On August 30, 2006, the Commission Staff (Staff) filed its Memorandum and Recommendations in this matter. This document set out the results of Staff's audit of the billed revenues and actual gas costs for the period January 2005 through August 2005, included in MGU's 2004-2005 Actual Cost Adjustment (ACA) filing. Staff also stated that it reviewed Aquila's gas purchasing practices for the same period. Staff's review concerns less than a twelve month period because MGU purchased the subject gas properties on or about January 1, 2005.

2. On August 31, 2006, the Commission issued its Order Directing Response wherein it ordered MGU to respond to the Staff Memorandum and Recommendations by September 29, 2006. MGU will respond to the various issues identified by Staff in the following paragraphs. MGU's response will reference the Recommendation by use of the same section titles utilized by the Staff

Company's Revisions After the ACA Filing

3. The Company agrees with the \$35,355 over-recovery identified by Staff related to the subject period.

Agency Fees

4. The Company believes that gas supply management costs such as the \$3,861 paid to West Central Energy and KTM, Inc. for services related to natural gas contract management and nominations and balancing management on ANR Pipeline are properly part of the cost of gas and should be included in the ACA. However, the Company will not dispute the adjustment made by the Staff for purposes of this case and will instead address recovery of these amounts in its first general rate case.

Transportation Customer's Storage Balances

5. Staff outlines various concerns related to the storage balances for Premium Standard Farms and the Gallatin Schools. Staff makes certain recommendations in regard to the Premium Standard Farms matter and states its belief that no further action is needed in regard to the Gallatin Schools. MGU agrees with the Staff's recommendations and will take steps to implement those recommendations. In this regard, MGU states that the subject telemetry system should be operational by January 1, 2007. Further, MGU will consider proposing a change to its tariffs in the Company's first general rate case.

Hedging

6. Staff makes certain recommendations concerning MGU's hedging practices. MGU will comply with the Staff's recommendations. To this end, MGU states that no written hedging plan existed for the 2005/2006 ACA period. Accordingly, MGU will provide to Staff its hedging plan for 2006-2007 by October 9, 2006. This will largely be an item for information only, since MGU has already executed the great majority of the plan.

Reliability

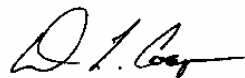
7. The Staff Memorandum and Recommendations asked that MGU respond to “the concerns expressed by Staff in the Reliability Analysis and Gas Supply Planning section within 30 days with a detailed plan of action to address Staff’s concerns.” MGU believes that it will be in a position to so respond by October 30, 2006.

Documentation of Gas Procurement Plans, Policies and Procedures

8. 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 and submit the documentation for Staff review by November 15, 2006. MGU agrees to submit a draft of such a document to Staff by the identified date.

WHEREFORE, Missouri Gas Utility, Inc. respectfully requests that the Commission consider this response to the Staff Memorandum and Recommendations and issue such orders as it believes to be reasonable and just.

Respectfully submitted,



Dean L. Cooper MBE#36592
BRYDON, SWEARENGEN & ENGLAND P.C.
312 E. Capitol Avenue
P. O. Box 456
Jefferson City, MO 65102
(573) 635-7166
(573) 635-3847 facsimile
dcooper@brydonlaw.com

ATTORNEYS FOR
MISSOURI GAS UTILITY, INC.

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on September 29th, 2006, to the following:

Robert S. Berlin
Office of the General Counsel
bob.berlin@psc.mo.gov

Marc Poston
Office of the Public Counsel
marc.poston@ded.mo.gov

