

4. In an effort to distinguish between the recommendations, MGE's response is divided into two sections: Section II addresses Staff's December 15, 2008 Recommendations and Section III addresses Staff's June 3, 2009 Recommendation.

II. Staff's December 15, 2008 Recommendation

1. The Staff's December 15, 2008 Memorandum, which is attached to the Staff Recommendation, does not contain any recommendations for disallowances or monetary adjustments, nor does it allege any imprudence on the part of MGE.

2. MGE's review of the December 15, 2008 Recommendation leads it to the conclusion that there are no issues that require a procedural schedule or resolution by the Commission. Some concerns expressed in the Recommendation, however, will be more fully addressed below or in future meetings with the Staff for clarification or resolution.

3. Regarding the Highly Confidential material under heading II, ** _____
_____ ** MGE's response is that Staff's description of the actions that MGE has taken on this issue accurately reflects the current status of this matter.

4. The recommendations in Section III, Off-System Sales Transactions, are discussed more fully its response to Staff's Recommendations in Paragraph 7.B. *infra*.

5. Regarding the material under Section IV, Reliability Analysis and Gas Supply Planning Improvement Recommendations, MGE has selected comments in response, mainly for purposes of clarification:

A. In its discussion of Capacity Planning, Staff states that it has concerns with MGE's methodology for estimating peak day requirements and asks MGE to continue to evaluate its methodology. MGE believes that there is a misunderstanding of the methodology and underlying calculations in its peak day demand analysis. As a general matter, however, MGE continues to evaluate the methodology it uses for capacity planning and will revise these as necessary to plan for peak day requirements.

B. Related to Staff's comments on Capacity Deliverable to the Kansas City area, Staff expresses concerns with a potential shortfall in Kansas City beginning with the 2009/2010 winter. Staff references both DR 49 of DR 2007-0256 and the January 2006 Demand/Capacity Analysis and states that "MGE will be short market area capacity for Kansas City beginning with the 2009/2010 winter. " As noted in the MGE January 2006 Demand/Capacity Analysis provided to Staff, MGE's highest priority in the capacity planning process is to obtain sufficient pipeline capacity to reliably serve customers. The shortfall pointed out by MGE in Table F-4 of its January 2006 Demand/Capacity Analysis was due to the expiration of contracts with both Kinder Morgan (Kinder Morgan FT-00569) and Kansas Pipeline, Co. (Kansas Pipeline Co. Riverside I) scheduled to occur prior to the winter of 2009-2010. That shortfall has since been eliminated.

Staff notes that all of the capacity shown for Kansas City in the 2006/2007 Demand/Capacity Analysis cannot be delivered to Kansas City on a peak day. This refers to the analysis MGE provided Staff in DR 49, which details

a day in which Southern Star Central Gas Pipeline calls for sufficient market area supply to support storage withdrawals in the ratio of 1 dth flowing in the market area for each 2 dth of storage withdrawal. In reviewing DR 49, MGE does not agree that DR 49 reflects a shortfall for delivery into the Kansas City Area for the winter of 2009/2010. The analysis in DR 49 shows Kansas City having a margin of 2657 dth and the combined areas of Kansas City and St Joseph having a margin of 19,332 dth.

In a separate issue noted in this section, Staff asks for MGE's rationale for its reliance on capacity other than in a firm contract. MGE relies on firm pipeline transportation rights downstream of multiple receipt points into pipelines serving MGE's service areas. MGE's relies on the trading liquidity above these receipt points to secure adequate supply of natural gas to serve its customers.

C. Staff's discussion regarding monthly supply planning addresses planning monthly volumes for normal, warm and cold periods and references peak day planning in conjunction with capacity planning. The January 2006 Demand/Capacity Analysis addresses Normal Year and Design Winter Demand Forecasts for each calendar month. MGE prepares Monthly Supply Plans based on normal weather as shown in the Demand/Capacity Analysis. In addition, MGE considers how supply will be managed during colder and warmer periods as well as peak periods. The Monthly Supply Plan addresses these matters in kind with the flexibility of storage assets and purchasing options.

MGE has included planning parameters which are shown on the Monthly Supply Planning as Average Ultimate Warm and Average Ultimate Cold. Staff takes issue with the calculation methodology for these planning factors and the fact that this analysis was completed outside of the Demand/Capacity Analysis report, Staff states “it would be more productive to develop factors for the monthly estimates in the Demand/Capacity Analysis and use those factors rather than later manipulating the factors to obtain yet another factor for its monthly supply planning.”

MGE prefers to retain the flexibility of completing individual and specific analysis for use in planning without the requirement to include these individual analyses in the Demand /Capacity Analysis. These analyses may include, exclude or build on information shown in the Demand/ Capacity report.

6. Regarding the material under Section V, “Hedging,” Staff’s conclusion is that MGE’s hedging for the ACA period was reasonable and adequate. Staff goes on to make several recommendations to MGE’s hedging program that they indicate are a concern. MGE is willing to meet with Staff to discuss this and related matters, but does not believe that this is something that requires resolution by the Commission.

7. Regarding the material under the heading “VI. Recommendations,” MGE has the following responses:

A. MGE agrees with the Staff’s first recommendation that there should be no adjustments to the ACA and Refund account balances to reflect the balances as of June 30, 2007.

B. Recommendation 2 calls for MGE to “document the impacts of cuts to nominations at the time the events occur and reconcile imbalances caused by any cuts within the same ACA period that the imbalance occurs.” MGE has assigned an employee to document and analyze the impact of cuts related to its off-system sales activities. MGE will document such impacts during the ACA period or as soon as practicable thereafter if the cuts occur near the end of the ACA period.

C. Staff recommends that MGE review its concerns in the Reliability Analysis and Gas Supply and Planning section in Recommendation 3. Staff asks for a response within 30 days. MGE has reviewed Staff’s concerns and recommends that MGE and Staff members meet at a mutually convenient time to discuss these issues in greater detail. MGE disputes the necessity to provide a response within 30 days, as these matters can be discussed in subsequent meetings.

D. Recommendation 4 essentially asks MGE to conduct an on-going analysis of its hedging program and to continue to update Staff on its hedging program. MGE notes that it has worked with Staff to make them aware of its hedging program and will continue to do so. MGE schedules hedging presentations with Staff twice per year. The first meeting updates Staff on the status of the hedging plan in the winter and the second meeting is in the early summer to detail the upcoming winter plan. MGE proposes to continue to meet with Staff to discuss their concerns, and sees no reason for any action by the Commission.

III. Staff's June 3, 2009 Recommendation

1. The Staff's Memorandum, which is attached to the Staff's June 3, 2009 Recommendation, contains a recommendation that MGE should credit its ACA balance by ** _____ ** for a "billing error." Staff also recommends that the Company should add interest in the amount of ** _____ ** for each month past May 2009 until the adjustment is made and the ACA balance is corrected.

2. MGE's review of the Recommendation leads it to the conclusion that there are issues that require a procedural schedule and resolution by the Commission.

3. As background, ** _____

_____.

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4. ** _____

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5. **

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6. MGE notified the Staff of this issue in late December 2008 in an effort to ensure that Staff was aware of the issue and to obtain input from Staff prior to the time that MGE rendered a bill for past amounts to **. **

7. In response to Staff's first recommendation, **

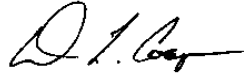
**. ** As a result,

MGE believes that the initiation of a procedural schedule for this case is appropriate. However, MGE will also continue to work with the Staff to resolve the matter.

8. MGE has made revisions to certain standards and procedures pursuant to the Staff's second recommendation. These standards have been provided to Staff for review and MGE does not anticipate the need for the Commission to review this recommendation at this point.

9. As for the Staff's third recommendation, MGE will identify all events or transactions which to the best of the Company's knowledge would affect its ACA filings. MGE will provide such information as soon as practicable.

Respectfully Submitted,



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Certificate of Service

I hereby certify that two, true and correct copies of the above and foregoing document was sent by electronic mail on this 6th day of July, 2009, to:

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