

**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-2009-0306
To be Audited in Its 2008-2009 Actual Cost)	
Adjustment.)	

RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM

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 Recommendation and Memorandum:

1. On March 17, 2010, the Commission Staff (Staff) filed its Recommendation and Memorandum in this matter. This document set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 1, 2008 through August 31, 2009, included in MGU's 2008-2009 Actual Cost Adjustment (ACA) filing.

2. On March 22, 2010, the Commission issued its Order Establishing Response Deadline wherein it ordered MGU to respond to the Staff Recommendation and Memorandum no later than April 16, 2010. MGU will respond to the various issues identified by Staff in the following paragraphs. MGU's response will reference the Memorandum by use of the same section titles utilized by the Staff.

3. There are no Staff recommended financial adjustments for this ACA period.

Hedging

4. The Staff Recommendation requests that in regard to the Hedging section MGU respond to Staff's comments 1 -3 and recommendations (a) – (f). In doing so, MGU would note that the Company has already supplied the 2009-2010 hedging plan to the Commission Staff.¹

¹ The plan was provided on May 22, 2009, and a presentation on the plan made on May 27, 2009.

5. MGU offers the following in response to Staff's comments 1 – 3 related to hedging:

1. As provided in MGU's Hedging Plan 2008-09, an analysis was developed to determine a projected load for a warmer than normal, a normal, and a colder than normal heating season. For the winter period in this ACA Review, MGU used its storage gas, combined with fixed price contracts and, as needed, spot purchases to meet its gas load requirements. Looking forward, effective July 1, 2009, MGU contracted for an additional 600 dth/day of firm capacity on ANR Pipeline. MGU has entered into fixed price gas supply contracts for its FTS-1 (Firm Contract) and STS-1 (Storage Contract) for the November – February time frames.

2. MGU is sensitive to gas prices and the corresponding impact on its customers. MGU fills its storage through spot purchases during the months of April – October, but may be limited in its ability to inject higher volumes due to contractual limitations. Because MGU's goal is to maximize its storage inventory by November 1 of each year, MGU maximizes its storage injections whenever it reasonably determines a buying opportunity exists.

3. In April 2008, MGU locked-in a NYMEX Basis Differential for December 2008 – February 2009. Contrary to Staff's comment that MGU may wait indefinitely to fix a forward price, a default price of the NYMEX Settlement is in place in the event MGU has not previously triggered the price for a particular delivery month. One of MGU's goals is to protect its customers from extremely

high prices; thus, it utilizes a combination of its upstream delivery contracts and hedging strategies to provide price stability.

6. MGU offers the following in response to Staff's recommendations (a) – (f) related to hedging:

- (a) MGU develops an annual Hedging Plan and has put in place the necessary contracts to meet projected growth;
- (b) MGU has fixed forward prices for the heating season and continues to maximize its storage inventories by November 1 of each year through spot purchases;
- (c) MGU has in place a mixture of delivery alternatives and hedging strategies to meets its heating season requirements;
- (d) MGU has inquired about additional storage capacity on ANR Pipeline but has discovered that none is available. MGU is proactive in its hedging practices via storage injections and fixed price contracts; and,
- (e and f) MGU has outlined a specific hedging strategy in its Gas Supply Plan.

This plan was previously provided to Staff.

Reliability Analysis and Gas Supply Planning

7. Staff further requested that MGU respond to those recommendation beneath the Reliability Analysis and Gas Supply Planning Section and respond with any additional actions being taken to address Staff's recommendatins related to Peak Day Model Development and Estimates of Monthly Requirements. MGU responds as follows:

A. Peak Day Model Development

1. Actions Incorporated in the ACA Period Ending August 31, 2010

a. MGU's Gallatin System has replaced the Conception Missouri Weather Station with the St. Joseph Rosecrans Airport Weather Station. MGU's Southern System uses the Lakeside Weather Station.

b. MGU's internal data quality has improved so as to better match (1) daily retail sales demand, (2) daily customer counts related to that demand and, (3) Heating Degree Days. Higher R-squares have emerged from this data enhancement.

c. MGU's current practice is to consider only the three coldest months every year. The use of a five month analytical period tends to understate natural gas demand on the coldest days.

2. Actions to be Incorporated in Future ACA Periods

a. MGU's analysis can now adequately measure daily transportation customer usage. This measurement improvement enhances the quality of daily natural gas volumes available for retail sales customers. Future natural gas peak day demand planning will reflect this higher quality data.

b. The maximum daily heating degree days for the appropriate weather station during the previous thirty years will be included in future analyses.

c. Measures of variability (standard error, confidence intervals) will be included in future peak day analyses.

d. MGU will include estimates for three to five years in addition to its current practice of planning for the next heating season.

B. **Estimates of Monthly Requirements** - MGU's monthly retail natural gas demand currently embraces the regression technique recommended by Staff.

Customer Billings

8. As indicated in the Staff Recommendation, MGU will address Commission Rule 4 CSR 240-13.020(9)(I) in future billings.

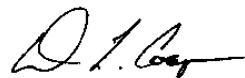
9. MGU agrees that any new transportation contract with Premium Standard Farms must be consistent with MGU's existing tariff provisions, unless a waiver/variance is applied for and granted by the Commission.

ACA Balance

10. MGU will continue to monitor its ACA balance throughout the year and make adjustments to its PGA rate.

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 April 16, 2010, to the following:

Lera L. Shemwell
Office of the General Counsel
lera.shemwell@psc.mo.gov

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

