

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

In the Matter of Missouri Gas Energy's)	
Purchased Gas Adjustment Filing for the)	File No. GR-2011-0290
2010-2011 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 3, 2012, the Staff filed its Recommendation with the Commission in which it states that it has reviewed MGE's 2010-2011 Actual Cost Adjustment (ACA) filing covering the period of July 1, 2010 to June 30, 2011. By order dated December 10, 2012, the Commission directed MGE to respond to the Staff's Recommendation no later than January 17, 2013. This is MGE's filing in compliance with that order.

2. Staff's Recommendation proposes a reduction to the Company's June 30, 2011 ACA account balance by \$239,162.11. Staff also asks MGE to establish certain ACA and Refund account balances in Item 2 on p. 11 of its Recommendation to reflect the \$239,162.11 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 respond to its comments, concerns and recommendations in the Reliability Analysis and Gas Supply Planning Improvement section related to capacity planning, supply planning and school aggregation capacity release. The issues raised by Staff relate to ongoing and productive dialogue between Staff and MGE on planning and forecasting methodology and do not give rise to the need for a procedural schedule.

A. Capacity Planning

a. Demand/Capacity Analysis for MGE's Three Service Areas

Staff's first concern is that MGE used the same November 2009 Demand/Capacity Analysis for this ACA period as the previous ACA period. In response, MGE states that it prepares a Demand/Capacity Analysis as required due to contract expiration or every two to three years. MGE prepared a new Demand/Capacity Analysis in December 2011 in connection with the Tallgrass (formerly Kinder Morgan) contract renewals and is in the process of completing another due to Southern Star contracts being up for renewal.

Staff's concerns with the MGE methodology in calculating peak day requirements in the November 2009 Demand/Capacity Analysis include MGE's use of July/August usage to compute baseload usage in the winter months, Staff's concern that

too few data points were used in MGE's regression analysis computation, and MGE'S process for estimating growth.

Regarding the Staff's baseload usage concern, MGE responds by stating that the current method it utilizes presumes that the July/August usage represents a load that would be in effect throughout the year; pilots, hot water, dryers, etc.; equipment that is not related to heat load in any way. MGE does include Trend in the analysis of Base load volumes in order to identify year over year changes. In addition, as demand and peaks are analyzed for winter months the y-intercept is included as a variable until analysis determines that it is not significant.

Regarding the Staff's concern with the number of data points, MGE responds by stating that it currently utilizes the three highest volume days selected from the ten coldest days each winter season for 10 years as the data set for Peak Day analysis. In addition, Trend is included as an independent variable during the analysis (if significant). MGE believes that the Trend variable will account for changing customer habits, but lowering the time frame to something less than 10 years, or adding additional points for more recent years may place too much emphasis on recent weather trends.

Regarding the Staff's concern regarding MGE's regression analysis computation, MGE responds by stating that it includes y-intercept as part of the analysis, and strikes it if results show it to be insignificant.

With respect to Staff's concerns regarding growth – and each of the other concerns noted by Staff in this section, MGE responds by stating that it will continue to review its methodology, continues to welcome Staff's input on these points, and will refine its analysis and planning as appropriate.

b. Other MGE Capacity Studies

With regard to comments regarding Panhandle Eastern Pipeline capacity and capacity for North Kansas City, MGE responds by stating that it will consider the use of those recommendations when completing future studies and plans.

B. Supply Planning for Warm Weather and Cold Weather

Staff recommends that the estimates for "Average Ultimate Warm" and "Average Ultimate Cold" should be updated routinely and the MGE calculation should be re-evaluated. MGE responds by stating that it will review the methodology used to calculate Average Ultimate Warm and Cold and at a minimum update its estimates as needed.

C. School Aggregation Capacity Release

Staff's concerns are that the tariff requirements for capacity release to schools that are LGS or SGS customers are not clear. To address the Staff's questions and concerns, Staff has recommended that MGE work with Staff to amend several tariff sheets no later than the MGE's next general rate case. In response, MGE agrees to

meet with Staff to discuss Staff's concerns on these tariffs prior to MGE filing its next general rate case.

4. Regarding the recommendations under Section VII, "Hedging," Staff encourages the Company to evaluate its hedging strategy in response to changing market dynamics, update its price risk management and procurement program (PRIMAP) in order to be able to make informed hedging decisions under the current market condition, examine the balance between storage and other financial hedging instruments in the overall hedging portfolio for a warmer weather scenario as well as for normal load, continue to document hedging decisions, have the hedging plan updated documented and completed well in advance of each approaching winter season and finally to continue to assess and document the effectiveness of its hedges for the 2011-2012 ACA period and beyond. In response, the Company states that with the assistance of Gelber & Associates, it constantly evaluates its hedging strategy in response to changing market dynamics to balance the cost of hedging against the goal of price stabilization, and thus to achieve a cost effective hedging outcome. As noted, the Company modified the existing Hedging Strategy to incorporate the use of call options in addition to swaps. The Company modified the price risk management and procurement program (PRIMAP) to include the option strategy along with the market purchase price criteria (MPPC). The Company will continue its annual formal presentations to Staff and OPC in advance of the winter period outlining its gas supply strategies including current hedging strategies.

5. With these responses to Staff's comments, concerns and recommendations, MGE believes that there are no issues presented that require either a procedural schedule or resolution by the Commission.

Respectfully Submitted,

/s/

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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 17th day of January, 2013.

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