

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-2012-0115, Missouri Gas Utility, Inc.

FROM: David M. Sommerer, Manager – Procurement Analysis
Phil Lock, Regulatory Auditor – Procurement Analysis
Derick Miles, P.E., Regulatory Engineer – Procurement Analysis

/s/ David M. Sommerer 10/15/12 /s/ Robert S. Berlin 10/15/12
Project Coordinator / Date Staff Counsel's Office / Date

SUBJECT: Staff's reply to Company's Response to Staff's Recommendation in Case No.
GR-2012-0115, Missouri Gas Utility 2010-2011 Actual Cost Adjustment Filing

DATE: October 15, 2012

EXECUTIVE SUMMARY

This memo is in response to the Company's Response to Staff's Recommendation dated 10/3/2012. Two issues are summarized in the headings below. There is a dollar adjustment of \$8,820 recommended for issues related to Reliability and Gas Supply Planning.

RELIABILITY AND GAS SUPPLY PLANNING

Staff recommends an adjustment of \$8,820 for MGU's Northern System because the Company awarded a gas supply contract to its highest bidder. Customers paid more for baseload deliveries to the REX West Interconnect than they should have paid. Staff continues to support this adjustment.

The Company response of 10/3/2012 does not accept Staff's recommended dollar adjustment. In Attachment 1, of its response to Staff's Recommendation, the Company acknowledges that Seminole was indeed the low price bidder. Attachment 1 confirms the Company's error, stating:

I inadvertently put Seminole Energy's Bid Offer for MGU North Division on the wrong Delivery Point (ANR SW Headstation rather than REX West). Thus, I have made the corresponding changes to both the Bid Results Summary and the Delivered Gas Cost Estimate (see attached files); As a result, Seminole's offer makes deliveries to REX West that much more attractive than ANR SW Headstation deliveries on an overall cost basis.

I apologize for the oversight.

The Company response of 10/3/2012 states it did not make a decision based on the low priced bid, but rather made the decision based on a subsequent request for updated fixed pricing. As noted in the 8/30/2012 Staff recommendation, the Company provided no evidence to support that it requested or received refreshed bids. Lacking any contemporaneous documentation verifying the Company had requested refreshed bids or price updates from bidders, existing Company

documentation shows only that it awarded the supply to Asgard, the highest bidder. Company documentation incorrectly shows Asgard as the low bidder when Seminole was the actual the low price bidder. The Company completed its selection of the highest bidder when it later locked in a fixed price with Asgard using the same adder included in Asgard's bid response.

Staff determined its adjustment by calculating the difference between the true low price Seminole bid and the higher priced Asgard bid chosen by the Company. That difference is \$8,820 and is the amount of Staff's recommended adjustment.

Staff's 8/30/2012 filing also recommended Summit Utilities (previously MGU) review the supply bid, approval, and award process to ensure it keeps appropriate contemporaneous documentation and that it has appropriate procedures and internal controls in place to ensure the accuracy of its bid recording and award process. The Company does not comment on this recommendation in its 10/3/2012 response.

BILLED REVENUE AND ACTUAL GAS COST

In order to clarify Staff's understanding of the Company's response to Staff's ACA recommendation, Staff scheduled a conference call to discuss the Company's accounting treatment of ANR transportation costs in storage inventory. It is the Staff's understanding that the Company currently includes both demand (FTS-1) and commodity-related ANR costs in the development of the Company's storage inventory costs. (In this instance, the Company's gas storage costs are the weighted average cost of gas (WACOG) in storage). The Staff further understands that the Company agrees to exclude these demand-related costs from storage inventory on a going-forward basis (effective with the 2012-2013 ACA). The fixed transportation fees would therefore be expensed on a monthly basis consistent with Staff's recommendation. Therefore there is no Staff adjustment associated with this issue.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Utility's)
Purchased Gas Adjustment)

Case No. GR-2012-0115

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that as a Utility Regulatory Manager in the Procurement Analysis Unit of the Regulatory Review Division - Utility Services Department, he has participated in the preparation of the foregoing report, in memorandum form, consisting of 2 pages to be presented in the above case; that he has verified that the foregoing Staff Memorandum was prepared by himself and Staff of the Commission that have knowledge of the matters set forth as described below; that he has verified with each of the Staff members listed below that the matters set forth in the Staff Memorandum are true and correct to the best of his knowledge and belief,

Phil Lock, Regulatory Auditor
Derick Miles, P.E., Regulatory Engineer

Billed Revenues and Actual Gas Costs
Reliability Analysis and Gas Supply Planning

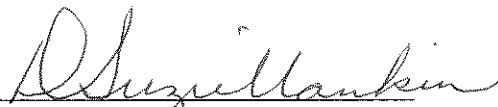
that he has knowledge of the matters set forth in such report and that such matters are true to the best of his knowledge and belief.



David M. Sommerer

Subscribed and sworn to before me this 15th day of October, 2012.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 08, 2012 Commission Number: 08412071
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Notary Public