BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy	)	
Actual Cost Adjustment	)	Case No. GR-2008-0367

MISSOURI GAS ENERGY'S RESPONSE TO STAFF RECOMMENDATION

COMES NOW Missouri Gas Energy, a division of Southern Union Company, ("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 30, 2009, the Staff filed its Recommendation with the Commission in which it states that it has reviewed MGE's 2007-2008 Actual Cost Adjustment (ACA) filing covering the period of July 1, 2007 to June 30, 2008. By order dated January 4, 2010, the Commission directed MGE to respond to the Staff's Recommendation no later than February 3, 2010. By order dated February 8, 2010, the Commission granted MGE leave to file its response to Staff's Recommendation no later than February 17, 2010. This is MGE's filing in compliance with that order.

2. Staff's Recommendation does not allege any imprudence on the part of MGE, nor does it recommend any monetary disallowances. MGE's review of the Recommendation leads it to the conclusion that there are no issues presented that require either a procedural schedule or resolution by the Commission.

NP

3. The Staff notes its recommendation for an adjustment to MGE's ACA balance in Case No. GR-2007-0256. MGE does not object to the Staff's recommendation to hold this case open pending the resolution of GR-2007-0256. As MGE has informed Staff, the Company has already made an adjustment of ** __________** on July 2, 2009 due to the programming error. That amount is currently being refunded through the ACA adjustment which was effective November 1, 2009. Discussions with Staff are ongoing as to the impact of that adjustment on a potential settlement of Case No. GR-2007-0256.

4. Staff asks the Company to evaluate the process it uses in matching its off-system sales natural gas purchases with its sales commitments. Staff noted one instance in the ACA period in which MGE purchased gas supply for an off-system sale but did not have an off-system sale arranged at the time the supply was purchased. This type of purchase is not a normal practice for MGE, occurred one time, and has been addressed in training so that it will not occur again.

5. Staff also asks the Company to respond to its comments in the Reliability Analysis and Gas Supply and Planning Improvement section of its Recommendation. 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 cold day requirements and asks the Company to continue to evaluate its methodology. The Company has noted Staff's comments for its peak day planning, will continue to evaluate the methodology it uses for planning, and will revise its methodology as necessary to plan for peak day requirements.

NP

B. With regard to peak day estimates for North Kansas City, the Company will consider the use of those recommendations when completing future studies and plans for pipeline capacity serving the areas generally described as North Kansas City.

C. Staff recommends that MGE review its warm weather supply plans and the possible cost to customers for excess gas for warmer days in those months and that in future studies that MGE include and explain monthly estimates for a three to five year period for the warm, normal, and cold weather supply requirement. In response, MGE notes that a warm day in an early winter month may require MGE to fully utilize the injection capacity of storage and cause the Company to sell flowing supplies of gas back into the market on a warm day. A review of MGE's supply and storage planning and historical operation of storage assets over the last seven years, however, has shown that such a situation has not resulted in MGE selling gas back to the market. MGE will, however continue to assess its planning for such a situation.

D. The Staff also asks MGE to review (on a going-forward basis) its procedures for the Monthly Supply/Demand summaries to consider "put" volumes. MGE concurs with this recommendation and will review such procedures in the future.

E. With regard to Staff's comments on its storage plans, MGE notes that its storage utilization plans are reflected in its Monthly Supply Plans. These plans are adjusted throughout the year based on existing storage

NP

balances, storage and pipeline operating requirements, gas prices, weather forecasts, and MGE guidelines. Storage balances are affected daily by demand, supply, LV customer imbalances, puts and calls exercised, cash purchases, and off system sales imbalances. While MGE has established guidelines in place for winter months, MGE will adjust storage operations due to the dynamic market characteristics of the natural gas industry.

6. Regarding the material under Section V, "Hedging," Staff's conclusion is that MGE's hedging for the ACA period was reasonable and adequate. The Staff also indicated that the Company employed both disciplined as well as discretionary approaches to execute its hedging transactions. With regard to the Staff's concerns noted in this section, MGE notes that it continues to evaluate the effectiveness of its hedging program in a dynamic market. MGE is willing to meet with Staff to discuss these recommendations, but does not believe that these present issues that require Commission resolution.

Respectfully Submitted,

Todd J. Jacobs #52366
Senior Attorney
Missouri Gas Energy
3420 Broadway
Kansas City, Missouri 64111
(816) 360-5976
(816) 360-5903 (fax)
Email: todd.jacobs@sug.com

NP

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 17th day of February, 2010 to:

Ms. Lera Shemwell
Missouri Public Service Commission
Governor Office Building
P.O. Box 360
Jefferson City, MO 65102
Lera.shemwell@psc.mo.gov

The Office of Public Counsel
Governor Office Building, 6th Floor
PO Box 7800
Jefferson City, MO 65102-7800
opcservice@ded.mo.gov

T. J. [illegible]