BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of	)	
Summit Natural Gas of Missouri's	)	File No. GR-2014-0096,
Purchased Gas Adjustment	)	as consolidated

<u>RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM</u>

Comes now Summit Natural Gas of Missouri, Inc. ("SNG" or "Company"), formerly known as Missouri Gas Utility and successor in interest to Southern Missouri Natural Gas Company, L.P., d/b/a Southern Missouri Natural Gas ("SMNG"), and respectfully provides to the Missouri Public Service Commission ("Commission") the following response to the Commission Staff Recommendation and Memorandum:

1. On October 10, 2014, the Commission Staff ("Staff") filed its recommendations regarding the Summit Natural Gas of Missouri, Inc. 2012-2013 Actual Cost Adjustment (ACA) filings in this matter in File Nos. GR-2014-0096 and GR-2014-0097. These documents set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 1, 2012 through August 31, 2013, included in the Company's 2012-2013 Actual Cost Adjustment ("ACA") filings.

2. On October 27, 2014, the Commission issued its Order Granting Motion to Consolidate wherein it ordered that File Nos. GR-2014-0096 and GR-2014-0097 are consolidated under File No. GR-2014-0096.

3. On October 28, 2014, the Commission issued its Order Setting Time to Respond wherein it ordered SNG to file a response to Staff's Recommendation no later than December 9, 2014. SNG will respond to the various issues identified by Staff in the following paragraphs. SNG's response will reference the Memorandums by use of the same section titles utilized by the Staff.

Section II - Billed Revenue and Actual Gas Costs

4. Compliance Adjustments (Billed Gas Supply Charges-Northern Service Area, ACA Cost Correction-Southern Service Area). The Company agrees with the compliance adjustments recommended by Staff.

5. Management of Natural Gas Transportation Services. Staff's linkage of monthly shipper imbalance management to the Company's daily allocation of firm system capacity to serve its firm sales customers demonstrates a misunderstanding of the Company's transportation services and the Company's daily utility operations.

The Company provides transportation services subject to interruption or curtailment due to system capacity or supply constraints to be determined in the Company's sole discretion reasonably exercised in accordance with the Company's Gas Rules and Regulations and with the terms and conditions of the Company's Rate Schedule Transportation Service (TS). See applicable provisions on Summit Natural Gas of Missouri, Inc. Tariff Sheet Nos. 23, 24, 26, 30, 31, 32, and 85 (P.S.C. MO No. 1).

The Company's allocation of firm system capacity to serve its sales customers is not affected by shippers' monthly imbalances. If the Company determines there is insufficient system capacity to meet its obligations to firm sales customers for a particular gas day and also provide transportation services on that gas day, then the Company can interrupt or curtail transportation services for the gas day irrespective of a shipper's monthly imbalance status.

The Company currently provides daily metered quantities to shippers for imbalance management and shippers are responsible for resolving imbalances according to tariff provisions. More specifically, the Company refutes Staff's opinion that the Company is not sufficiently monitoring imbalances for one of its large transport customers. The Company captures this customer's daily metered quantities and calculates their imbalance position each month as required in the Company's tariff. This particular customer is an interruptible transportation customer and therefore the Company will interrupt or curtail deliveries if high priority firm sales customers require capacity.

SECTION III - RELIABILITY ANALYSIS AND GAS SUPPLY PLANNING

6. Weather Normal Data. The Company agrees with the Staff Recommendations.

7. Reserve Margin for Summit's Northern, Southern and Rogersville Service Areas. The Company agrees with the Staff Recommendations and believes its current management activities accomplish its planning goals.

8. Supply Bid Documentation. The Company will review its process of documenting natural gas supply transactions and make changes that it deems necessary to comply with the Company's recordkeeping procedures.

9. Vendor Participation. The low number of responses to RFPs is a function of the market and not a reflection of inadequate contracting by the Company. The Company maintains a sufficient number of NAESB contracts available for competitive procurement with supply companies active in its market areas. The Company's natural gas purchase requirements are relatively low in today's marketplace, making it difficult to generate abundant interest from suppliers. Staff may be unaware of (or has not considered) economies of scale that drive supplier interest in responding to the Company's RFPs.

10. Peak Day Planning. Supply reliability to meet peak day demands is a significant determinant in the Company's annual supply planning. The Company will continue to review the reliability of its gas supply plans and consider Staff's recommendation to employ swing/call agreements.

The December 24-27, 2012 sharing of storage between rate areas was a unique event and not a fundamental supply strategy. While an option currently exists to deliver gas from the Southern Star Storage in the former Southern Missouri Natural Gas service territory to the Southern System from time to time, the Company has decided not to allocate costs to customers as a normal course of business. The Company will address the criteria and limitations for shared storage if this strategy is included in future gas supply plans.

11. Normal, Warm and Cold Winter Planning. The Company agrees with the Staff Recommendation.

12. Storage. Staff believes it was imprudent for the Company not to fill storage prior to the 2012-2013 winter per the Gas Supply Plan and recommends a disallowance for the cost of gas to be reduced by $3,215 for sales customers in the Company's Northern Service Area and to be reduced by $143,936 for sales customers in the former SMNG service territory. The Company has a great deal of concern with the method by which Staff has determined prudence, specifically the selective use of hindsight as an evaluation tool.

The Company believes that this particular evaluation methodology is an invasion of the Company's management prerogatives. For example, the current storage contract has limitations which only allow a specific amount of gas to be removed from storage each day; therefore, it is management's opinion that it was more prudent to avoid storage being too full the following spring, in the event of a warm winter. Additionally, Staff's adjustment depends upon an allegation that a reasonable person would have known that natural gas could have been purchased in the summer for injection into storage at prices significantly below the actually realized prices for flowing prices in the winter. The Company's natural gas procurement experience this year (2014-2015) provides an on-point demonstration of how similar Company conduct will lead to customer benefit.. This year, the Company delayed in triggering fixed prices and natural gas prices decreased significantly to the benefit of sales customers. Presumably, Staff will not recommend the Company receive a bonus for beneficial procurement activities.

13. Gas Supply Plan. The Company will consider Staff's recommendation in future Gas Supply Plans.

SECTION IV - HEDGING

14. Hedging Recommendations. The Company agrees with the Staff recommendations in regards to hedging practices in File No. GR-2014-0097 and the need to review and to potentially adjust those practices as circumstances change. This is the Company's current approach to its hedging policy.

The Company's responses to the Staff Hedging Recommendations in File No. GR-2014-0096 below correspond to the lettered recommendations listed on page 16 of the Staff Recommendation.

a. Staff recommends that the Company establish and maintain a current and consistent hedging policy with stated objectives based on month-specific normal weather requirements while also considering the impacts of warmer and colder than normal weather scenarios. This information is provided in the overall Gas Supply Plan developed by the Company and is provided to Staff each May.

b. The Company considers all of the options recommended by Staff (including a combination of storage withdrawals, call options and other fixed price purchases for effective hedging during the winter months) as a normal course of business.

c. The Company will continue to outline a specific hedging strategy in its Gas Supply Plan. This plan is provided to Staff annually and will continue to document the reasoning for transaction decisions.

d. The Company's criteria and reasoning for its hedging transactions are documented in its Gas Supply Plan provided to Staff each May and the Company's Gas Supply Committee meeting minutes.

WHEREFORE, Summit Natural Gas of Missouri, Inc. respectfully requests that the Commission consider this response to the Staff Recommendations and issue such orders as it believes to be reasonable and just.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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