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February 13, 2001

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FILED²

FEB 13 2001

Missouri Public
Service Commission

**RE: Case No. GR-2001-388 – In the Matter of Southern Missouri Gas Company, L.P.'s
Purchased Gas Adjustment Factors to be Reviewed in its 2000-2001 Actual Cost
Adjustment.**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of **STAFF'S SUPPLEMENTAL RESPONSE TO THE OFFICE OF THE PUBLIC COUNSEL'S REQUEST FOR EMERGENCY REVIEW AND MOTION FOR EXPEDITED TREATMENT.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Thomas R. Schwarz, Jr.

Thomas R. Schwarz, Jr.
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Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

FEB 13 2001

Missouri Public
Service Commission

In the matter of Southern Missouri Gas)
Company L.P.'s Purchased Gas)
Adjustment factors to be reviewed in its)
2000-2001 Actual Cost Adjustment.)

Case No. GR-2001-388

**STAFF'S SUPPLEMENTAL RESPONSE TO THE OFFICE OF THE PUBLIC COUNSEL'S
REQUEST FOR EMERGENCY REVIEW AND MOTION FOR EXPEDITED TREATMENT**

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its response in the above-captioned matter states as follows:

1. Missouri Gas Energy ("MGE") filed a tariff on January 9, 2001, proposing to increase its Purchased Gas Adjustment ("PGA") factor for service provided on and after January 24, 2001.

2. On January 19, 2001, the Office of the Public Counsel ("OPC") filed with the Commission a request for "an emergency actual cost adjustment ("ACA") review of MGE's gas procurement practices related to the winter heating season November 1, 2000 to April 1, 2001." OPC also asked that the Commission establish a procedural schedule so that the Commission's order reviewing MGE's gas procurement practices related to the winter of 2000-2001 is effective no later than October 1, 2001.

3. On January 19, 2001 the City of Joplin sought to intervene in this case.

4. The Commission issued its Order approving MGE's requested PGA rates, interim subject to refund, on January 23, 2001.

5. On February 7, 2001, Staff indicated its intention to file this further explanation and modification of its February 2 filing.

6. Upon further reflection, Staff proposes that the Commission open a single docket to examine the performance of all Missouri local distribution companies ("LDCs"). Staff believes that a single docket, with the participation of all LDCs, will best provide the Commission the opportunity to examine what conditions led to the unscheduled filings this winter; why a few LDCs were able to avoid unscheduled filings this winter; and to establish what natural gas purchasing practices with respect to hedging were prudent. This docket might also provide guidance on what can be done to moderate winter natural gas prices in the future.

7. The Staff proposes to review the provisions of each LDC's gas supply plan for:

- a. Provisions to provide price stability for customers. How did the plan deal with high natural gas prices, and what flexibility did it have to deal with price fluctuations?
- b. What alternatives were available to the LDC under its plan?
- c. What elements of price protection were considered by the LDC and how were those elements considered and implemented under the plan?
- d. How did the LDC deal with changing conditions in the natural gas market in the operation of the gas supply plan? What advice did they seek and rely upon?
- e. What was the rationale or basis for the LDC's gas purchasing decisions at the time those purchasing decisions were made?

8. The Staff proposed to issue a report to the Commission by June 30, 2001. Undertaking this project will have a significant affect on the Staff's resources.

9. The Staff anticipates that the project will be executed principally by Mr. Wallis, Ms. Allee, and Mr. Lock. Assistance will also be provided by the Gas Department in research support. This group would undertake a review of any hedging activities of the LDC, its gas supply decision-making process, including nominations and use of storage assets.

10. As the Commission may know, Staff is currently working on a number of open cases, including GT-2001-329 (extension of Laclede's GSIP); GR-2001-282 (MGE's current rate

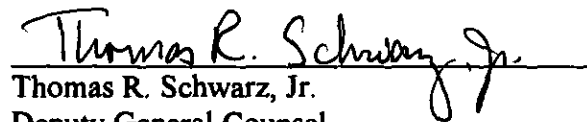
case); GO -2001-249 (investigation of UCU's gas purchasing practices); ER-2001-299 (Empire District rate case); GR-96-450 (MGE ACA case involving adjustment based on Riverside contract). In addition, Ms. Allee is assigned to the Commission's SASA pilot project. The proposed docket will possibly delay work on current ACA audits for three to six months, and may delay activity in the Commission's investigation of UCU's gas operations in Case No. GO-2001-249 for three months. In making this proposal, Staff does not anticipate any additional, significant projects in the next four months.

11. The Staff anticipates retaining the services of a consultant for this project. The Staff would expect the consultant to provide information on the strategies employed by large consumers of natural gas, and other LDCs throughout the nation, to deal with the price volatility this heating season. The Staff would also expect the consultant to provide advice and suggestions on risk management practices that Missouri LDCs might employ in the future.

WHEREFORE, the Staff requests the Commission to open an investigatory docket to examine the above-referenced practices, and to make all Missouri LDC's parties to that docket.

Respectfully submitted,

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General Counsel


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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 13th day of February, 2001.

Thomas R. Schwanz Jr.

Service List for
Case No. GR-2001-388
Revised: February 7, 2001 (SW)

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