BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Utility, Inc.'s	)	
Purchased Gas Adjustment (PGA) Factors	)	Case No. GR-2011-0117
To be Audited in Its 2009-2010 Actual Cost	)	
Adjustment.	)	

RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM

Comes now Missouri Gas Utility, Inc. (MGU or Company), and respectfully provides to the Missouri Public Service Commission (Commission) the following response to the Staff Recommendation and Memorandum:

1. On April 6, 2011, the Commission Staff (Staff) filed its Recommendation and Memorandum in this matter. This document set out the results of Staff's audit of the billed revenues and actual gas costs for the period September 1, 2009 through August 31, 2010, included in MGU's 2009-2010 Actual Cost Adjustment (ACA) filing.

2. On April 7, 2011, the Commission issued its Order Establishing Response Deadline wherein it ordered MGU to respond to the Staff Recommendation and Memorandum no later than May 10, 2011. MGU will respond to the various issues identified by Staff in the following paragraphs. MGU's response will reference the Memorandum by use of the same section titles utilized by the Staff.

3. There are no Staff recommended financial adjustments for this ACA period.

Hedging

4. The Staff Recommendation requests that in regard to the Hedging section MGU respond to Staff's comments 1 -3 and recommendations (a) – (f). In doing so, MGU would note that the Company has already supplied the 2010-2011 hedging plan to the Commission Staff.

5. MGU offers the following in response to Staff's comments 1 – 3 related to hedging:

1. As provided in MGU's Hedging Plan 2009-2010, an analysis was developed to determine a projected load for a warmer than normal, a normal, and a colder than normal heating season. Going forward the company will expand this band to two standard deviations as will be represented in the next hedging plan. For the winter period in this ACA Review, MGU used its storage gas, combined with fixed price contracts and, as needed, spot purchases to meet its gas load requirements. As the Southern Division begins to stabilize, the Company is becoming more knowledgeable on the natural gas requirements for the region. The Company acknowledges the need to create a flexibly, responsible hedging plan.

2. MGU is sensitive to gas prices and the corresponding impact on its customers. MGU fills its storage through spot purchases during the months of April – October, but may be limited in its ability to inject higher volumes due to contractual limitations. Because MGU's goal is to maximize its storage inventory by November 1 of each year, MGU maximizes its storage injections whenever it reasonably determines a buying opportunity exists.

3. MGU locked-in two (2) separate NYMEX Basis Differentials for its North Divison. Both transactions were completed on May 1, 2009. They are described here:

(1) Deliveries to the REX West/ANR Interconnect for the December 2009 – February 2010 term.

(2) Deliveries to the ANR SW Headstation for the November 2009 – February 2010 term.

Furthermore, Fixed Prices applying the above noted NYMEX Basis Differential transactions were "triggered" on June 24, 2009. One of MGU's goals is to protect its customers from extremely high prices; thus, it utilizes a combination of its upstream delivery contracts and hedging strategies to provide price stability.

6. MGU offers the following in response to Staff's recommendations (a) – (d) related to hedging:

(a) MGU developed and followed an annual Hedging Plan that maintained current and consistent practices. The Company intends to develop a policy surrounding these hedging practices;

(b) MGU will continue to hedge gas throughout the year in order to avoid price spikes at any point during the year;

(c) MGU has in place a mixture of delivery alternatives and hedging strategies to meet its heating season requirements;

(d) MGU has outlined a specific hedging strategy in its Gas Supply Plan. This plan is provided to Staff annually and will continue to document reasoning for transaction decisions.

<u>Reliability Analysis and Gas Supply Planning</u>

A. **Supply Planning**

7. Staff requested that MGU expand its Supply Plan to account for how it will serve peak-day needs through capacity and supply. In its Northern division, MGU locks-in approximately 84% of peak day load through contracted deliveries and storage. In is Southern

division, MGU contracts for 80% of projected monthly load. On a daily basis, this covers about 50% of the peak day load; however, MGU closely monitors weather forecasting and has five suppliers standing by in the event more gas is needed in either division. In addition to our own monitoring, Southern Star Central Gas Pipeline issues warnings in advance of any Operational Flow Order (OFO) in order to allow customers to increase their supply on the transmission system. When we receive such a warning or when the weather forecast indicates severe conditions, MGU nominates additional supplies based on the forecasted weather and the actual flowing gas amounts over the week immediately previous to the warning. Southern Star is a monthly balancing pipeline, so in the absence of an OFO, any gas received by MGU above our nominated volume simply affects our current imbalance, which we have two months to correct under their tariff.

Interest Calcuations

8. In compliance with Tariff Sheet No. 46, the Company will maintain detailed workpapers that include a monthly interest calculation for over and under-recoveries of PGA related costs for both the Northern and Southern Systems.

Swing Gas Purchases

9. Moving forward MGU will maintain written documentation as available and through methods identified in Staff's recommendation.

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

Respectfully submitted,

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ATTORNEYS FOR
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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on May 10, 2011, to the following:

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