

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

<b>In the Matter of Missouri Gas Utility,</b>	)	
<b>Inc.'s Purchased Gas Adjustment</b>	)	
<b>(PGA) Factors to be Audited in its</b>	)	<b>Case No. GR-2007-0178</b>
<b>2005-2006 Actual Cost Adjustment.</b>	)	

**STAFF RECOMMENDATION**

COMES NOW Staff of the Public Service Commission of Missouri, and for its recommendation in this matter states:

1. On November 3, 2006, Missouri Gas Utility, Inc. (MGU or Company) filed a Purchased Gas Adjustment for rates to become effective November 20, 2006.

2. **Please note that this is the case for review of the 2005-2006 winter heating season not the 2006-2007 Actual Cost Accounting period as is shown on some documents filed in this matter. The caption has been corrected in EFIS to show that this case covers the 2005-2006 period.**

3. Staff's reviewed the Company's gas purchasing processes, actual gas costs, and hedging activities including:

- a. an audit and evaluation of billed revenues and actual gas costs for the period of September 1, 2005, through August 31, 2006, included in the Company's computation of the ACA rate.
- b. a comparison of billed revenue recovery with actual gas costs which will yield either an over-recovery or under-recovery of the ACA balance.
- c. a hedging review to determine the reasonableness of the Company's hedging practices for this ACA period.

- d. a reliability analysis including a review of estimated peak day requirements and the capacity levels needed to meet these requirements.
- e. a review of MGU's gas purchasing practices to determine the prudence of the Company's purchasing decisions.

4. Attached is Staff's recommendation, with attached affidavit, in which Staff recommends that MGU adjust the ACA account balance in its next ACA filing, review and respond to the concerns and recommendations related to hedging, reliability analysis and gas supply, and document MGU's gas procurement plans, policies and procedures.

5. Staff reviewed and evaluated the Company's hedging activities, and recommends, for the 2006-2007 ACA period and beyond, the Company:

- a. Establish and maintain a current hedging policy based on month-specific normal weather requirements (with impacts of warmer and colder than normal scenarios).
- b. Start placing hedges early enough to hedge, for example, against potential hurricane-related price spikes during summer months.
- c. Document the reasoning for executing any hedging transactions or decisions, whether by means of storage, contracting or financial hedging instruments.
- d. Make the hedging documents available to the Staff for its reviews of subsequent ACA periods.
- e. Provide the hedging plan for 2007-2008 within 30 days.

6. Staff further recommends the Commission require MGU:
- a. to adjust the ACA account balance in its next ACA filing to reflect the following Staff adjustments and to reflect the (over)/under-recovered ACA balance in the “Staff Recommended” column of the following table:

<b>Description</b>	<b>Company’s ACA Balance Per Filing</b>	<b>Staff Adjustments</b>	<b>Staff Recommended ACA Balance</b>
Beginning Balance 9/1/05	\$(35,355)	\$(3,861)	\$(39,216)
Cost of Gas	\$628,142	\$(12,482)	\$615,660
Recoveries	\$(654,292)		\$(654,292)
Interest on Under- or (Over-)Recovery of ACA Gas Costs	\$370	\$(692)	\$(322)
Company Adjustment Not in Ending Balance	\$17		\$17
Ending Balance 8/31/06	\$(61,118)	\$(17,035)	\$(78,153)

- b. to review the concerns and recommendations expressed by Staff in the Hedging section and respond to these concerns and recommendations within 30 days.
- c. to review the concerns expressed by Staff in the Reliability Analysis and Gas Supply and Planning section and respond within 30 days with any additional actions being taken by MGU to address Staff’s concerns.
- d. to document MGU’s gas procurement plans, policies and procedures and submit the documentation within 30 days.

- e. to file a written response to the above recommendations within 30 days.

WHEREFORE Staff requests the Commission order MGU to take the actions recommended in the attached Staff Report.

Respectfully submitted,

**/s/ Lera L. Shemwell**

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### **Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or emailed to all counsel of record this 16th day of August 2007.

**/s/ Lera L. Shemwell**