

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

In the Matter of Missouri Gas Utility,)	
Inc.'s Purchased Gas Adjustment)	
(PGA) Factors to be Audited in its)	Case No. GR-2008-0136
2006-2007 Actual Cost Adjustment .)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Commission and submits its recommendation concerning Missouri Gas Utility's Actual Cost Adjustment Filing.

1. The Procurement Analysis Department, with assistance from the Auditing Department (Staff), has reviewed Missouri Gas Utility, Inc.'s (MGU or Company) 2006-2007 Actual Cost Adjustment (ACA) filing. This filing was made on November 9, 2007, for rates to become effective November 20, 2007, and was docketed as Case No. GR-008-0136.

2. Missouri Gas Utility, Inc. (MGU) is a Colorado Corporation, and is a subsidiary of Summit Utilities, Inc., located in Littleton, Colorado.

3. Staff's review consisted of an analysis and evaluation of the billed revenues and actual gas costs for the period of September 1, 2006, through August 31, 2007, included in the Company's computation of the ACA rate.

4. In addition to this comparison, Staff conducted a hedging review to determine the reasonableness of the Company's hedging practices for this ACA period.

5. Staff also conducted a reliability analysis including a review of estimated peak day requirements and the capacity levels needed to meet these requirements.

6. Finally, Staff reviewed MGU's gas purchasing practices to determine the prudence of the Company's purchasing decisions. The results of Staff's review is contained in Appendix A.

7. Staff's Recommendations concerning the Company's hedging practices are that the company:

(a) establish and maintain a current and consistent hedging policy based on month-specific normal weather requirements (with impacts of warmer and colder than normal scenarios),

(b) continue to start placing hedges early enough to hedge, for example, against potential hurricane-related price spikes during summer months,

(c) appropriately balance between storage withdrawals and flowing gas supply for the deliveries during the winter months,

(d) carefully evaluate hedging instruments,

(e) document the reasoning for executing any hedging transactions or decisions, whether by means of storage, fixed price contracting or other financial hedging instruments and the rationale for not executing any hedging transactions and decisions as planned,

(f) make the hedging documents available to the Staff for its reviews of subsequent ACA periods, and

(g) the Company provide the hedging plan for 2008-2009 no later than June 30, 2008.

8. Finally, the company needs to consider multi-year hedging, especially as it supplements its use of storage with other hedging practices. Given the risks of high

natural gas prices due to hot summers, hurricane activity or other events, a hedging approach that relies too heavily on the May through September time period, just prior to the winter being hedged, may not offer an adequate opportunity to diversify the pricing of the hedges. In addition, since the company’s hedging plan is so reliant on the timing of storage injections, the company should carefully consider the risks of low storage fills.

9. As a result of its review of MGU’s storage plans, Staff recommends that MGU evaluate its various storage plans for consistency and monitor storage balances more closely when making decisions on when to purchase additional flowing supply.

10. The Staff recommends the Commission issue an order requiring MGU to:

A. Establish the following ACA account balance in its next ACA filing to reflect the August 31, 2007 (over)/under-recovered ACA balance shown in the “Staff Recommended” column of the table below. An over-recovery reflects an amount owed to the customer by the Company, while an under-recovery is an amount owed to the Company by the customers.

	Company's ACA Balance per Response to Staff DR49	Staff Adjustments	Staff Recommended ACA Balance
Beginning ACA Balance @ 9/1/2006 – (Over- recovered)/Under-recovered	\$ (65,350)	\$ (12,803)	\$ (78,153)
Total Cost MGU Gas Delivered to City Gate	\$ 647,328	\$ 899	\$ 648,227
Total Cost Recovery	\$ (644,482)	\$ (77)	\$ (644,559)
Interest Paid to Cache Bank to Fund Gas Purchases (i.e., interest on storage balance)	\$ -	\$ (17,185)	\$ (17,185)

Ending ACA Balance @ 8/31/2007- (Over- recovered)/Under-recovered	\$ (62,504)	\$ (29,166)	\$ (91,670)
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B. Respond to Staff’s Recommendations in the *Reliability Analysis and Gas Supply Planning* Section within thirty (30) days.

C. Within thirty (30) days of the filing of this Staff Recommendation, respond concerning any additional actions being taken by MGU to address Staff’s recommendations related to: reserve margin projections for 3 to 5 years, evaluation of its various storage plans for consistency, monitoring storage balances more closely when making decisions on when to purchase additional flowing supply, and expanding its planning to explain how it will provide natural gas for extreme weather requirements.

D. Within thirty (30) days respond to Staff’s comments 1 – 4 and recommendations (a) – (g) in the *Hedging* Section.

E. Within 30 (thirty) days respond to Staff’s proposed adjustments and recommendations within the *Record Retention and Documentation and Transportation Service Tariffs* sections.

WHEREFORE Staff recommends the Commission order MGU to respond as detailed above and to establish its ACA balance as recommended above.

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 electronically mailed to all counsel of record this 14th day of July 2008.

/s/ Lera L. Shemwell