

**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-2007-0178
To be Audited in Its 2005-2006 Actual Cost	)	
Adjustment.	)	

**RESPONSE TO STAFF MEMORANDUM AND RECOMMENDATIONS**

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 Memorandum and Recommendations:

1. On August 16, 2007, the Commission Staff (Staff) filed its Memorandum and Recommendations 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 2005 through August 2006, included in MGU's 2005-2006 Actual Cost Adjustment (ACA) filing.

2. On September 7, 2007, the Commission issued its Order Directing Response wherein it ordered MGU to respond to the Staff Memorandum and Recommendations by September 21, 2007. MGU will respond to the various issues identified by Staff in the following paragraphs. MGU's response will reference the Recommendation by use of the same section titles utilized by the Staff. MGU would also note, as Staff did in the Recommendation, that caution should be exercised in reading this response and the other documents in this Case. This Case covers the 2005/2006 ACA period, however some of the documents filed in this Case, particularly those filed in response to Data Requests concerning hedging plans, are actually the documents prepared by the Company for the 2006/2007 ACA period.

3. The Company agrees in part and disagrees in part with the three adjustments to the ACA balance identified by Staff related to the subject period. MGU agrees with the first adjustment, a reduction in the beginning balance of \$3,861, and with the third adjustment, a reduction in the ACA of \$692 related to the interest on the over-recovery of ACA Gas Costs. MGU does not agree with the second adjustment, a reduction in the cost of gas of \$12,482 which represents the interest charges incurred by MGU for funds borrowed to pay for gas placed into storage as part of the Company's hedging strategy. MGU therefore would agree to use \$65,671 as its ending balance for the ACA for 8/31/2006.

#### **Beginning ACA Balance**

4. At the conclusion of the prior ACA period, Case GR-2006-0200 established the ending ACA balance as \$39,216. MGU agrees that this is the correct amount. The \$35,355 shown by the Company as the beginning balance for the 2005/2006 period was incorrect.

#### **Interest on Storage Balance**

5. MGU incurred \$12,482 in interest costs during the 2005/2006 ACA period associated with its purchase of storage gas for hedging purposes. The Commission rules state that financial gains or losses associated with gas mitigation efforts (to expressly include natural gas storage) are flowed through the Purchased Gas Adjustment (PGA) mechanism, subject to the applicable provisions of the natural gas utility's tariff. Commission Rule 4 CSR 240-40.018(1)(B).

6. The Company is entitled to recover these costs, and cites the language on Sheet 47 of its P.S.C. MO No. 1 tariff (emphasis added) in support:

For the gas commodity component of the RPGA factor, including variable transportation costs, gas supply commodity costs, and other FERC-authorized commodity charges, the Company will utilize any technique or method it deems reasonable for purposes of estimating the gas cost revenue requirement to be

reflective for this component in each RPGA filing. The commodity-related charges shall include, but not be limited to, producer gas supply commodity charges, pipeline transmission and gathering commodity charges, expected costs or cost reductions to be realized for the entire winter period, related storage withdrawals, gas purchases under fixed-price contracts, the Company's use of financial instruments, except for call options for which only cost reductions expected to be realized during the months covered by the Company's PGA filing shall be reflected.

7. In many states, the traditional method of recovery for the carrying cost of gas in storage has been to add the average annual value of gas in storage to working capital and to recover this cost through base rates. With the increase in the volatility of wholesale gas prices in recent years, MGU believes that direct recovery of these actual costs through the ACA mechanism is the most appropriate method of matching costs and recoveries. Attempting to recover these costs through base rates ensures that either customers or the Company will be a loser at any given point in time.

#### **Interest on Over-recovery of PGA/ACA Costs**

8. MGU agrees with Staff's recommendation in this regard. The Company erred in its calculation of this component of the ACA balance.

#### **Hedging**

9. The Staff Memorandum and Recommendations correctly observes that MGU did not have a formal hedging plan for the 2005/2006 ACA period. The Company was unaware of a Commission requirement for such a plan. The informal plan, as also detailed in the Recommendation, was to fill storage during the summer months. However, pricing in the natural gas market during the summer of 2005 was well above what the Company and its suppliers believed could be sustained for the winter, in part due to the impact of that summer's hurricanes. MGU chose not to purchase gas into storage at elevated prices, which would have subjected its

customers to higher prices. Instead, the Company elected to supply the system's needs from flowing gas purchases until such time as the markets returned to closer to normal levels.

10. As a result of the Staff recommendations in the MGU 2005 ACA case, MGU did submit a hedging plan for the winter of 2006/2007 that included purchasing gas into storage earlier in the year.

11. MGU agrees with the Staff Recommendation for hedging plans and documentation going forward.

### **Reliability Analysis and Gas Supply Planning**

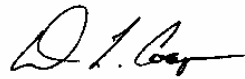
12. As the Staff Recommendation notes, MGU provided a more detailed Reliability Analysis for the 2006/2007 ACA period. The Company will continue to examine this process and make adjustments as necessary to improve its accuracy. The Company is also aware that other means exist for providing gas supply through peak months. For example, for the winter of 2007/2008, MGU has included in its gas supply portfolio a fixed-price component of 300 Dth/day to cover the gap between the maximum storage withdrawal amount in its contract with ANR Pipeline and its anticipated peak day.

### **Documentation of Gas Procurement Plans, Policies and Procedures**

13. MGU will provide the both the 2007/2008 Hedging Plan and the internal Hedging and Gas Supply document to Staff. However, MGU has already filled its available storage capacity and has also contracted for the additional fixed-priced gas mentioned in paragraph 8 above. Therefore, MGU asks that it be allowed to submit these documents by December 1, 2007.

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,



---

Dean L. Cooper MBE#36592  
BRYDON, SWEARENGEN & ENGLAND P.C.  
312 E. Capitol Avenue  
P. O. Box 456  
Jefferson City, MO 65102  
(573) 635-7166  
(573) 635-3847 facsimile  
dcooper@brydonlaw.com

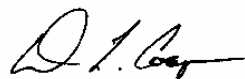
ATTORNEYS FOR  
MISSOURI GAS UTILITY, INC.

### **CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was sent by electronic mail on September 20, 2007, to the following:

Lera L. Shemwell  
Office of the General Counsel  
lera.shemwell@psc.mo.gov

Marc Poston  
Office of the Public Counsel  
marc.poston@ded.mo.gov



---