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 2006-2007 Actual Cost Adjustment.	))))	Case No. GR-2008-0136

<u>RESPONSE TO STAFF RECOMMENDATION AND MEMORANDUM</u>

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 July 14, 2008, 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, 2006 through August 31, 2007, included in MGU's 2006-2007 Actual Cost Adjustment (ACA) filing.

2. On July 16, 2008, the Commission issued its Order Directing Filing wherein it ordered MGU to respond to the Staff Recommendation and Memorandum by August 15, 2008. 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. 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 $12,803, and with the second adjustment, an increase in the Total Cost of MGU Gas Delivered to the City Gate of $899 related to various errors identified by Staff in the MGU workpapers, and an increase of $77 in Cost Recovery from Premium Standard Farms in August 2007. MGU does not agree with the third adjustment, a reduction in the cost of gas of $17,185 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 $74,485 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-2008-0060 established the ending ACA balance as a $78,153 over-recovery. MGU agrees with the Staff adjustment of $12,803, in order to obtain this beginning balance.

Gas Cost and Billed Revenue Errors

5. Staff alleged that formula errors related in the Company's ACA workpapers should result in an adjustment of $899 to the Total Cost of MGU Gas Delivered to the City Gate. MGU agrees with Staff as to this adjustment and also believes that these errors have been corrected in the current spreadsheet to be used in the Company's next ACA filing. In addition, Staff's review revealed an omission of $77 in the Cost Recovery from Premium Standard Farms for the month of August, 2007, which MGU agrees should be corrected.

Interest on Storage Balance

6. MGU incurred $17,185 in interest costs during the 2006/2007 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).

7. 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 <u>shall include, but not be limited to</u>, 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 <u>financial instruments</u>, 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.

8. 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. MGU began to recover the carrying cost of gas through base rates subsequent to April 15, 2008, the effective date of the rates established in Case GR-2008-0060. Prior to that date, the Company's base rates did not include gas in storage in the working capital calculation, and this cost was not recovered by this or any other method.

Record Retention and Documentation

9. In Staff's review, several transaction confirmation sheets for gas purchases were unavailable. MGU had not retained copies and the gas supplier, Kerr-McGee, had been acquired by Anadarko during the time of those purchases and likewise was unable to supply this documentation. The Company has instituted a new records retention process and is now keeping scanned copies as well as hard copies of all transaction confirmations and gas contracts.

Transportation Service Tariffs

10. MGU agrees with Staff that the Company's transporation tariffs need to be modified to clarify the language regarding transportation imbalances. MGU has informed the only transportation customer on its system that the current special contract will be terminated prior to this next heating season and that service will continue to be provided under the terms of the transportation tariff. That transporter, Premium Standard Farms, has recently been acquired

by Murphy-Brown, a subsidiary of Smithfield Foods. MGU will file revised tariff sheets by September 15, 2008, to address this matter.

Hedging

11. MGU agrees with Staff's recommendations regarding hedging presented in (a) – (g) in the Hedging section of the Recommendation. The Company will supply the 2008-2009 hedging plan by August 30, 2008. The Company notes that in an update supplied to Staff on August 11, 2008, Staff was informed that the company has completed all but a small portion of the 2008-2009 hedging activities, and is currently 72% hedged for a normal winter.

Reliability Analysis and Gas Supply Planning

12. Staff correctly states that the Company's one transportation customer balances on a monthly basis. While MGU has solved the technical issues with telemetering presented by remote, rural meter stations, the daily usage for the five transport meters for Murhy-Brown is too low to justify daily correction of imbalance positions. The telemetry does allow the customer to better match monthly volumes with corrections in the nominations close to the end of the month.

Staff also correctly assessed MGU's Reserve Margin situation. The flexibility afforded by the STS Contract with ANR Pipeline presents the appearance of an excess of reserve margin, but since this contract has no demand component, no costs are incurred related to this fact. MGU will include in its submission of the 2008-2009 Hedging Plan additional information related to the projections of Reserve Margin over the next 5 years.

The MGU plan utilized during the past three summer periods for filling storage had the goal of achieving 100% storage capacity by September 30. However, the plan also contemplated "topping off" storage at the end of October to cover any gas withdrawn during the period between the point in time when this was achieved and October 31, to allow the Company to go into the winter season with the maximum amount of gas in storage. In reviewing the previous plan submissions, this procedure does introduce some confusion into the process. MGU will re-write this section in the 2008-2009 plan. MGU also agrees with Staff regarding the need to evaluate its storage balance on a monthly basis throughout the winter, and that change will be incorporated in the 2008-2009 Plan. MGU will also include a section in the plan that clearly describes how gas would flow during a period of extreme cold weather.

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 August 14, 2008, to the following:

Lera L. Shemwell	Marc Poston
Office of the General Counsel	Office of the Public Counsel
lera.shemwell@psc.mo.gov	marc.poston@ded.mo.gov