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February 2, 2001

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Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
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Jefferson City, MO 65102

RE: Case No. GR-2001-397

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the filing in Case No. GR-2001-382.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Thomas R. Schwarz, Jr.
D.S.W.

Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
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TRS:sw
Enclosure
cc: Counsel of Record

Service List for
Case No. GR-2001-397
Revised: February 2, 2001 (SW)

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Mark A. Martin
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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of Missouri Gas Energy's)	
Purchased Gas Adjustment Tariff)	
Revisions to be Reviewed in its 2000 -)	Case No. GR-2001-382
2001 Actual Cost Adjustment.)	

STAFF'S RESPONSE TO THE OFFICE OF THE PUBLIC COUNSEL'S REQUEST FOR EMERGENCY

REVIEW AND MOTION FOR EXPEDITED TREATMENT

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its response in the above-captioned matter states as follows:

1. Missouri Gas Energy ("MGE") filed a tariff on January 9, 2001, proposing to increase its Purchased Gas Adjustment ("PGA") factor for service provided on and after January 24, 2001.

2. On January 19, 2001, the Office of the Public Counsel ("OPC") filed with the Commission a request for "an emergency actual cost adjustment ("ACA") review of MGE's gas procurement practices related to the winter heating season November 1, 2000 to April 1, 2001." OPC also asked that the Commission establish a procedural schedule so that the Commission's order reviewing MGE's gas procurement practices related to the winter of 2000-2001 is effective no later than October 1, 2001.

3. On January 19, 2001 the City of Joplin sought to intervene in this case.

4. The Commission issued its Order approving MGE's requested PGA rates, interim subject to refund, on January 23, 2001.

5. A full review of MGE's purchasing practices entails an audit of all of MGE's purchase, transportation and storage transactions, and a true-up of audited costs to its billed revenues. This is an extensive and time-consuming process. Further, such a review cannot begin until MGE closes its books for the current ACA period, which ends June 30, 2001.

6. Staff concurs with OPC that the Commission should direct a prompt review of MGE's gas costs for this ACA period. Staff suggests the following modifications and clarifications for the procedure.

7. Staff suggests that the Commission direct Staff and OPC to monitor MGE's DCCB costs and ACA balance on a continuing basis. The Staff and OPC should review all costs – commodity supply, transportation, and storage, including recovery of fixed costs. The commission should authorize Staff to file a complaint, if circumstances warrant.

8. The Commission should waive the limitation on the number of PGA filings to permit MGE to file reduced rates if prices turn in favor of customers.

9. Staff perceives that a major focus of a review of MGE's purchasing practices will be on MGE's hedges, physical and otherwise, for the current ACA period. Staff suggests that an audit of these activities could begin in mid-March, by which time MGE's hedging positions for the ACA period will be final. Staff could report on such a limited review by June 30, 2001.

10. On January 26, 2001 the Commission issued an order directing that this Staff response address a number of other, specific issues.

11. The Office of the Public Counsel ("OPC") has now petitioned the Commission for an emergency ACA audit, similar to the one filed in this case, in the unscheduled filings of Atmos Energy, Greeley Gas Company, United Cities Gas Company, and Southern Missouri Gas Company. OPC has indicated that it believes that Laclede Gas Company is shielded from

adjustment by the terms of its approved Gas Supply Incentive Program. With respect to Laclede, and the four Missouri LDCs that have not yet made unscheduled filings, the Staff considers that review of the hedging practices of those five LDCs is warranted.

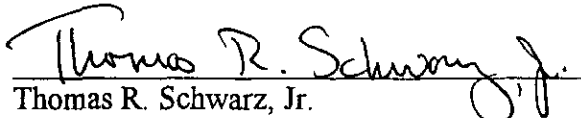
12. The Commission's order speaks of "a statewide audit." The project is really a separate, limited, audit of five to ten LDCs. Such an undertaking would require the attention of the entire Procurement Analysis Department Staff for several months. Separate Staff recommendations would follow. Should adjustments be recommended, the LDCs would have the opportunity to reply. If any differences between Staff and the LDCs cannot be settled, the Commission would set the matter for hearing and decision. Staff might seek an outside consultant on the subject of hedging to assist it in its investigation.

13. The Staff notes that there are currently pending a general rate case for MGE, a contested application for extension of Laclede's GSIP; various cases on review in the courts; and other ACA cases, including MGE's Case No. GR-96-450, which is set for prehearing next week. The Staff would likely be forced to delay the work on currently pending ACA audits to pursue its hedging review.

WHEREFORE, Staff recommends that the Commission direct the Staff and OPC to monitor MGE's DCCB on a continuing basis; authorize Staff to file a complaint if circumstances warrant; waive the limitation on the number of PGA filings to permit a rate reduction if prices move downward; and direct that an audit of MGE's hedging activity for this ACA period begin in mid-March.

Respectfully submitted,

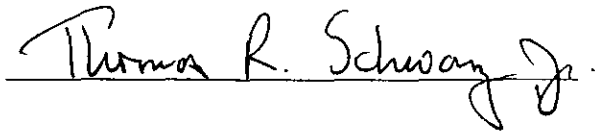
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 2nd day of February 2001.



Service List for
Case No. GR-2001-382
Revised: February 2, 2001 (SW)

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