

Winter 2005-2006

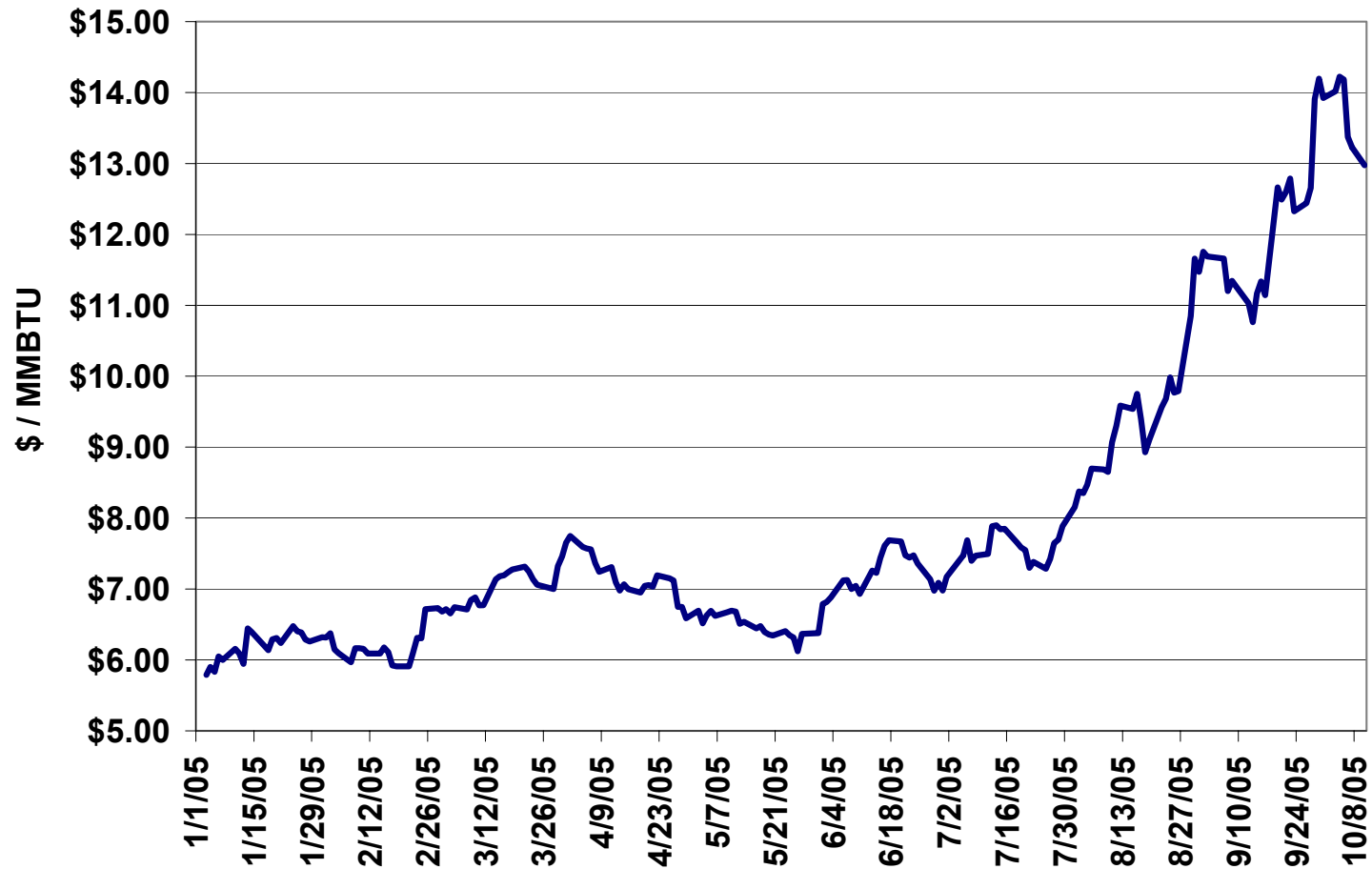
Gas Price Volatility Mitigation

Missouri Gas Energy

October 12, 2005

MGE GAS SUPPLY

NYMEX Natural Gas Futures



Fundamental Factors Affecting Pricing

- Production - Demand Balance
- Storage Fill Rates and YTD Balance
- Weather Deviation from Normal:
 - Hot Summer or Cold Winter
 - Hurricanes

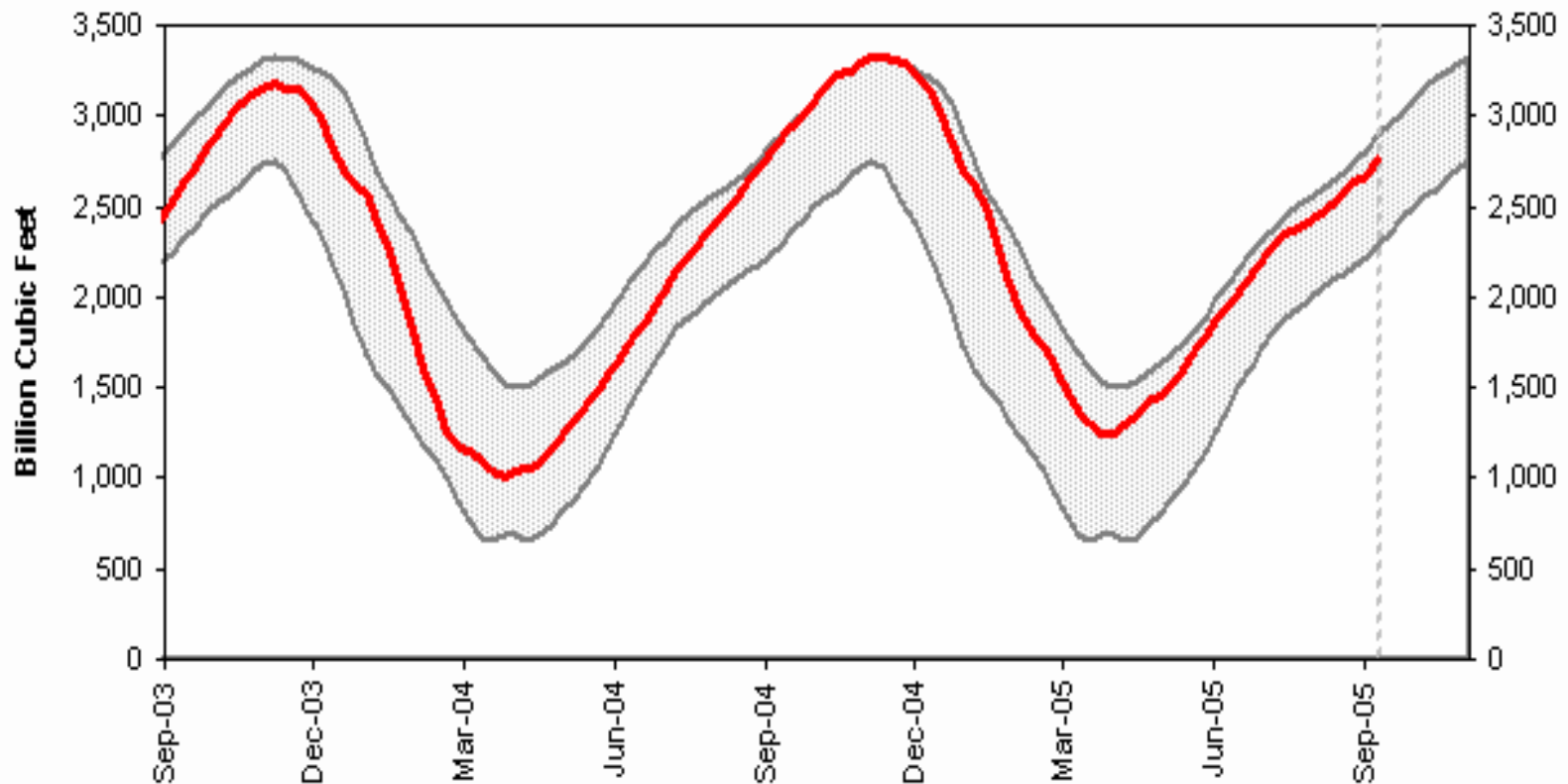
Weather - Summer 2005

- The 2005 US population-weighted cooling degrees days are 13.6% higher than 2004
- Increased summer demand by electrical power generators

Storage Refill

- A warm summer was pulling down the excess storage balance from winter 04/05
- Storage refill was on track in late July to reach a 3.1 - 3.2 tcf range
- These storage levels would have exceeded the five year average

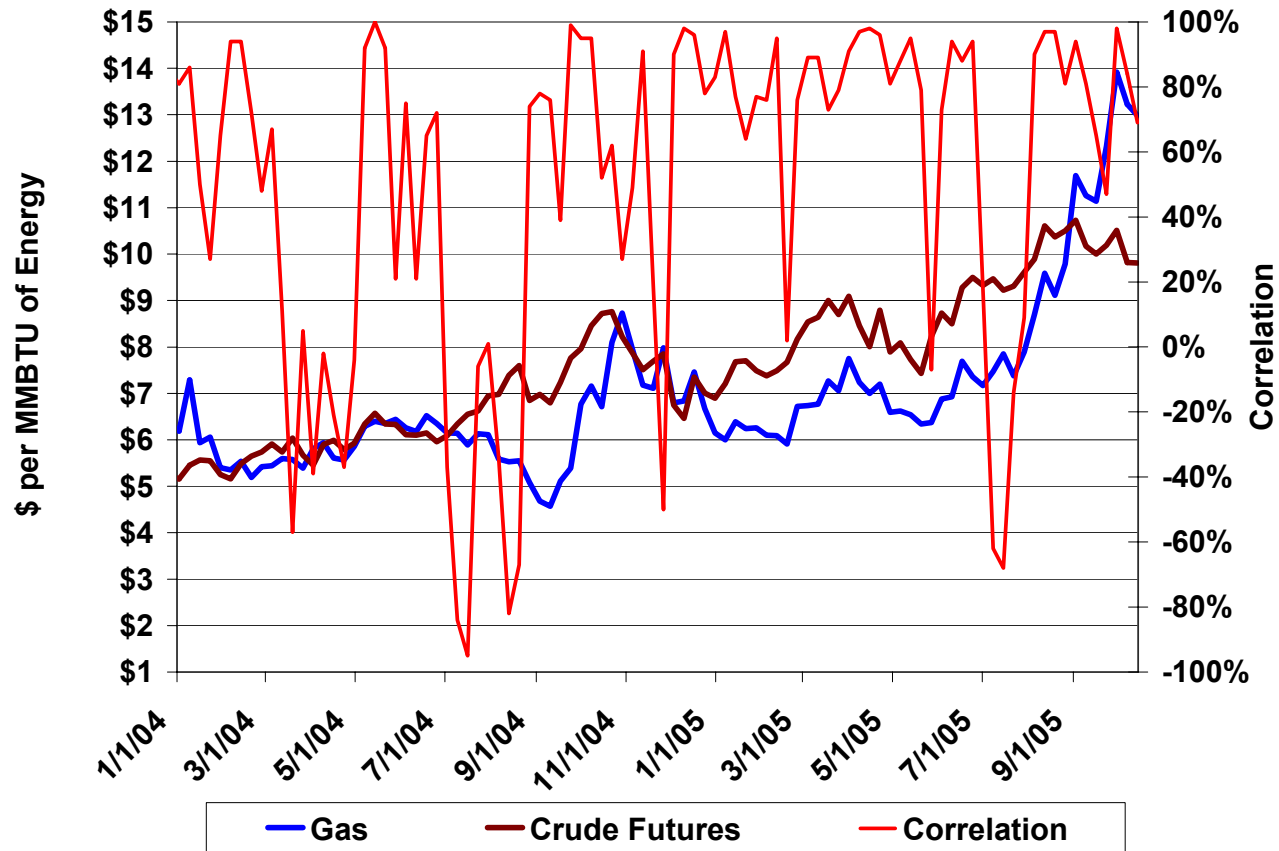
EIA Storage Report



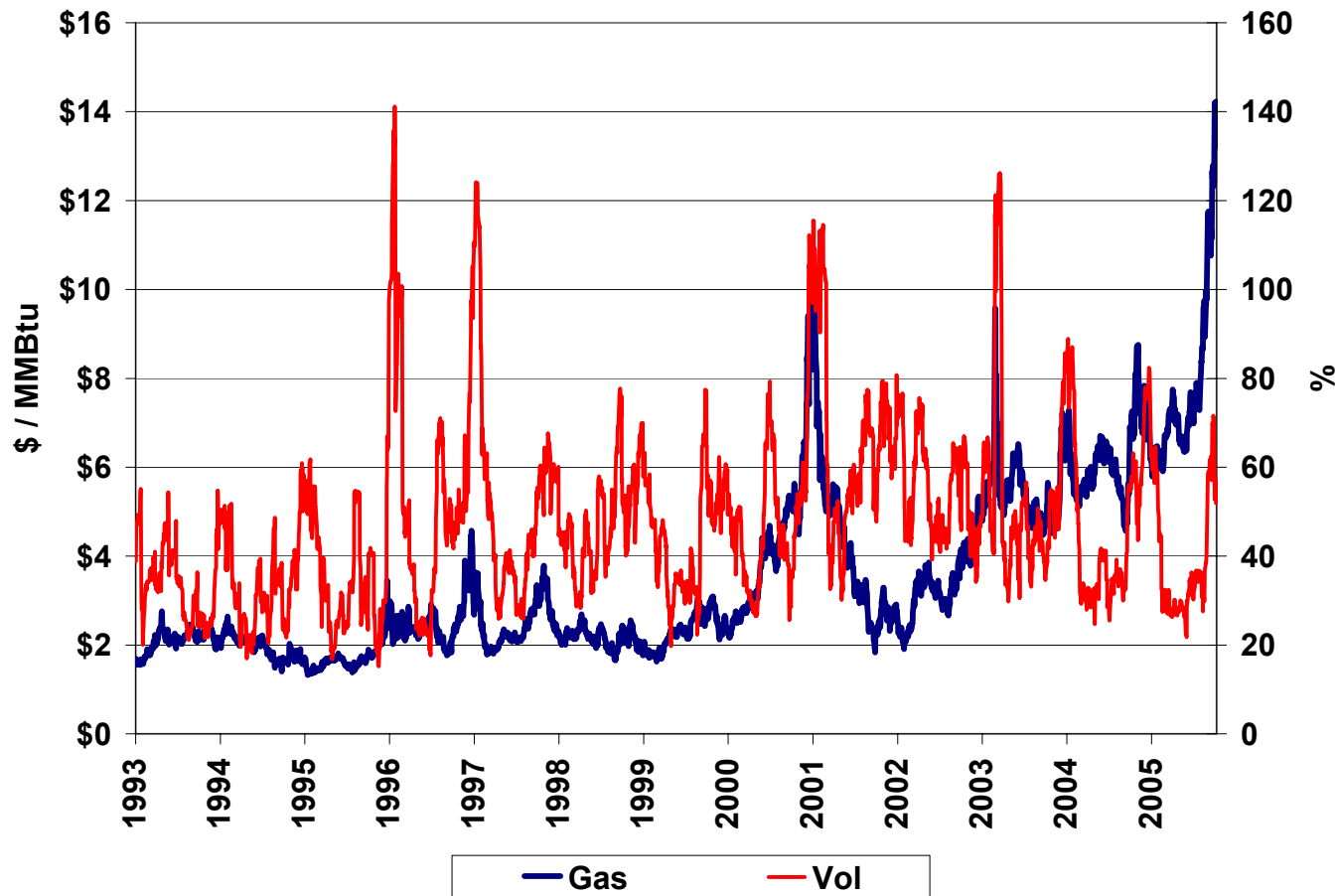
Other 2005 Pricing Factors

- Increasing Global Energy Market: Stronger oil price correlation with gas in 2005 - \$65/bbl oil
- Financial Markets: Increased non-commercial trading activity
- Hurricanes

Gas - Oil Correlation



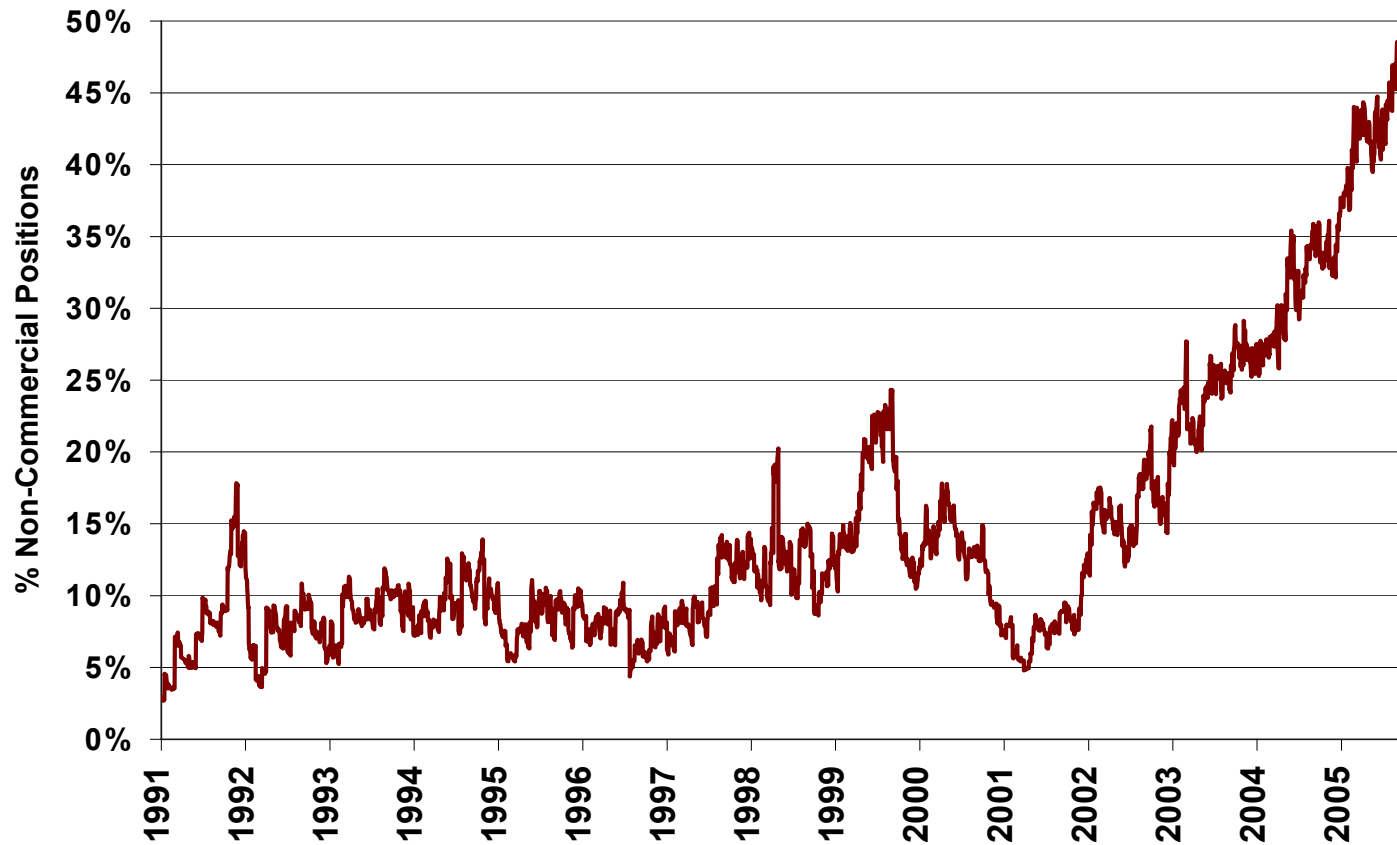
Price vs Volatility



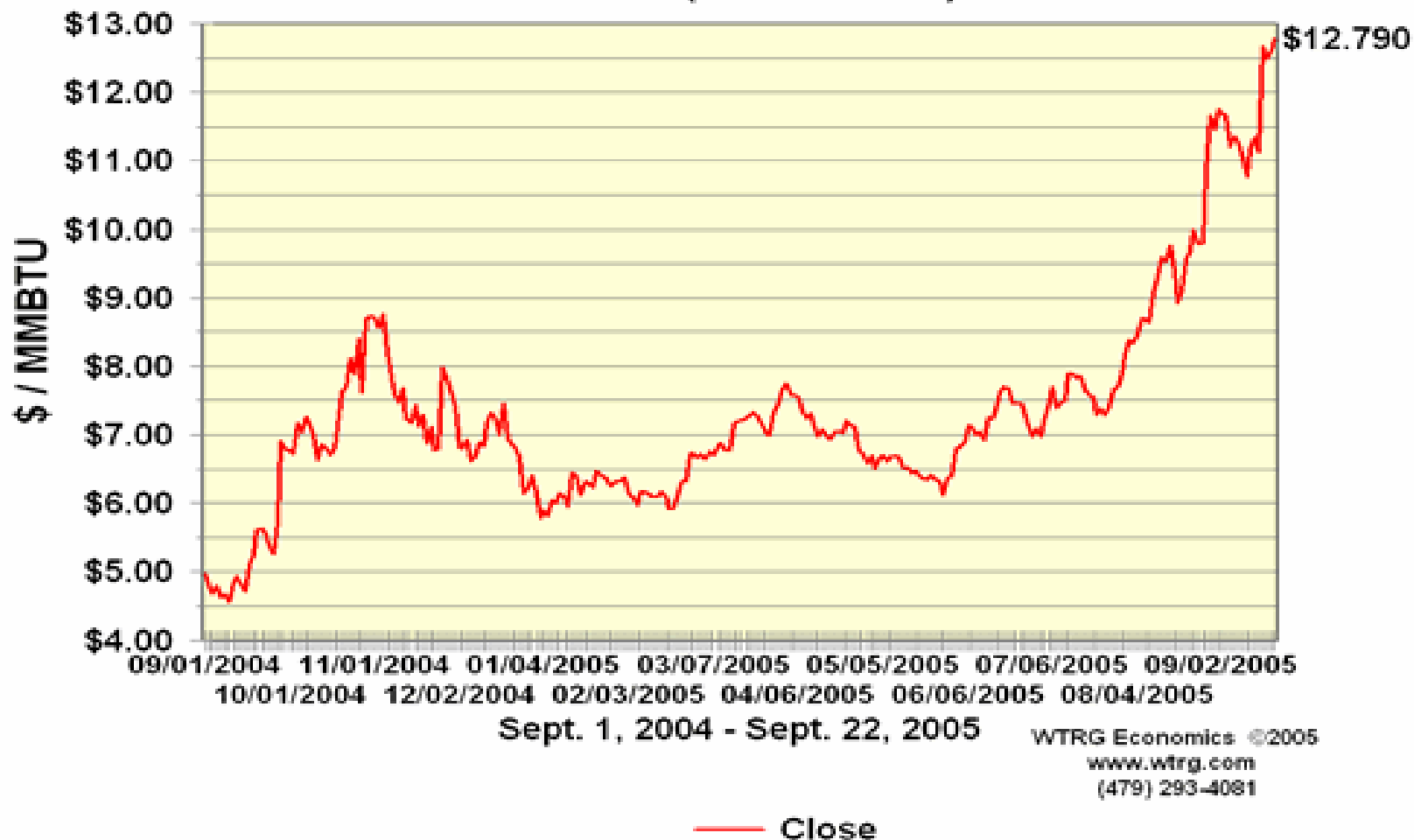
Financial Markets

- More non-commercial players
(Funds vs. end users of supply)
- Continued volatility in price

Percentage of Total Open Interest



NYMEX Natural Gas Futures Close (Front Month)



Katrina

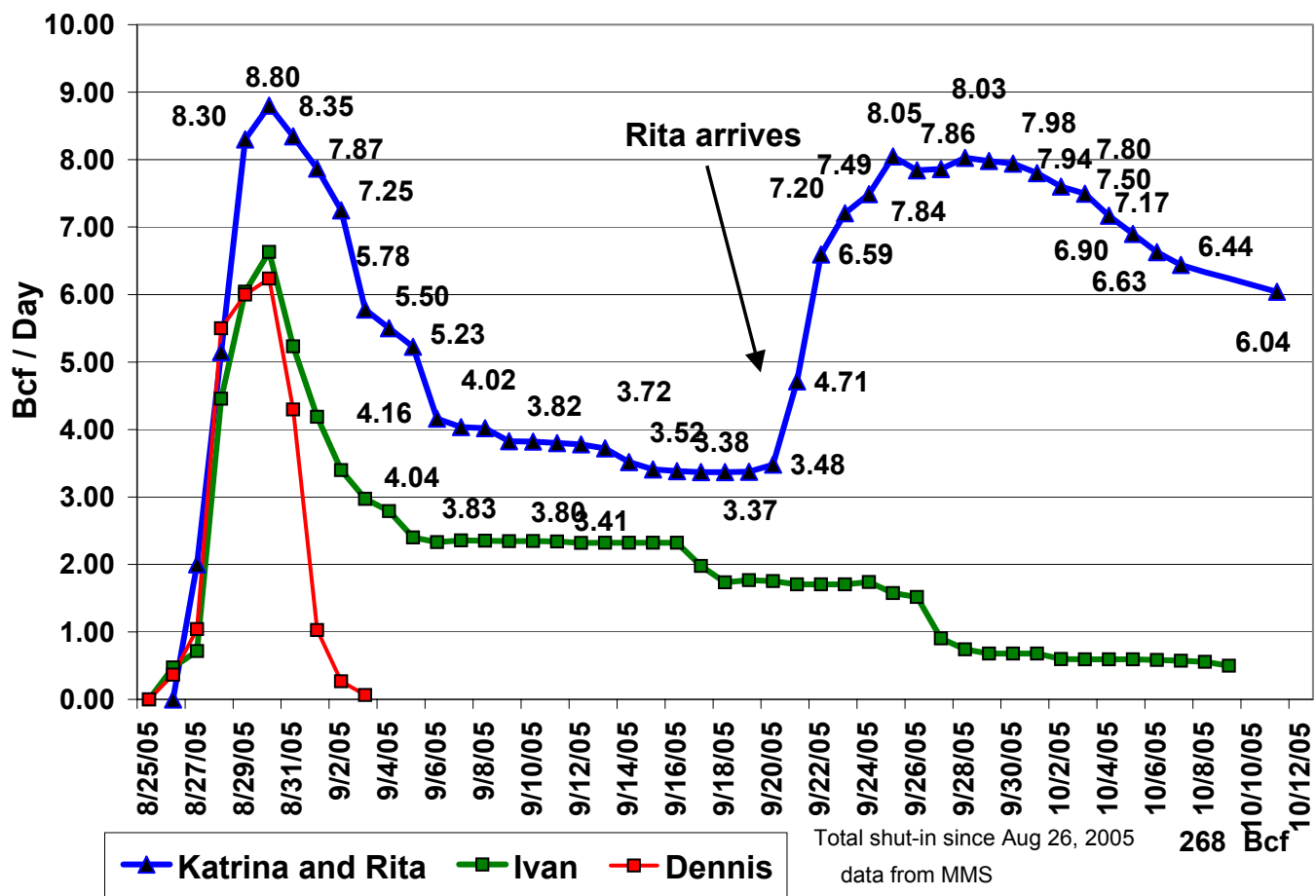


MGE GAS SUPPLY

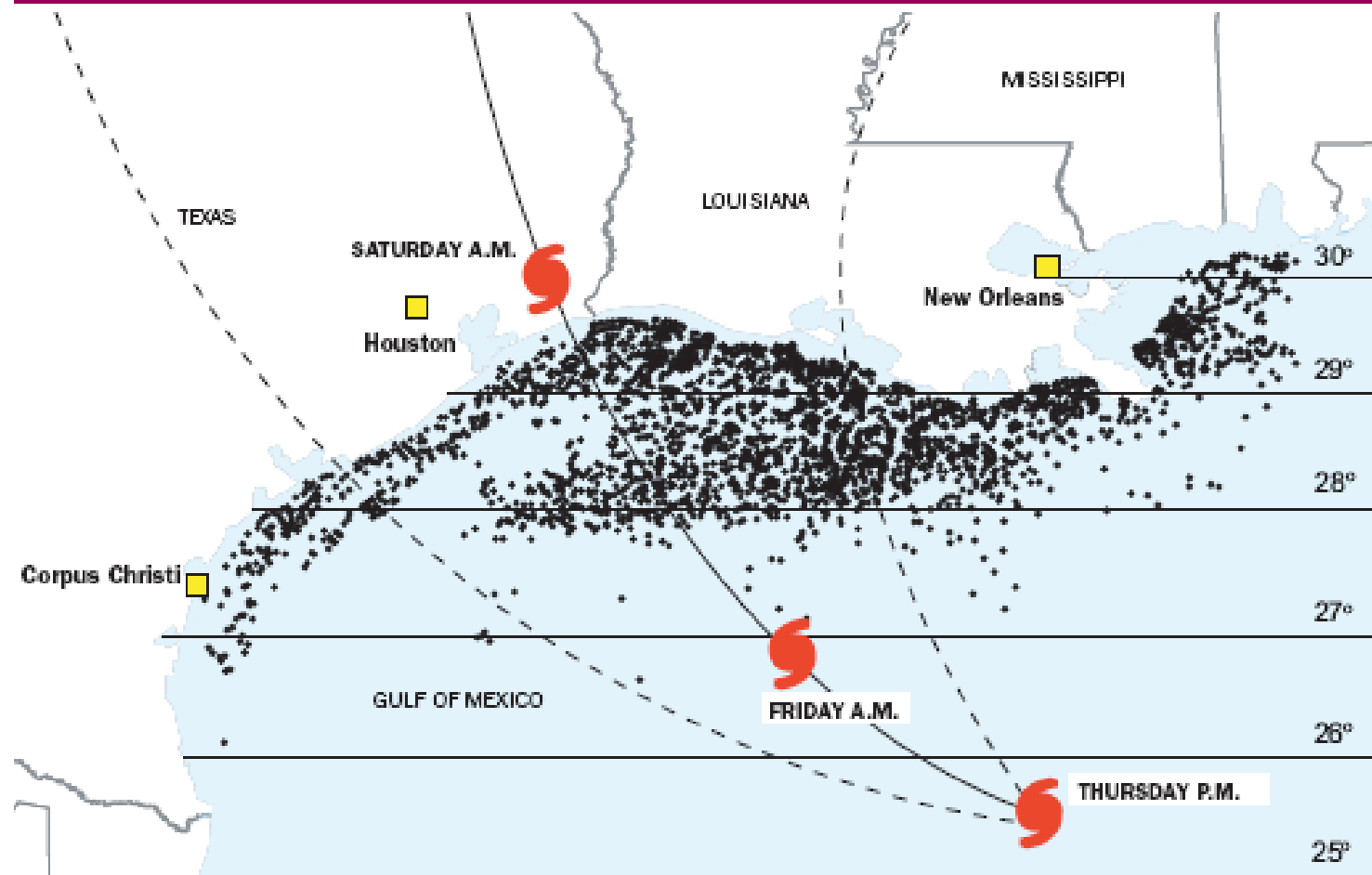
Recent Storms and Production Lost

- Ivan - Sept. 2004 - Category 3: 125 Bcf
- Dennis - July 2005 - Category 4: 25 BCF
- Katrina - August 2005 - Category 5/4
- Rita - Sept 23, 2005 - Category 5/4/3
 - Katrina and Rita : 200+ Bcf as of 10/9/2005
& 6.0 bcf/d shut-in today

Hurricane Shut-in Volumes



Gulf of Mexico production facilities



Source: POWERmap

MGE GAS SUPPLY

MGE Gas Supply Strategy

- Provide access to diverse supply basins: Rockies, Mid-Continent, Gulf Coast
- Maintain firm transportation capacity on five interstate pipelines
- Enhance supply reliability through storage assets
- Diversify supply and credit risk among multiple counterparties

Access to Diverse and Lower Cost Supply Basins

- 178,000 Mmbtus/day of Rockies capacity
 - added 20,000 Mmbtus/day on 10/1/2005
- Rocky Mountain basis differentials typically runs \$0.80 lower than NYMEX and \$0.30 lower than Mid-Continent;
10/11/05 Rockies basis is \$1.60 lower than NYMEX
- 79% of winter supply comes from the Rockies
- 21% of winter supply comes from Mid-Continent
- Gulf Coast access during winter peaks

Price Protection

- Hedge seasonal markets with financial instruments and storage volumes
- Hedge 60% of normal winter requirements

Winter Hedging Strategy

- Hedging 60% of normal winter volumes:
 - Provides meaningful protection against upward market movements
 - Permits meaningful participation in downward market movements

2005-2006 Winter Price Protection

- Targeted Volumes - 60% of normal winter volumes, or ~29.6 Bcf

10-14-2005 Position

• Storage	- 16.75 Bcf	57%
• Financial positions	- 10.85 Bcf	37%
• Open Financial	- 2.05 Bcf	<u>07%</u>
		100%

Storage Position Is Favorably Priced

- At the end of the warm '04-05 winter, MGE retained higher-than-typical storage balance into the summer
- In the face of historically high seasonal prices, MGE filled storage at a moderate rate to provide opportunity for market downturns and daily cash buying

Storage Position Is Favorably Priced

- Thru June of 2005, MGE made regular daily market purchases when pricing conditions were favorable:
 - » Purchased 1.13 bcf at \$5.85/dth
- Planned 11/1/2005 storage balance is 17.25 Bcf with WACOG of \$6.73/MMBtu

Financial Positions are Favorably Priced

- Financial instruments:
 - Purchased 7.85 Bcf at \$7.14/MMBtu basis adjusted (\$.90)
 - Purchase 3.00 Bcf - 50% Participating Index Swap with a cap
 - Purchase 2.05 Bcf - Open Position

Financial Positions are Favorably priced

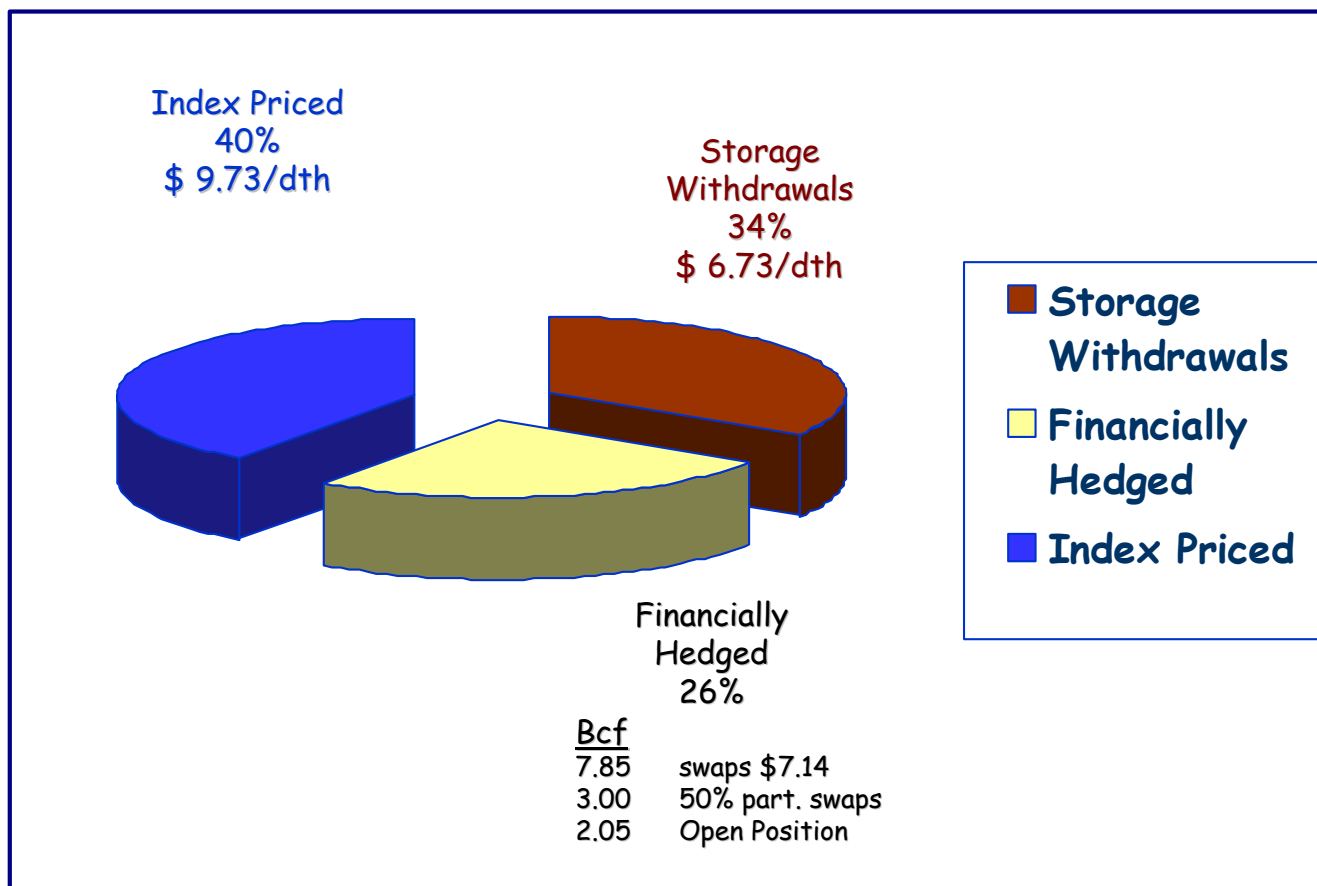
- 2005 Financial -\$12 mm Gain 8/12/05
- 2006 Financial -\$17 mm Gain 8/12/05

- 2005 Financial -\$28 mm Gain 9/7/05
- 2006 Financial -\$37 mm Gain 9/7/05

Financial Positions are Favorably Priced

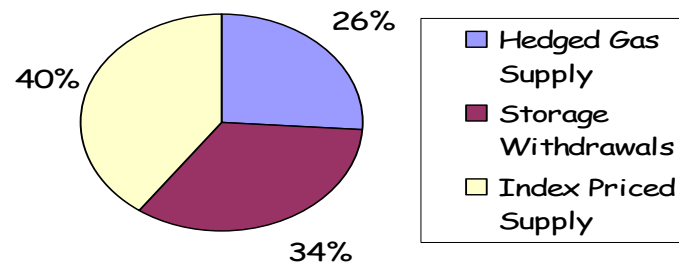
- Financial instruments have generally - although not always - been purchased in market troughs vs. market crests
- MGE has the flexibility to avoid purchasing significant volumes at high merchant prices prevailing in September and October

MGE Natural Gas Supply Position for Normal Winter

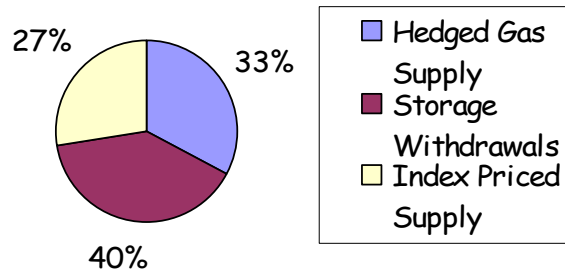


Warm / Normal / Cold Winter Scenarios

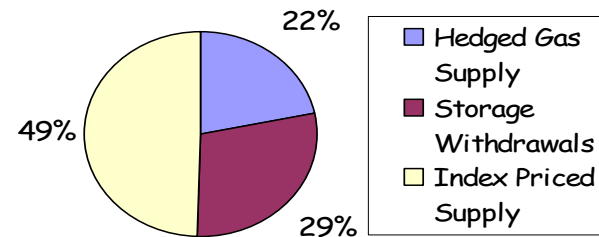
MGE Normal Winter Load



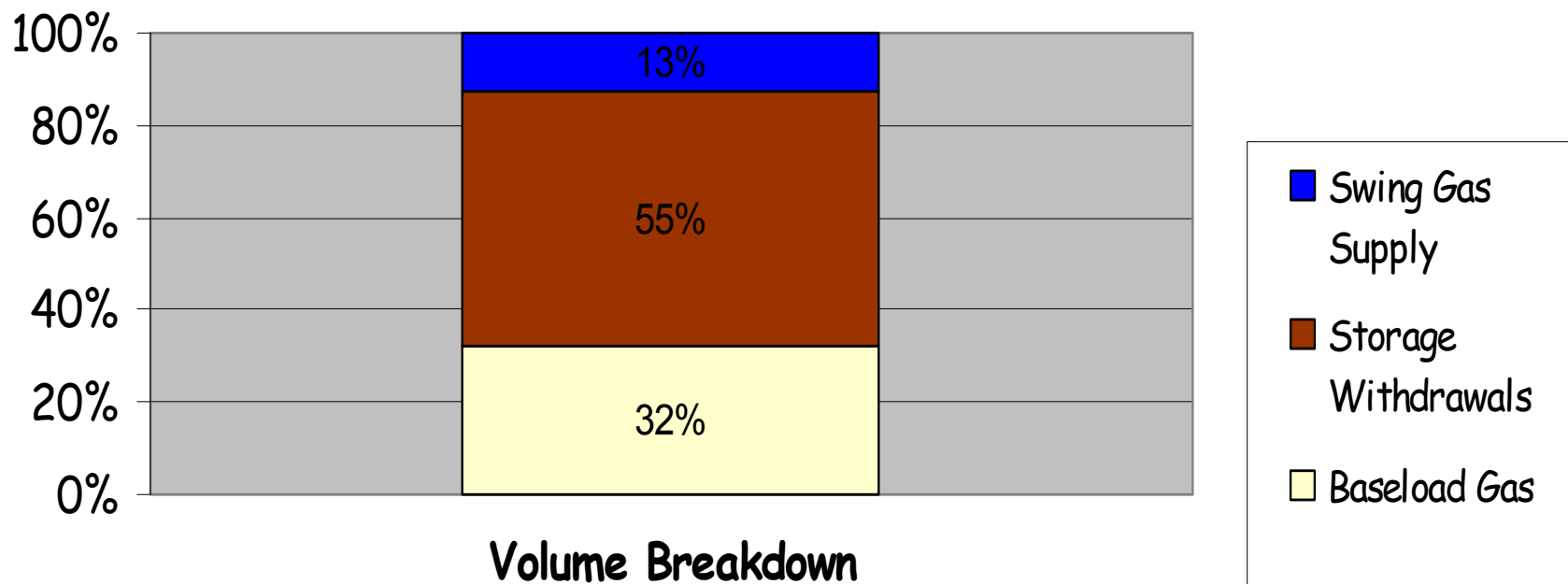
MGE Warm Winter Load



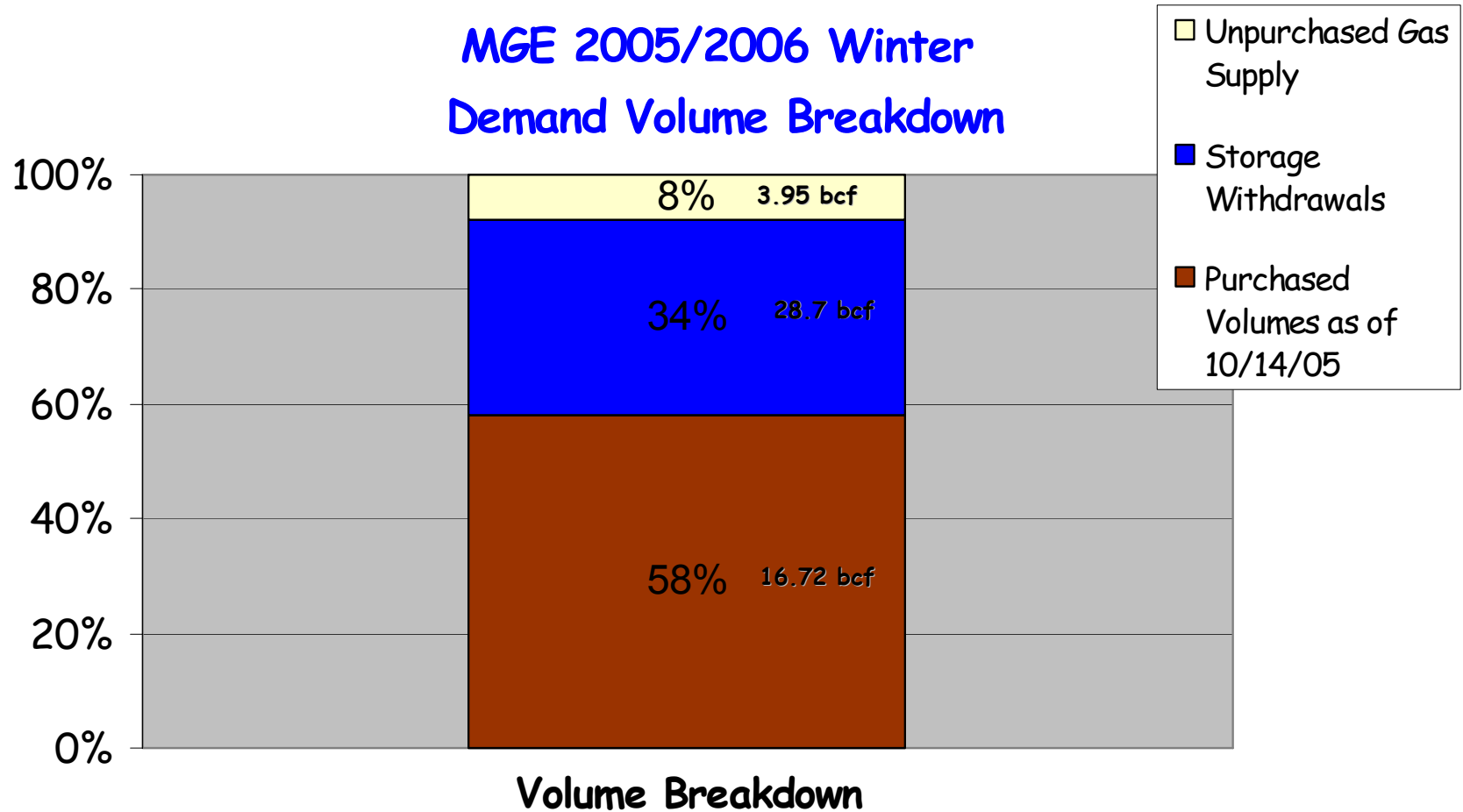
MGE Cold Winter Load



MGE Peak Design Day Firm Deliverability Resources



MGE 2005/2006 Winter Demand Volume Breakdown



End of Presentation

Questions?

Thank You!

MGE GAS SUPPLY