Exhibit No.:	
Issues:	*Capacity Release and Hedging*
Witness:	*David M. Sommerer*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case Nos.:	*GR-2001-382, GR-2000-425, GR-99-304 and GR-98-167 (Consolidated)*
Date Testimony Prepared:	*January 15, 2003*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS ENERGY

CASE NOS. GR-2001-382, GR-2000-425, GR-99-304 AND GR-98-167 (CONSOLIDATED)

Jefferson City, Missouri
January 2003

NP

****Denotes Highly Confidential Information****

Exhibit No. 9 NP
Case No(s). GR-2001-382
Date 5-12-03 Rptr KF

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 2000-2001 Actual Cost Adjustment	)))	**Case No. GR-2001-382**
In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment Factors to be Reviewed in its 1999-2000 Actual Cost Adjustment	)))	**Case No. GR-2000-425**
In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment Factors to be Reviewed in its 1998-1999 Actual Cost Adjustment	)))	**Case No. GR-99-304**
In the Matter of Missouri Gas Energy's Purchased Gas Cost Adjustment Tariff Revisions to be Reviewed in its 1997-1998 Actual Cost Adjustment	)))	**Case No. GR-98-167**

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 12 pages to be presented in the above case; that the answers in the following Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer

Subscribed and sworn to before me this 14th day of January 2003.

Toni M. Charlton

TONI M. CHARLTON NOTARY SEAL NOTARY PUBLIC STATE OF MISSOURI

TONI M. CHARLTON
NOTARY PUBLIC STATE OF MISSOURI
COUNTY OF COLE
My Commission Expires December 28, 2004

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DIRECT TESTIMONY OF

DAVID M. SOMMERER

CASE NOS. GR-2001-382, GR-2000-425, GR-99-304 AND GR-98-167 (CONSOLIDATED)

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DIRECT TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS ENERGY

**CASE NOS. GR-2001-382, GR-2000-425,
GR-99-304 AND GR-98-167
(CONSOLIDATED)**

Q. Please state your name and business address.

A. David M. Sommerer, P.O. Box 360, Jefferson City, Mo. 65102.

Q. By whom are you employed and in what capacity?

A. I am the Manager of the Procurement Analysis Department with the Missouri Public Service Commission.

Q. Please describe your educational background.

A. In May 1983, I received a Bachelor of Science degree in Business and Administration with a major in Accounting from Southern Illinois University at Carbondale, Illinois. In May 1984, I received a Master of Accountancy degree from the same university. Also, in May 1984, I sat for and passed the Uniform Certified Public Accountants examination. I am currently a licensed CPA in Missouri. Upon graduation, I accepted employment with the Commission.

Q. What has been the nature of your duties while in the employ of the Commission?

A. From 1984 to 1990 I assisted with audits and examinations of the books and records of public utilities operating within the State of Missouri. In 1988 the responsibility for conducting the Actual Cost Adjustment (ACA) audits of natural gas utilities was given to the Accounting Department. I assumed responsibility for planning and implementing these audits and trained available Staff on the requirements and conduct of the audits. I participated in most of the ACA audits from early 1988 to early 1990. On November 1, 1990, I transferred to the Commission's Energy Department. Until November of 1993, my duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased Gas Adjustment reviews, and tariff reviews as part of a rate case. In November of 1993, I assumed my present duties of managing a newly created department called the Procurement Analysis Department. This Department was created to more fully address the emerging changes in the gas industry especially as they impacted the utilities' recovery of gas costs. My duties have included managing the five member staff, reviewing ACA audits and recommendations, participating in the gas integrated resource planning project, serving on the gas project team, serving on the natural gas commodity price task force, and participating in matters relating to natural gas service in the State of Missouri.

Q. Have you previously testified before this Commission?

A. Yes. A list of cases and issues in which I have filed testimony is included as **Schedule 1** of my testimony.

Q. Did you make an examination and analysis of the books and records of Missouri Gas Energy (MGE or Company) in regard to matters raised in this case?

A. Yes. I have examined these records in the context of the issues I am addressing in this case.

Q. What matters will you address in your testimony?

A. I will address Missouri Gas Energy's (MGE's) failure to release capacity on Kansas Pipeline Company (KPC). I will also discuss the history of natural gas hedging in Missouri and MGE's specific history with regard to hedging. Finally, I provide an overview of the Staff purchasing practice disallowance.

Q. What knowledge, skill, experience training or education do you have in these matters?

A. I have been assigned and testified in many of the historical price stabilization cases in Missouri. I was directly involved with the development and review of MGE's fixed price program and have reviewed numerous ACA filings. I have also attended conferences and seminars related to the natural gas futures market and other natural gas issues.

Q. What is the purpose of your direct testimony in this case?

A. I will discuss the Staff's adjustment for MGE's failure to post capacity release on the KPC system. I will also provide the historical background for hedging programs and MGE's past programs. Finally, I provide an overview of the Staff purchasing practice disallowance.

Q. Please provide an overview of the consolidated cases.

A. After the Staff filed its recommendation in this 2000-2001 ACA Case (Case No. GR-2001-382), this case was consolidated with Case Nos. GR-2000-425, GR-99-304 and GR-98-167 which are MGE's 1999-2000, 1998-1999 and 1997-1998 ACA cases, respectively. Case No. GR-2001-382 has been designated the lead case number. The only issue that remains in Case Nos. GR-99-304 and GR-98-167, is the MKP/Riverside issue. Case No. GR-96-450, the 1996-1997 ACA case, also addressed the MKP/Riverside issue. Certain aspects of that case are still under court review. The Staff believes that since aspects of the MKP/Riverside issue are still under appeal, the issue should be held open in subsequent ACA periods, pending additional direction from the courts and the Commission.

In addition to the MKP/Riverside issue, Case No. GR-2000-425 has an issue regarding the Staff recommendations on MGE's reliability report. Finally, Case No. GR-2001-382, the lead case, has the deferred MKP/Riverside issue, the purchasing practices disallowance, the capacity release adjustment, and the reliability recommendation issues.

CAPACITY RELEASE

Q. Please describe the capacity release process?

A. Capacity release transactions occur when the Company has idle pipeline transportation capacity that is temporarily not needed for system requirements, and it makes that capacity available to other shippers. The Federal Energy Regulatory Commission (FERC) requires that capacity release transactions be posted for bid to the relevant interstate pipeline's electronic bulletin board unless certain conditions are met. Capacity release deals may occur on a pre-arranged basis or be auctioned to the highest bidder. The "replacement shipper" pays the interstate pipeline for the capacity. The interstate pipeline then credits the transportation invoice of MGE. These credits are made possible because MGE must pay the interstate pipeline fixed fees, called reservation charges, for firm pipeline capacity.

Q. Please describe the Staff's adjustment for capacity release.

A. MGE has a fixed amount of capacity on KPC for each month of the year. MGE pays reservation charges to reserve this level of capacity and pays these charges each month of the year regardless of whether MGE uses the capacity. The Staff reviewed several years of MGE's operating experience on this pipeline. Starting in the summer of 1998, MGE no longer transported any gas over KPC for the months of April through October. The Staff would have expected MGE to post this capacity for release on KPC's system, but MGE did not even make an attempt to release this capacity. See Schedule 2. When the Staff sought an explanation of why such a release had not been posted, MGE indicated that the economics on KPC's system did not support such a release. See Schedule 3. To enhance marketability of the KPC capacity, MGE could have enhanced the value of such a release by issuing the release on a non-recallable basis. If the KPC system's economics still did not support such a transaction, MGE should have evaluated the alternative of a non-recallable release on the Williams Pipeline system and then sourced replacement gas on KPC.

Q. How did Staff calculate the adjustment to account for MGE's failure to release capacity on KPC?

A. The Staff evaluated release rates on Williams pipeline. The Staff used Williams' pipeline's capacity release data for the review of release rates since this information was readily available to staff and contained numerous capacity release transactions. These release rates were almost entirely based upon recallable capacity. Recallable capacity indicates that "strings are attached" to the capacity so that the capacity can be "re-called" at the option of the releasing shipper. This reduces the value of such capacity. The Staff's adjustment assumes a release of the KPC capacity from

April through October at 75% of the maximum Williams' FERC rate. This discount to maximum FERC rates reflects the fact that the capacity would have greater value than a non-recallable release but also recognizes that a replacement shipper would not likely pay 100% maximum FERC rates for release capacity. Given the scarcity of non-recallable releases, an estimate of the value of this type of capacity was required. The discount of 25% reflects the fact that the capacity is not available for an entire year.

Q. Are there other considerations that you reviewed related to this adjustment?

A. Yes. MGE was under an incentive sharing mechanism related to capacity release for this ACA period. For most of the period, MGE was allowed to keep 30% of capacity release credits that exceed $900,000. The Staff has amended its recommended disallowance to reflect the fact that MGE would have shared in some of the KPC release credits. See Schedule 4.

HISTORY OF HEDGING IN MISSOURI

Q. Please provide a background on hedging practices in Missouri for LDCs?

A. Most Missouri LDCs have access to natural gas storage either through lease type arrangements with interstate pipelines or through locally owned storage. One of the positive aspects of storage is that injections usually occur in the summer months when natural gas prices tend to be lower. If storage is filled prior to the winter heating season, an LDC knows in advance what the cost of that portion of its gas supply will be since the gas has already been purchased. Thus, the cost of this gas will be fixed heading into the heating season. The utility can also put in place fixed price contracts and futures and other derivatives prior to the heating season to reduce the price uncertainty associate with volumes to be required during the heating season.

Accordingly, many Missouri LDCs have also used fixed price contracts for many years. These fixed price contracts were primarily used to simply obtain some diversification in its contract mix and not rely totally on "index pricing." At the time, not much review was conducted on how much of the total expected purchases should be covered by fixed price contracts. Yet, it was generally understood that it was reasonable to consider including some level of fixed price contracts in the contract mix.

Q. Please describe the meaning of the term "index pricing?"

A. Index pricing generally refers to tying a natural gas contract's pricing provision to a published index. This index can be developed on a monthly or daily period and is intended to reflect a survey of actual market prices on a particular interstate pipeline system. Index pricing was one of the predominant forms of pricing in the 1990s.

Q. What specific hedging practices did Missouri LDCs employ in the 1990s?

A. Besides storage and fixed pricing, some Missouri LDCs participated in the use of financial instruments.

Q. Please explain the meaning of the term "financial instrument."

A. As used in this context, the term means futures contracts, options contracts, and other similar derivatives that help mitigate natural gas price volatility. AmerenUE was one of the first Missouri LDCs to use these types of instruments in the early to mid 1990s as part of an experimental program to learn about the effects of financial instruments on natural gas procurement costs. Other large LDCs (MGE and

Laclede) participated in programs of a similar nature after the difficult winter of 1996-1997.

Q. What happened in the winter of 1996-1997?

A. Natural gas prices more than doubled compared to historical levels based upon spikes in monthly price indexes. Many customer complaints arose as LDCs' monthly Purchased Gas Adjustment (PGA) quickly reflected the underlying volatile prices in the wholesale price of gas. Calls for investigations into the wholesale markets abounded, as well as for a change in the PGA process. As a result of this intense outcry for change, an agreement was crafted that put strict limits on the number of PGA filings allowed per year. Often, this meant a reduction from over 12 PGA changes per year to two. In addition, these agreements developed criteria that were adopted by the largest LDCs to use financial instruments as a tool for hedging gas costs.

Q. Please explain the basic parameters of these programs.

A. The programs generally related to the use of financial instruments to cap the price of natural gas for a certain portion of the Company's gas supply. A discrete level of funding was determined for each LDC in order to acquire the instruments. Finally, broad discretion was provided in terms of how and when the instruments were acquired.

Q. When were these programs first implemented?

A. The programs were first implemented for the winter of 1997-1998. The programs were implemented by Missouri's three largest LDCs: Laclede Gas Company, AmerenUE and MGE.

Q. What was the experience under these price stabilization programs?

A. After the winter of 1996-1997, gas prices tended to stabilize. Although there were no significant realized gains from the programs, there was significant price protection reflecting the nature of the stabilization programs, which were generally analogous to an insurance policy. After the first two years of implementation, the three largest Missouri LDCs then tended to take different courses with respect to these programs. AmerenUE chose not to renew the price stabilization program after the first two years. Yet, it continued to address the price risk exposure of its customers in a variety of ways. On the other hand, Laclede developed an alternative program that contained certain incentive benchmarks and protection parameters that allowed the Company to share in gains from the program. MGE continued to request renewal of the standard financial instrument program with slight modifications to the original program.

Q. Please give a description of the circumstances that were occurring leading up to the winter of 2000-2001?

A. In the spring of 2000, natural gas prices and call option prices (the prices for caps to ensure against natural gas price increases) were still relatively low. Negotiations with MGE continued regarding its fixed price commodity incentive program. During May of 2000, after more than a year of discussions, a Stipulation And Agreement in MGE Case No. GO-2000-705 was filed (Schedule 5) that required MGE to fix the commodity price of its gas if certain market conditions prevailed.

Q. Please summarize that Stipulation And Agreement.

A. The major highlights of the agreement were as follows:

- MGE was required to fix the commodity cost of gas if prices on the New York Mercantile Exchange (NYMEX) reached a certain trigger.
- Sharing mechanisms and benchmarks were developed for capacity release, off-system sales, and pipeline discounts.
- The existing parameters of MGE's price stabilization program were kept in place until September 30, 2000.
- Prudence reviews were addressed in the agreement.

Q. Please continue with your description of events during the summer of 2000?

A. Prices increased from their levels in the spring during the summer of 2000. By June 1, 2000, natural gas prices had moved from $2.25 historical levels to an unprecedented $4.00. MGE's fixed price commodity incentive program was not approved until August of 2000. During July of 2000, the Staff organized a workshop to discuss the dramatic increase in prices.

Q. Had the Staff given any warnings about the risks of relying too heavily on index based or spot market pricing prior to the summer of 2000?

A. Yes. A Commission roundtable was held in May of 1997, discussing the problem of high natural gas price volatility in the markets. This roundtable was held at the same time efforts were underway to reform the PGA process. In June of 1997 the Staff filed a recommendation in Case No. GR-96-78 recommending that MGE not rely too heavily on index pricing (Schedule 6). Also in June of 1997, the Staff filed testimony in MGE Case No. GO-97-409 warning that indexed based contract contained no real cap against spot market prices and that fixed priced contracts should be considered (Schedule 7). On September 24, 1999, a Staff recommendation criticized MGE for its late filing to extend its price stabilization program and reaffirmed that MGE already had authority to hedge gas costs without prior Commission authorization (Schedule 8).

Q. What events took place later in the late summer and fall of 2000?

A. In late September 2000, MGE requested various modifications to its price stabilization program (Schedule 9). The Staff opposed this request, advising the Commission that MGE already had existing authority to hedge its gas costs. The Staff recommended that MGE be advised to take appropriate steps to review hedging without pre-approval. The Commission affirmed that concept in October 2001 (Schedule 10).

Q. Did MGE recognize that its own management was responsible and would be held accountable for the Company's approach to hedging natural gas costs?

A. Yes. In a letter to then-Chair Lumpe, MGE's president, Steven Cattron, reassured the Commission that MGE recognized its management responsibility with regard to hedging gas costs. That letter, excluding attachment, is provided as Schedule 11.

PURCHASING PRACTICES

Q. Please provide an overview of the Staff's disallowance related to MGE purchasing practices.

A. The Staff reviewed the natural gas hedging plans in place for Missouri LDCs. It also reviewed the actual practice of Missouri LDCs and the various tools available to address natural gas price volatility. The Staff issued an RFP to obtain assistance in its evaluation of Missouri LDC hedging practices. It is the Staff's policy that if an LDC did not have a reasonable plan in place to address price volatility for the winter of 2000-2001 and did not meet an absolute minimum of 30% hedging for each month of the heating season (either through storage or fixed prices) a disallowance would be quantified. As discussed by Staff witnesses John Herbert and Lesa Jenkins, 30% represented an achievable minimum even for LDCs relatively new to the concept of hedging.

The vast majority of Staff's proposed disallowance is associated with MGE's planned and actual use of storage. Although storage can be used to mitigate price volatility, its planned and actual use early in the heating season can have a dramatic effect on how much storage remains to meet a portion of future monthly natural gas demands later in the heating season. In order to serve as an effective hedge, storage must be used prudently throughout the heating season. In particular, if significant levels of storage have been used by December, little may be left to meet a portion of monthly natural gas demands and dampen natural gas price volatility later in the heating season. MGE's planned and actual operation of storage for heating season 2000/2001 in combination created significant price risk exposure for its customers. Staff witness Lesa Jenkins addresses MGE's use of storage in her testimony.

Q. Does this conclude your direct testimony?

A. Yes.

LISTING OF CASES IN WHICH TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	ISSUES	CASE NO.
Missouri-American Water Co.	Payroll	WR-85-16
Great River Gas Company	Payroll, Working Capital	GR-85-136
Grand River Mutual Telephone	Cash Working Capital	TR-85-242
Associated Natural Gas Company	Revenues, Gas Cost	GR-86-86
Empire District Electric Company	Revenues	WR-86-151
Grand River Mutual Tel. Company	Plant, Revenues	TR-87-25
Great River Gas Company	Lease application	GM-87-65
KPL Gas Service Company	ACA gas costs	GR-89-48
KPL Gas Service Company	ACA gas costs	GR-90-16
KPL Gas Service Company	Service line replacement	GR-90-50
Associated Natural Gas Company	Payroll	GR-90-152
United Cities Gas Company	PGA tariff	GR-90-233
United Cities Gas Company	PGA tariff	GR-91-249
Laclede Gas Company	PGA tariff	GR-92-165
United Cities Gas Company	PGA tariff, billing adjustments	GR-93-47
Western Resources Inc.	PGA tariff, billing adjustments	GR-93-240
Union Electric Company	ACA gas costs	GR-93-106
Missouri Public Service	Cost of Gas	GA-95-216
Missouri Gas Energy	Incentive Plan	GO-94-318
Missouri Gas Energy	PGA Clause	GO-97-409
United Cities Gas Company	PGA Clause	GO-97-410
Missouri Gas Energy	ACA Gas Costs	GR-96-450
Missouri Gas Energy	Complaint Gas Costs	GC-98-335

COMPANY	ISSUES	CASE NO.
Laclede Gas Company	Price Stabilization	GO-98-484
Laclede Gas Company	PGA clause	GR-98-374
Laclede Gas Company	Complaint PGA	GC-99-121
Laclede Gas Company	Incentive Plan	GT-99-303
Laclede Gas Company	ACA Gas Cost	GR-98-297
Laclede Gas Company	Incentive plan	GT-2001-329
Laclede Gas Company	Price Stabilization	GO-2000-394
Laclede Gas Company	Inventory, Off-System sales	GR-2001-629
Laclede Gas Company	Inventory, Off-System sales	GR-2002-356
Laclede Gas Company	ACA Price Stabilization	GR-2001-387
Laclede Gas Company	Low-Income Program	GT-2003-0117

Missouri Gas Energy
A Division of Southern Union Company

Missouri Public Counsel **Case Number GR-2001-382** **Data Request Number 81**

Requested By: Lesa Jenkins and Anne Allee

Requested From: Mike Noack

Date of Request: March 26, 2002

Information Requested: Please provide copies of all documentation that shows that MGE made attempts to either post or negotiate a pre-arranged capacity release on the Kansas Pipeline Company (KPC) system during the 12 months ended June 30, 2001.

Response: MGE did not post capacity for release on the Kansas Pipeline Company bulletin board during the 12 months ending June 30, 2001. MGE had various verbal conversations with companies that expressed interest in obtaining a released capacity, and no company has ever expressed an interest in obtaining MGE's Kansas Pipeline Company capacity. No records were made of verbal conversations in this regard as most companies were interested primarily in obtaining released capacity on the Williams Gas Pipeline – Central system.

The Company has since posted for release capacity a portion of its Kansas Pipeline capacity for the 2002 period, and no bids have been received on its posted capacity. In addition, see attached correspondence from Enbridge, a parent company of Kansas Pipeline Company.

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PUBLIC SERVICE COMMISSION

Prepared By: ____ Date: 4-26-2002

Enbridge Midcoast Energy Inc.
1100 Louisiana
Suite 3300
Houston, TX 77002

ENBRIDGE™

April 2, 2001

Mr. Michael J. Langston
Vice President, Gas Supply
Missouri Gas Energy, a division of
Southern Union Company
504 Lavaca, Suite 900
Austin, Texas 78701

08-04-02 A10:05 IN

RE: Capacity Release on Enbridge Pipelines (KPC), formerly Kansas Pipeline Company

Dear Mike:

It was good to talk to you yesterday; it's been too long. I hope that things have been going well for you.

After our conversation, I double-checked capacity release activity on the Enbridge Pipelines (KPC) system. From the date KPC became federally regulated and opened its system to capacity release transactions beginning June 1, 1997, to date, there have been no capacity release transactions executed on the system.

If I can be of further assistance, please let me know.

Sincerely,

Joan A.W. Schnepp
Vice President
Enbridge Pipelines (KPC)

Phone: 713 650 8900 • Fax: 713 821 2232

Missouri Gas Energy
Capacity Release Summary Report
WNG July,2000 - June,2001

	Production Area			Market Area		
	Avg Release Credit	Released Volume/Month	Release Credits	Avg Release Credit	Released Volume/Month	Release Credits
Jul-00	$0.01381	697,393	$9,634	$0.00784	831,355	$6,520
Aug-00	$0.01608	608,908	$9,792	$0.00801	784,550	$6,287
Sep-00	$0.01891	352,648	$6,670	$0.00740	932,648	$6,903
Oct-00	$0.01797	412,422	$7,413	$0.00798	1,048,302	$8,369
Nov-00	$0.03441	456,614	$15,710	$0.01875	1,185,852	$22,236
Dec-00	$0.06703	270,120	$18,106	$0.02431	1,516,938	$36,871
Jan-01	$0.03673	107,911	$3,964	$0.03789	1,786,849	$67,696
Feb-01	$0.07216	595,865	$42,998	$0.02556	1,761,227	$45,013
Mar-01	$0.04858	440,256	$21,387	$0.02029	1,202,269	$24,397
Apr-01	$0.03103	166,697	$5,173	$0.00962	1,205,634	$11,594
May-01	$0.02362	252,978	$5,976	$0.00997	983,888	$9,809
Jun-01	$0.01065	1,277,734	$13,602	$0.00868	957,345	$8,308
Totals	$0.02845	5,639,546	$160,425	$0.01789	14,196,857	$254,002

projects\2002\CapRel7-00-6-01.xls
4/4/02

Missouri Gas Energy
Capacity Release Commodity Rate Comparison

	Williams	PEPL 100-200 miles	PEPL 200-300 miles	KMIGT	KPC
Production Area Commodity Rate	0.0124	0.0201	0.0201	n/a	n/a
Market Area Commodity Rate	0.0061	0.0251	0.0276	0.0204	0.0625
Total Commodity Rate	0.0185	0.0452	0.0477	0.0204	0.0625
Production Area Fuel Rate	1.64%	1.13%	1.13%	n/a	n/a
Market Area Fuel Rate	0.69%	0.09%	1.35%	3.30%	3.61%
Total Fuel Rate	2.33%	1.22%	2.48%	3.30%	3.61%

Missouri Gas Energy
A Division of Southern Union Company

Missouri Public Counsel
Case Number GR-2001-382
Data Request Number 84

Requested By: Lesa Jenkins and Anne Allee

Requested From: Mike Noack

Date of Request: March 26, 2002

Information Requested: Please provide all details such as rates, recall provisions, and terms for any proposed releases of firm capacity on the KPC system by MGE.

Response: MGE did not post capacity for release on the KPC system during the twelve (12) months ending June 30, 2001.

For recent capacity postings on the Kansas Pipeline system, see the attached printout showing the terms and conditions of the posted release.

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PUBLIC SERVICE COMMISSION

Prepared By: [signature] Date: 4.26.2002

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pacity Release Offer Detail

Last Server Sync: 04/25/2002 11:36:58 am

Add

TSP	KPC	Offer No:	18	Rel Type:	Temporary Point-to-point bidding
Company Contact	MGE	UPPD No:		Offer Status:	POSTED
Rel K No	060196-103109-1-FT	Offer K Qty: Max:	20000		
Rate Schedule:	NNS.	Term: Max:	175	Min:	175

Rel Term Start Date:	04/08/2002	Rel Term End Date:	09/30/2002	Posting D/T:	03/28/2002 01:31:32 pm
Period Start D/T:	04/01/2002 01:00:00 pm	Bid Period End D/T:	04/03/2002 02:00:00 pm	Capacity Award D/T	
sonal Start Date:		Seasonal End Date:		Offer Withdrawal D/T	

TERMS | LOCATIONS & QUANTITIES | RATES | EVALUATION

Short Term Ind:	Y	Allowable Re-rel Ind:	☐	Indemnification Clause:		Stand-Alone Offer Ind	☑
Lesser Rate Ind:	N	Previously Rel Ind:	☐	Discount Ind:	☐	Special Terms Ind	☐
Lesser Qty Ind:	N	Permanenent Rel Ind:	☐	Replacement Cap Ind:	☐	Notes & Special Instructions Ind	☐
Prearranged Deal Ind:	☐			Recall/Reput Ind:	Capacity is not recallable		
				Contingency Ind:	☐		

Start 11:38 AM

Thursday, Apr 25, 2002 11:38 AM

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Offer Detail - Microsoft Internet Explorer

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Capacity Release Offer Detail

Last Server Sync: 04/25/2002 11:41:09 ar

Add

TSP: KPC
Rel Company Contact: MGE
Rel K No: 060198-103109-1-FT
Rate Schedule: NNS

Offer No: 18
UPPD No:
Offer K Qty: Max: 20000
Term: Max: 175
Min: 175

Rel Type: Temporary Point-to-point bidding
Offer Status: POSTED

Rel Term Start Date: 04/08/2002
Bid Period Start D/T: 04/01/2002 01:00:00 pm
Seasonal Start Date:

Rel Term End Date: 09/30/2002
Bid Period End D/T: 04/03/2002 02:00:00 pm
Seasonal End Date:

Posting D/T: 03/28/2002 01:31:32 pm
Capacity Award D/T
Offer Withdrawal D/T

TERMS | LOCATIONS & QUANTITIES | RATES | EVALUATION

Path Loc Names Receipt Delivery	Loc Max Qty	Max Rate
40204	20000	0.050000

CAMINUS

Start 11:40 AM

Thursday, Apr 25, 2002 11:40 AM

Schedule 2-7

Offer Detail - Microsoft Internet Explorer

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Capacity Release Offer Detail

Last Server Sync: 04/25/2002 11:41:32 am

Add

TSP: KPC

Offer No: 18

Rel Type: Temporary Point-to-point bidding

Rel Company Contact: MGE

UPPD No:

Offer Status: POSTED

Rel K No: 060198-103109-1-FT

Offer K Qty: Max: 20000

Term: Max: 175

Min: 175

Rate Schedule: NNS

Rel Term Start Date: 04/08/2002

Rel Term End Date: 09/30/2002

Posting D/T: 03/28/2002 01:31:32 pm

Bid Period Start D/T: 04/01/2002 01:00:00 pm

Bid Period End D/T: 04/03/2002 02:00:00 pm

Capacity Award D/T:

Seasonal Start Date:

Seasonal End Date:

Offer Withdrawal D/T:

TERMS | LOCATIONS & QUANTITIES | PATH | EVALUATION

Rate Identification: Volumetric

Rate Form/Type: Volumetric Charges Only

Reservation Rate Basis: Per Month

Min Acceptable Vol Type Ind: Quantity

Bid Denomination Ind: Absolute dollar and cents

Min Acceptable Vol: 20000Dth

Min Vol Load Factor %: 100

Surcharge Ind: Rate(s) stated include all applicable surcharges; No surcharge detail provided

Pressure Base: 14.7299995422363 Pounds Per Square Inch Absolute

Tot Surcharges

Internet

Start

11:40 AM

Thursday, Apr 25, 2002 11:40 AM

Schedule 2-8

ffer Detail - Microsoft Internet Explorer

Edit View Favorites Tools Help

Back Search Favorites History

pacity Release Offer Detail

Last Server Sync: 04/25/2002 11:41:52 am

Add

TSP:	KPC	Offer No:	18	Rel Type:	Temporary Point-to-point bidding
Company Contact:	MGE	UPPD No:		Offer Status:	POSTED
Rel K No:	060198-103109-1-FT	Offer K Qty: Max:	20000		
		Term: Max:	175	Min:	175
Rate Schedule:	NNS				

Term Start Date:	04/08/2002	Rel Term End Date:	09/30/2002	Posting D/T:	03/28/2002 01:31:32 pm
Bid Period Start D/T:	04/01/2002 01:00:00 pm	Bid Period End D/T:	04/03/2002 02:00:00 pm	Capacity Award D/T:	
sonal Start Date:		Seasonal End Date:		Offer Withdrawal D/T:	

TERMS | LOCATIONS & QUANTITIES | RATE | EVALUATION

Bid Evaluation Mthd Ind: Highest Rate

Bid Tie-Breaking Mthd Ind: Pipeline Method

Internet

tart 11:41 AM

Missouri Gas Energy
A Division of Southern Union Company

Missouri Public Counsel **Case Number GR-2001-382** **Data Request Number 83**

Requested By: Lesa Jenkins and Anne Allee

Requested From: Mike Noack

Date of Request: March 26, 2002

Information Requested: If the Company has not attempted to post or pre-arrange a capacity release transaction on KPC, please provide all reasons for this decision.

Response: Please see response to Data Request Number 81. In addition, as provided to the Staff, the overall incremental capacity cost on the Kansas Pipeline System far exceeds the incremental cost on alternatives available on the Williams Gas Pipeline – Central system. For this reason, no companies would be interested in obtaining release capacity on a system which has an incremental five to seven cents ($.05 - $.07) premium per MMBtu cost over and above the cost to obtain the released capacity.

In addition, MGE had obtained on average less than five cents ($.05) per MMBtu for both production and market area capacity across the Williams system. Therefore, even on an incremental basis, with no value provided to a releasing capacity holder, the Kansas Pipeline system would still remain more expensive than obtaining capacity on the Williams system. In addition, as has been discussed with the Staff, a very substantial operational issues involving the Transok lease that is imbedded with the Kansas Pipeline capacity which restricts receipt point locations for certain percentages of the supply deliveries into Transok. See also correspondence from Duke Energy that describes their independent analysis of the Kansas Pipeline capacity.

RECEIVED
MAY 01 2002
UTILITY SERVICES DIV.
PUBLIC SERVICE COMMISSION

Prepared By: [signature] Date: 4-26-2002

Mike Langston

From: Mike Langston
Sent: Thursday, April 04, 2002 11:18 AM
To: Rob Hack
Cc: Mike Noack
Subject: Capacity Release values on KPC

CapRelCompare.xls CapRel7-00-6-01.xls

Attached are two files showing:

1) A comparison of the incremental commodity and fuel rates applicable on the interstate pipelines serving MGE. These incremental rates are the fees that would be paid by a company acquiring released capacity from MGE under the contract they would sign with the pipeline company. Additionally, any "release credit" we obtain would be a fee in addition to these amounts, as would the normal GRI and ACA surcharges.

2) A summary of the capacity release credits obtained on the Williams system for the period July 1, 2000 through June 30, 2001. This calculates the average "release credit" received in the production and market zones on Williams. These rates would be in addition to the commodity rate and fuel rate payments that a company acquiring capacity from MGE would pay to Williams, with these amounts ultimately credited to our invoices.

These sheets show that with the higher commodity rate, and higher fuel charges on KPC, acquiring capacity on Williams, PEPL, or Kinder-Morgan, would be cheaper that acquiring capacity on KPC. Additionally, as I have sent to you, KPC has never concluded any capacity release transactions on their system. These rate comparison clearly show why this is the case, regardless of the Transok lease operating requirements.

Once you review this, if you see no problems, feel free to share this with Tim and any other member of the MPSC Staff. Thanks.

Missouri Gas Energy
Capacity Release Commodity Rate Comparison

	Williams	PEPL 100-200 miles	PEPL 200-300 miles	KMIGT	KPC
Production Area Commodity Rate	0.0124	0.0201	0.0201	n/a	n/a
Market Area Commodity Rate	0.0061	0.0251	0.0276	0.0204	0.0625
Total Commodity Rate	0.0185	0.0452	0.0477	0.0204	0.0625
Production Area Fuel Rate	1.64%	1.13%	1.13%	n/a	n/a
Market Area Fuel Rate	0.69%	0.09%	1.35%	3.30%	3.61%
Total Fuel Rate	2.33%	1.22%	2.48%	3.30%	3.61%

Missouri Gas Energy
Capacity Release Summary Report
WNG July,2000 - June,2001

	Production Area			Market Area		
	Avg Release Credit	Released Volume/Month	Release Credits	Avg Release Credit	Released Volume/Month	Release Credits
Jul-00	$0.01381	697,393	$9,634	$0.00784	831,355	$6,520
Aug-00	$0.01608	608,908	$9,792	$0.00801	784,550	$6,287
Sep-00	$0.01891	352,648	$6,670	$0.00740	932,648	$6,903
Oct-00	$0.01797	412,422	$7,413	$0.00798	1,048,302	$8,369
Nov-00	$0.03441	456,614	$15,710	$0.01875	1,185,852	$22,236
Dec-00	$0.06703	270,120	$18,106	$0.02431	1,516,938	$36,871
Jan-01	$0.03673	107,911	$3,964	$0.03789	1,786,849	$67,696
Feb-01	$0.07216	595,865	$42,998	$0.02556	1,761,227	$45,013
Mar-01	$0.04858	440,256	$21,387	$0.02029	1,202,269	$24,397
Apr-01	$0.03103	166,697	$5,173	$0.00962	1,205,634	$11,594
May-01	$0.02362	252,978	$5,976	$0.00997	983,888	$9,809
Jun-01	$0.01065	1,277,734	$13,602	$0.00868	957,345	$8,308
Totals	$0.02845	5,639,546	$160,425	$0.01789	14,196,857	$254,002

projects/2002/CapRel7-00-6-01.xls
4/4/02

Duke Energy.

Mobil®

April 4, 2002

Mr. Michael Langston
Missouri Gas Energy c/o
Southern Union Company
IV Barton Skyway
1301 South Mopac, Suite 400
Austin, TX 78746

09-04-02 P03:34 IN

Re: Kansas Pipeline Capacity

Dear Mr. Langston:

Please reference our telephone conversation of April 1, 2002 regarding the value placed by Duke, on your Transok/KPL capacity during our internal review of our proposed transaction prior to its September 01 effective date. The result of our review indicated that the Transok/KPL capacity had little or no utility for Duke's purposes and therefore no value for the following reasons:

- Cost of supply on the Transok system typically has a higher value than other potential supplies reaching the Kansas City market area.
- Due to limitations under the contract, the Transok/KPL capacity has restricted receipt point locations.
- Contractually the Transok/KPL capacity has limited or no delivery point flexibility.

Although the Transok/KPL capacity may have value for Missouri Gas Energy in its role as a local distribution company, the true value of released capacity from the perspective of a marketing company lies in the flexibility, spread value and the matching of capacity to our marketing portfolio objectives. In this particular case, none of these criteria were met, resulting in the zero value placed on the capacity for evaluation purposes.

Please give me a call should you have any further questions.

Sincerely,

Mark R. Homestead

Mark R. Homestead
Regional Manager – MidContinent/Texas

Duke Energy Trading and Marketing, L.L.C.

A Duke Energy and Mobil Company
5400 Westheimer Court
Houston, Texas 77056

SCHEDULE 4

IS DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

NP

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.ecodev.state.mo.us/psc/

May 12, 2000

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED[2]
MAY 15 2000
Missouri Public
Service Commission

RE: GO-2000-705

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of an **AMENDED STIPULATION AND AGREEMENT.**

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,

RECEIVED
MAY 12 2000
Records
Public Service Commission

Thomas R. Schwarz, Jr.

Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
(573) 751-9285 (Fax)

TRS/jb
Enclosure
cc: Counsel of Record

FILED[2]

MAY 1 5 2000

Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's fixed commodity price PGA and transportation discount incentive mechanism.	))))	Case No. GO-2000-705

AMENDED STIPULATION AND AGREEMENT[1]

Come now Missouri Gas Energy ("MGE"), a division of Southern Union Company, *the Office of the Public Counsel ("Public Counsel")* and the Staff of the Missouri Public Service Commission ("Staff") and hereby submit for the Commission's approval, *pursuant to the authority of section 393.150 RSMo,* the following Stipulation and Agreement.

I. Purpose

MGE, *Public Counsel* and the Staff have entered into this Stipulation and Agreement, and request that the Commission approve it, as a way to: 1) provide system sales customers with a reliable supply of natural gas at stable and lower prices than would be achieved by continuation of current practices[2]; 2) provide MGE with a reasonable opportunity to generate earnings through skillful and prudent management of its gas supply, transportation and storage portfolio; and 3) streamline the regulatory process associated with gas supply, transportation and storage costs.

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MAY 12 2000

Records
Public Service Commission

1 *In this Amended Stipulation and Agreement, additions to the original document (filed with the Commission on April 28, 2000) will be shown in underlined italics and deletions from the original document will be struck through.*

2 *Public Counsel believes the appropriate goal is to provide reasonable and stable prices. Implementation of the fixed commodity price component of the PGA should result in lower prices; however, lower prices are not guaranteed.*

3

II. Commodity Costs

A. MGE will set a fixed commodity price component for natural gas within the PGA when and if the NYMEX (New York Mercantile Exchange) strip price for the nearest 12 month period traded on the exchange, weighted by the average MGE purchase volumes by month (as shown in Attachment 1), settles at or below $2.25 per MMBtu for five (5) consecutive business days (the "trigger price"). In such event, the fixed commodity price component of the PGA clause shall be an amount equal to recover a commodity unit purchase price of $2.400 per MMBtu, the trigger price plus $0.150. MGE shall also have the right, at its sole discretion, to implement the fixed commodity price component of the PGA to recover a commodity unit purchase price of $2.400 per MMBtu at any time it so elects in the event that the trigger price has not been reached. The $2.400 per MMBtu commodity unit purchase price translates into a fixed commodity price component of the PGA equal to approximately $0.25816 per Ccf as shown in the sample calculations on Attachment 2-2 to reflect Btu conversion, compression fuel on the interstate pipeline systems (including, where permitted by FERC tariff, lost and unaccounted for gas on the interstate pipeline systems) and lost and unaccounted for gas on the MGE system, consistent with the provisions of this Stipulation and Agreement.[3] This $0.25816 per Ccf fixed commodity price component of the PGA shall remain in effect for a period of two years from the date it becomes effective.[4]

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3 MGE, *Public Counsel* and the Staff continue to work on the development of tariff sheets designed to implement the provisions of this Stipulation and Agreement. The Staff, *Public Counsel* and MGE intend to submit such tariff sheets to the Commission *by May 19, 2000* ~~within two (2) weeks of the filing of this Stipulation and Agreement~~.

4 The fixed commodity price component of the PGA shall take effect upon the occurrence of one of the triggering events as described in this paragraph II.A. (e.g., the weighted average 12 month NYMEX strip settling at or below $2.25 per MMBtu for five consecutive business days or MGE electing to implement the fixed commodity price

B. If 1) the commodity trigger price has not been reached within two (2) months after the effective date of the Commission order approving this Stipulation and Agreement and 2) MGE has not elected to put the fixed commodity price component of the PGA into effect, MGE, *Public Counsel* and the Staff shall re-examine the trigger price in light of intervening natural gas market activity. If the Staff, *Public Counsel* and MGE agree on an alternative trigger price, such proposed alternative trigger price shall be filed with the Commission for approval. Absent agreement between the parties, neither the Staff *nor Public Counsel* nor MGE shall independently seek a change in the trigger price. This re-examination will occur each two months thereafter for two years following the effective date of the Commission order approving this Stipulation and Agreement if the trigger price has not been reached and MGE has not elected to put the fixed commodity price component of the PGA into effect. This paragraph II.B. shall be of no force and effect if the trigger price is reached or if MGE has elected to put the fixed commodity price component of the PGA into effect.

C. Until the fixed commodity price component of the PGA takes effect, MGE shall continue under the current PGA/ACA process for commodity cost recovery. MGE shall be permitted to submit other proposals regarding commodity cost recovery for the Commission's consideration if the fixed commodity price component of the PGA does not take effect within eight (8) months after *April 28, 2000* ~~the filing of this Stipulation and Agreement~~. In the event that MGE submits an alternative proposal regarding

---

component of the PGA). MGE shall notify the Commission of the date the triggering event occurs no later than the next business day thereafter. Accompanying such notification will be a revised tariff sheet designed to reflect the Total Fixed Commodity Price PGA Rate calculated in accordance with the provisions of this Stipulation and Agreement; such revised tariff sheet is to be approved by the Commission to be effective ten business days after filing.

commodity cost recovery and the Commission approves an alternative proposal regarding commodity cost recovery prior to the fixed commodity price component of the PGA taking effect under this Stipulation and Agreement, the provisions of this Stipulation and Agreement regarding the fixed commodity price component of the PGA shall be of no ~~further force and effect. In the event that MGE submits an alternative proposal regarding commodity cost recovery and the fixed commodity price component of the PGA under~~ this Stipulation and Agreement takes effect prior to the Commission's approval of an alternative proposal regarding commodity cost recovery, MGE shall withdraw its alternative proposal regarding commodity cost recovery from Commission consideration.

III. Transportation and Storage Costs

A. Underlying Principles

1. Reliability shall not be reduced to achieve savings[5].

2. Savings shall not be claimed when a new or incremental service is not a direct substitute for a more costly historical service[6].

3. Savings shall not be claimed when other cost components of the delivered cost of gas are increased for the sake of some level of decrease in transportation costs[7].

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[5] Examples of reliability reductions include, but are not limited to: reductions in Maximum Daily Quantity ("MDQ") below prudent levels, use of bundled service agreements that replace needed firm supplies and/or transportation capacity with less reliable deliveries, reduction in priority of receipt and/or delivery points, replacement of firm transportation service with recallable capacity, and reductions in priority of service.

[6] Examples of services not directly substituted for more costly historical service include, but are not limited to: new short-term transportation service, seasonal winter-only service, and/or new back-haul services that 1) are not direct substitutes for comparable historical forward-haul service and 2) do not carry the same reliability standards.

[7] Examples of increasing a cost component of the delivered cost of gas for the sake of obtaining transportation savings include, but are not limited to: an increase in the

4. Savings shall not be claimed when achieved rates are not below the lesser of final FERC rates or currently effective discounted rates, as such discounted rates are in effect through the current term of the agreements existing as of *April 28, 2000* ~~the date of the filing of this Stipulation and Agreement~~.

5. ~~Savings shall not be claimed for discounts that are generally~~ available by tariff or rule to other customers as a part of FERC proceedings.

B. Maximum Daily Quantities ("MDQs")

Sales customers and MGE shall share savings from any reduction in the level of contract MDQs in agreements in effect as of *April 28, 2000* ~~the date of the filing of this Stipulation and Agreement~~, with 70% of such savings credited to customers and 30% of such savings credited to MGE. Sales customers shall pay for increased levels of contract MDQs, subject to prudence review as provided in paragraph V.F. of this Stipulation and Agreement.

C. Transportation Rate Discounts

1. The benchmark calculation of the amount recovered from customers shall be based on existing contracted MDQ capacity, in agreements in effect as of *April 28, 2000* ~~the date of the filing of this Stipulation and Agreement~~, on all pipelines for transportation capacity and storage capacity. This benchmark calculation shall include rates that are the lesser of currently effective discounts or the final FERC rates for each pipeline as modified below for specific pipelines.

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commodity (well-head) cost of gas to achieve lesser transportation charges than historically occurred, and an increase in the variable transportation charge (or other

If, after *April 28, 2000* ~~the date of the filing of this Stipulation and Agreement~~, MGE secures a new transportation discount that produces savings which exceed savings produced by any currently achieved levels of discounts, customers shall be credited with 70% of such savings and MGE shall be credited with 30% of such savings. Savings shall be computed as follows:

a. If MGE negotiates a discount or fixed rate, which is below Williams Pipeline Central RP95-136 rates, then customers shall be credited with 70% of the savings, and MGE shall be credited with 30% of the savings. The Kansas Pipeline cost shall be recovered at the levels ultimately resulting from the existing ACA cases (Case Nos. GR-96-450 and GR-98-167). If the rates for Kansas Pipeline Company are determined by adjustments in Missouri ACA cases, then any refunds shall be credited 100% to customers. If the Kansas Pipeline Company rates are determined by FERC tariffs, then customers shall be credited with 85%, and MGE with 15% of the amount by which the rates in Docket GP99-485 are lower than the rates determined in Docket CP96-152. If MGE can negotiate rates which are lower than those specified in the two above circumstances, MGE shall retain 30% of such additional savings.

b. The existing PEPL, and KN, contract discounts in agreements in effect as of *April 28, 2000* ~~the date of the~~

---

miscellaneous charge) while reducing the pipeline reservation charge.

~~filing of this Stipulation and Agreement~~ shall be credited 100% to customers through the existing term of those contracts. Any ultimately renegotiated discounts that are below current discounted rates and less than maximum filed FERC tariff rates, shall be shared, with 70% being ~~credited to customers and 30% being credited to MGE.~~

c. An additional transportation cost shall be added to the total cost above before savings calculations to recover incremental transportation costs incurred in moving gas in the field zone associated with PEPL Contract No. 12622 (the existing Haven to market area agreement), in the amount of $300,000 per year. This will be trued-up to actual in the ACA. No incentive savings shall be claimed as a result of this transaction. However, to the extent new agreements are negotiated that provide this transportation service, at net costs below $300,000 per year, such reduction shall be considered savings subject to the sharing mechanism herein.

d. If a pipeline receives authority to increase its rates from the FERC, any such increase in allowed rates shall be recovered from customers, either in filed PGA cost filings or in the next annual ACA cost recovery true-up, assuming that MGE's contracts are subject to such FERC-authorized increases. Discount-related savings shall be calculated from a comparison of the rate MGE is actually incurring to the allowed final FERC tariff rates. Pipeline refunds of amounts paid interim, subject to refund shall be credited 100% to customers.

D. ~~Mix of Transportation Services~~

To the extent that MGE achieves transportation savings by use of alternate transportation services (e.g., back-hauls, seasonal transportation, short-term transportation), and assuming such savings are not at the expense of reliability reductions as noted in paragraph III. A. of this Stipulation and Agreement, 70% of such savings shall be credited to customers and 30% of such savings shall be credited to MGE. Such savings shall be calculated by comparing all costs actually avoided to all costs actually incurred. No savings sharing shall be authorized unless the new transaction produces real savings in comparison to otherwise applicable historic contract costs.

E. Demand Charge Cost Recovery

Recovery of transportation and storage demand charges shall be based upon an expected number of volumes as contained in Attachment 2-2. At the end of the ACA period, expense and revenue attributable to these items shall be trued-up to actual.

E. Take-or-Pay Cost and Transition Cost Recovery

Take-or-Pay Costs and Transition Costs shall be recovered from customers in accordance with the provisions of Sheet Nos. 23.2, 23.3, 23.4, 23.5 and 23.6 of MGE's tariff.

F. Pipeline Refunds

Pipeline refunds shall be credited 100% to customers in accordance with the provisions of Sheet Nos. 21, 22, 23 and 23.1 of MGE's tariff.

IV. Off-System Sales and Capacity Release

~~A. Off System Sales~~

~~MGE shall retain all revenues derived from off-system sales of natural gas prior~~ to the effective date of the Commission's order approving this Stipulation and Agreement, and thereafter, beginning with the effectiveness of this incentive authorization until the effective date of the Report and Order in an MGE general rate proceeding initiated after *April 28, 2000* ~~the filing of this Stipulation and Agreement~~, for revenues in excess of $100,000 per year, net of sales incurred at a loss for operating purposes. Beginning with the effectiveness of this incentive authorization until the effective date of the Report and Order in an MGE general rate proceeding initiated after *April 28, 2000* ~~the filing of this Stipulation and Agreement~~, this provision shall be effectuated by crediting customers with $100,000 in off-system sales revenues per year, net of sales incurred at a loss for operating purposes.[8] During an MGE general rate proceeding initiated after *April 28, 2000* ~~the filing of this Stipulation and Agreement~~, all parties are free to take any position they deem appropriate regarding the treatment of off-system sales and associated revenues. Following the effective date of the Report and Order in an MGE general rate proceeding initiated after *April 28, 2000* ~~the filing of this Stipulation and Agreement~~, the treatment of off-system sales and associated revenues adopted by the Commission in that general rate proceeding shall govern; provided, however, that no party will be precluded from seeking judicial review of such decision or from arguing that such decision should be changed in subsequent cases. MGE asserts that its off-system sales, and associated revenues, are wholly beyond the Commission's jurisdiction and authority and has agreed to this paragraph IV.A. in this Stipulation and Agreement for settlement purposes only. As such, MGE's agreement in this paragraph IV.A. in this Stipulation and Agreement shall not be construed as acquiescence or agreement by MGE that the Commission possesses any jurisdiction or authority whatsoever with respect to MGE's off-system sales and associated revenues.[9] Further, this paragraph IV.A. of this Stipulation and Agreement shall not be offered as evidence, or cited as indicating, that MGE acquiesces to Commission jurisdiction or authority with respect to MGE's off-system sales and associated revenues.

B. Capacity Release.

Capacity release revenues shall be credited to customers and MGE according to the following grid:

Capacity Release Revenues	MGE Percentage	Customer Percentage
First $300,000	15%	85%
Next $300,000	20%	80%
Next $300,000	25%	75%
Amounts over $900,000	30%	70%

[8] Sales incurred at a loss for operating purposes could, as an example, include, but need not be limited to, situations in which baseload gas is sold during a pipeline Operational Flow Order as a means of avoiding the incurrence of penalties.

[9] *Public Counsel believes that the issue of the Commission's jurisdiction over off-system sales revenues has been decided in the Comission's decision in Case No. GT-99-303 (In the matter of Laclede Gas Company, September 21, 1999).*

V. Miscellaneous Items

A. Term

The transportation and storage provisions of the program shall extend for two years from the effective date of the Commission order approving this Stipulation and ~~Agreement. The fixed commodity price component portion of the program shall extend for two years after the fixed commodity price component becomes effective. If the fixed~~ commodity price component does not become effective within two years of the effective date of the Commission order approving this Stipulation and Agreement, the program shall terminate. MGE shall make a filing seeking renewal of this program, or proposing an alternative, not fewer than six (6) months prior to the expiration of this program.

B. Documentation

1. Reliability Reports

MGE shall provide reliability reports to the Staff *and Public Counsel* on an annual, and highly confidential, basis, according to the outline appended hereto as Attachment 3. The first annual reliability report shall be provided to the Staff on July 1, 2000.

2. Monitoring Reports

MGE shall provide Staff *and Public Counsel* with semi-annual reports, on a highly confidential basis, detailing the savings achieved under the program and the calculations supporting the claimed level of savings. The first semi-annual monitoring report shall be submitted by MGE to the Staff six (6) months after the effective date of the Commission order approving this Stipulation and Agreement. Twelve

(12) months after the effective date of the Commission order approving this Stipulation and Agreement, MGE shall file with the Commission the monitoring report, on a highly confidential basis, of the first year of experience under this Stipulation and Agreement. The Staff will audit the Company's calculations and underlying documentation to make a recommendation to the Commission whether, at the end of the ACA (Actual Cost Adjustment) year, the Company is entitled to be credited with its portion of the claimed savings. The Staff's audit shall be completed and its recommendation filed at the same time as the Staff's recommendation for the concurrent ACA audit period.

C. PGA Filings

MGE will retain the current PGA filings of November, April and, prior to the date the fixed commodity price component of the PGA takes effect, a possible unscheduled filing. The fixed commodity price component of the PGA shall be seasonalized between the summer months (April through October) and the winter months (November through March) only for the Large General Service and Large Volume Service customer classes. For all other customer classes (Residential, Small General Service and Unmetered Gaslight), the fixed commodity price component of the PGA shall remain the same year-round.

D. ACA Filings

The ACA factor has been used to balance gas commodity, transportation and storage cost recovery with gas commodity, transportation and storage cost incurrence for a given year. MGE's ACA year runs from July 1 through June 30 and changes to the

ACA factor within the PGA typically take effect on or about November 1. During the term of this program, the ACA factor shall be used to balance gas commodity, transportation and storage cost recovery with gas commodity, transportation and storage ~~cost incurrence for periods prior to the fixed commodity price component of the PGA taking effect. The ACA factor shall not be used to balance gas commodity cost recovery~~ with gas commodity cost incurrence for periods when the fixed commodity price component of the PGA is in effect. Consistent with the provisions of Paragraphs III. and IV., the ACA factor shall be used to balance gas transportation and storage cost recovery ~~with gas transportation and storage cost incurrence for periods during the term of this program.~~

E. Price Stabilization Fund

Until such time as the fixed commodity price component of the PGA takes effect, MGE shall be authorized to make use of financial instruments to obtain price protection on natural gas supplies in accordance with the Commission's order in Case No. GO-2000-231. Subject to all of the terms and conditions of the Commission's order in Case No. GO-2000-231, except for the dates which shall be extended for another year, financial instruments shall be purchased for the upcoming heating season no later than September 30 of the immediately preceding summer.

F. Prudence Reviews

MGE, *Public Counsel* and the Staff agree that if the fixed commodity price component of the PGA takes effect, the Staff shall *and Public Counsel may* continue prudence reviews, and may propose such adjustments as it deems appropriate, for the transportation/storage contracts and cost component of the PGA but not for the fixed commodity cost component of the PGA or the associated supply contracts. For periods after termination of the fixed commodity cost component of the PGA, all contracts will be subject to prudence review and adjustment. Until such time as the fixed commodity price component of the PGA takes effect, the Staff shall, *and Public Counsel may,* conduct prudence reviews, and may propose such adjustments as it deems appropriate, for the commodity cost component of the PGA as well as for the transportation/storage cost component of the PGA and all other cost components. This paragraph V.F. of this Stipulation and Agreement in no way indicates acquiescence or agreement by MGE to any such proposed adjustments the Staff *or Public Counsel* may make.

G. Lost and Unaccounted-for Gas, Compression Fuel and Btu Conversion

Volumes and expenses associated with lost and unaccounted-for gas on MGE's side of the city gate, compression fuel on the interstate pipeline systems (including, where permitted by FERC tariff, lost and unaccounted for gas on the interstate pipeline systems) and Btu conversion shall be included in the initial PGA rate and trued-up in the ACA process. The Staff *and Public Counsel* shall be permitted to audit such volumes and amounts for prudence.

H. Re-basing

In entering this agreement MGE understands and acknowledges that, upon the expiration of the storage and transportation portion of the program, and again upon the expiration of the fixed commodity price component, the Staff will likely, *and Public Counsel may,* propose to re-base the volumes, expenses, revenues, and quantities in any proposed extension or modification to this program based on the experience under the program. In expressing this understanding and acknowledgement, MGE is in no way agreeing or acquiescing to any re-basing proposal the Staff *or Public Counsel* may make.

VI. SAMPLE CALCULATIONS

~~Appended hereto as Attachments 2-1 and 2-2 are worksheets showing the derivation of rates under the provisions of this Stipulation and Agreement.~~

VII. GENERAL PROVISIONS

A. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of ~~cost determination or cost allocation, or any service or payment standard underlying or allegedly underlying this Stipulation and Agreement as a result of entering into this~~ document, and none of the parties shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

B. This Stipulation and Agreement has resulted from extensive negotiations among the parties and the terms hereof are interdependent. In the event the Commission does not unconditionally approve and adopt the entirety of this Stipulation and Agreement without modification, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

C. If the Commission approves and adopts this Stipulation and Agreement without condition and without modification, the parties waive their respective rights pursuant to Section 536.080.1 RSMo[10] to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2; and the right to judicial review pursuant to Section 386.510.

---

[10] Unless specifically indicated otherwise, all statutory references in this Stipulation and Agreement are to RSMo (1994, as amended Cum. Supp. 1998).

D. This Stipulation and Agreement shall not be cited as a precedent or referred to in testimony as an assertion of the position of any party in any subsequent or pending judicial or administrative proceeding, except in a proceeding in which the sole purpose is to enforce compliance with the terms and conditions of this Stipulation and Agreement.

E. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, this Stipulation and Agreement and any agreements purported to be represented thereby shall be absolutely null, void, and of no force or effect whatsoever.

F. The parties agree that the Staff *shall* may submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's memorandum, a responsive memorandum which shall also be served on all parties. All memoranda submitted by the parties shall be considered highly confidential to the extent so designated by the submitting party, shall be maintained on a confidential basis by all parties to the extent the submitting party has designated the memorandum as highly confidential, shall not become a part of the record of this proceeding to the extent the submitting party has designated the memorandum as highly confidential, and shall not bind or prejudice the party submitting such memorandum or any other party in this or any future proceeding, whether or not the Commission approves this Stipulation and Agreement.

G. The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, promptly provide other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from Staff. Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to the Protective Order issued in this case.

H. To assist the Commission in its review of this Stipulation and Agreement, the parties also request that the Commission advise them of any additional information that the Commission may desire from the parties relating to the matters addressed in the Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

WHEREFORE, the undersigned parties respectfully request that the Commission issue its Order approving all of the terms and conditions of this Stipulation and Agreement.

Respectfully submitted,

Robert J. Hack by TRS

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ATTORNEY FOR THE OFFICE OF THE PUBLIC COUNSEL

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was either mailed or hand-delivered this ____ day of ____ 2000, to:

Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Robert J. Hack
Missouri Gas Energy
3420 Broadway
Kansas City, Missouri 65102

MISSOURI GAS ENERGY
FIXED COMMODITY PRICE
AVERAGE PURCHASE VOLUMES BY MONTH
NYMEX Trigger Price Calculation

Month (a)	MMBtu Volume (b)	NYMEX As Of Mo/Day/Yr (c)	Weighted $'s (b) x (c) (d)
April	3,266,893	$0.000	$0
May	3,777,761	$0.000	$0
June	3,876,584	$0.000	$0
July	9,515,251	$0.000	$0
August	9,188,394	$0.000	$0
September	7,380,092	$0.000	$0
October	4,944,132	$0.000	$0
November	4,010,252	$0.000	$0
December	5,951,650	$0.000	$0
January	4,926,916	$0.000	$0
February	5,111,039	$0.000	$0
March	4,214,049	$0.000	$0
Totals	66,163,013		$0

Annual Weighted Average (MMBtu) $0.00
(total weighted $'s divided by total volumes)

MISSOURI GAS ENERGY, A DIVISION OF SOUTHERN UNION COMPANY

CALCULATION OF THE PURCHASED GAS ADJUSTMENT RATE

The following computation supports the PGA rate proposed for service on and after implementation of a Fixed PGA.

Filed with MPSC

	RESIDENTIAL OTHER CLASSES	LARGE VOLUME
ESTIMATED ANNUAL TRANSPORTATION COSTS PER PAGE 2	$ 73,199,975	$ 73,199,975
ESTIMATED ANNUAL STORGAGE COSTS PER PAGE 2	$ 7,372,906	$ 7,372,906
ESTIMATED ANNUAL COMMODITY COSTS PER PAGE 2	$ 172,995,142	$ 172,995,142
TOTAL ESTIMATED ANNUAL GAS COSTS PER PAGE 2	$ 253,568,023	$ 253,568,023
ESTIMATED SALES VOLUMES	670,113,300	670,113,300
AVERAGE CURRENT COST OF GAS PER Ccf	$ 0.37840	$ 0.37840
UNSCHEDULED WINTER PGA FILING ADJUSTMENT FACTOR (UFA) PER Ccf	$ -	$ -
PRICE STABLIZATION CHARGE PER Ccf	$ 0.00470	$ 0.00470
TOTAL CURRENT COST OF GAS (PGA) PER Ccf	$ 0.38310	$ 0.38310
ACTUAL COST ADJUSTMENT (ACA) per Attachment 1 page 1 per Ccf	$ (0.01090)	$ (0.01090)
REFUND per Page 4 per Ccf	$ (0.03270)	$ -
TAKE OR PAY (TOP) per Ccf	$ -	$ -
TRANSITION COST ADJUSTMENT (TC) per Attachment 2 page 1 per Ccf	$ 0.01828	$ 0.01828
TOTAL PURCHASED GAS ADJUSTMENT PRICE per Ccf	$ 0.35778	$ 0.39048

MISSOURI GAS ENERGY, A DIVISION OF SOUTHERN UNION COMPANY

ESTIMATED ANNUAL GAS COST

(C)		(E)	(G)	(I) = (G) x (O) x # of applicable months	(K) = (G) x (O)	(M) = (I) + (K)	(O)
Supplier		Effective Date of Supplier Price	Estimated DKT Purchased	Estimated Demand Charges	Estimated Variable Charges	Estimated Total Cost	Average Cost per DKT
Volumes supplied over Williams Natural Gas system							
(WNG Seventh Revised Sheet No. 6 effective May 1, 1999)							
(WNG Substitute Tenth Revised Sheet No. 6A effective May 1,1999- surcharges)							
TSS-M	No Notice Fee	5/1/99	698,996	$ 129,174		$ 129,174	$ 0.0154
	Reservation - FSS - Deliverability (Storage)	5/1/99	499,331	$ 3,086,465		$ 3,086,465	$ 0.5151
	Reservation - FSS - Capacity (Storage)	5/1/99	8,236,961	$ 2,896,819		$ 2,896,819	$ 0.0293
	Reservation - FTS - P	5/1/99	206,588	$ 14,089,467		$ 14,089,467	$ 5.6834
	Reservation - FTS - M	5/1/99	698,996	$ 25,027,132		$ 25,027,132	$ 2.9837
	Injection - FSS (Storage)	5/1/99	15,477,923		$ 188,831	$ 188,831	$ 0.0122
	[illegible]	5/1/99	[illegible]		$ [illegible]	$ [illegible]	$ [illegible]
	[illegible]	5/1/99	[illegible]		$ 629,405	$ 629,405	$ 0.0124
	Commodity - FTS - M	5/1/99	[illegible]		$ [illegible]	$ 782,530	$ [illegible]
[illegible]	Reservation	5/1/99	59,489	$ [illegible]		$ 4,057,197	$ [illegible]
	Reservation Balancing Fee	5/1/99	59,489	$ 116,360		$ 116,360	$ 0.1630
	Commodity	5/1/99	5,359,264		$ 66,455	$ 66,455	$ 0.0124
	Commodity Balancing Fee	5/1/99	5,359,264		$ 2,144	$ 2,144	$ 0.0004
FTS-M	Reservation	5/1/99	58,940	$ 2,110,311		$ 2,110,311	$ 2.9837
	Reservation Balancing Fee	5/1/99	56,940	$ 115,287		$ 115,287	$ 0.1630
	Commodity	5/1/99	5,304,600		$ 83,813	$ 83,813	$ 0.0158
	Commodity Balancing Fee	5/1/99	5,304,600		$ 2,122	$ 2,122	$ 0.0004
	Commodity		56,875,832		$ 136,501,997	$ 136,501,997	$ 2.4000
Volumes supplied over Panhandle Eastern Pipeline System							
(Twenty-First Revised Sheet No. 19 effective January 1, 1999, Pipeline Invoice Statement - January 1, 1999 - surcharges)							
(Fifty-First Revised Sheet No. 5 effective January 1, 1999 - Commodity- City Gate)							
(Estimate from Gas Supply and PEPL for Reservation Costs, Commodity - Storage)							
[illegible]							
	Transmission - Market	01/01/99	8,941	$ 512,448		$ 512,448	$ 4.7762
	Transmission - Field / Market	01/01/99	6,940	$ 987,555		$ 987,555	$ 9.2054
	Reservation - Winter	01/01/99	8,987	$ 229,169		$ 229,169	$ 5.1000
	Reservation - Summer	01/01/99	4,911	$ 162,603		$ 162,603	$ 4.7300
	Commodity - Storage	01/01/99	864,000		$ 25,747	$ 25,747	$ 0.0298
	Commodity - City Gate	01/01/99	3,938,040		$ 216,986	$ 216,986	$ 0.0551
WS							
(Estimate from Gas Supply (PEPL) - Deliverability, Capacity rate)							
(Eleventh Revised Sheet No. 11 effective November 1, 1998 - remaining rates)							
	Deliverability (Storage)	01/01/99	9,140	$ 367,428		$ 367,428	$ 3.3500
	Capacity (Storage)	01/01/99	914,000	$ 368,159		$ 368,159	$ 0.4028
	Injection (Storage)	11/1/98	864,000		$ 2,851	$ 2,851	$ 0.0033
	Withdrawal (Storage)	11/1/98	864,000		$ 2,851	$ 2,851	$ 0.0033
IOS							
(January 1, 1999 pipeline invoice statement - Deliverability & Capacity rate)							
(Ninth Revised Sheet No. 9 effective November 1, 1998 - Injection/Withdrawal Rate)							
	Deliverability (Storage)	01/01/99	3,577	$ 135,318		$ 135,318	$ 3.1525
	Capacity (Storage)	01/01/99	357,700	$ 134,173		$ 134,173	$ 0.3751
	Injection (Storage)	11/1/98	178,850		$ 590	$ 590	$ 0.0033
	Withdrawal (Storage)	11/1/98	178,850		$ 590	$ 590	$ 0.0033
	Commodity		4,024,348		$ 9,658,435	$ 9,658,435	$ 2.4000
Volumes supplied over Kansas Pipeline Company (Riverside)							
(Kansas Pipeline Company Tariff Sheet(s) 19 & 20 effective 5/11/98)							
FT	Reservation	5/11/98	46,332	$ 11,062,136		$ 11,062,136	$ 19.8965
	Usage	5/11/98	3,600,000		$ 232,920	$ 232,920	$ 0.0647
	Commodity		3,733,685		$ 8,960,844	$ 8,960,844	$ 2.4000
Volumes supplied over KN Interstate Pipeline							
(Per Contract Terms # 569, 570 effective 10/1/97)							
(Substitute Fifth Revised Sheet No. 4-D effective August 1, 1998 - surcharges)							
FT	Reservation Production/Market	10/1/97	100,000	$ 10,840,355		$ 10,840,355	$ 9.0336
	Reservation Market	10/1/97	35,000	$ 1,718,659		$ 1,718,659	$ 4.0920
	Commodity		7,447,444		$ 17,873,866	$ 17,873,866	$ 2.4000
TOTAL ESTIMATED ANNUAL GAS COSTS			72,081,309	$ 78,146,215	$ 175,421,808	$ 253,568,023	

	(G)	(I)	(K) = (I) / (G)
	Estimated Sales Volumes (Ccf)	Estimated Total Cost	Weighted Average Cost (Ccf)
Total Annualized Transport Costs	670,113,300	$ 73,199,975	$ 0.10924
Total Annualized Storage Costs	670,113,300	$ 7,372,906	$ 0.01100
Total Annualized Commodity Costs	670,113,300	$ 172,995,142	$ 0.25816
Total Annualized Costs		$ 253,566,023	$ 0.37840

Schedule 5-22

ATTACHMENT 2-2

RELIABILITY REPORT
MISSOURI GAS ENERGY
PERIOD ENDING JUNE 30, _____

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Service List for
Case No. GO-2000-705
Revised: May 12, 2000

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FILED
MAY 30 1997
MISSOURI
PUBLIC SERVICE COMMISSION

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GR-96-78
Missouri Gas Energy, a Division of Southern Union Company

FROM: Mike Wallis
Procurement Analysis Department

5/29/97 Thomas R Schwarz Jr. 5/29/97
Utility Services Division/Date General Counsel's Office/Date

SUBJECT Staff's recommendation in Case No. GR-96-78, Missouri Gas Energy's 1995-1996 Actual Cost Adjustment Filing

DATE. May 30, 1997

The Staff has reviewed the 1995-1996 Actual Cost Adjustment (ACA) filing (docketed as Case No GR-96-78) for Missouri Gas Energy (MGE or Company). The Staff's audit consisted of an analysis of the billed revenues and actual gas costs, for the period of July 1995 to June 1996. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA, Refund, Take-or-Pay (TOP), and Transition Cost balances. An examination of MGE's gas purchasing practices was also performed to determine the prudence of the Company's purchasing decisions. MGE transports its gas supply over Panhandle Eastern Pipeline (PEPL), Williams Natural Gas (WNG), and Mid-Kansas Partnership/Riverside Pipeline Company (MKP/RPC)

WNG GAS SUPPLY

During the period of January 31, 1996 to February 6, 1996 MGE purchased 438,465 MMBTU's of daily spot market gas supply for a total of $3,387,901 (an average of $7.727 per unit). WNG was experiencing major pressure problems on its pipeline during this one week period and needed MGE to flow as much gas as possible on the pipeline (per Company's response to Staff Data Request No. 15). Thus, this gas supply was purchased on a daily spot price basis primarily at the request of WNG, and not as part of MGE's normal gas supply planning process.

Staff appreciates MGE's concern over WNG's pressure problems and potential pipeline failure Staff also acknowledges that MGE did use this gas supply to serve its customers. However, Staff believes that the prices which MGE was forced to pay for this gas supply are excessive ($4.17 per unit over the WNG *Inside FERC Gas Market Report* index for January,

3k.

1996 and $5.89 per unit over the Inside FERC index for February, 1996). The premium (above the first of the month Inside FERC index) normally paid by MGE for gas supplies is around eight cents. As a result, Staff proposes an adjustment which will reduce MGE's gas costs by $2,541,298.62. Staff's adjustment was calculated by multiplying (1) the difference between the actual per unit price paid by MGE for the gas supply and the first of the month Inside FERC index price plus an eight cent premium by (2) the volumes purchased by MGE.

Staff is aware that MGE purchased this excessively priced gas to help WNG and to protect the integrity of the pipeline. As a result, Staff will reduce its adjustment by the amount of any refunds or credits which WNG flows back to MGE, and thus the customers of MGE, to compensate it for the excessively priced gas which it was requested to acquire during the period of January 31, 1996 to February 6, 1996.

RIVERSIDE DEMAND CHARGE

MGE's transportation contract with RPC specifies that MGE is required to pay monthly demand charges limited to $23,999.98 ($.518 per unit multiplied by daily MDQ of 46,332). Due to a billing error by RPC, MGE paid demand charges of $26,557.50 ($.5732 per unit multiplied by daily MDQ of 46,332) during the months of October, 1995 to February, 1996. As a result, Staff proposes an adjustment which will reduce MGE's gas costs by $12,787.60 (difference between $26,557.50 and $23,999.98 multiplied by five months).

HEDGING

Staff, as part of its ACA audit, reviewed Company's gas supply plan and purchasing practices. It is apparent that MGE does not evaluate methods to reduce the impacts which volatile swings in natural gas prices (prices associated with flowing wellhead gas supplies) can have on its customers. Spot Market index prices have no upward limit. As a result, the Staff recommends that the Commission order MGE to evaluate futures market hedging instruments (call options, etc.). and other methods (competitively bid price caps for gas supply contracts, etc,) in order that the Company may have the ability to limit the upward price risk associated with volatile swings in index based natural gas prices

SUMMARY

The Staff proposes adjustments to reduce Company's gas costs by (1)$2,541,298.62 with regard to excessive prices paid by MGE for gas supplies purchased between January 31, 1996 and February 6, 1996 and (2) $12,787.60 with regard to RPC transportation demand charges which were incorrectly billed by RPC during the months of October, 1995 to February, 1996. The Staff is also asking that the Commission order MGE to evaluate methods to reduce the impacts which volatile swings in natural gas prices can have on MGE's customers.

RECOMMENDATIONS

The Staff recommends the Commission issue an order requiring:

1) MGE to adjust its ACA recovery balance from a $8,181,422.61 over-recovery to a $10,735,508.83 over-recovery;

2) MGE to establish the Take-or-Pay Account balance at a $331,490.93 under-recovery;

3) MGE to establish the Transition Cost Account balance at a $8,943,771.74 under-recovery;

4) MGE to establish the Refund Account balance for the Residential Service, Small General Service, Large General Service, and Unmetered Gaslight Service customer classes at $255,745.90;

5) MGE to establish the Refund Account balance for the Large Volume Service customer class at $34,873.97;

6) that a pre-hearing conference be scheduled, within 30 days, to establish a procedural schedule for this case.

cc Director - Utility Operations Division
Director - Policy and Planning Division
Director - Utility Services Division
General Counsel
Manager - Procurement Analysis Department
Manager - Energy Department
Dennis Gilmore - Missouri Gas Energy
Ted Austin - Missouri Gas Energy
Charles Hernandez - Missouri Gas Energy
Gary Duffy - Missouri Gas Energy
Office of Public Counsel
Mike Wallis

Exhibit No.:
Issue: Hedging and ACA Policy
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GO-97-409

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS ENERGY,

a division of

SOUTHERN UNION COMPANY

CASE NO. GO-97-409

Jefferson City, Missouri
June, 1997

Exhibit No.
Date Case
Reporter

SURREBUTTAL TESTIMONY

OF

DAVID SOMMERER

MISSOURI GAS ENERGY,

A DIVISION OF

SOUTHERN UNION COMPANY

CASE NO. GO-97-409

Q Please state your name and business address.

A David Sommerer, P O Box 360 , Jefferson City, Mo 65102

Q Are you the same David Sommerer who filed direct testimony in this case?

A Yes

Q What is the purpose of your surrebuttal testimony?

A To respond to certain comments made in the rebuttal testimony of Michael Langston and Charles Hernandez

Q Do you agree with Mr. Langston's comment on page 5, line 21, of his testimony that says that "... hedging activities essentially represents speculation on gas prices within the market place"?

A No Hedging attempts to limit risk as a goal, while speculation's main purpose is to generate profit There is an element of speculation in not hedging or attempting to set a limit to the risk of unlimited price increases Indexed based gas contracts have proven to be very volatile and could result in a price paid by Missouri Gas Energy (MGE or Company) that is very burdensome to the customer. In Schedule 1, attached to my testimony, I have provided a copy of an Energy Information Administration publication for 2 different periods. The top charts show that the commodity portion of gas costs can reach very high levels, especially over a period of a few days. One chart indicates prices over $10.00/Mcf. Unless the Company can say with certainty that these kinds of extreme prices (or even prices at the $4.00 level) will not be incorporated in a particular index calculation it should be taking actions to limit exposure to this risk.

Q What is hedging?

A Hedging is a method by which a buyer of natural gas uses a derivative position to protect against adverse price movements in the cash market by fixing or capping a price for future delivery. It has the additional advantage of reducing the chances of a large under-recovery of gas costs as compared to PGA revenue recoveries

Q On page 5, line 22, Mr. Langston states that, "MGE does not feel that anyone can 'beat the market' over a long period of time." Do you agree?

A Yes. However, the market should not "beat up" the customer. Price spikes of short duration but large impact can be avoided through proper hedging. Furthermore, a market price could be considered to be a combination of fixed prices, capped variable prices, and monthly index prices. Implying that a short term variable index rate is the only surrogate for a market rate is like saying a fixed rate mortgage on a home is not a "market" rate because it is not variable.

Q Do you have any response to Mr. Langston's concerns about treatment of gains and losses related to hedging as described at the bottom of page 3

A. Yes. There should be consistency in the way index prices are evaluated versus hedged prices. In other words, index priced contracts can be viewed as taking a bet that the market will stay low. The Company should not have guarantees that no matter how high the spot market goes, the consequences will be borne by the customer. In the same way, a company should not set up a fixed priced contract for all of its load without regard to what the market is doing. The goal should be a balanced and diversified portfolio that minimizes risks of excessive price increases while still allowing some significant participation in downward price swings.

Q. Do you have comments which address Charles Hernandez's testimony?

A. Yes. Although discovery is still pending which relates to Mr. Hernandez's schedules some general observations can be made about his analysis of under and over recoveries.

First, the schedules don't incorporate the use of hedging. The large balances that accumulate in the ACA are largely the result of significant price increases not considered in the company's annual PGA factor. Clearly the Company is concerned about the potential for a price increase causing a significant under-recovery of costs. There should also be a concern about the effect on the customer of unhedged risk exposure.

Second, the schedules assume a $21,000,000 under-recovery even before the annual PGA filing starts. The calculation starts in the spring of the year however, and artificially builds a cumulative under-recovery by comparing low summer sales volumes and recoveries with high fixed transportation charges.

Q. Please summarize your surrebuttal testimony.

A. My testimony has addressed the importance of hedging in achieving a more stable PGA price and limiting the amount of ACA under or over recovery.

Q Does this conclude your surrebuttal testimony?

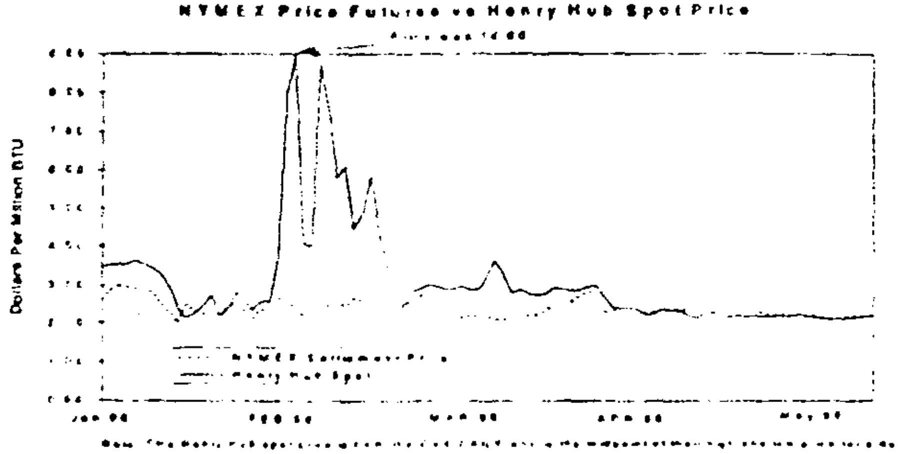
A Yes, it does.

Natural Gas Weekly Market Update

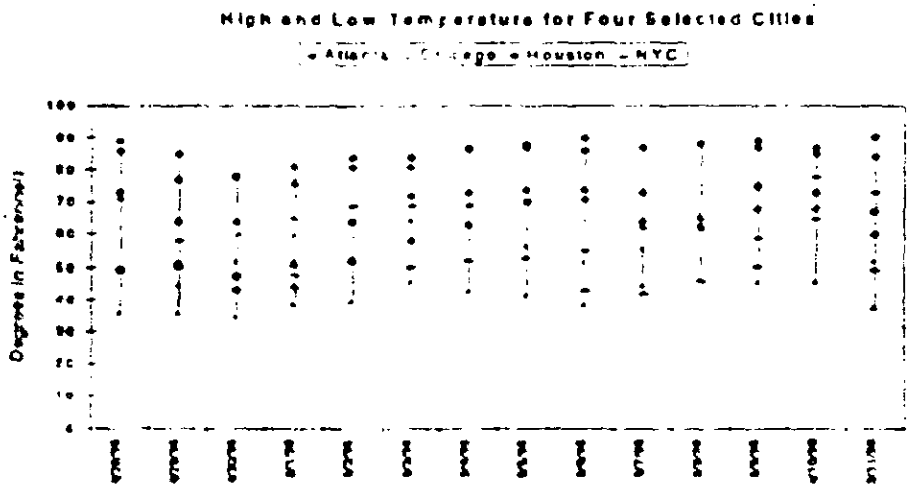
EIA

Energy Information Administration
Office of Oil and Gas
May 13,1996

HENRY HUB PRICE		
	CASH	FUTURES
	May	June
	Del	Del
	($ per MMBtu)	
5/06	$ 2.09-2.14	$2.148
5/07	2.12-2.15	2.187
5/08	2.14-2.16	2.186
5/09	2.16-2.20	2.210
5/10	2.18-2.22	2.204

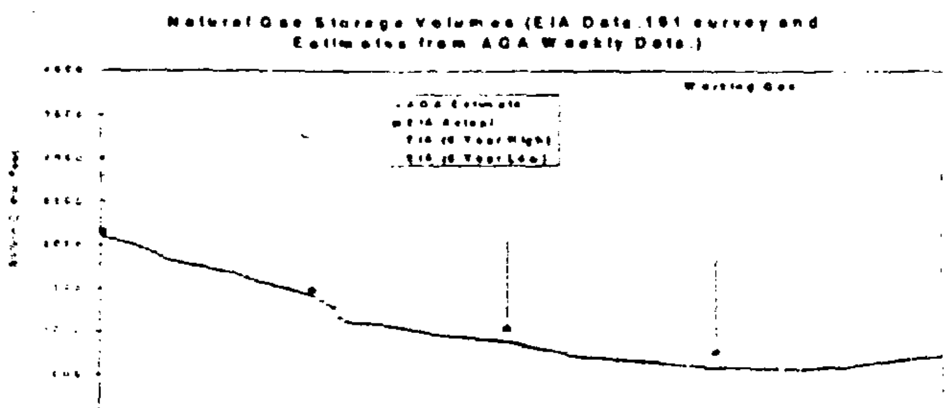


Average Temperature for Four Major Gas Consuming Areas			
	Actual	Normal	Diff
5/05	68	64	4
5/06	64	64	0
5/07	65	64	1
5/08	67	65	2
5/09	68	65	3
5/10	71	65	6
5/11	64	65	-1



Working Gas Volume as of 5/03/96		
	BCF	% Full
EAST	262	15
WEST	233	49
Prod Area	199	21
U.S.	694	22

Source: AGA



Schedule

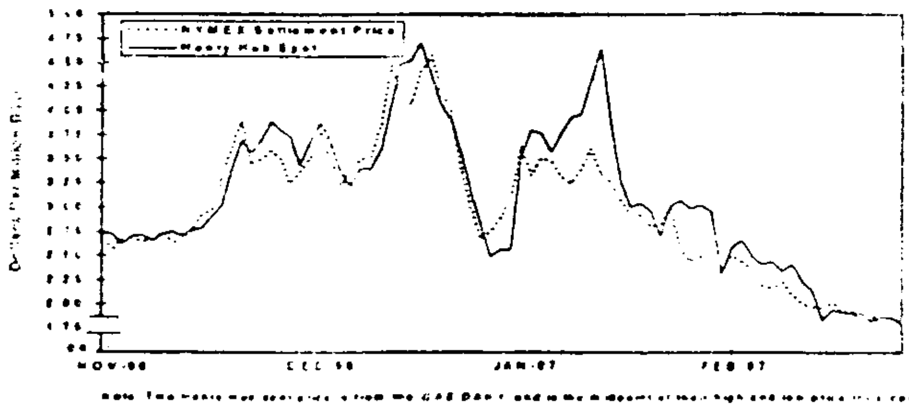
EIA

Energy Information Administration
Office of Oil and Gas
March 3, 1997

http://www.eia.doe.gov

HENRY HUB PRICE	CASH Feb Del	FUTURES Apr Mar Del
($ per MMBtu)		
02/24	1.[illegible]9-1.93	[illegible]
02/25	1.[illegible]0-1.84	[illegible]
02/26	1.[illegible]4-1.88	[illegible]
02/27	1.[illegible]9-1.94	[illegible]
02/28	1.75-1.80	[illegible]

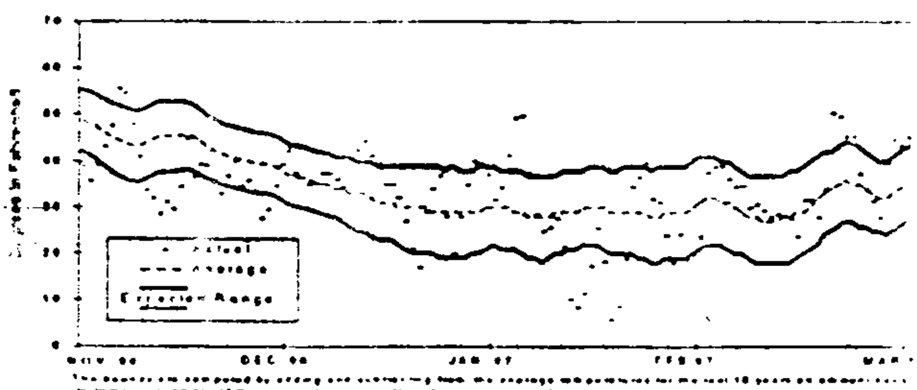
NYMEX Future Prices vs Henry Hub Spot Prices



Average Temperature for Four Major Gas Consuming Areas

	Actual	Normal	Diff
02/23	34	34	0
02/24	31	33	-2
02/25	28	32	-4
02/26	40	32	[illegible]
[illegible]	44	33	[illegible]
[illegible]	44	34	[illegible]
03/01	45	35	[illegible]

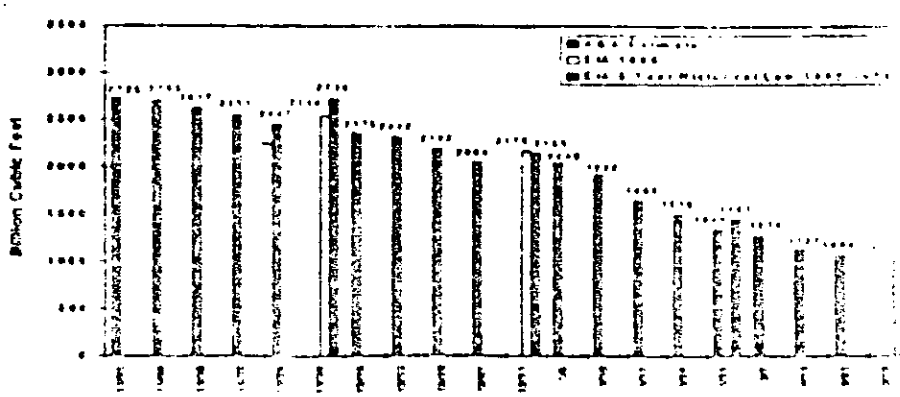
Average Temperature for Four Major Gas Consuming Metro Areas



Working Gas Volumes as of 02/21/97

	BCF	% Full
EAST	629	[illegible]
WEST	[illegible]	[illegible]
[illegible] Area	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]

Working Gas in Storage 1996-1997



BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the operation of Missouri Gas Energy, a division of Southern Union Company's Purchased Gas Adjustment Clause.	))))	Case No. GO-97-409

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

David M. Sommerer
DAVID M. SOMMERER

Subscribed and sworn to before me this 17th day of June, 1997.

Beverly S. Leibman
Notary Public

My Commission Expires: ________________

BEVERLY S LEIBMAN
NOTARY PUBLIC STATE OF MISSOURI
CALLAWAY COUNTY
MY COMMISSION EXP. MAR. 9,1998

FILED[2]

SEP 24 1999

Missouri Public Service Commission

MEMORANDUM

TO: Missouri Public Service Commission Official Case File, Case No. GO-2000-231, File No. 200000232, Missouri Gas Energy

FROM: Mike Straub, Gas Department – Tariffs/Rate Design

Utility Operations Division/Date 9-23-99 General Counsel's Office/Date

SUBJECT: Staff Recommendation on Tariff Sheets filed to Renew for an Additional Year the Price Stabilization Fund and Capacity Release Incentive Mechanism.

DATE: September 23, 1999

On September 14, 1999, Missouri Gas Energy (MGE or Company) of Kansas City, Missouri, a division of Southern Union Company of Austin, Texas, filed tariff sheets proposed to become effective October 15, 1999. On September 14, 1999, the Company also filed MISSOURI GAS ENERGY'S APPLICATION TO RENEW PRICE STABILIZATION FUND AND CAPACITY RELEASE MECHANISM: MOTION FOR EXPEDITED TREATMENT (Application) requesting that the Commission issue an order approving the tariff sheets filed on September 14, 1999 as expeditiously as possible. The purpose of the proposed tariff sheets is to extend the experimental Price Stabilization Fund (PSF) through the winter of 1999-2000, and allowing it to expire on the effective date of the summer Purchased Gas Adjustment (PGA) filing on or about April 1, 2000. In addition, the filing proposes to extend the capacity release incentive mechanism for a period of one year from November 1, 1999, through October 31, 2000.

The proposed hedging program is nearly identical to the MGE program the Commission approved previously. The cap has been increased to reflect current market conditions, and this will provide for a significant portion of MGE's gas supplies to be hedged for the coming winter season. MGE also requested a one-year extension of its capacity release incentive mechanism that expired on June 30, 1999. In its recent order in Case No. GT-99-303, the Commission allowed Laclede to extend their capacity release program.

The Commission Staff (Staff) has reviewed MGE's Application and has no objection to MGE's request for expedited approval of its filed tariff sheets. However, Staff would note for the record that the Company was aware for some time that the PSF and capacity release mechanism were scheduled to expire. Staff suggests that in the future MGE consider filing its requests earlier. An earlier filing would have provided the Company with a longer period to evaluate the market and perhaps more effectively hedge a portion of the coming winter's gas costs. In Staff's opinion, hedging is a reasonable component of a Local Distribution Company's (LDC) gas procurement portfolio and the language contained in the PGA provides adequate permission for a LDC to hedge without the need for special authority each year.

The Staff has also reviewed the tariff sheets as filed by the Company, and has no objection to extending the PSF through the effective date of the summer PGA filing (on or about April 1, 2000). Nor does Staff have an objection to the capacity release mechanism being in effect from November 1, 1999, through October 31, 2000. Therefore, Staff recommends that the following tariff sheets filed on September 14, 1999, with a proposed effective date of October 15, 1999, be approved as expeditiously as possible:

P.S.C. MO. No. 1

Third Revised Sheet No. 24.2 Canceling Second Revised Sheet No. 24.2
Third Revised Sheet No. 24.6 Canceling Second Revised Sheet No. 24.6

Copies: Director - Utility Operations Division
Director - Research and Public Affairs Division
Director - Utility Services Division
General Counsel
Manager - Financial Analysis Department
Manager - Procurement Analysis Department
Manager - Gas Department
Robert J. Hack – Vice President, Pricing and Regulatory Affairs (MGE)
Michael T. Langston – Vice President. Gas Supply (Southern Union Company)
Charles B. Hernandez, Director, Pricing and Regulatory Affairs (MGE)
Office of the Public Counsel

MGE MISSOURI GAS ENERGY
3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5755

ROBERT J. HACK
Vice President, Pricing & Regulatory Affairs

September 26, 2000

FILED[2]
SEP 27 2000
Missouri Public Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street
P.O. Box 360
Jefferson City, Missouri 65102-0360

GO-2001-215

RE: Missouri Gas Energy's Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis; Motion for Expedited Treatment

Dear Mr. Roberts:

Enclosed for filing are (1) an original and eight (8) conformed copies of Missouri Gas Energy's Motion for Protective Order and (2) Missouri Gas Energy's Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis; Motion for Expedited Treatment (an appropriate number of NP and HC sets are included).

Copies of this filing have been mailed or hand-delivered to the Office of the Public Counsel.

Thank you for bringing this matter to the attention of the Commission and the appropriate Commission personnel. Please contact me if you have any questions regarding this matter.

Sincerely,

Robert J Hack

C: Doug Micheel
Tim Schwarz
Mike Langston

Enclosures

20010033 7

FILED

SEP 2 7 2000

Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's tariff sheets designed to renew for an additional year the price stabilization fund.	))))	Case No. GO-2001-215

MISSOURI GAS ENERGY'S APPLICATION TO RENEW PRICE STABILIZATION FUND ON EITHER A MODIFIED OR UNCHANGED BASIS; MOTION FOR EXPEDITED TREATMENT

Comes now Missouri Gas Energy ("MGE"), by and through counsel, and for its application respectfully states the following:

I. GENERAL MATTERS

1. MGE is a "gas corporation" and a "public utility" under the provisions of Chapter 386 RSMo and is subject to the jurisdiction of the Missouri Public Service Commission ("Commission") pursuant to the terms of Chapters 386 and 393 RSMo. MGE is a division of Southern Union Company, a corporation duly incorporated under the laws of the state of Delaware. Southern Union's documents of incorporation have previously been prOvided to the Commission in Case No. GM-94-40. MGE is engaged in the business of distributing, transporting and selling natural gas in portions of western Missouri. MGE's principal office and place of business is located at 3420 Broadway, Kansas City, Missouri 64111. MGE may be contacted by means of telephone or electronic mail as described in the following paragraph.

2. All notices, orders or other communications respecting this application and proceeding should be addressed to:

Michael T. Langston Vice President, Gas Supply Southern Union	Robert J. Hack VP, Pricing & Regulatory Affairs Missouri Gas Energy

NP

800 Lavaca
Austin, TX
(512)370-8277
Fax: (512)476-4966

3420 Broadway
Kansas City, MO 64111
(816)360-5755
Fax: (816)360-5536
e-mail: rob.hack@southernunionco.com

3. Although uncertain precisely what information the Commission seeks by 4 CSR 240-2.060(1)(K), MGE provides the following in an attempt to comply therewith. MGE is unaware of any pending action or final unsatisfied judgments or decisions against MGE from any state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred since September 27, 1997. Nevertheless, since that time MGE has been involved in a number of judicial review proceedings, filed against the Commission, involving MGE's rates. The Commission itself should be aware of all such cases.

4. No annual report or assessment fees pertaining to MGE are overdue.

II. PURPOSE OF THE FILING

5. Concurrently with the filing of this application, MGE has filed under separate cover P.S.C. Mo. No. 1 First Revised Sheet No. 24.29 canceling Original Sheet No. 24.29 (a specimen of which is appended hereto as Attachment A). The purpose of the revised tariff sheet and of this application is to renew for another year the experimental price stabilization fund described in the tariff sheet and adopted by the Commission in its order in Case No. GO-97-409. The price stabilization fund was in place for the 1997-1998, 1998-1999 and 1999-2000 winter seasons. Through its approval of the Stipulation and Agreement in Case No. GO-2000-705, the Commission re-authorized the price stabilization fund for another year, subject to all of the terms and conditions of the Commission's order in Case No. GO-2000-231 (except for the dates

therein) and approving the new requirement for financial instruments to be purchased for the upcoming heating season no later than September 30. Since this re-authorization took effect, market conditions have precluded MGE from purchasing such financial instruments within the parameters fixed by the Commission's order in GO-2000-231 prior to September 30, 2000. Such re-authorization will therefore expire after September 30, 2000. MGE supports the price stabilization fund because even though the call options purchased for these winter seasons generally expired unexercised, these call options did offer customers substantial protection against the price volatility experienced in the winter of 1996-1997. This price protection was the primary purpose of the price stabilization fund, and MGE believes that it should be extended for a year to provide such price protection for the winter of 2000-2001 and so that interested parties can obtain additional information regarding its operation and effects. MGE therefore urges the Commission to re-authorize the price stabilization fund so that MGE can proceed with the acquisition of financial instruments advantageous to its customers.

III. SPECIFIC RELIEF REQUESTED

A. Modified Basis

6. For purposes of reducing the impact of natural gas price volatility on MGE's customers during the 2000/2001 winter season, and the potential deferral of gas costs to subsequent periods, MGE seeks authority to procure exchange traded Financial Instruments, in the form of natural gas call options covering gas volumes of at least 18.5 million MMBtu for the months of December 2000 through February 2001 at a cost not to exceed three million fifty thousand dollars ($3,050,000). Such options shall have a strike

price no greater than that generally prevailing in the NYMEX natural gas market at the time the purchase is made.[1]

7. To assure recovery of the direct costs incurred by MGE in connection with the procurement of these Financial Instruments, MGE seeks to continue authority to collect a Price Stabilization Charge through the current cost of gas component of MGE's PGA by an amount equal to $0.047 per Mcf. Revenues generated as a result of such adjustment and all realized gains from the use of such Financial Instruments shall be accounted for separately and credited to a Price Stabilization Fund on a monthly basis. This is not intended to be an additional PGA filing. A specimen tariff sheet renewing the Price Stabilization Fund is set forth in Attachment A to this Application.

8. For the purpose of reconciling the Price Stabilization Fund, price stabilization charge revenues collected from November 1, 2000, through the effective date of the next scheduled winter PGA filing (on or about November 1, 2001), will be compared to expenditures for the 2000-2001 winter heating season; any balance, including carrying costs, will be recovered from, or paid to, customers through an

[1] As of September 5, 2000, prices generally prevailing in the NYMEX natural gas market indicated a strike price of approximately **_____** per MMBtu under such parameters (18.5 million MMBtu, covering approximately 70% of normal flowing volumes for the months of December through February at a cost not to exceed $3,050,000). The parameters adopted in the Commission's order in Case No. GO-2000-231 were as follows: natural gas call options covering gas volumes of at least 26 million MMBtu, representing approximately 70% of the flowing supply volumes that MGE would be expected to purchase during the winter months of November through March, assuming normal weather, at a cost not to exceed three million fifty thousand dollars ($3,050,000) and at a strike price no greater than $4.40 per MMBtu. Prudence adjustment or other disallowance of costs is expressly precluded for purchases or sales within such parameters.

adjustment to the ACA filing that is scheduled to be effective with the 2001 scheduled winter PGA filing.

9. No prudence adjustment or other disallowance of costs debited to the Price Stabilization Fund and incurred by MGE or of revenues credited to the Price Stabilization Fund and realized by MGE shall be proposed or made in any proceeding in connection with the use, potential use, purchase or sale of natural gas financial instruments by MGE, provided that the financial instruments are: (a) purchased at prices generally prevailing in the NYMEX natural gas market at the time the purchase is made; or (b) sold at prices generally prevailing in the NYMEX natural gas market at the time the sale is made, which sale shall be within three (3) days of the expiration of the call option, unless the option expires worthless.

10. MGE agrees to cooperate with the Staff, the Office of the Public Counsel, and other interested parties in identifying the impact of the Price Stabilization Fund on MGE's gas costs during the fourth year in which the Price Stabilization Fund is in effect. In connection therewith, MGE shall provide reports to the Staff and the Office of the Public Counsel describing such impacts, on January 1, 2001, and shall prepare and submit a final report to the Commission regarding such impacts by May 1, 2001. Unless otherwise requested by MGE and approved by the Commission, the Price Stabilization Charge shall be terminated, effective on or about November 1, 2001. Any balance in the Price Stabilization Fund, net of amounts expended or committed by MGE (including carrying costs described in paragraph 12, below), shall thereafter by returned or charged to customers as part of the ACA adjustment reflected in the next Winter PGA Filing.

11. MGE shall continue to take appropriate steps to insure that proper internal controls and safeguards are in place relating to the use of natural gas financial instruments. It is represented by MGE that a primary goal of the financial instrument program described above is to procure price protection by use of financial instruments on a volume of gas equal to approximately 70 percent of the flowing supply volumes that MGE would be expected to purchase during the winter months of December through February, assuming normal weather, with such total being approximately 18.5 million MMBtu. It is also represented by MGE, however, that the actual percentage of gas supply protection achieved by MGE may vary from this goal depending on changes in the market price for financial instruments, deviations from normal weather, and other factors.

12. Beginning with the effective date of the Commission's renewal of the Experimental Price Stabilization Fund for the 2000/2001 winter season, carrying costs equal to simple interest at the rate described on sheet 24.29 of MGE's tariff, shall be applied each month to any negative or positive balance in the Price Stabilization Fund associated with the procurement of price protection for the 2000/2001 winter season.

B. Unchanged Basis

13. In the alternative, if the Commission is uncomfortable changing the existing parameters approved in Case No. GO-2000-231 and Case No. GO-2000-705 (except for the new requirement that financial instruments be purchased no later than September 30), MGE suggests that, at a minimum, the Commission should permit the authority existing through September 30, 2000, to continue beyond that date by issuing an order which removes the requirement that financial instruments be purchased no later than September 30 and instead sets the expiration date for such authority as the

conclusion of the winter season. All other conditions approved by the Commission in Case Nos. GO-2000-231 and GO-2000-705 with respect to the experimental price stabilization fund would remain in place. Although MGE is doubtful that the current or near-term market will permit financial instruments to be purchased within such parameters, such action would at least authorize such purchases for the upcoming winter season in the event of a change in market conditions. With appropriate language in a Commission order, the specimen tariff sheet appended hereto as Attachment A would accomplish this purpose.

IV. REQUEST FOR EXPEDITED CONSIDERATION

14. Since this proposal affects the upcoming winter heating season, time is of the essence and MGE respectfully requests that the Commission act on this request expeditiously.

Wherefore, MGE respectfully requests that the Commission expeditiously issue its order which renews the Experimental Price Stabilization Fund on either a modified basis as described in section III.A., or on an unchanged basis as described in section III.B, and approves the concurrently filed tariff sheet (First Revised Sheet No. 24.29, canceling

Original Sheet No. 24.296) as expeditiously as possible, and in any event no later than October 26, 2000.

Respectfully submitted,

Robert J. Hack

Robert J. Hack MBE #36496
3420 Broadway
Kansas City, MO 64111
(816)360-5755
FAX: (816)360-5536
e-mail: rob.hack@southernucionco.com

ATTORNEY FOR MISSOURI
GAS ENERGY

VERIFICATION

STATE OF MISSOURI)
) ss
COUNTY OF Jackson)

On this 26th day of September, 2000, before me appeared Robert J. Hack, Vice President, Pricing & Regulatory Affairs for Missouri Gas Energy, to me personally known, who being by me first duly sworn, states that he is duly authorized to execute Missouri Gas Energy's Application to Renew Experimental Price Stabilization Fund and that he has read the above and foregoing Application and believes that the allegations therein are true and correct to the best of his information, knowledge and belief.

Robert J. Hack

Robert J. Hack

Subscribed and sworn to before me, a notary public, on this 26th day of September, 2000.

KIM W. HENZI
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires Feb 3, 2003

Kim W. Henzi

Notary Public

My Commission expires:__________________.

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered this 26th day of September, 2000, to:

Mr. Douglas E. Micheel
Senior Public Counsel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Mr. Thomas R. Schwarz, Jr.
Deputy General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Robert J. Hack

Missouri Gas Energy,
a Division of Southern Union Company
Name of Issuing Corporation

For: All Missouri Service Areas
Community, Town or City

FIXED COMMODITY PRICE PGA
FCP

new ACA factors for the subsequent twelve-month period beginning with the September revenue month for 1997, the November revenue month thereafter, such cumulative incentive adjustment balances shall be combined with the appropriate ACA Account balances.

XI. EXPERIMENTAL PRICE STABILIZATION FUND

For purposes of reducing the impact of natural gas price volatility on the Company's customers during the 1997/1998, 1998/1999, 1999/2000 and 2000-2001 heating seasons, the Company shall maintain an Experimental Price Stabilization Fund for purposes of procuring certain natural gas financial instruments in accordance with parameters which have been designated "Highly Confidential" and are only available to the Missouri Public Service Commission or pursuant to the terms of a protective order issued by the Commission.

The Company shall recover all costs and expenses associated with such procurement through the inclusion of a Price Stabilization Factor as a component of the Current Cost of Gas (CCG) shown on the Summary Statement Sheet No. 24.32 or as a component of the TSC shown on the Summary Statement Sheet 24.32 applicable to all customer classes except Large Volume Transportation Service.

Beginning August 1, 1997, all costs and expenses directly attributable to the procurement of such instruments shall be charged to the fund. All revenues collected through the Price Stabilization Charge and any financial gains derived therefrom shall be credited to the fund. At the end of each month carrying costs shall be applied to any balance in the fund at a simple rate of interest equal to the prime bank lending rate (as published in The Wall Street Journal on the first day of such month) minus one (1) percentage point.

Unless otherwise requested by the Company and approved by the Commission, the Experimental Price Stabilization Charge shall be terminated upon the effective date of the Winter PGA filing on or about November 1, 2001. Any debit or credit balance in the Experimental Price Stabilization Fund, including interest, shall be charged or returned to the Company's customers, excluding those taking Large Volume Transportation Service, through the ACA factor established in the next Winter FCP filing.

DATE OF ISSUE: ____________ month day year

DATE EFFECTIVE: ____________ month day year

ISSUED BY: Robert J. Hack Vice President, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, Missouri 64111

Attachment A

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 26th day of October, 2000.

In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Renew for an Additional Year the Price Stabilization Fund	))))	**Case No. GO-2001-215** Tariff No. 200100337

ORDER DENYING APPLICATION TO RENEW PRICE STABILIZATION FUND AND REJECTING TARIFF

On September 27, 2000, Missouri Gas Energy (MGE) filed a pleading entitled Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis. MGE's application indicated that the price stabilization fund was in place for the 1997-1998, 1998-1999 and 1999-2000 winter heating seasons. On August 1, 2000, the Commission approved a stipulation and agreement that reauthorized the price stabilization fund for another year. That stipulation and agreement provided that the financial instruments needed to implement the program would need to be purchased for the upcoming heating season no later than September 30, 2000. MGE indicates that since the reauthorization was approved, market conditions have precluded MGE from purchasing those financial instruments within the parameters fixed by the Commission. MGE requests that the price stabilization fund be extended either with modifications proposed by MGE or on an unchanged basis by simply removing the requirement that the financial instruments be purchased by September 30. Along with its application, MGE filed a proposed tariff that would renew the Price Stabilization Fund for another year. That tariff carried an effective date of October 27.

MGE requested expedited consideration of its application and tariff because of the need to have the Price Stabilization Fund in place for the upcoming winter heating season. MGE requested that the Commission rule on its application no later than October 26, 2000. On October 2, the Commission issued an order that directed the Staff of the Commission (Staff) to respond to the motion for expedited consideration by filing a statement indicating whether or not it would be able to file a Staff recommendation regarding the application by October 18. On October 3, Staff filed a Notice indicating that it would file its recommendation not later than October 18. On October 4, the Commission issued an order that granted MGE's Motion for Expedited Treatment and directed Staff to file its recommendations no later than October 18. That order also directed that any party that wished to file a response to Staff's recommendation should do so not more than three days after the filing of the recommendation. Staff filed its recommendation on October 17 and MGE filed a response in opposition to that recommendation on October 24.

Staff's Recommendation and Memorandum indicates that MGE has the authority to hedge its gas costs using financial instruments without the need for an extension of the price stabilization fund. Such hedging would be reviewed in the appropriate actual cost adjustment filing. MGE's hedging decisions would be subject to prudence review as are MGE's other gas supply choices. Staff also requests that the Commission remove MGE's existing authority to charge 4.7 cents per Mcf, effective November 1, 2000. Staff further recommends that MGE's proposed tariff be rejected.

MGE's response in opposition to Staff's recommendation argues that Staff is attempting to change well-established Commission practice regarding the use of financial instruments to obtain price protection. MGE suggests that now, a time of extreme volatility in the wholesale gas market, is not a good time to implement such a policy change. MGE asserts that Staff's suggestion of prudence review of hedging decisions is undesirable for MGE because the analysis or factors Staff or the Commission might see fit to use in assessing the reasonableness of decisions regarding the use of such instruments is unknown. Moreover, such a prudence review would deny MGE the opportunity to make a profit from the use of such instruments and would place substantial risks on MGE because of the probability that Staff would propose to disallow those costs in a prudence review.

The Commission has reviewed MGE's application, the proposed tariff, Staff's recommendation and memorandum and MGE's response to that recommendation. The Commission concludes that MGE's application should be denied. The stipulation and agreement by which the price stabilization fund was extended for another year specifically provided that the required financial instruments were to be purchased by September 30. The Commission is not willing to modify that provision of the stipulation and agreement without the approval of the parties unless MGE is able to show a good reason to do so. MGE has not made such a showing. Staff is correct when it states that MGE should apply reasonable purchasing practices based upon its own evaluation of risks in its gas supply portfolio. MGE's business decisions will be subject to prudence review as are MGE's other gas supply choices.

In its recommendation, Staff also requests that MGE's authority to charge 4.7 cents per Mcf be removed effective November 1, 2000. It is not clear what Staff means by this recommendation. MGE's response indicates that this is a reference to the existing price stabilization charge in MGE's PGA. The Commission will not take any action on this recommendation. If Staff wishes to pursue the removal of the existing price stabilization charge it shall file an appropriate motion.

IT IS THEREFORE ORDERED:

1. That Missouri Gas Energy's Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis is denied.

2. That the tariff issued by Missouri Gas Energy on September 27, 2000 (tariff file number 200100337) with an effective date of October 27, 2000, is rejected. The tariff rejected is:

P.S.C. Mo. No. 1

First Revised Sheet No. 24.29 Canceling Original Sheet No. 24.29

3. That this order shall become effective on October 27, 2000.

BY THE COMMISSION

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Drainer, Schemenauer, and Simmons, CC., concur
Murray, C., dissents with opinion

Woodruff, Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's) Tariff Sheets Designed to Renew for an) Additional Year the Price Stabilization) Fund.)	<u>**Case No. GO-2001-215**</u> Tariff No. 200100337

DISSENTING OPINION OF COMMISSIONER CONNIE MURRAY

With the current situation of extreme natural gas price volatility, price spikes are a very realistic concern. The modified price stabilization program proposed by MGE in its renewal application has the potential to provide customers significant price protection for the winter of 2000-2001. I would grant MGE's application for renewal with a condition that the terms of the proposed modification be clarified to conform more closely to those approved by this Commission on September 28, 2000 for Laclede Gas Company in Case No. GO-2000-394.

I respectfully dissent from the opinion of the majority.

Respectfully submitted,

Connie Murray, Commissioner

Dated at Jefferson City, Missouri,
on this 26^{th} day of October, 2000.

MGE MISSOURI GAS ENERGY
3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5501

STEVEN W. CATTRON
PRESIDENT & CHIEF OPERATING OFFICER

December 18, 2000

Honorable Sheila Lumpe, Chair
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

VIA FAX & U.S. MAIL

RE: Natural Gas Prices

Dear Chair Lumpe:

This letter is a follow-up to my correspondence to you dated June 20, 2000. Among other things in that letter, I commended the reporting efforts of the *Kansas City Star* on the issue of high gas prices and the likely beneficial impact that reporting would have in helping to make customers aware of the issue as early as possible.

The *Star* has continued its reporting efforts on the issue and MGE continues to generally commend those efforts. I am concerned, however, that a recent article in the *Star* (which is attached hereto) may have left the incorrect impressions that, 1) MGE decided not to hedge prices this winter and, 2) that such decision by MGE was based on the Commission's decision not to approve the hedging program submitted by MGE on September 27, 2000.

First, the Commission can be assured that MGE shares its interest in mitigating to the greatest extent possible the impact of high gas prices and price volatility on our customers. That is one of the fundamental underpinnings of the Stipulation and Agreement regarding the Fixed Commodity Price PGA that was filed by MGE, the Commission's Staff and the Office of the Public Counsel in May of this year and approved by the Commission on August 1, 2000.

Second, MGE has made no decision not to hedge prices for the entirety of this winter. To be clear, MGE has not, to date, purchased call options for this winter. This is based on MGE's assessment of the relative costs and benefits of call options available under the market conditions from October 1 to date. This is not based on the Commission's decision not to approve the hedging program submitted by MGE on September 27, 2000. Should MGE's assessment of the relative costs and benefits of call options available for the balance of the winter change; MGE will act in accordance with that assessment.

Finally, MGE always endeavors to use its best judgment, on the basis of information available, in making all business decisions, including gas supply purchases. We have done so this year, and we will continue to do so in the future. MGE's gas supply, transportation and storage activities have been subject to extensive review by the Commission and its Staff in the past and although we see no change in that regard for the immediate future, you can be certain that MGE will continue to work with the Commission, its Staff and the Office of the Public Counsel to advance regulatory practices regarding gas commodity pricing, as exemplified by the Fixed Commodity Price PGA agreement, for the benefit of MGE's customers.

Please feel free to call me at 816/360-5501 if you have any questions or would like to discuss these matters.

Sincerely,

CC: Commissioner Murray
Commissioner Schemenauer
Commissioner Simmons
Vice Chair Drainer
Martha Hogerty
Brian Kinkade
Thomas R. Schwarz, Jr.
Robert Schallenberg
Wess Henderson