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May 2, 2003

Secretary
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FILED
MAY 03 2003
Missouri Public
Service Commission

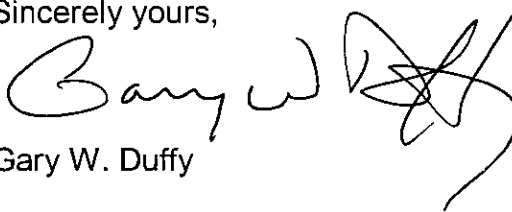
RE: Case No. GR-2001-382 (consolidated)

Dear Mr. Roberts:

Enclosed for filing in the above-referenced proceeding please find an original and eight copies of Missouri Gas Energy's Statement of Position. Please stamp the enclosed extra copy "Filed" and return same to me.

If you have any questions, please give me a call. Thank you very much for your attention to this matter.

Sincerely yours,


Gary W. Duffy

/gwd
Enclosures
cc w/encl: Thomas R. Schwarz, Jr.
Douglas E. Micheel
James B. Deutsch
Jeffrey A. Keevil
Rob Hack

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

FILED
MAY 02 2003
Missouri Public
Service Commission

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

In the matter of Missouri Gas Energy's)	
Purchased Gas Cost Adjustment Factors)	
to be Reviewed in its 1999-2000 Actual)	Case No. GR-2000-425
Cost Adjustment)	

In the matter of Missouri Gas Energy's)	
Purchased Gas Cost Adjustment Factors)	
to be Reviewed in its 1998-1999 Actual)	Case No. GR-99-304
Cost Adjustment)	

In the matter of Missouri Gas Energy's)	
Purchased Gas Cost Adjustment Tariff)	Case No. GR-99-304
Revisions to be Reviewed in its 1997-1998)	
Actual Cost Adjustment)	

MISSOURI GAS ENERGY'S STATEMENT OF POSITION

COMES NOW Missouri Gas Energy (MGE), a division of Southern Union Company, pursuant to the Order Adopting Procedural Schedule issued on November 4, 2002, in this matter, and makes its statement of position on the issues shown in the Consolidated Issues List filed by Staff on April 29, 2003.

Issue 1: MGE is entitled to recover in rates all prudently incurred gas costs. MGE owns long-term capacity on Kansas Pipeline Company to meet customer demands but did not use it in the summer months of the 2000/2001 ACA period. Was MGE's decision not to post the KPC capacity for release, or alternatively, release equivalent Williams capacity within the range of prudent behavior; and, if not, is

\$858,158 an appropriate measure of economic harm?

MGE's Position: MGE acted within the range of prudent behavior regarding KPC capacity for the summer months of the 2000/2001 ACA period. MGE knew, and the facts are undeniable, that there is no market – and there never has been a market – for any released capacity on the KPC system. MGE had a Commission-approved financial incentive to release that capacity when operationally and economically reasonable to do so; however, MGE was aware, and the pipeline itself has confirmed, that there has never been a single successful capacity release transaction on the KPC system since its inception as a federally-regulated interstate pipeline. The alternative approach suggested by Staff, i.e., MGE utilizing its KPC capacity and posting for release an equivalent volume of its Williams Pipeline Central (“Williams”) capacity on a non-recallable basis, would not have been economical. Staff’s alternative approach assumes that MGE would have been able to obtain 75% of the maximum tariff rate for its released Williams capacity; however, actual market data shows that MGE would have, on average, only been able to obtain 14% of the maximum tariff rate if it were able to release the capacity at all. Simply, the release revenues MGE presumably may have been able to obtain from its Williams capacity would not have been sufficient to offset the increased costs of utilizing its higher cost KPC capacity.

Issue 2: MGE is entitled to recover in rates all prudently incurred gas costs.

Staff maintains that MGE should have hedged at a minimum 30% of each winter month's normal volumes; MGE maintains there was no hedging standard in place prior to the winter of 2000/2001 but, regardless, hedged 38% of normal winter volumes. Was MGE's conduct within the range of prudent behavior for the winter of 2000/2001; if not, is \$614,365 an appropriate measure of economic harm?

MGE's Position: MGE acted within the range of prudent behavior in regard to the level of hedging of natural gas prices during the winter of 2000/2001. MGE had a documented and Commission-approved hedging plan in place prior to the winters of 1997/1998, 1998/1999, and 1999/2000. Similarly, prior to the winter of 2000/2001, MGE worked collaboratively with the Commission Staff and Office of Public Counsel (collectively "the Parties") to establish an appropriate hedging plan prior to that winter. From this collaborative effort, the Parties filed a settlement in May 2000 that included two separate price protection mechanisms. The settlement was ultimately approved by the Commission in August 2000; however, due to unprecedented high natural gas prices, MGE was prevented from implementing either of the price protection mechanisms in accordance with the terms approved by the Commission. MGE then took additional reasonable steps to modify those mechanisms to reflect then-current market conditions but those steps were not supported by Staff. Staff has developed a standard – after the winter of 2000/2001 was over – that MGE should have hedged at least 30% of each month's normal volumes, and calculates its claimed economic harm on that basis. Absent the Commission-approved settlement, there was no hedging standard approved by the

Commission for the winter of 2000/2001. Regardless, even with the unprecedented natural gas market conditions up to and during the winter of 2000/2001, MGE utilized storage and fixed price purchases to provide price protection to its customers for the winter of 2000/2001. Specifically, MGE actually hedged 20.3 Bcf in total for the winter of 2000/2001, which was 38% of its customers' normal winter requirements.

Issue 3: MGE is entitled to recover in rates all prudently incurred gas costs. MGE utilized natural gas from first-of-month contract purchases, intra-month contract purchases and storage to meet its customer's heating season requirements. Was MGE prudent in its management of first-of-month and intra-month contract purchases and use of storage withdrawals; and, if not, is \$8,051,049 an appropriate measure of economic harm?

MGE's Position: MGE acted within the range of prudent behavior in regard to its management of first-of-month contract purchases, intra-month contract purchases and storage to meet its customers' heating season requirements in the winter of 2000/2001. In addition, MGE scheduled fewer first-of-month flowing supplies for December 2000 based on information that was available to it at the time. MGE's gas supply portfolio decisions for the winter of 2000/2001 resulted in no unserved demand, no operational constraints and MGE was assessed no penalties under any operational flow orders from the interstate pipelines serving it. MGE purposefully plans on purchasing first-of-month flowing

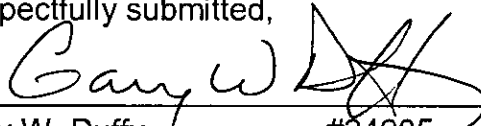
supplies sufficient to meet both monthly non-heating demand and a level of heating demand that is likely to occur based on past operating experience, and then supplementing the first-of-month flowing supplies with storage withdrawals. This generally results in higher levels of planned storage withdrawals in November relative to the other winter months due to three factors: (i) the extreme weather variability, and thus customer demand variability, that can occur in November, (ii) MGE's limited operational flexibility to inject any nominated but unneeded (due to warmer-than-normal weather) first-of-month purchase volumes into storage since storage is nearly full in November; and (iii) in warmer-than-normal weather, the potential cost to customers of MGE having to sell excess first-of-month nominated gas into the market when prices are low. MGE withdrew a relatively greater level of storage in November and December 2000 as compared to other years as a result of the extreme cold weather experienced in its service territory. In fact, November 2000 was the second coldest November in the past forty years, and December 2000 was the second coldest December in the past forty years. Combined, November and December 2000 were the coldest consecutive November and December on record.

Issue 4: In July 2000, MGE filed an annual "Reliability Report" pursuant to a Commission order in a prior case. Staff reviewed the peak day and reliability information and the rationale for the reserve margin and has recommended in this case that the Commission order MGE to provide additional reliability information. Is this case an appropriate forum in which to consider the issue; and if so, should the Commission

order MGE to provide the requested reliability information?

MGE's Position: MGE filed an annual reliability report on July 1, 2002, in compliance with the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705. This Stipulation and Agreement is no longer in effect by its own terms. MGE believes that all of Staff's issues in this regard should have been adequately dealt with in the Reliability Report. MGE is aware of Staff efforts to develop a state-wide standard for gas supply reporting. MGE believes that it is inappropriate to attempt to deal with this type of issue in this type of case. This type of issue is appropriately addressed through an industry-wide rule-making in which a record can be developed as to the most appropriate information for companies to provide on a routine basis. MGE's position is that no action should be taken on this topic in this proceeding since it is not relevant to a prudence review.

Respectfully submitted,



Gary W. Duffy

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ATTORNEYS FOR MGE

CERTIFICATE OF SERVICE

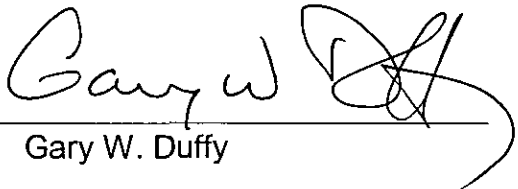
The undersigned certifies that a true and correct copy of the foregoing document was either hand delivered or mailed, U.S. Mail, postage prepaid, on May 2, 2003, to:

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