



**MISSOURI GAS ENERGY**

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5755

**ROBERT J. HACK**  
Vice President, Pricing & Regulatory Affairs

January 26, 2001

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
200 Madison Street, Suite 100  
P.O. Box 360  
Jefferson City, Missouri 65102-0360

**FILED<sup>2</sup>**  
JAN 29 2001  
Missouri Public  
Service Commission

**RE: Case No. GR-2001-382, Missouri Gas Energy**

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter, please find an original and eight (8) conformed copies of **Missouri Gas Energy's Response to Public Counsel's Request for Emergency Review**.

A copy of this filing has been mailed or hand-delivered this date to counsel of record.

Thank you for bringing this matter to the attention of the Commission. Please call me if you have any questions regarding this matter.

Sincerely,

C: F. Jay Cummings  
Gary W. Duffy  
Service List

Enclosures

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

**FILED<sup>2</sup>**  
JAN 29 2001  
Missouri Public  
Service Commission

In the matter of Missouri Gas Energy's       )  
Purchased gas adjustment to be reviewed       )  
In its 2000-2001 Actual Cost Adjustment.       )

Case No. GR-2001-382

**MISSOURI GAS ENERGY'S RESPONSE TO PUBLIC COUNSEL'S REQUEST  
FOR EMERGENCY REVIEW**

**Comes now** Missouri Gas Energy ("MGE"), a division of Southern Union Company, by and through counsel, and for its response respectfully states the following:

1. On or about January 19, 2001, the Office of the Public Counsel ("Public Counsel") requested that the Commission order an emergency review of MGE's gas procurement practices relating to the winter PGA period November 1, 2000 through April 1, 2001, such that a Commission order reviewing MGE's gas procurement practices related to the winter of 2000-2001 is effective no later than October 1, 2001.

2. In principle, MGE does not object to expediting the ACA process. In fact, one of the fundamental purposes of the Stipulation and Agreement for the implementation of a fixed commodity price PGA was to "... streamline the regulatory process associated with gas supply, transportation and storage costs." (See, Stipulation and Agreement filed April 28, 2000, and Amended Stipulation and Agreement filed May 15, 2000, paragraph I)

3. Furthermore, MGE has believed for some time now that the Commission needs to involve itself directly as a policy making body in the issue of natural gas pricing. In fact, in June of 2000, MGE requested such involvement. (See Attachment 1 appended hereto)

4. Although supportive of the general thrust of Public Counsel's request for expedited review, that request raises a number of concerns which must be addressed. For example:

- a) Public Counsel requests a review of the November 1, 2000- April 1, 2001, time period. MGE's ACA period runs from July 1, 2000-June 30, 2001. Conducting such a review on less than an entire ACA year will add needless complexity to the process to the likely end of slowing it down rather than speeding it up.
- b) Although Public Counsel acknowledges in its request that numerous dockets pertaining to prior ACA periods remain open and pending before the Commission<sup>1</sup>, Public Counsel nevertheless proposes that a review of the November 1, 2000-April 1, 2001, time period be concluded such that a Commission order can be effective no later than October 1, 2001. The technical problem with this aspect of the proposal is that there will be no commonly understood beginning ACA balance, as approved by the Commission, from the immediately prior ACA period from which any adjustments can be made. Conducting an ACA review with no beginning ACA balance will add needless complexity to the process to the likely end of slowing it down rather than speeding it up.

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<sup>1</sup> The cases remaining open and unresolved (Case Nos. GR-96-450, GR-98-167, GR-99-304 and GR-2000-425) have been slowed down as a result of judicial action taken against the Commission by a party other than MGE. However, the fact that so many cases from so many years can stack up without resolution for so long is a clear indication that the process is unwieldy and in need of streamlining.

c) The retrospective review Public Counsel proposes to expedite in this ACA case is a necessary component of the current unwieldy process. MGE supports the expediting of this retrospective review in an efficient and effective way. However, the Commission's resolution of this retrospective review will do very little, if anything at all, to advance the Commission's policies regarding the regulatory treatment of natural gas commodity costs to the benefit of customers in the future. Plans for next winter must receive adequate and timely attention.<sup>2</sup> To the extent that expediting the retrospective review as proposed by Public Counsel interferes with or delays work designed to provide benefits in the future, MGE opposes Public Counsel's request.

MGE remains willing to work with the parties and the Commission to address and resolve concerns associated with Public Counsel's request to expedite this ACA process.

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<sup>2</sup> In fact, MGE has already initiated discussions with the Commission's Staff and Public Counsel about potential ways to address the regulatory treatment of gas costs in the future for the benefit of customers.

Wherefore, MGE respectfully submits this response to the Commission.

Respectfully Submitted,



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ATTORNEYS FOR MISSOURI  
GAS ENERGY

**Certificate of Service**

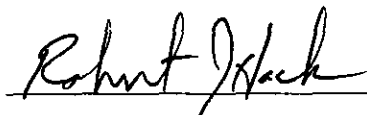
I hereby certify that a copy of the foregoing document was mailed or hand delivered this 26th day of January, 2001, to:

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**MISSOURI GAS ENERGY**

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STEVEN W. CATTRON

PRESIDENT & CHIEF OPERATING OFFICER

June 20, 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:

By this letter Missouri Gas Energy expresses its deep concern regarding current natural gas prices. The *Kansas City Star* has already reported on the issue a couple of times and, in so doing, done a good job of helping to make customers aware of the possibility of extremely high gas prices during the upcoming heating season. And although customer awareness is important, moderating the impact high gas prices can have on our customers will require action in addition to public communication.

MGE hopes that by taking prompt action, in cooperation and conjunction with the Commission, negative impacts on our customers, as well as the company itself, can be moderated. Although MGE has had discussions with your staff regarding these issues and possible actions that could be taken to help ease the situation, time is of the essence. Consequently, I write this letter to you and your colleagues on the Commission to request a direct meeting with the Commissioners themselves as policymakers and to initiate this important dialogue.

Some facts pertaining to this matter:

- Natural gas prices are presently above \$4.00 per MMBtu, an all-time high for this time of the year. By the end of our current ACA period (June 30, 2000), MGE anticipates being in an under-recovered position on commodity costs by at least \$10 million. This translates into an ACA adjustment increasing the PGA rate by at least \$0.15/Mcf beginning around November 1, 2000. In addition, assuming natural gas prices do not fall between now and November, the PGA rate billed to customers would also increase by in excess of \$1.00/Mcf on account of commodity costs (presently included in the PGA rate at approximately \$3.00/Mcf).
- Because storage gas is necessary for the operational purpose of meeting peak demands and because we have only limited flexibility in the timing of storage

injections, we have been forced to buy storage gas at the high market prices currently prevailing. Thus, unlike in years past, storage gas will not likely have any downward moderating effect on the PGA rate for this coming winter.

- For the past three winters, MGE has obtained Commission authorization to purchase financial instruments to offer substantial price protection to its customers. Although renewal of that program has been requested by way of the Amended Stipulation and Agreement submitted on May 15, 2000, by MGE the Commission's staff and the Office of the Public Counsel, and presently pending before the Commission in Case No. GO-2000-705, obtaining financial instruments at or below the strike price cap of \$4.40/MMBtu is not possible in the present market under the volume and cost parameters ordered in Case NO. GO-2000-231. MGE is not at all optimistic that price protection under the parameters set in Case No. GO-2000-231 will be attainable prior to the upcoming heating season.
- Although the Fixed Commodity Price PGA submitted to, and currently pending before, the Commission by MGE, the Commission's staff and the Office of the Public Counsel in Case No. GO-2000-705 provides a structure that can offer customers price stability, the trigger price of \$2.25/MMBtu is well below prices presently available in the market. Absent substantial reductions in market prices for natural gas, therefore, the Fixed Commodity Price PGA will not be implemented prior to the upcoming heating season.
- MGE, like other Missouri natural gas distributors, is currently prohibited from changing its PGA rate until around November 1, 2000. Thus, absent a substantial reduction in current natural gas prices, MGE will continue under-recovering on commodity costs into our next ACA period (beginning July 1, 2000). Any such under-recoveries will translate into an ACA adjustment increasing the PGA rate around November 1, 2000.
- Weather in MGE's service territory has been mild for the last several heating seasons. Thus, a return to more typical weather would cause higher bills for our customers this winter absent any increase in natural gas commodity costs. Increased commodity costs would exacerbate this billing variability even further.

Unfortunately, the above factors seem to indicate that the currently high natural gas prices will continue into the future. Despite the best efforts of the Commission, its staff, the Office of the Public Counsel and MGE, the spectre of extreme price volatility appears poised on the horizon.

What can be done? First we need to initiate a dialogue on the possible alternatives. MGE respectfully requests a meeting with the Commissioners as policymakers for this purpose. Some of the alternatives MGE would raise include:

1. Permitting an unscheduled PGA filing this summer.

2. Increasing the strike price cap for the purchase of financial instruments under the Price Stabilization Plan.
3. Altering other conditions of the Price Stabilization Plan (e.g., volumes or overall cost).
4. Changing the trigger price proposed by MGE, the Commission's staff and the Office of the Public Counsel in the Amended Stipulation and Agreement in Case No. GO-2000-705.
5. Implementation of a Weather Normalization Clause or other rate design that can moderate the impact of weather on customer bills.

MGE offers the foregoing in the interest of taking the first step and beginning the dialogue on this important issue. Other alternatives certainly exist and we are more than willing to discuss and consider them.

MGE is also in the process of finalizing its plan to begin communicating with our customers in order to help prepare them for the upcoming heating season. Communicating soon to eliminate the surprise factor will be helpful in and of itself. In addition, there are other actions customers can take to help moderate bill impacts. They include subscribing to the ABC ("Average Bill Calculation") plan, weatherizing their homes and being aware that thermostat settings affect bill levels.

Given the gravity of the situation and the tight time constraints, MGE believes that ideas can be exchanged more quickly and effectively in a face-to-face meeting. Therefore, I would like to meet with the Commissioners as soon as reasonably possible during open agenda to discuss these issues.

Please feel free to call me at 816/360-5501 if you have any questions. Thank you for your prompt consideration of this request.

Sincerely,



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