MGE MISSOURI GAS ENERGY
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FILED[3]
MAR 3 0 2001
Missouri Public Service Commission

ROBERT J. HACK
Vice President, Pricing & Regulatory Affairs

March 29, 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

RE: Case No. GO-2000-705, 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 Alternative Proposal Regarding Commodity Cost Recovery**.

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,

Robert J. Hack

C: F. Jay Cummings
Office of the Public Counsel
Thomas R. Schwarz, Jr.

Enclosures

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*

MISSOURI GAS ENERGY'S ALTERNATIVE PROPOSAL REGARDING COMMODITY COST RECOVERY

Comes now Missouri Gas Energy ("MGE"), a division of Southern Union Company, and hereby submits for the Commission's consideration and approval, pursuant to the authority of section 393.150 RSMo 2000 and paragraph II.C. of the Amended Stipulation and Agreement approved by the Commission herein on August 1, 2000, the following Alternative Proposal Regarding Commodity Cost Recovery.

I. Procedural History and Purpose

MGE files this alternative proposal regarding commodity cost recovery for the purpose of replacing Section II of the Amended Stipulation and Agreement. The Amended Stipulation and Agreement was filed by MGE, the Commission's Staff (the "Staff") and the Office of the Public Counsel ("Public Counsel") on May 15, 2000, and approved by the Commission on August 1, 2000.[1] According to paragraph II.C. of the Amended Stipulation and Agreement, MGE is 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 months after April 28, 2000. The fixed commodity price component of the PGA did not take effect by

[1] The filing of the Amended Stipulation and Agreement followed the April 28, 2000, filing of the Stipulation and Agreement by MGE and the Staff.

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December 28, 2000, and is unlikely to take effect any time in the reasonably foreseeable future as presently constituted in the Amended Stipulation and Agreement.

II. Commodity Costs

MGE proposes that the Commission adopt one of the following two alternatives to replace Section II of the Amended Stipulation and Agreement.

1. Fixed Commodity Price Alternative[2]

A. MGE will set a fixed commodity price component for natural gas within the PGA to be effective for the period October 1, 2001, through September 30, 2002. The fixed commodity price would be set on the basis of NYMEX (New York Mercantile Exchange) natural gas prices for the months of October 2001 through September 2002 weighted by MGE's average purchase volumes for those months ("the twelve-month weighted average strip"). More specifically, for each month from May through September of 2001 closing prices for the twelve-month weighted average strip will be obtained in equal twenty percent (20%) increments. (See Attachment 1 for a sample calculation based on information from May through September 2000 for the weighted average twelve-month period of October 2000 through September 2001) The fixed

[2] MGE believes that the fixed commodity price alternative is superior to the hedging plan alternative (addressed in section II.2. of this pleading) because the fixed commodity price alternative is more consistent with the stated purposes of the Amended Stipulation and Agreement approved by the Commission on August 1, 2000. First, under the fixed commodity price alternative, all volumes will be priced at the same level for twelve months regardless of market variations. No greater commodity price stability is possible. Although it is true that implementation of the fixed commodity price alternative would preclude participation in market downturns during the twelve-month effective period, current market intelligence indicates that the volatility experienced during the winter of 2000-2001 is likely to be present during the winter of 2001-2002. Whether market prices approach $10.00 per MMBtu again in the winter of 2001-2002 is largely a function of weather, but the events of the 2000-2001 heating season certainly demonstrate that those price levels are possible. The fixed commodity price alternative also serves to streamline the regulatory process associated with gas supply costs.

commodity price component within the PGA would then be set at a level equal to the price produced by this five-month phase-in of the twelve-month weighted average strip, plus $0.075 per MMBtu, plus an amount 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. MGE would make no profit from the fixed commodity price component within the PGA and no prudence review or adjustments would be permitted with respect to commodity purchases during the October 1, 2001, through September 30, 2000, time period. Sample tariff language to effectuate the fixed commodity price alternative is appended hereto as Attachment 2. The fixed commodity price component of the PGA shall remain in effect for a period of twelve months from the date it becomes effective.

B. Until the fixed commodity price component of the PGA takes effect, MGE shall continue under the current PGA/ACA process for commodity cost recovery.

2. Hedging Plan Alternative[3]

MGE will undertake to hedge its gas purchase costs through the use of financial instruments purchased on the NYMEX or fixed commodity prices or some combination

[3] MGE believes the hedging plan alternative is inferior to the fixed commodity price alternative because it is less consistent with the stated purposes of the Amended Stipulation and Agreement approved by the Commission on August 1, 2000. First, due to the variability of monthly demand, only approximately 70% of monthly purchase volumes can be hedged (through the use of financial instruments or fixed commodity prices or some combination thereof). Consequently, approximately 10 million MCF of expected winter months purchases would not be subject to any price protection whatsoever. Thus, although the hedging plan alternative can provide some measure of price stability for customers, it cannot eliminate all price variability. Moreover, the cost of price protection has risen considerably since the winter of 1999-2000. In addition, the hedging plan alternative does not serve to streamline the regulatory process associated

thereof. Gains or losses resulting from the use of such financial instruments, as well as the cost of such financial instruments themselves, would be recoverable through the PGA clause. Gas purchase costs, including the cost of financial instruments and gains or losses resulting from the use of such financial instruments, would be subject to prudence review and adjustment.[4] Sample tariff language to effectuate the hedging plan alternative is appended hereto as Attachment 3.

II. Miscellaneous Items

A. Term

The fixed commodity price component portion of the program shall extend for one year after the fixed commodity price component becomes effective. 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, as provided in the Amended Stipulation and Agreement.

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with gas supply costs, due to the continuation of the after-the-fact prudence review process.

[4] MGE does not hereby acquiesce to any such adjustment and any such adjustment would of course be subject to judicial review as provided by law. MGE does not believe that this hedging plan alternative represents a reasonable long-term approach due to the imbalance in the risk-reward profile presented by the inability of MGE to realize profits on commodity transactions coupled with the possibility for MGE to realize losses on commodity transactions by way of continued after-the-fact prudence reviews. MGE is nevertheless willing to implement the hedging plan alternative in the short term in recognition of the time constraints associated with resolving these issues in advance of next winter and in an effort to establish commonly understood rules of the road for the short-term prior to next winter.

2. Monitoring Reports

MGE shall provide semi-annual reports, on a highly confidential basis, detailing the savings achieved under the program and the calculations supporting the claimed level of savings as provided in the Amended Stipulation and Agreement.

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. For all customer classes 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. of the Amended Stipulation and Agreement, 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. Prudence Reviews

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 price component of the PGA or the associated supply contracts. For periods after termination of the fixed commodity price 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. in no way indicates acquiescence or agreement by MGE to any such proposed adjustments the Staff or Public Counsel may make.

F. 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.

WHEREFORE, MGE respectfully requests that the Commission issue its Order adopting one of the two alternative proposals set forth herein.

Respectfully submitted,

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

ATTORNEY FOR MISSOURI GAS ENERGY

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 29th day of March, 2001, to:

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

Thomas R. Schwarz, Jr.
P.O. Box 360
Jefferson City, Missouri 65102

Attachment 1

Missouri Gas Energy
Computation of Average Fixed Price

NYMEX CLOSE DATE	Jun-00 5/26	Jul-00 6/28	Aug-00 7/27	Sep-00 8/29	Oct-00 9/27	Total
October-00	$ 4.265	$ 4.355	$ 3.861	$ 4.643	$ 5.312	
November-00	$ 4.365	$ 4.415	$ 3.951	$ 4.697	$ 5.447	
December-00	$ 4.465	$ 4.485	$ 4.050	$ 4.770	$ 5.562	
January-01	$ 4.475	$ 4.465	$ 4.048	$ 4.720	$ 5.522	
February-01	$ 4.255	$ 4.195	$ 3.888	$ 4.465	$ 5.257	
March-01	$ 4.035	$ 3.925	$ 3.738	$ 4.205	$ 4.988	
April-01	$ 3.795	$ 3.640	$ 3.593	$ 3.945	$ 4.722	
May-01	$ 3.672	$ 3.480	$ 3.558	$ 3.845	$ 4.632	
June-01	$ 3.649	$ 3.425	$ 3.555	$ 3.825	$ 4.607	
July-01	$ 3.652	$ 3.402	$ 3.546	$ 3.810	$ 4.592	
August-01	$ 3.662	$ 3.382	$ 3.558	$ 3.820	$ 4.589	
September-01	$ 3.657	$ 3.362	$ 3.541	$ 3.805	$ 4.569	

Source: Inside FERC Gas Market Report

VOLUMES (20% PER MONTH)	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Total
October-00	755,552	755,552	755,552	755,552	755,552	3,777,761
November-00	775,317	775,317	775,317	775,317	775,317	3,876,584
December-00	1,903,050	1,903,050	1,903,050	1,903,050	1,903,050	9,515,251
January-01	1,837,679	1,837,679	1,837,679	1,837,679	1,837,679	9,188,394
February-01	1,476,018	1,476,018	1,476,018	1,476,018	1,476,018	7,380,092
March-01	988,826	988,826	988,826	988,826	988,826	4,944,132
April-01	802,050	802,050	802,050	802,050	802,050	4,010,252
May-01	1,190,330	1,190,330	1,190,330	1,190,330	1,190,330	5,951,650
June-01	985,383	985,383	985,383	985,383	985,383	4,926,916
July-01	1,022,208	1,022,208	1,022,208	1,022,208	1,022,208	5,111,039
August-01	842,810	842,810	842,810	842,810	842,810	4,214,049
September-01	653,379	653,379	653,379	653,379	653,379	3,266,893
	13,232,603	13,232,603	13,232,603	13,232,603	13,232,603	66,163,013

WEIGHTED COST	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Total
October-00	$ 3,222,430	$ 3,290,430	$ 2,917,187	$ 3,508,029	$ 4,013,493	$ 16,951,569
November-00	3,384,258	3,423,024	3,063,277	3,641,663	4,223,151	17,735,372
December-00	8,497,119	8,535,180	7,707,353	9,077,549	10,584,765	44,401,967
January-01	8,223,613	8,205,236	7,438,924	8,673,844	10,147,662	42,689,279
February-01	6,280,458	6,191,897	5,738,760	6,590,422	7,759,429	32,560,966
March-01	3,989,915	3,881,144	3,696,233	4,158,015	4,932,266	20,657,572
April-01	3,043,781	2,919,463	2,881,767	3,164,089	3,787,282	15,796,383
May-01	4,370,892	4,142,348	4,235,194	4,576,819	5,513,609	22,838,862
June-01	3,595,663	3,374,937	3,503,037	3,769,091	4,539,660	18,782,389
July-01	3,733,103	3,477,551	3,624,749	3,894,612	4,693,978	19,423,993
August-01	3,086,369	2,850,383	2,998,717	3,219,533	3,867,654	16,022,657
September-01	2,389,406	2,196,659	2,313,614	2,486,106	2,985,287	12,371,070
	$ 53,817,007	$ 52,488,252	$ 50,118,812	$ 56,759,772	$ 67,048,236	$ 280,232,079

$ 4.235

Attachment 1

Attachment 2
Sample Tariff Language for Fixed Commodity Price Alternative

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

APPLICATION

Sheets 24.8 through 24.32 are filed in order to implement a Fixed Commodity Price PGA ("FCP") consistent with the Commission's Report and Order approving the Stipulation and Agreement in Case No. GO-2000-705 as amended. These sheets supplant the operation of the Purchased Gas Adjustment clause (PGA) as described in Sheets 14 through 24.7 for a period of two (2) years as provided in the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended.

The Company will charge customers, through the FCP, costs incurred by the Company for the procurement of natural gas commodity and for pipeline transportation and storage services. The FCP shall include governmentally authorized pipeline take-or-pay and transition costs, pipeline refunds, procurement and capacity incentives, and annual reconciliation of these costs. The charge on the customer's bill is calculated by multiplying the customer's usage by the respective current effective PGA Rate or the Total FCP Rate shown on Sheet No. 24.32 as described under this FCP.

All references to the PGA in the company's tariff shall be construed to mean this Fixed Commodity Price PGA, while the FCP is effective.

These sheets 24.8 through 24.32 inclusive shall remain in effect, and the effectiveness of Sheets 14 through 24.7 shall be held in abeyance, until this procedure ends at some point after two (2) years has elapsed as provided in the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended, or changes to these sheets become effective pursuant to law.

I. DESCRIPTION OF THE FIXED COMMODITY PRICE PGA

The fixed commodity price component of the PGA will be a fixed price for the period October 1, 2001, through September 30, 2002. The fixed commodity price component shall be set on the basis of ~~conditioned on the Company's election or~~ the New York Mercantile Exchange ("NYMEX") natural gas prices for the months of October 2001 through September 2002 weighted by MGE's average purchase volumes for those months. More specifically, for each month from May through September of 2001 closing prices for the twelve-month weighted average strip will be obtained in equal twenty percent (20%) increments. The fixed commodity price component within the PGA shall be set at a level equal to the price produced by the fime-month phase-in of the twelve month weighted average strip, plus $0.075 per MMBtu, plus an amount to reflect Btu conversion, compression fuel on 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. MGE shall make no profit from the fixed commodity price component within the PGA and no prudence review or adjustments would be permitted with respect to commodity purchases during the October 1, 2001, through September 30, 2000 time period. The fixed commodity price component of the PGA shall remain in effect for a period of twelve months from the date it becomes effective.~~strip settling at or below a certain level for a prescribed period of time as described in the Stipulation and Agreement approved by the Commission in its Report and Order in Case No. GO-2000-705 and the provisions below.~~ Prior to the effectiveness of the fixed commodity price component of the PGA, the Current Cost of Gas shall be determined according to the provisions of this FCP clause. The Transportation and Storage component is determined based on the cost of pipeline transportation and storage services subject to the provisions below. For the purpose of the FCP, the term "supplier" shall include any

DATE OF ISSUE: ~~August 7, 2000~~
month day year

DATE EFFECTIVE: ~~September 6, 2000~~
month day year

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

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

Unscheduled Winter PGA Filing -- In addition to these two scheduled PGA filings, the Company may also make one Unscheduled Winter PGA Filing in the period between the effective date of the Winter PGA Filing and the next Summer PGA Filing, provided that at the time of such Unscheduled Winter PGA Filing, there is:

(a) a projected under-recovery in the Company's Deferred Carrying Cost Balance (DCCB), as defined in Section IV of this FCP clause, equal to or greater than fifteen percent (15%) of the Company's average annual level of gas commodity costs for the three (3) then most recent ACA periods (hereinafter referred to as the "Annual Gas Cost Level") or

(b) a projected over-recovery equal to or greater than ten percent (10%) of the Company's Annual Gas Cost Level. The projected under- or over-recovery shall be determined by adding:

(1) the actual net over- or under-recovery amount in the DCCB at the time the Unscheduled Winter PGA Filing is made, and

(2) the estimated DCCB related over- or under-recovery amount which, based on the Company's actual gas commodity costs at the time of the Unscheduled Winter PGA Filing, would otherwise occur in the ensuing monthly period absent the filing.

The Unscheduled Winter PGA Filing shall be made at least ten (10) business days prior to the proposed effective date.

2. Total FCP Rate – ~~upon~~during the effectiveness of the fixed commodity price component of the PGA, the Company shall make no more than two (2) scheduled FCP filings each calendar year (hereinafter referred to as the "Winter Filing" and the "Summer Filing") pursuant to the following terms:

(a) Scheduled Filings – The Winter Filing shall be made between October 15 and November 4. The Summer Filing shall be made between March 15 and April 4. The scheduled Winter and Summer Filings shall be made at least ten (10) business days prior to the proposed effective dates.

DATE OF ISSUE: ~~August 7, 2000~~
month day year

DATE EFFECTIVE: ~~September 6, 2000~~
month day year

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

FIXED COMMODITY PRICE PGA
FCP

~~(b)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 the Large Volume customer classes.~~

~~(c)For all other classes, the fixed commodity price component of the PGA shall remain the same year-round.~~

II. CALCULATION OF CCG

For the purpose of the computations herein, "commodity-related" shall mean gas costs relating to gas supply commodity charges, variable transportation charges, and other FERC-authorized variable charges excluding any amounts for FERC authorized Take-or-Pay (TOP) or Transition Cost (TC) charges. It shall also include the Price Stabilization Charge defined in Section XI of this FCP clause.

"Demand related" shall mean fixed (non-volumetric) costs relating to gas supply demand charges, fixed transportation charges, fixed storage charges and other FERC-authorized fixed charges excluding any amounts for FERC authorized Take-or-Pay (TOP) or Transition Cost (TC) charges.

The CCG will be the sum of Commodity-Related charges and Demand-Related charges and will be determined in accordance with the following:

A. Commodity-Related Charges

The Commodity-Related Charge cost component per Ccf shall be determined by the Company using any method it deems reasonable provided that:

(1) for any scheduled PGA filing such estimate shall not exceed a per Ccf cost equal to the higher of:

(a) the Company's actual commodity-related gas cost per Ccf for currently purchased gas supplies and services in the month in which the PGA filing is made; or

(b) the average of

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

FIXED COMMODITY PRICE PGA
FCP

(1) the highest weighted average commodity-related gas cost per Ccf actually incurred by the Company for currently purchased gas supplies in a single season ACA period and

(2) the overall weighted average commodity-related gas cost per Ccf actually incurred by the Company for currently purchased gas supplies and services

in the applicable winter or summer period during the three (3) then most recent ACA periods.

(2) for any Unscheduled Winter PGA Filing, such estimate shall not exceed a per Ccf cost equal to the Company's actual commodity-related gas cost per Ccf for currently purchased gas supplies and services in the month in which such Unscheduled Winter PGA Filing is made.

B. Demand-Related

The Demand Related per Ccf cost component is to be calculated by dividing the annual demand related costs, using the most current FERC and supplier rates, as defined in this section by estimated annual sales as set forth in Section IX of this FCP clause.

III. CALCULATION OF THE FIXED COMMODITY PRICE COMPONENT (FCPC) AND THE TRANSPORTATION AND STORAGE COMPONENT (TSC)

~~1.~~FCPC - The FCPC shall be ~~equal to~~based on NYMEX natural gas prices for the months of October 2001 through September 2002 weighted by MGE's average purchase volumes for those months. More specifically, for each month from May through September of 2001 closing prices for the twelve-month weighted average strip will be obtained in equal twenty percent (20%) increments. The fixed commodity price component within the PGA shall be set at a level equal to the price produced by the five-month phase-in of the twelve month weighted average strip, plus $0.075 per MMBtu, plus an amount to reflect Btu conversion, compression fuel on 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. MGE shall make no profit from the fixed commodity price component within the PGA and no prudence review or adjustments would be permitted with respect to commodity purchases during the October 1, 2001, through September 30, 2000 time period. ~~$0.25818 per Ccf when and if the Company so elects, or when and if the NYMEX strip price for the nearest twelve-month period traded on the exchange, weighted by the average Company purchase volumes by month, settles at or~~

~~below $2.25 per MMBtu for five consecutive business days,~~ ~~a~~All of this is~~as~~ more particularly described in the Stipulation and Agreement approved by the Commission in its order in Case No. G[illegible]2000-705 as amended~~. For the term of this FCP, upon the effectiveness of the fixed commodity price component of the PGA, any under-recovery of commodity costs shall be absorbed by the Company and any over-recovery of commodity costs shall be retained by the Company.~~

~~1.~~

DATE OF ISSUE: ~~August 7, 2000~~ (month day year)   DATE EFFECTIVE: ~~September 6, 2000~~ (month day year)

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

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

XIII. FIXED COMMODITY PRICE ADJUSTMENT STATEMENT

The Total FCP Rate shall be used to bill customers no less than ten (10) business days after the Fixed Commodity Price Component of the PGA ~~is triggered and~~ becomes effective under the terms of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended. The Company shall notify the Commission on, or prior to, the date on which the Fixed Commodity Price Component of the PGA takes effect and, with such notification, shall file a revised tariff sheet containing the Total FCP Rate with a proposed effective date of no less than 10 business days. For ~~the~~any period of time between when the Fixed Commodity Price Component of the PGA ~~is triggered and~~ becomes effective under the terms of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended and the effective date of the tariff sheet containing the initial Total FCP Rate, any differences between the "as billed" CCG commodity factor (for the same elements as the FCPC) and the Fixed Commodity Price Component of the PGA shall be reconciled in the succeeding Actual Cost Adjustment proceeding. If the FCPC factor is less than the commodity portion of the CCG factor, total billed revenue recovery will be increased by the difference between the FCPC factor and the commodity portion of the CCG factor, times the billed volumes. If the FCPC factor is greater than the commodity portion of the CCG factor, total billed revenue recovery will be decreased by the difference between the FCPC factor and the commodity portion of the CCG factor times the billed volumes. The Fixed Commodity Price Component of the PGA shall remain in effect for twelve~~o year~~months after ~~being triggered and~~ becoming effective under the terms of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended. No later than 10 business days prior to the termination of this twelve~~o~~ month~~year~~ period, the Company shall file a Revised PGA Statement (Sheet No. 24.7), unless otherwise ordered by the Commission.

Any increase or decrease in the Total FCP Rate shall be applied to customers' bills for service rendered on and after the effective date of the change. Bills computed which contain multiple Total FCP Rate changes during a customer's billing cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's billing cycle that such rates were in effect. Rates are shown as a summary statement on Sheet No. 24.32 in hundred cubic feet (Ccf).

month day year **month day year**

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

Attachment 3
Sample Tariff Language for Hedging Plan Alternative

FIXED COMMODITY PRICE PGA
FCP

APPLICATION

Sheets 24.8 through 24.32 are filed in order to implement a Fixed Commodity Price PGA ("FCP") consistent with the Commission's Report and Order approving the Stipulation and Agreement in Case No. GO-2000-705 as amended. These sheets supplant the operation of the Purchased Gas Adjustment clause (PGA) as described in Sheets 14 through 24.7 for a period of two (2) years as provided in the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended.

The Company will charge customers, through the FCP, costs incurred by the Company for the procurement of natural gas commodity and for pipeline transportation and storage services. The FCP shall include governmentally authorized pipeline take-or-pay and transition costs, pipeline refunds, procurement and capacity incentives, and annual reconciliation of these costs. The charge on the customer's bill is calculated by multiplying the customer's usage by the respective current effective PGA Rate or the Total FCP Rate shown on Sheet No. 24.32 as described under this FCP.

All references to the PGA in the company's tariff shall be construed to mean this Fixed Commodity Price PGA, while the FCP is effective.

These sheets 24.8 through 24.32 inclusive shall remain in effect, and the effectiveness of Sheets 14 through 24.7 shall be held in abeyance, until this procedure ends at some point after two (2) years has elapsed as provided in the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 as amended, or changes to these sheets become effective pursuant to law.

I. DESCRIPTION OF THE FIXED COMMODITY PRICE PGA

~~The fixed commodity price component of the PGA will be a fixed price conditioned on the Company's election or the New York Mercantile Exchange ("NYMEX") strip settling at or below a certain level for a prescribed period of time as described in the Stipulation and Agreement approved by the Commission in its Report and Order in Case No. GO-2000-705. Prior to the effectiveness of the fixed commodity price component of the PGA, t~~The Current Cost of Gas shall be determined according to the provisions of this FCP clause. The Transportation and Storage component is determined based on the cost of pipeline transportation and storage services subject to the provisions below. For the purpose of the FCP, the term "supplier" shall include any

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Unscheduled Winter PGA Filing -- In addition to these two scheduled PGA filings, the Company may also make one Unscheduled Winter PGA Filing in the period between the effective date of the Winter PGA Filing and the next Summer PGA Filing, provided that at the time of such Unscheduled Winter PGA Filing, there is:

(a) a projected under-recovery in the Company's Deferred Carrying Cost Balance (DCCB), as defined in Section IV of this FCP clause, equal to or greater than fifteen percent (15%) of the Company's average annual level of gas commodity costs for the three (3) then most recent ACA periods (hereinafter referred to as the "Annual Gas Cost Level") or

(b) a projected over-recovery equal to or greater than ten percent (10%) of the Company's Annual Gas Cost Level. The projected under- or over-recovery shall be determined by adding:

(1) the actual net over- or under-recovery amount in the DCCB at the time the Unscheduled Winter PGA Filing is made, and

(2) the estimated DCCB related over- or under-recovery amount which, based on the Company's actual gas commodity costs at the time of the Unscheduled Winter PGA Filing, would otherwise occur in the ensuing monthly period absent the filing.

The Unscheduled Winter PGA Filing shall be made at least ten (10) business days prior to the proposed effective date.

~~2. Total FCP Rate -- upon the effectiveness of the fixed commodity price component of the PGA, the Company shall make no more than two (2) scheduled FCP filings each calendar year (hereinafter referred to as the "Winter Filing" and the "Summer Filing") pursuant to the following terms:~~

~~(a) Scheduled Filings -- The Winter Filing shall be made between October 15 and November 4. The Summer Filing shall be made between March 15 and April 4. The scheduled Winter and Summer Filings shall be made at least ten (10) business days prior to the proposed effective dates.~~

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~~(b)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 the Large Volume customer classes.~~

~~(c)For all other classes, the fixed commodity price component of the PGA shall remain the same year-round.~~

II. CALCULATION OF CCG

For the purpose of the computations herein, "commodity-related" shall mean gas costs relating to gas supply commodity charges, variable transportation charges, and other FERC-authorized variable charges excluding any amounts for FERC authorized Take-or-Pay (TOP) or Transition Cost (TC) charges. It shall also include the Price Stabilization Charge defined in Section XI of this FCP clause. The Company has the authority to use financial instruments for the purpose of hedging gas supply as it deems prudent. The costs of such instruments, including associated gains and losses, are commodity-related gas costs and will be subject to prudence review in the appropriate ACA proceeding.

"Demand related" shall mean fixed (non-volumetric) costs relating to gas supply demand charges, fixed transportation charges, fixed storage charges and other FERC-authorized fixed charges excluding any amounts for FERC authorized Take-or-Pay (TOP) or Transition Cost (TC) charges.

The CCG will be the sum of Commodity-Related charges and Demand-Related charges and will be determined in accordance with the following:

A. Commodity-Related Charges

The Commodity-Related Charge cost component per Ccf shall be determined by the Company using any method it deems reasonable provided that:

(1) for any scheduled PGA filing such estimate shall not exceed a per Ccf cost equal to the higher of:

(a) the Company's actual commodity-related gas cost per Ccf for currently purchased gas supplies and services in the month in which the PGA filing is made; or

(b) the average of

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(1) the highest weighted average commodity-related gas cost per Ccf actually incurred by the Company for currently purchased gas supplies in a single season ACA period and

(2) the overall weighted average commodity-related gas cost per Ccf actually incurred by the Company for currently purchased gas supplies and services

in the applicable winter or summer period during the three (3) then most recent ACA periods.

(2) for any Unscheduled Winter PGA Filing, such estimate shall not exceed a per Ccf cost equal to the Company's actual commodity-related gas cost per Ccf for currently purchased gas supplies and services in the month in which such Unscheduled Winter PGA Filing is made.

B. Demand-Related

The Demand Related per Ccf cost component is to be calculated by dividing the annual demand related costs, using the most current FERC and supplier rates, as defined in this section by estimated annual sales as set forth in Section IX of this FCP clause.

III. CALCULATION OF THE ~~FIXED COMMODITY PRICE COMPONENT (FCPC) AND THE~~ TRANSPORTATION AND STORAGE COMPONENT (TSC)

1. ~~FCPC - The FCPC shall be equal to $0.25818 per Ccf when and if the Company so elects, or when and if the NYMEX strip price for the nearest twelve-month period traded on the exchange, weighted by the average Company purchase volumes by month, settles at or below $2.25 per MMBtu for five consecutive business days, all as more particularly described in the Stipulation and Agreement approved by the Commission in its order in Case No. GO-2000-705. For the term of this FCP, upon the effectiveness of the fixed commodity price component of the PGA, any under-recovery of commodity costs shall be absorbed by the Company and any over-recovery of commodity costs shall be retained by the Company.~~

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~~2.~~ TSC – For the purpose of the FCP, the transportation and storage cost component shall be based on the current cost of contracted pipeline transportation and storage services as of the date of the filing and shall also include the Price Stabilization Charge defined in Section XI of this FCP clause. The Actual Cost Adjustment Account (ACA) shall be credited or debited for the over-recovery or under-recovery to reflect the annual reconciliation of actual purchased pipeline service costs with the recovery of such costs.

A. Maximum Daily Quantities ("MDQ") – System sales customers and the Company shall share savings from any reduction in the level of contract MDQs in accordance with the Stipulation and Agreement approved by the Commission in its order in Case No. GO-2000-705.

B. Transportation Rate Discounts – If the Company secures a new transportation discount that produces savings which exceed savings produced by any currently achieved level of discounts, such savings shall be shared between customers and the Company in accordance with the Stipulation and Agreement approved by the Commission in its order in Case No. GO-2000-705.

C. Mix of Transportation Services – To the extent that the Company achieves transportation savings by use of alternate transportation services, such savings shall be shared between customers and the Company in accordance with the Stipulation and Agreement approved by the Commission in its order in Case No. GO-2000-705.

D. Transportation and Storage Demand Charge Cost Recovery – recovery of transportation and storage demand charges shall be determined in accordance with the Stipulation and Agreement approved by the Commission in its order in Case No. GO-2000-705. At the end of the ACA period, expense and revenue attributable to these items shall be trued-up to actual.

IV. DEFERRED COST - ACTUAL COST ADJUSTMENT ACCOUNTS

A. Actual Cost Adjustment Account (ACA)

The Company shall establish and maintain a Deferred Cost – Actual Cost Adjustment Account (ACA) which shall be credited with any over-recovery of pipeline service costs, and gas commodity costs if applicable, resulting from the operation of the Company's Fixed Commodity Price PGA procedure or debited for any under-recovery resulting from same. Such over- or under-recovery shall

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be determined by a monthly comparison of the actual total cost of gas commodity costs if applicable, pipeline transportation and storage services and the cost recovery for the same month.

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 effectiveness of the fixed commodity price component of the PGA. The ACA factor shall not be used to balance gas commodity cost recovery with gas commodity cost incurrence for periods during the effectiveness of the fixed commodity price component of the PGA; provided, however, that for periods during the effectiveness of the fixed commodity price component of the PGA 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 trued-up in the ACA process. Consistent with the provisions of Paragraphs III and IV of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705, 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.

1. ~~For periods prior to the effectiveness of the FCPC, t~~The "cost recovery" for a particular month shall be determined by calculating the product of the volumes billed during the month and the sum of that month's regular Purchased Gas Cost factors and the prior year ACA, as hereinafter defined. To this total, shall be added the demand-related purchased gas costs billed directly to customers (see Section VIII. of this FCP clause). The fixed TOP recovery factor, the fixed TC recovery factor and the refund factor shall be excluded from this calculation.

   ~~For periods prior to the effectiveness of the FCPC, t~~The "cost of gas" for a particular month will be calculated by using the as billed cost of gas shown on the books and records of the Company, but exclusive of refunds and fixed TOP charges and TC charges. The cost of gas includes the cost of gas commodity, transportation and storage.

2. ~~For periods during the effectiveness of the FCPC, the "cost recovery" for a particular month shall be determined by calculating the product of the volumes billed during the month and the sum of that month's TSC, those factors of the FCPC subject to reconciliation and the prior year ACA, as hereinafter defined.~~ To this total, shall be added

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~~the demand-related purchased gas costs billed directly to customers (see Section VIII of this FCP clause). The fixed TOP recovery factor, the fixed TC recovery factor and refund factor shall be excluded from this calculation.~~

~~For periods during the effectiveness of the FCPC, the "cost of gas" for a particular month will be calculated by using the as billed cost of gas shown on the books and records of the Company, but exclusive of refunds and fixed TOP charges and TC charges. The cost of gas includes 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 transportation, and storage. For periods during the effectiveness of the FCP, the cost of gas does not include the cost of gas commodity.~~

The ACA Account ~~in either circumstance (described in IV. A. I. or IV. A. 2.)~~ shall be adjusted for those revenues received by the Company for the release of pipeline transmission capacity to another party other than those revenues which are retained by the Company as described in Section X of this FCP clause.

For ~~periods prior to the effectiveness of the FCPC, for~~ each twelve-month billing period ended June 30, the differences between the cost of gas under Section IV. A. 1.; versus the cost recovery (as defined in Section IV. A. 1.) and described herein, including any balance for the previous year shall be accumulated to produce a cumulative balance of over-recovered or under-recovered costs. An ACA shall be computed by dividing the cumulative balance of under-recoveries or over-recoveries by the annual volumes set out in Section IX of this FCP clause.

~~For periods during the effectiveness of the FCPC, for each twelve-month billing period ended June 30, the differences between the cost of gas under Section IV. A. 2. Versus the cost recovery (as defined in Section IV. A. 2.) and described herein, including any balance for the previous year shall be accumulated to produce a cumulative balance of over-recovered or under-recovered costs. An ACA shall be computed by dividing the cumulative balance of under-recoveries or over-recoveries by the annual volumes set out in Section IX of this FCP clause.~~

~~For periods after the term of this program the ACA will be reconciled pursuant to the procedures set forth for periods prior to the effectiveness of the FCPC.~~

This adjustment shall be rounded to the nearest $0.00001 per Ccf and applied to the following Winter FCP and subsequent Summer FCP.

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Commission in Case No. GO-2000-705 as amended, ~~for periods prior to the effectiveness of the FCPC of the PGA,~~ commodity-related gas costs shall be subject to audit and prudence review. ~~Also consistent with the provisions of the Stipulation and Agreement approved by the Commission in its Report and Order in Case No. GO-2000-705, for periods during the effectiveness of the FCPC of the PGA, gas commodity costs shall not be subject to audit and prudence review.~~ Pipeline transportation and storage costs shall be subject to audit and prudence review.

V. REFUND PROVISIONS

Residential, Small General, Large General and Unmetered Gaslight Customers:

For the purpose hereof, unless the Missouri Public Service Commission shall otherwise order, refunds or a balance in the refund account in excess of $75,000 (including interest from suppliers) received by the Company from charges paid and recovered through the PGA/EGCIM/FCP applicable to its Residential, Small General, Large General and Unmetered Gaslight customers, shall be refunded to such customers as a reduction in PGA rates. After receipt of a refund in excess of $75,000 or the balance reaching $75,000, the Company shall file with the Commission, at the time of its Winter or Summer or unscheduled Winter FCP filing, and propose to make effective, the appropriate FCP Statement reflecting the decrease and an associated statement showing the computation of the refund adjustment. After receipt of any refund in excess of $75,000 prior to the effective date of this tariff sheet or the balance reaching $75,000 prior to the effective date of this tariff sheet, the Company shall file with the Commission, and propose to make effective with the appropriate September, 1997 PGA Statement reflecting the decrease and an associated statement showing the computation of the refund adjustment.

The Company will add interest to the refunds received from its suppliers applicable to (1) the amount of the refund from the date of its receipt by the Company to the beginning date of the refund adjustment period, and (2) the average amount of the total refund estimated to be outstanding during the refund adjustment period. Such interest shall be calculated at the rate of 6 percent per annum compounded annually. For each refund distribution period, the interest to be added by the Company shall be included in determining the refund credits to be applied to bills.

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XIII. FIXED COMMODITY PRICE ADJUSTMENT STATEMENT

~~The Total FCP Rate shall be used to bill customers no less than ten (10) business days after the Fixed Commodity Price Component of the PGA is triggered and becomes effective under the terms of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705. The Company shall notify the Commission on, or prior to, the date on which the Fixed Commodity Price Component of the PGA takes effect and, with such notification, shall file a revised tariff sheet containing the Total FCP Rate with a proposed effective date of no less than 10 business days. For the period of time between when the Fixed Commodity Price Component of the PGA is triggered and becomes effective under the terms of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705 and the effective date of the tariff sheet containing the initial Total FCP Rate, any differences between the "as billed" CCG commodity factor (for the same elements as the FCPC) and the Fixed Commodity Price Component of the PGA shall be reconciled in the succeeding Actual Cost Adjustment proceeding. If the FCPC factor is less than the commodity portion of the CCG factor, total billed revenue recovery will be increased by the difference between the FCPC factor and the commodity portion of the CCG factor, times the billed volumes. If the FCPC factor is greater than the commodity portion of the CCG factor, total billed revenue recovery will be decreased by the difference between the FCPC factor and the commodity portion of the CCG factor times the billed volumes. The Fixed Commodity Price Component of the PGA shall remain in effect for two years after being triggered and becoming effective under the terms of the Stipulation and Agreement approved by the Commission in Case No. GO-2000-705. No later than 10 business days prior to the termination of this two year period, the Company shall file a Revised PGA Statement (Sheet No. 24.7), unless otherwise ordered by the Commission.~~

Any increase or decrease in the Total FCP Rate shall be applied to customers' bills for service rendered on and after the effective date of the change. Bills computed which contain multiple Total FCP Rate changes during a customer's billing cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's billing cycle that such rates were in effect. Rates are shown as a summary statement on Sheet No. 24.32 in hundred cubic feet (Ccf).

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