

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY**

June 23, 2000

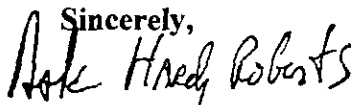
CASE NO: GO-2000-705

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

General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Robert J. Hack
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111

Enclosed find certified copy of an Ex Parte in the above-numbered case(s).

Sincerely,


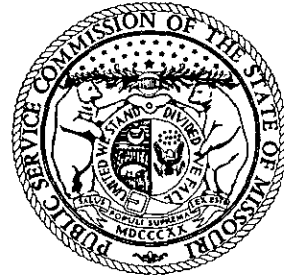
Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

Notice of *Ex Parte* Contact

TO: Records Department: All Parties in Case No. **GO-2000-231 & GO-2000-705**
All Commissioners

FROM: Chair Sheila Lumpe

DATE: June 23, 2000



On June 21, 2000, I received a letter from Steve Catron of Missouri Gas Energy, regarding Natural Gas Prices. The Commission is currently considering the same issues as to those set out in this document in Case Numbers **GO-2000-231 & GO-2000-705**. The Commission is bound by the same *ex parte* rule as a court of law.

Pursuant to 4 CSR 240-4.020(4) it is improper for any person to attempt to sway the judgement of the Commission by undertaking, directly or indirectly, outside the hearing process, to bring pressure or influence to bear upon the Commission, or the Regulatory Law Judge assigned to the proceeding.

Whenever such contact might occur 4 CSR 240-4.020(a) states: as *ex parte* communications (either oral or written) may occur inadvertently, any member of the Commission or Regulatory Law Judge who received the communication shall immediately prepare a written report concerning the communication and submit it to the Chair and each member of the Commission. The report shall identify the person(s) who participated in the *ex parte* communication, the circumstances which resulted in the communication, the substance of the communication, and the relationship of the communication to a particular matter at issue before the Commission.

Therefore, out of an abundance of caution, I think it appropriate to submit this notice of *ex parte* contact pursuant to the standards set out in the rules cited above. This will ensure that any party to this case will have notice of the attached information and a full and fair opportunity to respond to the comments contained therein.

cc: Executive Director
Secretary/Chief Regulatory Law Judge
General Counsel



Commissioners

SHEILA LUMPE
Chair

M. DIANNE DRAINER
Vice Chair

CONNIE MURRAY

ROBERT G. SCHEMENAUER

KELVIN L. SIMMONS

Missouri Public Service Commission

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BRIAN D. KINKADE
Executive Director

GORDON L. PERSINGER
Director, Research and Public Affairs

WESS A. HENDERSON
Director, Utility Operations

ROBERT SCHALLENBERG
Director, Utility Services

DONNA M. KOLILIS
Director, Administration

DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

June 23, 2000

Steve Cattron
President & Chief Operating Officer
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111-2404

Re: Case Numbers GO-2000-231
GO-2000-705

Dear Mr. Cattron:

The Commission appreciates knowing your opinion.

This case is an open case, so I cannot comment on it. Your letter will be shared with all the Commissioners and be placed in the official file so all the parties can view it.

Thank you for taking the time to write.

Sincerely,


Sheila Lumpe

cc: Commissioners



Commissioners

SHEILA LUMPE
Chair

M. DIANNE DRAINER
Vice Chair

CONNIE MURRAY

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Director, Administration

DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE
General Counsel

June 20, 2000

Steven W. Cattron
President & Chief Operating Officer
Missouri Gas Energy
3420 Broadway
Kansas City, MO 65102

Dear Mr. Cattron:

I am in receipt of your letter of June 20, 2000. Like you, I am greatly concerned with the effect that unexpectedly high natural gas prices will have on Missouri's gas companies and their customers. I agree that time is of the essence if we are to most effectively address the potential problems caused by the high price of gas.

Because of the pervasive nature of this issue, it is of utmost importance that the PSC's response is orchestrated to best meet the needs of all Missourians irrespective of their gas service provider. I am hesitant to lead the Commission to addressing the problem one company at a time and therefore must decline your request to have MGE individually address the Commission at this time. Instead, I would ask that MGE participate in a meeting that the PSC staff will conduct next Monday in Jefferson City. Through this workshop, all of the state's gas companies can participate in an open discussion of the issue and work together with staff to develop recommendations for the Commission on how to best manage the problems brought by the current high price of gas. Recommendations requiring the Commission's review and approval would be handled in an expedited manner. I hope you will agree that this strategy affords us the best chance of addressing this problem in a way that is fair and consistent to consumers and gas companies statewide, and in the shortest amount of time.

You will be receiving or may have already received an invitation from Wess Henderson to attend the staff meeting. I am hopeful MGE will be an active participant in this forum.

Sincerely,

Sheila Lumpe



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5501

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 Schemienauer
Commissioner Simmons
Vice Chair Drainer
Martha Hogerty
Thomas R. Schwarz, Jr.
Robert Schallenberg
Wess Henderson

**STATE OF MISSOURI
OFFICE OF THE PUBLIC SERVICE COMMISSION**

I have compared the preceding copy with the original on file in this office and

I do hereby certify the same to be a true copy therefrom and the whole thereof.

**WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 23rd day of June 2000.**

Dale Hardy Roberts

**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

