

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a session of the Public Service
Commission held at its office
in Jefferson City on the 11th
day of June, 1996.

In the Matter of Gas Service, a Western Resources)
Company, Tariff Sheets Reflecting PGA Changes to) Case No. GR-94-101
be Reviewed in the Company's 1993-1994 Actual Cost)
Adjustment.)

In the Matter of Missouri Gas Energy's Tariff)
Sheets Reflecting PGA Changes to be Reviewed in) Case No. GR-94-228
the Company's 1993-1994 Actual Cost Adjustment.)

ORDER APPROVING STIPULATIONS AND AGREEMENTS

These cases were established for the purpose of receiving the Western Resources, Inc. (WRI) annual cost adjustment (ACA) filing for the 1993-94 adjustment period, extending from July 1, 1993, through February 1, 1994, and the Missouri Gas Energy (MGE) filing for the February 1, 1994, through June 30, 1994 portion of the 1993-94 period. MGE is a successor in interest to WRI, having undertaken the operation of the instant service area, excluding the Palmyra District, on February 1, 1994.

As the result of extensive negotiations between the parties, two Stipulations And Agreements were filed in this case, at separate times. Stipulation And Agreement #1, styled as "Unanimous Stipulation And Agreement," was filed on December 14, 1995, and purported to settle three of the five issues raised by the Staff in this litigation. Stipulation And Agreement #2, styled "Stipulation And Agreement," was filed on May 2, 1996, and purports to settle a fourth issue. The remaining issue of the five original issues was fully litigated on May 6 and 7, 1996, and will be

finally submitted to the Commission for decision with the filing of reply briefs on June 28, 1996.

The five issues raised in this case, as set out by the parties in Stipulation And Agreement #1, are:

1. Assignment of Gas Supply Contracts;
2. Storage Inventory;
3. Take or Pay Account;
4. Mid-Kansas Partnership and Riverside Pipeline Company (Mid-Kansas/Riverside) Gas Supply Contract; and
5. OXY Petroleum Gas Supply Contract.

Stipulation And Agreement #1 deals with the first three of these issues.

Stipulation And Agreement #1

All parties to this matter were signatories to this agreement except intervenor Midwest Gas Users Association (MGUA). Stipulation And Agreement #1 is incorporated in this order as Attachment A.

In regard to the "Assignment of Gas Supply Contracts" issue, the Staff states, in paragraph B.2., that, as a result of the Commission's decision in Case No. GR-93-140, the proposed adjustment is not applicable and that the proposed adjustment will not be reflected in this decision.

In regard to the "Storage Inventory" issue, the Staff states that the settlement of this issue reflects the Staff's position that storage reservation charges should be treated as current gas cost expense rather than being included in the storage inventory balance. As a result, MGE has agreed to increase its recovery balance in Case No. GR-95-82 and simultaneously decrease its Williams Natural Gas Company (WNG) storage inventory balance in the amount of \$1,067.066.20.

In regard to the issue styled "Take or Pay Account," the Staff has proposed two adjustments. The first adjustment concerns the allocation

of WNG take or pay refunds and charges, and the second concerns an alleged error in the take or pay revenue recovery reported by MGE for the month of February 1994. After examination of the billings and refunds under applicable Federal Energy Regulatory Commission (FERC) dockets, the Staff agrees to withdraw its recommendation that the WNG take or pay charges be based on an allocation to MGE of 53.77 percent. MGE has also agreed to include an additional \$56,299.80 as part of the beginning balance in its take or pay account for Case No. GR-95-82, settling the Staff's second concern.

After review of Stipulation And Agreement #1, and as a result of the operation of rule 4 CSR 240-2.115, the Commission considers Stipulation And Agreement #1 to be, in effect, unanimous.

The Commission has reviewed Stipulation And Agreement #1 and finds that no evidentiary hearing is necessary in this matter. The Commission finds Stipulation And Agreement #1 to be reasonable and in the public interest, and will approve the Stipulation And Agreement.

Stipulation And Agreement #2

On May 2, 1996, Stipulation And Agreement #2 was filed, signed by all parties except WNG and MGUA. MGUA and WNG have preserved a constitutional issue on the record in this matter involving the legality of the purchase gas adjustment (PGA) mechanism and, likewise, acceded to this stipulation without signature. In addition, in the on-the-record portion of this proceeding, both parties were given the opportunity to state their positions. In accordance with Commission rule 4 CSR 240-2.115, the Commission considers Stipulation And Agreement #2 to be unanimous in regard to the issue settled therein.

The heart of Stipulation And Agreement #2 is contained in paragraphs 5 through 8 of Attachment B, and purports to settle the issue styled "Mid-Kansas/Riverside Gas Supply Contracts." For purposes of this order, a brief summary of those settled matters will suffice.

In paragraph 5 the parties agree that various contracts, including the Mid-Kansas/Riverside-WRI sales agreement and a series of contracts referred to as the "Missouri Agreements" and detailed in Attachment B, paragraph 4, A through D, will not be subject to any further prudence review, and will not be subject to review of transportation rates and commodity costs until the annual audit period commencing July 1, 1996. The Missouri Agreements will be subject to compliance, operational review, and balance adjustment after July 1, 1994.

Continuing with paragraph 5, the parties request the Commission issue an order stating that the transportation rates and gas (commodity) costs charged pursuant to the Missouri Agreements shall not be disallowed for prudence reasons in this case and in Case Nos. GR-94-101, GR-94-227, GR-94-228, GR-95-82, and GR-96-78. The parties also provide for the settlement of Case No. GR-93-140, currently on appeal.

The Commission finds the settlement of issues in the Stipulations and Agreements, together with the settlement of multiple pending cases, to be appropriate for several reasons. The Commission is of the opinion that settlement of transitional contracts favoring the ratepayers, as in this case, are clearly in the public interest. Further, substantial and expensive litigation has been avoided, and MGE may now move forward in the administration of its incentive plan.

Paragraph 6 provides for payment by WRI and Mid-Kansas/Riverside in the total amount of \$4,000,000.00, to be paid as specified in paragraph 7. The agreement provides for payment by WRI of \$1,150,000.00

and payment by Mid-Kansas/Riverside of \$2,850,000.00, all except \$7,500.00 of which will be paid to MGE at various intervals, as specified in paragraph 7. MGE agrees to credit these payments to its ratepayers through the PGA mechanism or the functional equivalent at the time.

Paragraph 8 specifies the mechanics and treatment of the agreed-upon payments.

After review of Stipulation And Agreement #2, and as a result of the operation of rule 4 CSR 240-2.115, the Commission considers Stipulation And Agreement #2 to be, in effect, unanimous. The Commission finds the agreement to be reasonable and in the public interest and will approve the agreement.

The Commission incorporates the contents of both Stipulation And Agreement #1 and Stipulation And Agreement #2 into this order as if fully set out.

IT IS THEREFORE ORDERED:

1. That the Stipulations And Agreements set out as Attachments A and B to this order are hereby approved.
2. That this order shall become effective on the 21st day of June, 1996.

(S E A L)

BY THE COMMISSION



**David L. Rauch
Executive Secretary**

Zobrist, Chm., McClure,
Kincheloe and Drainer, CC.,
concur.
Crumpton, C., absent.

ALJ: Derque.

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

In the matter of Gas Service, a Western)
Resources Company, tariff sheets reflecting)
PGA changes to be reviewed in the)
Company's 1993-1994 Actual Cost)
Adjustment.)

Case No. GR-94-101

In the matter of Missouri Gas Energy's)
tariff sheets reflecting PGA changes to)
be reviewed in the Company's 1993-1994)
Actual Cost Adjustment.)

Case No. GR-94-228

FILED

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**MISSOURI
PUBLIC SERVICE COMMISSION**

UNANIMOUS STIPULATION AND AGREEMENT

As a result of discussions among the parties hereto, the undersigned parties hereby submit to the Missouri Public Service Commission ("Commission") for its consideration and approval the following stipulation and agreement which completely resolves the identified issues and thus is a partial settlement of this proceeding.

A. Procedural History

1. Case No. GR-94-228 was established upon the closing of Western Resources Inc.'s (WRI) sale of its Missouri properties, excluding the Palmyra area, to Southern Union Company which does business in Missouri as Missouri Gas Energy (MGE). That case deals with the Actual Cost Adjustment period of February 1, 1994 through June 30, 1994 for MGE. It commences on July 1, 1993, however costs for the period July 1, 1993 through January 31, 1994 relate to WRI because that is the date of the closing between WRI and MGE. Case No. GR-24-228 does not cover the ACA for the former Palmyra, Missouri area of WRI because MGE did not

acquire those properties.

2. On July 22, 1994, Midwest Gas Users Association ("Midwest") was granted intervention by the Commission.

3. On June 1, 1995, the Commission granted intervention to Williams Natural Gas Company ("WNG") and granted a request to delay the filing of the Staff recommendation until June 16, 1995.

4. On June 14, 1995, WNG filed a motion to "declassify" documents supplied to WNG in discovery. On June 21, 1995, MGE filed a response. By Order dated June 28, 1995, the Commission overruled WNG's motion for declassification of documents.

5. On June 16, 1995, the Staff filed a Recommendation jointly in Case No. GR-94-228 and in Case No. GR-94-101. Case No. GR-94-101 was established by the Commission to track the PGA filings of WRI for the July 1, 1993 through June 30, 1994 time period. However, since WRI sold the majority of its Missouri properties to MGE as of February 1, 1994, and the remainder to United Cities Gas Company as of March 1, 1994, the time period for Case No. GR-94-101 effectively stops on February 28, 1994. Case Nos. GR-94-227 for United Cities and Case No. GR-94-228 for MGE are designed to cover the respective "stub" periods for the remainder of what would have been the 1993-1994 ACA year in Case No. GR-94-101.

6. On August 15, Riverside Pipeline Company (Riverside) and Mid-Kansas Partnership (Mid-Kansas) filed a joint application to intervene in Case No. GR-94-228, which application was granted by order dated September 19, 1995.

7. The Staff recommendation of June 16, 1995, included five sections with proposed adjustments identified as follows:

Assignment of Gas Supply Contracts
Gas Procurement Contracting Process
Mid-Kansas/Riverside Gas Supply
Storage Inventory
Take or Pay Account

8. This Stipulation and Agreement addresses the complete resolution of the first, fourth and fifth issue identified above.

B. Stipulation and Agreement

1. As a result of discussions at the prehearing conferences and at other times, the undersigned parties stipulate and agree as follows:

2. All parties except Mid-Kansas/Riverside and Midwest agree that the issue raised by Staff under the section entitled "Assignment of Gas Supply Contracts" regarding the appropriate Missouri allocation factor to utilize for ratemaking purposes for the Wyoming Tight Sands gas supply contracts was resolved by the Commission's Report and Order in Case No. GR-93-140 and would not be affected by any party's appeal of that decision. Therefore, as a result of the Report and Order in Case No. GR-93-140, the Staff agrees that its proposed adjustment for this issue is not applicable and that the final resolution of these dockets shall not reflect the proposed Staff disallowance under the section entitled "Assignment of Gas Supply Contracts".

3. With regard to the section entitled "Storage Inventory", all parties except Mid-Kansas/Riverside and Midwest acknowledge that MGE will increase its ACA recovery balance in Case No. GR-95-82 and simultaneously decrease its Williams Natural Gas Company ("WNG") storage inventory balance by \$1,067,066.20. These offsetting adjustments reflect Staff's proposal that storage reservation charges should be treated as current gas cost expense rather than included in the storage inventory balance. In regard to the storage inventory on Panhandle Eastern Pipe

Line Company ("PEPL"), further information has been reviewed subsequent to the Staff Recommendation and all parties except Mid-Kansas/Riverside and Midwest conclude that no adjustments are necessary to reflect the proper storage inventory balance for PEPL. Compliance with the above-mentioned adjustments to the ACA recovery balance in Case No. GR-95-82 and WNG storage inventory resolves the concerns raised by Staff under the section entitled "Storage Inventory".

4. Staff proposed two adjustments in the Staff recommendation under the section entitled "Take or Pay Account." The first proposed adjustment concerns the allocation of WNG Take Or Pay (TOP) refunds and charges assuming either a 53.77 or 54.14 percent Missouri allocation factor. The second proposed adjustment concerns an alleged error in the TOP revenue recovery reported by MGE for the month of February 1994.

a) With regard to the allocation percentages of WNG TOP costs, interested parties have reviewed the billings and refunds under applicable FERC dockets and as a result all parties except Mid-Kansas/Riverside and Midwest agree that the payments and allocations have been booked according to applicable FERC orders. The Staff accordingly withdraws its recommendation that WNG TOP charges be based on an allocation to MGE of 53.77 percent.

b) The alleged error in TOP revenue recovery for the month of February, 1994 was reflected in the post-closing true-up between MGE and WRI pursuant to the Purchase and Sale Agreement. The post-closing true up was not provided to the Staff until after the filing of the ACA reconciliation in this case. MGE agrees to include an additional \$56,299.80 as a part of the beginning balance in the TOP account for Case No. GR-95-82. All parties except Mid-Kansas/Riverside and Midwest acknowledge that including an additional \$56,299.80 in TOP

revenue recovery in Case No. GR-95-82 resolves the concerns raised by Staff under the section entitled "Take or Pay Account".

c) With regard to the issue of Take or Pay Account, it is agreed that this Stipulation and Agreement resolves only the difference between Staff and MGE or WRI or both, as the same is reflected in the Staff's recommendation, and that nothing in this Stipulation and Agreement addresses or constitutes an admission by any party regarding the justness, lawfulness or reasonableness of the use of the PGA/ACA mechanism to charge take or pay costs to transportation customers or the lawfulness, justness or reasonableness of the PGA/ACA process itself.

5. All parties except Mid-Kansas/Riverside and Midwest agree that while this document completely resolves the issues identified in the Staff Recommendation as to the sections entitled "Assignment of Gas Supply Contracts", "Storage Inventory" and "Take or Pay Account" ("the three settled issues"), it in no way affects or resolves the issues identified as "Gas Procurement Contracting Process" or "Mid-Kansas/Riverside Gas Supply".

6. While Mid-Kansas/Riverside and Midwest do not have specific knowledge of the issues raised in paragraphs numbered B1. through B5. above, neither has objection to the settlement of those issues as set out herein.

7. All parties agree that except to the extent specified herein, none of the signatories shall be deemed to have approved or acquiesced in any ratemaking principle or any method of cost determination or allocation underlying or allegedly underlying this Stipulation and Agreement.

8. All parties agree that this Stipulation and Agreement has resulted from extensive

negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation and Agreement in total, this Stipulation and Agreement shall be void and no signatory shall be bound by any of the provisions hereof.

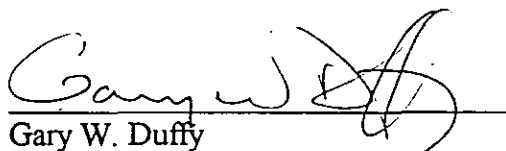
9. All parties agree that in the event the Commission accepts the Stipulation and Agreement, with respect to the three settled issues the signatories waive their respective rights to cross-examine witnesses and to present oral arguments and written briefs pursuant to section 536.080.1 RSMo 1994; their respective rights to the reading of a transcript by the Commission pursuant to Section 536.080.2 RSMo 1994; and their respective rights to judicial review pursuant to section 386.510 RSMo 1994. This waiver applies only to the three settled issues and does not apply to any other matters in these proceedings or to matters which may be raised in any other Commission proceeding.

10. This Stipulation and Agreement represents a negotiated settlement. Except as specified herein, the signatories to this Stipulation and Agreement shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation and Agreement: (a) in any future proceeding; (b) in any proceeding currently on appeal or pending under a separate docket; or (c) in these proceedings should the Commission decide not to approve this Stipulation and Agreement or in any way condition its approval of same.

11. All parties agree that at the Commission's request, the Staff shall have the right to submit to the Commission, in confidential memorandum or oral briefing form, an explanation of its rationale for entering into this Stipulation and Agreement, and to provide to the Commission whatever further explanation the Commission requests. The Staff's confidential memorandum or briefing shall not become part of the record in this proceeding and shall not bind or prejudice the

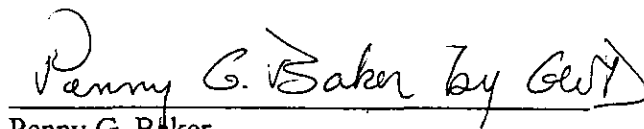
Staff in any future proceeding. In the event the Commission does not approve this Stipulation and Agreement, the Staff's confidential memorandum or briefing shall not bind or prejudice the Staff in this proceeding. Any rationales advanced by the Staff in such a confidential memorandum or briefing are its own and are not acquiesced in or otherwise adopted by the other signatories.

Respectfully submitted,



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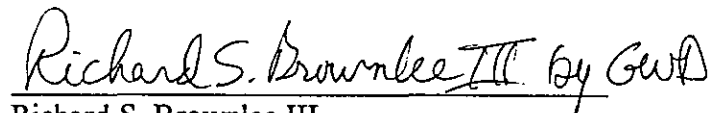


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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the matter of Gas Service, a Western Resources)
Company, tariff sheets reflecting PGA changes to) Case No. GR-94-101
be reviewed in the Company's 1993-1994 Actual)
Cost Adjustment)

In the matter of Missouri Gas Energy's tariff)
revisions for the former Gas Service area)
(exclusive of the Palmyra area) to be reviewed) Case No. GR-94-228
in the Actual Cost Adjustment for the period)
February 1, 1994 through June 30, 1994)

FILED
MAY 2 - 1996
MISSOURI
PUBLIC SERVICE COMMISSION

STIPULATION AND AGREEMENT

Come now: (1) Western Resources Inc., f/k/a Gas Service Company ("WR"); (2) Missouri Gas Energy, a Division of Southern Union Company ("MGE"); (3) Riverside Pipeline Company, L.P. ("Riverside"); (4) Mid-Kansas Partnership ("MKP"); (5) the Staff of the Public Service Commission of Missouri ("Staff"); and (6) the Office of Public Counsel ("Public Counsel") (collectively the "Signatories") and enter into this Stipulation and Agreement ("Stipulation") by which they stipulate, agree, resolve, compromise and settle the matters set forth below as follows:

1. In Case No. GR-93-140 (covering the ACA period of July 1, 1992 through June 30, 1993) before the Public Service Commission of Missouri ("Commission"), Staff issued its recommendation on April 29, 1994 and the Commission held hearings related thereto on February 2 through February 3, 1995. On July 14, 1995, the Commission issued its Report and Order ("Report and Order"). On July 24, 1995, WR, MGE, Riverside and MKP filed Applications for Rehearing of the Commission's Report and Order. On September 18, 1995, the Commission denied the Applications for Rehearing. On September 29, 1995 Riverside/MKP and WR (on October 2,

1995) filed Petitions for Writ of Review respectively. On October 10, 1995, the Circuit Court of Cole County, Missouri issued a Stay of the Report and Order. MGUA also filed a Petition for Writ of Review. The appeals have been consolidated, briefs filed and the cases are pending in the Circuit Court of Cole County, Missouri as Case Nos. CV195-1163CC, CV195-1170CC and CV195-1242CC. Nothing in this Stipulation is designed to affect the status of Case No. CV195-1242CC, which is the appeal taken by MGUA.

2. In Case Nos. GR-94-101 and GR-94-228 before the Commission, Staff issued its recommendation on June 16, 1995. The ACA period of Case Nos. GR-94-101 and GR-94-228 is July 1, 1993 to June 30, 1994. GR-94-101 covers WR's PGA changes to be reviewed in its 1993/1994 Actual Cost Adjustment. Southern Union Company d/b/a MGE acquired most of WR's gas distribution properties in Missouri as of February 1, 1994. GR-94-228 includes the PGA costs and revenues for the five month period ending June 30, 1994. On March 1, 1994, United Cities Gas Company ("United Cities") acquired the remaining Missouri properties of WR, being the properties in the Palmyra District. Case No. GR-94-227 was established by the Commission to cover the ACA period for WR from February 1, 1994, through June 30, 1994. Case No. GR-94-227 has been held in abeyance pending the outcome of Case Nos. GR-93-140, GR-94-101 and GR-94-228. The basis on which United Cities and the Palmyra district are involved in these matters is that WR did not have a separate PGA/ACA for Palmyra. Therefore, costs related to Riverside/MKP are included in the amounts paid by Palmyra customers during the periods relative to GR-93-140 and GR-94-101. Customers in Palmyra have never actually received any gas from Riverside/MKP. Palmyra is served exclusively by Panhandle Eastern Pipe Line Company. WR, however, commingled the gas costs from Palmyra with the other districts in the administration of the PGA/ACA. As a result of that,

Palmyra residents paid costs which were established on Riverside/MKP amounts. Subsequent to February 1, 1994, no costs arising from Riverside/MKP have been allocated to the Palmyra District. As of March 1, 1994, United Cities had tariffs in effect establishing a PGA/ACA for Palmyra which did not include any Riverside/MKP amounts.

3. The Commission established Case No. GR-95-82 for the ACA period of July 1, 1994 to June 30, 1995. The Commission has also established Case No. GR-96-78 for the ACA period of July 1, 1995 to June 30, 1996.

4. Staff has reviewed the following Agreements between or among WR, MGE, Riverside and MKP.

A. Sales Agreement dated January 15, 1990, between WR and MKP, as amended on October 3, 1991, with a maximum daily quantity of 46,332 Mmbtu, hereinafter the "MKP/WR Sales Agreement". The MKP/WR Sales Agreement was further amended on February 24, 1995, and terminated as of May 31, 1995;

B. Transportation Agreement dated January 15, 1990, between WR and Riverside, as amended by letter agreement dated September 15, 1992, with a maximum daily quantity of 46,332 Mmbtu, hereinafter the "Riverside/WR Transportation Agreement I". The Riverside/ WR Transportation Agreement I terminated as of May 31, 1995;

C. Sales Agreement dated February 24, 1995, between MGE and MKP with a maximum daily quantity of 46,332 Mmbtu, hereinafter the "MKP II Interim Firm Gas Sales Contract". Service under the MKP II Interim Firm Gas Sales Contract commenced on June 1, 1995;

D. Transportation Agreement dated February 24, 1995, between MGE and Riverside with a maximum daily quantity of 46,332 Mmbtu, hereinafter the "Riverside/MGE Transportation Agreement I" which will become effective at a later date pursuant to the terms thereunder.

All of the above Agreements (A to D inclusive) may be collectively referred to herein as the "Missouri Agreements".

5. As a result of this Stipulation and Agreement, the Signatories agree that neither the execution of the MKP/WR Sales Agreement and the Riverside/WR Transportation Agreement I, nor the decisions associated with the execution of the Missouri Agreements shall be the subject of any further ACA prudence review. In addition, the Signatories agree that the transportation rates and gas costs charged pursuant to the Missouri Agreements shall not be the subject of any further ACA prudence review until the case associated with the audit period commencing July 1, 1996, and ending June 30, 1997. The Missouri Agreements will be subject to the compliance and operational review (as described herein) of the Staff for all periods on and after July 1, 1994, and MGE's ACA balance may be subject to adjustment as a result of such review.¹ The intent of the Signatories by this Stipulation and Agreement is that the Commission, in adopting this Stipulation and Agreement, issue

¹As a result of the Commission's decision in Case No. GO-94-318, MGE is scheduled to have new tariffs in operation under an incentive PGA commencing July 1, 1996. Since those tariffs have not been submitted to the Commission, it is difficult to state with any certainty how they may relate to the settlement being effected by this Stipulation. However, it is the intention of the Signatories that to the extent there are gas cost (non-transportation) issues involving any of the Missouri Agreements which are relevant to the time periods after July 1, 1996, those amounts will come under the Incentive PGA provisions as approved by the Commission. As a result, any issues related to gas costs associated with the Missouri Agreements will be subject to the provision that unless MGE's costs subject to the Incentive PGA provisions to be filed rise to the level where a prudence review is triggered, there will be no prudence review of the Missouri Agreements.

an order holding that the transportation rates and gas costs charged pursuant to the Missouri Agreements shall not be disallowed by the Commission based on the reasons described above in this paragraph in Case Nos. GR-94-101, GR-94-227, GR-94-228, GR-95-82 and GR-96-78, and that the findings and conclusions regarding the prudence of the execution of the Missouri Agreements made by the Commission in Case No. GR-93-140 shall be compromised and settled as provided for herein. Although the prudence of entering into the MKP/WR Sales Agreement and the Riverside/WR Transportation Agreement I is finally settled by this Stipulation, additional questions may arise regarding the administration of the contracts by MGE and WR in Staff's compliance and operational review for all periods on and after July 1, 1994, as described above. Therefore, this Stipulation is not designed to preclude the Staff from making proposed adjustments regarding issues involving the manner in which gas is actually taken under the contracts (e.g., gas which was available under the contract was not taken for some reason) or issues involving billing matters (e.g., MGE paid more than was required under the contract due to a billing or mathematical error.) Further, as a consequence of the Commission adopting this Stipulation as provided herein, WR, Riverside/MKP, and MGE agree to make the necessary filings with the Circuit Court of Cole County, Missouri to dismiss the appeals they have taken from Case No. GR-93-140. These dismissals shall take place within ten days of the payments being made as scheduled in paragraph 7.A. As a consequence, WR and Riverside/MKP agree to pay the amounts which are owed due to Case No. GR-93-140 through the procedures described herein.

Nothing herein is to be construed as determining the rights, obligations, compliance or non-compliance with the terms and conditions of any contract between or among WR, MKP, Riverside, and MGE or any combination thereof. WR, MGE and Riverside/MKP agree that this Stipulation

shall in no manner whatsoever be deemed to be admission of fault, responsibility or liability of any matter whatsoever by WR, MGE, Riverside and/or MKP. WR, MGE and Riverside/MKP agree that this Stipulation is purely and exclusively for the purpose of avoiding the cost of litigation and regulatory proceedings and is to be construed as that and nothing more.

6. In consideration of the foregoing and the mutual agreements contained herein, and conditioned on the issuance of a Commission Order adopting this Stipulation and Agreement in its entirety without change, WR and Riverside/MKP hereby agree to tender payments as provided below. A total of \$4,000,000 ("the Settlement Payment") shall be paid to effect a settlement of all issues involving the prudence of the execution of the Missouri Agreements as specified in paragraph 5 in the following cases: GR-93-140, GR-94-101, GR-94-227, GR-94-228, GR-95-82 and GR-96-78. Of the \$4,000,000 total, \$1,150,000 will be paid by WR and \$2,850,000 will be paid by Riverside/MKP as specified in paragraph 7 below. Of these amounts, \$3,992,500 shall be paid to MGE and \$7,500 to United Cities so that each can cause the respective amounts to be credited to their respective ratepayers through the ACA process by lowering the otherwise applicable ACA factors. In this regard, MGE and United Cities are simply conduits for the delivery of these funds to their ratepayers.

7. The Settlement Payment shall be made as follows:

A. \$2,492,500 shall be paid on or before August 5, 1996 to MGE, which amount shall include all payments which may be due under the appeal of Case No. GR-93-140. Of such amount, WR shall pay \$1,150,000 and Riverside/MKP shall pay \$1,342,500. Under the currently effective PGA/ACA provisions, MGE would, in turn, make its ACA filing on or about August 10, 1996, at the Commission, which

filing would reflect a credit of the amount received. Such credit will extinguish any and all obligations which MGE or WR or both have with regard to the findings and conclusions regarding the prudence of the execution of the Missouri Agreements made by the Commission in Case No. GR-93-140.

B. \$7,500 shall be paid by Riverside/MKP on or before August 10, 1996 to United Cities, which shall, in turn, make a filing to reflect a credit of that amount in its next scheduled ACA filing with the Commission thereafter. Such credit shall extinguish any and all obligations which United Cities has regarding proposed disallowances by the Staff relating to the Missouri Agreements.

C. \$1,500,000 shall be paid to MGE by Riverside/MKP on or before July 26, 1997. MGE shall, in turn, make an ACA filing at the Commission on or before August 1, 1997, which reflects a credit of that amount subject to the provisions of paragraph 7.D.

D. MGE is currently under order of the Commission in Case No. GO-94-318 (Phase II) to implement an Incentive PGA mechanism. Tariffs to do so are not yet due and have not been approved by the Commission. As a result of the uncertainty regarding what the structure of MGE's ACA may be in the future, all the parties can practically do at this time is state the intention that MGE will make a timely filing with the Commission proposing to credit that amount to its ratepayers through whatever functional equivalent of an ACA factor may exist at that time.

8. It is expressly stipulated and agreed by MGE, Riverside/MKP and Staff that the Settlement Payment shall be deemed to be a singular, lump sum, one time settlement payment made

in two installments as described in Paragraph 7 above; conversely MGE, Riverside/MKP and Staff agree the Settlement Payment is conclusively and irrebuttably NOT to be construed as multiple payments (even though the lump sum payment is being made in two installments) or as relating to disallowances for two (2) consecutive audit years, with respect to the provisions of any of the Missouri Agreements, as amended. MGE, Riverside/MKP and Staff agree that the Settlement Payment shall in no manner be deemed to be payments made for adjustments or disallowances in two consecutive ACA periods for the same or similar reasons or a denial of WR or MGE's right to recover amounts paid to MKP or Riverside in two consecutive ACA periods for the same or similar reasons.

9. None of the signatories to this Stipulation and Agreement shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle or any method of cost determination or cost allocation, or any service or payment standard and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding, except as otherwise expressly specified herein.

10. This Stipulation has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation in total, then this Stipulation shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

11. In the event the Commission accepts the specific terms of this Stipulation, the Signatories waive, with respect to the issues resolved herein: their respective rights pursuant to

Section 536.080.1 RSMo. 1986 to present testimony,² 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 RSMo. 1986; and their respective rights to judicial review pursuant to Section 386.510 RSMo. 1986 in regard to a Commission order approving this Stipulation and Agreement.

12. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Stipulation. Each Party 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 privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all Parties, and shall not become a part of the record of the proceedings mentioned hereinabove or bind or prejudice the Party submitting such memorandum in said proceedings or in any future proceeding whether or not the Commission approves this Stipulation. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to the Stipulation, whether or not the Commission approves and adopts this Stipulation.

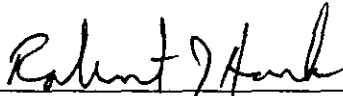
²The Signatories, the Midwest Gas Users Association and Williams Natural Gas agree that all of the testimony on the Riverside/MKP issue may be received into the record in Case Nos. GR-94-101 and GR-94-228 without the necessity of the respective witnesses taking the stand and, as a consequence, that the Commission need not rule on the contested motions to strike filed by Williams Natural Gas, WR and MGE.

The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the 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 any Protective Order issued in this case.

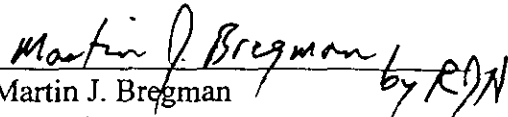
13. The terms of this Stipulation shall be binding on any successors and assigns of WR and Riverside/MKP and on the partners and general partners of Riverside/MKP.

14. In the event Riverside/MKP or any successor or affiliated entity fails to pay to MGE any of the amounts required herein, MGE shall be entitled to set off any such amounts against payments owed by MGE to Riverside/MKP or any successor or affiliated entity due to service taken by MGE under the MKP II Interim Firm Gas Sales Contract, the Riverside/MGE Transportation Agreement I and/or any successor agreements. Notwithstanding any other provision in this stipulation to the contrary, if such setoff is prevented from occurring or otherwise does not occur, in whole or in part, for any reason whatsoever, the Signatories agree that any amount owed to MGE by Riverside/MKP or any successor or affiliated entity pursuant to this Stipulation that is unpaid represents a regulatory disallowance under the above agreements.

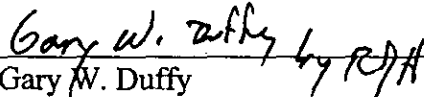
Respectfully submitted,



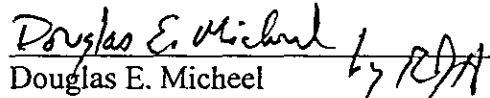
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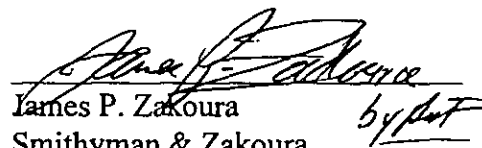
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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 2nd day of May, 1996.

Robert J. Hark