STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its office in Jefferson City on the 15th day of August, 2002.

In the Matter of Missouri Gas Energy and Its Accounting for Unrecognized Net Gain/Loss Amounts Related to Pension and Non-pension Post-retirement Benefits.	))))	**Case No. GO-2003-0019**

ORDER APPROVING STIPULATION AND AGREEMENT AND CLOSING CASE

This case arises out of Case No. GR-2001-292, Missouri Gas Energy's most recent general rate case. The parties explain that a provision of the Second Revised Stipulation and Agreement by which Case No. GR-2001-292 was resolved has now had unexpected and negative effects. The parties have entered into a new Stipulation and Agreement, filed on July 25, 2002, which will modify a portion of the Second Revised Stipulation and Agreement and thereby rectify the problem. The Staff of the Missouri Public Service Commission filed its Suggestions on August 8, 2002, urging the Commission to approve the new Stipulation and Agreement.

Staff explains that the third paragraph of the Second Revised Stipulation and Agreement included this sentence:

> The Staff, Public Counsel, and MGE also agree that in the event that in any given year the amount of amortization of the unrecognized net gain/loss determined under the agreed-to methodology described above is less than the minimum amortization required under FAS 87 or FAS 106, then the amortization for such year shall be the minimum amortization required under FAS 87 or FAS 106.

The sentence was added at the request of Missouri Gas Energy's actuary. At the time, this language was not expected to conflict with the parties' intent to amortize gains and losses under FAS 87 and FAS 106 by determining a five-year average of the Unrecognized Net Gain/Loss Balance and then amortizing that balance over five years for Gain/Loss recognition under FAS 87 and FAS 106. However, Missouri Gas Energy's actuary has now indicated that the quoted language will require the use of a "beginning of the year" balance of Unrecognized Net Gain/Loss rather than the intended five-year average balance, thereby defeating the parties' intention to reduce volatility in the calculation of annual expense. Staff further explains that Missouri Gas Energy has experienced a significant reduction in the market value of its pension fund assets as a result of reduced stock prices in 2001 and 2002. If the unexpected effect of the quoted language is not remedied, Missouri Gas Energy will experience pension and other employee benefit expenses that are significantly higher than the parties anticipated when they settled Case No. GR-2001-292. For these reasons, Staff recommends that the Commission approve the new Stipulation and Agreement.

As a remedy to the problem outlined above, the parties have agreed as follows:

> The Staff, Public Counsel, and MGE agree, and MGUA and JACOMO/Riverside agree not to oppose, that, commencing during the fiscal year which began July 1, 1998, and continuing at least through the effective date of the new rates resulting from MGE's next general rate proceeding, MGE will use a five-year average (when five years of information is available; prior to that time the average of the number of years of available information will be used) for determining the unrecognized net gain/loss to be amortized over five years in calculating MGE's direct FAS 87 and FAS 106 costs for financial report purposes. This paragraph concerns costs associated with post-retirement benefits, including pension and non-pension benefits (FAS 87 and FAS 106), and reflects MGE's continued willingness to agree to the recommendation made by Staff witness Williams at page 28, line 17 through page 29, line 4 of his direct testimony in

Case No. GR-98-140, et al., regarding the financial reporting of unrecognized net gains/losses.

Staff explains that the effect of the new stipulation and agreement will be to specify the use of a five-year average balance, just as the parties originally intended in resolving Case No. GR-2001-292. The effect will be to distribute the unrecognized net loss caused by falling stock prices over five years. In the new Stipulation and Agreement, the parties explain that they have, in effect, eliminated the problematic sentence from the third paragraph of the Second Revised Stipulation and Agreement. In all other respects, the Second Revised Stipulation and Agreement will remain in force.

The Commission has reviewed the Stipulation and Agreement of the parties and Staff's supporting suggestions. The Commission finds the Stipulation and Agreement is in the public interest and should be approved.

IT IS THEREFORE ORDERED:

1. That the Stipulation and Agreement filed on July 25, 2002, is approved.

2. That the parties shall no longer follow the last sentence of the third paragraph of the Second Revised Stipulation and Agreement approved on July 5, 2001, in Case No. GR-2001-292.

3. That this order shall become effective on August 25, 2002.

4. That this case may be closed on August 26, 2002.

BY THE COMMISSION

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Simmons, Ch., Murray, Lumpe,
Gaw, and Forbis, CC., concur.

Thompson, Deputy Chief Regulatory Law Judge