

Missouri Gas Energy
A Division of Southern Union Company

Missouri Public Counsel
Case Number GR-2001-382
Data Request Number 81

Requested By: Lesa Jenkins and Anne Allee

Requested From: Mike Noack

Date of Request: March 26, 2002

Information Requested: Please provide copies of all documentation that shows that MGE made attempts to either post or negotiate a pre-arranged capacity release on the Kansas Pipeline Company (KPC) system during the 12 months ended June 30, 2001.

Response: MGE did not post capacity for release on the Kansas Pipeline Company bulletin board during the 12 months ending June 30, 2001. MGE had various verbal conversations with companies that expressed interest in obtaining a released capacity, and no company has ever expressed an interest in obtaining MGE's Kansas Pipeline Company capacity. No records were made of verbal conversations in this regard as most companies were interested primarily in obtaining released capacity on the Williams Gas Pipeline – Central system.

The Company has since posted for release capacity a portion of its Kansas Pipeline capacity for the 2002 period, and no bids have been received on its posted capacity. In addition, see attached correspondence from Enbridge, a parent company of Kansas Pipeline Company.

RECEIVED
MAY 01 2002

UTILITY SERVICES DIV.
PUBLIC SERVICE COMMISSION

Prepared By: _____

[Signature]

Date: _____

4-28-2002

Enbridge Midcoast Energy Inc.
1100 Louisiana
Suite 3300
Houston, TX 77002



April 2, 2001

Mr. Michael J. Langston
Vice President, Gas Supply
Missouri Gas Energy, a division of
Southern Union Company
504 Lavaca, Suite 900
Austin, Texas 78701

08-04-02 A10:05 IN

RE: Capacity Release on Enbridge Pipelines (KPC), formerly Kansas Pipeline Company

Dear Mike:

It was good to talk to you yesterday; it's been too long. I hope that things have been going well for you.

After our conversation, I double-checked capacity release activity on the Enbridge Pipelines (KPC) system. From the date KPC became federally regulated and opened its system to capacity release transactions beginning June 1, 1997, to date, there have been no capacity release transactions executed on the system.

If I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Joan A.W. Schnepf".

Joan A.W. Schnepf
Vice President
Enbridge Pipelines (KPC)

Missouri Gas Energy
Capacity Release Summary Report
WNG July,2000 - June,2001

	<u>Production Area</u>			<u>Market Area</u>		
	<u>Avg Release Credit</u>	<u>Released Volume/Month</u>	<u>Release Credits</u>	<u>Avg Release Credit</u>	<u>Released Volume/Month</u>	<u>Release Credits</u>
Jul-00	\$0.01381	697,393	\$9,634	\$0.00784	831,355	\$6,520
Aug-00	\$0.01608	608,908	\$9,792	\$0.00801	784,550	\$6,287
Sep-00	\$0.01891	352,648	\$6,670	\$0.00740	932,648	\$6,903
Oct-00	\$0.01797	412,422	\$7,413	\$0.00798	1,048,302	\$8,369
Nov-00	\$0.03441	456,614	\$15,710	\$0.01875	1,185,852	\$22,236
Dec-00	\$0.06703	270,120	\$18,106	\$0.02431	1,516,938	\$36,871
Jan-01	\$0.03673	107,911	\$3,964	\$0.03789	1,786,849	\$67,696
Feb-01	\$0.07216	595,865	\$42,998	\$0.02556	1,761,227	\$45,013
Mar-01	\$0.04858	440,256	\$21,387	\$0.02029	1,202,269	\$24,397
Apr-01	\$0.03103	166,697	\$5,173	\$0.00962	1,205,634	\$11,594
May-01	\$0.02362	252,978	\$5,976	\$0.00997	983,888	\$9,809
Jun-01	\$0.01065	1,277,734	\$13,602	\$0.00868	957,345	\$8,308
Totals	\$0.02845	5,639,546	\$160,425	\$0.01789	14,196,857	\$254,002

Missouri Gas Energy
Capacity Release Commodity Rate Comparison

	Williams	PEPL 100-200 miles	PEPL 200-300 miles	KMIGT	KPC
Production Area Commodity Rate	0.0124	0.0201	0.0201	n/a	n/a
Market Area Commodity Rate	0.0061	0.0251	0.0276	0.0204	0.0625
Total Commodity Rate	0.0185	0.0452	0.0477	0.0204	0.0625
Production Area Fuel Rate	1.64%	1.13%	1.13%	n/a	n/a
Market Area Fuel Rate	0.69%	0.09%	1.35%	3.30%	3.61%
Total Fuel Rate	2.33%	1.22%	2.48%	3.30%	3.61%

Missouri Gas Energy
A Division of Southern Union Company

Missouri Public Counsel
Case Number GR-2001-382
Data Request Number 84

Requested By: Lesa Jenkins and Anne Allee

Requested From: Mike Noack

Date of Request: March 26, 2002

Information Requested: Please provide all details such as rates, recall provisions, and terms for any proposed releases of firm capacity on the KPC system by MGE.


Response: MGE did not post capacity for release on the KPC system during the twelve (12) months ending June 30, 2001.

For recent capacity postings on the Kansas Pipeline system, see the attached printout showing the terms and conditions of the posted release.

R E C E I V E D

MAY 01 2002

UTILITY SERVICES DIV.
PUBLIC SERVICE COMMISSION

Prepared By: 

Date: 4-26-2002

Capacity Release Offer Detail Last Server Sync: 04/25/2002 11:36:58 am

Add	
TSP: KPC	Offer No: 18
Rel Company Contact: MGE	UPPD No:
Rel K No: 060196-103109-1-FT	Offer K Qty: Max: 20000
Rate Schedule: NNS	Term: Max: 175 Min: 175
Rel Type: Temporary Point-to-point bidding	
Offer Status: POSTED	

Rel Term Start Date: 04/08/2002	Rel Term End Date: 09/30/2002	Posting D/T: 03/26/2002 01:31:32 pm
Bid Period Start D/T: 04/01/2002 01:00:00 pm	Bid Period End D/T: 04/03/2002 02:00:00 pm	Capacity Award D/T:
Seasonal Start Date:	Seasonal End Date:	Offer Withdrawal D/T:

TERMS	LOCATIONS & QUANTITIES	RATES	EVALUATION
Short Term Ind: <input checked="" type="checkbox"/> Y	Allowable Re-rel Ind: <input type="checkbox"/>	Indemnification Clause: <input type="checkbox"/>	Stand-Alone Offer Ind: <input checked="" type="checkbox"/>
Lesser Rate Ind: <input type="checkbox"/> N	Previously Rel Ind: <input type="checkbox"/>	Discount Ind: <input type="checkbox"/>	Special Terms Ind: <input type="checkbox"/>
Lesser Qty Ind: <input type="checkbox"/> N	Permanent Rel Ind: <input type="checkbox"/>	Replacement Cap Ind: <input type="checkbox"/>	Notes & Special Instructions Ind: <input type="checkbox"/>
Prearranged Deal Ind: <input type="checkbox"/>		Recall/Reput Ind: Capacity is not recallable	
		Contingency Ind: <input type="checkbox"/>	


Capacity Release Offer Detail Last Server Sync: 04/25/2002 11:41:09 ar

Add

TSP: KPC	Offer No: 18	Rel Type: Temporary Point-to-point bidding
Rel Company Contact: MGE	UPPD No:	Offer Status: POSTED
Rel K No: 060198-103109-1-FT	Offer K Qty: Max: 20000	
Rate Schedule: NNS	Term: Max: 175	Min: 175

Rel Term Start Date: 04/08/2002	Rel Term End Date: 09/30/2002	Posting D/T: 03/28/2002 01:31:32 pm
Bid Period Start D/T: 04/01/2002 01:00:00 pm	Bid Period End D/T: 04/03/2002 02:00:00 pm	Capacity Award D/T:
Seasonal Start Date:	Seasonal End Date:	Offer Withdrawal D/T:

TERMS		LOCATIONS & QUANTITIES		RATES		EVALUATION	
Path Loc Names		Loc	Max Qty		Max Rate		
Receipt	Delivery						
All	4824-1		20000		0.050000		



Capacity Release Offer Detail

Last Server Sync: 04/25/2002 11:41:32 am

Add

TSP: KPC	Offer No: 18	Rel Type: Temporary Point-to-point bidding
Rel Company Contact: MOE	UPPD No:	Offer Status: POSTED
Rel K No: 060198-103109-1-FT	Offer K Qty: Max: 20000	
Rate Schedule: NNS	Term: Max: 175	Min: 175

Rel Term Start Date: 04/08/2002	Rel Term End Date: 09/30/2002	Posting D/T: 03/28/2002 01:31:32 pm
Bid Period Start D/T: 04/01/2002 01:00:00 pm	Bid Period End D/T: 04/03/2002 02:00:00 pm	Capacity Award D/T:
Seasonal Start Date:	Seasonal End Date:	Offer Withdrawal D/T:

TERMS	LOCATIONS & QUANTITIES	RATES	EVALUATION
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Rate Identification: Volumetric	Rate Form/Type: Volumetric Charges Only
Reservation Rate Basis: Per Month	Min Acceptable Vol Type Ind: Quantity
Bid Denomination Ind: Absolute dollar and cents	Min Acceptable Vol: 200000th
	Min Vol Load Factor %: 100
Surcharge Ind: Rate(s) stated include all applicable surcharges; No surcharge detail provided	Pressure Base: 14.7299995422363 Pounds Per Square Inch Absolute
Tot Surcharges:	

Offer Detail - Microsoft Internet Explorer

File Edit View Favorites Tools Help

Back Forward Stop Search Favorites History

Capacity Release Offer Detail Last Server Sync: 04/25/2002 11:41:52 am

Add

TSP: KPC	Offer No: 18	Rel Type: Temporary Point-to-point bidding
Rel Company Contact: MGE	UPPD No:	Offer Status: POSTED
Rel K No: 060198-103109-1-FT	Offer K Qty: Max: 20000	
Rate Schedule: NNS	Term: Max: 175	Min: 175

Rel Term Start Date: 04/06/2002	Rel Term End Date: 09/30/2002	Posting D/T: 03/26/2002 01:31:32 pm
Bid Period Start D/T: 04/01/2002 01:00:00 pm	Bid Period End D/T: 04/03/2002 02:00:00 pm	Capacity Award D/T:
Seasonal Start Date:	Seasonal End Date:	Offer Withdrawal D/T:

TERMS	LOCATIONS & QUANTITIES	RATES	EVALUATION
Bid Evaluation Mthd Ind: Highest Rate		Bid Tie-Breaking Mthd Ind: Pipeline Method	

Start | I.. W.. E.. L.. O.. C.. P.. H.. P.. E.. O.. | N.. 11:41 AM

Missouri Gas Energy
A Division of Southern Union Company

Missouri Public Counsel
Case Number GR-2001-382
Data Request Number 83

Requested By: Lesa Jenkins and Anne Allee

Requested From: Mike Noack

Date of Request: March 26, 2002

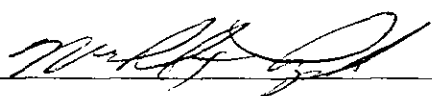
Information Requested: If the Company has not attempted to post or pre-arrange a capacity release transaction on KPC, please provide all reasons for this decision.

Response: Please see response to Data Request Number 81. In addition, as provided to the Staff, the overall incremental capacity cost on the Kansas Pipeline System far exceeds the incremental cost on alternatives available on the Williams Gas Pipeline – Central system. For this reason, no companies would be interested in obtaining release capacity on a system which has an incremental five to seven cents (\$.05 - \$.07) premium per MMBtu cost over and above the cost to obtain the released capacity.

In addition, MGE had obtained on average less than five cents (\$.05) per MMBtu for both production and market area capacity across the Williams system. Therefore, even on an incremental basis, with no value provided to a releasing capacity holder, the Kansas Pipeline system would still remain more expensive than obtaining capacity on the Williams system. In addition, as has been discussed with the Staff, a very substantial operational issues involving the Transok lease that is imbedded with the Kansas Pipeline capacity which restricts receipt point locations for certain percentages of the supply deliveries into Transok. See also correspondence from Duke Energy that describes their independent analysis of the Kansas Pipeline capacity.

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MAY 01 2002

UTILITY SERVICES DIV.
PUBLIC SERVICE COMMISSION

Prepared By: 

Date: 4-26-2002

Schedule 3-1

Mike Langston

From: Mike Langston
Sent: Thursday, April 04, 2002 11:18 AM
To: Rob Hack
Cc: Mike Noack
Subject: Capacity Release values on KPC



CapRelCompare.xls



CapRel7-00-6-01.xls

Attached are two files showing:

1) A comparison of the incremental commodity and fuel rates applicable on the interstate pipelines serving MGE. These incremental rates are the fees that would be paid by a company acquiring released capacity from MGE under the contract they would sign with the pipeline company. Additionally, any "release credit" we obtain would be a fee in addition to these amounts, as would the normal GRI and ACA surcharges.

2) A summary of the capacity release credits obtained on the Williams system for the period July 1, 2000 through June 30, 2001. This calculates the average "release credit" received in the production and market zones on Williams. These rates would be in addition to the commodity rate and fuel rate payments that a company acquiring capacity from MGE would pay to Williams, with these amounts ultimately credited to our invoices.

These sheets show that with the higher commodity rate, and higher fuel charges on KPC, acquiring capacity on Williams, PEPL, or Kinder-Morgan, would be cheaper than acquiring capacity on KPC. Additionally, as I have sent to you, KPC has never concluded any capacity release transactions on their system. These rate comparison clearly show why this is the case, regardless of the Transok lease operating requirements.

Once you review this, if you see no problems, feel free to share this with Tim and any other member of the MPSC Staff. Thanks.

Missouri Gas Energy
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	Williams	PEPL 100-200 miles	PEPL 200-300 miles	KMIGT	KPC
Production Area Commodity Rate	0.0124	0.0201	0.0201	n/a	n/a
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Missouri Gas Energy
Capacity Release Summary Report
WNG July,2000 - June,2001

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April 4, 2002

Mr. Michael Langston
Missouri Gas Energy c/o
Southern Union Company
IV Barton Skyway
1301 South Mopac, Suite 400
Austin, TX 78746

09-04-02 P03:34 IN

Re: Kansas Pipeline Capacity

Dear Mr. Langston:

Please reference our telephone conversation of April 1, 2002 regarding the value placed by Duke, on your Transok/KPL capacity during our internal review of our proposed transaction prior to its September 01 effective date. The result of our review indicated that the Transok/KPL capacity had little or no utility for Duke's purposes and therefore no value for the following reasons:

- Cost of supply on the Transok system typically has a higher value than other potential supplies reaching the Kansas City market area.
- Due to limitations under the contract, the Transok/KPL capacity has restricted receipt point locations.
- Contractually the Transok/KPL capacity has limited or no delivery point flexibility.

Although the Transok/KPL capacity may have value for Missouri Gas Energy in its role as a local distribution company, the true value of released capacity from the perspective of a marketing company lies in the flexibility, spread value and the matching of capacity to our marketing portfolio objectives. In this particular case, none of these criteria were met, resulting in the zero value placed on the capacity for evaluation purposes.

Please give me a call should you have any further questions.

Sincerely,

Mark R. Homestead
Regional Manager – MidContinent/Texas
Duke Energy Trading and Marketing, L.L.C.

A Duke Energy and Mobil Company
5400 Westheimer Court
Houston, Texas 77056



Commissioners

SHEILA LUMPE
Chair

HAROLD CRUMPTON

CONNIE MURRAY

ROBERT G. SCHEMENAUER

M. DIANNE DRAINER
Vice Chair

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
<http://www.ecodev.state.mo.us/psc/>

May 12, 2000

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

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED²

MAY 15 2000

RE: GO-2000-705

Missouri Public
Service Commission

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of an **AMENDED STIPULATION AND AGREEMENT**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

RECEIVED

MAY 12 2000

Records
Public Service Commission

Thomas R. Schwarz, Jr.
Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
(573) 751-9285 (Fax)

TRS/jb
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²
MAY 15 2000

In the matter of Missouri Gas Energy's)
fixed commodity price PGA and)
transportation discount incentive)
mechanism.)

Case No. GO-2000-705

Missouri Public
Service Commission

AMENDED STIPULATION AND AGREEMENT¹

Come now Missouri Gas Energy ("MGE"), a division of Southern Union Company, the Office of the Public Counsel ("Public Counsel") and the Staff of the Missouri Public Service Commission ("Staff") and hereby submit for the Commission's approval, pursuant to the authority of section 393.150 RSMo, the following Stipulation and Agreement.

I. Purpose

MGE, Public Counsel and the Staff have entered into this Stipulation and Agreement, and request that the Commission approve it, as a way to: 1) provide system sales customers with a reliable supply of natural gas at stable and lower prices than would be achieved by continuation of current practices²; 2) provide MGE with a reasonable opportunity to generate earnings through skillful and prudent management of its gas supply, transportation and storage portfolio; and 3) streamline the regulatory process associated with gas supply, transportation and storage costs.

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MAY 12 2000

Records
Public Service Commission

¹ In this Amended Stipulation and Agreement, additions to the original document (filed with the Commission on April 28, 2000) will be shown in underlined italics and deletions from the original document will be struck through.

² Public Counsel believes the appropriate goal is to provide reasonable and stable prices. Implementation of the fixed commodity price component of the PGA should result in lower prices; however, lower prices are not guaranteed.

II. Commodity Costs

A. MGE will set a fixed commodity price component for natural gas within the PGA when and if the NYMEX (New York Mercantile Exchange) strip price for the nearest 12 month period traded on the exchange, weighted by the average MGE purchase volumes by month (as shown in Attachment 1), settles at or below \$2.25 per MMBtu for

five (5) consecutive business days (the "trigger price"). In such event, the fixed

commodity price component of the PGA clause shall be an amount equal to recover a commodity unit purchase price of \$2.400 per MMBtu, the trigger price plus \$0.150.

MGE shall also have the right, at its sole discretion, to implement the fixed commodity

price component of the PGA to recover a commodity unit purchase price of \$2.400 per

MMBtu at any time it so elects in the event that the trigger price has not been reached.

The \$2.400 per MMBtu commodity unit purchase price translates into a fixed commodity price component of the PGA equal to approximately \$0.25816 per Ccf as shown in the sample calculations on Attachment 2-2 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, consistent with the provisions of this Stipulation and Agreement.³

This \$0.25816 per Ccf fixed commodity price component of the PGA shall remain in effect for a period of two years from the date it becomes effective.⁴

³ MGE, *Public Counsel* and the Staff continue to work on the development of tariff sheets designed to implement the provisions of this Stipulation and Agreement. The Staff, *Public Counsel* and MGE intend to submit such tariff sheets to the Commission *by May 19, 2000* within two (2) weeks of the filing of this Stipulation and Agreement.

⁴ The fixed commodity price component of the PGA shall take effect upon the occurrence of one of the triggering events as described in this paragraph II.A. (e.g., the weighted average 12 month NYMEX strip settling at or below \$2.25 per MMBtu for five consecutive business days or MGE electing to implement the fixed commodity price

B. If 1) the commodity trigger price has not been reached within two (2) months after the effective date of the Commission order approving this Stipulation and Agreement and 2) MGE has not elected to put the fixed commodity price component of the PGA into effect, MGE, *Public Counsel* and the Staff shall re-examine the trigger price in light of intervening natural gas market activity. If the Staff, *Public Counsel* and MGE agree on an alternative trigger price, such proposed alternative trigger price shall be filed with the Commission for approval. Absent agreement between the parties, neither the Staff *nor Public Counsel* nor MGE shall independently seek a change in the trigger price. This re-examination will occur each two months thereafter for two years following the effective date of the Commission order approving this Stipulation and Agreement if the trigger price has not been reached and MGE has not elected to put the fixed commodity price component of the PGA into effect. This paragraph II.B. shall be of no force and effect if the trigger price is reached or if MGE has elected to put the fixed commodity price component of the PGA into effect.

C. Until the fixed commodity price component of the PGA takes effect, MGE shall continue under the current PGA/ACA process for commodity cost recovery. MGE shall be 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 (8) months after April 28, 2000 ~~the filing of this Stipulation and Agreement~~. In the event that MGE submits an alternative proposal regarding

component of the PGA). MGE shall notify the Commission of the date the triggering event occurs no later than the next business day thereafter. Accompanying such notification will be a revised tariff sheet designed to reflect the Total Fixed Commodity Price PGA Rate calculated in accordance with the provisions of this Stipulation and Agreement; such revised tariff sheet is to be approved by the Commission to be effective ten business days after filing.

commodity cost recovery and the Commission approves an alternative proposal regarding commodity cost recovery prior to the fixed commodity price component of the PGA taking effect under this Stipulation and Agreement, the provisions of this Stipulation and Agreement regarding the fixed commodity price component of the PGA shall be of no further force and effect. In the event that MGE submits an alternative proposal regarding commodity cost recovery and the fixed commodity price component of the PGA under

this Stipulation and Agreement takes effect prior to the Commission's approval of an alternative proposal regarding commodity cost recovery, MGE shall withdraw its alternative proposal regarding commodity cost recovery from Commission consideration.

III. Transportation and Storage Costs

A. Underlying Principles

1. Reliability shall not be reduced to achieve savings⁵.
2. Savings shall not be claimed when a new or incremental service is not a direct substitute for a more costly historical service⁶.
3. Savings shall not be claimed when other cost components of the delivered cost of gas are increased for the sake of some level of decrease in transportation costs⁷.

⁵ Examples of reliability reductions include, but are not limited to: reductions in Maximum Daily Quantity ("MDQ") below prudent levels, use of bundled service agreements that replace needed firm supplies and/or transportation capacity with less reliable deliveries, reduction in priority of receipt and/or delivery points, replacement of firm transportation service with recallable capacity, and reductions in priority of service.

⁶ Examples of services not directly substituted for more costly historical service include, but are not limited to: new short-term transportation service, seasonal winter-only service, and/or new back-haul services that 1) are not direct substitutes for comparable historical forward-haul service and 2) do not carry the same reliability standards.

⁷ Examples of increasing a cost component of the delivered cost of gas for the sake of obtaining transportation savings include, but are not limited to: an increase in the

4. Savings shall not be claimed when achieved rates are not below the lesser of final FERC rates or currently effective discounted rates, as such discounted rates are in effect through the current term of the agreements existing as of April 28, 2000 ~~the date of the filing of this Stipulation and Agreement~~

- ~~5. Savings shall not be claimed for discounts that are generally~~
available by tariff or rule to other customers as a part of FERC proceedings.

B. Maximum Daily Quantities ("MDQs")

Sales customers and MGE shall share savings from any reduction in the level of contract MDQs in agreements in effect as of April 28, 2000 ~~the date of the filing of this Stipulation and Agreement~~, with 70% of such savings credited to customers and 30% of such savings credited to MGE. Sales customers shall pay for increased levels of contract MDQs, subject to prudence review as provided in paragraph V.F. of this Stipulation and Agreement.

C. Transportation Rate Discounts

1. The benchmark calculation of the amount recovered from customers shall be based on existing contracted MDQ capacity, in agreements in effect as of April 28, 2000 ~~the date of the filing of this Stipulation and Agreement~~, on all pipelines for transportation capacity and storage capacity. This benchmark calculation shall include rates that are the lesser of currently effective discounts or the final FERC rates for each pipeline as modified below for specific pipelines.

commodity (well-head) cost of gas to achieve lesser transportation charges than historically occurred, and an increase in the variable transportation charge (or other

If, after April 28, 2000 ~~the date of the filing of this Stipulation and Agreement,~~
MGE secures a new transportation discount that produces savings which exceed
savings produced by any currently achieved levels of discounts, customers shall
be credited with 70% of such savings and MGE shall be credited with 30% of
such savings. Savings shall be computed as follows:

a. ~~If MGE negotiates a discount or fixed rate, which is below~~

Williams Pipeline Central RP95-136 rates, then customers
shall be credited with 70% of the savings, and MGE shall
be credited with 30% of the savings. The Kansas Pipeline
cost shall be recovered at the levels ultimately resulting
from the existing ACA cases (Case Nos. GR-96-450 and
GR-98-167). If the rates for Kansas Pipeline Company are
determined by adjustments in Missouri ACA cases, then
any refunds shall be credited 100% to customers. If the
Kansas Pipeline Company rates are determined by FERC
tariffs, then customers shall be credited with 85%, and
MGE with 15% of the amount by which the rates in Docket
GP99-485 are lower than the rates determined in Docket
CP96-152. If MGE can negotiate rates which are lower
than those specified in the two above circumstances, MGE
shall retain 30% of such additional savings.

b. The existing PEPL, and KN, contract discounts in
agreements in effect as of April 28, 2000 ~~the date of the~~

miscellaneous charge) while reducing the pipeline reservation charge.

~~filing of this Stipulation and Agreement shall be credited 100% to customers through the existing term of those contracts. Any ultimately renegotiated discounts that are below current discounted rates and less than maximum filed FERC tariff rates, shall be shared, with 70% being credited to customers and 30% being credited to MGE.~~

- c. An additional transportation cost shall be added to the total cost above before savings calculations to recover incremental transportation costs incurred in moving gas in the field zone associated with PEPL Contract No. 12622 (the existing Haven to market area agreement), in the amount of \$300,000 per year. This will be trued-up to actual in the ACA. No incentive savings shall be claimed as a result of this transaction. However, to the extent new agreements are negotiated that provide this transportation service, at net costs below \$300,000 per year, such reduction shall be considered savings subject to the sharing mechanism herein.
- d. If a pipeline receives authority to increase its rates from the FERC, any such increase in allowed rates shall be recovered from customers, either in filed PGA cost filings or in the next annual ACA cost recovery true-up, assuming that MGE's contracts are subject to such FERC-authorized

increases. Discount-related savings shall be calculated from a comparison of the rate MGE is actually incurring to the allowed final FERC tariff rates. Pipeline refunds of amounts paid interim, subject to refund shall be credited 100% to customers

D. Mix of Transportation Services

To the extent that MGE achieves transportation savings by use of alternate transportation services (e.g., back-hauls, seasonal transportation, short-term transportation), and assuming such savings are not at the expense of reliability reductions as noted in paragraph III. A. of this Stipulation and Agreement, 70% of such savings shall be credited to customers and 30% of such savings shall be credited to MGE. Such savings shall be calculated by comparing all costs actually avoided to all costs actually incurred. No savings sharing shall be authorized unless the new transaction produces real savings in comparison to otherwise applicable historic contract costs.

E. Demand Charge Cost Recovery

Recovery of transportation and storage demand charges shall be based upon an expected number of volumes as contained in Attachment 2-2. At the end of the ACA period, expense and revenue attributable to these items shall be trued-up to actual.

E. Take-or-Pay Cost and Transition Cost Recovery

Take-or-Pay Costs and Transition Costs shall be recovered from customers in accordance with the provisions of Sheet Nos. 23.2, 23.3, 23.4, 23.5 and 23.6 of MGE's tariff.

F. Pipeline Refunds

Pipeline refunds shall be credited 100% to customers in accordance with the provisions of Sheet Nos. 21, 22, 23 and 23.1 of MGE's tariff.

IV. Off-System Sales and Capacity Release

~~A. Off System Sales~~

~~MGE shall retain all revenues derived from off system sales of natural gas prior~~
to the effective date of the Commission's order approving this Stipulation and Agreement, and thereafter, beginning with the effectiveness of this incentive authorization until the effective date of the Report and Order in an MGE general rate proceeding initiated after April 28, 2000 ~~the filing of this Stipulation and Agreement~~, for revenues in excess of \$100,000 per year, net of sales incurred at a loss for operating purposes. Beginning with the effectiveness of this incentive authorization until the effective date of the Report and Order in an MGE general rate proceeding initiated after April 28, 2000 ~~the filing of this Stipulation and Agreement~~, this provision shall be effectuated by crediting customers with \$100,000 in off-system sales revenues per year, net of sales incurred at a loss for operating purposes.⁸ During an MGE general rate proceeding initiated after April 28, 2000 ~~the filing of this Stipulation and Agreement~~, all parties are free to take any position they deem appropriate regarding the treatment of off-system sales and associated revenues. Following the effective date of the Report and Order in an MGE general rate proceeding initiated after April 28, 2000 ~~the filing of this Stipulation and Agreement~~, the treatment of off-system sales and associated revenues adopted by the Commission in that general rate proceeding shall govern; provided,

however, that no party will be precluded from seeking judicial review of such decision or from arguing that such decision should be changed in subsequent cases. MGE asserts that its off-system sales, and associated revenues, are wholly beyond the Commission's jurisdiction and authority and has agreed to this paragraph IV.A. in this Stipulation and

~~Agreement for settlement purposes only. As such, MGE's agreement to this paragraph~~

~~IV.A. in this Stipulation and Agreement shall not be construed as acquiescence or~~

agreement by MGE that the Commission possesses any jurisdiction or authority whatsoever with respect to MGE's off-system sales and associated revenues.⁹ Further, this paragraph IV.A. of this Stipulation and Agreement shall not be offered as evidence, or cited as indicating, that MGE acquiesces to Commission jurisdiction or authority with respect to MGE's off-system sales and associated revenues.

B. Capacity Release.

Capacity release revenues shall be credited to customers and MGE according to the following grid:

<u>Capacity Release Revenues</u>	<u>MGE Percentage</u>	<u>Customer Percentage</u>
First \$300,000	15%	85%
Next \$300,000	20%	80%
Next \$300,000	25%	75%
Amounts over \$900,000	30%	70%

⁸ Sales incurred at a loss for operating purposes could, as an example, include, but need not be limited to, situations in which baseload gas is sold during a pipeline Operational Flow Order as a means of avoiding the incurrence of penalties.

⁹ Public Counsel believes that the issue of the Commission's jurisdiction over off-system sales revenues has been decided in the Commission's decision in Case No. GT-99-303 (In the matter of Laclede Gas Company, September 21, 1999).

V. Miscellaneous Items

A. Term

The transportation and storage provisions of the program shall extend for two years from the effective date of the Commission order approving this Stipulation and

~~Agreement. The fixed commodity price component portion of the program shall extend~~

~~for two years after the fixed commodity price component becomes effective. If the fixed~~
commodity price component does not become effective within two years of the effective date of the Commission order approving this Stipulation and Agreement, the program shall terminate. 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, according to the outline appended hereto as Attachment 3. The first annual reliability report shall be provided to the Staff on July 1, 2000.

2. Monitoring Reports

MGE shall provide Staff and Public Counsel with semi-annual reports, on a highly confidential basis, detailing the savings achieved under the program and the calculations supporting the claimed level of savings. The first semi-annual monitoring report shall be submitted by MGE to the Staff six (6) months after the effective date of the Commission order approving this Stipulation and Agreement. Twelve

(12) months after the effective date of the Commission order approving this Stipulation and Agreement, MGE shall file with the Commission the monitoring report, on a highly confidential basis, of the first year of experience under this Stipulation and Agreement. The Staff will audit the

~~Company's calculations and underlying documentation to make a~~

recommendation to the Commission whether, at the end of the ACA (Actual Cost Adjustment) year, the Company is entitled to be credited with its portion of the claimed savings. The Staff's audit shall be completed and its recommendation filed at the same time as the Staff's recommendation for the concurrent ACA audit period.

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. 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 Large Volume Service customer classes. For all other customer classes (Residential, Small General Service and Unmetered Gaslight), 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., 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. Price Stabilization Fund

Until such time as the fixed commodity price component of the PGA takes effect, MGE shall be authorized to make use of financial instruments to obtain price protection on natural gas supplies in accordance with the Commission's order in Case No. GO-2000-231. Subject to all of the terms and conditions of the Commission's order in Case No. GO-2000-231, except for the dates which shall be extended for another year, financial instruments shall be purchased for the upcoming heating season no later than September 30 of the immediately preceding summer.

F. Prudence Reviews

MGE, Public Counsel and the Staff agree that 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 cost component of the PGA or the associated supply contracts. For periods after termination of the fixed commodity cost 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. of this Stipulation and Agreement in no way indicates acquiescence or agreement by MGE to

~~any such proposed adjustments, the Staff or Public Counsel may make~~

G. ~~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.

H. Re-basing

In entering this agreement MGE understands and acknowledges that, upon the expiration of the storage and transportation portion of the program, and again upon the expiration of the fixed commodity price component, the Staff will likely, *and Public Counsel may,* propose to re-base the volumes, expenses, revenues, and quantities in any proposed extension or modification to this program based on the experience under the

program. In expressing this understanding and acknowledgement, MGE is in no way agreeing or acquiescing to any re-basing proposal the Staff *or Public Counsel* may make.

VI. SAMPLE CALCULATIONS

~~Appended hereto as Attachments 2-1 and 2-2 are worksheets showing the derivation of rates under the provisions of this Stipulation and Agreement.~~

VII. GENERAL PROVISIONS

A. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of ~~cost determination or cost allocation, or any service or payment standard underlying or allegedly underlying this Stipulation and Agreement as a result of entering into this~~ document, and none of the parties shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

B. This Stipulation and Agreement has resulted from extensive negotiations among the parties and the terms hereof are interdependent. In the event the Commission does not unconditionally approve and adopt the entirety of this Stipulation and Agreement without modification, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

C. If the Commission approves and adopts this Stipulation and Agreement without condition and without modification, the parties waive their respective rights pursuant to Section 536.080.1 RSMo¹⁰ to present testimony, 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; and the right to judicial review pursuant to Section 386.510.

¹⁰ Unless specifically indicated otherwise, all statutory references in this Stipulation and Agreement are to RSMo (1994, as amended Cum. Supp. 1998).

D. This Stipulation and Agreement shall not be cited as a precedent or referred to in testimony as an assertion of the position of any party in any subsequent or pending judicial or administrative proceeding, except in a proceeding in which the sole purpose is to enforce compliance with the terms and conditions of this Stipulation and Agreement.

E. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, this Stipulation and Agreement and any agreements purported to be represented thereby shall be absolutely null, void, and of no force or effect whatsoever.

F. The parties agree that the Staff ~~shall~~ may submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each party of record 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 highly confidential to the extent so designated by the submitting party, shall be maintained on a confidential basis by all parties to the extent the submitting party has designated the memorandum as highly confidential, shall not become a part of the record of this proceeding to the extent the submitting party has designated the memorandum as highly confidential, and shall not bind or prejudice the party submitting such memorandum or any other party in this or any future proceeding, whether or not the Commission approves this Stipulation and Agreement.

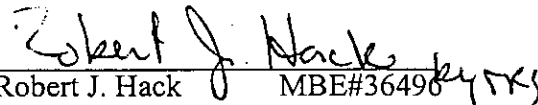
G. The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, promptly provide other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

H. To assist the Commission in its review of this Stipulation and Agreement ~~the parties also request that the Commission advise them of any additional information~~ that the Commission may desire from the parties relating to the matters addressed in the Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

WHEREFORE, the undersigned parties respectfully request that the Commission ~~issue its Order approving all of the terms and conditions of this Stipulation and~~ Agreement.

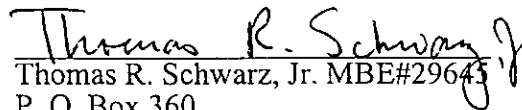
Respectfully submitted,


Robert J. Hack MBE#36496

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Kansas City, Missouri 64111
(816)360-5755
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e-mail: Rob.Hack@SouthernUnionCo.com

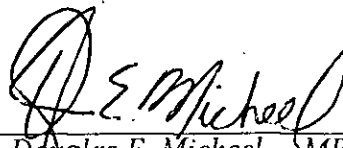
ATTORNEY FOR MISSOURI GAS
ENERGY


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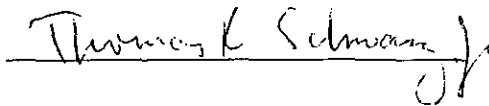
ATTORNEY FOR THE OFFICE OF
THE PUBLIC COUNSEL

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 11 day of May
2000, to:

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

Robert J. Hack
Missouri Gas Energy
3420 Broadway
Kansas City, Missouri 65102



MISSOURI GAS ENERGY
FIXED COMMODITY PRICE
AVERAGE PURCHASE VOLUMES BY MONTH
NYMEX Trigger Price Calculation

Month	MMBtu Volume	NYMEX As Of Mo/Day/Yr	Weighted \$'s (b) x (c)
(a)	(b)	(c)	(d)
April	3,266,893	\$0.000	\$0
May	3,777,761	\$0.000	\$0
June	3,876,584	\$0.000	\$0
July	9,515,251	\$0.000	\$0
August	9,188,394	\$0.000	\$0
September	7,380,092	\$0.000	\$0
October	4,944,132	\$0.000	\$0
November	4,010,252	\$0.000	\$0
December	5,951,650	\$0.000	\$0
January	4,926,916	\$0.000	\$0
February	5,111,039	\$0.000	\$0
March	4,214,049	\$0.000	\$0
Totals	66,163,013		\$0

Annual Weighted Average (MMBtu)
(total weighted \$'s divided by total volumes)

\$0.00

MISSOURI GAS ENERGY, A DIVISION OF SOUTHERN UNION COMPANY

CALCULATION OF THE PURCHASED GAS ADJUSTMENT RATE

The following computation supports the PGA rate proposed for service on and after implementation of a Fixed PGA.

Filed with MPSC

	RESIDENTIAL OTHER CLASSES	LARGE VOLUME
ESTIMATED ANNUAL TRANSPORTATION COSTS PER PAGE 2	\$ 73,199,975	\$ 73,199,975
ESTIMATED ANNUAL STORGAGE COSTS PER PAGE 2	\$ 7,372,906	\$ 7,372,906
ESTIMATED ANNUAL COMMODITY COSTS PER PAGE 2	\$ 172,995,142	\$ 172,995,142
TOTAL ESTIMATED ANNUAL GAS COSTS PER PAGE 2	\$ 253,568,023	\$ 253,568,023
ESTIMATED SALES VOLUMES	670,113,300	670,113,300
AVERAGE CURRENT COST OF GAS PER Ccf	\$ 0.37840	\$ 0.37840
UNSCHEDULED WINTER PGA FILING ADJUSTMENT FACTOR (UFA) PER Ccf	\$ -	\$ -
PRICE STABLIZATION CHARGE PER Ccf	\$ 0.00470	\$ 0.00470
TOTAL CURRENT COST OF GAS (PGA) PER Ccf	\$ 0.38310	\$ 0.38310
ACTUAL COST ADJUSTMENT (ACA) per Attachment 1 page 1 per Ccf	\$ (0.01090)	\$ (0.01090)
REFUND per Page 4 per Ccf	\$ (0.03270)	\$ -
TAKE OR PAY (TOP) per Ccf	\$ -	\$ -
TRANSITION COST ADJUSTMENT (TC) per Attachment 2 page 1 per Ccf	\$ 0.01828	\$ 0.01828
TOTAL PURCHASED GAS ADJUSTMENT PRICE per Ccf	\$ 0.35778	\$ 0.39048

Schedule 5-21

ATTACHMENT 2-1

ESTIMATED ANNUAL GAS COST

**RELIABILITY REPORT
MISSOURI GAS ENERGY
PERIOD ENDING JUNE 30, _____**

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Service List for
Case No. GO-2000-705
Revised: May 12, 2000

Office of the Public Counsel
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Jefferson City, MO 65102

Robert J. Hack
Senior Attorney
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3420 Broadway
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MEMORANDUM

FILED

MAY 30 1997

MISSOURI
PUBLIC SERVICE COMMISSION

TO: Missouri Public Service Commission Official Case File
Case No. GR-96-78
Missouri Gas Energy, a Division of Southern Union Company

FROM: Mike Wallis
Procurement Analysis Department

Chris Wright 5/24/97 *Thomas R. Schwegel Jr. 5/24/97*
Utility Services Division/Date General Counsel's Office/Date

SUBJECT: Staff's recommendation in Case No. GR-96-78, Missouri Gas Energy's 1995-1996 Actual Cost Adjustment Filing

DATE: May 30, 1997

The Staff has reviewed the 1995-1996 Actual Cost Adjustment (ACA) filing (docketed as Case No. GR-96-78) for Missouri Gas Energy (MGE or Company). The Staff's audit consisted of an analysis of the billed revenues and actual gas costs, for the period of July 1995 to June 1996. A comparison of billed revenue recovery with actual gas costs will yield either an over-recovery or under-recovery of the ACA, Refund, Take-or-Pay (TOP), and Transition Cost balances. An examination of MGE's gas purchasing practices was also performed to determine the prudence of the Company's purchasing decisions. MGE transports its gas supply over Panhandle Eastern Pipeline (PEPL), Williams Natural Gas (WNG), and Mid-Kansas Partnership/Riverside Pipeline Company (MKP/RPC).

WNG GAS SUPPLY

During the period of January 31, 1996 to February 6, 1996 MGE purchased 438,465 MMBTU's of daily spot market gas supply for a total of \$3,387,901 (an average of \$7.727 per unit). WNG was experiencing major pressure problems on its pipeline during this one week period and needed MGE to flow as much gas as possible on the pipeline (per Company's response to Staff Data Request No. 15). Thus, this gas supply was purchased on a daily spot price basis primarily at the request of WNG, and not as part of MGE's normal gas supply planning process.

Staff appreciates MGE's concern over WNG's pressure problems and potential pipeline failure. Staff also acknowledges that MGE did use this gas supply to serve its customers. However, Staff believes that the prices which MGE was forced to pay for this gas supply are excessive (\$4.17 per unit over the WNG Inside FERC Gas Market Report index for January,

36.

1996 and \$5.89 per unit over the Inside FERC index for February, 1996). The premium (above the first of the month Inside FERC index) normally paid by MGE for gas supplies is around eight cents. As a result, Staff proposes an adjustment which will reduce MGE's gas costs by \$2,541,298.62. Staff's adjustment was calculated by multiplying (1) the difference between the actual per unit price paid by MGE for the gas supply and the first of the month Inside FERC index price plus an eight cent premium by (2) the volumes purchased by MGE.

Staff is aware that MGE purchased this excessively priced gas to help WNG and to protect the integrity of the pipeline. As a result, Staff will reduce its adjustment by the amount of any refunds or credits which WNG flows back to MGE, and thus the customers of MGE, to compensate it for the excessively priced gas which it was requested to acquire during the period of January 31, 1996 to February 6, 1996.

RIVERSIDE DEMAND CHARGE

MGE's transportation contract with RPC specifies that MGE is required to pay monthly demand charges limited to \$23,999.98 (\$5.18 per unit multiplied by daily MDQ of 46,332). Due to a billing error by RPC, MGE paid demand charges of \$26,557.50 (\$5.732 per unit multiplied by daily MDQ of 46,332) during the months of October, 1995 to February, 1996. As a result, Staff proposes an adjustment which will reduce MGE's gas costs by \$12,787.60 (difference between \$26,557.50 and \$23,999.98 multiplied by five months).

HEDGING

Staff, as part of its ACA audit, reviewed Company's gas supply plan and purchasing practices. It is apparent that MGE does not evaluate methods to reduce the impacts which volatile swings in natural gas prices (prices associated with flowing wellhead gas supplies) can have on its customers. Spot Market index prices have no upward limit. As a result, the Staff recommends that the Commission order MGE to evaluate futures market hedging instruments (call options, etc.), and other methods (competitively bid price caps for gas supply contracts, etc.) in order that the Company may have the ability to limit the upward price risk associated with volatile swings in index based natural gas prices.

SUMMARY

The Staff proposes adjustments to reduce Company's gas costs by (1) \$2,541,298.62 with regard to excessive prices paid by MGE for gas supplies purchased between January 31, 1996 and February 6, 1996 and (2) \$12,787.60 with regard to RPC transportation demand charges which were incorrectly billed by RPC during the months of October, 1995 to February, 1996. The Staff

is also asking that the Commission order MGE to evaluate methods to reduce the impacts which volatile swings in natural gas prices can have on MGE's customers.

RECOMMENDATIONS

The Staff recommends the Commission issue an order requiring:

- 1) MGE to adjust its ACA recovery balance from a \$8,181,422.61 over-recovery to a \$10,735,508.83 over-recovery;
- 2) MGE to establish the Take-or-Pay Account balance at a \$331,490.93 under-recovery;
- 3) MGE to establish the Transition Cost Account balance at a \$8,943,771.74 under-recovery;
- 4) MGE to establish the Refund Account balance for the Residential Service, Small General Service, Large General Service, and Unmetered Gaslight Service customer classes at \$255,745.90;
- 5) MGE to establish the Refund Account balance for the Large Volume Service customer class at \$34,873.97;
- 6) that a pre-hearing conference be scheduled, within 30 days, to establish a procedural schedule for this case.

cc. Director - Utility Operations Division
Director - Policy and Planning Division
Director - Utility Services Division
General Counsel
Manager - Procurement Analysis Department
Manager - Energy Department
Dennis Gilmote - Missouri Gas Energy
Ted Austin - Missouri Gas Energy
Charles Hernandez - Missouri Gas Energy
Gary Duffy - Missouri Gas Energy
Office of Public Counsel
Mike Wallis

Exhibit No.:
Issue: Hedging and ACA Policy
Witness: David M. Sommerer
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: GO-97-409

**MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION**

SURREBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

MISSOURI GAS ENERGY,

a division of

SOUTHERN UNION COMPANY

CASE NO. GO-97-409

**Jefferson City, Missouri
June, 1997**

Exhibit (v)
Date June 1997 Case No. GO-97-409
Reporter AS

1 **SURREBUTTAL TESTIMONY-**

2 **OF**

3 **DAVID SOMMERER**

4 **MISSOURI GAS ENERGY,**

5 **A DIVISION OF**

6 **SOUTHERN UNION COMPANY**

7 **CASE NO. GO-97-409**

8 Q Please state your name and business address.

9 A David Sommerer, P. O. Box 360, Jefferson City, Mo. 65102

10 Q Are you the same David Sommerer who filed direct testimony in this case?

11 A Yes.

12 Q What is the purpose of your surrebuttal testimony?

13 A To respond to certain comments made in the rebuttal testimony of Michael
14 Langston and Charles Hernandez

15 Q Do you agree with Mr. Langston's comment on page 5, line 21, of his
16 testimony that says that "...hedging activities essentially represents speculation on gas prices
17 within the market place"?

18 A No. Hedging attempts to limit risk as a goal, while speculation's main purpose
19 is to generate profit. There is an element of speculation in not hedging or attempting to put
20 a limit to the risk of unlimited price increases. Indexed based gas contracts have proven to
21 be very volatile and could result in a price paid by Missouri Gas Energy (MGE or Company)

Su bbuttall testimony of
David Sommerer

1 that is very burdensome to the customer. In Schedule 1, attached to my testimony, I have
2 provided a copy of an Energy Information Administration publication for 2 different periods.
3 The top charts show that the commodity portion of gas costs can reach very high levels,
4 especially over a period of a few days. One chart indicates prices over \$10.00/Mcf. Unless
5 the Company can say with certainty that these kinds of extreme prices (or even prices at the
6 \$4.00 level) will not be incorporated in a particular index calculation it should be taking
7 actions to limit exposure to this risk.

8 Q What is hedging?

9 A Hedging is a method by which a buyer of natural gas uses a derivative position
10 to protect against adverse price movements in the cash market by fixing or capping a price
11 for future delivery. It has the additional advantage of reducing the chances of a large under-
12 recovery of gas costs as compared to PGA revenue recoveries

13 Q On page 5, line 22, Mr. Langston states that, "MGE does not feel that anyone
14 can 'beat the market' over a long period of time." Do you agree?

15 A Yes. However, the market should not "beat up" the customer. Price spikes
16 of short duration but large impact can be avoided through proper hedging. Furthermore, a
17 market price could be considered to be a combination of fixed prices, capped variable prices,
18 and monthly index prices. Implying that a short term variable index rate is the only surrogate
19 for a market rate is like saying a fixed rate mortgage on a home is not a "market" rate because
20 it is not variable.

21 Q Do you have any response to Mr. Langston's concerns about treatment of
22 gains and losses related to hedging as described at the bottom of page 3.

Surrebuttal testimony of
David Sommerer

1 A. Yes. There should be consistency in the way index prices are evaluated versus
2 hedged prices. In other words, index priced contracts can be viewed as taking a bet that the
3 market will stay low. The Company should not have guarantees that no matter how high the
4 spot market goes, the consequences will be borne by the customer. In the same way, a
5 company should not set up a fixed priced contract for all of its load without regard to what
6 the market is doing. The goal should be a balanced and diversified portfolio that minimizes
7 risks of excessive price increases while still allowing some significant participation in
8 downward price swings.

9 Q. Do you have comments which address Charles Hernandez's testimony?

10 A. Yes. Although discovery is still pending which relates to Mr. Hernandez's
11 schedules some general observations can be made about his analysis of under and over
12 recoveries.

13 First, the schedules don't incorporate the use of hedging. The large balances that
14 accumulate in the ACA are largely the result of significant price increases not considered in
15 the company's annual PGA factor. Clearly the Company is concerned about the potential for
16 a price increase causing a significant under-recovery of costs. There should also be a concern
17 about the effect on the customer of unhedged risk exposure.

18 Second, the schedules assume a \$21,000,000 under-recovery even before the annual
19 PGA filing starts. The calculation starts in the spring of the year however, and artificially
20 builds a cumulative under-recovery by comparing low summer sales volumes and recoveries
21 with high fixed transportation charges.

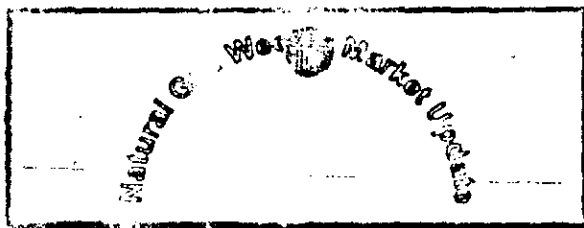
22 Q. Please summarize your surrebuttal testimony.

**Surrebuttal testimony of
David Seemerer**

1 A. My testimony has addressed the importance of hedging in achieving a more
2 stable PGA price and limiting the amount of ACA under or over recovery.

3 Q Does this conclude your surrebuttal testimony?

4 A Yes, it does.
5
6



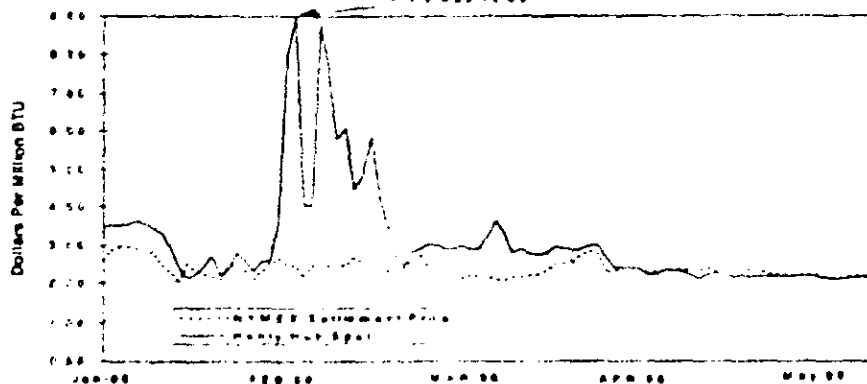
EIA



Energy Information Administration
Office of Oil and Gas
May 13, 1996

NYMEX Price Futures vs Henry Hub Spot Price

Price was 14.00



Note: The Henry Hub spot price is the price for the first day of the month of May 1996 and the price for the day.

HENRY HUB PRICE
CASH FUTURES

May June
Del Del
(5 per MMBtu)

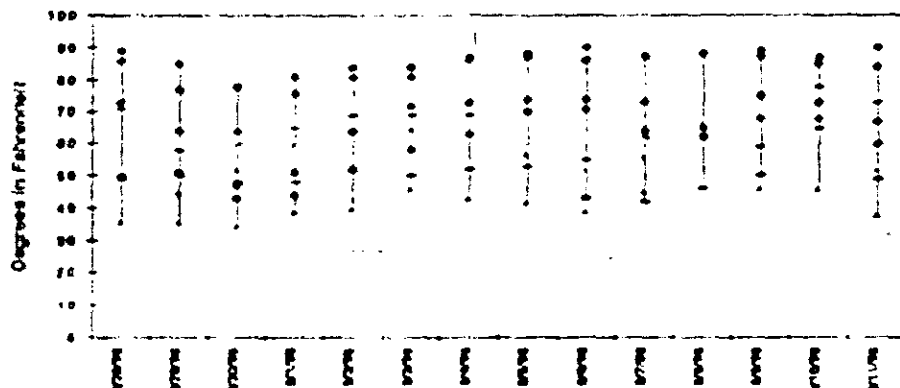
5/10	\$2.09-2.14	\$2.148
5/07	2.12-2.16	2.187
5/08	2.14-2.16	2.186
5/09	2.16-2.20	2.210
5/10	2.18-2.22	2.204

High and Low Temperature for Four Selected Cities

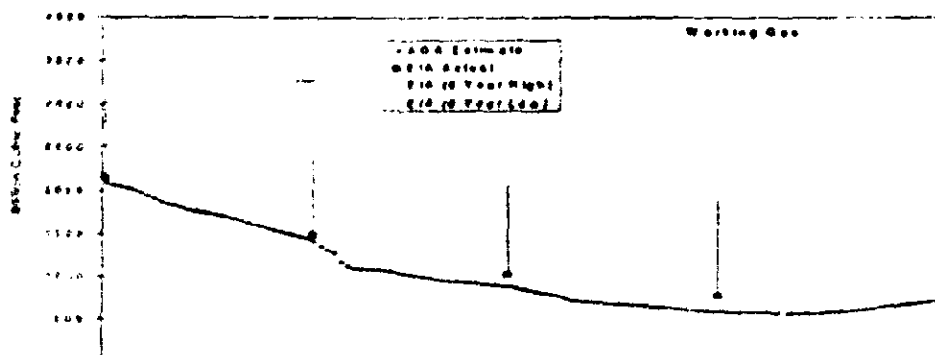
Atlanta Chicago Houston NYC

Average Temperature for Four
Major Gas Consuming Areas

	Actual	Normal	Diff
5/15	68	64	4
5/06	64	64	0
5/07	65	64	1
5/08	67	65	2
5/09	65	65	0
5/10	71	65	6
5/11	64	65	-1



Natural Gas Storage Volumes (EIA Data: 1st survey and
Estimates from AGA Weekly Data.)

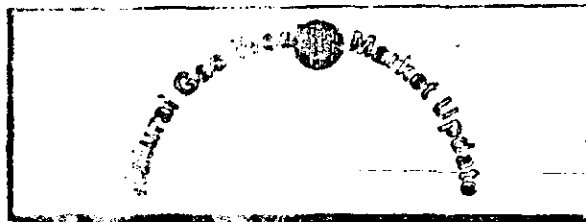


Working Gas Volume
as of 5/03/96

	BCF	% Full
EAST	262	15
WEST	234	49
Total Area	198	21
U.S.	694	22

Source: AGA

Schedule 7-6



EIA



Energy Information Administration
Office of Oil and Gas
March 3, 1997

<http://www.eia.doe.gov>

NYMEX Future Prices vs Henry Hub Spot Prices

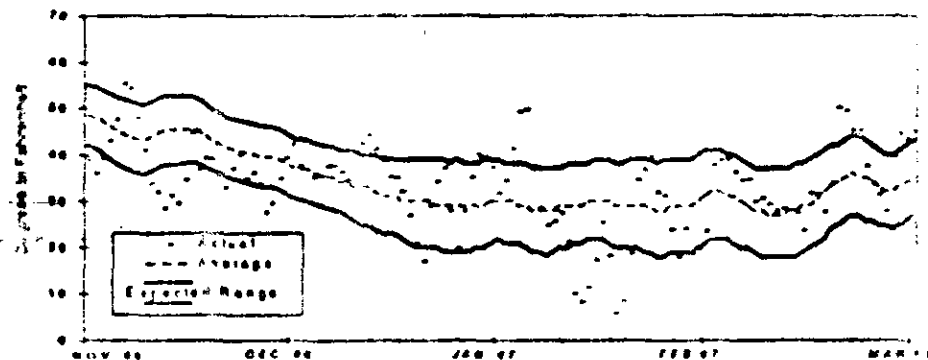
HENRY HUB PRICE		
CASH	FUTURES	
Feb	Apr	Mar
Del	Del	
(\$ per MMBtu)		
02/24	1.89-1.93	1.860
02/25	1.89-1.84	1.865
02/26	1.84-1.88	1.874
02/27	1.89-1.94	1.878
02/28	1.75-1.80	1.821



Note: The Henry Hub spot price is from the US Gas Daily and is the midpoint of the high and low price of a day.

Average Temperature for Four Major Gas Consuming Metro Areas (Chicago, Kansas City, New York, and Pittsburgh)

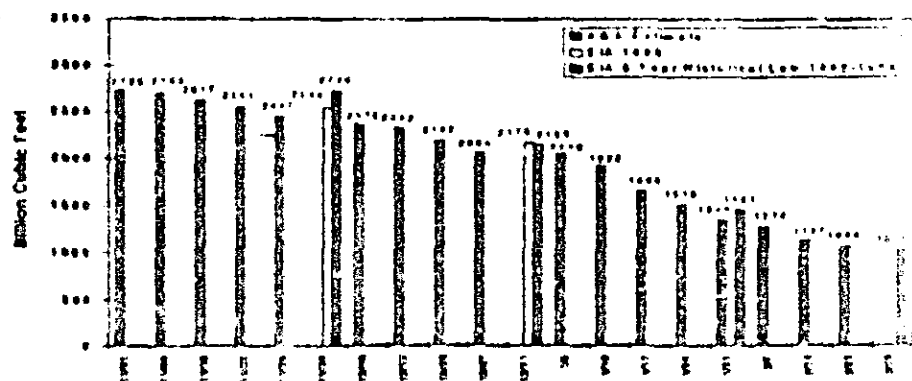
Average Temperature for Four Major Gas Consuming Areas			
	Actual	Normal	Diff
02/23	34	34	0
02/24	31	33	-2
02/25	28	32	-4
02/26	40	32	8
02/27	44	33	11
02/28	44	34	10
03/01	45	35	10



The average is computed by adding and subtracting from the average temperature for the last 10 years on each day to make an estimate of the expected average for a particular day.

Working Gas in Storage 1996-1997

Working Gas Volume as of 02/21/97		
	BCF	% Full
EAST	629	34
WEST	187	30
Total Area	243	27
U.S.	1,064	23
Source: APCA		



Schedule

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the operation of)
Missouri Gas Energy, a division of)
Southern Union Company's)
Purchased Gas Adjustment Clause.)

Case No. GO-97-409

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



DAVID M. SOMMERER

Subscribed and sworn to before me this 10th day of June, 1997.



Notary Public

My Commission Expires: _____

BEVERLY S. LEIDEN
NOTARY PUBLIC STATE OF MISSOURI
CALLAWAY COUNTY
MY COMMISSION EXP. MAR. 9, 1998

FILED²

SEP 24 1999

Missouri Public
Service Commission

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2000-231, File No. 200000232, Missouri Gas Energy

FROM: *mm* Mike Straub, Gas Department – Tariffs/Rate Design *bm*

West Hendrix 9-23-99 *Thomas R. Schmitt Jr. 9/23/99*
Utility Operations Division/Date General Counsel's Office/Date

SUBJECT: Staff Recommendation on Tariff Sheets filed to Renew for an Additional
Year the Price Stabilization Fund and Capacity Release Incentive
Mechanism.

DATE: September 23, 1999

On September 14, 1999, Missouri Gas Energy (MGE or Company) of Kansas City, Missouri, a division of Southern Union Company of Austin, Texas, filed tariff sheets proposed to become effective October 15, 1999. On September 14, 1999, the Company also filed MISSOURI GAS ENERGY'S APPLICATION TO RENEW PRICE STABILIZATION FUND AND CAPACITY RELEASE MECHANISM: MOTION FOR EXPEDITED TREATMENT (Application) requesting that the Commission issue an order approving the tariff sheets filed on September 14, 1999 as expeditiously as possible. The purpose of the proposed tariff sheets is to extend the experimental Price Stabilization Fund (PSF) through the winter of 1999-2000, and allowing it to expire on the effective date of the summer Purchased Gas Adjustment (PGA) filing on or about April 1, 2000. In addition, the filing proposes to extend the capacity release incentive mechanism for a period of one year from November 1, 1999, through October 31, 2000.

The proposed hedging program is nearly identical to the MGE program the Commission approved previously. The cap has been increased to reflect current market conditions, and this will provide for a significant portion of MGE's gas supplies to be hedged for the coming winter season. MGE also requested a one-year extension of its capacity release incentive mechanism that expired on June 30, 1999. In its recent order in Case No. GT-99-303, the Commission allowed Laclede to extend their capacity release program.

The Commission Staff (Staff) has reviewed MGE's Application and has no objection to MGE's request for expedited approval of its filed tariff sheets. However, Staff would note for the record that the Company was aware for some time that the PSF and capacity release mechanism were scheduled to expire. Staff suggests that in the future MGE consider filing its requests earlier. An earlier filing would have provided the Company

MO. PSC Case No. GO-2000-231
OFFICIAL CASE FILE MEMORANDUM
PAGE 2 OF 2

with a longer period to evaluate the market and perhaps more effectively hedge a portion of the coming winter's gas costs. In Staff's opinion, hedging is a reasonable component of a Local Distribution Company's (LDC) gas procurement portfolio and the language contained in the PGA provides adequate permission for a LDC to hedge without the need for special authority each year.

The Staff has also reviewed the tariff sheets as filed by the Company, and has no objection to extending the PSF through the effective date of the summer PGA filing (on or about April 1, 2000). Nor does Staff have an objection to the capacity release mechanism being in effect from November 1, 1999, through October 31, 2000. Therefore, Staff recommends that the following tariff sheets filed on September 14, 1999, with a proposed effective date of October 15, 1999, be approved as expeditiously as possible:

P.S.C. MO. No. 1

Third Revised Sheet No. 24.2 Canceling Second Revised Sheet No. 24.2

Third Revised Sheet No. 24.6 Canceling Second Revised Sheet No. 24.6

Copies:

- Director - Utility Operations Division
- Director - Research and Public Affairs Division
- Director - Utility Services Division
- General Counsel
- Manager - Financial Analysis Department
- Manager - Procurement Analysis Department
- Manager - Gas Department
- Robert J. Hack – Vice President, Pricing and Regulatory Affairs (MGE)
- Michael T. Langston – Vice President, Gas Supply (Southern Union Company)
- Charles B. Hernandez, Director, Pricing and Regulatory Affairs (MGE)
- Office of the Public Counsel



MISSOURI GAS ENERGY

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

ROBERT J. HACK

Vice President, Pricing & Regulatory Affairs

September 26, 2000

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

FILED²
SEP 27 2000 *nh*
Missouri Public
Service Commission

GO-2001-215

RE: Missouri Gas Energy's Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis; Motion for Expedited Treatment

Dear Mr. Roberts:

Enclosed for filing are (1) an original and eight (8) conformed copies of Missouri Gas Energy's Motion for Protective Order and (2) Missouri Gas Energy's Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis; Motion for Expedited Treatment (an appropriate number of NP and HC sets are included).

Copies of this filing have been mailed or hand-delivered to the Office of the Public Counsel.

Thank you for bringing this matter to the attention of the Commission and the appropriate Commission personnel. Please contact me if you have any questions regarding this matter.

Sincerely,

Robert J. Hack

C: Doug Micheel
Tim Schwarz
Mike Langston

Enclosures

200100337

Schedule 9-1

FILED

SEP 27 2000

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

Missouri Public
Service Commission

In the matter of Missouri Gas Energy's)
tariff sheets designed to renew for an)
additional year the price stabilization)
fund.)

Case No. GO-2001- 215

**MISSOURI GAS ENERGY'S APPLICATION TO RENEW PRICE
STABILIZATION FUND ON EITHER A MODIFIED OR UNCHANGED BASIS;
MOTION FOR EXPEDITED TREATMENT**

Comes now Missouri Gas Energy ("MGE"), by and through counsel, and for its application respectfully states the following:

I. GENERAL MATTERS

1. MGE is a "gas corporation" and a "public utility" under the provisions of Chapter 386 RSMo and is subject to the jurisdiction of the Missouri Public Service Commission ("Commission") pursuant to the terms of Chapters 386 and 393 RSMo. MGE is a division of Southern Union Company, a corporation duly incorporated under the laws of the state of Delaware. Southern Union's documents of incorporation have previously been provided to the Commission in Case No. GM-94-40. MGE is engaged in the business of distributing, transporting and selling natural gas in portions of western Missouri. MGE's principal office and place of business is located at 3420 Broadway, Kansas City, Missouri 64111. MGE may be contacted by means of telephone or electronic mail as described in the following paragraph.

2. All notices, orders or other communications respecting this application and proceeding should be addressed to:

Michael T. Langston
Vice President, Gas Supply
Southern Union

Robert J. Hack
VP, Pricing & Regulatory Affairs
Missouri Gas Energy

800 Lavaca
Austin, TX
(512)370-8277
Fax: (512)476-4966

3420 Broadway
Kansas City, MO 64111
(816)360-5755
Fax: (816)360-5536
e-mail: rob.hack@southernunionco.com

3. Although uncertain precisely what information the Commission seeks by 4
CSR 240-2.060(1)(K), MGE provides the following in an attempt to comply therewith.
MGE is unaware of any pending action or final unsatisfied judgments or decisions against
MGE from any state or federal agency or court which involve customer service or rates,
which action, judgment or decision has occurred since September 27, 1997.
Nevertheless, since that time MGE has been involved in a number of judicial review
proceedings, filed against the Commission, involving MGE's rates. The Commission
itself should be aware of all such cases.

4. No annual report or assessment fees pertaining to MGE are overdue.

II. PURPOSE OF THE FILING

5. Concurrently with the filing of this application, MGE has filed under
separate cover P.S.C. Mo. No. 1 First Revised Sheet No. 24.29 canceling Original Sheet
No. 24.29 (a specimen of which is appended hereto as Attachment A). The purpose of
the revised tariff sheet and of this application is to renew for another year the
experimental price stabilization fund described in the tariff sheet and adopted by the
Commission in its order in Case No. GO-97-409. The price stabilization fund was in
place for the 1997-1998, 1998-1999 and 1999-2000 winter seasons. Through its approval
of the Stipulation and Agreement in Case No. GO-2000-705, the Commission re-
authorized the price stabilization fund for another year, subject to all of the terms and
conditions of the Commission's order in Case No. GO-2000-231 (except for the dates

therein) and approving the new requirement for financial instruments to be purchased for the upcoming heating season no later than September 30. Since this re-authorization took effect, market conditions have precluded MGE from purchasing such financial instruments within the parameters fixed by the Commission's order in GO-2000-231 prior to September 30, 2000. Such re-authorization will therefore expire after September 30, 2000. MGE supports the price stabilization fund because even though the call options purchased for these winter seasons generally expired unexercised, these call options did offer customers substantial protection against the price volatility experienced in the winter of 1996-1997. This price protection was the primary purpose of the price stabilization fund, and MGE believes that it should be extended for a year to provide such price protection for the winter of 2000-2001 and so that interested parties can obtain additional information regarding its operation and effects. MGE therefore urges the Commission to re-authorize the price stabilization fund so that MGE can proceed with the acquisition of financial instruments advantageous to its customers.

III. SPECIFIC RELIEF REQUESTED

A. Modified Basis

6. For purposes of reducing the impact of natural gas price volatility on MGE's customers during the 2000/2001 winter season, and the potential deferral of gas costs to subsequent periods, MGE seeks authority to procure exchange traded Financial Instruments, in the form of natural gas call options covering gas volumes of at least 18.5 million MMBtu for the months of December 2000 through February 2001 at a cost not to exceed three million fifty thousand dollars (\$3,050,000). Such options shall have a strike

price no greater than that generally prevailing in the NYMEX natural gas market at the time the purchase is made.¹

7. To assure recovery of the direct costs incurred by MGE in connection with the procurement of these Financial Instruments, MGE seeks to continue authority to collect a Price Stabilization Charge through the current cost of gas component of MGE's PGA by an amount equal to \$0.047 per Mcf. Revenues generated as a result of such adjustment and all realized gains from the use of such Financial Instruments shall be accounted for separately and credited to a Price Stabilization Fund on a monthly basis. This is not intended to be an additional PGA filing. A specimen tariff sheet renewing the Price Stabilization Fund is set forth in Attachment A to this Application.

8. For the purpose of reconciling the Price Stabilization Fund, price stabilization charge revenues collected from November 1, 2000, through the effective date of the next scheduled winter PGA filing (on or about November 1, 2001), will be compared to expenditures for the 2000-2001 winter heating season; any balance, including carrying costs, will be recovered from, or paid to, customers through an

¹ As of September 5, 2000, prices generally prevailing in the NYMEX natural gas market indicated a strike price of approximately **_____** per MMBtu under such parameters (18.5 million MMBtu, covering approximately 70% of normal flowing volumes for the months of December through February at a cost not to exceed \$3,050,000). The parameters adopted in the Commission's order in Case No. GO-2000-231 were as follows: natural gas call options covering gas volumes of at least 26 million MMBtu, representing approximately 70% of the flowing supply volumes that MGE would be expected to purchase during the winter months of November through March, assuming normal weather, at a cost not to exceed three million fifty thousand dollars (\$3,050,000) and at a strike price no greater than \$4.40 per MMBtu. Prudence adjustment or other disallowance of costs is expressly precluded for purchases or sales within such parameters.

adjustment to the ACA filing that is scheduled to be effective with the 2001 scheduled winter PGA filing.

9. No prudence adjustment or other disallowance of costs debited to the Price Stabilization Fund and incurred by MGE or of revenues credited to the Price Stabilization Fund and realized by MGE shall be proposed or made in any proceeding in connection with the use, potential use, purchase or sale of natural gas financial instruments by MGE, provided that the financial instruments are: (a) purchased at prices generally prevailing in the NYMEX natural gas market at the time the purchase is made; or (b) sold at prices generally prevailing in the NYMEX natural gas market at the time the sale is made, which sale shall be within three (3) days of the expiration of the call option, unless the option expires worthless.

10. MGE agrees to cooperate with the Staff, the Office of the Public Counsel, and other interested parties in identifying the impact of the Price Stabilization Fund on MGE's gas costs during the fourth year in which the Price Stabilization Fund is in effect. In connection therewith, MGE shall provide reports to the Staff and the Office of the Public Counsel describing such impacts, on January 1, 2001, and shall prepare and submit a final report to the Commission regarding such impacts by May 1, 2001. Unless otherwise requested by MGE and approved by the Commission, the Price Stabilization Charge shall be terminated, effective on or about November 1, 2001. Any balance in the Price Stabilization Fund, net of amounts expended or committed by MGE (including carrying costs described in paragraph 12, below), shall thereafter be returned or charged to customers as part of the ACA adjustment reflected in the next Winter PGA Filing.

11. MGE shall continue to take appropriate steps to insure that proper internal controls and safeguards are in place relating to the use of natural gas financial instruments. It is represented by MGE that a primary goal of the financial instrument program described above is to procure price protection by use of financial instruments on a volume of gas equal to approximately 70 percent of the flowing supply volumes that MGE would be expected to purchase during the winter months of December through February, assuming normal weather, with such total being approximately 18.5 million MMBtu. It is also represented by MGE, however, that the actual percentage of gas supply protection achieved by MGE may vary from this goal depending on changes in the market price for financial instruments, deviations from normal weather, and other factors.

12. Beginning with the effective date of the Commission's renewal of the Experimental Price Stabilization Fund for the 2000/2001 winter season, carrying costs equal to simple interest at the rate described on sheet 24.29 of MGE's tariff, shall be applied each month to any negative or positive balance in the Price Stabilization Fund associated with the procurement of price protection for the 2000/2001 winter season.

B. Unchanged Basis

13. In the alternative, if the Commission is uncomfortable changing the existing parameters approved in Case No. GO-2000-231 and Case No. GO-2000-705 (except for the new requirement that financial instruments be purchased no later than September 30), MGE suggests that, at a minimum, the Commission should permit the authority existing through September 30, 2000, to continue beyond that date by issuing an order which removes the requirement that financial instruments be purchased no later than September 30 and instead sets the expiration date for such authority as the

conclusion of the winter season. All other conditions approved by the Commission in Case Nos. GO-2000-231 and GO-2000-705 with respect to the experimental price stabilization fund would remain in place. Although MGE is doubtful that the current or near-term market will permit financial instruments to be purchased within such parameters, such action would at least authorize such purchases for the upcoming winter season in the event of a change in market conditions. With appropriate language in a Commission order, the specimen tariff sheet appended hereto as Attachment A would accomplish this purpose.

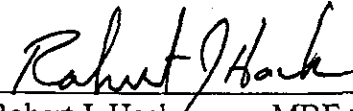
IV. REQUEST FOR EXPEDITED CONSIDERATION

14. Since this proposal affects the upcoming winter heating season, time is of the essence and MGE respectfully requests that the Commission act on this request expeditiously.

Wherefore, MGE respectfully requests that the Commission expeditiously issue its order which renews the Experimental Price Stabilization Fund on either a modified basis as described in section III.A., or on an unchanged basis as described in section III.B, and approves the concurrently filed tariff sheet (First Revised Sheet No. 24.29, canceling

Original Sheet No. 24.296) as expeditiously as possible, and in any event no later than
October 26, 2000.

Respectfully submitted,



Robert J. Hack MBE #36496

3420 Broadway

Kansas City, MO 64111

(816)360-5755

FAX: (816)360-5536

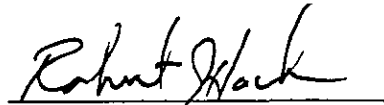
e-mail: rob.hack@southernucionco.com

ATTORNEY FOR MISSOURI
GAS ENERGY

VERIFICATION

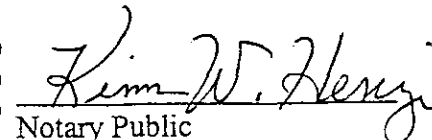
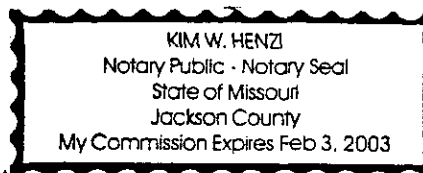
STATE OF MISSOURI)
) ss
COUNTY OF Jackson)

On this 26th day of September, 2000, before me appeared Robert J. Hack, Vice President, Pricing & Regulatory Affairs for Missouri Gas Energy, to me personally known, who being by me first duly sworn, states that he is duly authorized to execute Missouri Gas Energy's Application to Renew Experimental Price Stabilization Fund and that he has read the above and foregoing Application and believes that the allegations therein are true and correct to the best of his information, knowledge and belief.



Robert J. Hack

— — Subscribed and sworn to before me, a notary public, on this 26th day of
September, 2000.


Notary Public

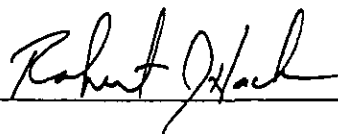
My Commission expires: _____

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered
this 26th day of September, 2000, to:

Mr. Douglas E. Micheel
Senior Public Counsel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Mr. Thomas R. Schwarz, Jr.
Deputy General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102



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

new ACA factors for the subsequent twelve-month period beginning with the September revenue month for 1997, the November revenue month thereafter, such cumulative incentive adjustment balances shall be combined with the appropriate ACA Account balances.

XI. EXPERIMENTAL PRICE STABILIZATION FUND

For purposes of reducing the impact of natural gas price volatility on the Company's customers during the 1997/1998, 1998/1999, 1999/2000 and 2000-2001 heating seasons, the Company shall maintain an Experimental Price Stabilization Fund for purposes of procuring certain natural gas financial instruments in accordance with parameters which have been designated "Highly Confidential" and are only available to the Missouri Public Service Commission or pursuant to the terms of a protective order issued by the Commission.

The Company shall recover all costs and expenses associated with such procurement through the inclusion of a Price Stabilization Factor as a component of the Current Cost of Gas (CCG) shown on the Summary Statement Sheet No. 24.32 or as a component of the TSC shown on the Summary Statement Sheet 24.32 applicable to all customer classes except Large Volume Transportation Service.

Beginning August 1, 1997, all costs and expenses directly attributable to the procurement of such instruments shall be charged to the fund. All revenues collected through the Price Stabilization Charge and any financial gains derived therefrom shall be credited to the fund. At the end of each month carrying costs shall be applied to any balance in the fund at a simple rate of interest equal to the prime bank lending rate (as published in The Wall Street Journal on the first day of such month) minus one (1) percentage point.

Unless otherwise requested by the Company and approved by the Commission, the Experimental Price Stabilization Charge shall be terminated upon the effective date of the Winter PGA filing on or about November 1, 2001. Any debit or credit balance in the Experimental Price Stabilization Fund, including interest, shall be charged or returned to the Company's customers, excluding those taking Large Volume Transportation Service, through the ACA factor established in the next Winter FCP filing.

DATE OF ISSUE: _____
month day year

DATE EFFECTIVE: _____
month day year

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

Attachment A

Schedule 9-11

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office in
Jefferson City on the 26th day of
October, 2000.

In the Matter of Missouri Gas Energy's)	
Tariff Sheets Designed to Renew for an)	<u>Case No. GO-2001-215</u>
Additional Year the Price Stabilization)	Tariff No. 200100337
Fund)	

**ORDER DENYING APPLICATION TO RENEW PRICE STABILIZATION FUND
AND REJECTING TARIFF**

On September 27, 2000, Missouri Gas Energy (MGE) filed a pleading entitled Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis. MGE's application indicated that the price stabilization fund was in place for the 1997-1998, 1998-1999 and 1999-2000 winter heating seasons. On August 1, 2000, the Commission approved a stipulation and agreement that reauthorized the price stabilization fund for another year. That stipulation and agreement provided that the financial instruments needed to implement the program would need to be purchased for the upcoming heating season no later than September 30, 2000. MGE indicates that since the reauthorization was approved, market conditions have precluded MGE from purchasing those financial instruments within the parameters fixed by the Commission. MGE requests that the price stabilization fund be extended either with modifications proposed by MGE or on an unchanged basis by simply removing the requirement that the financial instruments be purchased by September 30. Along with its application, MGE filed a proposed tariff that would renew the Price Stabilization Fund for another year. That tariff carried an effective date of October 27.

MGE requested expedited consideration of its application and tariff because of the need to have the Price Stabilization Fund in place for the

<http://www.psc.state.mo.us/orders/10261215.htm>

upcoming winter heating season. MGE requested that the Commission rule on its application no later than October 26, 2000. On October 2, the Commission issued an order that directed the Staff of the Commission (Staff) to respond to the motion for expedited consideration by filing a statement indicating whether or not it would be able to file a Staff recommendation regarding the application by October 18. On October 3, Staff filed a Notice indicating that it would file its recommendation not later than October 18. On October 4, the Commission issued an order that granted MGE's Motion for Expedited Treatment and directed Staff to file its recommendations no later than October 18. That order also directed that any party that wished to file a response to Staff's recommendation should do so not more than three days after the filing of the recommendation. Staff filed its recommendation on October 17 and MGE filed a response in opposition to that recommendation on October 24.

Staff's Recommendation and Memorandum indicates that MGE has the authority to hedge its gas costs using financial instruments without the need for an extension of the price stabilization fund. Such hedging would be reviewed in the appropriate actual cost adjustment filing. MGE's hedging decisions would be subject to prudence review as are MGE's other gas supply choices. Staff also requests that the Commission remove MGE's existing authority to charge 4.7 cents per Mcf, effective November 1, 2000. Staff further recommends that MGE's proposed tariff be rejected.

MGE's response in opposition to Staff's recommendation argues that Staff is attempting to change well-established Commission practice regarding the use of financial instruments to obtain price protection. MGE suggests that now, a time of extreme volatility in the wholesale gas market, is not a good time to implement such a policy change. MGE asserts that Staff's suggestion of prudence review of hedging decisions is undesirable for MGE because the analysis or factors Staff or the Commission might see fit to use in assessing the reasonableness of decisions regarding the use of such instruments is unknown. Moreover, such a prudence review would deny MGE the opportunity to
<http://www.psc.state.mo.us/orders/1026f215.htm>

make a profit from the use of such instruments and would place substantial risks on MGE because of the probability that Staff would propose to disallow those costs in a prudence review.

The Commission has reviewed MGE's application, the proposed tariff, Staff's recommendation and memorandum and MGE's response to that recommendation. The Commission concludes that MGE's application should be denied. The stipulation and agreement by which the price stabilization fund was extended for another year specifically provided that the required financial instruments were to be purchased by September 30. The Commission is not willing to modify that provision of the stipulation and agreement without the approval of the parties unless MGE is able to show a good reason to do so. MGE has not made such a showing. Staff is correct when it states that MGE should apply reasonable purchasing practices based upon its own evaluation of risks in its gas supply portfolio. MGE's business decisions will be subject to prudence review as are MGE's other gas supply choices.

In its recommendation, Staff also requests that MGE's authority to charge 4.7 cents per Mcf be removed effective November 1, 2000. It is not clear what Staff means by this recommendation. MGE's response indicates that this is a reference to the existing price stabilization charge in MGE's PGA. The Commission will not take any action on this recommendation. If Staff wishes to pursue the removal of the existing price stabilization charge it shall file an appropriate motion.

IT IS THEREFORE ORDERED:

1. That Missouri Gas Energy's Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis is denied.
2. That the tariff issued by Missouri Gas Energy on September 27, 2000 (tariff file number 200100337) with an effective date of October 27, 2000, is rejected. The tariff rejected is:

P.S.C. Mo. No. 1

First Revised Sheet No. 24.29 Canceling Original Sheet No. 24.29

3. That this order shall become effective on October 27, 2000.

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Drainer, Schemenauer, and Simmons, CC., concur
Murray, C., dissents with opinion

Woodruff, Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's)
Tariff Sheets Designed to Renew for an) Case No. GO-2001-215
Additional Year the Price Stabilization) Tariff No. 200100337
Fund.)

DISSENTING OPINION OF COMMISSIONER CONNIE MURRAY

With the current situation of extreme natural gas price volatility, price spikes are a very realistic concern. The modified price stabilization program proposed by MGE in its renewal application has the potential to provide customers significant price protection for the winter of 2000-2001. I would grant MGE's application for renewal with a condition that the terms of the proposed modification be clarified to conform more closely to those approved by this Commission on September 28, 2000 for Laclede Gas Company in Case No. GO-2000-394.

I respectfully dissent from the opinion of the majority.

Respectfully submitted,

Connie Murray, Commissioner

Dated at Jefferson City, Missouri,
on this 26th day of October, 2000.
<http://www.psc.state.mo.us/orders/10261215.htm>



MISSOURI GAS ENERGY

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

STEVEN W. CATTRON

PRESIDENT & CHIEF OPERATING OFFICER

December 18, 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:

This letter is a follow-up to my correspondence to you dated June 20, 2000. Among other things in that letter, I commended the reporting efforts of the *Kansas City Star* on the issue of high gas prices and the likely beneficial impact that reporting would have in helping to make customers aware of the issue as early as possible.

The *Star* has continued its reporting efforts on the issue and MGE continues to generally commend those efforts. I am concerned, however, that a recent article in the *Star* (which is attached hereto) may have left the incorrect impressions that, 1) MGE decided not to hedge prices this winter and, 2) that such decision by MGE was based on the Commission's decision not to approve the hedging program submitted by MGE on September 27, 2000.

First, the Commission can be assured that MGE shares its interest in mitigating to the greatest extent possible the impact of high gas prices and price volatility on our customers. That is one of the fundamental underpinnings of the Stipulation and Agreement regarding the Fixed Commodity Price PGA that was filed by MGE, the Commission's Staff and the Office of the Public Counsel in May of this year and approved by the Commission on August 1, 2000.

—Second, MGE has made no decision not to hedge prices for the entirety of this winter. To be clear, MGE has not, to date, purchased call options for this winter. This is based on MGE's assessment of the relative costs and benefits of call options available under the market conditions from October 1 to date. This is not based on the Commission's decision not to approve the hedging program submitted by MGE on September 27, 2000. Should MGE's assessment of the relative costs and benefits of call options available for the balance of the winter change; MGE will act in accordance with that assessment.

Finally, MGE always endeavors to use its best judgment, on the basis of information available, in making all business decisions, including gas supply purchases. We have done so this year, and we

will continue to do so in the future. MGE's gas supply, transportation and storage activities have been subject to extensive review by the Commission and its Staff in the past and although we see no change in that regard for the immediate future, you can be certain that MGE will continue to work with the Commission, its Staff and the Office of the Public Counsel to advance regulatory practices regarding gas commodity pricing, as exemplified by the Fixed Commodity Price PGA agreement, for the benefit of MGE's customers.

Please feel free to call me at 816/360-5501 if you have any questions or would like to discuss these matters.

Sincerely,



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