

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

In the Matter of Missouri Gas Energy)
Concerning a Natural Gas Incident in) Case No. GS-2008-0002
Kansas City, Missouri.)

SETTLEMENT AGREEMENT

Come now Missouri Gas Energy, a division of Southern Union Company, ("MGE" or "Company"), and the Staff of the Missouri Public Service Commission ("Staff"), by and through their respective counsel, and respectfully state as follows:

Procedural History

1. On July 12, 2007, the Commission established a case to investigate an incident that occurred on May 25, 2007, in Kansas City, Missouri. On December 14, 2007, the Staff filed a "Gas Incident Report" (the "Incident Report"). The Incident Report purports to relate the relevant facts surrounding an incident in which a natural gas main ruptured near the northeast corner of the intersection of East 72nd Street and Brooklyn Avenue in Kansas City. Neighboring homes were evacuated, but there were no reported injuries.

2. The main rupture occurred while MGE employees were excavating above a section of the cast iron main to locate and repair a gas leak. As a result of the flying debris from the rupture, four MGE employees were injured, two of which were hospitalized. No ignition, flash fire, or explosion, occurred as a result of this natural gas incident. There were no fatalities.

Settlement Agreement

3. The Incident Report states that the Staff's investigation did not reveal any violations of Missouri Public Service Commission (Commission) regulations that could

have contributed to the incident. However, the Incident Report further contains certain recommendations. MGE agrees to implement, or continue to implement, the operational recommendations made by the Staff in its Incident Report as follows:

A. In response to this incident, the Company began a quarterly leak survey that will be performed each year on the entire 58 psig MAOP-cast iron main system, which consists of 20.51 miles of main. Prior to implementing this change, the Company was leak surveying the 58 psig MAOP system (outside of the business districts) on a 3-year schedule as required by 4 CSR 240-40.030(13)(M)2.B.

B. The Company has instructed its employees to notify a supervisor when cast iron pipes are being excavated for repair on systems operating above 25 psig MAOP. As had been the case before the incident, field supervisors may determine if additional safety measures are warranted, including the ability to request to lower pressure when crews are working on or around leaks.

C. Since the incident, the Company has replaced 3,653 feet of 16-inch diameter cast iron natural gas main that operated above 25 psig and was located in a heavily populated area. The Company plans to replace the remaining 579 feet of 16-inch diameter cast iron natural gas main operating above 25 psig, which is located in an unpopulated area, no later than December 31, 2011.

D. The Company has proposed to replace all 24-inch diameter cast iron natural gas main that operates above 25 psig during 2008.

E. The Company's overall objective is to have all cast iron natural gas mains operating above 25 psig (includes all CI pipe sizes) replaced prior to December 31, 2011. This amounts to approximately 20.51 miles of cast iron natural gas main.

F. The Company's procedures will be modified to state that the Company may, at its discretion, lower pressure for any excavator that MGE verifies will be excavating near the 58 psig MAOP cast iron systems. In making a decision to lower pressure, the Company may consider: 1) the magnitude of the proposed excavation; 2) the proximity of the proposed excavation to its system; and, 3) the impact on other customers.

G. Commission regulation 4 CSR 240-40.030(12)(J) requires MGE to establish and follow written procedures to minimize the hazard resulting from a gas pipeline emergency. Subparagraph (12)(J)2.B. requires MGE

to train the appropriate operating personnel and conduct an annual review to assure that they are knowledgeable of the emergency procedures. MGE, as a part of its annual training and review, has made appropriate operating personnel aware of the location of the isolation valves on the 58 psig MAOP cast iron mains that would be utilized in the event of an emergency and will continue this practice in the future.

4. In light of this Settlement Agreement, Staff and MGE agree that there is no need for MGE to provide a response to the Incident Report.

5. These undertakings by MGE and their acceptance by the Staff, as well as the other aspects of this document, form a reasonable basis for settlement of this case and any claims within the jurisdiction of the Commission arising from the incident. The commitments made by MGE herein shall constitute full settlement of any claims or causes of action which have been or might in the future be asserted against MGE before the Commission, which arise out of, are based upon, or could have been based upon, the facts surrounding the incident as related in the Incident Report.

6. This document shall not be construed to operate as a waiver or release of the Staff's right and ability to conduct follow-up evaluations of the representations made herein, or to in any way impair or affect the Staff's ability to file, or MGE's ability to contest, recommendations or complaints involving applications of the Commission's rules cited in the previously referenced Incident Report to any future incidents, situations or events involving MGE, or to any other natural gas system operated under the jurisdiction of the Commission.

7. This Settlement Agreement is a compromise of disputed claims and neither all nor any part of this document constitutes an admission of any violation of law, statute, rule, regulation or procedure of any kind by MGE, any and all claims of violation being expressly denied by MGE. No waiver or modification of any defense which could

have been raised by MGE in this case is intended or should be assumed as a result of this document.

8. This document shall not be construed as or operate as a settlement, satisfaction, release or waiver of any claims or defenses MGE may have now or hereafter against any other person or entity arising from or relating to the facts surrounding the incident or the actions taken by MGE as a result of the incident; MGE expressly reserves all rights and defenses it may have in regard thereto.

9. The Staff has represented to MGE that the foregoing Settlement Agreement is acceptable, and by execution of this document Staff recommends to the Commission that this Settlement Agreement be approved in its entirety. If the document is not so approved in total, no party hereto shall be bound or prejudiced by any provisions contained herein or by any representations which have been made in the context of the attempted settlement hereof, and MGE shall be allowed a reasonable time in which to file a Response to the Incident Report.

10. No party to this document believes that the consideration and approval of this document requires a hearing before the Commission; however, the Staff and MGE stand ready if additional information is requested.

11. Nothing in this Settlement Agreement is intended to impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right of access to information, and any statutory obligation.

12. The Staff also shall have the right to provide, at any agenda meeting at which this Settlement 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, provide the other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The 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 Commission Rule 4 CSR 240-2.135.

13. This Settlement Agreement represents a negotiated settlement. Except as specified herein, the signatories to this document shall not be prejudiced, bound by, or in any way affected by the terms of this Settlement Agreement (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; or (c) in this proceeding should the Commission decide not to approve this Settlement Agreement in the instant proceeding.

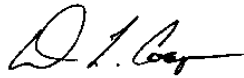
14. If the Commission accepts the specific terms of this Settlement Agreement, the signatories waive their respective rights to cross-examine witnesses (subject to the provisions of paragraph 12); their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMO; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMO; and their respective rights to judicial review pursuant to Section 386.510 RSMO. This waiver applies only to a Commission order issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Settlement Agreement.

15. MGE and Staff each agree and represent that the attorneys listed below are duly authorized to execute this Settlement Agreement on their respective behalf, and

that this document represents a complete description of all the considerations for this agreement.

WHEREFORE, MGE and the Staff respectfully request the Commission issue its Order Approving the Settlement Agreement, in its entirety as set forth herein, and to issue orders closing the above-captioned case.

Respectfully submitted,



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Certificate of Service

I hereby certify that on the 29th day of February, 2008, a true and correct copy of the above and foregoing was sent by electronic mail to the following:

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