



**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

**FILED<sup>2</sup>**  
SEP 27 2000 *NJ*  
Missouri Public  
Service Commission

G0-2001-215

**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,

C: Doug Micheel  
Tim Schwarz  
Mike Langston

Enclosures

200100337

**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

**NP**

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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.<sup>1</sup>

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

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<sup>1</sup> 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



**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed or hand-delivered this 26<sup>th</sup> 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

  
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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