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October 17, 2000

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

RE: Case No. GO-2001-215

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

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,

Thomas R. Schwarz, Jr.
Deputy General Counsel
(573) 751-5239
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TRS:sw
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

FILED²
OCT 17 2000
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

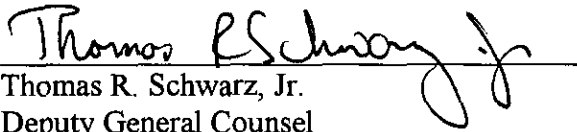
STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and respectfully states as follows:

1. On September 27, 2000, Missouri Gas Energy, a division of Southern Union Company ("MGE") filed an Application to Renew Price Stabilization Fund on Either a Modified or Unchanged Basis. MGE also requested expedited treatment.
2. The Commission granted MGE's motion for expedited treatment by its order dated October 4, 2000, directing the Staff to file its recommendation not later than October 18, 2000.
3. The Staff has reviewed MGE's Application, and recommends that the Commission reject MGE's tariff, as more fully explained in the attached Staff Memorandum.

Respectfully submitted,

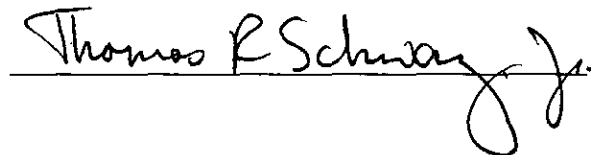
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 17th day of October, 2000.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2001-215, File No. 200100337, Missouri Gas Energy

FROM: Wess Henderson – Project Coordinator
Tom Imhoff, Gas Department – Tariffs/Rate Design *WIS*

Wess Henderson 10/17/00 *Thomas R. Schwamy Jr.* 10/17/00
Project Coordinator/Date General Counsel's Office/Date

SUBJECT: Staff Recommendation on a Tariff Sheet Filed to Renew Price
Stabilization Fund on Either a Modified or Unchanged Basis.

DATE: October 16, 2000

On September 27, 2000, Missouri Gas Energy (MGE or Company) of Kansas City, Missouri, a division of Southern Union Company of Austin, Texas, filed a tariff sheet proposed to become effective October 27, 2000. On September 27, 2000, the Company also filed MISSOURI GAS ENERGY'S APPLICATION TO RENEW PRICE STABILIZATION FUND ON EITHER A MODIFIED OR UNCHANGED BASIS: MOTION FOR EXPEDITED TREATMENT (Application) requesting that the Commission issue an order approving the tariff sheet filed on September 27, 2000 as expeditiously as possible. The purpose of the proposed tariff sheet is to renew MGE's Price Stabilization Fund (PSF) through the winter of 2000-2001.

The proposed hedging program is slightly different from the MGE program the Commission previously approved, but which expired as of September, 2000. MGE has requested that the months for obtaining natural gas call options be changed from November through March to December through February. MGE also wants the Commission to approve a strike price that is generally prevailing at the NYMEX natural gas market. MGE proposes that Staff propose no prudence adjustment or other disallowance of costs debited to the PSF for purchases or prices sold at the generally prevailing NYMEX natural gas market at the time the sale is made.

The Staff believes that MGE has authority to hedge its gas costs using financial instruments. The attached sample tariff language identified as Attachment A was developed by Staff and a) clarifies MGE's authority to enter into gas supply hedges and b) clarifies that costs related to hedging or not hedging are gas costs, and will be reviewed in the appropriate actual cost adjustment filing.

The Staff is concerned that the existing pre-approval process results in delays that are caused by scheduling issues, the negotiation process, review requirements, and regulatory procedural requirements. MGE should have the flexibility to make critical managerial decision without the inherent delay that is part of the regulatory process of pre-approval. MGE already makes critical business decisions without pre-approval for areas such as payroll, day-to-day gas purchasing decisions, and contractual negotiations.

Given the changes in the gas market in the last few months reflecting sharply increased gas prices and higher volatility, MGE should apply reasonable purchasing practices based upon its own evaluation of risks in its gas supply portfolio. These business decisions should be subject to prudence review as are MGE's other gas supply choices.

The Staff also requests that MGE's existing authority to charge 4.7 cents per Mcf be removed effective November 1, 2000.

Therefore, Staff recommends that the following tariff sheet filed on September 27, 2000, with a proposed effective date of October 27, 2000, be rejected:

P.S.C. MO. No. 1

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

ATTACHMENT A

The Company has the authority to use financial instruments for the purpose of hedging gas supply as it deems prudent. These costs are gas costs and will be subject to a prudence review in the appropriate ACA proceeding.

Service List for
Case No. GO-2001-215
Revised: October 17, 2000 (SW)

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