



MISSOURI GAS ENERGY

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ROBERT J. HACK

Vice President, Pricing & Regulatory Affairs

October 23, 2000

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102-0360

FILED²
OCT 24 2000
Missouri Public
Service Commission

RE: Case No. GO-2001-215, Missouri Gas Energy

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter, please find an original and eight (8) conformed copies of **Missouri Gas Energy's Response in Opposition to Staff's Recommendation.**

A copy of this filing has been mailed or hand-delivered this date to counsel of record.

Thank you for bringing this matter to the attention of the Commission. Please call me if you have any questions regarding this matter.

Sincerely,

C: F. Jay Cummings
Thomas R. Schwarz, Jr.
Office of the Public Counsel
Mike Langston

Enclosures

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

OCT 24 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

**MISSOURI GAS ENERGY'S RESPONSE IN OPPOSITION TO STAFF
RECOMMENDATION**

Comes now Missouri Gas Energy ("MGE"), a division of Southern Union Company, by and through counsel, and for its response in opposition to Staff recommendation respectfully states the following:

1. On or about October 17, 2000, the Staff filed its recommendation herein. The Staff recommended that the Commission reject MGE's proposal to renew the price stabilization fund.¹ The Staff appears to offer two grounds in support of its recommendation. First, the Staff asserts that MGE already possesses authority to purchase financial instruments to extend the price stabilization fund. Second, the Staff asserts that MGE's decisions regarding the purchase of financial instruments should be subject to prudence review. The Staff then goes on to recommend that the existing price stabilization charge (of \$0.0047 per Ccf) be removed from MGE's PGA effective November 1, 2000.

¹ By application and tariff filing made on September 27, 2000, MGE requested authorization to renew, on either a modified or unchanged basis, the price stabilization fund. The price stabilization fund was initially approved by the Commission in Case No. GO-97-409, and has been in effect for the winters of 1997-1998, 1998-1999 and 1999-2000. Because MGE has been unable to obtain financial instruments under the parameters for the price stabilization fund most recently authorized by the Commission in Case No. GO-2000-705 (which authority expired on September 30, 2000), MGE proposed herein to renew the plan as described in the September 27, 2000, filings.

2. The Staff's recommendation is flatly contrary to the practice, which has been in place for the past three winters regarding the price stabilization fund.² The Staff recommendation is also contrary to the provisions on this topic approved for MGE as recently as August 1, 2000, in Case No. GO-2000-705. The Staff's recommendation is also contrary to the Stipulation and Agreement the Commission just recently approved (on September 28, 2000) on this topic for Laclede Gas Company in Case No. GO-2000-394.

3. By its recommendation, the Staff is clearly seeking to change well-established Commission practice regarding the use of financial instruments to obtain price protection. Why the Staff has chosen now, a time when wholesale gas prices are at record levels and the market is subject to extreme volatility, as the time to seek to implement this policy change is wholly absent from the Staff's recommendation. In MGE's opinion, the Staff could not have chosen a worse time.

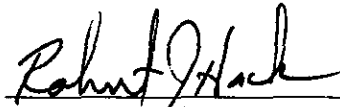
4. In its recommendation, the Staff blithely lumps decisions regarding the purchase of financial instruments for price protection in with all other management decisions that have been routinely subject to after-the-fact review by the Staff. MGE has made use of such instruments for only three years now. What analysis or factors the Staff or the Commission might see fit to use in assessing the reasonableness of decision regarding the use of such instruments are presently unknown. What we do know, however, is that under the current structure, the best a gas company can hope for in these after-the-fact reviews is to be made whole. No profit opportunity exists. Furthermore,

² The Commission issued orders in Case Nos. GO-97-409, GO-98-364 and GO-2000-231 which approved the same basic structure for the price stabilization fund

MGE's experience in such after-the-fact reviews indicates that in all likelihood, it is reasonable to expect that the Staff will propose a disallowance of several million dollars. This has certainly been MGE's experience in every ACA recommendation the Staff has made with respect to MGE to date. Given all of these factors, MGE does not believe it is reasonable to be exposed to additional disallowances on the basis of after-the-fact review of decisions regarding the use of financial instruments.

Wherefore, MGE respectfully requests that the Commission reject the Staff's recommendation and issue its order approving MGE's application to renew the price stabilization fund, on either a modified or unchanged basis, and the revisions MGE has proposed to Sheet No. 24.29 of its tariff.

Respectfully submitted,



Robert J. Hack MBE #36496

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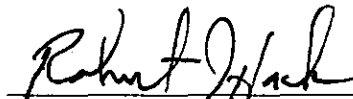
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ATTORNEY FOR MISSOURI
GAS ENERGY

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 23rd day of October, 2000.



Robert J. Hack

proposed by MGE herein.