

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
October 26, 2000**

CASE NO: GO-2001-215

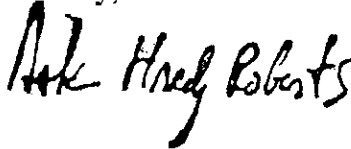
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Robert J. Hack
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111-2404

Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,

A handwritten signature in black ink that reads "Dale Hardy Roberts". The signature is written in a cursive, slightly slanted style.

**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

**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)	Case No. GO-2001-215
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 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 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.

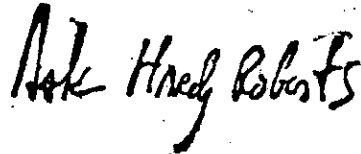
2. That the tariff issued by Missouri Gas Energy on September 27, 2000 (tariff file number 200100337) with an effective date of October 27, 2000, is rejected. The tariff rejected is:

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.

BY THE COMMISSION



**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)	<u>Case No. GO-2001-215</u>
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.

ALJ/Sec'y: Woodruff/Boyce

10-24 60-2001-245
 Date Circulated CASE NO.

[Signature]
 Lumpe, Chair

[Signature]
 Drainer, Vice Chair

On NO dissent attached
 Murray, Commissioner

[Signature]
 Schemenauer, Commissioner

KS
 Simmons, Commissioner

10-26
 Agenda Date

Action taken: 4-1 AS

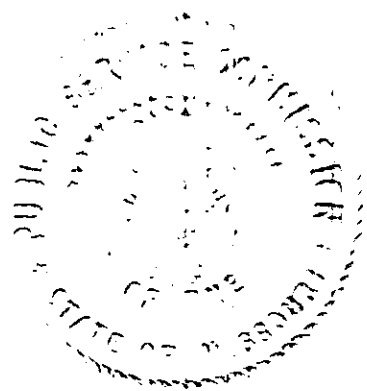
Must Vote Not Later Than _____

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and
 I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
 Missouri, this 26th day of Oct. 2000.



Dale Hardy Roberts
 Dale Hardy Roberts
 Secretary/Chief Regulatory Law Judge