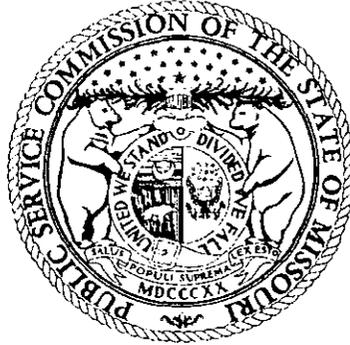


BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI



In the Matter of the Operation of the Purchased)
Gas Adjustment Clause of Missouri Gas Energy, a) Case No. GO-97-409
Division of Southern Union Company.)
)

REPORT AND ORDER

Issue Date: August 6, 1997

Effective Date: August 15, 1997

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Operation of the Purchased)
Gas Adjustment Clause of Missouri Gas Energy, a) Case No. GO-97-409
Division of Southern Union Company.)
)

APPEARANCES

Robert J. Hack, Senior Attorney, Missouri Gas Energy, 3420 Broadway, Kansas City, Missouri 64111, for Missouri Gas Energy, a division of Southern Union Company.

Mark W. Comley, Newman, Comley & Ruth, 205 East Capitol Avenue, Post Office Box 537, Jefferson City, Missouri 65102, for the City of Kansas City, Missouri.

Douglas E. Micheel, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Penny G. Baker, Deputy General Counsel, and Cynthia R. Bryant, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

ADMINISTRATIVE

LAW JUDGE: Thomas H. Luckenbill, Deputy Chief.

REPORT AND ORDER

Procedural History

On April 1, 1997, the Staff of the Missouri Public Service Commission (Staff) and Missouri Gas Energy, a division of Southern Union Company (MGE), filed a Joint Motion To Open Docket and Joint Motion To Establish Procedural Schedule. On April 10 the Commission issued an order establishing this docket and adopting a procedural schedule as suggested by Staff and MGE.

This Joint Motion, as well as nine other similar motions, were filed by Staff and Missouri's ten natural gas local distribution companies (LDCs) in early April 1997 to open proceedings that were designed to address certain issues associated with the dramatic and unprecedented increases in the unregulated price of natural gas during the winter of 1996-97. The Commission was concerned that frequent PGA filings were causing financial hardships among large numbers of ratepayers, and that the failure of LDCs to prorate the price of the gas to reflect the most recent price changes was eroding consumer confidence in the companies, as well as the regulatory process.

On July 10 Staff and MGE filed a Stipulation And Agreement in this case. Staff and MGE are the signatories to the Stipulation And Agreement. The cover letter which accompanied the Stipulation And Agreement indicated that Staff and MGE were currently working on final changes to draft tariffs and would file them as Attachment A to the Stipulation And Agreement as soon as possible.

On July 14 the Commission held an on-the-record proceeding for the purposes of allowing the parties to present the Stipulation And Agreement to the Commissioners and to provide the Commissioners with an opportunity to ask questions of the parties' representatives. The parties presented the Stipulation And Agreement, including the agreed-upon tariff sheets. The Stipulation And Agreement complete with tariff sheets was marked and received into the record.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

The agreements reached by Staff and MGE in this case primarily involve the function of MGE's Purchased Gas Adjustment (PGA) clause. The PGA clause is designed to allow natural gas local distribution companies to recover the unregulated cost of natural gas that they pay to wholesale suppliers of the commodity. MGE's mechanism for passing through gas costs charged by its suppliers is called an Experimental Gas Cost Incentive Mechanism (EGCIM).

I. Frequency of PGA Filings

Under its current tariff MGE will not file a tariff sheet to change the EGCIM factor unless the Company's annual cost of purchased gas has changed by more than \$1,500,000 since its immediately preceding EGCIM filing. The Stipulation And Agreement provides that MGE shall be permitted to make no more than three PGA changes per year. Two of these PGA changes are scheduled changes. They consist of a "winter filing" between October 15 and November 4, 1997 and each succeeding year, and a "summer filing" between March 15 and April 4, 1998 and each succeeding year. MGE may also make an unscheduled winter PGA filing in between the scheduled winter filing and scheduled summer filing if at the time such unscheduled winter PGA filing is made there is a projected underrecovery of 15 percent or more, or a projected overrecovery of 10 percent or more of MGE's annual gas costs.

II. Use of Financial Instruments to Hedge Gas Cost Volatility

The agreement allows MGE to use financial instruments in an effort to reduce the volatility of its natural gas costs. To assure recovery by MGE of the direct costs incurred in connection with procurement of these financial instruments, MGE is authorized under the agreement to implement a Price Stabilization Charge. The agreement provides that the Price

Stabilization Charge shall take effect August 15, 1997. The revenues generated from the Price Stabilization Charge and gains from the use of financial instruments shall be accounted for separately and credited to a Price Stabilization Fund on a monthly basis.

III. Proration of PGA changes

Currently, MGE does not prorate any of its PGA factors because its tariff states that the increases or decreases in charges for gas service resulting from an increase or decrease in the PGA/EGCIM factor shall be effective for billings on and after the effective date of the tariff sheet. To resolve this issue the parties have agreed that any increase or decrease in any PGA factor, including Actual Cost Adjustment (ACA) and refund factors, shall be applied *pro rata* to customers' bills for service rendered on and after the effective date of the change. Further, the parties have agreed that bills which reflect a PGA rate change during a customer's billing cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's billing cycle that such rates were in effect.

IV. Experimental Gas Cost Incentive Mechanism

The agreement provides that all of the PGA modifications shall be implemented in a manner that preserves the financial characteristics of MGE's EGCIM. However, structural and operational changes to the EGCIM are proposed in order to accommodate implementation of the reduction in the frequency of PGA filings. The PGA tariff to be implemented by MGE on August 15 pursuant to this Stipulation And Agreement: (1) resumes use of the PGA structure, including application of fixed volumes for PGA rate calculation purposes; (2) eliminates the stand-alone EGCIM tariff sheets and rate calculation methodology; and (3) implements a revised PGA factor

of \$3.3362 per Mcf, which reflects a current cost of gas (CCG) factor of \$3.44 per Mcf.

The agreement provides that the CCG factor shall not be charged until the winter PGA filing scheduled to be made between October 15 and November 4, 1997. At the same time the agreement provides that PGA factors other than the current cost of gas factor may be changed prior to the effective date of the winter PGA filing, which filing is scheduled to be made between October 15 and November 4, 1997.

V. Reevaluation of PGA Clause

MGE agrees to cooperate with the Staff, the Office of the Public Counsel and other interested parties in examining the desirability and feasibility of implementing further changes to its tariff in advance of the 1998/99 winter heating season, based on a review of how well the PGA clause, as modified by this order, operates during the 1997/98 winter heating season.

The Commission finds that the proposed Stipulation And Agreement is in the public interest and should be approved. The proposed Stipulation And Agreement is consistent with the Commission's obligation to ensure just and reasonable rates. See Section 393.130.¹

The Commission finds that the changes implemented in the Stipulation And Agreement have a significant impact on the company's ratepayers. These changes should ensure that ratepayers' gas bills reflect more accurately the price of the natural gas which they are consuming, and bring more stability to the PGA process of passing these unregulated costs on to ratepayers by limiting the number of occasions on which the

¹ All statutory references are to Revised Statutes of Missouri 1994.

PGA factor may be changed. The impact is significant enough that the Commission shall approve the Stipulation And Agreement if MGE complies with the condition specified in Ordered Paragraph 2 of this order. This condition is designed to ensure that customers are apprised of these significant changes.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

The Commission's rules provide that nonsignatory parties have five days after receipt of the notice that a Stipulation And Agreement has been filed to request a hearing regarding the Stipulation And Agreement and, if no such request is made, the Commission should treat the Stipulation And Agreement as a Unanimous Stipulation And Agreement. (4 CSR 240-2.115(3)). In this case the Stipulation And Agreement and agreed-upon tariff sheets were filed on July 10. Five days since July 10 have elapsed and no party has requested a hearing. The Commission may approve the Stipulation And Agreement without having a hearing in this case because the due process requirements as set out in State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Comm'n, 776 S.W.2d 494, 496 (Mo. App. 1989), have been met. Nonsignatory parties had an opportunity to request a hearing and have waived their rights by not making the request.

IT IS THEREFORE ORDERED:

1. That the Stipulation And Agreement filed by the Staff of the Missouri Public Service Commission and Missouri Gas Energy, a division of Southern Union Company, on July 1, 1997 is hereby approved (Attachment 1).

2. That Missouri Gas Energy, a division of Southern Union Company, shall file the form of a bill insert to be used to inform

customers of the Purchased Gas Adjustment changes implemented by this order. The bill insert shall explain to its customers the changes to the operation of the Purchased Gas Adjustment clause that have been ordered herein, and it shall include the effective date of the change as it affects customer bills.

3. That Missouri Gas Energy, a division of Southern Union Company, shall file tariff sheets in compliance with this Report And Order no later than August 8, 1997 in substantially the same form as those which were presented to the Commission on July 14. Missouri Gas Energy, a division of Southern Union Company, shall also file the form of the bill insert that it proposes to use in compliance with Ordered Paragraph 2 of this Report And Order.

4. That the Staff of the Missouri Public Service Commission shall file a memorandum in this docket no later than August 12, 1997 indicating whether the tariff sheets filed pursuant to Ordered Paragraph 3 are in compliance with this Report And Order.

5. That this Report And Order shall become effective on August 15, 1997.

BY THE COMMISSION



**Cecil I. Wright
Executive Secretary**

(S E A L)

Zobrist, Chm., Crumpton, Drainer,
Murray and Lumpe, CC., concur.

Dated at Jefferson City, Missouri,
on this 6th day of August, 1997.

FILED

JUL 10 1997

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

PUBLIC SERVICE COMMISSION

In the matter of the operation)
of the Missouri Gas Energy, a)
division of Southern Union) Case No. GO-97-409
Company's Purchased Gas)
Adjustment Clause.)

Stipulation and Agreement

I. Procedural History

On April 1, 1997, the Staff of the Missouri Public Service Commission (Staff) and Missouri Gas Energy, a division of Southern Union Company ("MGE or Company") filed a Joint Motion to Open Docket and a Joint Motion to Establish Procedural Schedule. In the Joint Motion, Staff and MGE stated that events during the last heating season had raised general questions regarding the frequency of Purchased Gas Adjustment ("PGA") filings and the extent to which changes in various PGA factors should be prorated for billing purposes. Staff and MGE accordingly requested that the Commission open this docket for the purpose of examining these two issues, and these two issues alone, in advance of the next winter heating season.

On April 10, 1997, the Commission issued an Order in Case No. GO-97-409 in which it opened this docket, established the procedural schedule recommended by Staff and MGE, and directed that

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notice of this proceeding be provided. The Commission also issued Orders opening similar dockets applicable to the other local distribution companies which operate in Missouri.

Subsequent to the issuance of these Orders, representatives of the Staff, MGE and other gas utilities met in an effort to discuss the issues raised in each docket and determine whether agreements resolving the issues could be reached. As a result of those discussions, Staff and MGE have reached the following stipulations and agreements:

II. Frequency of PGA Filings

For purposes of resolving the issue relating to the frequency of PGA filings, MGE and Staff have agreed to certain significant revisions to MGE's PGA tariff which, if approved by the Commission, would substantially reduce the number of PGA filings made by MGE each year. These proposed PGA tariff revisions are set forth in Attachment A to this Stipulation and Agreement (the "Proposed PGA Tariff") and include the following modifications:

A. Number and Timing of PGA Filings -- Under its existing tariffs, MGE will not file a tariff sheet to change the EGCIM factor unless the Company's annual cost of purchased gas has changed by more than \$1,500,000 since the last filing. (MGE P.S.C. MO. No. 1, Sheet Nos. 16 and 24.2). Under the Proposed PGA Tariff,

MGE shall be permitted to make no more than two scheduled PGA filings each calendar year and one unscheduled PGA filing each winter period pursuant to the following terms:

1. Scheduled PGA Filings -- The first scheduled PGA filing (hereinafter the "Winter PGA Filing") shall be filed between October 15 and November 4, 1997 and between October 15 and November 4 of each succeeding calendar year thereafter. The second scheduled PGA filing (hereinafter the "Summer PGA Filing") shall be filed between March 15 and April 4, 1998 and between March 15 and April 4 of each succeeding calendar year thereafter.

2. Unscheduled Winter PGA Filing -- In addition to these two scheduled PGA filings, MGE shall also be permitted to make one unscheduled winter PGA filing on an annual basis (hereinafter the "Unscheduled Winter PGA Filing") in the period between the effective date of the Winter PGA Filing and the next Summer PGA Filing, provided that at the time of such Unscheduled Winter PGA Filing, there is: (a) a projected under-recovery in MGE's Deferred Carrying Cost Balance ("DCCB"), as defined in paragraph II. E.1 herein, equal to or greater than fifteen percent of MGE's average annual level of gas commodity costs for the three then most recent ACA periods (hereinafter "Annual Gas Cost Level") or (b) a projected over-recovery equal to or greater than ten

percent of MGE's Annual Gas Cost Level. The projected under- or over-recovery shall be determined by adding: (1) the actual net over- or under-recovery amount in the DCCB at the time the Unscheduled Winter PGA Filing is made, and (2) the estimated over- or under-recovery amount which, based on MGE's actual gas commodity costs at the time of the Unscheduled Winter PGA Filing, would otherwise occur in the ensuing monthly period absent the filing.

3. Notice Period -- Each PGA filing shall be filed with the Commission no less than ten business days prior to the proposed effective date.

B. Contents of PGA Filings

1. The scheduled Winter and Summer PGA Filings shall contain rates reflecting: (a) refunds relating to or arising during the prior period, (b) DCCB-related adjustments, (c) MGE's estimate of annualized gas cost revenue requirements applicable to the period between the effective date of such filing and the next scheduled PGA Filing, (d) take-or-pay charges, and (e) transition costs.

2. In addition:

(a) In the Winter PGA Filing, MGE shall file revised ACA factors, including incentive adjustment factors

relating to the EGCIM, applicable to the immediately preceding twelve months ending June (prior ACA period).

(b) In any Unscheduled Winter PGA Filing, MGE may file a rate change not to exceed fifty cents (\$.50) per Mcf, (hereinafter the "Unscheduled Winter PGA Filing Adjustment Factor") which is designed to return to, or receive from, ratepayers any DCCB-related over- or under-recoveries of gas costs that have been deferred by MGE since its Winter PGA Filing. The Unscheduled Winter PGA Filing Adjustment Factor shall remain in effect only until the next scheduled Summer PGA Filing. Additionally MGE shall file a current estimate of annualized gas costs revenue requirements applicable to the period between the effective date of such filing and the next scheduled PGA Filing.

C. Estimate of Annualized Gas Costs -- The level of annualized gas costs to be reflected in each PGA filing shall be subject to the following conditions:

1. Fixed Gas Costs -- The gas cost revenue requirement relating to fixed pipeline transportation and storage charges, fixed gas supply charges, and other FERC authorized charges, shall be determined in the same manner as under MGE's now existing PGA procedures.

2. Commodity Gas Cost Cap --The level of gas costs relating to gas supply commodity costs, variable transportation charges, and other FERC-authorized variable charges shall be determined by MGE for purposes of estimating this component in each PGA filing, provided that:

(a) for any scheduled PGA filing, such estimate shall not exceed a per Mcf cost equal to the higher of:

(1) MGE's actual commodity gas cost per Mcf for currently purchased gas supplies and services in the month in which the PGA filing is made; or

(2) The average of (i) the highest weighted average commodity-related gas cost per Mcf actually incurred by MGE, for currently purchased gas supplies and services in a single season and (ii) the overall weighted average commodity-related gas cost per Mcf actually incurred by MGE, for currently purchased gas supplies and services in the applicable winter or summer period during the three then most recent ACA periods. For MGE, this calculation results in \$2.9718 per Mcf as a Commodity Gas Cost Cap applicable to the Winter PGA filing scheduled to be made between October 15 and November 4, 1997.

(b) for any Unscheduled Winter PGA Filing, such estimate shall not exceed a per Mcf cost equal to MGE's actual per

Mcf commodity cost of gas, for currently purchased gas supplies and services in the month in which such Unscheduled Winter PGA Filing is made.

(c) MGE accepts responsibility that its gas costs will conform with the provisions of its PGA tariff and this Stipulation and Agreement. Additionally, MGE will provide any information necessary to show how the PGA rate was developed.

D. Experimental Price Stabilization Fund

1. For purposes of reducing the impact of natural gas price volatility on MGE's customers during the 1997/1998 winter season, and the potential deferral of gas costs to subsequent periods, MGE shall be authorized to **_____

_____ **

2. To assure recovery of the direct costs incurred by MGE after July 9, 1997 in connection with the procurement of these Financial Instruments, MGE shall be authorized to implement, effective August 15, 1997, a Price Stabilization Charge which shall increase the current cost of gas component of MGE's PGA over a twelve month period beginning August 15, 1997 by an amount equal to ****_____**** 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. Specimen Tariff sheets implementing the Price Stabilization fund mechanism are set forth in Attachment A to this Stipulation and Agreement.

3. 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 within the authorized price range specified herein;
- and (b) purchased at prices generally prevailing in the NYMEX natural gas market at the time the purchase is made; or (c) sold at

prices generally prevailing in the NYMEX natural gas market at the time the sale is made.

4. MGE shall 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 first 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 October 1, 1997, January 1, 1998 and April 1, 1998, and shall prepare and submit a final report to the Commission regarding such impacts by June 1, 1998. Unless otherwise requested by MGE, the Price Stabilization Fund shall be terminated, effective July 31, 1998. Any balance in the Price Stabilization Fund, net of amounts expended or committed by MGE (including carrying costs described in paragraph II. D.6 below), shall thereafter be returned or charged to customers as part of the ACA adjustment reflected in the next Winter PGA Filing.

5. MGE shall 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 understood by the parties 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 ** _____

_____ ** It is also understood by the parties, however, that the actual percentage of gas supply protection achieved by MGE may very well vary from this goal depending on changes in the market price for Financial Instruments, deviations from normal weather, and other factors.

6. Notwithstanding any other provision of this Stipulation and Agreement, carrying costs equal to simple interest at the rate (described in paragraph II. E.2 below), shall be applied each month to any negative or positive balance in the Price Stabilization Fund beginning August 15, 1997.

E. Carrying Costs -- Carrying costs shall be applied to certain deferred gas cost balances in the following manner:

1. No carrying costs shall be applied until such time as the net DCCB exceeds an amount equal to five percent of MGE's average annual level of gas commodity costs for the three then most recent ACA periods (hereinafter "Annual Gas Cost Level"), which shall initially (until the 1998 winter PGA filing) be based on the three ACA periods immediately preceding the 1997/98 winter period.

The DCCB shall include the cumulative under- or over-recoveries of gas costs at the end of each month for each annual ACA period. The under- and over-recoveries of gas costs to be included in the DCCB shall be defined as the product of: (a) the difference between MGE's actual annualized unit cost of gas (including the cost of gas withdrawn from storage) and the estimated annualized unit cost of gas factor included in MGE's then most recent PGA filing, times (b) the total volumes of gas sold during such month.

2. In the event the DCCB (whether over- or under-recovered) exceeds five percent of MGE's Annual Gas Cost Level, a carrying cost equal to simple interest at the prime rate as noted in the Wall Street Journal on the first business day of the following month, minus one percentage point shall be applied to such portion of the balance amounts as exceeds five percent for the month of such excess balance.

3. Notwithstanding any other provision of this Stipulation and Agreement, a carrying cost equal to simple interest at the prime rate minus one percentage point shall be applied each month to any negative or positive balance in the Price Stabilization Fund beginning August 15, 1997 and shall be flowed through to customers as part of the ACA adjustment in the Winter PGA Filing.

III. Proration

Currently, MGE does not prorate any of its PGA factors because its tariff states that the increases or decreases in charges for gas service resulting from an increase or decrease in the PGA/EGCIM factor shall be effective for billings on and after the effective date of the tariff sheet. (MGE P.S.C. MO. No. 1, Revised Sheet Nos. 18 and 24.13). To resolve this issue, the undersigned parties agree that any increase or decrease in any PGA factor, including ACA and refund factors, shall be applied prorata to customers bills for service rendered on and after the effective date of the change. The parties further agree that bills which contain multiple PGA rate changes during a customer's billing cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's billing cycle that such rates were in effect. This requirement has been incorporated in the proposed PGA tariff.

IV. Ancillary Matters

A. Variance from PGA Provisions -- Nothing in this Stipulation and Agreement shall expand or limit whatever authority MGE may have to seek a variance or waiver from any MGE tariff provisions or Commission rules. This Stipulation and Agreement shall not be construed as affecting in any way MGE's right to seek

emergency or permanent rate relief or to propose any changes in the manner in which it bills its customers.

B. Reevaluation of PGA Clause -- The parties agree that the PGA Clause revisions proposed herein address the immediate concerns raised in Case No. GO-97-409 as such concerns relate to MGE. MGE agrees to cooperate with the Staff, the Office of the Public Counsel and other interested parties in examining the desirability and feasibility of implementing further changes to its tariffs in advance of the 1998/99 winter heating season, based on a review of how well the PGA Clause, as modified herein, will have operated during the 1997/98 winter heating season. The parties also acknowledge that the PGA structure provided for herein would need to be significantly altered in the event any further, significant unbundling of MGE's services were to be implemented by the Commission.

C. Experimental Gas Cost Incentive Mechanism -- The parties agree that all of the PGA modifications provided for in this Stipulation and Agreement shall be implemented in a manner that preserves the financial characteristics of MGE's Experimental Gas Cost Incentive Mechanism (EGCIM). However certain structural and operational changes to the EGCIM are proposed in order to accommodate the resolution of the issue of frequency of PGA filings

as contemplated in this Stipulation and Agreement. In particular, the Proposed PGA tariff reflects changes, to be effective August 15, 1997, which:

1. resume, effective August 15, 1997, use of the PGA structure, including application of fixed volumes for PGA rate calculation purposes;¹

2. eliminate, effective August 15, 1997, the stand-alone EGCIM tariff sheets and rate calculation methodology, including application of varying monthly volume estimates and adjustments in ensuing months when actual volumes differed from estimates; and,

3. implement, effective August 15, 1997, a revised PGA factor of \$3.3362 per Mcf, which reflects a current cost of gas (CCG) factor of \$3.440 per Mcf. The CCG factor shall not be changed until the Winter PGA Filing scheduled to be made between October 15 and November 4, 1997; it is understood that PGA factors other than the CCG may be changed prior to the effectiveness of the

¹ The volumes shown in the Proposed PGA Tariff (Sheet Nos. 24-24.1) are adequate for short-term purposes, but they will not accurately reflect the structure and operation of interstate pipelines' deliveries to MGE's system by late fall of this year. Therefore, the signatories contemplate a filing to change such volumes prior to the Winter PGA filing scheduled to be made between October 15, 1997 and November 4, 1997.

Winter PGA Filing scheduled to be made between October 15 and November 4, 1997.

D. Data Requests -- All data requests previously submitted by Staff to MGE in these dockets shall be withdrawn. Staff may resubmit Data Request No. 5001 and MGE will provide its response to such data request by September 1, 1997, provided that such response will be furnished without any prejudice to MGE's right to object subsequently to the relevancy or admissibility of the information provided.

V. General Matters

A. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of cost determination or cost allocation, or any service or payment standard; and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

B. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this Stipulation and Agreement in total, then this

Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

C. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.080.1 (RSMo. 1994) to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 (RSMo. 1994); and their respective rights to judicial review pursuant to Section 386.510 (RSMo. 1994).

D. The parties agree that the Direct Testimony of Jennifer K. Sochinski, David M. Sommerer, Michael W. Straub, Michael J. Wallis, and Warren T. Wood, the Rebuttal Testimony of Michael T. Langston and Charles B. Hernandez, and the Surrebuttal Testimony of David M. Sommerer, Michael W. Straub, Michael J. Wallis and Warren T. Wood shall be received into evidence without objection, and without requiring such witnesses to take the stand.

E. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each Party of record shall be served with a copy of any memorandum and

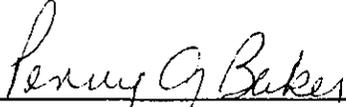
shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's memorandum, a responsive memorandum which shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules; shall be maintained on a confidential basis by all Parties; and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding, whether or not the Commission approves this Stipulation and Agreement. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

The Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and 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, promptly provide other Parties with advance notice of when the Staff shall respond to the Commission's request from Staff, (and afford all such parties, to the maximum extent practicable, the right to be present at such oral explanation).

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 any Protective Order issued in this case.

F. In order for MGE to have adequate time to implement all aspects of this Stipulation and Agreement prior to the Winter PGA Filing, the parties urge the Commission to issue an Order Adopting the Stipulation and Agreement with an effective date of no later than August 15, 1997.

WHEREFORE, the undersigned Parties respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this Stipulation and Agreement to be effective August 15, 1997.



Penny G. Baker, #34662
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**ATTORNEYS FOR THE STAFF OF
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COMMISSION**

Respectfully Submitted,



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**ATTORNEY FOR MISSOURI GAS
ENERGY, A DIVISION OF SOUTHERN
UNION COMPANY**

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 10th day of July 1997.

Penny G Baker