MISSOURI GAS ENERGY
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ROBERT J. HACK
Vice President, Pricing & Regulatory Affairs

April 26, 2000

FILED
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Missouri Public
Service Commission

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

RE: GO-2000-231, Missouri Gas Energy

Dear Mr. Roberts:

Enclosed for filing are an original and fourteen (14) conformed copies of Missouri Gas Energy's Report of the Price Stabilization Fund Authorizing the Use of Financial Instruments to Cap Gas Costs for the Winter of 1999-2000.

This report is submitted in accordance with the terms of Missouri Gas Energy's Application approved by the Commission in this matter.

Copies of this filing have been mailed or hand-delivered to the Office of the Public Counsel.

Thank you for bringing this filing to the attention of the Commission and the appropriate Commission personnel. Please contact me if you have any questions regarding this matter.

Sincerely,

Robert J Hack

CC: Doug Micheel
Mike Langston

MISSOURI GAS ENERGY

Report of the Price Stabilization Fund Authorizing the Use of Financial Instruments to Cap Gas Costs for the Winter of 1999-2000

CASE NO. GO-2000-231

May 1, 2000

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I. Review of Experimental Program

On August 6, 1997, the Commission issued its Report and Order in MPSC Case No. GO-97-409, which was effective on August 15, 1997. This order, among other issues, established an Experimental Price Stabilization charge to fund the use of financial instruments by MGE to reduce the volatility of natural gas commodity costs. The financial instruments utilized were to be the purchase of call options covering volumes of 26 million MMBtu's during the period November, 1997 through March, 1998. These options were purchased, but as a result of price declines during the winter, these options expired without being exercised. Subsequently, MGE filed for Commission reauthorization of the program, as MGE felt the value of the price protection offered a valid public benefit to control price volatility during the high consumption winter months. The Commission subsequently reauthorized the program by order issued March 25, 1998 in Case No. GR-98-364. The options were purchased, but again, as a result of declining prices in the winter period, the options expired without being exercised.

In addition, MGE's Experimental Gas Cost Incentive Mechanism program was expiring on June 30, 1999. MGE entered into negotiations with the Staff and OPC to determine if a new incentive structure that would result in a fixed commodity cost to ratepayers could be finalized. Since a fixed commodity price program would eliminate the necessity of renewal of the Price Stabilization Fund, MGE did not file for reauthorization of this program until it determined that no agreement could be reached among the parties prior to the winter of 1999-2000. On September 14, 1999 MGE filed for renewal of this program. By order issued on October 14, 1999, in Case GO-2000-231, the Commission reauthorized the tariffs for the period November, 1999 through March, 2000. The order required the submission of a report to the Staff and OPC on November 1, 1999, and the filing of a final report with the Commission on May 1, 2000. The options were purchased, but again, as a result of declining prices in the winter period, due to unseasonably warm temperatures across the MGE service territory, the options expired without being exercised.

II. Program Implementation

Following Commission approval and due to the short time prior to the expiration of the November, 1999 NYMEX option contract, MGE focused on purchasing the call options to cover this November period. MGE was able to purchase options covering November on October 15, 1999. The market continued to increase in price, and the remaining months could not be purchased at reasonable prices, and recommendations from financial traders led MGE to delay any further purchases. With some weakening in the market, from October 28, 1999 through November 1, 1999, MGE was able to place the remaining call options purchases. The overall average price of the call options obtained for the November-march period was $ 3.51 per MMBtu. Attached is a table that reflects the purchases and specific call option prices obtained.

As of November 1, 1999, MGE had hedged 100% of its total volume commitment prescribed under the price stabilization program.

III. Documentation and Controls

Under the agreement Case GO-97-409, MGE agreed to set up appropriate internal controls and safeguards relating to the use of natural gas financial instruments. The Company's Hedging Policies and Procedures were formally approved by Southern Union's Board of Directors at a meeting on November 11, 1997, and have been provided to the Commission in Case No. GO-97-409.

IV. Summary

MGE obtained price caps on 100% of the purchase volumes outlined in the price stabilization fund tariffs as approved by the Commission.

MGE continues to view this program as valuable in providing reasonable cost price insurance to its customers. As of the date of this filing, the NYMEX prices are at very high levels historically for this time of year. In order to maximize the price protection to the ratepayers, MGE will continue to work with the Staff and OPC to determine if an agreement on a fixed commodity rate incentive program can be finalized. This could eliminate the need for a separate program such as the Price Stabilization Fund tariffs. If an agreement cannot be reached, MGE may again seek authorization for such a program prior to this next winter.

Missouri Gas Energy
Summary of Hedging Activity
Winter 1999/2000

Required Volume	26,000,000		
Less: Volume Purchased	26,000,000	100%	
Volume Remaining	[illegible]	Weighted Average Cap Price	[illegible]
Required Amount	[illegible]	Weighted Average Hedge Cost	[illegible]
Less: Amount Spent	[illegible]	[illegible]	
Amount Remaining	[illegible]		

			November 1999			December 1999			January 2000			February 2000			March 2000			Totals		
Seller	**Trade Date**	**Cap Price**	**Volume**	**Fixed Price**	**Hedge Cost**	**Volume**	**Fixed Price**	**Hedge Cost**	**Volume**	**Fixed Price**	**Hedge Cost**	**Volume**	**Fixed Price**	**Hedge Cost**	**Volume**	**Fixed Price**	**Hedge Cost**	**Volume**	**Fixed Price**	**Hedge Cost**
Chase	10/15/99	$2.99	3,000,000	0.1170	$351,000.00			$0.00			$0.00			$0.00	0	-	$0.00	3,000,000	0.11700	$351,000
Chase	10/28/99	$3.72			$0.00	3,000,000	0.1170	$351,000.00	3,500,000	0.1170	$409,500.00	2,750,000	0.1170	$321,750.00	2,250,000	0.1170	$263,250.00	11,500,000	0.11700	$1,345,500
Chase	10/29/99	$3.50			$0.00	1,500,000	0.1170	$175,500.00	1,750,000	0.1170	$204,750.00	1,375,000	0.1170	$160,875.00	1,125,000	0.1170	$131,625.00	5,750,000	0.11700	$672,750
Morgan Stanl	11/1/99	$3.35			$0.00	1,500,000	0.11839	$177,585.00	1,750,000	0.11839	$207,182.50	1,375,000	0.11839	$162,786.25	1,125,000	0.11839	$133,188.75	5,750,000	0.11839	$680,743
Totals			3,000,000		$351,000	6,000,000		$704,085	7,000,000		$821,433	5,500,000		$645,411	4,500,000		$528,064	26,000,000		[illegible]

$3,049,993

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