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Missouri Public
Service Commission

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2000-231, File No. 200000232, Missouri Gas Energy

FROM: Mike Straub, Gas Department – Tariffs/Rate Design *bm*

West Lendew 9-23-99 *Thomas R. Schwanz Jr 9/23/99*
Utility Operations Division/Date General Counsel's Office/Date

SUBJECT: Staff Recommendation on Tariff Sheets filed to Renew for an Additional
Year the Price Stabilization Fund and Capacity Release Incentive
Mechanism.

DATE: September 23, 1999

On September 14, 1999, Missouri Gas Energy (MGE or Company) of Kansas City, Missouri, a division of Southern Union Company of Austin, Texas, filed tariff sheets proposed to become effective October 15, 1999. On September 14, 1999, the Company also filed MISSOURI GAS ENERGY'S APPLICATION TO RENEW PRICE STABILIZATION FUND AND CAPACITY RELEASE MECHANISM: MOTION FOR EXPEDITED TREATMENT (Application) requesting that the Commission issue an order approving the tariff sheets filed on September 14, 1999 as expeditiously as possible. The purpose of the proposed tariff sheets is to extend the experimental Price Stabilization Fund (PSF) through the winter of 1999-2000, and allowing it to expire on the effective date of the summer Purchased Gas Adjustment (PGA) filing on or about April 1, 2000. In addition, the filing proposes to extend the capacity release incentive mechanism for a period of one year from November 1, 1999, through October 31, 2000.

The proposed hedging program is nearly identical to the MGE program the Commission approved previously. The cap has been increased to reflect current market conditions, and this will provide for a significant portion of MGE's gas supplies to be hedged for the coming winter season. MGE also requested a one-year extension of its capacity release incentive mechanism that expired on June 30, 1999. In its recent order in Case No. GT-99-303, the Commission allowed Laclede to extend their capacity release program.

The Commission Staff (Staff) has reviewed MGE's Application and has no objection to MGE's request for expedited approval of its filed tariff sheets. However, Staff would note for the record that the Company was aware for some time that the PSF and capacity release mechanism were scheduled to expire. Staff suggests that in the future MGE consider filing its requests earlier. An earlier filing would have provided the Company

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with a longer period to evaluate the market and perhaps more effectively hedge a portion of the coming winter's gas costs. In Staff's opinion, hedging is a reasonable component of a Local Distribution Company's (LDC) gas procurement portfolio and the language contained in the PGA provides adequate permission for a LDC to hedge without the need for special authority each year.

The Staff has also reviewed the tariff sheets as filed by the Company, and has no objection to extending the PSF through the effective date of the summer PGA filing (on or about April 1, 2000). Nor does Staff have an objection to the capacity release mechanism being in effect from November 1, 1999, through October 31, 2000. Therefore, Staff recommends that the following tariff sheets filed on September 14, 1999, with a proposed effective date of October 15, 1999, be approved as expeditiously as possible:

P.S.C. MO. No. 1

Third Revised Sheet No. 24.2 Canceling Second Revised Sheet No. 24.2

Third Revised Sheet No. 24.6 Canceling Second Revised Sheet No. 24.6

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