

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

January 28, 2004

In Reply Refer To:

Docket Nos. RP98-52-049

GP98-4-000

SA98-33-000

GP98-3-000

GP98-13-000

GP98-16-000

Stinson Morrison Hecker LLP
Attn: David D'Alessandro, Esq.
Attorney for Missouri Public Service Commission
1150 18th Street, NW
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Washington, DC 20036-3816

Dear Mr. D'Alessandro:

1. On November 14, 2003, you filed an offer of settlement (the settlement) on behalf of the Missouri Public Service Commission (MoPSC) in the above proceeding. The proceeding involves the proper ad valorem tax refund amounts that are due and payable by Indicated Producers,¹ producers/first sellers of natural gas, to Southern Star Central Gas Pipeline, Inc. (Southern Star) for passthrough to Southern Star's customers. On December 1, 2003, comments supporting the offer were filed by the Commission's Staff (Staff), Southern Star, and City Utilities of Springfield, Missouri (CU). On December 1, 2003, comments contesting the offer were filed by the Kansas Corporation Commission (KCC). On December 8, 2003, reply comments supporting the offer were filed by Staff; Indicated Producers; Southern Star; and MoPSC. On December 8, 2003, the KCC filed reply comments withdrawing its comments opposing the offer and now supporting the offer. On December 9, 2003, MoPSC filed supplemental reply comments supporting the offer.

¹ Indicated Producers are BP America Production Company (formerly Amoco Production Company), ExxonMobil Oil Corporation (formerly Mobil Oil Corporation), OXY USA, Inc., Anadarko E&P Company LP (formerly RME Petroleum Company), and Union Pacific Resources Company.

2. On June 20, 2003, MoPSC filed a motion seeking summary disposition of the issues outstanding in these proceedings between it and the Indicated Producers. Approval of this offer of settlement will render that motion moot.

3. On December 12, 2003, the Administrative Law Judge, as a result of KCC's withdrawal of its opposition to the offer, certified the offer to the Commission as an uncontested offer.

4. On December 17, 2003, KCC, MoPSC and Indicated Producers filed a joint petition for approval of a Modified Settlement, which they stated more accurately reflected the Indicated Producers' agreement to modify Articles II and VI of the Settlement. The modifications consisted of deleting language in Article II and Article VI, paragraph C, and adding language in Article II. The Settlement, reflecting the Indicated Producers' agreement, which the other parties to the settlement also accepted, consists of the following terms.

5. Article I of the offer defines key terms.

6. Article II grants the Indicated Producers a release from further liability for Kansas ad valorem tax reimbursements related to all periods prior to June 28, 1988. The Indicated Producers waive and release all claims associated with Kansas ad valorem tax refunds for periods through June 28, 1988 by each such Indicated Producer against any royalty interest owner for royalty-related Kansas ad valorem tax refund claims on the Southern Star system.

7. Article III defines the base settlement obligations of each of the Indicated Producers, the requirement to pay such obligations to Southern Star with interest, and the process for verifying the calculation of interest.

8. Article IV establishes the settlement's effective date and the rights of the signatory parties in the event of modification of this offer by the Commission.

9. Article V requires Southern Star to pay to the Missouri opt-out customers, within 14 days, the amounts received from the Indicated Producers.

10. Article VI discusses the relationship of this offer to pending judicial cases and makes clear that this offer does not affect any rights of the Indicated Producers to seek recovery of ad valorem taxes from their royalty interest owners. The modification deletes paragraph C which had stated that the settlement did not affect the Indicated Producers' right to seek recovery from royalty owners. The deletion reflects alterations noted above to Article II that add a waiver by Indicated Producers of any and all claims associated with Kansas ad valorem tax refunds through June 28, 1988 by each such Indicated Producer against any

royalty interest owner for royalty-related Kansas ad valorem tax refund claims on the Southern Star system.

11. Article VII provides that the signatory parties agree to be bound to the economic bargain struck in the offer, regardless of any legislation enacted by the Congress of the United States, the Kansas Legislature, or any other legislative body.
12. Article VIII states the limitation regarding the effect of the settlement.
13. Article IX provides that the offer is privileged and inadmissible as evidence in the event it does not become effective.
14. Article X provides for a general waiver of the Commission's regulations to the extent necessary to implement the offer.
15. The Commission finds that the settlement is fair, reasonable, and in the public interest and is hereby approved. The Commission's approval of this settlement does not constitute approval of, or precedent regarding, any principle or issue in this proceeding.
16. This letter terminates Docket Nos. RP98-52-049, GP98-4-000, SA98-33-000, GP98-3-000, GP98-13-000, and GP98-16-000.

By direction of the Commission.

Magalie R. Salas
Secretary.

Enclosure

cc: All Parties