BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy of Kansas City, Missouri requested authority to file a tariff reflecting a change in rates for its Missouri customers	)))))	**Case No. GR-2004-209**

INITIAL BRIEF OF MIDWEST GAS USERS' ASSOCIATION, UNIVERSITY OF MISSOURI AT KANSAS CITY, CENTRAL MISSOURI STATE UNIVERSITY, AND JACKSON COUNTY, MISSOURI

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TABLE OF CONTENTS

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I. INTRODUCTION.

A. The Interest of These Parties.

Central Missouri State University ("CMSU"), and The University of Missouri at Kansas City ("UMKC") are both large volume transportation customers as well as customers under other rate classifications. They are also public universities funded by the State of Missouri as well as by tuition charges to their enrolled student body.

Jackson County is a Missouri charter county and represents its own interests as a natural gas user as well as the interests of its constituent citizens and business concerns.

Midwest Gas Users' Association ("Midwest") is a nearly 50-year-old voluntary association made up of large commercial and industrial natural gas customers. Today Midwest's membership and participating companies and entities are transportation custom-

ers. Some are end-users behind MGE or other local distribution company city gates; others are direct transportation customers of interstate pipelines.

Midwest has historically represented the interests of these larger customers. Once termed Large Commercial Interruptible ("LC") and Large Industrial Interruptible ("LI") customers, these customers used more than 3,000 Mcf of natural gas in any one month in a 12-month period. They were required to be interruptible as a condition of receiving service. As interruptible customers, they purchased natural gas on an "as available" basis when supplies and delivery facilities were not needed to provide service to higher priority customers.[1/] When interruptions were called, they relied upon their own supplies of alternate fuel, typically No. 6 fuel oil.

With the shift to transportation in the mid-1960's, these customers began purchasing natural gas directly from producers in the gas fields or through marketers or brokers,[2/] arranging their own transportation services through interstate pipelines.[3/] On the MGE system they arrange deliveries supplies to the MGE "city gates" or interconnections with the particular interstate pipeline, then pay MGE its transportation charge for

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[1/] Although possibly relevant here, as an historical matter, LC and LI customers were typically interrupted in the winter, but occasionally in the summer when Williams needed capacity to fill its storge for the following winter.

[2/] Tr. 2114.

[3/] Tr. 2114.

the haul to their meters and burner tips. As interstate pipeline transporters, they deal with the same FERC-set transportation rates, terms, and conditions of service from these pipelines as MGE.[4/] For purposes of this case, they are provided transportation service under MGE's Large Volume Service or "LVS" tariffs.

B. Brief Summary of Argument.

These parties are concerned that MGE's LVS transportation rate is already recovering more than their cost of service and recovers costs that are not properly charged to transportation customers.

By definition, transportation customers take responsibility for arranging both their own gas supplies and the delivery of those supplies to an MGE city gate or point of connection between MGE and an interstate pipeline.[5/] Transportation customers do not cause costs that are associated with MGE's system supply and these costs should not be charged to them.

MGE submitted a Class Cost of Service Study ("CCOSS") that allocated costs to MGE's various classes of customers including its transportation customers. This CCOSS contained a significant error that assigned additional costs to transportation customers through an incorrect meter weighting calculation. But even with correction of this acknowledged

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[4/] Tr. 2117.

[5/] MGE receives service from several interstates but primarily from Southern Star Central (formerly the Williams Natural Gas Company).

error, MGE's CCOSS still allocates system supply related costs to the LVS class and thus ***overallocates*** costs to the transportation customers.

Federal Executive Agency witness Price replicated the MGE study but corrected for the mathematical error that MGE later recognized. Therefore these parties recommend that witness Price's study, which is the MGE CCOS study after correction of the recognized error, be utilized to adjust rates because it is the most accurate submitted in this case.

The Commission should have high confidence that the corrected MGE study does not ***understate*** transportation customers' costs because it includes significant costs associated with MGE's system supply sales services. These costs will be more particularly addressed in the balance of this brief.

In addition, UMKC and CMSU have multiple meters through which their service is provided. UMKC has 14 meters; UMKC has five. The 50% increase in the customer charge for the LVS class that MGE proposed has a vastly more significant effect on these customers. During the prehearing conference, a modification was proposed and accepted to address multiple-meter customers. This proposal, which will be addressed in this brief, was not contested and was accepted by all parties. MGE's witness Cummings testified as to such modification in his Rebuttal testimony.[6/]

[6/] Cummings, Rebuttal Testimony, Exhibit 25, pp. 29, 38-40.

and there is no testimony in the record in opposition to this modification.

These parties have other issues that concern them in this case. However those issues have heretofore been addressed either by Staff or by Public Counsel whose positions on revenue and other non-class cost of service issues we generally support.

II. ARGUMENT.

A. Class Cost of Service Study/Rate Design -- What is the appropriate level of revenue responsibility for each customer class to be used in calculating revenue?

Four Class Cost of Service Studies ("CCOSS") were introduced in this case. MGE offered a CCOSS prepared by MGE witness Cummings. Staff's study and supporting testimony, offered by Mr. Beck, was stuck from the record upon Midwest's motion and will not be further addressed. OPC offered a study by Mr. Busch and the Federal Executive Agencies offered a study by Mr. Price. Witness Price independently identified the same mathematical error as had our witness, Mr. Donald Johnstone, and his study corrected that error.

The original MGE study contained a mathematical error that had been made in calculating weighting factors for meter costs. Its author, MGE witness Cummings, acknowledged this error and offered corrected numbers from the stand confirming both FEA witness Price and Midwest witness Johnstone's identification of this error. We will address this error later in this brief, but it first seems appropriate to lay out some brief comments regard-

ing the importance of class cost of service studies and their relationship to the rate case as a whole.

B. The Regulatory Background for Class Cost Allocations.

1. The Principle of Cost Causation.

The first step in the regulatory rate process is usually the development of an overall revenue requirement. Once that is established, the overall revenue requirement is allocated using the cost allocation procedure or cost allocation study. Rates should be designed to recover the costs which are incurred or allocated to those customers or class of customers who cause those costs. In other words, the "cost causer" should be the "cost payer".[7/]

The ideal situation would be for each individual customer to be charged the cost that their service, causes the utility to incur. Achieving this degree of refinement would probably present insurmountable administrative difficulties. Accordingly, one of the conventions that has long been recognized in public utility regulation is that for ratemaking purposes, individual customers should be grouped or classed with other customers that have similar load, usage and cost characteristics. Thus, the pure principle of cost causation/cost payment is

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7/ OPC Witness Busch agrees with the principle. Tr. 2112. So does MGE Witness Cummings. Tr. 2032. Mr. Beck of the Staff also agreed. Tr. 2193-94.

mitigated by the administrative practicality of dealing with classes of customers whose characteristics are similar.

A fully allocated cost of service study is necessary to determine the cost of service for each defined class of customer which in turn is then used to determine the design of the rates. Cost of service studies organize the cost and load information from the system in such a way that the costs can be assigned or allocated to various customers or classes of customer (the cost causers). These assigned costs are then compared to the revenues from those classes and rate base used to serve those classes, and the relative contributions to system profitability are calculated and rates to recover those costs are designed for each class of customer (the cost payer). While there is often controversy or disagreement regarding the classification and allocation of joint and common costs, such a study is absolutely necessary to properly design rates with the least amount of discrimination between the classes of customer.

2. The Concept of Nondiscriminatory Rates.

Treating one customer differently by charging them a different rate in relation to cost causation than that charged another customer whose cost causal characteristics are materially identical constitutes discrimination. If each customer could be charged precisely its own costs, there would be no discrimination, even though customers would be billed at different rates. Given the administrative need to have customer classes, the

practical question becomes: Is a customer class being charged costs that vary from the costs that are caused by that customer class. "Undue" discrimination, then, is that degree of differential treatment that cannot be justified by the administrative necessity to group together customers with similar cost characteristics. Simply put, discrimination becomes "undue" (and thus prohibited both at common law and under Section 393.130) when customer classes are charged rates that are not related to the costs that service to that class cause.

When a customer or class of customer causes a cost to be incurred in rendering utility service, that customer or class of customer should pay rates that will allow the utility to recover those costs. The cost of service study calculates the rate of return for the analyzed utility system and for each class of customer. The rate of return of a class is the contribution that the class of customer makes to the system rate of return. If the class rate of return is lower than the system rate of return, the contribution is less than average and the class is being subsidized by the other customers or classes of customer. If the class rate of return is higher than the system rate of return, that class is contributing more then the system average rate of return and, hence, subsidizing the other classes of customers.

3. The Process of a Class Cost of Service Study.

There are three primary steps in conducting a cost of service study; 1) functionalization of costs, 2) classification of costs and 3) allocation of costs.

Functionalization of costs is the grouping or recording of costs by major function such as distribution, administrative and general, or storage. This is usually the easiest step since the utility investment and expense records are maintained in accordance with a FERC-prescribed uniform accounting system. This uniform system of accounts classifies the costs according to primary operating functions.

Classification groups the costs into three basic categories: customer, commodity, and demand or capacity. Customer costs vary with the number of customers served, commodity costs vary with the quantity of gas delivered or purchased and finally demand or capacity costs vary with the quantity or size of plant. Capacity costs are related to maximum system requirements for which the system is designed to serve during short intervals.

The final step is the allocation of each of these classified costs to a particular customer or class of customers. All items which can be directly attributed to a particular customer or group of customers should first be segregated and directly assigned to the appropriate customers. An example of a direct assignment would be account 385, Electronic Gas Measure-

ment Equipment. Those costs can be directly assigned to the LVS class as they are the only customers requiring those meters.

C. A Brief History of Transportation Rates For MGE.

Missouri Gas Energy is a comparative newcomer into Missouri regulation. Midwest, for example, was busy representing the interests of LC and LI customers, and even transportation customers, for years before MGE began business. MGE came into being when Southern Union Corporation acquired the Missouri assets (save for the Palmyra system) of the KPL/Gas Service Company in the early 1990's.[8/] KPL/Gas Service itself was the successor to The Gas Service Company that for many years had provided distribution service in the metropolitan Kansas City area on both sides of the state line.

In October, 1985, the Federal Energy Regulatory Commission (FERC) in Order 436 caused all interstate pipelines to offer transportation service on a "equal access" basis to their customers. At that time, MGE's predecessor took service from Williams Natural Gas (the interstate pipeline) under "full requirements" contracts that were essentially unique in the industry. The Large Commercial Interruptible and Large Industrial Interruptible customers, however, were provided only an interruptible "as available" service and could claim no obligation of service either from the pipeline or the distributor. Since they were not reciprocally bound by any service obligation, Order 436 freed

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[8/] See Case No. GM-94-40.

them to seek their own supplies from less costly suppliers and transport them through the pipeline to the appropriate local distribution company.

In Case No. GO-86-285, this Commission generically addressed the downstream implications of Order 436. On an "interim" basis, end-users (represented by Midwest) accepted a "margin" transportation rate created by extracting the included costs of natural gas from the corresponding Large Commercial Interruptible and Large Industrial Interruptible rates, leaving the distributor indifferent to whether it sold natural gas or merely transported the customers' natural gas supplies.

Now, almost 20 years later, this "margin" rate remains the transportation rate on the MGE system. The Commission has not specifically addressed a rebased transportation rate.

Let us be clear: These parties are ***not*** suggesting that the Commission rebase -- or more properly "zero-base"[9/] -- MGE's transportation rate ***in this proceeding***. Nevertheless, we do ask that the Commission appreciate that the original "margin" transportation rate of nearly 20 years ago obviously contained then and, as the record herein reflects, still contains costs that the LDC incurs to provide system supply service to its sales customers. Certainly, removal of the cost of the gas commodity was significant, but did not complete the process. System supply

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[9/] The appropriate process would be to start from zero and identify those costs that are incurred to provide service to transportation customers then reflect them appropriately in a tariff.

costs continue to be incurred by MGE but are not properly part of its transportation rates. And, any CCOSS that does not remove these costs necessarily overstates the costs that are allocated to the transportation customers for purposes of identifying correct revenue shares.

D. The MGE Study, As Corrected by FEA Witness Price, Should Be Confidently Used by the Commission To Identify Revenue Shares.

MGE offered a generally traditional CCOSS through witness Jay Cummings. Witness Cummings, however, made a mathematical error in calculating the weighting factors for certain meters with the result that his original CCOSS overstated the costs that were allocated to the LVS transportation customers. Witness Cummings acknowledged his error from the witness stand during his cross-examination and provided the corrected numbers.[10/] In addition, FEA witness Price had also identified this error and corrected it in his study. As a result, FEA witness Price's CCOSS is the MGE CCOSS with the appropriate correction for witness Cummings' mathematical error.

[10/] Tr. 2048-49:

17 THE WITNESS: The numbers I'm
18 referring to are under the label cost of service
19 study. The residential number becomes 38,008,940.
20 The SGS number becomes 6,179,215. The LGS number
21 becomes negative 500,479. The LVS number becomes
22 1,188,960. And I believe those numbers are the
23 same as what Mr. Price refers to on page 8.
24 Q (By Mr. Conrad) And your reference
25 to page 8 is to Mr. Price's --

02049
1 A Rebuttal testimony. Yes, sir.

Of the several CCOSS offered, MGUA/UMKC/CMSU/Jackson County recommend that the Commission use the class cost of service study that was submitted by MGE witness Cummings as corrected by FEA witness Price.

E. MGE's Corrected CCOSS Allocates System Supply-Related Costs to Transportation Customers and Thus Still Overstates Transportation Customers' Costs.

But even as we make this recommendation, the Commission should appreciate that witness Cummings' CCOSS, even as corrected by witness Price, still overstates transportation customers' costs. It just does so less than the other studies in this case.

MGE's CCOSS, even with the correction, allocates transportation customers significant costs for:

- planning, acquiring, managing, and financing MGE's natural gas supplies that it sells to its system supply customers;
- costs associated with MGE's inventory of natural gas that is held for resale to sales customers;
- bad debt expense that is related to the cost of natural gas that is sold to sales customers but for which they have not paid;
- the costs associated with MGE's working capital requirements that are necessitated by MGE's need to purchase natural gas supplies ahead of the time that it sells and recovers the proceeds from such sales;
- the costs of metering installations for sales customers as well as the costs of electronic gas metering equipment that are paid for by transpor-

tation customers as a condition of being able to transport natural gas;[11/]

- administrative and general ("A&G") expenses associated with salaries and benefits paid to MGE employees who purchase and supervise the purchase of natural gas supplies for resale;

- meter reading costs such as AMR-related expenses and investment because the cost of reading the LVS meters is paid by the LVS customers who must supply a telephone line at their cost to permit MGE to electronically "poll" their electronic gas measurement equipment.[12/]

If a true CCOSS were to be developed, these costs should be addressed, identified and fully removed from any impact on rate LVS. However, as indicated by Midwest Counsel in his opening statement, these parties are not proposing in this proceeding that MGE's transportation rates be completely rebased because there is no such CCOSS presented in this case that would do so. They are, however, recommending that, for the purposes of this proceeding, the LVS rate should be set ***no higher*** than the level recommended by the Price/MGE corrected CCOSS (after lowering LVS and all other rates to account for the overall approved revenue level) since that level includes these inappropriate costs and will necessarily overstate the rates for transportation customers, however, such overstatement is less than any other study.

[11/] Transportation customers agree to absorb the costs of EGM equipment at their installations pursuant to a negotiated settlement of a prior case. See Appendix A.

[12/] See Appendix A.

First, as to the issue of supply inventories being used to support transportation customers who allegedly switched to sales customers, MGE witness Cummings acknowledged that the MGE system was designed to serve a peak demand and that the temperature-sensitive[13/] residential system supply class was the cost-causer of this peak.[14/] His CCOSS attributed 18% of the peak demand to the LVS transport class, but over 61% to the residential class.[15/] He agreed that the goal of his CCOSS was to ". . . distribute the cost to the class of customers that caused MGE to incur those costs."[16/] He also agreed that ideally, costs that were not caused by a class of customer would not be distributed to that class.[17/]

After some discussion, Exhibit 605 was admitted as a graphical presentation of the data on Exhibits 603 and 604 and compares the relative peak responsibility and load curve shape of the residential customers and the transporters.[18/] A copy of this Exhibit is attached to this brief as Appendix B.

Witness Cummings seemed less than clear when he was pressed to identify the mechanics of how this gas inventory was used to support "switching" or how the mechanics of such changes

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[13/] Tr. 2033.

[14/] Tr. 2025-26.

[15/] Tr. 2028.

[16/] Tr. 2032.

[17/] Tr. 2032.

[18/] Tr. 2045.

worked. He was certainly not able to identify the costs of the gas inventory that he claimed that LVS customers could rely on when they "switched." When pressed, it became apparent that he did not know or understand the MGE tariffs requiring 12-month notice to change from one category to another.[19] Witness Cummings simply failed to support his assertion that sales inventory gas was somehow used to support these "switching" customers. He finally acknowledged that his assertion was based on a "surmise."[20]

While witness Cummings "didn't know,"[21] Mr. Noack, now MGE's Director of Pricing and Regulatory Affairs, does. His testimony from a prior proceeding is entirely consistent with these parties view as follows:

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[19] Tr. 2060. When asked to describe the process a transportation customer would have to go through to become a sales customer, witness Cummings simply answered: "I don't know."

[20] Tr. 2060:

Q Now, let me ask you, please, sir, to turn to -- well, let me first ask this. What is the process that a transportation customer would have to go through in order to become a sales customer?
A I don't know.
Q But you've indicated that the supply inventory is to be backup for that customer, but you're now saying ***you don't know the process?***
A ***That's correct.*** In the sense that I see LVS customers who are sales customers, albeit not a large number, and the fact that those numbers change from month to month, ***I surmise*** from that that they can receive sales service.

(emphasis added).

[21] Tr. 2060.

MGE's gas storage inventory costs appear to represent the costs that MGE claims are associated with maintaining an inventory of natural gas in natural gas storage caverns that are owned by others and in which MGE buys storage space. It is my understanding that, under FERC Order 636, local distribution companies such as MGE (or its predecessor) were given the opportunity to purchase supplies of natural gas in storage that had been previously owned by the interstate pipeline. These supplies are maintained to provide reliable service to MGE's firm system supply customers, to enable MGE to better manage its supply of system gas, and, in some instances, to permit MGE to take advantage of short term pricing opportunities in the natural gas market.

Q. How has MGE allocated costs associated with its inventory of storage gas?

A. MGE has allocated this cost based on the demand or capacity allocation factor with the result of allocating a portion of these costs to transportation customers. However, transportation customers purchase their own supplies of gas and have the opportunity to make their own storage arrangements if they desire. System supply gas in inventory is not provided for transportation customers and transportation customers have no right to take natural gas from MGE's storage inventory and, were they to make such withdrawals through unauthorized overruns of their scheduled transportation volumes, they would possibly incur substantial penalties. Accordingly, no portion of the costs associated with this inventory should be assigned to the transportation customers as they have no claim to service from this storage.[22/]

In Exhibit 623, Mr. Noack was again asked to comment on proposals to included gas storage inventory costs in transportation rates.

Q. Please comment on Staff and Public Counsel proposals regarding Gas Inventory Costs.

A. Natural gas inventory costs have been addressed by Staff witnesses Allee and Busch. These witnesses have proposed to allow portions of these costs into rates.

Transportation customers provide their own supplies of natural gas, provide their own inventory and storage arrangements as desired, and schedule their own storage

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[22/] Exhibit 622, admitted at Tr. 2285.

cycling if they purchase storage. They cause no part of these costs and there is no basis on which any portion of these costs should be charged generally to ratepayers as proposed by Staff and Public Counsel. These witnesses' testimony implicitly assumes that these costs are incurred to provide service to transportation customers, since they do not exclude these customers from their analysis nor quantify the portion that they contend is necessary to support service to sales customers. Until such quantifications are recognized, we disagree with the extent of the adjustments proposed by Staff and Public Counsel to these items as excessive by 100%.[23/]

Finally, witness Cummings' "switching" argument is disposed of handily by Mr. Noack in Exhibit 624:

Q. Do you agree with Dr. Cummings on page 26 of his rebuttal testimony where he states that LVS customers currently can be either sales or transport customers and thus the gas inventory component of rate base should be allocated to the LVS class?

A. No I do not. On page 30 of his rebuttal testimony he states that the company is proposing to make LVS exclusively a transportation tariff and in fact MGE has made adjustments to reclassify revenue from sales customers in the LVS class to the LGS class. Under those circumstances the gas inventory component should not be allocated to the LVS class.[24/]

To the point, MGE has provided no substantial justification, nor even been able to explain, what operations of its system require storage gas to be used for transportation customers at all. Witness Cummings was completely uncertain about MGE's tariffs (except that they did not violate them) regarding the requirements for a transportation customer to become a sales customer and vice versa. He could offer no explanation regarding how his claims of "balancing" and "switching" would work. This

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[23/] Exhibit 623, admitted at Tr. 2286.

[24/] Exhibit 624, admitted at Tr. 2287.

testimony should be disregarded with the result that costs -- albeit uncertain in amount, but not insignificant -- were allocated by his study to the transportation customers. Because transportation customers are not asking that the amount of this inclusion be specifically quantified in this case, precision is not required -- simply the recognition that it is included with the result that the MGE study (even as corrected by FEA witness Price) overstates the costs that should be allocated to transportation customers.

Second, witness Cummings sought to argue that there were more MGE personnel needed to deal with arranging natural gas supplies for transportation customers than for the MGE sales customers. However, in order to try to develop this "analysis," witness Cummings had to add what he claimed were meter reading personnel needed to read the electronic gas measuring equipment that transportation customers have to purchase.[25/] His answers are, at a minimum, confusing and suggest that he was struggling for answers to questions he did not know but was reluctant to so admit. It also appeared that witness Cummings was confused between gas inventory charges and customer charges. For example, after being asked to defend his calculation of "system supply costs," he responded:

> A Correct. And the -- the -- the point of comparison is that if the -- if the Company got out of the gas supply business, i.e., it was provided entirely by a third party provider, those metering costs would still exist

[25/] Tr. 2068-73.

24 unless the Commission decided to charge just a
25 flat monthly rate for gas service. You'd still

02073
1 have to read the meters.
2 So what this was attempting to do
3 was isolate only the gas supply related personnel
4 as a point of comparison.[26/]

It seems that, on this narrow point, it depends on whom from MGE is asked. Earlier in the proceeding Jackson County asked MGE data request 34 as follows:

> Please describe all facets of the MGE gas supply acquisition process including all short and long term and management oversight. Please identify responsibilities in this regard of each department.

The response received was as follows:

> The gas supply acquisition process includes supply planning, supply acquisition and storage management. Volumetric supply planning is completed using forecast monthly and seasonal requirements of commodity customers. Supply plans are adjusted for actual weather and storage levels. Supply acquisition is completed based on monthly and seasonal supply plans. Storage management is completed based on supply plans, contract parameters and FERC tariff requirements. The Director of Gas Supply and the Vice Present [sic] of Pricing provide short and long-term management oversight. Both positions are in the Department of Pricing and Regulatory Affairs.

This Response was admitted as Exhibit 617.[27/] Examination of this response, as well as the request, will reveal no discussion of "metering" personnel. A copy of this response is attached to this brief as Appendix C.

[26/] Tr. 2072-73.

[27/] Tr. 2277.

Jackson County also posed Data Request No. 35 as follows:

> Please identify all personnel that perform the functions described in item CMSU/UMKC data request number 34. For such personnel please provide the following:
> A. Department of each employee.
> B. Percentage of time of each employee devoted to functions described in data request number 34.
> C. Test year salary by account number.

The response we received, and admitted as Exhibit 618,[28/] was as follows:

> A. David Kirkland -- Gas Supply.
> John Hayes -- Gas Supply.
> Robert Hack -- Pricing and Regulatory Affairs.
>
> B. David Kirkland -- 20%
> John Hayes -- 50%
> Robert Hack -- 5%
>
> C. All salary information is included in the workpapers furnished with the filing and the updated filing.

A copy of this response is attached to this brief in Appendix D. None of these employees are identified as meter readers, supervisors or the like. It seems that witness Cummings received and based his testimony (and this portion of his allocation) on faulty information.

In any event, these responses make it clear that, while the salary numbers are certainly not great, they are included in the MGE CCOSS. Yet these are costs that the are not incurred for the transportation customers who purchase their own gas supplies.

[28/] Tr. 2278.

F. OPC's Class Cost of Service Study Should Be Rejected.

Since the Staff's CCOSS was stricken, the only remaining competing CCOSS was that offered by the Office of Public Counsel. For several rate cases past, OPC has continued to offer a similarly incorrect study,[29/] but modified depending upon which OPC staff member was offering the study.[30/] OPC claims here that the method was taken from an approach developed by Mr. Charles Laderoute,[31/] "modified" in an unstated manner by a

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[29/] Tr. 2103.

[30/] In the Order on Remand in Case No. GR-96-285, the Commission described OPC's methodology:

> Public Counsel utilized a modified Relative System Utilization Method (RSUM) method of allocation, which uses increments of the monthly maximum demands of each customer class in conjunction with the known cost-capacity relationships to allocate the costs of the distribution mains. Public Counsel stated that, on the whole, its methodology is the most reasonable because it is consistent with the actual cost/capacity relationship of distribution mains, [*27] equitably takes into account the benefits resulting from year-round use of the delivery function of the system, and does not artificially or incorrectly separate portions of the costs into "two different causes," but rather allocates all of those costs on one consistent basis. Public Counsel further adapted the modified RSUM method of allocating distribution mains by accounting for the economies of scale and utilizing monthly non-coincident peak day demands instead of calculating monthly average daily demands as recommended in the modified RSUM method.

Missouri Gas Energy, 10 Mo. PSC 3d 1, 2001 Mo. PSC LEXIS 742, *26-27 (Mo. PSC, February 1, 2001).

[31/] Tr. 2104.

former OPC employee Philip Thompson, then used again here.[32/] The OPC study has been rejected by the Commission and by Mr. Laderoute, its purported author. It should be rejected again in this case because it continues to produce unreasonable results.

1. OPC's CCOSS Approach Has Been Rejected By The Commission.

Commission Case No. GR-96-285 was originally settled between the parties by a non-unanimous but unopposed stipulation. The Commission chose to reject that stipulation. However, rather than calling the parties back and rescheduling a hearing on the CCOSS and rate design issues, the Commission chose to adopt its own view of these issues without any evidentiary basis or support. In so doing the Commission was held by the courts to have acted unlawfully and its decision was reversed and remanded to

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[32/] Compare Mr. Busch's description of the method at page 5 of his Direct Testimony in this proceeding, Exhibit 212:

> The methodology is called the modified RSUM (relative system utilization method) originally developed by Charles Laderoute in a paper presented at the NARUC Biennial Regulatory Information Conference in 1988 and modified in a paper presented by OPC economist Philip Thompson at the 1992 NARUC Biennial Regulatory Information Conference. The modified RSUM allocation takes into account economies of scale and the fact that all users benefit from the system and should share in the cost. The basic idea is to identify the portion of the capacity that corresponds to each month's demand, and then allocate the costs that correspond to that capacity to the customers who use gas in that month that is their portion of the system is used.

Busch Direct, p. 5.

the Commission.[33/] On remand, the Commission issued another decision that adopted an equal percentage increase, but also stated the following:

> Application of Public Counsel's modified RSUM method of allocating costs of distribution mains ***results in an over-allocation of costs to LVS customers.***[34/]

2. OPC'S CCOSS Approach Has Been Rejected By Its Claimed Author, Charles Laderoute.

The reputed author of OPC's methodology, Charles Laderoute, disclaims the OPC method as anything resembling his method. It was never designed to be used as a peak allocation method, says its author. Midwest engaged Mr. Charles Laderoute as its witness in the preceding MGE rate case, Case No. GR-2001-292.[35/] His testimony, filed with this Commission in that proceeding and admitted pursuant to the settlement of that proceeding, states as follows:

> While Witness Hu [OPC's witness in the GR-2001-292 proceeding] thinks RSUM is better than a Peak allocator, I don't - and as she points out, I am the person who developed

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[33/] The Commission's General Counsel ultimately conceded that the Commission had erred and that the matter should be reversed and remanded. The dispute largely encompassed whether the Circuit Court could direct that the difference in charges to the LVS transportation customers could be impounded by that Court pending remand. The appellate courts held that it could.

[34/] *Missouri Gas Energy*, 10 Mo. PSC 3d 1, 2001 Mo. PSC LEXIS 742, *65, (Mo. PSC, February 1, 2001) (emphasis added).

[35/] Tr. 2111.

RSUM. It does not appropriately reflect cost causation.[36/]

OPC's method is result-driven. While Midwest understands and is not unsympathetic to the strong pressure on OPC to come up with "something" to offset the result of proper CCOSS studies, it is simply an inescapable fact that the residential and small commercial sales customers cause the peak for this utility and it is for that peak and for their year-round system supply service that the system is principally used.

Midwest Exhibit No. 610 charts the use of the system at peak. A copy of this significant exhibit is attached as Appendix E.

It should also be remembered that the natural gas commodity moving through the MGE system to these customers is acquired by MGE for resale to them while the transportation customers acquire their own supplies, purchase their own storage, pay their own balancing fees and transportation rates to the interstate pipeline just like MGE. OPC is in denial about these inescapable facts.

3. OPC's CCOSS Incorrectly Allocates Gas Storage-Related Costs to Transportation Customers.

OPC Witness Busch took issue with Midwest's claim that costs associated with MGE's inventory of natural gas in storage was not chargeable to transportation customers. Witness Busch

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[36/] Charles Laderoute, Surrebuttal, Case No. GR-2001-292, pp. 21-22.

offered two rationales for his refusal. (a) Transportation customers "might" switch to sales service, and (b) transportation customers used these supplies for balancing. Neither rationale has merit.

a. "Switching" of Transportation Customers to Sales Service Is A Red Herring Argument and a Fiction.

Through cross-examination, Mr. Busch was directed to MGE's LVS tariffs[37] restricting transfers between sales and transportation status. He discovered that a twelve-month notice was required and that the transportation customer could only switch if there was "gas available from MGE to provide to the transportation customer."[38] Mr. Busch then acknowledged that any such costs, whether they would be for the natural gas commodity itself or the transportation costs of getting that gas to the MGE city gate for sale, would be encompassed under the PGA,[39] a tariff provision that Mr. Busch agreed correctly tracks and charges these gas costs to the sales gas customers.[40] Thus, we have the odd arrangement where Mr. Busch would have the transportation customers pick up the allocation of some $11 million of costs of MGE's natural gas stored in the ground that, were they

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[37] Exhibit 601.

[38] Tr. 2119. "Available" gas comprehends MGE's ability to transport gas under its transportation arrangements at peak. *Id.*

[39] Tr. 2123-24, 2132-33.

[40] Tr. 2133.

to become sales customers they would then pay for (to the ***exact*** extent that such resources were used) through the PGA.

Mr. Busch acknowledged that there was no unconditional right to switch between services that his $11 million charge secured, nor even to switch back to transportation service.[41/] Had Mr. Busch read on in the MGE tariffs, he would also have recognized that the hypothetical transportation customer that switched to sales service would have to elect a contract demand level of at least the minimum sufficient to stay in the tariff category and that they would be bound to that contract demand for at least a year until the hypothetical customer could "switch" back.[42/]

b. Transportation Customers Do Not Rely On "Storage Gas" To Balance Their Transportation Volumes.

Mr. Busch's second rationale, that transportation customers "balanced" their shipments on MGE's storage volumes was also proven to be in error.[43/]

[41/] Tr. 2130-31.

[42/] Tr. 2123-25.

[43/] The Commission should appreciate that an "imbalance" does not come about because of bad action on the part of shippers. Transportation imbalances are an accepted operational fact and may result from differences in timing, variations in heat content of natural gas (Southern Star's gas stream may vary from roughly 980 MMBtu/cubic foot to as much as 1020 MMBtu/cubic foot; values that may even vary across different laterals on the pipeline system), conversion issues (MGE's system is volumetric while Southern Star's system is thermally balanced), and even simple metering error. Throughout the industry, a 2% meter error, either fast or slow, is accepted as "accurate."

First, Mr. Busch acknowledged that a "potential benefit" was not the same as a cost[44/] and that a customer should only be asked to pay once for the same service provided by the utility.[45/] He acknowledged that the gas inventory was actually held in storage locations (typically old natural gas fields) owned by the interstate pipeline[46/] and that MGE contracts with these interstates for that storage capability.[47/] However, Mr. Busch disclaimed knowledge about how many of the transportation customers or their marketers or brokers also contracted for storage on the interstate pipelines, even those connecting with Southern Star.[48/]

Second, Mr. Busch acknowledged that MGE's transportation tariffs provide for a balancing mechanism that requires the transportation customer to supply their own balancing gas and even penalizes them (possibly severely) depending on the amount of imbalance they have.[49/] Moreover, Mr. Busch acknowledged that the balancing process (as confirmed by MGE's tariffs) could as well be a situation in which the transportation customer was "long" to the system, *i.e.*, had supplied more gas to the system

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[44/] Tr. 2135.

[45/] Tr. 2137.

[46/] Tr. 2138.

[47/] Tr. 2138.

[48/] Tr. 2138-40.

[49/] Tr. 2142-43.

than the amount that they had currently taken.[50] In such a circumstance, under Mr. Busch's analysis, MGE should be paying the transportation customer because it was using the transportation customers' gas to balance a possible shortfall in its own deliveries. But, of course, Mr. Busch's analysis did not consider that, nor did it consider the circumstance of one transportation customer being "short" 50 Mcf while another transportation customer was "long" 50 Mcf with the result that there was neither a long or short situation on the total system.

Mr. Busch acknowledged that he didn't "know actually where that actual gas went. When it gets in the system."[51] He plainly did not know where the "long" gas went.[52] Finally, we appeared to get to the situation in which Mr. Busch was unwilling to assert that "it always comes out of storage when they take more than they put in."[53] In fact, the transportation customer's imbalance is still cashed out, but with a penalty depending on the divergence between nominated volumes and actual volumes.[54] Mr. Busch agreed that "in no case is the system not ultimately cashed out and made whole one way or the other."[55]

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[50] *Id.*, Tr. 2144.

[51] Tr. 2145.

[52] Tr. 2146.

[53] Tr. 2145-46.

[54] Tr. 2146.

[55] Tr. 2146-47.

Stated positively, the system was always cashed out and made whole.

Third, Mr. Busch had to concede that transportation customers use the same interstate pipeline resources as does MGE. They pay the same FERC-regulated tariffs and face the same terms and conditions as does MGE. Presented with a copy of Southern Star's FERC rate schedules as Exhibit 609, Mr. Busch appeared to recognize Southern Star's service classifications as well as the differentiation between the "production" and "market" areas recognized for the interstate pipeline.[56/] Mr. Busch acknowledged that users of Southern Star's TSS service, its firm transportation service (FTS) and even its interruptible transportation service (ITS) would nevertheless pay a balancing fee to the pipeline.[57/]

In fact, transportation customers on the MGE system are also transportation customers on the interstate pipeline system and must pay the same rates for that service as MGE. At the FERC level, the pipeline holds what is termed "cushion" or "working" gas in its storage -- gas that is deemed to be in storage all the time and is never withdrawn -- and the value of that gas which is needed to operate the storage fields is included as a rate base item for the pipeline. That rate base item becomes the basis of the charges that Mr. Busch identified on the Southern Star tariff

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[56/] Tr. 2151. A copy of this exhibit is attached as Appendix F.

[57/] Tr. 2156-57.

sheet as "reservation balancing charges" and "commodity balancing charges," the difference being whether there is a demand component of the service being taken. Thus, transportation customers deal with imbalances under Southern Star's system on a daily basis and are currently entitled to a 10% tolerance on that pipeline which is reduced to a 3% tolerance in times of system exigency.[58/] Importantly, they pay Southern Star for that tolerance through these system balancing charges. The answer to the question that Mr. Busch could not answer about "where the gas goes" is that it goes into pipeline storage or, in very small amounts, is even absorbed into the interstate system as what is called "line pack." All of this is paid by transportation customers in their charges from the FERC-regulated pipeline.

The crucial point is that transportation customers pay for balancing services to the pipeline under the same set of tariffs that MGE does. Moreover, many, like MGE, may purchase storage services from the pipeline or from other connected pipelines. Yet Mr. Busch would allocate $11 million of MGE's gas inventory costs to these same transportation customers because he somehow believes that they "might" use that gas for balancing.

With respect, Mr. Busch's reasoning is flawed. Mr. Busch, despite his good intentions, simply does not appreciate that these customers are paying for balancing services from

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[58/] Southern Star has sought to change its tolerance at the FERC level from 10% to 5% but has not proposed to reduce its system balancing charges. This has created a matter that is currently in dispute at the FERC level in Southern Star's pending FERC rate case, Docket No. RP04-296.

Southern Star. The MGE tariffs were approved by the Commission several months ago and reflect an acceptable level of compensation to MGE when transportation customers are out of balance on MGE. Mr. Busch's allocation charges them twice and more for the same "service" when in many instances they need or never receive this "service" at all.

G. True-Up Issues.

There appeared to be two true-up issues that were submitted to the Commission. The first of these concerned a newly-discovered property tax in Kansas. The proposed tax was on the value of gas in storage fields in the State of Kansas. Although MGE indicated that it expected to contest the assessment, it nevertheless sought recovery of it from ratepayers.

These parties oppose inclusion of the claimed tax payment and also oppose inclusion of the claimed tax payment to transportation customers.

The second issue was MGE's rate case expense. This item is clearly excessive. While MGE has the right to take a "fresh look" as its counsel sought to spin its presentation, the costs of doing so must be reasonable for them to be absorbed by ratepayers. On the cost of capital issue, the shareholders are the primary beneficiaries of any cost of capital determinations.

1. Newly-Discovered Taxes Associated With Gas Storage Inventory Should Not Be Allocated to Transportation Customers.

There are three reasons why this true-up item is not a proper true-up expense.

First, the claimed expenses have not been incurred. Under Kansas law, such taxes are not due until December 31 and then only 1/2 of the claimed value is due with the balance due in June of the following year. Even if actual expenditure is made, it will be well beyond the test year and beyond the true-up period for this rate case. The issue was not even listed as a true-up issue by MGE.

Second, the expenses are not known and measurable and therefore are inappropriate for inclusion in this case.

Third, for reasons amply demonstrated earlier in this brief, no part of these costs, even if allowed, should be allocated to transportation customers. Indeed, although not presently known, it is entirely possible that transportation customers who themselves hold gas in storage fields in Kansas may receive similar billings from Kansas.

2. Ratepayers Should Not Be Charged MGE's Excessive Rate Case Expense.

On rate case expense, MGE has clearly moves well past the line of what is reasonable. MGE brought in expensive -- to say the least -- New York attorneys at costs of $675 and $690 per hour to do work that local counsel was well qualified to do. In fact, the Commission will recall, that the major argument was

over ***Missouri*** law -- not some arcane provision in the New York Code. Finally, as even a freshly-minted University of Missouri law school graduate could have told these expensive attorneys: their objection went to the weight to be accorded to the evidence; not to its admissibility. $690 per hour seems high for such representation.

Legal fees of $690 per hour are not even the going rate in New York. Expenses of these amounts are simply and flagrantly unreasonable to charge to ratepayers. MGE may well be able to pay such fees from its shareholders' pockets, but there is simply no basis to charge such costs to the ratepayers.

MGE also brought in several additional rate of return "experts." MGE produced a former Pennsylvania regulator who disclaimed knowledge of Missouri law and the facts of this case, preferring only to opine on the meaning of the well-known *Hope Natural Gas* and *Bluefield Water Works* cases as though this Commission would otherwise be ignorant of them. This witness charged a substantial amount for his services as well as transportation charges, all to do nothing more than a $29.95 copy of Bonbright would have done. Additionally, MGE produced yet another expert, for a fee of $30,000 who acknowledged providing less than 25 hours of work on the case -- an hourly rate that is plainly excessive.

Again, MGE may well wish to employ such consultants and experts, but it is a different matter when it seeks to charge

these costs to the ratepayers. Such expenses are plainly unreasonable.

3. These Parties Oppose Accounting Authority Order Relief to MGE In the True-Up Proceeding.

This Commission has often dealt with accounting authority orders or "AAOs." There is a specific process for filing, processing applications for AAOs. There are specific recognized standards for dealing with AAO applications. Given that they are intended for address to "act of God" situations such as ice storms and floods that are beyond management control, this does not appear on its face to be an appropriate case for an AAO inasmuch as MGE acknowledges that it intends to contest the amounts and the legality of the assessments.

Staff appeared to suggest that the Commission might issue an AAO in this proceeding for the Kansas tax matter. We believe such issuance would be entirely inappropriate and agree with the position taken by Public Counsel.

III. RATE DESIGN AGREEMENTS.

During the course of the prehearing conference, the Company accepted two changes in its initial proposal regarding rate design. The first change involved the multi-meter discount for LVS customers. The other change involved the continuation of the five months winter and seven month summer seasons rather than

six months for each season for the LVS and Large General Service (LGS) classes.[59/]

A. Large Volume Service Customer Charge - Multi-Meter Discount Agreement.

MGE agreed to an adjustment to its original proposal regarding multi-meter discounts for LVS customers with multiple meters so that the matter is no longer in issue. MGE agreed to maintain the discount applicable to customers with more than two meters at a level that would produce the same rate they currently pay for each meter in excess of two meters, *i.e.*, $204.65 for each meter in excess of two.

Currently the multi-meter discount is found at Sheet No. 40 of MGE's tariffs (Ex. 601, Sheet No. 40) and reads in pertinent part as follows:

> When more than one meter is set at a single address or location, as of June 30, 2000, for the customer's convenience, an LVS customer charge shall be assessed for each of the first two meters. For each such remaining installed meter, customer charges will be computed at 50 percent of the LVS customer charge.

Under current rates, the monthly customer charge for LVS customers is $409.30. Thus, under the current tariff, the customer charge for multi-meter customers with more than three meters is $409.30 for each of such customer's first two meters and $204.65 for each meter in excess of two. With MGE's proposed 50% increase in the LVS customer charge from $409.30 to $614.00,

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[59/] See Cummings Rebuttal Testimony, Ex. 25, pp. 29, 38-40.

the discounted rate for those meters in excess of two would produce a rate of $307.00 each per month, which is a 50% increase over the current discounted rate of $204.65. For CMSU which has 14 meters, this increase in the rate for its 12 meters in excess of two would have meant an annual increase of $14,738.40 and for UMKC which has 5 meters, this increase in the rate for its 3 meters in excess of two would have meant an annual increase of $3,684.60.

Fortunately for such state universities, MGE has agreed that the level of the customer charge applied to applicable meters in excess of two be held at the current level.[60/] In other words, it would remain at $204.65 for each meter in excess of two at a single address or location. As Mr. Cummings pointed out,[61/] if the LVS customer charge were increased 50% from $409.30 to $614.00 as proposed, the discount would be increased from 50% to 66.67% in order to keep the discounted rate at $204.65. ($614.00 x 66.67% = $409.35 and $614.00 - $409.35 = $204.65). Under such scenario, the language on Sheet No. 40 could be revised by changing:

> "For each such remaining installed meter, customer charges will be computed at 50 percent of the LVS customer charge."

to read:

> "For each such remaining installed meter, customer charges will be computed at 33.33 percent of the LVS customer charge."

[60/] See Cummings Rebuttal Testimony, Ex. 25, pp. 38-40.

[61/] Exhibit 25, p. 39.

Of course, if MGE does not get the full increase in revenue requirements that it is seeking in this case and the LVS customer charge is not increased to $614.00 as proposed but instead by a lesser percentage then the percentage used to compute the multi-meter discount would need to be changed from the current "50 percent" to whatever percentage would produce a rate of $204.65 applicable for the meters in excess of two. For example, if the LVS customer charge were increased by 10% to $450.25, in order to keep the customer charge for meters in excess of two at $204.65 it would be necessary to change the "50 percent" to "45.452%". Or alternatively, for those of us who are mathematically challenged, by changing the sentence on Sheet No. 40 to read:

> "For each such remaining installed meter, customer charges will be computed at $204.65 per meter."

B. Agreement to Retain the current seasonal rate differentials of five months winter and seven months summer for LVS and LGS classes.

During the prehearing process MGE also abandoned its proposal to change the seasonal rates from its current five months winter (November through March) and seven months summer (April through October) to a six month winter season (November through April) and a 6 month summer season (May through October) for the LVS and LGS classes.[62/] The seasonal differentiation assists with MGE's load factor and preserves its rates as consis-

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[62/] Cummings Rebuttal Testimony, Ex. 25, p. 29.

tent with the interstate pipelines that provide it (and its transportation customers) with service.

C. Summary of Rate Design Agreements.

Pursuant to these agreements, the rates set in this proceeding should reflect: a) that no matter what increase is granted in the rate for the LVS customer charge, the discount for multiple meters in excess of two at a single address or location shall be set so that it continues to produce a rate of $204.65 per month for each such meter; and b) that for the seasonal rates of LVS and LGS customers, the winter season shall continue to be the five months of November through March and the summer season shall continue to be the seven months of April through October.

IV. CONCLUSION.

The Commission should accept the two rate design agreements that have been made and expressly authorize them in its order even though no issue was laid in this record about them.

MGE's CCOSS, even with the correction indicated, still overstates the costs that should be charged to transportation customers. Therefore, for the purposes of this case, MGUA/UMKC/CMSU/Jackson County recommend that any increase be spread so as to yield rate revenues by class according to the MGE class cost-of-service study with the adjustments proposed by Mr. Johnstone, based on the approved cost and revenue level.

The Commission should use its discretion and request that such study be prepared and submitted for the record. If the Commission chooses not to require an updated class cost-of-service-study that reflects the approved costs and revenue requirements, the rates should be adjusted to yield class revenues in equal proportion to the class cost-of-service according to the MGE class cost-of-service study instead of mitigating the move to cost-of-service based class revenues as proposed by MGE.

Respectfully submitted,

FINNEGAN, CONRAD & PETERSON, L.C.

/s/ Jeremiah D. Finnegan
Jeremiah D. Finnegan 18416

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ATTORNEYS FOR UNKC, CMSU and MIDWEST GAS USERS' ASSOCIATION

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by U.S. mail, postage prepaid, or by electronic mail, to all parties upon their attorneys of record as disclosed by the pleadings and orders herein.

Stuart W. Conrad

Dated: August 2, 2004

APPENDIX A

Missouri Gas Energy,
a Division of Southern Union Company For: All Missouri Service Areas

ELECTRONIC GAS MEASUREMENT EQUIPMENT
EGM

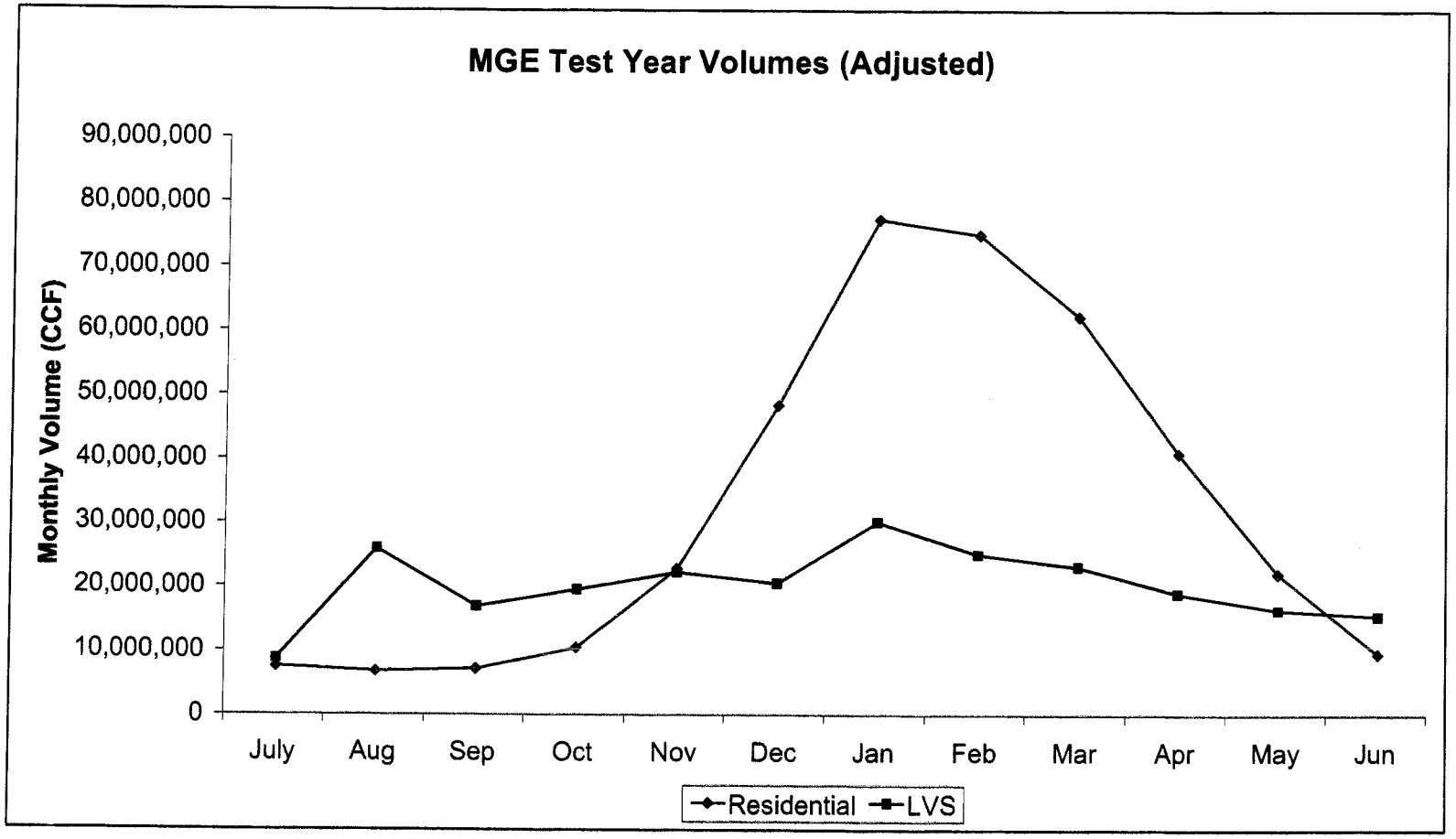
APPLICABLE

EGM equipment will be required for natural gas service supplied to large volume transportation customers. EGM equipment will be required on all meters necessary to record 100% of the customer's annual natural gas usage at customer's location.

For safety, billing, and efficiency-related reasons, the Company will install, own and operate all EGM equipment. Such equipment will provide for the on-site measurement of natural gas consumed by the customer. Company agrees to provide a data link or contact closure from the Company's EGM equipment to the customer at the meter site so customer can receive data in the same fashion that is available to the Company. At the customer's request, Company will inspect and evaluate customer's connection to the Company-owned EGM equipment during normal Company working hours. The Company will also provide and bill customer the actual cost for any requested assistance beyond maintenance to the Company EGM equipment connection.

The customer is required to provide adequate space for the installation of the EGM equipment and shall provide and maintain, at its cost, electric power and telephone circuitry according to Company EGM standards. Electric power and telephone connection locations shall be mutually agreed to by Company and customer. Failure to provide power and telephone will be considered non-compliance with the EGM obligation and transportation service will be terminated within 30 days written notice to the customer. The customer will be placed into appropriate rate schedule based on annual consumption. A minimum of 12 months must pass for the customer to again qualify for the transportation service. The customer will also be required to comply with the EGM requirements before being moved to the transportation rate schedule.

APPENDIX B



Line		July	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Total 2003
1	Res Total Volumes	7,246,186	6,489,583	6,883,874	10,243,741	22,589,482	48,105,375	77,123,459	74,737,850	62,050,729	40,693,226	21,887,008	9,369,281	387,419,794
2	LVS Total Volumes	8,513,339	25,722,421	16,647,460	19,321,498	22,049,952	20,312,196	29,942,250	24,883,034	22,999,127	18,786,799	16,201,647	15,264,921	240,644,643
3	LVS First Step Volumes	3,973,315	7,583,037	6,061,097	7,052,868	8,164,166	6,819,271	9,598,887	8,757,853	8,648,717	7,320,285	6,145,293	5,765,082	85,889,873
4	LVS 2nd Step Volumes	4,540,024	18,139,383	10,586,363	12,268,630	13,885,786	13,492,925	20,343,363	16,125,181	14,350,409	11,466,514	10,056,353	9,499,839	154,754,770

		Residential	LVS
5	Maximum Month	77,123,459	29,942,250
6	Minimum Month	6,489,583	8,513,339
7	Ratio of Maximum to Minimum	11.9	3.5

APPENDIX C

617

MISSOURI GAS ENERGY

A division of Southern Union Company

Jackson County

DATA INFORMATION REQUEST RESPONSE

Case Number: GR-2004-0209

Data Request No 0034

Requested From: Conrad

Date Requested: 6/8/2004

Information Requested:

Please describe all facets of the MGE gas supply acquisition process including all short and long term and management oversight. Please identify responsibilities in this regard of each department.

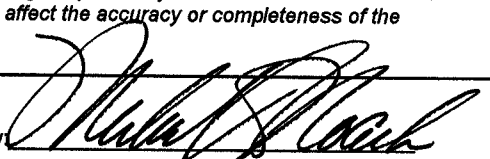
Requested By: Mike Noack

Information Provided:

The gas supply acquisition process includes supply planning, supply acquisition and storage management.
Volumetric supply planning is completed using forecast monthly and seasonal requirements of commodity customers. Supply plans are adjusted for actual weather and storage levels.
Supply acquisition is completed based on monthly and seasonal supply plans.
Storage management is completed based on supply plans, contract parameters and FERC tariffs requirements.
The Director of Gas Supply and the Vice Present of Pricing provide short and long-term management oversight. Both positions are in the Department of Pricing and Regulatory Affairs

The information provided in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to promptly notify the requesting party if, during the pendency of Case No. GR-2004-0209 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

Date Response Received:_____

Signed By: 

Director, Pricing and Regulatory Affairs

Date: 6/20/04

APPENDIX D

610

MISSOURI GAS ENERGY

A division of Southern Union Company

Jackson County

DATA INFORMATION REQUEST RESPONSE

Case Number: GR-2004-0209

Data Request No 0035

Requested From: Conrad

Date Requested: 6/8/2004

Information Requested:

Please identify all personnel that perform the functions described in item CMSU/UMKC data request number 34. For such personnel please provide the following:
A. Department of each employee,
B. Percentage of time of each employee devoted to functions described in data request number 34,
C. Test year salary by account number.

Requested By: Mike Noack

Information Provided:

A.
·David Kirkland – Gas Supply
·John Hayes - Gas Supply
·Robert Hack – Pricing and Regulatory Affairs
B.
·David Kirkland – 20%
·John Hayes - 50%
·Robert Hack – 5%
C.
All salary information is included in the workpapers furnished with the filing and the updated filing

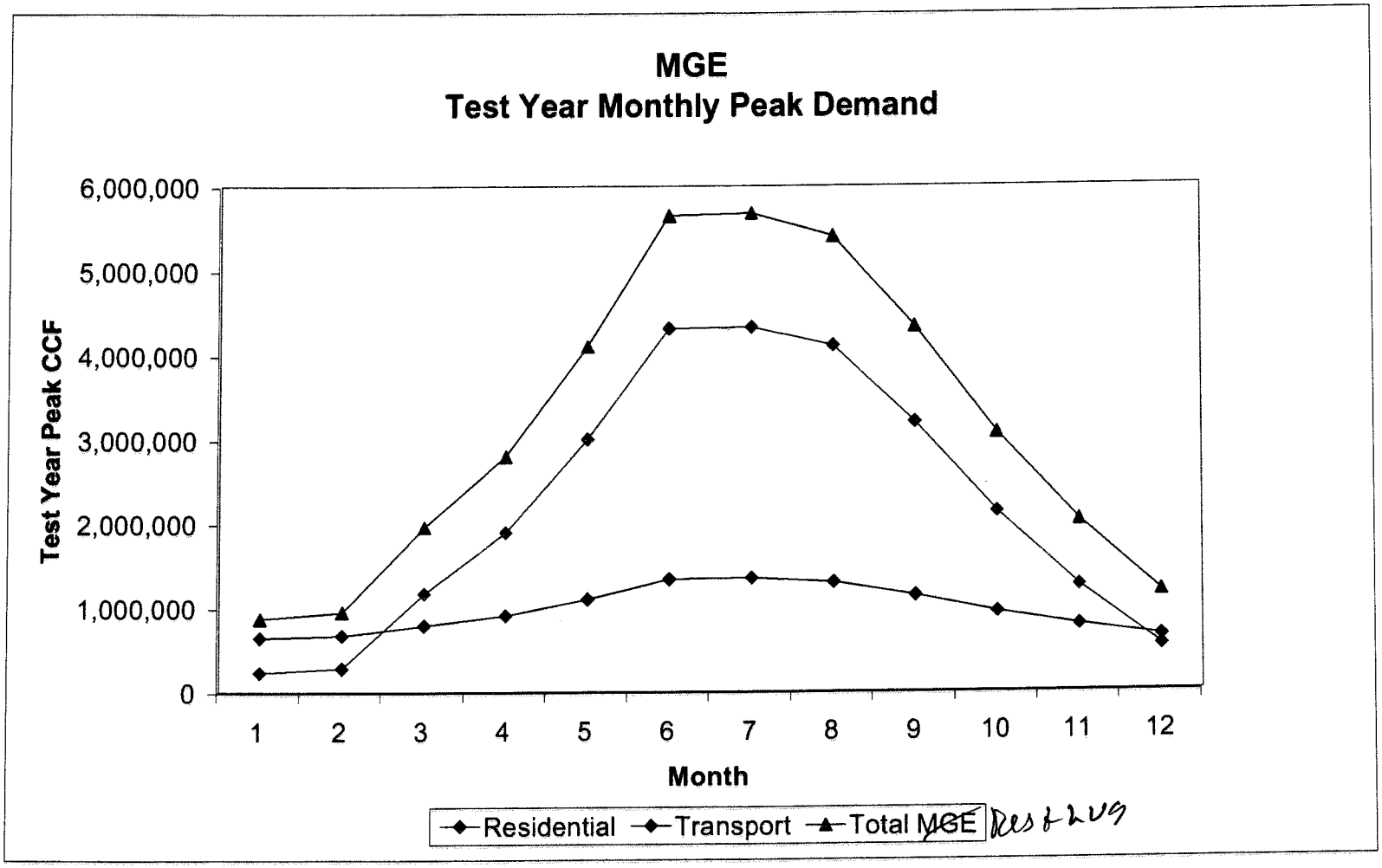
The information provided in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to promptly notify the requesting party if, during the pendency of Case No. GR-2004-0209 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

Date Response Received:_____

Signed By:_____
Director, Pricing and Regulatory Affairs

Date: 6/30/04

APPENDIX E



Line		Monthly Peak Demand											
1	Month	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
2	Residential	228,655	278,069	1,171,257	1,895,863	3,002,757	4,313,503	4,328,785	4,109,551	3,204,395	2,133,445	1,248,972	535,553
3	Transport	643,821	670,522	790,110	907,266	1,099,762	1,334,713	1,350,194	1,295,675	1,133,615	938,141	781,088	649,260
4	Total MGE	872,476	948,591	1,961,367	2,803,129	4,102,519	5,648,216	5,678,979	5,405,226	4,338,010	3,071,586	2,030,060	1,184,813

		Residential	Transport	Total MGE
4	Maximum Month	4,328,785	1,350,194	5,678,979
5	Minimum Month	228,655	643,821	872,476
6	Ratio of Maximum to Minimum	18.9	2.1	6.5

APPENDIX F

STATEMENT OF RATES FOR TRANSPORTATION OF NATURAL GAS
AND OTHER RELATED SERVICES

		Minimum Rate 1/	Maximum Rate 1/
TSSP	No Notice Fee	$ .0000	$ .0154
	Reservation - FSS - Deliverability	.0000	.5001
	Reservation - FSS - Capacity 4/	.0000	.0285
	Reservation - FTS-P	.0000	5.6118
	Injection - FSS	.0122	.0122
	Withdrawal - FSS	.0122	.0122
	Commodity - FTSP	.0124	.0124
	Authorized Overrun - FSS - Deliverability 2/	.0000	.0164
	Authorized Overrun - FSS - Capacity	.0000	.0009
	Authorized Overrun - FTSP	.0124	.1969
TSSM	NoNotice Fee	.0000	.0154
	Reservation - FSS - Deliverability	.0000	.5001
	Reservation - FSS - Capacity 4/	.0000	.0285
	Reservation - FTS-P 3/	.0000	5.6118
	Reservation - FTS-M	.0000	2.8014
	Injection - FSS	.0122	.0122
	Withdrawal - FSS	.0122	.0122
	Commodity - FTSP 3/	.0124	.0124
	Commodity - FTSM	.0061	.0061
	Authorized Overrun - FSS - Deliverability 2/	.0000	.0164
	Authorized Overrun - FSS - Capacity	.0000	.0009
	Authorized Overrun - FTSP 3/	.0124	.1969
	Authorized Overrun - FTSM	.0061	.0982
STSP	Commodity	.0124	.7502
	Authorized Overrun	.0124	.7502
STSM	Commodity - STSP 3/	.0124	.3006
	Authorized Overrun - STSP 3/	.0124	.3006
	Commodity - STSM	.0061	.4838
	Authorized Overrun - STSM	.0061	.4838
FTSP	Reservation	.0000	5.6118
	Reservation Balancing Fee	.0000	.1604
	Commodity	.0124	.0124
	Commodity Balancing Fee	.0004	.0004
	Authorized Overrun	.0124	.1969
	Commodity Bal Fee - Auth Overrun	.0004	.0057
FTSM	Reservation	.0000	2.8014
	Reservation Balancing Fee	.0000	.1604
	Commodity	.0061	.0061
	Commodity Balancing Fee	.0004	.0004
	Authorized Overrun	.0061	.0982
	Commodity Bal Fee - Auth Overrun	.0004	.0057
SFTP	Commodity	.0124	.6526
	Commodity Balancing Fee	.0004	.0187
	Authorized Overrun	.0124	.6526
SFTM	Commodity - SFTP 3/	.0124	.3006
	Commodity Bal Fee - SFTP 3/	.0004	.0086
	Authorized Overrun - SFTP 3/	.0124	.3006
	Commodity - SFTM	.0061	.4230
	Commodity Bal Fee - SFTM	.0004	.0243
	Authorized Overrun - SFTM	.0061	.4230

For Additional Surcharges Applicable to all Rate Schedules, see Sheet No. 11.
Fuel Reimbursement Percentages applicable to all Rate Schedules are shown on
Sheet No. 12.
1/ Reservation rates are per Dth of MDTQ per month. Commodity Rates are per Dth.
2/ Applicable to Injections/Withdrawals in excess of MDIQ or MDWQ, in addition to the injection/
withdrawal charge.
3/ FTSP, STSP, & SFTP are only applicable if firm capacity is reserved in
the Production Area.
4/ Applied to month-end storage balance.

STATEMENT OF RATES FOR TRANSPORTATION OF NATURAL GAS
AND OTHER RELATED SERVICES (CONTINUED)

		Minimum Rate 1/	Maximum Rate 1/
ITS-P	Winter Commodity	$ .0124	$ .1969
	Summer Commodity	.0124	.1600
	Commodity Balancing Fee	.0004	.0057
ITS-M	Winter Commodity	.0061	.0982
	Summer Commodity	.0061	.0798
	Commodity Balancing Fee	.0004	.0057
FSS	Deliverability Reservation	.0000	.5001
	Capacity Reservation 4/	.0000	.0285
	Injection	.0122	.0122
	Withdrawal	.0122	.0122
	Authorized Overrun - Deliverability 6/	.0000	.0164
	Authorized Overrun - Capacity	.0000	.0009
ISS	Commodity 4/	.0000	.0570
	Injection	.0122	.0122
	Withdrawal	.0122	.0122
PLS-P	Daily Commodity	.0000	.1600
PLS-M	Daily Commodity	.0000	.0798

Additional Surcharges Applicable to all Rate Schedules:

Article 25 - GRI Funding Unit 2/	- Demand - Load Factors > 50%	$ .0500
	- Demand - Load Factors 50% or Less	.0310
	- Commodity - Small Customers	.0060
	- Commodity - Others	.0040
Article 26 - FERC Annual Charge Adjustment		.0021

VOLUMETRIC FIRM CAPACITY RELEASE MAXIMUM RATES 5/
STATED AT 100% LOAD FACTOR

		Maximum Rate 3/
TSS-P	No-Notice Fee	$ .0005
	Reservation - FSS 4/	.0570
	Reservation - FTS-P	.1845
TSS-M	No-Notice Fee	.0005
	Reservation - FSS 4/	.0570
	Reservation - FTS-P	.1845
	Reservation - FTS-M	.0921
FTS-P	Reservation	.1845
	Reservation Balancing Fee	.0053
FTS-M	Reservation	.0921
	Reservation Balancing Fee	.0053
FSS	Reservation 4/	.0570

Fuel Reimbursement Percentages applicable to all Rate Schedules are shown on Sheet No. 12.

1/ Reservation rates are per Dth of MDTQ per month. Commodity Rates are per Dth.
2/ Applicable to nondiscounted transportation services.
3/ Exclusive of any surcharges and commodity charges.
4/ Applied to month-end storage balance.
5/ Does not apply to capacity release transactions of less than one year for the period March 27, 2000 until September 30, 2002.
6/ Applicable to Injections/Withdrawals in excess of MDIQ or MDWQ, in addition to the Injections/Withdrawal charge.

FUEL REIMBURSEMENT PERCENTAGES
FOR ALL RATE SCHEDULES

	Minimum Percent	Maximum Percent
Storage Injection	3.44%	3.44%
Production Area	.47% 1/	1.58%
Market Area	.47%	.73%

1/ Applicable as provided in Article 13.3 of the General Terms and Conditions.