

Exhibit No.: 004
Issues: Revenue Deficiency
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2006-
Date Testimony Prepared: May 1, 2006

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2006-

DIRECT TESTIMONY OF

MICHAEL R. NOACK

FILED²

FEB 07 2007

Missouri Public
Service Commission

Jefferson City, Missouri

May 2006

MGE Exhibit No. 4
Case No(s). GR-2006-0422
Date 1-8-04 Rptr pf

Exhibit No.: _____
Issues: Revenue Deficiency
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2006-
Date Testimony Prepared: May 1, 2006

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2006-

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

May 2006

DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2006-_____

MAY 2006

1. EXECUTIVE SUMMARY	2
2. ADMINISTRATIVE MATTERS	3
3. REVENUE DEFICIENCY.....	5
4. MISCELLANEOUS MATTERS	24
5. TARIFF CHANGES	26

DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2006-_____

MAY 2006

1

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**
3 **ADDRESS?**

4 A. My name is Michael R. Noack and my business address is 3420 Broadway,
5 Kansas City, Missouri 64111.

6

7 **Q. WHO ARE YOU EMPLOYED BY?**

8 A. I am employed by Missouri Gas Energy (MGE), a division of Southern Union
9 Company (Company), as Director of Pricing and Regulatory Affairs.

10

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
12 **EXPERIENCE.**

13 A. I received a Bachelor of Science in Business Administration with a major in
14 Accounting from the University of Missouri in Columbia in 1973. Upon
15 graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a
16 Certified Public Accounting Firm in Kansas City, Missouri. I spent
17 approximately 20 years working with TKWK or firms that were formed from
18 former TKWK employees or partners. I was involved during that time in public
19 utility consulting and financial accounting, concentrating primarily on rate cases
20 for electric and gas utilities and financial audits of independent telephone
21 companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of

1 Kansas City which was an energy consulting company specializing in billing
2 analysis and tariff selection for large commercial and industrial customers. In July
3 of 2000 I started my employment with MGE. Presently I hold in good standing, a
4 Certified Public Accountant certificate in the state of Kansas and am a member of
5 the Kansas Society of Certified Public Accountants.

6
7 **1. EXECUTIVE SUMMARY**

8 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
9 **PROCEEDING?**

10 **A.** The purpose of my testimony is to support MGE's requested revenue increase of
11 \$41,651,345, or 6.8%.

12
13 The revenue deficiency is supported by Schedules A through H, which are
14 attached to this testimony. I will be responsible for sponsoring most of the
15 adjustments made to the test year ending December 31, 2005 and which support
16 the revenue deficiency. Other MGE witnesses providing direct testimony are
17 Russell Feingold, supporting revenue adjustments and a weather normalization
18 clause; Ronald Amen supporting rate design and cost of service allocation;
19 Michael Adams supporting the cash working capital requirement; Carlton A.
20 Ricketts, discussing customer service; Frank Hanley, supporting the capital
21 structure and the cost of capital shown in Schedule F; Thomas J. Sullivan,
22 supporting depreciation rates; and Robert J. Hack, providing policy testimony.

1 **Q. WHY DOES MGE NEED TO FILE FOR A GENERAL RATE INCREASE?**

2 A. Simply stated, MGE is not achieving its authorized rate of return. There are three
3 primary reasons for not achieving the authorized rate of return.

- 4 1. Plant in service has increased approximately \$50 million.
- 5 2. Operating expenses as adjusted are significantly higher
- 6 3. Usage per customer is significantly lower than the level rates were
- 7 set at in GR-2004-0209
- 8

9

10 **2. ADMINISTRATIVE MATTERS**

11 **Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT**
12 **SECTIONS OF SCHEDULES ATTACHED TO YOUR DIRECT**
13 **TESTIMONY?**

14 A. Schedule A summarizes the revenue deficiency at December 31, 2005.

15 Schedule B summarizes and supports the various rate base components.

16 Schedule C summarizes and supports plant in service.

17 Schedule D summarizes and supports Reserve for Depreciation.

18 Schedule E summarizes and supports the various working capital components.

19 Schedule F summarizes the rate of return.

20 Schedule G is a comparison of statistical information

21 Schedule H summarizes & supports the operating income statement &
22 adjustments.

23

24 **Q. WHAT IS THE TEST YEAR USED IN THIS DETERMINATION OF**
25 **MGE'S REVENUE REQUIREMENT?**

1 A. The test year is the twelve months ending December 31, 2005 adjusted for known
2 and measurable changes.

3

4 **Q. WILL MGE BE REQUESTING THAT THE TEST YEAR BE UPDATED?**

5 A. Yes. MGE expects to update the test year through June 30, 2006. This is
6 consistent with the process used in the last two MGE rate cases. This will provide
7 a relatively current time period of actual experience on which to base rates for the
8 future while at the same time allowing the Commission staff and other parties to
9 audit this actual experience.

10

11 **Q. IS MGE REQUESTING A "TRUE-UP" PROCESS?**

12 A. MGE requests a "true-up" through October 2006 in order to mitigate regulatory
13 lag and update the following significant cost components:

14 **RETURN:**

15 Capital Structure and related costs (unless a hypothetical capital structure
16 is adopted)

17

18 **RATE BASE:**

19 Plant in Service

20 Depreciation Reserve

21 Deferred Taxes

22 Working Capital Components including Materials and Supplies, Natural
23 Gas Storage Inventory and Prepaid Pensions

24

25 **INCOME STATEMENT:**

26 Revenue for Customer Growth

27 Payroll, Employee Levels and Current Wage Levels

28 Pension Costs

29 Injuries and Damages

30 Rate Case Expense

1 Depreciation and Amortization Expense
2 Property Taxes
3 Related Income Tax Effects
4

5 **3. REVENUE DEFICIENCY**

6 **Q. MR. NOACK, WOULD YOU PLEASE EXPLAIN THE SCHEDULES**
7 **ATTACHED TO YOUR TESTIMONY?**

8 A. Yes. Schedule A is a summary of the MGE revenue deficiency for the test year
9 ended December 31, 2005. The schedule summarizes the rate base, rate of return,
10 required net operating income, adjusted net operating income and, finally, the
11 revenue deficiency. The net revenue deficiency shown on Schedule A is
12 \$41,651,345, or approximately 6.84%.

13
14 Schedule A-1 is the summary of net operating income per books for the test year
15 ending December 31, 2005, a summary of the adjustments made to operations
16 and, finally, the as adjusted net operating income.

17
18 Schedule A-2 is a summary income tax computation both per books and as
19 adjusted for the twelve months ending December 31, 2005.
20

21 **Q. MR. NOACK, WOULD YOU PLEASE DESCRIBE SCHEDULE B, THE**
22 **CALCULATION OF RATE BASE?**

23 A. Schedule B summarizes the requested rate base of MGE at December 31, 2005.
24 Total rate base of \$581,203,364 consists of net plant of \$557,312,682, SLRP

1 Deferrals net of accumulated amortization of \$11,955,712, Working Capital of
2 \$99,028,330, and total rate base net offsets of \$87,093,361.
3

4 **Q. WOULD YOU PLEASE DESCRIBE THE SCHEDULES SUPPORTING**
5 **SCHEDULE B?**

6 A. Schedule B-1 is the summary of SLRP Deferrals net of accumulated amortization
7 and associated deferred taxes. The SLRP program requires significant costs to be
8 incurred which MGE was allowed to defer, before the advent of the infrastructure
9 system replacement surcharge ("ISRS") rate, pursuant to six separate Accounting
10 Authority Orders (AAOs).
11

12 **Q. WOULD YOU PLEASE DISCUSS EACH OF THE PREVIOUS AAOS,**
13 **WHICH HAVE GIVEN RISE TO THE ACCUMULATED DEFERRALS**
14 **INCLUDED IN MGE'S RATE BASE AT DECEMBER 31, 2005?**

15 A. The first AAO (Case No. GO-92-185) allowed the deferral of carrying costs,
16 depreciation and property taxes on safety related plant investments for the period
17 July 1, 1991 through October 15, 1993.
18

19 The second AAO (Case No. GO-94-133) covered the period from October 15,
20 1993 through February 1, 1994.
21

1 The third AAO (Case No. GO-94-234) allowed MGE to defer depreciation
2 expense, property taxes and compute carrying costs at a rate of 10.54% for the
3 period from February 1, 1994 through October 31, 1996.

4
5 The fourth AAO (Case No. GO-97-301) allowed MGE to defer depreciation,
6 property taxes and carrying costs from February 1, 1997 through May 31, 1998 or
7 the date at which the true-up ended and also seek rate recovery in Case No. GR-
8 98-140 of those regulatory assets recorded from November 1, 1996 through
9 January 31, 1997.

10
11 The fifth AAO was granted in the report and order issued in Case No. GR-98-140
12 and allowed MGE to begin deferring costs on September 3, 1998 and allowed
13 them to continue July 31, 2001.

14
15 The sixth and most recent AAO to date was granted in the report and order issued
16 in Case No. GR-2001-292 and allows MGE to defer costs from July 1, 2001
17 through the test year or true-up period in this case.

18
19 **Q. WHAT AMOUNT OF SLRP DEFERRALS HAVE YOU INCLUDED IN**
20 **RATE BASE AT DECEMBER 31, 2005?**

21 A. Schedule B-1 details the total unamortized SLRP deferrals of \$11,955,712 and
22 associated deferred taxes of \$4,062,133 at December 31, 2005.

1 **Q. PLEASE EXPLAIN THE OTHER COMPONENTS INCLUDED IN RATE**
2 **BASE?**

3 A. Generally there are three types of costs and related approaches considered in
4 developing rate base. The first type of cost and approach relates to amounts that
5 are included in rate base in compliance with Commission Orders. The
6 Commission had included the SLRP Accounting Authority Orders (AAOs), which
7 I described above, in rate base in cases prior to Case No. GR-98-140.

8
9 The second type of cost and approach relates to amounts that fluctuate monthly
10 due to many variables. Adjusting any one of these costs at a date specific may not
11 provide a reasonable basis for determining an appropriate level of on-going cost
12 of service. Specifically, a thirteen-month average has been utilized to more
13 accurately reflect the on-going nature of these fluctuating balances.

14
15 The third type of cost and approach relates to actual test period amounts which are
16 adjusted for known and measurable changes that have occurred or will take place
17 prior to rates being placed into effect. These adjustments minimize the effects of
18 regulatory lag. The objective is to establish rates prospectively, synchronizing the
19 cost of service with the revenue stream so that MGE in fact has a reasonable
20 opportunity to earn its authorized rate of return.

21
22 **Q. PLEASE DESCRIBE COSTS, WHICH ARE AFFORDED A THIRTEEN-**
23 **MONTH AVERAGE.**

1 A. The rate base items afforded a thirteen month average are material and supplies
2 inventory, prepayments, natural gas in storage, as well as the rate base offsets of
3 customer deposits and customer advances. Schedules B-2 and B-3 show the
4 monthly amounts related to customer deposits and customer advances,
5 respectively. Schedule E provides a summary of all working capital components
6 with the monthly amounts for Materials and Supplies, Prepayments and Natural
7 Gas in Storage being shown on Schedules E-1, E-2 and E-3 respectively.

8

9 **Q. HAVE YOU ALSO INCLUDED A CASH WORKING CAPITAL**
10 **COMPONENT OF RATE BASE AT DECEMBER 31, 2005?**

11 A. Michael Adams is sponsoring testimony supporting cash working capital in rate
12 base in the amount of \$13,353,691.

13

14 **Q. HAVE YOU INCLUDED ANY OTHER WORKING CAPITAL**
15 **COMPONENTS IN YOUR RATE BASE?**

16 A. Schedule E-5 includes the net prepaid pension asset in the working capital
17 component of rate base.

18

19 **Q. PLEASE EXPLAIN YOUR SCHEDULE OF PLANT IN SERVICE.**

20 A. Schedule C, page 1 of 2 summarizes the various categories of plant investment
21 including the direct plant MGE accounts for on its books; completed construction
22 not classified; joint and common plant accounted for on Southern Union
23 Company's books that is allocated to MGE; and any adjustments. There are two

1 adjustments included in the December 31, 2005 plant in service balance. The first
2 eliminates from rate base the investment in inactive services. This adjustment,
3 while not having a direct effect on rate base since the retirement decreases both
4 plant and accumulated depreciation by the same amount, does decrease
5 depreciation expense for the test year. The second adjustment eliminates the
6 balance of the accounting software system which is included on MGE's books but
7 was replaced by a new accounting software system in 2005.

8
9 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME,**
10 **WHICH YOU ARE SPONSORING, ON SCHEDULE H.**

11 A. Schedule H, consisting of 25 schedules, details all of the adjustments made to cost
12 of service. The first two pages of schedule H detail the operating income
13 statement summarized by the uniform system of accounts. It shows the test year
14 balances per books at December 31, 2005, a summary of the proforma
15 adjustments to each account and finally the adjusted balance at December 31,
16 2005. The next six pages detail each adjustment individually by FERC account
17 number.

18
19 Schedules H-1 and H-2 are the revenue adjustments and are being sponsored by
20 MGE witness Feingold.

21
22 Schedule H-3 removes purchased gas costs from the operating income statement.
23 These expenses should not be included in the determination of the cost of service.

1 Purchased gas costs are recovered through the PGA mechanism and not base
2 rates.

3
4 **Q. PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.**

5 A. Proforma payroll and the related payroll adjustment is detailed by account number
6 on schedule H-4. The adjustment takes into consideration the employee levels at
7 December 31, 2005 and the level of wages known and measurable as of April 1,
8 2006. The proforma level also includes overtime, which was based on actual
9 overtime hours worked during the test year. Dividing total proforma payroll
10 charged to operating expenses by total proforma payroll developed a payroll
11 expense ratio. This payroll expense ratio was subsequently applied to the
12 proforma levels of employee benefits, payroll taxes and injuries and damages.

13
14 A separate adjustment has been proposed on Schedule H-22, which normalizes
15 MGE incentive compensation and bonuses based on an average three-year period
16 2003 through 2005.

17
18 Payroll taxes on schedule H-6 are adjusted for the payroll annualization.

19
20 **Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE**
21 **BENEFITS?**

22 A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses
23 representing employee benefits paid on behalf of employees. Included in these

1 benefits is the FAS 87 pension expense, which represents the ERISA minimum
2 payment necessary for 2005 and which will be made in 2006.

3
4 Other benefits expense costs include insurance, FAS 106 post retirement benefit
5 costs, 401k costs and other miscellaneous employee benefit costs charged to
6 account 926. These proforma costs were then multiplied by the payroll expense
7 ratio to arrive at the adjustment to operating expenses.

8
9 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE**
10 **AND INJURIES AND DAMAGES?**

11 A. Schedule H-7 normalizes the property insurance and injuries and damages by
12 taking a three-year average of workmen's compensation claims paid and auto and
13 general liability claims paid and adding that average to the insurance premiums
14 paid during the test year. In addition an additional accrual of \$1,500,000 or
15 \$500,000 per year has been included in order to reserve for damages which are
16 probable due to accidents occurring in the last part of 2005. The test year payroll
17 expense to capital ratio is then applied to the normalized injuries and damages
18 cost in order to compute the normalized test year operating expense.

19
20 **Q. PLEASE EXPLAIN SCHEDULE H-8.**

21 A. Schedule H-8 increases administrative and general expenses to properly assign or
22 allocate joint and common corporate functions to MGE. These functions support
23 the ongoing operations of MGE and include accounting, taxes, shareholder

1 relations, treasury, human resources, environmental and legal. Joint and common
2 costs allocated to MGE for the test year total \$3,559,811 for account 923. This
3 compares to the amount allowed in MGE's last rate case, Case No. GR-2004-0209
4 of \$4,325,651 for account 923.

5
6 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**
7 **EXPENSE?**

8 A. Yes. I have increased bad debt expense or uncollectible expense by \$1,772,614.

9
10 **Q. WHAT IS THE BASIS FOR YOUR ADJUSTMENT AND PLEASE**
11 **EXPLAIN HOW YOU COMPUTED THE ADJUSTMENT?**

12 A. The adjustment was computed by taking the averaging bad debt write-offs for
13 2004 and 2005 and comparing that average to the bad debt expense recorded in
14 2005. The average write-offs of \$8,881,391 when compared to the actual expense
15 of \$7,108,777 results in an adjustment of \$1,772,614.

16
17 **Q. WHY WERE ONLY TWO YEARS USED IN THE COMPUTATION OF**
18 **THE AVERAGE BAD DEBT WRITE-OFFS?**

19 A. I initially looked at the 3 and 4 year average of bad debt write-offs, but because of
20 the cost of gas and the levels of the PGA in the last two years, the years 2002 and
21 2003 are really not comparable to what has occurred in 2004 and 2005. The
22 average PGA levels for 2002 and 2003 were \$0.46896 and \$0.68155 per Ccf
23 respectively and the percent of revenue written off was 1.42% and 1.15%. In

1 2004 and 2005 the PGA has increased dramatically to an average level of
2 \$0.77128 in 2004 and \$0.86829 in 2005. At the same time the percent of revenue
3 written off has risen to 1.58% in 2004 and 1.45% in 2005. In other words, it is
4 not enough to just look at the average level of bad debt write-offs. Both the level
5 of gas costs which drives the dramatic increase in recorded gross revenues and the
6 percent of revenue actually written off must be factored into any formula for
7 normalizing the level of bad debt expense.

8
9 **Q. ARE THERE ANY OTHER ALTERNATIVES AVAILABLE FOR THE**
10 **COMMISSION TO CONSIDER WHEN DEALING WITH THE**
11 **UNPREDICTABLE NATURE OF THE BAD DEBT EXPENSE?**

12 **A.** In my opinion there are. As one alternative, the Commission can separate the bad
13 debt write-offs into two pieces; the gas cost piece and the distribution piece.

14
15 The gas cost portion of the bad debt is a risk the Company should not have to
16 bear. The purchased gas adjustment ("PGA") clause is meant to be the
17 mechanism by which the Company is reimbursed for the gas cost including the
18 commodity, storage, transportation costs and other costs of acquiring the gas
19 which is delivered to end use customers. MGE's tariff sheet no. 14 describes the
20 various costs that should included in the current cost of gas but also states that the
21 costs are not solely limited to just those costs:

22 Current Cost of Gas (CCG) - A per Ccf factor to reflect the current
23 estimate of the annualized cost of various natural gas services
24 purchased by the Company, including but not limited to firm and
25 interruptible gas supply, gathering, processing and treating

1 services, firm and interruptible transportation service, storage
2 services, gas price volatility mitigation instruments, including but
3 not limited to financial instruments and any service which bundles
4 or aggregates these various services.
5

6 The rising cost of natural gas has outstripped the traditional way of recovering bad
7 debt. MGE should be allowed to use the PGA mechanism to recover unpaid gas
8 costs. Concerns about the Company not having an incentive to keep unpaid bills
9 down which may be voiced are groundless because MGE will still have about 30
10 percent of any unpaid bill that represents distribution charge at risk and would still
11 try to collect that balance along with the gas cost portion of that unpaid bill. If a
12 customer wants gas service their bill needs to be paid. The gas cost portion of all
13 bad debt recoveries would then be credited back to the customers through the
14 PGA mechanism.
15

16 Another alternative would be for the Commission to permit MGE to defer the gas
17 portion of bad debt expense in a way similar to the tracking mechanisms in place
18 for the over/under recovery of pension expense and cost of removal. Currently
19 MGE is allowed to recover a set amount of pension expense and cost of removal
20 in rates. If at the end of the year, MGE has either over or under collected those
21 costs from ratepayers, the difference is recorded in a deferred asset/liability
22 account and amortized to rates in the subsequent rate filing. Using that same
23 mechanism, MGE would be allowed to include in rates \$6,786,361 of bad debts
24 associated with gas costs and \$2,095,030 related to non gas costs. If at the end of
25 the year, MGE's actual bad debt expense associated with gas costs is \$7,086,361,
26 then MGE would be allowed to defer the difference and include amortization of

1 the deferral over 3 years in the next rate case. The non-gas portion of \$2,095,030
2 would not be included in this mechanism and remain at risk for MGE.

3
4 **Q. IF MGE WERE ALLOWED TO PASS THROUGH THE GAS PORTION**
5 **OF BAD DEBTS THROUGH THE PGA, WHAT WOULD THE**
6 **ADJUSTMENT TO BAD DEBTS AMOUNT TO?**

7 A. Instead of an adjustment of \$1,772,614 the adjustment only attributable to the
8 non-gas portion of bad debts would be \$418,142.

9
10 **Q. HAS MGE FILED PROPOSED TARIFF LANGUAGE TO APPLY TO THE**
11 **INCLUSION OF THE GAS PORTION OF BAD DEBTS IN THE PGA?**

12 A. Yes. Schedule H-9, pages 2 of 3 and 3 of 3 contain suggested tariff language to
13 include in the PGA.

14
15 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO REGULATORY**
16 **COMMISSION EXPENSE.**

17 A. This adjustment on Schedule H-10 first normalizes rate case expense along with
18 the cost of the appeal of Case No. GR-2004-0209 and the remaining unamortized
19 balance of the rate case expense approved in GR-2004-0209 over a three-year
20 period, and the 2005 depreciation study over a five-year period, annualizes the
21 NARUC and MPSC assessments based on invoices received in June 2005.

22
23 **Q. WHAT IS THE PURPOSE OF SCHEDULE H-11?**

1 A. Schedule H-11 computes interest on the average thirteen-month balance of
2 residential customer deposits at an interest rate of 8.25% or 1% over the prime
3 rate as of December 31, 2005, consistent with MGE's tariff Sheet No. R-14 and
4 on the average thirteen-month balance of commercial customer deposits at the
5 statutory interest rate of 3.00%.

6
7 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION**
8 **EXPENSE?**

9 A. Schedule H-12 details the adjustment to depreciation expense based upon the
10 level of plant investment at December 31, 2005. The adjustment being proposed
11 on schedule H-12 is a two part adjustment with the first part of the adjustment
12 being made to annualize depreciation expense based on the year end levels of
13 plant using the current depreciation rates approved by the Commission in Case
14 No. GR-2004-0209. The second part of the adjustment uses the depreciation rates
15 recommended by MGE witness Sullivan.

16
17
18 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**
19 **EXPENSE.**

20 A. Schedule H-13 details the proforma amortization expense. The adjustment
21 consists of three parts. The first part annualizes the amortization of all leasehold
22 improvements and miscellaneous intangible plant at December 31, 2005. The
23 second part of the adjustment computes SLRP amortization based upon the ten-

1 year amortization period, which the Commission determined in Case No. GR-98-
2 140. The third part of the adjustment amortizes the unamortized cost of the
3 infinium software over a three year period.
4

5 **Q. PLEASE EXPLAIN SCHEDULES H-14 and H-15 RELATING TO THE**
6 **VARIOUS CLEARING ACCOUNTS.**

7 A. These adjustments normalize the amounts included in the test year expense
8 accounts relating to dollars charged from clearing accounts.
9

10 **Q. PLEASE EXPLAIN THE FUNCTION OF CLEARING ACCOUNTS.**

11 A. Clearing accounts are specific accounts required by the uniform system of
12 accounts. They serve as a clearinghouse for various costs that are incurred for a
13 similar function. For example, the TWE account accumulates various costs
14 relating to vehicles and major work equipment including payroll, benefits, taxes,
15 and insurance as well as the cost of tires, oil, and repairs and depreciation and/or
16 vehicle lease expense. Similarly, the stores load account accumulates costs
17 relating to managing the inventory and purchasing function, and the paid time off
18 account accumulates the payroll and related costs of vacations, sick leave, etc. By
19 accumulating varied but related costs into one account these costs can more easily
20 and consistently be charged back to other expense and capital accounts. At the
21 end of the year these clearing accounts should have a balance of \$0.
22

1 **Q. WHY IS IT NECESSARY TO REFLECT ADJUSTMENTS RELATING TO**
2 **THESE ITEMS IN A RATE CASE?**

3 A. There are two reasons. First, timing differences routinely occur relating to the
4 amounts charged into and cleared out of clearing accounts. For any given twelve-
5 month test year period, the total amounts charged into the clearing account
6 typically do not exactly equal the amounts cleared out. For ratemaking purposes,
7 it is necessary to normalize this process so that test year expense accounts are
8 adjusted to the level that would have existed absent the timing difference. The
9 second reason is that in the ratemaking process, adjustments are made to the direct
10 expense portion of many of the items typically charged into a clearing account.
11 As discussed above, these items include payroll and payroll related costs such as
12 benefits, taxes, etc. and in the case of the TWE account, depreciation and lease
13 expense. While the adjustment relating to the direct expense portion of each of
14 these items is accounted for and discussed on other Schedules, Schedules H-14
15 and H-15 adjust the portion of these items that are charged into and cleared out of
16 clearing accounts. These adjustments enable test year clearing to be adjusted
17 consistently with the remainder of the case.

18
19 **Q. PLEASE EXPLAIN SCHEDULE H-16.**

20 A. Schedule H-16 adjusts Missouri State Franchise Tax to the actual level of tax on
21 the filed franchise tax return.

22
23 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

1 A. Schedule H-17 synchronizes ad valorem taxes with plant in service excluding
2 intangible plant and corporate allocated plant at December 31, 2005. The property
3 tax rate is based on the 2005 actual property tax rate.
4

5 **Q. WHAT IS THE STATUS OF THE ACCOUNTING AUTHORITY ORDER**
6 **AUTHORIZED IN CASE NO. GU-2005-0095?**

7 A. Currently, MGE has deferred a total of \$3,422,206 of Kansas property taxes for
8 the 2004 and 2005 tax years. The case is still ongoing and a decision from the
9 Kansas courts does not appear to be forthcoming any time soon. Based upon the
10 order of the Commission, MGE currently will be allowed to defer one more year
11 (2006) of property taxes on gas in storage before amortization of the balance must
12 begin.
13

14 **Q. DO YOU ANTICIPATE A FINAL COURT DECISION TO BE**
15 **RENDERED BY THE END OF 2006?**

16 A. No. Because the decision has already been delayed for at least one year beyond
17 our initial expectations, MGE is requesting the Commission to continue the
18 deferral until MGE concludes its next general rate proceeding before the
19 amortization begins.
20

21 **Q. PLEASE EXPLAIN SCHEDULE H-18.**

22 A. Schedule H-18 annualizes the postage costs to reflect the postage increase which
23 went into effect in early 2006.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

Q. PLEASE EXPLAIN SCHEDULES H-19.

A. Schedule H-19 annualizes rent expense and MGE's share of operating expenses, taxes and maintenance at the headquarters building.

Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE ON SCHEDULES H-20.

A. Schedule H-20 normalizes MGE incentive compensation and bonuses paid based on a three-year period 2003 through 2005. The payroll expense ratio is then applied to the normalized level in order to calculate the amount, which should be charged to expense.

Q. PLEASE EXPLAIN THE UNRECOVERED COST OF SERVICE ADJUSTMENT ON SCHEULE H-21

A. Schedule H-21 calculates the revenue deficiency suffered in January, February and March 2006 due to the shortfall in actual average usage per customer when compared to the average usage used in the GR-2004-0209 rate design and amortizes this shortfall over a three year period.

Q. WHAT IS THE BASIS FOR REQUESTING RECOVERY OF THIS COST OF SERVICE SHORTFALL?

A. In GR-2004-0209, MGE requested a weather normalization clause or a weather mitigation rate design similar to Laclede in order have a more realistic opportunity to recover the allowed cost of service. MGE also requested the use of more recent

1 weather data so as to more accurately reflect customer usage. Finally, MGE
2 proposed an attrition adjustment to normalized sales volumes in recognition of the
3 consistently declining average per-customer usage that has been experienced on
4 MGE's system. None of these proposals was adopted in Case No. GR-2004-
5 0209, and in the first three months of 2006, average per-customer residential
6 usage fell 27.36% short of the usage assumed when MGE's rates were set in Case
7 No. GR-2004-0209. That shortfall can only be recovered if the Commission
8 approves this adjustment. To the extent it is deemed necessary to grant MGE an
9 accounting authority order ("AAO") to reflect in future rates this revenue shortfall
10 that has been caused in significant part by the extraordinarily warm weather
11 experienced so far in 2006 in MGE's service territory, MGE hereby requests such
12 an AAO.

13

14 **Q. PLEASE EXPLAIN SCHEDULES H-22 AND H-23?**

15 A. H-22 annualizes the number of collectors schedule to work during the 2006 test
16 year while H-23 eliminates non-recurring or non-utility activity from cost of
17 service.

18

19 **Q. PLEASE EXPLAIN SCHEDULE H-24.**

20 A. Weatherization of customers' homes provides a tangible benefit that continues on
21 into the future, akin to an investment that yields continuing returns. Also, the
22 providers of low-income weatherization services, including the City of Kansas
23 City and the Economic Security Corporation in Joplin, have long waiting lists of

1 eligible customers requesting weatherization improvements. The additional
2 funding will provide assistance to about another 30 homes annually.

3
4 **Q. PLEASE EXPLAIN SCHEDULE H-25.**

5 A. Schedule H-28 requests annual funding of \$500,000 to set aside to cover the clean
6 up costs associated with former manufactured gas plant ("FMGP") sites and other
7 environmental clean up costs.

8
9 **Q. WILL SENATE BILL 179 ACCOMPLISH THE SAME RESULT AS THIS**
10 **PROPOSED FUNDING MECHANISM IF RULEMAKING LANGUAGE**
11 **CAN BE WORKED OUT AND APPROVED?**

12 A. Yes, but to date little progress has been made toward developing consensus on
13 this type of rule.

14
15 **Q. HOW DOES THE COMPANY PROPOSE TO RECOVER SUCH COSTS?**

16 A. FMGP costs can be significant, as shown by MGE's experience during the test
17 year. And although MGE fully expects to continue to incur FMGP-related costs
18 in the future, it is difficult to pinpoint when or how much because of the site-
19 specific nature of FMGP-related costs. Therefore, MGE proposes the creation of
20 an Environmental Response Fund for the recovery of FMGP-related costs, to be
21 funded initially at a level of \$500,000 per year by way of a discrete rate element
22 included in the basic service charge or delivery charge of all customer classes.
23 MGE's proposed Environmental Response Fund, attached hereto as Schedule H-

1 25 page 2, will ensure appropriate regulatory review of FMGP-related cost
2 recovery while at the same time ensuring that the Company neither over- nor
3 under-recovers FMGP-related costs.
4

5 **4. MISCELLANEOUS MATTERS**

6 **Q. HAVE YOU PREPARED ANY OTHER SCHEDULES IN THIS FILING?**

7 A. Yes. Section G contains schedules which compare some of MGE's statistics
8 related to operations and maintenance ("O&M") expense per customer and annual
9 residential margin bills with other reasonably comparable LDC's regulated in
10 Missouri and also compares MGE's actual uncollectible expense with the level
11 allowed by the Commission in the last three rate cases.
12

13 *The first schedule, Schedule G-1 compares MGE's O&M expense per customer*
14 *for the years 1998 through 2004 with the O&M expense per customer for the*
15 *same period for Laclede, AmerenUE and the Missouri Public Service ("MoPub")*
16 *division of Aquila. As shown by Schedule G-1, MGE is consistently much lower*
17 *than the other utilities shown on the schedule.*
18

19 *Schedule G-2 is a comparison of annual residential bills on the basis of margin*
20 *rates (monthly customer charge plus volumetric delivery rates). The schedule*
21 *shows that MGE is considerably lower-priced than these companies. The*
22 *comparison is based on the average residential usage MGE used to set rates in*
23 *Case No. GR-2004-0209.*

1

2 Q. PLEASE CONTINUE.

3 A. Schedule G-3 compares the actual bad debt expense included in MGE's net
4 operating income with the rate case allowance. The comparison is for each fiscal
5 year from 1996 through 2005. For the ten years shown on the schedule, MGE has
6 realized a shortfall of \$16,998,067 in expense recovery or \$1,699,807 per year on
7 average.

8

9 Q. DO YOU HAVE ANY INFORMATION COMPARING MGE'S ACTUAL
10 ACHIEVED EARNINGS TO MGE'S COMMISSION-AUTHORIZED
11 RETURNS?

12 A. Yes. Schedule G-4 shows that in each fiscal year from 1996 through 2005,
13 MGE's achieved rate of return was below the return authorized by the
14 Commission in the most recent previous case. In 2005, MGE's per books
15 achieved return was close to the return authorized in Case No. GR-2004-0209
16 only because MGE was able to favorably resolve a series of property tax appeals
17 related to a number of preceding years. Absent that non-recurring event, pursuant
18 to which MGE received property tax refunds and adjustments in 2005 of
19 \$8,309,218, MGE's achieved return for 2005 would have been 7.49%, well short
20 of the return authorized in Case No. GR-2004-0209. Taken a step further, over
21 the ten and one-half year period shown on Schedule G-4, MGE has realized an
22 earnings deficiency of about \$98 million, which equates to a revenue deficiency of
23 over \$160 million.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36
37
38
39
40
41
42
43
44
45
46
47
48
49
50
51
52
53
54
55
56
57
58
59
60
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75
76
77
78
79
80
81
82
83
84
85
86
87
88
89
90
91
92
93
94
95
96
97
98
99
100
101
102
103
104
105
106
107
108
109
110
111
112
113
114
115
116
117
118
119
120
121
122
123
124
125
126
127
128
129
130
131
132
133
134
135
136
137
138
139
140
141
142
143
144
145
146
147
148
149
150
151
152
153
154
155
156
157
158
159
160
161
162
163
164
165
166
167
168
169
170
171
172
173
174
175
176
177
178
179
180
181
182
183
184
185
186
187
188
189
190
191
192
193
194
195
196
197
198
199
200
201
202
203
204
205
206
207
208
209
210
211
212
213
214
215
216
217
218
219
220
221
222
223
224
225
226
227
228
229
230
231
232
233
234
235
236
237
238
239
240
241
242
243
244
245
246
247
248
249
250
251
252
253
254
255
256
257
258
259
260
261
262
263
264
265
266
267
268
269
270
271
272
273
274
275
276
277
278
279
280
281
282
283
284
285
286
287
288
289
290
291
292
293
294
295
296
297
298
299
300
301
302
303
304
305
306
307
308
309
310
311
312
313
314
315
316
317
318
319
320
321
322
323
324
325
326
327
328
329
330
331
332
333
334
335
336
337
338
339
340
341
342
343
344
345
346
347
348
349
350
351
352
353
354
355
356
357
358
359
360
361
362
363
364
365
366
367
368
369
370
371
372
373
374
375
376
377
378
379
380
381
382
383
384
385
386
387
388
389
390
391
392
393
394
395
396
397
398
399
400
401
402
403
404
405
406
407
408
409
410
411
412
413
414
415
416
417
418
419
420
421
422
423
424
425
426
427
428
429
430
431
432
433
434
435
436
437
438
439
440
441
442
443
444
445
446
447
448
449
450
451
452
453
454
455
456
457
458
459
460
461
462
463
464
465
466
467
468
469
470
471
472
473
474
475
476
477
478
479
480
481
482
483
484
485
486
487
488
489
490
491
492
493
494
495
496
497
498
499
500
501
502
503
504
505
506
507
508
509
510
511
512
513
514
515
516
517
518
519
520
521
522
523
524
525
526
527
528
529
530
531
532
533
534
535
536
537
538
539
540
541
542
543
544
545
546
547
548
549
550
551
552
553
554
555
556
557
558
559
560
561
562
563
564
565
566
567
568
569
570
571
572
573
574
575
576
577
578
579
580
581
582
583
584
585
586
587
588
589
590
591
592
593
594
595
596
597
598
599
600
601
602
603
604
605
606
607
608
609
610
611
612
613
614
615
616
617
618
619
620
621
622
623
624
625
626
627
628
629
630
631
632
633
634
635
636
637
638
639
640
641
642
643
644
645
646
647
648
649
650
651
652
653
654
655
656
657
658
659
660
661
662
663
664
665
666
667
668
669
670
671
672
673
674
675
676
677
678
679
680
681
682
683
684
685
686
687
688
689
690
691
692
693
694
695
696
697
698
699
700
701
702
703
704
705
706
707
708
709
710
711
712
713
714
715
716
717
718
719
720
721
722
723
724
725
726
727
728
729
730
731
732
733
734
735
736
737
738
739
740
741
742
743
744
745
746
747
748
749
750
751
752
753
754
755
756
757
758
759
760
761
762
763
764
765
766
767
768
769
770
771
772
773
774
775
776
777
778
779
780
781
782
783
784
785
786
787
788
789
790
791
792
793
794
795
796
797
798
799
800
801
802
803
804
805
806
807
808
809
810
811
812
813
814
815
816
817
818
819
820
821
822
823
824
825
826
827
828
829
830
831
832
833
834
835
836
837
838
839
840
84

3
4

5
6
7

8
9
10
11
12
13
14
15
16
17
18

$$\begin{matrix} 2 \\ 2 \\ 2 \end{matrix}$$

1 **Q. IS MGE REQUESTING A CHANGE TO THE TRANSPORTATION**
2 **PROVISIONS OF ITS TARIFF?**

3 A. Yes. Tariff sheet 61.2 has been changed to include firm transportation costs in the
4 monthly cash out computation. Currently if a customer or agent is either over or
5 under nominated in a current month, they are cashed out based on a formula
6 which only includes gas costs and not the cost to transport the gas to MGE's
7 system. This change which also shows on sheet 24.3 of the Purchased Gas Cost
8 Adjustment, corrects this deficiency in the cash out process.

9
10 **Q. HAVE YOU ALSO MADE SOME CHANGES TO MGE'S GENERAL**
11 **TERMS AND CONDITIONS FOR GAS SERVICE?**

12 A. Yes. Sheet numbers R-6, R-7, R-8, R-9 and R-10 contain some minor changes to
13 the definitions contained in the general terms and conditions.

14
15 Sheets R-14 and R-15 contain minor changes to the customer deposit terms and
16 conditions to include language to compare four (4) times the average bill to two
17 (2) times the largest bill, whichever is smaller for computing the amount of the
18 deposit.

19
20 **Q. PLEASE EXPLAIN YOUR CHANGE TO SHEET NO. R-31?**

21 A. The change to sheet R-31 allows MGE to collect the basic service charges a
22 customer who disconnects and reconnects at the same premise within a period of
23 seven (7) months would have paid but for the disconnection.

1

2 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

3 A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's
Tariff Sheets Designed to Increase Rates
for Gas Service in the Company's Missouri
Service Area.

)
)
)
)
Case No. GR-2006-_____

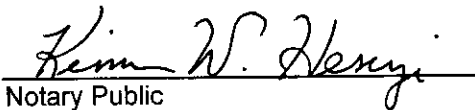
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


MICHAEL R. NOACK

Subscribed and sworn to before me this 26th day of APRIL 2006.


Notary Public

My Commission Expires: Feb. 3, 2007

Kim W. Henzi
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires Feb. 3, 2007

MISSOURI GAS ENERGY
A Division of Southern Union Company

Index of Schedules

<u>Schedule</u>	<u>Description</u>
A	Revenue Deficiency
A-1	Summary of Net Operating Income, Per Books and Adjusted
A-2	Income Tax
B	Rate Base
B-1	SLRP Deferrals and Deferred Taxes
B-2	Customer Deposits
B-3	Customer Advances
B-4	Deferred Taxes (Other than SLRP)
C	Plant In Service
D	Accumulated Reserves for Depreciation and Amortization
E	Working Capital
E-1	Materials & Supplies
E-2	Prepayments
E-3	Gas Inventory
E-4	Cash Working Capital
E-5	Prepaid Pension
F	Summary Of Cost Of Capital
G-1	Comparison of FERC Form 2 Information
G-2	Average Annual Residential Bill (Excluding PGA and Taxes)
G-3	Comparison of Actual Uncollectibles and Uncollectibles Included in Rates
G-4	Comparison of Achieved Rate of Return vs. Authorized Rate of Return
H	Distribution of Revenue and Expense Adjustments by Account No.
H-1	Test Year Margin Revenue
H-2	Revenue Adjustments
H-3	Remove Purchase Gas Costs and Gross Receipts Tax
H-4	Payroll Adjustment
H-5	Employee Benefits
H-6	Payroll Taxes
H-7	Insurance / Injuries & Damages
H-8	Corporate Allocation
H-9	Uncollectible Expense
H-10	Regulatory Commission Expense
H-11	Interest on Customer Deposits
H-12	Depreciation Expense
H-13	Amortization Expense
H-14	Transportation and Work Equipment Clearing
H-15	Stores Clearing
H-16	Missouri State Franchise Tax
H-17	Property Tax Expense
H-18	Postage Increase
H-19	Office Lease Expense
H-20	Incentive Compensation and Bonuses
H-21	Unrecovered Cost of Service
H-22	Customer Collection Costs
H-23	Non-recurring / Non-utility Activity
H-24	Weatherization
H-25	Environmental Response Fund

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Revenue Deficiency

Line No.	Description (a)	Ref. (b)	Required Return (c)	Earnings Deficiency (d)	Net Revenue Deficiency (e)
1	Rate Base	B	\$581,203,364		
2	Rate of Return	F	<u>8.936%</u>		
3	Required Return		<u>\$51,936,333</u>	\$51,936,333	
4	Adjusted Test Year Net Operating Income	A-1		<u>26,384,489</u>	
5	Earnings Deficiency			<u>\$25,551,844</u>	\$25,551,844
6	Multiply by Income Tax Gross-up Factor				<u>1.630072</u>
7	Net Revenue Deficiency				<u><u>\$41,651,345</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Summary of Net Operating Income
Per Books and Adjusted

Line No.	Description (a)	Per Books (b)	Adjustments (c)	As Adjusted (d)
<u>REVENUES</u>				
1	Operating Base Revenues	\$664,347,447	(\$509,204,317)	\$155,143,131
2	Other Utility Revenues	5,398,837	(540,572)	4,858,264
3	Total Operating Revenues	<u>\$669,746,284</u>	<u>(\$509,744,889)</u>	<u>\$160,001,395</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$493,795,707	(\$468,584,369)	\$25,211,338
5	Customer Accounts Expense	19,628,264	2,897,170	22,525,434
6	Customer Service and Information Expense	706,600	100,300	806,900
7	Sales Expense	99,913	(445)	99,468
8	Administrative and General Expense	26,732,865	11,767,442	38,500,307
9	Total Operating and Maintenance Expenses	<u>\$540,963,349</u>	<u>(\$453,819,902)</u>	<u>\$87,143,447</u>
10	Depreciation & Amortization Expense	\$26,415,703	\$6,733,287	\$33,148,990
11	Interest on Customer Deposits	147,252	26,143	173,395
12	Taxes Other Than Income	1,958,585	7,161,980	9,120,565
13	Total Operating Expenses	<u>\$569,484,889</u>	<u>(\$439,898,492)</u>	<u>\$129,586,397</u>
14	Operating Income Before Income Tax	\$100,261,395	(\$69,846,396)	\$30,414,998
15	Less: Income Tax Expense	31,177,884	(27,147,375)	4,030,509
16	Net Operating Income	<u>\$69,083,511</u>	<u>(\$42,699,021)</u>	<u>\$26,384,489</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Income Tax

Line No.	Description (a)	Reference (b)	Per Books (c)	As Adjusted (d)
1	Total Operating Revenues	A-1	\$669,746,284	\$160,001,395
2	Total Operating Expenses	A-1	<u>(569,484,889)</u>	<u>(129,586,397)</u>
3	Net Operating Income	A-1	<u>\$100,261,395</u>	<u>\$30,414,998</u>
4	Equity Portion of SLRP Deferrals		\$1,474,210	\$0
5	Less: Interest on Long Term Debt		<u>(21,074,636)</u>	<u>(19,987,584)</u>
6	Total Tax Adjustments		<u>(\$19,600,426)</u>	<u>(\$19,987,584)</u>
7	Net Taxable Income		<u>\$80,660,969</u>	<u>\$10,427,414</u>
8	Income Tax		<u>\$31,177,884</u>	<u>\$4,030,509</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Rate Base

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$27,612,689
2	Distribution Plant	C	752,450,499
3	General Plant	C	62,544,593
4	Gross Plant In Service		<u>\$842,607,781</u>
5	Accumulated Depreciation & Amortization	D	<u>(285,295,099)</u>
6	Net Plant in Service		\$557,312,682
7	SLRP Deferrals	B-1	\$11,955,712
8	Working Capital	E	99,028,330
9	Alternative Minimum Tax Credit		0
10	Customer Deposits	B-2	(3,934,258)
11	Customer Advances - Thirteen Month Average	B-3	(13,665,727)
12	Deferred Income Taxes - SLRP	B-1	(4,062,133)
13	Deferred Income Taxes - Other (Net of AMT)	B-4	<u>(65,431,243)</u>
14	Total Rate Base		<u><u>\$581,203,364</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005

SLRP Deferrals and Deferred Taxes

Line No.	Description (a)	Gross Deferral (b)	Accumulated Amortization (c)	Amount (d)
<u>SLRP Deferrals</u>				
1	Order GO-92-185 (Deferred Balance @ 5/31/98)	\$5,776,280	4,329,798	\$1,446,482
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	12,399,117	9,258,746	3,140,371
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	3,060,876	2,244,642	816,234
4	Order GR-98-140	9,182,136	4,055,444	5,126,692
5	Order GR-2001-282	1,629,639	203,705	1,425,934
6	Total SLRP Deferrals	<u>\$32,048,048</u>	<u>\$20,092,336</u>	<u>\$11,955,712</u>
7	Annual Amortization	<u>\$3,204,805</u>		
<u>SLRP Deferred Taxes</u>				
7	Order GO-92-185			0
8	Order GO-94-234			(1,213,848)
9	Order GO-97-301			(315,499)
10	Order GR-98-140			(1,981,620)
11	Order GR-2001-292			(551,166)
12	Total SLRP Deferred Taxes			<u>(\$4,062,133)</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company
 Thirteen Months Ending December 31, 2005

Customer Deposits

Line No.	Month	Residential Amount	Commercial & Industrial Amount	Total Amount
	(a)	(b)	(c)	(d)
1	Dec-04	(1,207,285)	(2,518,903)	(\$3,726,188)
2	Jan-05	(1,040,125)	(2,760,738)	(3,800,863)
3	Feb-05	(1,115,310)	(2,764,091)	(3,879,401)
4	Mar-05	(1,120,654)	(2,850,383)	(3,971,037)
5	Apr-05	(1,093,681)	(2,890,779)	(3,984,460)
6	May-05	(1,087,546)	(2,873,247)	(3,960,793)
7	Jun-05	(1,055,160)	(2,878,076)	(3,933,236)
8	Jul-05	(1,018,450)	(2,884,576)	(3,903,026)
9	Aug-05	(999,410)	(2,936,562)	(3,935,972)
10	Sep-05	(993,141)	(2,954,086)	(3,947,227)
11	Oct-05	(1,000,891)	(2,995,802)	(3,996,693)
12	Nov-05	(981,674)	(3,050,293)	(4,031,967)
13	Dec-05	(996,557)	(3,077,940)	(4,074,497)
14	13 Month Total	<u>(\$13,709,884)</u>	<u>(\$37,435,476)</u>	<u>(\$51,145,360)</u>
15	13 Month Average	<u>(\$1,054,606)</u>	<u>(\$2,879,652)</u>	<u>(\$3,934,258)</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company
Thirteen Months Ending December 31, 2005

Customer Advances

Line No.	Month (a)	Amount (b)
1	Dec-04	(13,203,533)
2	Jan-05	(13,147,117)
3	Feb-05	(13,099,199)
4	Mar-05	(13,128,669)
5	Apr-05	(13,272,970)
6	May-05	(13,654,283)
7	Jun-05	(13,734,601)
8	Jul-05	(13,445,726)
9	Aug-05	(13,791,034)
10	Sep-05	(14,196,205)
11	Oct-05	(14,307,951)
12	Nov-05	(14,315,473)
13	Dec-05	<u>(14,357,685)</u>
14	13 Month Total	<u>(\$177,654,445)</u>
15	13 Month Average	<u>(\$13,665,727)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005

Deferred Taxes (Other than SLRP)

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 6/30/03	(\$65,316,421)
2	Deferred Taxes, Corporate Plant	<u>(114,822)</u>
3	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u><u>(\$65,431,243)</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Plant in Service

Line No.	Description (a)	Direct (b)	Completed Not Classified (c)	Total Direct & Completed (d)	Corporate Allocated (e)	Total Adjustments (f)	Total As Adjusted (g)
INTANGIBLE PLANT							
1	(301) Organization	\$15,600	\$0	\$15,600	\$0	\$0	\$15,600
2	(302) Franchises	32,096	0	32,096	0	0	32,096
3	(303) Miscellaneous Intangible	34,339,066	0	34,339,066	0	(6,774,073)	27,564,993
4	Total Intangible Plant	\$34,386,762	\$0	\$34,386,762	\$0	(\$6,774,073)	\$27,612,689
DISTRIBUTION PLANT							
5	(374.1) Land	\$223,517	\$0	\$223,517	\$0	\$0	\$223,517
6	(374.2) Land Rights	1,608,103	0	1,608,103	0	0	1,608,103
7	(375.1) Structures	5,343,766	212,507	5,556,273	0	0	5,556,273
8	(375.2) Leasehold Improvements	0	0	0	0	0	0
9	(376) Mains	329,800,982	1,632,407	331,433,389	0	0	331,433,389
10	(378) Meas. & Reg. Station - General	11,542,552	37,013	11,579,565	0	0	11,579,565
11	(379) Meas. & Reg. Station - City Gate	3,034,196	0	3,034,196	0	0	3,034,196
12	(380) Services	294,620,021	56,419	294,676,440	0	(4,769,966)	289,906,474
13	(381) Meters	30,380,389	44,852	30,425,241	0	0	30,425,241
14	(382) Meter Installations	66,994,949	31,032	67,025,981	0	0	67,025,981
15	(383) House Regulators	11,270,895	24,428	11,295,323	0	0	11,295,323
16	(385) Electronic Gas Measuring	349,817	12,620	362,437	0	0	362,437
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	\$755,169,187	\$2,051,278	\$757,220,465	\$0	(\$4,769,966)	\$752,450,499
GENERAL PLANT							
19	(389) Land	\$773,880	\$0	\$773,880	\$0	\$0	\$773,880
20	(390.1) Structures	616,877	0	616,877	0	0	616,877
21	(390.2) Leasehold Improvements	1,545,551	0	1,545,551	2,036,684	0	3,582,235
22	(391) Furniture & Fixtures	6,995,311	64,000	7,059,311	209,405	0	7,268,716
23	(392) Transportation Equipment	5,036,276	0	5,036,276	8,004	0	5,044,280
24	(393) Stores Equipment	513,584	0	513,584	0	0	513,584
25	(394) Tools	5,069,514	990	5,070,504	0	0	5,070,504
26	(395) Laboratory Equipment	0	0	0	0	0	0
27	(396) Power Operated Equipment	243,807	0	243,807	0	0	243,807
28	(397.1) Communication Equipment - AMR	35,718,641	9	35,718,650	0	0	35,718,650
29	(397.0) Communication Equipment	3,286,012	2,391	3,288,403	0	0	3,288,403
30	(398) Miscellaneous Equipment	423,657	0	423,657	0	0	423,657
31	Total General Plant	\$50,223,110	\$67,390	\$50,290,500	\$2,254,093	\$0	\$62,544,593
32	Total Original Cost Plant in Service	\$849,779,059	\$2,118,668	\$851,897,727	\$2,254,093	(\$11,544,039)	\$842,607,781
33	Accumulated Depreciation and Amortization	(296,839,137)	0	(296,839,137)	0	11,544,039	(285,295,099)
34	Net Plant In Service	\$552,939,922	\$2,118,668	\$555,058,590	\$2,254,093	\$0	\$557,312,682

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Plant in Service

Line No.	Description (a)	Retire Inactive Services No. 1 (b)	Write-off Infinium Software No. 2	Total Adjustments (d)
<u>INTANGIBLE PLANT</u>				
1	(301) Organization			
2	(302) Franchises			
3	(303) Miscellaneous Intangible		(6,774,073)	(6,774,073)
4	Total Intangible Plant	\$0	(\$6,774,073)	(\$6,774,073)
<u>DISTRIBUTION PLANT</u>				
5	(374.1) Land			
6	(374.2) Land Rights			
7	(375.1) Structures			
8	(375.2) Leasehold Improvements			
9	(376) Mains & Mains - Cast Iron			
10	(378) Meas. & Reg. Station - General			
11	(379) Meas. & Reg. Station - City Gate			
12	(380) Services	(4,769,966)		(4,769,966)
13	(381) Meters			
14	(382) Meter Installations			
15	(383) House Regulators			
16	(385) Electronic Gas Metering			
17	(387) Other Equipment			
18	Total Distribution Plant	(\$4,769,966)	\$0	(\$4,769,966)
<u>GENERAL PLANT</u>				
19	(389) Land			
20	(390.1) Structures			
21	(390.2) Leasehold Improvements			
22	(391) Furniture & Fixtures			
23	(392) Transportation Equipment			
24	(393) Stores Equipment			
25	(394) Tools			
26	(395) Laboratory Equipment			
27	(396) Power Operated Equipment			
28	(397) Communication Equipment - AMR			
29	(397) Communication Equipment			
30	(398) Miscellaneous Equipment			
31	Total General Plant	\$0	\$0	\$0
32	Total Original Cost Plant In Service	(\$4,769,966)	(\$6,774,073)	(\$11,544,039)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Accumulated Reserves for Depreciation and Amortization

Line No.	Description (a)	Test Year Direct (b)	Corporate (c)	Proforma Adjustments (d)	Test Year As Adjusted (e)
1	Intangible Plant Reserve	(\$22,261,775)	\$0	\$6,774,073	(\$15,487,702)
2	Distribution & General Plant Reserve	<u>(274,374,147)</u>	<u>(203,215)</u>	<u>4,769,966</u>	<u>(269,807,397)</u>
3	Total Accumulated Reserves	<u>(\$296,635,922)</u>	<u>(\$203,215)</u>	<u>\$11,544,039</u>	<u>(\$285,295,099)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Adjustments to Plant in Service	Deprec. Rates	Retire Inactive Services	Write-off Infinium Software	Total Adjustments
	(a)	(b)	(c)	No. 1 (d)	No. 2 (e)	(f)
INTANGIBLE PLANT						
	(301) Organization					
	(302) Franchises					
	(303) Miscellaneous Intangible	(\$6,774,073)			\$6,774,073	\$6,774,073
	Total Intangible Plant	(\$6,774,073)			\$6,774,073	\$6,774,073
DISTRIBUTION PLANT						
1	(374.1) Land		0.00%			
2	(374.2) Land Rights		Amort.			
3	(375.1) Structures		2.50%			
4	(375.2) Leasehold Improvements		Amort.			
5	(376) Mains & Mains - Cast Iron		2.27%			
6	(378) Meas. & Reg. Station - General		2.86%			
7	(379) Meas. & Reg. Station - City Gate		2.50%			
8	(380) Services	(4,769,966)	3.41%	4,769,966		4,769,966
9	(381) Meters		2.86%			
10	(382) Meter Installations		2.86%			
11	(383) House Regulators		2.86%			
12	(385) Electronic Gas Metering		3.33%			
13	(387) Other Equipment		6.25%			
14	Total Distribution Plant	(\$4,769,966)		\$4,769,966		\$4,769,966
GENERAL PLANT						
15	(389) Land		0.00%			
16	(390.1) Structures		2.50%			
17	(390.2) Leasehold Improvements		Amort.			
18	(391) Furniture & Fixtures		9.09%			
19	(392) Transportation Equipment		9.09%			
20	(393) Stores Equipment		3.33%			
21	(394) Tools		5.00%			
22	(395) Laboratory Equipment		6.00%			
23	(396) Power Operated Equipment		6.67%			
24	(397) Communication Equipment - AMR		5.00%			
25	(397) Communication Equipment		6.25%			
26	(398) Miscellaneous Equipment		5.00%			
27	Total General Plant	\$0		\$0		\$0
28	Total Adjustment	(\$4,769,966)		\$4,769,966	\$6,774,073	\$11,544,039

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Working Capital

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$1,509,855
2	Prepayments - Thirteen Month Average	E-2	326,490
3	Gas Inventory - Volumes and Price	E-3	77,761,966
4	Cash Working Capital	E-4	13,353,691
5	Prepaid Pension	E-5	<u>6,076,328</u>
6	Total Working Capital		<u><u>\$99,028,330</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending December 31, 2005
Materials & Supplies

Line No.	Month (a)	Amount (b)
1	Dec-04	1,228,245
2	Jan-05	1,266,773
3	Feb-05	1,299,204
4	Mar-05	1,394,925
5	Apr-05	1,421,876
6	May-05	1,600,286
7	Jun-05	1,546,390
8	Jul-05	1,500,716
9	Aug-05	1,473,137
10	Sep-05	1,575,133
11	Oct-05	1,619,117
12	Nov-05	1,815,326
13	Dec-05	1,886,984
14	13 Month Total	<u>\$19,628,112</u>
15	13 Month Average	<u>\$1,509,855</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending December 31, 2005
Prepayments

Line No.	Month (a)	Amount (b)
1	Dec-04	807,829
2	Jan-05	622,520
3	Feb-05	513,790
4	Mar-05	458,917
5	Apr-05	331,884
6	May-05	228,356
7	Jun-05	114,990
8	Jul-05	136,748
9	Aug-05	144,005
10	Sep-05	3,176
11	Oct-05	103,697
12	Nov-05	128,562
13	Dec-05	<u>649,898</u>
14	13 Month Total	<u><u>\$4,244,373</u></u>
15	13 Month Average	<u><u>\$326,490</u></u>

MISSOURI GAS ENERGY

A Division of Southern Union Company
Thirteen Months Ending December 31, 2005
Gas Inventory

Line No.	Month (a)	Dollars (b)
1	Dec-04	76,021,988
2	Jan-05	48,920,581
3	Feb-05	36,543,542
4	Mar-05	29,283,348
5	Apr-05	45,991,471
6	May-05	66,311,447
7	Jun-05	82,091,045
8	Jul-05	93,052,291
9	Aug-05	101,336,153
10	Sep-05	106,543,327
11	Oct-05	117,284,371
12	Nov-05	114,847,089
13	Dec-05	92,678,911
14	13 Month Average	<u>\$77,761,966</u>

Missouri Gas Energy
A Division of Southern Union Gas Company
Cash Working Capital Requirement
For the Twelve Months Ended December 31, 2005

Line No.	Description (A)	Revenue Lag (B)	Expense Lead (C)	Net Lag (D)	CWC Factor (E)	Test Year Operations and Maintenance Expense at Proposed Rates (F)	Cash Working Capital Requirement (G)
1	Pensions & Benefits	47.59	(47.19)	0.40	0.0011	\$ 17,511,732	\$ 19,227
2	Payroll and Employee Withholdings	47.59	(11.00)	36.59	0.1003	28,471,632	2,854,293
3	Employer FICA Taxes	47.59	(11.00)	36.59	0.1003	2,155,151	216,055
4	Other Operations and Maintenance Expenses	47.59	(38.47)	9.12	0.0250	31,401,433	784,574
5	Federal Unemployment Taxes	47.59	(60.63)	(13.03)	(0.0357)	28,413	(1,015)
6	Corporation Franchise Taxes	47.59	69.83	117.42	0.3217	246,794	79,395
7	Property/Real Estate Taxes	47.59	(190.17)	(142.58)	(0.3906)	6,687,532	(2,612,294)
8	Sales Tax	47.59	(2.29)	45.30	0.1241	9,825,601	1,219,444
9	Use Tax	47.59	(83.98)	(36.39)	(0.0997)	2,037,860	(203,177)
10	Gross Receipts Taxes	47.59	(60.90)	(13.31)	(0.0365)	38,982,985	(1,421,785)
11	Federal Income Tax	47.59	(60.63)	(13.03)	(0.0357)	3,166,399	(113,067)
12	State Income Tax	47.59	(60.63)	(13.03)	(0.0357)	497,536	(17,766)
13	Interest Expense	47.59	4.72	52.31	0.1433	19,509,692	2,796,278
14	Fuel - Gas	47.59	(40.01)	7.58	0.0208	469,859,289	9,753,529
15	Uncollectible Expense	47.59	(47.59)	-	-	8,881,391	-
16	Total					\$ 639,263,440	\$ 13,353,691

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005

Prepaid Pension

Line No.	Year Ended (a)	Balance (b)
1	Balance 4/30/04	<u>\$7,975,181</u>
2	Monthly Amortization	\$94,943
3	Amortization since GR- 2004-0209	<u>\$1,898,853</u>
4	Balance 12/31/05	<u>\$6,076,328</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending December 31, 2005

Based on Capital Structure at September 30, 2005

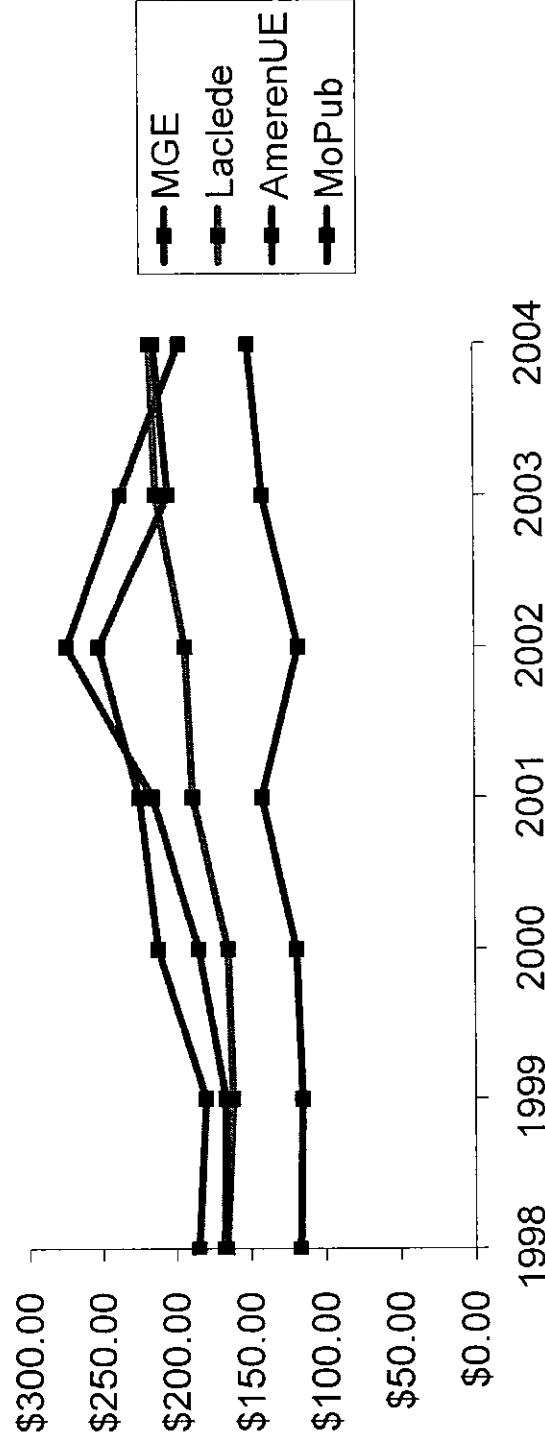
Summary of Cost of Capital

Line No.	Description	Ratio	Cost Rate	Weighted Composite Rate
	(a)	(c)	(d)	(e)
1	Long-Term Debt	44.09%	6.570%	2.897%
2	Short-Term Debt	9.91%	5.470%	0.542%
3	Common Equity	46.00%	11.950%	<u>5.497%</u>
4	Total	<u>100.00%</u>		<u>8.936%</u>

**Missouri Gas Energy
Comparison of FERC Form 2 Information
Expense Per Customer**

	MGE	Laclede	AmerenUE	MoPub
1998	\$116.85	\$166.35	\$167.82	\$185.21
1999	\$115.37	\$162.00	\$167.01	\$180.30
2000	\$119.18	\$164.89	\$184.86	\$212.23
2001	\$141.59	\$188.43	\$215.26	\$224.42
2002	\$117.35	\$193.29	\$274.22	\$252.15
2003	\$141.04	\$212.95	\$237.04	\$204.56
2004	\$150.58	\$216.96	\$197.07	\$214.26

Missouri Gas Energy Comparison of FERC Form 2 Information Expense Per Customer

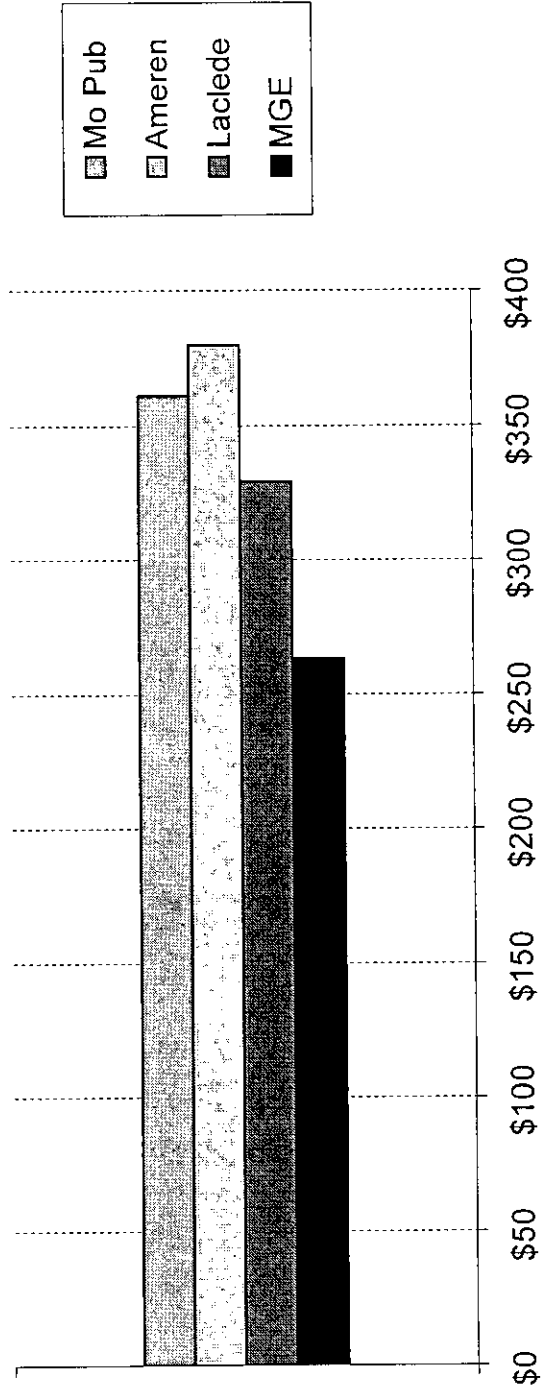


**COMPARISON OF MISSOURI LDCS
AVERAGE ANNUAL RESIDENTIAL BILL
(EXCLUDING PGA AND TAXES)**

	Normal Usage (Ccf)	MGE	Laclede	Ameren	Mo Pub
January	180.90	\$35.87	\$39.13	\$61.81	\$59.01
February	174.50	35.02	39.13	59.98	57.26
March	137.10	30.09	39.13	49.31	47.02
April	92.70	24.23	39.13	36.65	34.87
May	50.80	18.71	21.87	24.69	23.40
June	22.10	14.92	16.29	16.51	15.55
July	19.20	14.54	15.73	15.68	14.76
August	16.60	14.20	15.22	14.94	14.04
September	18.30	14.42	15.55	15.42	14.51
October	26.70	15.53	17.19	17.82	16.81
November	47.20	18.23	31.70	23.67	22.42
December	<u>116.50</u>	<u>27.37</u>	<u>39.13</u>	<u>43.44</u>	<u>41.39</u>
Average Annual Residential Bill	<u>902.60</u>	<u>\$263.15</u>	<u>\$329.23</u>	<u>\$379.91</u>	<u>\$361.04</u>
Tariff Effective Date		<u>1/29/2006</u>	<u>10/1/2005</u>	<u>2/15/2004</u>	<u>7/1/2004</u>

Source: AGA Rate Service
Missouri Public Service Commission

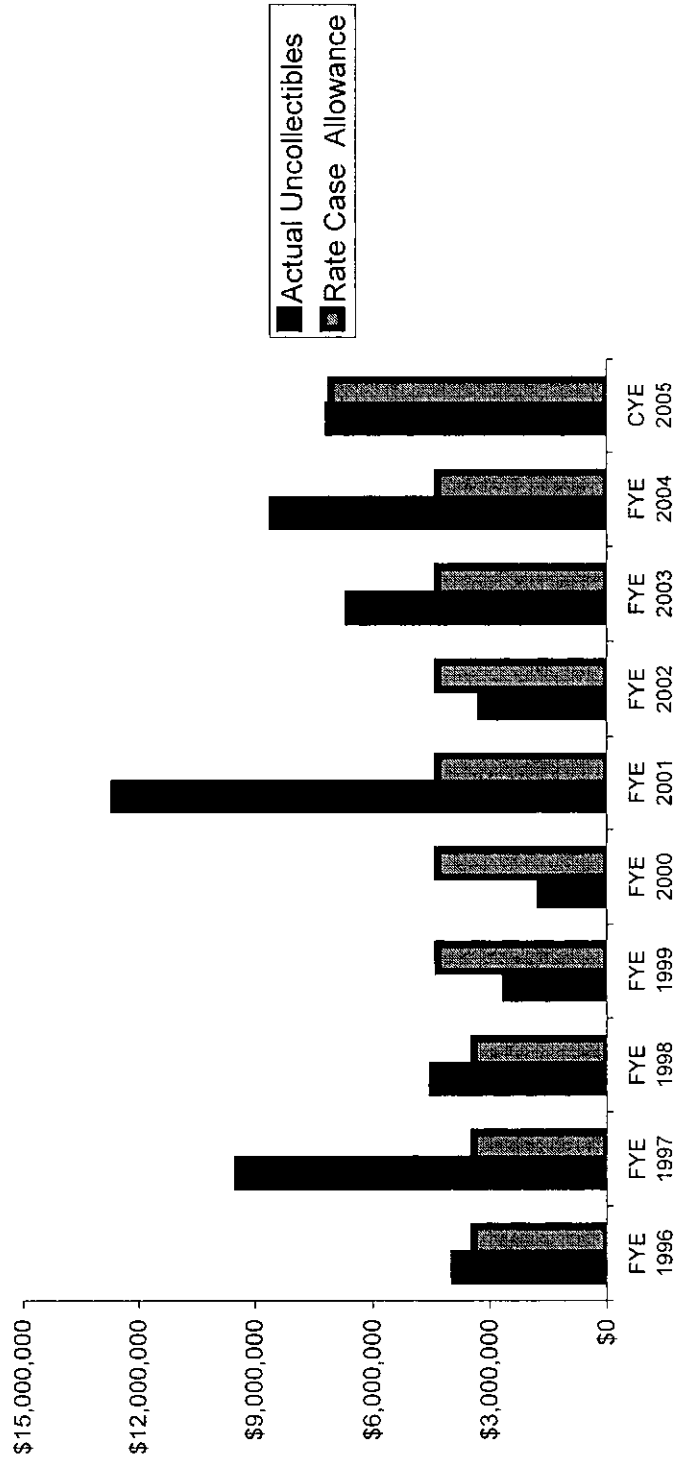
**Missouri Gas Energy
Average Annual Residential Bill
(Excluding PGA and Taxes)**



**MISSOURI GAS ENERGY
COMPARISON OF ACTUAL UNCOLLECTIBLES
AND UNCOLLECTIBLES INCLUDED IN RATES**

	<u>Actual Uncollectibles</u>	<u>Rate Case Allowance</u>	<u>Difference</u>
FYE 1996	\$ 3,906,455	\$ 3,409,662	\$ (496,793)
FYE 1997	9,442,692	3,409,662	(6,033,030)
FYE 1998	4,469,856	3,409,662	(1,060,194)
FYE 1999	2,584,998	4,325,000	1,740,002
FYE 2000	1,696,606	4,325,000	2,628,394
FYE 2001	12,653,781	4,325,000	(8,328,781)
FYE 2002	3,211,390	4,323,292	1,111,902
FYE 2003	6,602,056	4,323,292	(2,278,764)
FYE 2004	8,537,318	4,323,292	(4,214,026)
CYE 2005	<u>7,108,777</u>	<u>7,042,000</u>	<u>(66,777)</u>
 Total	 <u>\$ 60,213,929</u>	 <u>\$ 43,215,862</u>	 <u>\$ (16,998,067)</u>
 Cumulative difference between actual and rate case allowance		 <u>\$ (16,998,067)</u>	
 Average difference between actual and rate case allowance per year		 <u>\$ (1,699,807)</u>	

Missouri Gas Energy Actual Uncollectibles Versus Uncollectibles Included in Rates



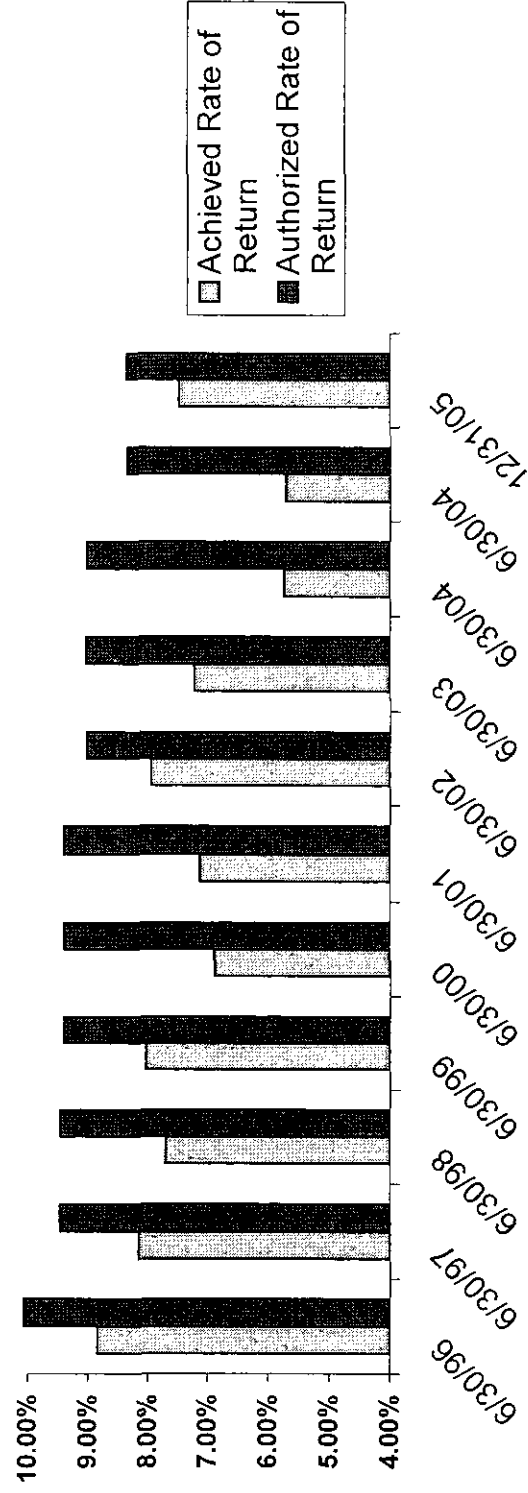
**COMPARISON OF ACHIEVED RATE OF RETURN
VS. AUTHORIZED RATE OF RETURN**

Description	6/30/1996 (000)	6/30/1997 (000)	6/30/1998 (000)	6/30/1999 (000)	6/30/2000 (000)	6/30/2001 (000)	6/30/2002 (000)	6/30/2003 (000)	6/30/2004 (000)	6/30/2005 (000)	12/31/2006 (000)
Net Sales Margin	\$ 119,106	\$ 121,380	\$ 123,759	\$ 130,859	\$ 125,088	\$ 141,971	\$ 136,311	\$ 144,483	\$ 142,799	\$ 154,167	\$ 159,807
Operating Expenses excluding Uncollectible Expense	(50,568)	(48,037)	(47,390)	(49,273)	(49,638)	(51,176)	(46,693)	(53,967)	(61,294)	(70,534)	(63,996)
Uncollectible Expense	(3,906)	(9,443)	(4,470)	(2,585)	(1,697)	(12,654)	(3,211)	(6,602)	(8,537)	(10,212)	(7,109)
Corporate Allocated Expenses Per Rate Case	(5,612)	(5,612)	(5,991)	(5,991)	(5,991)	(5,991)	(6,935)	(6,935)	(6,935)	(1,762)	(1,762)
Taxes Other than Income Taxes	(6,406)	(5,730)	(7,084)	(7,341)	(8,267)	(9,263)	(10,759)	(9,983)	(10,097)	(11,115)	(10,108)
Depreciation & Amortization	(14,806)	(16,344)	(19,131)	(21,740)	(22,439)	(22,986)	(20,015)	(22,891)	(23,787)	(26,400)	(26,416)
Income Taxes	(6,843)	(5,732)	(6,763)	(7,999)	(4,972)	(5,821)	(8,553)	(6,449)	(1,614)	(3,368)	(9,523)
Total Operating Expenses	88,261	90,898	90,829	94,929	93,004	107,891	96,166	106,627	112,264	123,391	118,913
Net Operating Income	\$ 30,845	\$ 30,482	\$ 32,930	\$ 35,930	\$ 32,084	\$ 34,080	\$ 40,145	\$ 37,856	\$ 30,535	\$ 30,776	\$ 40,894
Net plant from most recent rate case	\$ 359,290	\$ 359,290	\$ 431,152	\$ 431,152	\$ 431,152	\$ 431,152	\$ 503,192	\$ 503,192	\$ 503,192	\$ 531,291	\$ 531,291
Net Plant Balance at x/xx/xx	360,288	384,986	440,251	460,145	478,794	491,271	505,412	525,495	532,473	547,463	554,457
Increase in plant since most recent rate case	\$ 998	\$ 25,696	\$ 9,099	\$ 28,993	\$ 47,642	\$ 60,119	\$ 2,220	\$ 22,303	\$ 29,281	\$ 16,172	\$ 23,166
Total rate base from most recent case updated for annual plant increases	\$ 349,040	\$ 373,738	\$ 427,318	\$ 447,212	\$ 465,861	\$ 478,338	\$ 504,650	\$ 524,733	\$ 531,711	\$ 538,944	\$ 545,938
Achieved Rate of Return	8.84%	8.16%	7.71%	8.03%	6.89%	7.12%	7.95%	7.21%	5.74%	5.71%	7.49%
Authorized Rate of Return	10.54%	9.46%	9.46%	9.40%	9.40%	9.40%	9.03% *	9.03% *	9.03%	8.36%	8.36%
Date Rates Went Into Effect	1-Feb-94	1-Feb-97		2-Sep-98			6-Aug-01	6-Aug-01	6-Aug-01	1-Oct-04	1-Oct-04
Return Deficiency	-1.70%	-1.30%	-1.75%	-1.37%	-2.51%	-2.28%	-1.08%	-1.82%	-3.29%	-2.65%	-0.87%
Earnings Deficiency	\$ (5,944)	\$ (4,864)	\$ (7,494)	\$ (6,108)	\$ (11,707)	\$ (10,883)	\$ (5,425)	\$ (9,528)	\$ (17,479)	\$ (14,279)	\$ (4,747)
Revenue Deficiency	\$ (9,682)	\$ (7,923)	\$ (12,207)	\$ (9,950)	\$ (19,070)	\$ (17,728)	\$ (8,837)	\$ (15,520)	\$ (28,471)	\$ (23,260)	\$ (7,732)
Cumulative Earnings Deficiency											\$ (98,458)
Cumulative Revenue Deficiency											\$ (160,378)

(1) - excludes property tax refunds for the years 2002-2004

* - High end of Staff recommendation implicit in the settlement

Missouri Gas Energy
COMPARISON OF ACHIEVED RATE OF RETURN
VS. AUTHORIZED RATE OF RETURN



MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
OPERATING REVENUE					
1	480	Residential	\$461,309,543	(\$352,919,028)	\$108,390,515
2	481.1	Commercial	183,202,124	(148,597,640)	34,604,485
3	481.2	Industrial	9,633,497	(8,084,078)	1,549,419
4	483	Sales for Resale	0	(108,623)	(108,623)
5	487	Late Payment Charges	487,006	(540,572)	(53,566)
6	488	Miscellaneous Service Revenue	4,412,846	0	4,412,846
7	489	Transport	10,202,282	505,052	10,707,334
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	498,984	0	498,984
10		Total Operating Revenue	<u>\$669,746,284</u>	<u>(\$509,744,889)</u>	<u>\$160,001,395</u>
OPERATING & MAINTENANCE EXPENSE					
Operation Expense					
11	805	Other Gas Purchases	\$469,859,289	(\$469,859,289)	\$0
12	807	Purchased Gas Expense	0	0	0
13	859	Other Joint Expense	0	0	0
14	870	Operation, Supervision and Engineering	590,699	15,296	605,995
15	871	Distribution and Load Dispatching	8,756	164	8,920
16	872	Compressor Station Labor and Expense	0	0	0
17	874	Mains and Service Expenses	3,024,786	35,323	3,060,109
18	875	Distributing Regulating Station Expenses	682,700	47,899	730,599
19	876	Measuring and Regulating - Station Expenses	7,566	(215)	7,351
20	877	Measuring and Regulating - Station Expenses	4,798	378	5,176
21	878	Meter and House Regulator Expenses	4,291,777	294,352	4,586,129
22	879	Customer Installation Expenses	2,742,603	199,933	2,942,536
23	880	Other Expenses	1,702,382	46,352	1,748,734
24	881	Rents	96,433	0	96,433
25		Total Operation Expense	<u>\$483,011,789</u>	<u>(\$469,219,807)</u>	<u>\$13,791,982</u>
Maintenance Expense					
26	885	Maintenance Supervision and Engineering	\$1,075,603	\$39,505	\$1,115,108
27	886	Maintenance of Structures and Improvements	53,255	3,150	56,405
28	887	Maintenance of Mains	7,569,448	460,914	8,030,362
29	889	Maint. of Measuring and Reg. Stat Equip - General	292,800	16,328	309,128
30	890	Maint. of Measuring and Regulating Equipment	269,103	13,823	282,926
31	891	Maint. of Measuring and Regulating Equipment	14,725	996	15,721
32	892	Maintenance of Services	749,099	54,654	803,753
33	893	Maintenance of Meters and House Regulators	635,602	38,031	673,633
34	894	Maintenance of Other Equipment	124,283	8,037	132,320
35		Total Maintenance Expenses	<u>\$10,783,918</u>	<u>\$635,438</u>	<u>\$11,419,356</u>
36		Total Distribution Expense	<u>\$493,795,707</u>	<u>(\$468,584,369)</u>	<u>\$25,211,338</u>
Customer Accounts Expense					
37	901	Supervision	\$397,109	\$14,231	\$411,340
38	902	Meter Reading Expense	771,014	51,306	822,320
39	903	Customer Records and Collection Expense	11,293,811	1,058,524	12,352,335
40	904	Uncollectible Accounts	7,108,777	1,772,614	8,881,391
41	905	Miscellaneous Customer Accounts Expense	57,553	495	58,048
42		Total Customer Accounts Expenses	<u>\$19,628,264</u>	<u>\$2,897,170</u>	<u>\$22,525,434</u>
Customer Service and Informational Expense					
43	907	Supervision	\$0	\$0	\$0
44	908	Customer Assistance	644,078	100,300	744,378
45	909	Informational and Instructional Advertising Exp.	58,979	0	58,979

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
46	910	Miscellaneous Customer Accounts Expense	3,543	0	3,543
47		Total Cust. Service and Information Exp.	<u>\$706,600</u>	<u>\$100,300</u>	<u>\$806,900</u>
		Sales and Advertising Expense			
48	911	Supervision	\$0	\$0	\$0
49	912	Demonstrating and Selling Expenses	96,757	(445)	96,312
50	913	Advertising Expenses	0	0	0
51	916	Miscellaneous Sales Expenses	3,156	0	3,156
52		Total Sales and Advertising Expenses	<u>\$99,913</u>	<u>(\$445)</u>	<u>\$99,468</u>
		Administrative and General Expense			
53	920	Administrative and General Salaries	\$6,049,155	\$8,869	\$6,058,024
54	921	Office Supplies and Expenses	2,562,258	226,512	2,788,770
55	922	Administrative Expenses Transferred	(431,962)	0	(431,962)
56	923	Outside Services Employed	1,733,396	3,890,774	5,624,170
57	924	Property Insurance	72,921	0	72,921
58	925	Injuries and Damages	3,368,391	(819,725)	2,548,666
59	926	Employee Pensions and Benefits	8,838,850	8,672,882	17,511,732
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	2,264,862	(187,841)	2,077,021
62	930	Miscellaneous General Expenses	155,511	0	155,511
63	931	Rents	925,286	(23,977)	901,309
64	932	Maintenance of General Plant	1,194,197	(51)	1,194,146
65		Total Administration and General Expense	<u>\$26,732,865</u>	<u>\$11,767,442</u>	<u>\$38,500,307</u>
66		Total O & M Expense	<u>\$540,963,349</u>	<u>(\$453,819,902)</u>	<u>\$87,143,447</u>
67	403	Depreciation	23,435,869	1,482,305	24,918,174
68	404, 405	Amortization	2,979,834	5,250,982	8,230,816
69	431	Interest on Customer Deposits	147,252	26,143	173,395
70	408	Payroll Taxes	1,888,435	297,804	2,186,239
71	408	Property Taxes	(169,925)	6,857,457	6,687,532
72	408	Gross Receipts Tax	0	0	0
73	408	Other Taxes	240,075	6,719	246,794
74	408	Taxes Other Than Income	<u>\$1,958,585</u>	<u>\$7,161,980</u>	<u>\$9,120,565</u>
75		TOTAL EXPENSES	<u>\$569,484,889</u>	<u>(\$439,898,492)</u>	<u>\$129,586,397</u>
76		OPERATING INCOME BEFORE INCOME TAX	<u>\$100,261,395</u>	<u>(\$69,846,396)</u>	<u>\$30,414,998</u>
77	409,410	Income Taxes	\$31,177,884	(\$27,147,375)	\$4,030,509
78		NET OPERATING INCOME	<u>\$69,083,511</u>	<u>(\$42,699,021)</u>	<u>\$26,384,489</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending June 30, 2003

Updated through April 30, 2004

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description (b)	Test Year Per Books (c)	Adj. GL Rev to Test Year Margin (d)	Normalize & Adj. Test Year Margin (e)	H-3 Remove Purch. Cost and GRT (f)	Payroll Expense (g)	H-5 Employee Benefits (h)	H-6 Payroll Taxes (i)	H-7 Insurance (j)	H-8 Joint and Common Costs (k)	H-9 Uncollectible Expense (l)	H-10 Regulatory Commission Expense (m)
OPERATING REVENUE													
1	480	Residential	461,309,542.92	(\$353,777,331)	\$858,303								
2	481.1	Commercial	183,202,124	(148,839,219)	241,579								
3	481.2	Industrial	9,633,497	(8,064,078)	0								
4	483	Sales for Resale	0	(108,623)	0								
5	487	Late Payment Charges	487,006	(540,572)	0								
6	488	Miscellaneous Service Revenue	4,412,846		0								
7	489	Transport	10,202,282		505,052								
8	493	Rent From Property	0										
9	495	Other Gas Revenue	498,984										
10		Total Operating Revenue	\$669,746,284	(\$511,349,823)	\$1,604,934	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE													
Operation Expense													
11	805	Other Gas Purchases	\$469,859,289			(\$469,859,289)							
12	807	Purchased Gas Expense	0										
13	859	Other Joint Expense	0										
14	870	Operation, Supervision and Engineering	590,699				12,379						
15	871	Distribution and Load Dispatching	8,756				153						
16	872	Compressor Station Labor and Expense	0				0						
17	874	Mains and Service Expenses	3,024,786				27,294						
18	875	Distributing Regulating Station Expenses	682,700				34,683						
19	876	Measuring and Regulating - Station Expenses	7,566				(370)						
20	877	Measuring and Regulating - Station Expenses	4,798				286						
21	878	Meter and House Regulator Expenses	4,291,777				224,389						
22	879	Customer Installation Expenses	2,742,603				163,675						
23	880	Other Expenses	1,702,382				34,844						
24	881	Rents	96,433										
25		Total Operation Expense	\$483,011,789	\$0	\$0	(\$469,859,289)	\$497,333	\$0	\$0	\$0	\$0	\$0	\$0
Maintenance Expense													
26	885	Maintenance Supervision and Engineering	\$1,075,603				\$37,437						
27	886	Maintenance of Structures and Improvements	53,255				2,424						
28	887	Maintenance of Mains	7,569,448				341,147						
29	889	Maint. of Measuring and Reg. Stat Equip - General	292,800				10,206						
30	890	Maint. of Measuring and Regulating Equipment	269,103				8,624						
31	891	Maint. of Measuring and Regulating Equipment	14,725				1,098						
32	892	Maintenance of Services	749,099				35,584						
33	893	Maintenance of Meters and House Regulators	635,602				25,686						
34	894	Maintenance of Other Equipment	124,283				1,040						
35		Total Maintenance Expenses	\$10,763,918	\$0	\$0	\$0	\$463,246	\$0	\$0	\$0	\$0	\$0	\$0
36		Total Distribution Expense	\$483,795,707	\$0	\$0	(\$469,859,289)	\$960,579	\$0	\$0	\$0	\$0	\$0	\$0
Customer Accounts Expense													
37	901	Supervision	\$397,109				\$13,730						
38	902	Meter Reading Expense	771,014				40,338						
39	903	Customer Records and Collection Expense	11,293,811				672,239						
40	904	Uncollectible Accounts	7,108,777									1,772,614	
41	905	Miscellaneous Customer Accounts Expense	57,553				(185)						
42		Total Customer Accounts Expenses	\$19,628,264	\$0	\$0	\$0	\$726,122	\$0	\$0	\$0	\$0	\$1,772,614	\$0
Customer Service and Informational Expense													

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated through April 30, 2004

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description (b)	Test Year Per Books (c)	H-1 Adj. GL Rev to Test Year Margin (d)	H-2 Normalized Adj. Test Year Margin (e)	H-3 Remove Purch. Cost and GRT (f)	H-4 Payroll Expense (g)	H-5 Employee Benefits (h)	H-6 Payroll Taxes (i)	H-7 Insurance (j)	H-8 Joint and Common Costs (k)	H-9 Uncollectible Expense (l)	H-10 Regulatory Commission Expense (m)
43	907	Supervision	\$0										
44	908	Customer Assistance	644,078										
45	909	Informational and Instructional Advertising Exp.	58,979				124						
46	910	Miscellaneous Customer Accounts Expense	3,543										
47		Total Cust. Service and Information Exp.	\$706,600	\$0	\$0	\$0	\$124	\$0	\$0	\$0	\$0	\$0	\$0
Sales and Advertising Expense													
48	911	Supervision	\$0				\$0						
49	912	Demonstrating and Selling Expenses	98,757				(561)						
50	913	Advertising Expenses	0										
51	916	Miscellaneous Sales Expenses	3,156										
52		Total Sales and Advertising Expenses	\$99,913	\$0	\$0	\$0	(\$561)	\$0	\$0	\$0	\$0	\$0	\$0
Administrative and General Expense													
53	920	Administrative and General Salaries	\$6,049,155				\$2,554						
54	921	Office Supplies and Expenses	2,582,258				(445)						
55	922	Administrative Expenses Transferred	(431,962)										
56	923	Outside Services Employed	1,733,396								3,559,811		
57	924	Property Insurance	72,921							0			
58	925	Injuries and Damages	3,368,391				(135)	8,672,882		(820,209)			
59	926	Employee Pensions and Benefits	8,838,850										
60	927	Franchise Requirements	0										
61	928	Regulatory Commission Expense	2,264,862										(187,841)
62	930	Miscellaneous General Expenses	155,511										
63	931	Rents	925,286										
64	932	Maintenance of General Plant	1,194,197				(87)						
65		Total Administrative and General Expense	\$26,732,865	\$0	\$0	\$0	\$1,887	\$8,672,882	\$0	(\$820,209)	\$3,559,811	\$0	(\$187,841)
66		Total O & M Expense	\$540,963,349	\$0	\$0	(\$469,859,289)	\$1,688,151	\$8,672,882	\$0	(\$820,209)	\$3,559,811	\$1,772,614	(\$187,841)
67	403	Depreciation	\$23,435,869										
68	404, 405	Amortization	2,979,834										
69	431	Interest on Customer Deposits	147,252										
70	408	Payroll Taxes (1***)	1,888,435						297,804				
71	408	Property Taxes (2***)	(169,925)										
72	408	Gross Receipts Tax (3300 + 4000)	0										
73	408	Other Taxes (41**)	240,075										
74	408	Taxes Other Than Income	\$1,958,585	\$0	\$0	\$0	\$0	\$0	\$297,804	\$0	\$0	\$0	\$0
75		TOTAL EXPENSES	\$569,484,889	\$0	\$0	(\$469,859,289)	\$1,688,151	\$8,672,882	\$297,804	(\$820,209)	\$3,559,811	\$1,772,614	(\$187,841)
76		OPERATING INCOME BEFORE INCOME TAX	\$100,251,395	(\$511,349,823)	\$1,604,934	\$469,859,289	(\$1,688,151)	(\$8,672,882)	(\$297,804)	\$820,209	(\$3,559,811)	(\$1,772,614)	\$187,841
77	409,410	Income Taxes	31,177,884										
78		NET OPERATING INCOME	\$69,083,511	(\$511,349,823)	\$1,604,934	\$469,859,289	(\$1,688,151)	(\$8,672,882)	(\$297,804)	\$820,209	(\$3,559,811)	(\$1,772,614)	\$187,841

Note: per book & adjusted income tax computed on A-2

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending June 30, 2003

Updated through April 30, 2004

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
		OPERATING REVENUE																										
1	480	Residential			461,309,542.92																							
2	481.1	Commercial			183,202,124																							
3	481.2	Industrial			9,633,497																							
4	483	Sales for Resale			0																							
5	487	Late Payment Charges			487,006																							
6	488	Miscellaneous Service Revenue			4,412,846																							
7	489	Transport			10,202,282																							
8	493	Rent From Property			0																							
9	495	Other Gas Revenue			498,984																							
10		Total Operating Revenue			\$669,746,284																							
		OPERATING & MAINTENANCE EXPENSE																										
		Operation Expense																										
11	805	Other Gas Purchases			\$469,859,289																							
12	807	Purchased Gas Expense			0																							
13	859	Other Joint Expense			0																							
14	870	Operation, Supervision and Engineering			590,699																							
15	871	Distribution and Load Dispatching			8,766																							
16	872	Compressor Station Labor and Expense			0																							
17	874	Mains and Service Expenses			3,024,786																							
18	875	Distributing Regulating Station Expenses			682,700																							
19	876	Measuring and Regulating - Station Expenses			7,566																							
20	877	Measuring and Regulating - Station Expenses			4,798																							
21	878	Meter and House Regulator Expenses			4,291,777																							
22	879	Customer Installation Expenses			2,742,603																							
23	880	Other Expenses			1,702,382																							
24	881	Rents			96,433																							
25		Total Operation Expense			\$483,011,789																							
		Maintenance Expense																										
26	885	Maintenance Supervision and Engineering			\$1,075,603																							
27	886	Maintenance of Structures and Improvements			53,255																							
28	887	Maintenance of Mains			7,569,448																							
29	889	Maint. of Measuring and Reg. Stat Equip - General			292,800																							
30	890	Maint. of Measuring and Regulating Equipment			269,103																							
31	891	Maint. of Measuring and Regulating Equipment			14,725																							
32	892	Maintenance of Services			749,099																							
33	893	Maintenance of Meters and House Regulators			635,602																							
34	894	Maintenance of Other Equipment			124,283																							
35		Total Maintenance Expenses			\$10,783,918																							
36		Total Distribution Expense			\$493,795,707																							
		Customer Accounts Expense																										
37	901	Supervision			\$397,109																							
38	902	Meter Reading Expense			771,014																							
39	903	Customer Records and Collection Expense			11,293,811																							
40	904	Uncollectible Accounts			7,108,777																							
41	905	Miscellaneous Customer Accounts Expense			57,553																							
42		Total Customer Accounts Expenses			\$19,628,284																							
		Customer Service and Informational Expense																										

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated through April 30, 2004

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	Test Year Per Books	(c)	Interest on Customer Deposits	(n)	Depreciation Expense	(o)	Amortization Expense	(p)	TWVE Clearing	(q)	Stores Load Clearing	(r)	State Franchise Tax	(t)	Property Tax	(u)	Postage Increase	(u)	Office Lease Expense	(w)	Incentive Compensation & Bonuses	(y)	Unrecovered Cost of Service	(y)
43	907	Supervision			\$0																							
44	908	Customer Assistance			644,078																							
45	909	Informational and Instructional Advertising Exp.			58,979																					176		
46	910	Miscellaneous Customer Accounts Expense			3,543																							
47		Total Cust. Service and Information Exp.			\$706,600																							
Sales and Advertising Expense																												
48	911	Supervision			\$0																							
49	912	Demonstrating and Selling Expenses			96,757																					\$0		
50	913	Advertising Expenses			0											4										112		
51	916	Miscellaneous Sales Expenses			3,156																							
52		Total Sales and Advertising Expenses			\$99,913											\$4										\$112		
Administrative and General Expense																												
53	920	Administrative and General Salaries			\$6,049,155																					\$6,315		
54	921	Office Supplies and Expenses			2,562,258											1,063										3		
55	922	Administrative Expenses Transferred			(431,962)																					220,942		
56	923	Outside Services Employed			1,733,396																							
57	924	Property Insurance			72,921																							
58	925	Injuries and Damages			3,368,391																					1		
59	926	Employee Pensions and Benefits			8,838,850											618												
60	927	Franchise Requirements			0																							
61	928	Regulatory Commission Expense			2,264,862																							
62	930	Miscellaneous General Expenses			155,511																							
63	931	Rents			925,286																							
64	932	Maintenance of General Plant			1,194,197											36												
65		Total Administration and General Expense			\$26,732,865											\$1,763										0		
66		Total O & M Expense			\$540,963,349											\$76,960										\$6,319		
67	403	Depreciation			\$23,435,869																							
68	404, 405	Amortization			2,979,834																							
69	431	Interest on Customer Deposits			147,252																							
70	408	Payroll Taxes (1***)			1,888,435																							
71	408	Property Taxes (2****)			(169,925)																							
72	408	Gross Receipts Tax (3300 + 4000)			0																							
73	408	Other Taxes (41**)			240,075																							
74	408	Taxes Other Than Income			\$1,958,585																							
75		TOTAL EXPENSES			\$569,484,889											\$76,960										\$34,748		
76		OPERATING INCOME BEFORE INCOME TAX			\$100,261,395																							
77	409,410	Income Taxes			31,177,884																							
78		NET OPERATING INCOME			\$69,083,511																							

Note: per book & adjusted income tax computed on A-2

Note: per book & adjusted income tax computed on A-2

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated through April 30, 2004

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description (b)	Test Year Per Books (c)	Pro Forma Cost of Collectors (y)	Remove Non-utility Activities (ab)	Weatherization Fund (ad)	Environmental Response Fund (ae)	Income Tax Adjustment (ag)	Total Adjustments (ah)	Test Year As Adjusted (ai)
OPERATING REVENUE										
1	480	Residential	461,309,542.92						(\$352,919,028)	\$108,390,515
2	481.1	Commercial	183,202,124						(148,597,840)	34,604,485
3	481.2	Industrial	9,633,497						(8,084,078)	1,549,419
4	483	Sales for Resale	0						(108,623)	(108,623)
5	487	Late Payment Charges	487,006						(540,572)	(53,566)
6	488	Miscellaneous Service Revenue	4,412,846						0	4,412,846
7	489	Transport	10,202,282						505,052	10,707,334
8	493	Rent From Property	0						0	0
9	495	Other Gas Revenue	498,984						0	498,984
10		Total Operating Revenue	\$669,746,284	\$0	\$0	\$0	\$0	\$0	(\$509,744,889)	\$160,001,395
OPERATING & MAINTENANCE EXPENSE										
Operation Expense										
11	805	Other Gas Purchases	\$469,859,289						(\$469,859,289)	\$0
12	807	Purchased Gas Expense	0						0	0
13	859	Other Joint Expense	0						0	0
14	870	Operation, Supervision and Engineering	590,699						15,296	605,995
15	871	Distribution and Load Dispatching	8,756						164	8,920
16	872	Compressor Station Labor and Expense	0						0	0
17	874	Mains and Service Expenses	3,024,786						35,323	3,060,109
18	875	Distributing Regulating Station Expenses	682,700						47,899	730,599
19	876	Measuring and Regulating - Station Expenses	7,566						(215)	7,351
20	877	Measuring and Regulating - Station Expenses	4,798						378	5,176
21	878	Meter and House Regulator Expenses	4,291,777						294,352	4,586,129
22	879	Customer Installation Expenses	2,742,603						199,933	2,942,536
23	880	Other Expenses	1,702,382						46,352	1,748,734
24	881	Rents	96,433						0	96,433
25		Total Operation Expense	\$463,011,789	\$0	\$0	\$0	\$0	\$0	(\$469,219,807)	\$13,791,982
Maintenance Expense										
26	885	Maintenance Supervision and Engineering	\$1,075,603						\$39,505	\$1,115,108
27	886	Maintenance of Structures and Improvements	53,255						3,150	56,405
28	887	Maintenance of Mains	7,569,448						480,914	8,030,362
29	889	Maint. of Measuring and Reg. Stat Equip - General	292,800						16,328	309,128
30	890	Maint. of Measuring and Regulating Equipment	269,103						13,823	282,926
31	891	Maint. of Measuring and Regulating Equipment	14,725						996	15,721
32	892	Maintenance of Services	749,099						54,854	803,953
33	893	Maintenance of Meters and House Regulators	635,602						38,031	673,633
34	894	Maintenance of Other Equipment	124,263						8,037	132,300
35		Total Maintenance Expenses	\$10,783,918	\$0	\$0	\$0	\$0	\$0	\$635,438	\$11,419,356
36		Total Distribution Expense	\$493,795,707	\$0	\$0	\$0	\$0	\$0	(\$468,584,369)	\$25,211,338
Customer Accounts Expense										
37	901	Supervision	\$397,109						\$14,231	\$411,340
38	902	Meter Reading Expense	771,014						51,306	822,320
39	903	Customer Records and Collection Expense	11,293,811	251,066					1,058,524	12,352,335
40	904	Uncollectible Accounts	7,108,777						1,772,614	8,881,391
41	905	Miscellaneous Customer Accounts Expense	57,553						495	58,048
42		Total Customer Accounts Expenses	\$19,628,264	\$251,066	\$0	\$0	\$0	\$0	\$2,897,170	\$22,525,434
Customer Service and Informational Expense										

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated through April 30, 2004
Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description (b)	Test Year Per Books (c)	H-22 (y)	Pro Forma Cost of Collectors (ab)	Remove Non-utility Activities (ad)	Weatherization Fund (ae)	Response Fund (ag)	Income Tax Adjustment (ah)	Total Adjustments (ai)	Test Year As Adjusted
43	907	Supervision	\$0						\$0	\$0	\$0
44	908	Customer Assistance	644,078			100,000			100,300	744,378	744,378
45	909	Informational and Instructional Advertising Exp.	58,979						0	58,979	58,979
46	910	Miscellaneous Customer Accounts Expense	3,543						0	3,543	3,543
47		Total Cust. Service and Information Exp.	\$706,600	\$0	\$0	\$100,000	\$0	\$0	\$100,300	\$806,900	\$806,900
Sales and Advertising Expense											
48	911	Supervision	\$0						\$0	\$0	\$0
49	912	Demonstrating and Selling Expenses	96,757						(445)	96,312	96,312
50	913	Advertising Expenses	0						0	0	0
51	916	Miscellaneous Sales Expenses	3,156						0	3,156	3,156
52		Total Sales and Advertising Expenses	\$99,913	\$0	\$0	\$0	\$0	\$0	(\$445)	\$99,468	\$99,468
Administrative and General Expense											
53	920	Administrative and General Salaries	\$6,049,155						\$8,869	\$6,058,024	\$6,058,024
54	921	Office Supplies and Expenses	2,562,258						226,512	2,788,770	2,788,770
55	922	Administrative Expenses Transferred	(431,962)						0	(431,962)	(431,962)
56	923	Outside Services Employed	1,733,396		(169,083)		500,000		3,890,774	5,624,170	5,624,170
57	924	Property Insurance	72,921						0	72,921	72,921
58	925	Injuries and Damages	3,368,391						(819,725)	2,548,666	2,548,666
59	926	Employee Pensions and Benefits	8,838,850						8,672,882	17,511,732	17,511,732
60	927	Franchise Requirements	0						0	0	0
61	928	Regulatory Commission Expense	2,264,862						(187,841)	2,077,021	2,077,021
62	930	Miscellaneous General Expenses	155,511						0	155,511	155,511
63	931	Rents	925,286						(23,977)	901,309	901,309
64	932	Maintenance of General Plant	1,194,197						(51)	1,194,146	1,194,146
65		Total Administration and General Expense	\$26,732,865	\$0	(\$169,083)	\$0	\$500,000	\$0	\$11,767,442	\$38,500,307	\$38,500,307
66		Total O & M Expense	\$540,963,349	\$251,066	(\$169,083)	\$100,000	\$500,000	\$0	(\$453,819,902)	\$87,143,447	\$87,143,447
67	403	Depreciation	\$23,435,869						\$1,482,305	\$24,918,174	\$24,918,174
68	404, 405	Amortization	2,979,834						5,250,982	\$8,230,816	\$8,230,816
69	431	Interest on Customer Deposits	147,252						26,143	173,395	173,395
70	408	Payroll Taxes (1***)	1,888,435						297,804	2,186,239	2,186,239
71	408	Property Taxes (2***)	(169,925)						6,857,457	6,687,532	6,687,532
72	408	Gross Receipts Tax (3000 - 4000)	0						0	0	0
73	408	Other Taxes (41**)	240,075						6,719	246,794	246,794
74	408	Taxes Other Than Income	\$1,958,585	\$0	\$0	\$0	\$0	\$0	\$7,161,980	\$9,120,565	\$9,120,565
75		TOTAL EXPENSES	\$569,484,889	\$251,066	(\$169,083)	\$100,000	\$500,000	\$0	(\$439,898,492)	\$129,586,397	\$129,586,397
76		OPERATING INCOME BEFORE INCOME TAX	\$100,261,395	(\$251,066)	\$169,083	(\$100,000)	(\$500,000)	\$0	(\$59,846,396)	\$30,414,998	\$30,414,998
77	409, 410	Income Taxes	31,177,864						(27,147,375)	4,030,509	4,030,509
78		NET OPERATING INCOME	\$69,083,511	(\$251,066)	\$169,083	(\$100,000)	(\$500,000)	\$27,147,375	(\$42,698,021)	\$26,384,489	\$26,384,489

Note: per book & adjusted income tax computed on A-2

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending December 31, 2005

Test Year Margin Revenue

Line No.	Description (a)	Main Account/Revenue Class					
		480	481.1	481.2	483, 489	487, 488, 493, 495	Total (g)
		21	22 & 23	25	28, 38		
	(b)	(c)	(d)	(e)	(f)		
1	Total Revenue per Book	461,309,543	183,202,124	9,633,497	10,202,282	5,398,837	669,746,284
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(353,777,331)	(148,839,219)	(8,084,078)	(108,623)	(540,572)	(511,349,823)
3	Test Year Margin	107,532,212	34,362,906	1,549,419	10,093,659	4,858,264	158,396,461

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Revenue Adjustments

Line No.	Description (a)	Main Account/Revenue Class					Total (g)
		Residential Gas Sales (b)	Commercial Gas Sales (c)	Industrial Gas Sales (d)	Transportation Revenues (e)	Service Charges and Other (f)	
1	Test Year Margin	\$107,532,212	\$34,362,906	\$1,549,419	\$10,093,659	\$4,858,264	\$158,396,461
2	Weather Normalize	1,506,308	542,095		112,397	0	2,160,800
3	Customer Growth Annualization	(648,005)	(300,516)	0	392,655	0	(555,866)
4	Total Adjustments	858,303	241,579	0	505,052	0	1,604,934
5	As Adjusted Test Year Margin	\$108,390,515	\$34,604,485	\$1,549,419	\$10,598,711	\$4,858,264	\$160,001,395

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Remove Purchase Gas Costs and Gross Receipts Tax

Line No.	Description (a)	Amount (b)
1	Purchase Gas Costs (Acct. 805)	(\$469,859,289)
2	Total Adjustment	<u>(\$469,859,289)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Payroll Adjustment

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$569,558	\$557,179	\$12,379
2	871	\$8,900	8,747	153
3	872	\$0	0	0
4	874	\$475,718	448,424	27,294
5	875	\$490,233	455,550	34,683
6	876	\$4,801	5,171	(370)
7	877	\$3,492	3,206	286
8	878	\$3,314,902	3,090,513	224,389
9	879	\$2,290,500	2,126,825	163,675
10	880	\$1,131,482	1,096,638	34,844
11	885	\$1,103,100	1,065,663	37,437
12	886	\$33,605	31,181	2,424
13	887	\$4,940,140	4,598,993	341,147
14	889	\$206,444	196,238	10,206
15	890	\$181,875	173,251	8,624
16	891	\$9,601	8,503	1,098
17	892	\$494,878	459,294	35,584
18	893	\$488,190	462,504	25,686
19	894	\$24,891	23,851	1,040
20	901	\$410,839	397,109	13,730
21	902	\$616,998	576,660	40,338
22	903	\$6,258,391	5,586,152	672,239
23	905	\$0	185	(185)
24	908	\$144,202	144,078	124
25	911	\$0	0	0
26	912	\$91,600	92,161	(561)
27	920	\$5,173,958	5,171,404	2,554
28	921	\$2,525	2,970	(445)
29	923	\$0	87	(87)
30	925	\$809	944	(135)
31	932	\$0	87	(87)
32	Total	\$28,471,632	\$26,783,568	\$1,688,064

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Employee Benefits

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	\$8,300,000	
2	Retirement Power	477,156	
3	Life & AD&D Insurance	138,523	
4	Long Term Disability Insurance	180,623	
5	Medical / Dental Benefit	6,682,296	
6	FAS 106 - Accrual	1,641,953	
7	FAS 106 - Amortization of	2,664,792	
8	401K	1,105,108	
9	Supplemental Retirement	75,000	
10	Other Benefits	0	
11	Total Proforma Benefits	\$21,265,451	
12	Payroll Expense Ratio	0.769907	
		<u>16,372,420</u>	
	Add amortization of prepaid pensions (amortized over a		
13	6 year period)	1,139,312	
14	Proforma Benefits Expense	<u>\$17,511,732</u>	
15	Less Test Year Benefits Expense	<u>(\$8,838,850)</u>	
16	Adjustment to Test Year Expense - Acct. 926		<u><u>\$8,672,882</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Payroll Taxes

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	\$2,836,140
2	Payroll Taxes on Incentive Compensation Adjustment	<u>3,475</u>
5	Total Proforma Payroll Taxes	\$2,839,615
6	Payroll Expense Ratio	0.769907
7	Proforma Payroll Tax Expense	<u>\$2,186,239</u>
8	Less Test Year Payroll Tax Expense	<u>(1,888,435)</u>
9	Adjustment to Test Year Expense - Acct. 4081	<u><u>\$297,804</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Insurance / Injuries & Damages

Line	No.	Description	2003	2004	2005	3 Year Avg.	925 Amount	924 Amount	Total Amount
		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		MGE Claims:							
1		Workers Compensation claims paid	\$693,178	\$722,987	\$749,054	\$721,740			
2		Additional Accruals	\$0	\$0	1,500,000	500,000			
3		Auto & General Liability	1,893,712	197,706	340,871	810,763			
4		Total Proforma Claims	<u>\$2,586,890</u>	<u>\$920,693</u>	<u>\$2,589,925</u>	<u>\$2,032,503</u>	\$2,032,503		\$2,032,503
5		Insurance Premiums - 924					72,921		72,921
6		Insurance Premiums - 925					<u>1,277,223</u>		<u>1,277,223</u>
7		Total Proforma Insurance Cost					\$3,309,726	\$72,921	\$3,382,648
8		Test Year Payroll Expense Ratio					0.769907	1.000000	
9		Proforma Insurance Expense					<u>\$2,548,182</u>	<u>\$72,921</u>	<u>\$2,621,103</u>
10		Less Test Year Insurance Expense					(3,368,391)	(72,921)	(3,441,312)
11		Adjustment to Test Year - Accts. 924 and 925					<u>(\$820,209)</u>	<u>\$0</u>	<u>(\$820,209)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Corporate Allocation

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	\$5,117,460
2	Expense Capital Ratio	69.5621%
3	Proforma Joint and Common Expense	<u>\$3,559,811</u>
4	Less Test Year Expense Recorded on MGE's Books	<u>0</u>
5	Adjustment to Test Year - Acct. 923	<u><u>\$3,559,811</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Uncollectible Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	YE Ended December 31, 2004 Charge Offs	\$9,054,004	
2	YE Ended December 31, 2005 Charge Offs	<u>8,708,778</u>	
3	Two Year Average		\$8,881,391
4	Less Test Year Uncollectible Expense		(7,108,777)
5	Adjustment to Test Year - Acct. 904		<u><u>\$1,772,614</u></u>

Missouri Gas Energy,
a Division of Southern Union Company
Name of Issuing Corporation

For: All Missouri Service Areas
Community, Town or City

PURCHASED GAS COST ADJUSTMENT
PGA

The Deferred Purchased Gas Cost Account shall be adjusted for those revenues received by the Company for the release of pipeline transmission capacity to another party other than those revenues which are retained by the Company as described in Section IX of this schedule.

The deferred purchase gas cost account shall be adjusted for unrecovered gas billings. Gas-related costs calculated and billed to customers under this Purchased Gas Cost Adjustment, which have been recorded as uncollectible during the preceding computation year and which remain unpaid, shall adjust the cumulative total under/over recovered cost used to calculate the ACA factor.

(a) Definitions:

i. Unrecovered Gas Billings: the portion of Company's uncollectible accounts that is attributable to charges calculated under this Purchased Gas Cost Adjustment.

ii. Ratebased Gas Uncollectibles: the Company's expenses attributable to charges under this Purchased Gas Cost Adjustment clause which are included in the Account 904 balance filed in Company's most recent rate case.

(b) Annual Unrecovered Gas Billings that are greater than the Ratebased Gas Uncollectibles shall be additive to the ACA.

(c) To the extent Annual Unrecovered Gas Billings are less than the Ratebased Gas Uncollectibles, the difference shall be included as a credit to the ACA.

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted: Indent: Left: 1.19", No bullets or numbering

Formatted: Indent: Left: 1.94"

Formatted: Indent: Left: 1.94"

Formatted: Indent: Left: 1.19"

Formatted: Indent: Left: 1.19", First line: 0"

Formatted: Indent: First line: 0", Tabs: 0.8", Left + 1.1", Left + 6.88", Left + Not at 1.5" + 2" + 2.5" + 3" + 3.5" + 4" + 4.5" + 5" + 5.5" + 6" + 6.13" + 6.74" + 7" + 7.5" + 8" + 8.5" + 9" + 9.5" + 10" + 10.5" + 11" + 11.5" + 12" + 12.5" + 13"

Deleted: September

Deleted: 24

Deleted: 4

Deleted: October

Deleted: 2

Deleted: 4

DATE OF ISSUE: May 1, 2006
month day year

DATE EFFECTIVE: June 1, 2006
month day year

ISSUED BY: Michael R. Noack Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, Missouri 64111

Missouri Gas Energy,
a Division of Southern Union Company
Name of Issuing Corporation

For: All Missouri Service Areas
Community, Town or City

PURCHASED GAS COST ADJUSTMENT
PGA

For each month during the ACA period and for each month thereafter interest, at a simple rate equal to the prime bank lending rate (as published in the Wall Street Journal on the first business day of the following month), minus two (2) percentage points (but not less than zero) shall be credited to customers for any over-recovery of gas costs or credited to the Company for any under-recovery of gas costs. Interest shall be computed based upon the average of the accumulated beginning and ending monthly ACA account balances. The Company shall maintain detailed work-papers that provide the interest calculation on a monthly basis.

Initially, monthly interest shall be credited as described above based upon the average of the ending balance determined from the monthly ACA balance ending September 30, 2004 and the monthly ACA balance ending August 31, 2004.

For each twelve month billing period ended June 30, the differences of the cost of gas and the cost recovery comparisons as described herein, including any balance for the previous year shall be accumulated to produce a cumulative balance of over-recovered or under-recovered costs. An "Actual Cost Adjustment" (ACA) shall be computed by dividing the cumulative balance of under-recoveries or over-recoveries by the annual sales volumes set out in Section VIII of this Schedule.

This adjustment shall be rounded to the nearest \$0.00001 per Ccf and applied to the billings of each applicable sales and transportation rate classification, commencing in November of each year, and shall remain in effect until superseded by subsequent ACA factors calculated according to this provision. The Company shall file any revised ACA on Sheet No. 24.3 in the same manner as all other Purchased Gas Cost Adjustments.

The current methodology for tracking and recovering gas supply costs, the application of interest on ACA balances and the treatment of natural gas transmission pipeline refunds shall be subject to regulatory review between April 1, 2005 and June 30, 2006. Thereafter, the current methodology may either continue in its present form or be revised to a former or new methodology by Order of the Commission. If the treatment of gas cost recovery, interest determination and handling of refunds described herein is revised by the Commission on or after July 1, 2006, the Company shall continue to perform calculations reflective of the PGA provisions employed during the above review period through the end of its then current ACA period.

DATE OF ISSUE: May 1 2006
month day year

DATE EFFECTIVE: June 1 2006
month day year

ISSUED BY: Michael R. Noack Director, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, Missouri 64111

Deleted: September

Deleted: 24

Deleted: 4

Deleted: October

Deleted: 2

Deleted: 4

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Regulatory Commission Expense

Line No.	Description (a)	Amount (b)	Amount (c)
1	Estimate of current rate case expense	\$900,000	
2	Cost of GR-2004-0209 Appeal	\$285,243	
3	Remaining balance of GR-2004-0209	\$223,456	
4	Total Rate Case Balance	<u>1,408,699</u>	
5	Annual Amortization (3 years)		\$469,566
6	Normalized level of expense for depreciation study		\$6,878
7	Proforma NARUC Assessment - fiscal 7/1/04-6/30/05		6,198
8	Other Regulatory Commission Expenses		219,927
9	Proforma MPSC Assessment - fiscal 7/1/05-6/30/06		<u>1,374,452</u>
10	Total Proforma Regulatory Commission Expense		\$2,077,021
11	Less Test Year Regulatory Commission Expense		(2,264,862)
12	Adjustment to Test Year - Acct. 928		<u><u>(\$187,841)</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Interest on Customer Deposits

Line No.	Description (a)	Reference (b)	Residential (c)	Commercial & Industrial (d)	Amount (e)
1	Customer Deposits	B-2	\$1,054,606	\$2,879,652	\$3,934,258
2	Interest Rate		8.25%	3.00%	4.41%
3	Proforma Interest on Customer Deposits		<u>\$87,005</u>	<u>\$86,390</u>	<u>\$173,395</u>
4	Less Test Year Interest on Customer Deposits				<u>(147,252)</u>
5	Adjustment to Test Year - Acct. 431				<u><u>\$26,143</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Depreciation Expense

Line No.	Description (a)	Amount (b)	Current Depreciation Rate (c)	Annualized Depreciation (d)	Proposed Rate (e)	Proforma Total Depreciation (f)	Less Depr. Capitalized To Clearing Accts. (g)	Proforma Depreciation Expense (h)
INTANGIBLE PLANT								
1	(301) Organization	\$15,600	0.00%	\$0	0.00%	\$0	\$0	\$0
2	(302) Franchises	32,096	0.00%	0	0.00%	0	0	0
3	(303) Miscellaneous Intangible	27,564,993	(see adj. H-13)	0	(see adj. H-13)	0	0	0
4	Total Intangible Plant	\$27,612,689		\$0		\$0	\$0	\$0
DISTRIBUTION PLANT								
5	(374.1) Land	\$223,517	0.00%	\$0	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	1,608,103	2.09%	33,609	2.00%	32,162	0	32,162
7	(375.1) Structures	5,556,273	1.65%	91,679	2.50%	138,907	0	138,907
8	(375.2) Leasehold Improvements	0	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	331,433,389	2.27%	7,523,538	2.27%	7,523,538	0	7,523,538
10	(378) Meas. & Reg. Station - General	11,579,565	2.86%	331,176	2.86%	331,176	0	331,176
11	(379) Meas. & Reg. Station - City Gate	3,034,196	2.13%	64,628	2.50%	75,855	0	75,855
12	(380) Services	289,906,474	2.70%	7,827,475	3.41%	9,885,811	0	9,885,811
13	(381) Meters	30,425,241	2.86%	870,162	2.86%	870,162	0	870,162
14	(382) Meter Installations	67,025,981	2.86%	1,916,943	2.86%	1,916,943	0	1,916,943
15	(383) House Regulators	11,295,323	2.44%	275,606	2.86%	323,046	0	323,046
16	(385) Electronic Gas Metering	362,437	3.33%	12,069	3.33%	12,069	0	12,069
17	(387) Other Equipment	0	4.60%	0	6.25%	0	0	0
18	Total Distribution Plant	\$752,450,499		\$18,946,885		\$21,109,669	\$0	\$21,109,669
GENERAL PLANT - DIRECT								
19	(389) Land	\$773,880	0.00%	\$0	0.00%	\$0	\$0	\$0
20	(390.1) Structures	616,877	2.00%	12,338	2.50%	15,422	0	15,422
21	(390.2) Leasehold Impr.	1,545,551	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	7,059,311	8.06%	568,980	9.09%	641,691	0	641,691
23	(392) Transportation Equipment	5,036,276	8.70%	438,156	9.09%	457,797	(457,797)	0
24	(393) Stores Equipment	513,584	2.70%	13,867	3.33%	17,102	0	17,102
25	(394) Tools	5,070,504	5.30%	268,737	5.00%	253,525	0	253,525
26	(395) Laboratory Equipment	0	6.00%	0	6.00%	0	0	0
27	(396) Power Operated Equipment	243,807	8.33%	20,309	6.67%	16,262	(16,262)	0
28	(397.1) Communication Equipment - AMR	35,718,650	5.00%	1,785,933	5.00%	1,785,933	0	1,785,933
29	(397.0) Communication Equipment - Other	3,288,403	6.25%	205,525	6.25%	205,525	0	205,525
30	(398) Miscellaneous Equipment	423,657	3.85%	16,311	5.00%	21,183	0	21,183
31	Total Direct General Plant	\$60,290,500		\$3,330,156		\$3,414,440	(\$474,059)	\$2,940,381
GENERAL PLANT - CORPORATE								
32	(390) Structures	\$0		\$0		\$0	\$0	\$0
33	(390) Leasehold Impr.	2,036,684	Note	59,660	Note	59,660	0	59,660
34	(391) Furniture & Fixtures	208,405	"	33,905	"	33,905	0	33,905
35	(392) Transportation Equipment	8,004	"	3,520	"	3,520	0	3,520
36	(397) Communication Equipment	0		0		0	0	0
37	(398) Miscellaneous Equipment	0		0		0	0	0
38	Total Corporate General Plant	\$2,254,093		\$97,085		\$97,085	\$0	\$97,085
39	Total Proforma Plant & Depreciation	\$842,607,781		\$22,374,126		\$24,621,194	(\$474,059)	\$24,147,135
40	Less Depreciation Charged to Clearing A/Cs			(458,465)		(474,059)		
41	Less Test Year Depreciation Expense			(\$23,435,869)		(\$22,374,126)		(\$23,435,869)
42	Cost of Removal/ Net Salvage			\$771,039				\$771,039
43	Adjustment to Test Year - Acct. 403			(\$749,169)		\$1,773,009		\$1,482,305

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Amortization Expense

Line No.	Description (a)	Original Cost Plant (b)	Monthly Test Year Amortization Expense (c)	Proforma Amortization Expense (d)
<u>MGE Direct Non-SLRP Amortization:</u>				
1	(375.2) Leasehold Improvements	\$0	\$0	\$0
2	(390.2) Leasehold Improvements	1,545,551	8,353	100,230
3	Sub Total	<u>\$1,545,551</u>	<u>\$8,353</u>	<u>\$100,230</u>
4	(303) Misc. Intangible - Work Force Automation (1000)	\$3,785,364	21,024	\$252,287
5	(303) Misc. Intangible - Corrosion Control Mgmt System (4000)	1,117,800	0	0
6	(303) Misc. Intangible - Landbase Digitized Mapping (4500)	1,701,543	16,886	202,634
7	(303) Misc. Intangible - Premise Data System (5000)	985,196	0	0
8	(303) Misc. Intangible - AMR Project - Programming (5500)	469,443	2,764	33,166
9	(303) Misc. Intangible - Facility Priority Index (6000)	894,795	0	0
10	(303) Misc. Intangible - Geographic Information System (6500)	1,006,719	7,125	85,500
11	(303) Misc. Intangible - Customer Service System (7000)	3,786,000	20,921	251,048
12	(303) Misc. Intangible - CSS Enhancements (7100)	7,588,221	63,235	758,822
13	(303) Misc. Intangible - Mainframe Software (7200)	1,912,642	15,939	191,264
14	(303) Misc. Intangible - Website (7600)	485,944	4,051	48,615
15	(303) Misc. Intangible - Stoner Low Pressure/Intermediate Model (8000)	279,672	2,457	29,481
16	(303) Misc. Intangible - BASIC (8500)	294,516	3,005	36,063
17	(303) Misc. Intangible - TCS System (9000)	189,193	1,592	19,106
18	(303) Misc. Intangible - GEO Tax Software (9500)	79,294	661	7,929
19	(303) Misc. Intangible - Oracle Software	2,415,660	20,117	241,409
20	(303) Misc. Intangible - Power Plant Software	187,288	1,561	18,729
21	(303) Misc. Intangible - Virtual Hold Call Center	191,000	1,592	19,103
22	(303) Misc. Intangible - Witness Software (9600)	194,706	1,623	19,474
23	Sub Total - Acct. 303	<u>\$27,564,994</u>	<u>\$184,552</u>	<u>\$2,214,630</u>
<u>Amortization of Infinium Software:</u>				
24	Unamortized balance of replaced software	<u>\$1,564,460</u>	<u>Amort. Period</u> 3	<u>\$521,487</u>
<u>SLRP Amortization:</u>				
25	SLRP Deferrals Subject to Amortization	<u>\$32,048,048</u>	<u>10</u>	<u>\$3,204,805</u>
26	Pro-Forma Amortization Expense			\$6,041,152
27	Less Test Year Amortization Expense			<u>(2,979,834)</u>
28	Adjustment to Test Year - Accts. 404 and 405			<u>\$3,061,318</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Transportation and Work Equipment Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into TWE Clearing Account 18400210		\$4,631,933		
2	Less Test Year Amounts Cleared Out of Account 18400210		(4,289,431)		
3	Test Year Amount Under/(Over) Cleared		<u>\$342,502</u>		\$342,502
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 18400210:				
		Proforma	Test Year	Adjustment	
5	Depreciation	\$474,059	\$458,465	\$15,594	15,594
6	Total Adjusted Amount Under/(Over) Cleared				<u>\$358,096</u>

Spread Under/(Over) Clearing to Main Accounts based on Test Year Clearing:

	Main Acct.	Amount	Percentage	Amount
7	870	\$26,621	0.006206	\$2,222
8	871	0	0.000000	0
9	872	0	0.000000	0
10	874	63,520	0.014808	5,303
11	875	109,881	0.025616	9,173
12	876	1,088	0.000254	91
13	877	530	0.000124	44
14	878	716,486	0.167033	59,814
15	879	389,145	0.090720	32,486
16	880	85,202	0.019863	7,113
17	885	8,644	0.002015	722
18	886	6,520	0.001520	544
19	887	1,005,321	0.234368	83,926
20	889	40,034	0.009333	3,342
21	890	31,481	0.007339	2,628
22	891	2,301	0.000536	192
23	892	91,428	0.021314	7,632
24	893	60,938	0.014206	5,087
25	894	3,913	0.000912	327
26	902	114,111	0.026602	9,526
27	903	381,973	0.089048	31,888
28	905	8,127	0.001895	679
29	921	59,282	0.013820	4,949
30	Total Adjustment to Test Year Expense	\$3,206,548	0.747532	\$267,688
31	Balance Sheet Accounts	1,082,954	0.252466	90,407
32	Total Test Year Clearing	<u>\$4,289,501</u>	<u>0.999998</u>	<u>\$358,095</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Stores Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into Stores Account 1630		\$2,043,068		
2	Less Test Year Amounts Cleared Out of Account 1630		<u>(1,483,099)</u>		
3	Test Year Amount Under/(Over) Cleared		<u>\$559,969</u>		<u>\$559,969</u>

Spread Under/(Over) Clearing to Main Accounts based on Test Year Clearing:

	Main Acct.	Amount	Percentage	Amount
4	874	\$5,677	0.00383	\$2,145
5	875	9,117	0.00615	3,445
6	876	155	0.00010	58
7	877	116	0.00008	44
8	878	16,153	0.01090	6,103
9	879	2,586	0.00175	977
10	880	7,976	0.00538	3,014
11	885	0	0.00000	0
12	886	374	0.00025	141
13	887	78,902	0.05324	29,812
14	889	6,692	0.00452	2,528
15	890	6,217	0.00420	2,349
16	891	(811)	-0.00055	(306)
17	892	28,674	0.01935	10,834
18	893	17,632	0.01190	6,662
19	894	17,572	0.01186	6,640
20	902	1,825	0.00123	689
21	903	151	0.00010	57
22	905	1	0.00000	1
23	912	11	0.00001	4
24	921	2,815	0.00190	1,063
25	923	123	0.00008	46
26	925	1,635	0.00110	618
27	932	96	0.00007	36
28	Total Adjustment to Test Year Expense	203,689	0.13744	76,960
29	Balance Sheet Accounts	1,278,358	0.86256	483,008
30	Total Test Year Clearing	<u>1,482,047</u>	<u>1.00000</u>	<u>\$559,968</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Missouri State Franchise Tax

Line No.	Description (a)	Amount (b)
1	Proforma State Franchise Tax & City Tax Expense	\$246,719
2	Less Test Year State Franchise Tax Expense	<u>(240,000)</u>
3	Adjustment to Test Year - Acct. 4081	<u><u>\$6,719</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Property Tax Expense

Line No.	Description (a)	Reference (b)	Amount (c)
1	Proforma Total Plant in Service excluding Corporate Allocated Plant	C	\$840,353,688
2	Less Intangible Plant	C	<u>(27,612,689)</u>
3	Proforma Plant, excluding Intangible Plant		\$812,740,999
4	Property tax rate		<u>0.79595%</u>
5	Proforma Property Tax Expense		\$6,469,010
6	Oklahoma Property Tax		218,521
7	Less Test Year Property Tax Expense		<u>(169,925)</u>
8	Adjustment to Test Year - Acct. 4081		<u><u>\$6,857,457</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005

Lease Ex

Postage Increase

Line No.	Description (a)	Amount (b)
1	Average Postage cost per item	
2	2005	\$ 0.280
3	2006- with postage increase	\$ 0.291
4	Increase in postage cost per item	\$ 0.011
5	2005 total items mailed	<u>8,694,146</u>
6	Total increase	<u>\$ 95,636</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Office Lease Expense

Line No.	Description (a)	Amount (b)
1	Proforma Broadway rent - Rent	\$516,814
2	Proforma Broadway Taxes	195,160
3	Less: Proforma rent from subleases	<u>(316,145)</u>
4	Total proforma rent expense - Acct. 931	395,829
5	Actual rent expense - Acct. 931	<u>419,806</u>
6	Adjustment to Acct. 931	<u><u>(\$23,977)</u></u>
7	Net proforma Broadway building utility costs	\$193,919
8	Less: Actual Broadway building utility costs	<u>124,496</u>
9	Adjustment to Test Year - Acct. 921.00014	<u><u>\$69,423</u></u>
7	Net proforma Broadway supplies expense	\$36,321
8	Actual Broadway supplies expense	<u>23,318</u>
9	Adjustment to Test Year - Acct. 921.00017	<u><u>\$13,003</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Incentive Compensation and Bonuses

Line No.	Description	Incentive Compensation	Holiday Bonuses	Work Performance Bonuses	Total
	(a)	(b)	(c)	(d)	(e)
1	2003 Incentive and Bonus Payments	\$302,657	\$43,660	\$88,151	\$434,468
2	2004 Incentive and Bonus Payments	436,021	46,120	122,952	605,093
3	2005 Incentive and Bonus Payments	<u>347,272</u>	<u>45,645</u>	<u>59,000</u>	<u>451,917</u>
4	Total	<u>\$361,983</u>	<u>\$45,142</u>	<u>\$90,034</u>	497,159
5	Test Year Incentive and Bonus Payments				<u>(451,917)</u>
6	Adjustment				45,242
7	Expense Ratio				<u>0.769907</u>
8	Amount Charged to Expense				<u>\$34,832</u>

Missouri Gas Energy
Unrecovered Cost of Service
January through March 2006

Total Company

Line No	TARIFF	(a)	# of Reg billed Custs	(b)	Regular billed usage	(c)	Actual Avg per Cust	(d)	Usage used to Design Rates	(e)	Per customer Usage Shortfall / (Excess)	(f)	Total Usage Shortfall / (Excess)	(g)	Revenue Shortfall / Excess	(h)
Jan-06																
RES			442,397		59,221,094		134		180.9		47		20,808,523.30		\$	2,744,020
UGM			19		2,469		130									
SGSM			66,943		24,670,279		369		449.8		81		5,440,682.40		\$	776,005
LGSM			327		3,327,658		10,176		8717.7		(1,459)		(476,970.10)		\$	(58,748)
LVM			495		25,137,432		50,783		65422.9		14,640		7,246,903.50		\$	296,253
Feb-06																
RES			443,146		52,769,311		119		174.5		55		24,559,666.00		\$	3,238,683
UGM			19		3,012		159									
SGSM			66,730		21,069,568		316		444.7		129		8,605,263.00		\$	1,227,369
LGSM			326		2,510,649		7,701		8898.1		1,197		390,131.60		\$	48,063
LVM			495		24,845,804		50,194		53266.8		3,073		1,521,262.00		\$	62,189
Mar-06																
RES			442,626		46,400,023		105		137.1		32		14,284,001.60		\$	1,883,631
UGM			19		2,494		131									
SGSM			66,163		19,000,872		287		354.9		68		4,480,376.70		\$	639,036
LGSM			327		2,034,863		6,223		7883.3		1,660		542,976.10		\$	66,878
LVM			495		23,600,947		47,679		48911.9		1,233		610,443.50		\$	24,955
															<u>\$ 10,948,324</u>	
Proposed Length of Amortization															5 Years	
Annual Amortization															<u>\$ 2,189,665</u>	

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Customer Collection Costs

Line No.	Description (a)	Total (b)
1	Scheduled number of collectors for 2006	<u>15</u>
2	Total number of hours to be worked (15 collectors for 28 weeks at 40	
3	hours per week)	16,800
4	Rate per hour	<u>\$28.00</u>
5	Pro forma cost of collectors	\$470,400
6	Actual cost of collectors	\$219,334
7	Adjustment	<u>\$251,066</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Non-recurring / Non-Utility Activity

Line No.	Description (a)	Total (b)
1	Remove non-recurring / non-utility activity from account 923	<u>(\$169,083)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Weatherization

Line No.	Description (a)	Amount (b)
1	Increase Weatherization to \$600,000	<u>\$100,000</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2005
Environmental Response Fund

Line No.	Description (a)	Amount (b)
1	Environmental Response Fund	<u>\$500,000</u>

Environmental Response Fund:

An Environmental Response Fund shall be established to create a mechanism to fund the recovery of "Environmental Response Costs" as defined below.

(a) Definition of "Environmental Response Costs". "Environmental Response Costs" are all the reasonable and prudently incurred costs associated with evaluation, remedial and clean-up obligations of Missouri Gas Energy arising out of utility-related ownership and/or operation of manufactured gas plants and sites associated with the operation and disposal activities from such gas plants. In addition to the actual remedial and clean-up costs, "Environmental Response Costs" also include costs of acquiring property associated with the clean up of such sites as well as litigation costs, claims, judgments, expenditures made in efforts to obtain insurance reimbursements, and settlements—including the costs of obtaining such settlements—associated with such sites. The Company will use best efforts to satisfy its obligation to minimize the Environmental Response Costs charged to the fund consistent with applicable regulatory requirements and sound environmental policies and to minimize litigation costs that may arise.

Fifty percent (50%) of any applicable insurance proceeds and/or contributions obtained from Westar Energy (the successor of Western Resources, Inc.) and/or contributions obtained from potentially responsible parties, net of costs associated with obtaining such proceeds and/or contributions, shall be credited to the fund. The fund shall also be given credit for the accrued liability in the amount of \$3,000,000 recorded on Southern Union Company's books following the acquisition of the Missouri property (which was to become Missouri Gas Energy) from Western Resources, Inc.

(b) Funding. The fund shall be maintained in an interest bearing trust account and shall be credited at the annual target amount of approximately \$500,000 (the current amount reflected in rates for such costs). The actual amount of the credit shall be based on the actual billed revenues produced by the discrete rate element included in the basic service charge or delivery charge of all customer classes. Any cash expenditures shall be charged to the fund as long as the costs that are incurred or previously deferred are Environmental Response Costs, as defined above.

(c) Annual Reports. Missouri Gas Energy shall file an annual report with the Commission (and serve the Parties with copies) on a Highly Confidential basis providing a summary and accounting of all costs incurred during such year which have been applied to the fund. A separate account shall be maintained on the Company's books for accruals and expenditures for environmental response costs. Each of the Parties retain their right to review and challenge any costs that they believe do not fall within the definition of "Environmental Response Costs", as defined in subparagraph (a) above.

(d) Reservation of Rights. In the Company's next general rate case to establish rates after the approval of this Agreement, all parties reserve their rights to take any position they deem appropriate regarding (i) the level of funding to be permitted in rates on a prospective basis to recover costs charged to the fund as of the date of such case, and/or (ii) whether the fund should continue as designed for the recovery of prospective costs.