

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

In the matter of Missouri Gas Energy's)
Increasing Rates for Gas Service Provided)
To Customers in the Company's Missouri)
Service Area)

Case No. GR-2006-0422

**STAFF'S SUGGESTIONS IN SUPPORT OF PARTIAL NONUNANIMOUS
STIPULATION AND AGREEMENT**

COME NOW the Staff of the Missouri Public Service Commission and respectfully submits as follows:

1. On May 2, 2006, Missouri Gas Energy (MGE), a division of Southern Union Company, filed tariff sheets with the Missouri Public Service Commission (Commission) to implement a general rate increase for natural gas service in an annual amount of \$41,651,345. The case has proceeded under the Commission ordered Procedural Schedule. Surrebuttal was filed on December 11, 2006 and the hearing is scheduled to begin on January 8, 2007.

2. On December 8, 2006, Staff, OPC, MGE, MGUA, Central Missouri State University, the University of Missouri-Kansas City and the County of Jackson filed a Partial Nonunanimous Stipulation and Agreement (Stipulation) on the issue of Class Cost of Service. The other Parties to the case, the City of Kansas City and Trigen, do not oppose the Stipulation and do not request a hearing (Stipulation, paragraph 2).

3. The Stipulation specifies that any increase in revenue shall be spread among all customer classes as an equal percentage of the normalized of each customer class without any interclass revenue shifts. The Parties to the Stipulation agreed that "normalized present nongas revenues of each customer class shall be the amount determined by the Commission (or separately agreed by the Parties and approved by the Commission). There was further agreement about how the revenue increase allocated to the Large Volume (LV) Class shall be collected.

4. Staff Witness Thomas A. Solt conducted a class cost of service study in this case. Mr. Solt's Direct Testimony described the results of his class cost of service study as follows:

The CCOS study shows that revenues should be collected differently than how revenues are collected under current rates. The CCOS study indicates that revenues being collected under current rates for the Residential and LVS classes do not cover the cost of serving those classes, while SGS and LVS classes do not cover the cost of serving those classes, while SGS and LGS classes are contributing more than the cost of serving those classes.

(Solt Direct, p. 7, lines 4-8). The Staff used this as a starting point in considering the proposal that appears in the Stipulation.

5. Staff concluded that the settlement reached in the Stipulation is a just and reasonable result. Staff considered all of the proposals made by the Parties in the case, litigation risk, the conflicting interests of all of the Parties, and after due consideration decided that this Stipulation is in the public interest and so recommends to the Commission. Staff believes that it is a fair result that spreads any increased revenue among all customer classes as an equal percentage of the normalized of each customer class without any interclass revenue shifts. MGE, OPC, MGUA and Staff each filed class cost of service studies in Direct Testimony. Staff considered each class cost of service study, the substantial differences in each and determined that this is a result that Staff can recommend to the Commission.

WHEREFORE, for the following reasons, Staff respectfully requests that the Commission issue an order approving the Partial Nonunanimous Stipulation and Agreement subject to the specific terms and conditions contained therein.

Respectfully submitted,

/s/ Robert V. Franson
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 14th day of December, 2006.

/s/ Robert V. Franson