

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

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| In the Matter Of Missouri Gas Energy's |) | |
| Tariffs Increasing Rates for Gas Service |) | Case No. GR-2006-0422 |
| Provided to Customers in the Company's |) | |
| Missouri Service Area. |) | |

**STAFF'S RESPONSE TO MGE'S RESPONSE TO STAFF PLEADING
RECOMMENDATIONS REGARDING TEST YEAR**

COMES NOW the Staff of the Missouri Public Service Commission (Staff), 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.

2. On May 24, 2006, MGE filed MGE's Recommendation Concerning Test Year and Request for True-Up Audit and Hearing. MGE requested a true up through October 31, 2006.

3. On June 9, 2006, Staff filed Staff's Pleading Regarding Test Year. Staff also addressed the issue of true up. Staff stated:

Staff believes that a true-up is not necessary in this case at the present time. This is based on the fact that MGE did not provide any information that indicates any specific measurable event or events will be occurring in the four month period ending October 31, 2006 that would have any significant impact on the filed case. MGE merely "requested" a "true-up" through October 31, 2006 in order to update various cost components (MGE's Recommendation Concerning Test Year and Request for True-Up Audit and Hearing file on May 24, 2006 p. 1-2, paragraph 4). However, Staff will investigate the need for a true-up during its audit and make a recommendation in its direct testimony regarding the need for a true-up.

4. On June 19, 2006¹, MGE filed its Response to Staff and Public Counsel Recommendation Concerning True-up. Staff is filing this response to address some statements made by MGE.

5. MGE, in its Response to Staff and Public Counsel Recommendation Concerning True-up, states that Staff opposing a Commission determination concerning the necessity of a true-up (MGE Response at p. 1). This is incorrect. Staff recommends that the Commission make a decision at a time when all Parties, not just MGE, can provide meaningful input to the Commission regarding a Commission decision on the necessity of a true-up. At the time of the filing of Staff's Direct Testimony when Staff will know the results of its audit, Staff will be able to provide the Commission with substantive information regarding the need for a true-up. This position is consistent with the Commission's decision in MGE's last rate case, GR-2004-0209. On December 9, 2003, the Commission issued its Order regarding Test Year and True-Up, the Commission, at p. 2, stated:

...The Commission will not establish a true-up period at this time but will consider that possibility if a party is able to establish the need for such a true-up later in this proceeding.

Staff's position in this case is consistent with the Commission's decision in GR-2004-0209. There is a time for a decision regarding True-Up. That time (when all other Parties file Direct Testimony) is when all Parties, not just MGE, can make an informed recommendation to the Commission regarding True-up.² That is the process that the Commission utilized in GR-2004-0209, MGE's last rate case.

¹ EFIS shows the filing date of June 19, 2006.

² On April 15, 2004, Staff filed its Pleading Regarding True-Up in Case No. GR-2004-0209. Staff recommended a true-up and cited the testimony of Staff Witness Charles R. Hyneman.

6. Furthermore, a True-Up hearing date is included in the Parties' Proposed Procedural Schedule, in the event the parties ultimately agree upon the need for a true-up audit in this proceeding or if the Commission orders that a true-up audit be conducted.

7. Staff, in its June 9, 2006, Pleading Regarding Test Year, correctly pointed out that MGE failed to provide any justification for a true-up in its May 24, 2006 pleading. Instead, MGE merely recommended a true-up. MGE, for the first time in MGE's June 19, 2006, Response to Staff and Public Counsel Recommendations Concerning True-up, has offered some specific reasons that MGE believes justify a true-up.

8. The reasons offered by MGE for a true-up in its June 19, 2006 filing are specific capital improvements that MGE asserts will be completed during MGE's proposed true-up period (MGE's June 19, 2006 pleading, p. 3-4, paragraph 8), additional customer service employees that will be hired during the proposed true-up period (MGE's June 19, 2006 pleading, p. 4, paragraph 9) and some type of update on equity ratio that would only be relevant if the Commission decides capital structure utilizing Southern Union's actual capital structure (MGE's June 19, 2006 pleading, p. 4, paragraph 10).

9. These matters raised by MGE in its June 19, 2006 pleading don't change Staff's position. MGE has only raised certain matters that it believes will have the impact of increasing its revenue requirement based upon budgetary or projected information. There may be offsetting revenue requirement decreases that will be experienced by MGE during its proposed true-up period. Staff can only make an informed decision regarding the need for a true-up and thus provide meaningful input to the Commission on the need for a true-up after Staff has conducted an audit of MGE, examining all relevant factors, both revenue requirement increases and

decreases. MGE's demand for a Commission true-up now without meaningful input from any other Party is contrary to past Commission practice and should be denied.

10. Staff recommends that the Commission wait until the filing of Direct Testimony in this case to decide the need for a true-up. At that time, the Commission will have the benefit of input from all of the Parties.

WHEREFORE, Staff respectfully submits Staff's response.

Respectfully submitted,

/s/ Robert V. Franson

Robert V. Franson
Senior Counsel
Missouri Bar No. 34643

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-6651 (Telephone)
(573) 751-9285 (Fax)
email: robert.franson@psc.mo.gov

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 19th day of June 2006.

/s/ Robert V. Franson