

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

In the Matter of the Application of)	
Southern Union Company d/b/a Missouri)	
Gas Energy, for Approval to Change its)	<u>Case No. GO-2013-0391</u>
Infrastructure System Replacement)	JG-2013-0355
Surcharge.)	

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (“Staff”), by and through the undersigned counsel, and, in response to the Commission’s February 13, 2013 *Order Directing Notice, Directing Filings and Setting Intervention Deadline* (“Order”), submits its *Staff Recommendation* to the Missouri Public Service Commission (“Commission”) and in support thereof, states as follows:

1. On February 8, 2013, Southern Union Company d/b/a Missouri Gas Energy (MGE) filed an *Application and Petition to Change its Infrastructure System Replacement Surcharge* (“Application”) and a motion for waiver from Commission Rule 4-CSR 240-4.20(2)(B), which requires a utility to file notice at least sixty (60) days prior to the filing of a case which is to be likely contested.
2. MGE requests an adjustment to its ISRS rates and charges for ISRS eligible gas utility plant projects through its ISRS rate schedule.
3. On February 13, 2013 the Commission issued its Order directing Staff to file its recommendation no later than April 9, 2013.
4. Commission Rule 4 CSR 240-3.265(11) states that “[t]he staff of the Commission may examine information of the natural gas utility provided pursuant to this rule and Sections 393.1009 to 393.1015, RSMo, to confirm the underlying costs and proper calculation of

the proposed ISRS...” The Staff “...may submit a report regarding its examination to the Commission not later than sixty (60) days...” after the petition is filed.

5. In Case No. GO-2011-0003, the first portion of MGE's current ISRS revenues was calculated on ISRS plant that was placed in service during the period October 1, 2009 through May 31, 2010. In Case No. GO-2011-0269, the second portion of MGE's current ISRS revenues was calculated on ISRS plant that was placed in service during the period June 1, 2010 through January 31, 2010. In Case No. GO-2012-0144, the third portion of MGE's current ISRS revenues was calculated on ISRS plant that was placed in service during the period of February 1, 2011 through September 30, 2011. In Case No. GO-2013-0015, the fourth portion of MGE's current ISRS revenues was calculated on ISRS plant that was placed in service during the period of October 1, 2011 through May 31, 2012.

6. By this filing, MGE seeks to recover costs of ISRS-qualifying plant placed in service from June 1, 2012 through December 31, 2012.

7. Initially, these costs, reflected in the instant ISRS filing, are intended to generate an additional \$1,741,862 of annual revenues.

8. Based on its examination and calculations contained in its Memorandum, attached hereto as Appendix A and incorporated herein, the Staff has determined that the Company's ISRS rates should be designed to recover an incremental revenue requirement of \$1,741,740. This is based on ISRS plant placed in service during the period June 1, 2012 through December 31, 2012. Staff made three adjustments to MGE's filing as explained in Staff's Memorandum.

9. Staff recommends the Commission approve an incremental revenue requirement of \$1,741,740 based on an ISRS net investment date of May 31, 2013. If this recommendation is accepted, MGE's total ISRS revenue requirement will amount to \$6,343,452 which is a

composite amount. That amount includes \$1,741,740 from the instant case and \$823,284 from GO-2013-0015, \$891,255 from GO-2012-0144, \$1,622,349 from GO-2011-0269, and \$1,224,824 from GO-2011-0003.

10. Please See Staff's attached Appendix B for the ISRS rates which should be approved.

WHEREFORE Staff recommends that the Commission issue an order in this case:

1. Rejecting the tariff sheet filed by MGE on February 8, 2013, (assigned Tariff No. JG-2013-0355);

2. Authorizing MGE to file a tariff to impose an Infrastructure System Replacement Surcharge that is sufficient to recover appropriate annual pre-tax revenues in the amount of \$1,741,740; and,

3. Authorizing MGE to file an ISRS rate for each customer class as shown in Appendix B attached hereto; and

4. Approving MGE's motion for waiver of 4 CSR 240-4.020(2).

Respectfully submitted,

/s/ Robert S. Berlin

Robert S. Berlin Mo. Bar. No. 51709
Goldie Tompkins Mo. Bar No. 58759

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 9th day of April 2013.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2013-0391, Tariff Tracking No. JG-2013-0355 – Missouri Gas
Energy

FROM: Keith Majors, Auditing Department
Karen Lyons, Auditing Department
Kory Boustead, Tariffs/Rate Design - Energy
Michael J. Ensrud, Tariffs/Rate Design – Energy

/s/ Chuck Hyneman 04/09/13

/s/ Thomas M. Imhoff 04/09/13

Project Coordinator / Date

/s/ Robert S. Berlin 04/09/13

Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application and Petition of
Missouri Gas Energy Seeking the Missouri Public Service Commission's
Approval to Increase Its Infrastructure System Replacement Surcharge

DATE: April 09, 2013

BACKGROUND

On February 8, 2013, Southern Union Company d/b/a Missouri Gas Energy (“MGE”), filed an Application and Petition (“Application”) with the Missouri Public Service Commission (“Commission”) to implement a change in MGE’s Infrastructure System Replacement Surcharge (ISRS) and a revised Tariff Sheet with a proposed effective date of March 10, 2013.

MGE made its filing pursuant to Missouri Revised Statutes Sections 393.1009 through 393.1015, RSMo Cum. Supp. 2011 and Commission Rule 4 CSR 240-3.265, reference Natural Gas Utility Petitions for Infrastructure System Replacement Surcharge, which allow Missouri natural gas corporations to file a petition and proposed rate schedule with the Commission to recover certain infrastructure system replacement costs outside a formal rate case through a surcharge on customers’ bills.

MGE asserts that it has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from June 2012 through December 2012, MGE claims those costs entitle MGE to \$1,741,862 of additional annualized revenues,

The Commission issued an “Order Directing Notice, Directing Filings And Setting Intervention Deadline” on February 13, 2013, but did not suspend the pending tariff. This order set an intervention date of February 22, 2013.

The Commission issued an “Order Suspending Tariff” on February 15, 2013. That order states the “Commission must issue an order regarding the application effective no later than June 8, 2013.”

This is MGE's fifth ISRS case since its most recent rate case, Case No. GR-2009-0355. In Case No. GO-2011-0003, the Commission authorized MGE to set its initial ISRS surcharge to generate \$1,379,866 annually. In GO-2011-0269, the Commission authorized a second ISRS increment of an additional \$1,928,196 annually. In Case No. GO-2012-0144, the Commission authorized a third increment for \$1,393,096 annually. The cumulative total of these three Commission-approved ISRS cases is \$4,701,158 annually. In Case No. GO-2013-0015, the Commission authorized prior period adjustments that reduced the overall Revenue Requirement by \$922,730 annually. The Commission then approved the fourth increase of \$823,284 annually. The total revenue requirement from the four previous MGE ISRS cases is \$4,601,712.

ISRS Case Number	Original Commission Authorized Revenue Requirement	Revised Commission Authorized Revenue Requirement
GO-2011-0003	\$1,379,866	\$1,224,824
GO-2011-0269	\$1,928,196	\$1,662,349
GO-2012-0144	<u>\$1,393,096</u>	\$891,255
GO-2013-0015		<u>\$823,284</u>
Total	\$4,701,158	\$4,601,712

STAFF'S INVESTIGATION

Staff members from the Auditing Unit and the Energy Tariff/Rate Design Unit participated in Staff's examination of the Application. Staff reviewed MGE's Application, supporting work papers, selected plant work orders and invoices and discussed the Application and supporting documents with MGE personnel.

The Auditing Unit's review of the plant work orders classified by MGE as ISRS work orders raised preliminary questions about the dollar amount of plant retirements being reflected in the individual work orders. Because of these concerns the Staff performed a detailed examination of the retirements associated with the ISRS plant and how MGE accounts for plant retirements.

As part of its investigation of MGE's ISRS retirements, Staff discussed with MGE how it determines the cost of retired plant. MGE explained that when new plant is installed, it will attempt to retire plant associated with the specific historical plant work order from when the plant was installed. If the specific work order can be identified, MGE is able to identify the vintage of the retired plant and the associated vintage cost by plant size and type. When MGE is unable to match the retired plant to a specific work order, the vintage actual cost of the replaced plant is difficult to determine. In these cases, MGE uses the first in, first out ("FIFO") inventory method to record retirements. This method records the cost of retired plant using the earliest vintage of the specific size and type pipe that has not been retired. This information has been recorded in the continuing property records by general location and type of plant.

Based on Staff requests, MGE personnel demonstrated several examples of how ISRS plant was retired using both a specific work order and using the FIFO inventory method when no specific

historical work order exists. Staff was satisfied that the plant retirement procedures used by MGE are reasonable.

As part of its efforts to determine the reasonableness of MGE’s plant retirement dollars included in its Application, Staff reviewed retirements associated with ISRS plant of other regulated Missouri gas companies. Staff compared MGE’s ISRS plant additions and the associated retirements with those of Ameren Missouri, Liberty Utilities, and Laclede Gas Company. Based on its review of MGE’s retirement policies and procedures and the results of its comparison with other Missouri natural gas utilities, the Staff is not proposing any adjustments to the level of plant retirements included in this current MGE ISRS.

STAFF’S REVENUE CALCULATION

Based on Staff’s review, it has determined the appropriate revenue requirement annual increase for the pending ISRS Application is \$1,741,740 based on ISRS plant placed in service during the period June 1, 2012 through December 31, 2012. The total difference between MGE’s incremental ISRS revenues of \$1,741,862 and the Staff’s proposed level of \$1,741,740 is \$122. This difference is shown in the chart below and explained in the description of the three Staff adjustments:

	Staff	MGE	Difference
ISRS Plant in Service June 2012 to December 2012	16,245,671	\$ 16,245,671	0
Deferred Taxes at May 2013, GO-2013-0391	(3,239,711)	(3,239,962)	(251)
Deferred Taxes at May 2013 (Previous ISRS)	(190,309)	(192,403)	(2,094)
Accumulated Depreciation at May 2013, GO-2013-0391	(232,517)	(232,517)	0
Accumulated Depreciation at May 2013 (Previous ISRS)	(766,513)	(767,259)	(746)
Total ISRS Rate Base	\$ 11,816,621	\$ 11,813,529	3092
Total Grossed Up Rate of Return per GR-2009-0355	10.22%	10.22%	
Return on ISRS Rate Base	\$ 1,208,139	\$ 1,207,804	335
Annual Depreciation Expense ISRS Plant Additions/Retirements	359,984	359,984	0
Property Taxes on 2012 Plant From GO-2013-0391 due 12/31/2013	173,618	174,074	(456)
Total ISRS Revenues	\$ 1,741,740	\$ 1,741,862	\$ (122)

Adjustment 1 – Based on Staff’s review of MGE’s ISRS plant work orders and supporting documentation, Staff made a minor adjustment to the property taxes, accumulated depreciation and deferred taxes associated with the work order Staff eliminated and subsequently approved by the Commission in Case No. GO-2013-0015.

Adjustment 2 – Staff adjusted the effective tax rate used to calculate deferred income taxes, the tax gross-up factor, and the deductibility of interest expense to the effective tax rate in effect in MGE’s most recent general rate case, Case No. GR-2009-0355.

Adjustment 3 – In addition to Staff’s adjustment in MGE’s pending ISRS case, Staff adjusted the revenue requirement for Case No. GO-2013-0015 included in MGE’s application filed on February 8, 2013. MGE included a revenue requirement for its last ISRS filing, Case No. GO-2013-0015, of \$830,135 that represents its initial requested revenue requirement in that case. Staff recommended and the Commission ordered a revenue requirement of \$823,284. Staff included the Commission ordered revenue requirement for Case No. GO-2013-0015 in the total ISRS recommendation identified in the chart below.

Staff recommends the Commission approve an incremental revenue requirement of \$1,741,740 based on an ISRS net investment date of May 31, 2013. Staff has discussed its proposed ISRS revenue requirement recommendation with MGE and understands that MGE has accepted Staff’s recommendation. If the Commission accepts Staff’s recommendation, the total of all MGE ISRS revenue requirements will be \$6,343,452 as shown below.

ISRS Case Number	Revenue Requirement
GO-2011-0003	\$1,224,824
GO-2011-0269	\$1,662,349
GO-2012-0144	\$891,255
GO-2013-0015	\$823,284
GO-2013-0391	\$1,741,740
Total	\$6,343,452

THE ISRS RATE SCHEDULES

Staff’s recommended rates are consistent with the methodology used to establish MGE’s past ISRS rates and consistent with the overall methodology used to establish ISRS rates for other gas utilities. Staff’s recommended ISRS rates are contained in Attachment B, attached hereto and incorporated by reference herein.

The Staff has verified that the Company has filed its annual report and is not delinquent on any PSC assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

P.S.C. MO. No. 1

Fifteenth Revised SHEET No. 10, Canceling Fourteenth SHEET No. 10

REQUESTED WAIVER

Staff does not object to MGE’s request for waiver pursuant to Commission Rule 4 CSR 240-4.020(2).

RECOMMENDATION

Based upon the rationale stated above, Staff recommends the Commission issue an order in this case that:

1. Rejects MGE's ISRS tariff sheet revised Tariff Sheet P.S.C MO No. 1 Fifteenth Revised Sheet No. 10 cancelling P.S.C. MO No. 1 Fourteenth Revised Sheet No. 10 filed February 8, 2013;
2. Approves the Staff's recommended ISRS surcharge revenues in the incremental amount of annual pre-tax revenues of \$1,741,740;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$6,343,452 annually; and,
4. Approves MGE's waiver request.

MISSOURI GAS ENERGY Missouri Gas Energy

Appendix B

	GO-2011-0003	\$1,224,824
	GO-2011-0269	\$1,662,349
	GO-2012-0144	\$891,255
	GO-2013-0015-	<u>\$823,284</u>
CASE NO. GO-2013-0391	GO-2013-0355 proposed	\$1,741,740
FILE NO. JG-2013-0355		
ISRS RATE DESIGN	Total	\$6,343,452
	Company's Total ISRS Revenues	\$6,343,452

Customer Rate Class	Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS charge	ISRS Revenues
Residential	438,707	\$26.88	1.0000	438,707	79.2850%	\$0.96	\$5,029,404
Small General Service	59,031	\$39.26	1.4606	86,219	15.5818%	\$1.40	\$988,424
Large General Service	3,161	\$111.31	4.1410	13,090	2.3656%	\$3.96	\$150,062
Large Volume Service	472	\$872.12	32.4449	15,314	2.7676%	\$31.00	\$175,562
TOTAL	<u>501,371</u>			<u>553,329</u>	<u>100.0000%</u>		<u>\$6,343,452</u>

* Due to rounding to the nearest penny, the designed ISRS rates will under collect by \$26,865. However, it should be noted that the total amount collected will be true-up at a later date.

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

In the Matter of the Application of Southern)
Union Company d/b/a Missouri Gas Energy,)
for Approval to Change its Infrastructure)
System Replacement Surcharge) Case No. GO-2013-0391

AFFIDAVIT OF KORY BOUSTEAD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)


Kory Boustead of lawful age, on oath states: that she participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of her knowledge and belief.



Kory Boustead

Subscribed and sworn to before me this 8th day of April, 2013.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914



Notary Public

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

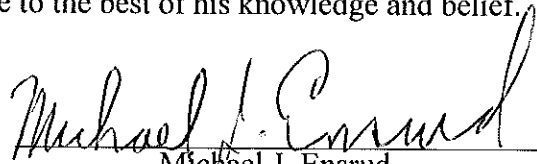
In the Matter of the Application of Southern)
Union Company d/b/a Missouri Gas Energy,)
for Approval to Change its Infrastructure)
System Replacement Surcharge)

Case No. GO-2013-0391

AFFIDAVIT OF MICHAEL J. ENSRUD

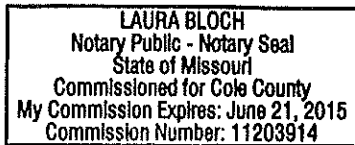
STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.



Michael J. Ensrud

Subscribed and sworn to before me this 8th day of April, 2013.





Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Southern)
Union Company d/b/a Missouri Gas Energy, for) Case No. GO-2013-0391
Approval to Change its Infrastructure System)
Replacement Surcharge)
)

AFFIDAVIT OF KEITH MAJORS

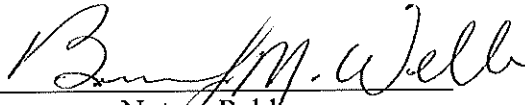
STATE OF MISSOURI)
) ss.
COUNTY OF Jackson)

Keith Majors, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Keith Majors

Subscribed and sworn to before me this 8th day of April, 2013.



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12484070

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Southern)
Union Company d/b/a Missouri Gas Energy, for) Case No. GO-2013-0391
Approval to Change its Infrastructure System)
Replacement Surcharge)
)

AFFIDAVIT OF KAREN LYONS

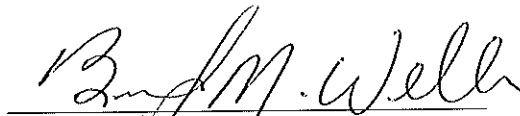
STATE OF MISSOURI)
) ss.
COUNTY OF Jackson)

Karen Lyons, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.



Karen Lyons

Subscribed and sworn to before me this 8th day of April, 2013.



Notary Public



BEVERLY M. WEBB
My Commission Expires
April 14, 2016
Clay County
Commission #12464070