

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

In the Matter of the Application of Missouri Gas)	
Energy, a Divisions of Southern Union Company,)	
for Approval to Change its Infrastructure system)	Case No. GO-2011-0003
Replacement Surcharge)	

STAFF’S RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through counsel, and, in accord with Staff’s August 12, 2010 *Response to Order Directing Filing*, submits its *Recommendation* to the Missouri Public Service Commission (Commission) to approve Staff’s determination of the correct Infrastructure System Replacement Surcharge. In support thereof, Staff respectfully states as follows:

1. On July 2, 2010, Missouri Gas Energy (MGE), a division of Southern Union Company, filed an *Application and Petition* to change its Infrastructure System Replacement Surcharge (ISRS) and a request for waiver to use customer counts from its latest rate case GR-2010-0355.

2. Attached hereto as Appendix A, Staff recommends that the Commission: (1) reject MGE’s July 2, 2010 ISRS tariff sheet filing YG-2011-0011; (2) approve Staff’s determination of the ISRS surcharge revenue in the amount of annul pre-tax revenues of \$1,379,866; (3) authorize MGE to file an ISRS rate for each customer class as reflected in Appendix B attached hereto; and (4) approve MGE’s request for waiver.

WHEREFORE, Staff respectfully submits its *Recommendation* to the Commission.

Respectfully submitted,

/s/ Jaime N. Ott

Jaime N. Ott

Assistant General Counsel

Missouri Bar No. 60949

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Missouri Public Service Commission

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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 31st day of August, 2010.

/s/ Jaime N. Ott

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2011-0003 / File No. YG-2011-0011 – Missouri Gas Energy

FROM: Keith Foster, Auditing Department
Michael Ensrud, Tariffs/Rate Design – Energy

/s/ Mark Oligschlaeger 08/31/10
/s/ Tom Imhoff 08/31/10 /s/ Jaime Ott 08/31/10
Project Coordinator / Date 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 and Request for Waiver

DATE: August 31, 2010

BACKGROUND

On July 2, 2010, Missouri Gas Energy (MGE), a division of Southern Union Company, 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). The tariff's proposed effective date is August 1, 2010. Both Missouri Statute sections 393.1009 through 393.1015, RSMo (2000 as currently supplemented) and the Commission's Rule 4 CSR 240-3.265; Natural Gas Utility Petitions for Infrastructure System Replacement Surcharges allows investor owned natural gas corporations to recover certain infrastructure system replacement costs outside of a formal rate case through a surcharge on customers' bills.

MGE initially filed this tariff sheet to reflect a total revenue requirement of \$1,479,929. This is MGE's first ISRS case since its ISRS rates were reset to \$0.00 in its most recent rate case, Case No. GR-2009-0355.

MGE also filed a Request for Waiver. Commission Rule 4 CSR 240-3.265 (14) states "monthly ISRS shall ... be calculated based on the customer numbers reported in the most recent annual report." Instead, MGE requests the following:

MGE seeks a waiver from this rule as its customer class designations recently changed as a result of Case No. GR-2009-0355. Thus, "the customer numbers reported in the most recent annual report" do not reflect MGE's customer classes as they exist today. MGE requests a waiver to allow it to instead use those customer numbers and classes utilized to set rates in Case No. GR-2009-0355.

Missouri Revised Statutes allow use of this type of customer count in calculating ISRS rates.

Section 393.1015, RSMo (Supp.2009) contains the following:

5. (1) The monthly ISRS charge may be calculated based on a reasonable estimate of billing units in the period in which the charge will be in effect, which shall be conclusively established by dividing the appropriate pretax revenues by the customer numbers reported by the gas corporation in the annual report it most recently filed with the commission pursuant to subdivision (6) of section 393.140, and then further dividing this quotient by twelve. **Provided, however, that the monthly ISRS may vary according to customer class and may be calculated based on customer numbers as determined during the most recent general rate proceeding of the gas corporation so long as the monthly ISRS for each customer class maintains a proportional relationship equivalent to the proportional relationship of the monthly customer charge for each customer class. (Emphasis Added)**

Thus, MGE's proposed use of customer counts from its most recent rate case may be used in calculating the ISRS rates.

On July 6, 2010, the Commission suspended MGE's proposed tariff until October 30, 2010, directed notice and set an intervention date of July 26, 2010.

On August 3, 2010, the Commission issued its "Order Directing Staff Update" that required Staff to "file no later than August 20, 2010, a pleading informing the Commission of a date by which Staff will file a recommendation."

On August 12, 2010, Staff responded by filing the requested pleading, stating an intent to file its recommendation on or before August 31, 2010.

STAFF'S INVESTIGATION

Staff members from the Auditing and Energy Departments participated in the Staff's investigation of the Application. The Staff reviewed MGE's Application, selected plant work orders at MGE's headquarters in Kansas City, Missouri, responses to Staff data requests, and Staff had discussions with MGE personnel. Based on the Staff's review of MGE's ISRS plant work orders and discussions with MGE personnel, MGE agreed that the \$107,351 in property taxes on 2009 plant was incorrect. The correct amount is \$29,183 as shown in Attachment A, Page 3, of MGE's Application.

THE APPLICATION

As required by Commission rules in Case No. GR-2009-0355, MGE's ISRS rates were set at zero. In this case, MGE seeks to re-establish ISRS rates. Since MGE's last general rate case, Case No. GR-2009-0355, the Company has continued to incur ISRS-related costs on ISRS-qualifying plant investments. In MGE's current ISRS Application, MGE seeks to recover costs of ISRS-qualifying plant placed in service from October 1, 2009 through May 31, 2010. The chart below presents a quantification of MGE's revenue requirement request in its current Application:

	<u>MGE as Filed</u>
ISRS Plant in Service October 2009 to May 2010	\$9,435,691
Deferred Taxes GO-2011-0003 at 5/31/2010	(\$146,315)
Accumulated Depreciation GO-2011-0003 at 5/31/2010	(\$95,840)
Total ISRS Rate Base	\$9,193,537
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
Return on ISRS Rate Base	\$939,938
Annual Depreciation Expense ISRS Plant Additions	\$236,087
Annual Depreciation Expense Plant Retirements	(\$9,468)
Property Taxes on 2009 Plant from GO-2011-0003 due 12/31/2010	\$107,351
2009 Revenue Undercollection	\$206,021
Total ISRS Revenues	<u>\$1,479,929</u>

STAFF'S REVENUE CALCULATION

Based on the Staff's review, it has determined the appropriate revenue requirement annual increase for the pending ISRS Application is \$1,379,866 based on ISRS plant placed in service during the period October 1, 2009 through May 31, 2010. These costs are shown below:

	<u>Staff</u>
ISRS Plant in Service October 2009 to May 2010	\$9,435,691
Deferred Taxes GO-2011-0003 at 9/30/2010	(\$189,966)
Accumulated Depreciation GO-2011-0003 at 9/30/2010	(\$174,551)
Total ISRS Rate Base	\$9,071,174
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
Return on ISRS Rate Base	\$927,471
Annual Depreciation Expense ISRS Plant Additions	\$236,108
Annual Depreciation Expense Plant Retirements	(\$9,907)
Property Taxes on 2009 Plant from GO-2011-0003 due 12/31/2010	\$30,248
2009 Revenue Undercollection	\$195,946
Total ISRS Revenues	<u>\$1,379,866</u>

The total difference between MGE's incremental ISRS revenues of \$1,479,929 and the Staff's proposed level of \$1,379,866 is \$100,063. This difference is shown in the chart below and explained in the description of the Staff adjustments:

	<u>Staff</u>	<u>MGE</u>	<u>Difference</u>
ISRS Plant in Service October 2009 to May 2010	\$9,435,691	\$9,435,691	\$0
Deferred Taxes GO-2011-0003 at 9/30/2010	(\$189,966)	(\$146,315)	\$43,652
Accumulated Depreciation GO-2011-0003 at 9/30/2010	(\$174,551)	(\$95,840)	\$78,711
Total ISRS Rate Base	\$9,071,174	\$9,193,537	\$122,362
Total Grossed Up Rate of Return per GR-2009-0355	10.22%	10.22%	
Return on ISRS Rate Base	\$927,471	\$939,938	\$12,467
Annual Depreciation Expense ISRS Plant Additions	\$236,108	\$236,087	(\$21)
Annual Depreciation Expense Plant Retirements	(\$9,907)	(\$9,468)	\$439
Property Taxes on 2009 Plant from GO-2011-0003 due 12/31/2010	\$30,248	\$107,351	\$77,103
2009 Revenue Undercollection	\$195,946	\$206,021	\$10,076
Total ISRS Revenues	\$1,379,866	\$1,479,929	\$100,063

- Adjustment 1 – In its Application, MGE calculated the depreciation and deferred tax reserve through May 31, 2010, the month before its July 2, 2010 filing. However, under Commission Rule 4 CSR 240-3.265 (12) the Commission may issue its Order with an effective date as late as October 29, 2010. The Staff, therefore, updated the depreciation and deferred tax through September 30, 2010, in its calculation of ISRS revenues. Updating depreciation and deferred taxes more closely reflects MGE's net investment in ISRS plant as of the date the surcharge will go into effect. This is consistent with Staff's approach in MGE's last two ISRS cases, Nos. GO-2009-0009 and GO-2009-0302.
- Adjustment 2 – In its review of selected ISRS work orders, Staff found two plant retirements in the October 2009 to May 2010 period that were included in MGE's paper work order files, but for which there were no corresponding transactions in MGE's Application. Commission Rule 4 CSR 240-3.265 (1)(E) requires the annual depreciation costs of eligible infrastructure replacements be reduced by the annual depreciation expenses for related facility retirements in determining ISRS costs. Accordingly, Staff adjusted the annual depreciation amount for plant retirements for the two additional plant retirements.
- Adjustment 3 – Staff adjusted the level of property taxes based on new ISRS plant placed into service in 2009, which will be the basis for MGE's December 31, 2010, tax liability, and used the Staff's property tax rate percentage from MGE's last rate case, GR-2009-0355.
- Adjustment 4 – Per Commission Rule 4 CSR 240-3.265 (17) and (18), to determine if MGE over- or under-recovered ISRS revenues, MGE submitted a reconciliation of the differences between revenues from its two prior ISRS Cases, GO-2009-0009 and GO-2009-0302, and the pretax revenue requirement amounts determined in those cases. The reconciliation showed MGE under-collected ISRS revenues for the period beginning January 1, 2009 through February 28, 2010. In reviewing and verifying MGE's

calculations, Staff determined that MGE had not used the correct annual revenue requirement amounts from the last ISRS case, GO-2009-0302. Staff adjusted the revenue requirement amount and recalculated the under-collection.

The Staff recommends the Commission approve a revenue requirement of \$1,379,866 based on an ISRS net investment date of September 30, 2010.

REQUESTED WAIVER

As noted above, the Staff does not oppose MGE's use of the customer counts used in MGE's previous rate case, GR-2009-0355 and the Staff recommends the Commission grant MGE's waiver request.

THE ISRS RATE SCHEDULES

The Staff has verified that the Company has filed its 2009 annual report and is not delinquent on any assessment. The Staff is not aware of any other matter before the Commission that affects or is affected by this filing.

RECOMMENDATION

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

1. Rejects the ISRS tariff sheet (YG-2011-0011) filed by MGE on July 2, 2010;
2. Approves the Staff's determination of the ISRS surcharge revenues in the amount of annual pre-tax revenues of \$1,379,866;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B;
and
4. Approves MGE's waiver request

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OF THE STATE OF MISSOURI

In the matter of the application of Missouri Gas)
Energy, a Division of Southern Union) Case No. GO-2011-0003
Company, for approval to change its)
infrastructure system replacement surcharge.)
)

AFFIDAVIT OF KEITH D. FOSTER

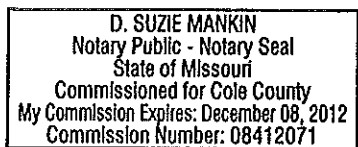
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Keith D. Foster, 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 D. Foster

Subscribed and sworn to before me this 30th day of August, 2010.



Notary Public

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


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

Case No. GO-2011-0003

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 31st day of August, 2010.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2010
Callaway County
Commission #06942086



Notary Public