

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GO-2006-0556, File No. JG-2006-0996, Missouri Gas Energy

FROM: Michael Ensrud, Tariffs/Rate Design - Energy
Joan Wandel – Auditing Department

/s/ Tom Imhoff 08/28/06 /s/ Robert Franson 08/28/06
Project Coordinator / Date General Counsel's Office / Date

SUBJECT: Staff Recommendation on the Tariff Sheet Filed BY MGE to establish an ISRS
increase

DATE: August 28, 2006

On June 29, 2006, Missouri Gas Energy (MGE), a division of Southern Union Company, filed a tariff sheet with the Missouri Public Service Commission (Commission) with a proposed effective date of July 29, 2006. MGE states its filing reflects its ability to recover certain infrastructure system replacement costs outside of a formal rate case filing via the implementation of an Infrastructure System Replacement Surcharge (ISRS).

The Commission suspended the proposed tariff on July 6, 2006. This tariff filing was suspended until October 27, 2006.

On July 25, 2006, the Commission issued an "ORDER DIRECTING FILING". In that Order the Commission required the Staff of the Commission to file a Recommendation no later than August 28, 2006. This submission is in compliance to that directive.

This tariff sheet should be revised to reflect a total revenue requirement of \$3,679,127. This is an increase of \$1,290,779 over the previous ISRS composite rates currently in effect. Once approved, the ISRS revenue requirement will be comprised of:

GO-2006-0201	\$1,223,622
Go-2005-0271	\$1,164,726
Go-2006-0556	<u>\$1,290,779</u>
 Total ISRS	 \$3,679,127

The Auditing Department reduced the MGE's requested revenue requirement by \$2690. During the Auditing Department's review of MGE's revenue requirement, an error was discovered in the deferred income tax calculation. The error was corrected in the Auditing Department's revenue requirement calculation and MGE has agreed with the restated deferred income tax computation.

Appendix A

The Staff's analysis indicates that the proposed ISRS rates filed should be adjusted as reflected on the attached schedule.

The Staff notes that MGE's initial filing was deficient and at odds with the Commission Rule and State Statute when MGE added the existing ISRS to its customer charge when calculating the new ISRS rates. The Commission Rule CSR 240-3.265 states that "(14) The monthly ISRS shall vary according to customer class and shall be calculated based on the customer numbers reported in the most recent annual report of the natural gas utility 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) Staff's attached schedule reflects the reduced revenue requirement recommended by the Auditing Department in the ISRS amount, and reflects the Commission Rule's method of computing the ISRS rates.

Staff recommends that MGE be instructed to refile tariff pages reflective of the minor revision set for on staff's attached schedule.

The Staff has verified that the Company has filed its 2005 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.

MISSOURI GAS ENERGY**CASE # GO-2006-0556****FILE # JG-2006-0996****ISRS RATE DESIGN****Company's Total ISRS Revenues** \$3,679,127
(See Staff's supporting calculation)

<u>Customer Rate Class</u>	<u>Number of Customers</u>	<u>Customer Charges</u>	<u>Ratio To Res. Cust. Charge</u>	<u>Weighted Customer #</u>	<u>Customer Percentage</u>	<u>ISRS charge</u>	<u>ISRS Revenues</u>
Residential	442218	\$11.65	1.0000	442218	79.6022%	\$0.55	\$2,928,666
Small General Service	67211	\$15.70	1.3476	90576	16.3043%	\$0.74	\$599,857
Large General Service	352	\$93.00	7.9828	2810	0.5058%	\$4.41	\$18,609
Large Volume Service	485	\$478.75	41.0944	19931	3.5877%	\$22.68	\$131,995
Whiteman Air Force Base	0	\$478.75	41.0944	0	0.0000%		\$0
Intrastate Transportation Service	0	\$478.75	41.0944	0	0.0000%		\$0
CNG - Fuel in vehicles	0	\$15.70	1.3476	0	0.0000%		\$0
TOTAL	<u><u>510266</u></u>			<u><u>555535</u></u>	<u><u>100.0000%</u></u>		<u><u>\$3,679,127</u></u>

**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,) Case No. GO-2006-0556
for approval to change its Infrastructure System) Tariff File No. JG-2006-0996
Replacement Surcharge.)

AFFIDAVIT OF MICHAEL JAY ENSRUD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael Jay Ensrud, of lawful age, on oath states: that he has participated in the preparation of the foregoing written memorandum, consisting of two pages to be presented in the above case; that the information in the attached written report were given by Missouri Gas Energy; that he has knowledge of the matters set forth in such memorandum; and that such matters are true to the best of his knowledge and belief.

Michael Jay Ensrud



Subscribed and sworn to before me this 28th day of August, 2006.

Sharon S. Wiles

Notary Public

My commission expires September 11, 2006

