

## MEMORANDUM

TO: Missouri Public Service Commission Official Case File  
File No. GO-2012-0144 / Tracking No. JG-2012-0207 – Missouri Gas Energy

FROM: Patricia Gaskins, Karen Lyons, and Bret Prenger, Auditing Department  
Michael Ensrud, Tariffs/Rate Design – Energy

/s/Cary Featherstone 01/06/12

/s/Tom Imhoff 01/06/12

Project Coordinator / Date

/s/Amy Moore 01/06/12

Staff Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding **to Approve** an Increase in Missouri Gas Energy's Infrastructure System Replacement Surcharge and Its Request for Waiver

DATE: January 6, 2012

### **BACKGROUND**

On November 8, 2011, Southern Union Company d/b/a Missouri Gas Energy (MGE), filed an Application and Petition (Application) with the Commission to implement a change in MGE's Infrastructure System Replacement Surcharge (ISRS) and a revised Tariff Sheet with a proposed effective date of December 8, 2011.

Missouri statutes sections 393.1009 through 393.1015, RSMo (2000 as currently supplemented) and Commission Rule 4 CSR 240-3.265, reference Natural Gas Utility Petitions for Infrastructure System Replacement Surcharge, which allow natural gas corporations to recover certain infrastructure system replacement costs outside a formal rate case through a surcharge on customers' bills.

MGE initially filed revised tariff sheets with an incremental revenue requirement of \$1,419,372. This is MGE's third 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 for \$1,379,866 annually. In GO-2011-0269, the second ISRS filing added an additional \$1,928,196 annually. The cumulative total of the ISRS that MGE initially proposed in this case was \$4,727,434 annually. Staff recommends reductions to MGE's initially-proposed rates, as discussed below.

On November 10, 2011, the Commission issued an order that, among other things, directed the following:

- Suspended the proposed tariff until March 8, 2012,
- Set the deadline for intervention as December 8, 2011
- Required Staff to file a memo no later than January 9, 2012

On November 17, 2011, MGE responded to Staff. Acknowledging anomalies in its application, MGE indicated that:

The date on page 8 should be March 7, 2012 (not 2011) and the only motion for waiver is on page 7.

### **REQUESTED WAIVER**

MGE requests the following:

The Commission has previously found that this type of action, “in the Commission’s experience, is not likely to be a contested case.” Order Waiving Notice of Intent and Directing Filing, Case No. GO-2011-0269 (May 2, 2011). However, to the extent that a 60-day Notice of Filing is deemed to be required under 4 CSR 240-4.020(2), MGE respectfully requests that such notice requirement be waived for good cause.

### **STAFF’S INVESTIGATION**

Staff from the Auditing and Energy Departments performed the Staff’s investigation. The Staff reviewed MGE’s Application, selected plant work orders and invoices from MGE’s headquarters in Kansas City for analysis, and discussed the Application and supporting documents with MGE personnel. Based on Staff’s review, Staff has made a minor adjustment to MGE’s proposed rates based on the timing of deferred taxes and depreciation reserve.

### **RECOVERY OF TORNADO RELATED CAPITAL EXPENDITURES**

On June 10, 2011, MGE filed an Application, Case No. GU-2011-0392, for an Accounting Authority Order (AAO) requesting accounting treatment for what it characterized as extraordinary and unusual costs resulting from the Joplin tornado that occurred on May 22, 2011. Staff filed a recommendation to MGE’s application on August 8, 2011, stating the following:

It is possible that some portion of MGE’s tornado related capital expenditures may be eligible for rate recovery through the Infrastructure System Replacement Surcharge (ISRS) mechanism. Because the ISRS mechanism provides for expedited rate recovery of certain capital related costs incurred by natural gas utilities, it would not be appropriate for MGE to seek ISRS rate treatment of any capital costs related to the tornado for which depreciation and carrying charges are being deferred through an AAO.

In a reply filed on September 16, 2011, MGE agreed with Staff’s recommendation with regard to the treatment of ISRS-related capital costs resulting from the Joplin tornado, stating “MGE agrees that it will not seek to recover costs associated with the tornado through its Infrastructure System Replacement Surcharge (ISRS) mechanism.”

Staff’s review determined MGE had not included costs associated with the Joplin tornado in its current ISRS filing.

### **THE APPLICATION**

In MGE's current Application, it seeks to recover costs of ISRS-qualifying plant placed in service from February 1, 2011 through September 30, 2011. The chart below presents a quantification of MGE's proposed revenue requirement request:

	<b>MGE As Filed</b>
<b>ISRS Plant in Service February 2011 to September 2011</b>	\$11,775,339
Net Reimbursements Charged to Depreciation Reserve	(702,704)
Deferred Taxes GO-2012-0144 at 2/29/2012	(170,285)
Deferred Taxes GO-2011-0269 at 2/29/2012	(153,737)
Deferred Taxes GO-2011-0003 at 2/29/2012	(159,615)
Accumulated Depreciation GO-2011-0144 at 4/30/2011	(145,219)
Accumulated Depreciation GO-2011-0269 at 4/30/2011	( 265,834)
Accumulated Depreciation GO-2011-0003	(157,391)
<b>Total ISRS Rate Base</b>	\$10,020,554
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
<b>Return on ISRS Rate Base</b>	\$1,024,491
Revenue Reconciliation for MGE ISRS Case No. GO-2011-0003 and Case No. GO-2011-0269	119,881
Annual Depreciation Expense ISRS Plant Additions	286,572
Annual Depreciation Expense Plant Retirements	(11,573)
Property Taxes on February 2011 - September 2011 Plant due within 12 months of Company filing date, November 8, 2011	0
<b>Total ISRS Revenues</b>	\$1,419,372

## STAFF'S REVENUE CALCULATION

In contrast, Staff has determined the revenue requirement annual increase for MGE is \$1,393,096, based on ISRS plant placed in service during the period February 1, 2011 through September 30, 2011. These costs are shown below:

	<b>Staff</b>
<b>ISRS Plant in Service February 2011 to September 2011</b>	\$ 11,775,339
Net Reimbursements Charged to Depreciation Reserve	(702,704)
Deferred Taxes GO-2012-0144at 2/29/2012	(214,401)
Deferred Taxes GO-2011-0269 at 2/29/2012	(256,947)
Deferred Taxes GO-2011-0003 at 2/29/2012	(174,078)
Accumulated Depreciation GO-2012-0144 at 2/29/2012	(216,751)
Accumulated Depreciation GO-2011-0269 at 2/29/2012	(269,844)
Accumulated Depreciation GO-2011-0003 at 2/29/2012	(177,065)
<b>Total ISRS Rate Base</b>	\$9,763,549
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
<b>Return on ISRS Rate Base</b>	\$998,216
Revenue Reconciliation for MGE ISRS Case No. GO-2011-0003 and Case No. GO-2011-0269	119,881

Annual Depreciation Expense ISRS Plant Additions	286,572
Annual Depreciation Expense Plant Retirements	(11,573)
Property Taxes on February 2011 - September 2011 Plant due within 12 months of Company filing date, November 8, 2011	0
<b>Total ISRS Revenues</b>	<b>\$1,393,096</b>

The difference between MGE's proposed ISRS revenues of \$1,419,372 and Staff's recommended level of \$1,393,096 is \$26,276, which is shown in the chart below and explained below:

	<b>Staff</b>	<b>MGE</b>	<b>Difference</b>
<b>ISRS Plant in Service February 2011 to September 2011</b>	\$11,775,339	\$11,775,339	
Net Reimbursements Charged to Depreciation Reserve	(702,704)	(702,704)	
Deferred Taxes GO-2012-0144 at 2/29/2012	(214,401)	(170,285)	44,116
Deferred Taxes GO-2011-0269 at 2/29/2012	(256,947)	(153,737)	103,210
Deferred Taxes GO-2011-0003 at 2/29/2012	(174,078)	(159,615)	14,463
Accumulated Depreciation GO-2012-0144 at 2/29/2012	(216,751)	(145,219)	71,532
Accumulated Depreciation GO-2011-0269 at 2/29/2012	(269,844)	(265,834)	4,010
Accumulated Depreciation GO-2011-0003 at 2/29/2012	(177,065)	(157,391)	19,674
<b>Total ISRS Rate Base</b>	<b>\$9,763,549</b>	<b>\$10,020,554</b>	<b>\$257,005</b>
Total Grossed Up Rate of Return per GR-2009-0355	10.22%	10.22%	
<b>Return on ISRS Rate Base</b>	<b>\$998,216</b>	<b>\$1,024,491</b>	<b>\$26,276</b>
Revenue Reconciliation for MGE ISRS Case No. GO-2011-0003 and Case No. GO-2011-0269	119,881	119,881	
Annual Depreciation Expense ISRS Plant Additions	286,572	286,572	
Annual Depreciation Expense Plant Retirements	(11,573)	(11,573)	
Property Taxes on February 2011 - September 2011 Plant due within 12 months of Company filing date, November 8, 2011	0	0	
<b>Total ISRS Revenues</b>	<b>\$ 1,393,096</b>	<b>\$1,419,372</b>	<b>\$26,276</b>

- Adjustment 1 – In its Application, MGE calculated the depreciation and deferred tax reserve through December 31, 2011. However, under Commission Rule 4 CSR 240-3.265 (12) the Commission may issue its Order with an effective date as late as March 8, 2012. In its calculation of ISRS revenues, the Staff, therefore, updated the depreciation and deferred taxes through February 29, 2012 to more accurately reflect 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 other ISRS cases, including MGE Case Nos. GO-2011-0003 and GO-2011-0269.

Staff recommends the Commission approve a revenue requirement of \$1,393,096 based on an ISRS net investment date of February 29, 2012.

## **THE ISRS RATE SCHEDULES**

MGE's proposal is different from Staff's proposal in two aspects. First, for Small General Service and Large General Service customer level numbers, MGE used the average of May through December. Customer numbers from those months reflect all customers who changed customer class after the February 28, 2010 effective date of new tariffs from MGE's most recent rate case. In ISRS cases, Staff uses customer counts from the Company's most recent annual report filing. These customer counts, along with the incorporation of historical class weightings, are used in Staff's calculation and proposed ISRS rates in this case.

Second, Staff recommends the Commission permit MGE to recover an additional \$1,393,096 of annual revenue as opposed to MGE's request for an increase of \$1,419,372. Based on Staff's Adjustment 1, Staff has designed ISRS rates to recover \$4,701,158 annually instead of the \$4,727,434 requested by MGE. Staff's recommendation includes cumulative ISRS surcharge amounts from MGE ISRS cases: A) GO-2012-0144 – \$1,393,096, GO-2011-0269 - \$1,928,196, and GO-2011-0003 - \$1,379,866.

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

## **REQUESTED WAIVER**

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

## **RECOMMENDATION**

Based upon the 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 Thirteenth Revised Sheet No. 10 cancelling P.S.C. MO No. 1 Twelfth Revised Sheet No. 10 filed November 8, 2011;
2. Approves the Staff's recommended ISRS surcharge revenues in the incremental amount of annual pre-tax revenues of \$1,393,096;
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B, which generates \$4,701,158 annually.

CASE NO. GO-2012-0144

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Company's Total ISRS Revenues

\$4,701,158

## ISRS RATE DESIGN

<b>Customer Rate Class</b>	<b>Number of Customers</b>	<b>Customer Charges</b>	<b>Ratio To Res. Cust. Charge</b>	<b>Weighted Customer #</b>	<b>Customer Percentage</b>	<b>ISRS charge</b>	<b>ISRS Revenues</b>
Residential	443,605	\$26.88	1.0000	443,605	79.4765%	<b>\$0.70</b>	\$3,736,318
Small General Service	61,275	\$39.26	1.4606	89,496	16.0342%	<b>\$1.03</b>	\$753,792
Large General Service	2,157	\$111.31	4.1410	8,932	1.6003%	<b>\$2.91</b>	\$75,232
Large Volume Service	497	\$872.12	32.4449	16,125	2.8890%	<b>\$22.77</b>	\$135,816
TOTAL	<u>507,534</u>			<u>558,158</u>	<u>100.0000%</u>		<u><u>\$4,701,158</u></u>

\* Due to rounding to the nearest penny, the designed ISRS reates will under collect by \$6,394.  
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**

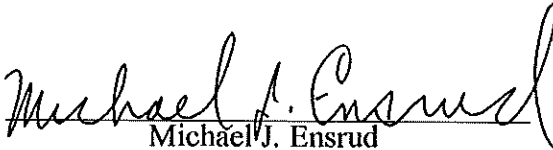
In the Matter of the Application of Southern )  
Union Company d/b/a Missouri Gas Energy, )  
for Approval to Change its Infrastructure )  
System Replacement Surcharge )

File No. GO-2012-0144

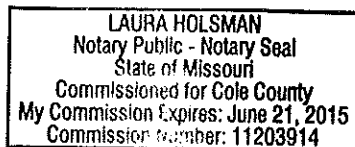
**AFFIDAVIT OF MICHAEL J. ENSRUD**

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 1<sup>st</sup> day of January, 2012.



  
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,     )     File No. GO-2012-0144  
for Approval to Change its Infrastructure     )  
System Replacement Surcharge     )


AFFIDAVIT OF PATRICIA GASKINS

STATE OF MISSOURI     )  
   )  
COUNTY OF Jackson     )     ss.

Patricia Gaskins, 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.

  
Patricia Gaskins

Subscribed and sworn to before me this 5<sup>th</sup> day of January, 2012.

  
Notary Public

BEVERLY M. WEBB  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Clay  
My Commission Expires 4/14/2012  
Commission # 08464070



**BEFORE THE PUBLIC SERVICE COMMISSION**  
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In the Matter of the Application of Southern     )  
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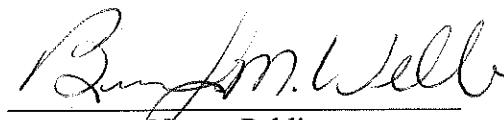
AFFIDAVIT OF KAREN LYONS

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 5<sup>th</sup> day of January, 2012.

  
Notary Public

BEVERLY M. WEBB  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Clay  
My Commission Expires 4/14/2012  
Commission # 08464070

**BEFORE THE PUBLIC SERVICE COMMISSION**

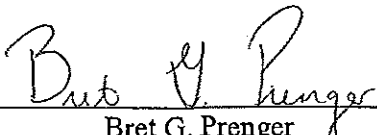
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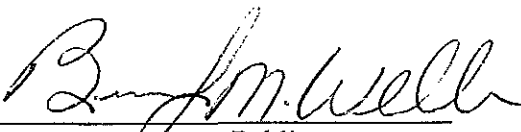
**AFFIDAVIT OF BRET G. PRENGER**

STATE OF MISSOURI     )  
   )     ss.  
COUNTY OF Tackson     )

Bret G. Prenger, 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.

  
Bret G. Prenger

Subscribed and sworn to before me this 5<sup>th</sup> day of January, 2012.

  
Notary Public

**BEVERLY M. WEBB**  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Clay  
My Commission Expires 4/14/2012  
Commission # 08464070