

**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-2011-0269
Replacement Surcharge	)	

**STAFF'S RESPONSE TO ORDER**

**COMES NOW** the Staff of the Missouri Public Service Commission (Staff), by and through Staff Counsel's Office, and respectfully submits its recommendation to the Missouri Public Service Commission (Commission) to approve Staff's calculation of MGE's Infrastructure System Replacement Surcharge. In support thereof, Staff states as follows:

1. On February 22, 2011, 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 of Commission Rule 4 CSR 240-4.020(2), which requires a utility to file a notice at least sixty (60) days prior to filing a case likely to be a contested case.

2. Attached hereto as Appendix A, Staff recommends that the Commission: (1) reject MGE's ISRS tariff sheet filing JG-2011-0433 filed by MGE on February 22, 2011; (2) and approve Staff's determination of the ISRS surcharge revenue in the amount of annul pre-tax revenues of \$3,308,062..

3. Staff does not oppose MGE's request for waiver under 4 CSR 240-4.020(2). In Staff's experience, ISRS cases have not become contested cases; therefore it is not likely this case will be a contested case.

**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

Attorney for the Staff of the  
Missouri Public Service Commission

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Jefferson City, MO 65102

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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 25<sup>th</sup> day of April, 2011.

/s/ Jaime N. Ott

## **MEMORANDUM**

TO: Missouri Public Service Commission Official Case File  
File No. GO-2011-0269 / Tracking No. JG-2011-0433 – Missouri Gas Energy

FROM: Patricia Gaskins, Sean M. Furey, and Keith Majors, Auditing Department  
Michael Stahlman, Michael Ensrud, Tariffs/Rate Design – Energy

/s/Chuck Hyneman 04/25/11

/s/Tom Imhoff 04/25/11

Project Coordinator / Date

/s/Jaime Ott 04/25/11

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: April 25, 2011

### **BACKGROUND**

On February 22, 2011, 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 revised Tariff Sheet P.S.C MO No. 1 Twelfth Revised Sheet No. 10 cancelling P.S.C. MO No. 1 Eleventh Revised Sheet No. 10 with a proposed effective date of March 24, 2011. Revised Statutes of Missouri sections 393.1009 through 393.1015, RSMo (2000 as currently supplemented) and Commission Rule 4 CSR 240-3.265, references Natural Gas Utility Petitions for Infrastructure System Replacement Surcharge that allow 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 revised Tariff Sheet P.S.C MO No. 1 Twelfth Revised Sheet No. 10 cancelling P.S.C. MO No. 1 Eleventh Revised Sheet No. 10 to reflect a total revenue requirement of \$1,938,116. This is MGE's second ISRS case since its ISRS rates were reset to \$0.00 in its most recent rate case, Case No. GR-2009-0355. The Commission authorized MGE to establish an ISRS in Case No. GO-2011-0003 with an effective date of September 18, 2010.

MGE also filed a Request for Waiver of Commission Rule 4 CSR 240-4.020(2), which requires:

Any regulated entity that intends to file a case likely to be a contested case shall file a notice with the secretary of the commission a minimum of sixty (60) days prior to filing such case. Such notice shall detail the type of case and issues likely to be before the commission.

Commission Rule 4 CSR 240-4.020(2)(B) further states that a "party may request a waiver of this section for good cause."

MGE requests the following:

MGE believes that Commission Rule 4 CSR 240-4.020 is not applicable to this matter because this case is not likely to be a contested case within the meaning of Commission Rule CSR 240-4.020(2) in that previous ISRS petitions have generally not become contested proceedings. However, in the event that the Commission nevertheless concludes that the filing of this Application is likely to be a contested case, MGE requests a waiver of the sixty (60) day notice for good cause.

On March 2, 2011, the Commission suspended MGE's proposed tariff for a period of 120 days until June 22, 2011, set a deadline for intervention of March 15, 2011, and ordered Commission Staff to file a report concerning MGE's petition not later than April 25, 2011.

### STAFF'S INVESTIGATION

Staff members from the Auditing and Energy Departments participated in Staff's investigation of the Application. Staff reviewed MGE's Application, selected plant work orders and invoices at MGE's headquarters in Kansas City, Missouri, and discussed the Application and supporting documents with MGE personnel. Based on Staff's review of MGE's ISRS plant work orders and supporting documentation, Staff has made a minor adjustment based on the timing of deferred taxes and depreciation reserve.

### THE APPLICATION

Since MGE's last ISRS application, Case No. GO-2011-0003, 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 June 1, 2010 through January 31, 2011. The chart below presents a quantification of MGE's revenue requirement request in its current Application:

	<b>MGE As Filed</b>
<b>ISRS Plant in Service June 2010 to January 2011</b>	\$ 15,102,768
Deferred Taxes GO-2011-0003 at 4/30/2011	(122,085)
Deferred Taxes GO-2011-0269 at 4/30/2011	(281,700)
Accumulated Depreciation GO-2011-0003 at 4/30/2011	(137,717)
Accumulated Depreciation GO-2011-0269 at 4/30/2011	(201,771)
<b>Total ISRS Rate Base</b>	\$ 14,359,495
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
<b>Return on ISRS Rate Base</b>	\$ 1,468,102
Annual Depreciation Expense ISRS Plant Additions	363,542
Annual Depreciation Expense Plant Retirements	(16,526)
Property Taxes on 2010 Plant From GO-2011-0269 due 12/31/2011	122,999
<b>Total ISRS Revenues</b>	\$ 1,938,116

## STAFF'S REVENUE CALCULATION

Based on Staff's review, it has determined the appropriate revenue requirement annual increase for the pending ISRS Application is \$1,928,196 based on ISRS plant placed in service during the period June 1, 2010 through January 31, 2011. These costs are shown below:

	Staff
<b>ISRS Plant in Service June 2010 to January 2011</b>	\$ 15,102,768
Deferred Taxes GO-2011-0003 at 5/31/2011	(142,037)
Deferred Taxes GO-2011-0269 at 5/31/2011	(309,734)
Accumulated Depreciation GO-2011-0003 at 5/31/2011	(157,391)
Accumulated Depreciation GO-2011-0269 at 5/31/2011	(231,129)
<b>Total ISRS Rate Base</b>	\$ 14,262,477
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
<b>Return on ISRS Rate Base</b>	\$ 1,458,182
Annual Depreciation Expense ISRS Plant Additions	363,542
Annual Depreciation Expense Plant Retirements	(16,526)
Property Taxes on 2010 Plant From GO-2011-0269 due 12/31/2011	122,999
<b>Total ISRS Revenues</b>	\$ 1,928,196

The total difference between MGE's incremental ISRS revenues of \$1,938,116 and Staff's proposed level of \$1,928,196 is \$9,920. This difference is shown in the chart below and explained in the description of Staff adjustments:

	Staff	MGE	Difference
<b>ISRS Plant in Service June 2010 to January 2011</b>	\$ 15,102,768	\$ 15,102,768	
Deferred Taxes GO-2011-0003 at 5/31/2011	(142,037)	(122,085)	19,952
Deferred Taxes GO-2011-0269 at 5/31/2011	(309,734)	(281,700)	28,034
Accumulated Depreciation GO-2011-0003 at 5/31/2011	(157,391)	(137,717)	19,674
Accumulated Depreciation GO-2011-0269 at 5/31/2011	(231,129)	(201,771)	29,358
<b>Total ISRS Rate Base</b>	\$ 14,262,477	\$ 14,359,495	\$ 97,018
Total Grossed Up Rate of Return per GR-2009-0355	10.22%	10.22%	
<b>Return on ISRS Rate Base</b>	\$ 1,458,182	\$ 1,468,102	\$ 9,920
Annual Depreciation Expense ISRS Plant Additions	363,542	363,542	
Annual Depreciation Expense Plant Retirements	(16,526)	(16,526)	
Property Taxes on 2010 Plant From GO-2011-0269 due 12/31/2011	122,999	122,999	
<b>Total ISRS Revenues</b>	\$ 1,928,196	\$ 1,938,116	\$ 9,920

- Adjustment 1 – In its Application, MGE calculated the depreciation and deferred tax reserve through April 30, 2011. However, under Commission Rule 4 CSR 240-3.265 (12) the Commission may issue its Order with an effective date as late as June 22, 2011. Staff, therefore, updated the depreciation and deferred taxes through May 31, 2011 in its

calculation of ISRS revenues. Updating depreciation and deferred taxes through May 31, 2011 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 the last ISRS case, Case No. GO-2011-0003.

Staff recommends the Commission approve a revenue requirement of \$1,928,196 based on an ISRS net investment date of May 31, 2011.

### **THE ISRS RATE SCHEDULES**

Staff notes that MGE's proposal is different from Staff's proposal in two aspects. First, for Small General Service (SGS) and Large General Service (LGS) customer levels, MGE used the average of May through December because those months reflect all customers who shifted after the new tariffs went into effect on February 28, 2010, as a result of the rate case. Staff has used customer counts that reflect the customer levels in its most recent annual report filing. These customer counts along with the incorporation of historical class weightings reflect Staff's calculation and proposed ISRS rates in this case.

Second, in this current ISRS filing, Staff proposes MGE recover an additional \$1,928,196 of annual revenue from its customers, not the initially-requested \$1,938,116 increment. Staff's proposed ISRS rates are designed to recover \$3,308,042 revenues annually as opposed to the \$3,317,962 initially requested by MGE. Staff proposes the ISRS rates reflect the revenue requirements from the following ISRS cases: A) GO-2011-0269 - \$1,928,196, and GO-2011-0003 - \$1,379,846.

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 that the Commission issue an order in this case that:

1. Rejects the ISRS tariff sheet revised Tariff Sheet P.S.C MO No. 1 Twelfth Revised Sheet No. 10 cancelling P.S.C. MO No. 1 Eleventh Revised Sheet No. 10 filed by MGE on February 22, 2011;
2. Approves Staff's determination of the ISRS surcharge revenues in the incremental amount of annual pre-tax revenues of \$1,928,196; and
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B that generates \$3,308,062 annually.

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

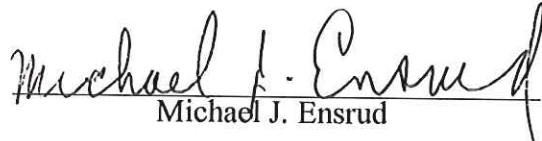
In the Matter of the Application of )  
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Missouri Gas Energy, for Approval )  
to Change its Infrastructure System )  
Replacement Surcharge )

Case No. GO-2011-0269  
JG-2011-0433

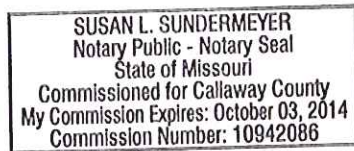
**AFFIDAVIT OF MICHAEL J. ENSRUD**

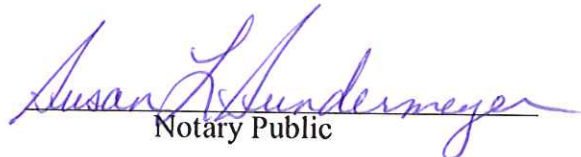
STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE     )

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 22<sup>nd</sup> day of April, 2011.



  
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 )  
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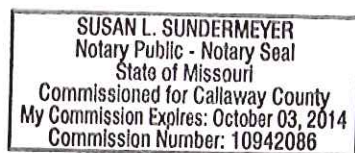
**AFFIDAVIT OF MICHAEL STAHLMAN**

STATE OF MISSOURI     )  
                                  ) ss  
COUNTY OF COLE     )

Michael Stahlman, 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 Stahlman

Subscribed and sworn to before me this 22<sup>nd</sup> day of April, 2011.



  
\_\_\_\_\_  
Notary Public



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

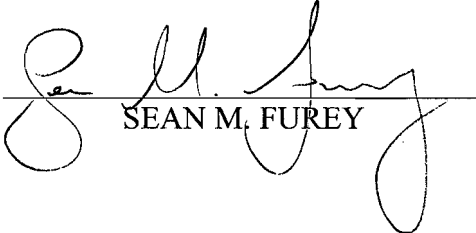
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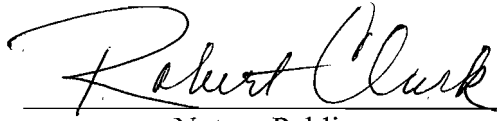
**AFFIDAVIT OF SEAN M. FUREY**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF JACKSON )

Sean M. Furey, 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.

  
SEAN M. FUREY

Subscribed and sworn to before me this 25 day of April, 2011.

  
Notary Public



**ROBERT CLARK**  
My Commission Expires  
October 25, 2014  
Jackson County  
Commission #10076459

**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-2011-0269  
Tracking No. JG-2011-0433

**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 25 day of April, 2011.

  
Notary Public



ROBERT CLARK  
My Commission Expires  
October 25, 2014  
Jackson County  
Commission #10076459

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

In the Matter of the Application of	)	
Southern Union Company, d/b/a	)	Case No. GO-2011-0269
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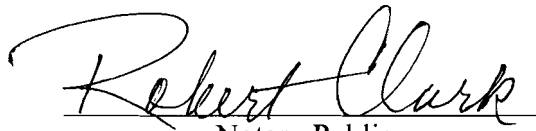
**AFFIDAVIT OF KEITH MAJORS**

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 25 day of April, 2011.

  
\_\_\_\_\_  
Notary Public



ROBERT CLARK  
My Commission Expires  
October 25, 2014  
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Commission #10076459