

**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-2013-0015

JG-2013-0028

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff), in response to the Commission's July 13, 2012 *Order Suspending Tariff, Order Directing Filings And Publication Of Notice, And Notice of Contested Case* (Order), and states:

1. On July 11, 2012, Missouri Gas Energy (MGE) a division of Southern Union Company (Southern Union) filed an Application and Petition (Application) to implement a change to its Infrastructure System Replacement Surcharge (ISRS).

2. MGE requests an adjustment to ISRS rates for ISRS eligible gas utility plant projects through its ISRS rate schedule. This is MGE's fourth ISRS filing since its most recent rate case, GR-2009-0355.

3. By this filing, MGE seeks to recover costs of ISRS-qualifying plant placed in service from October 1, 2011 through May 30, 2012.

4. MGE also filed a Request for Waiver of Commission Rule 4 CSR 240-4.020(2) seeking to waive the 60 day minimum notice filing requirement of a case likely to become a contested case.

5. The Commission's July 13th Order, in part, suspended MGE's proposed tariff to November 7, 2012, set a deadline for intervention of August 9, 2012, and directed the Staff to file a report no later than September 10, 2012. No parties have sought intervention.

6. Commission Rule 4 CSR 240-3.265(11) states that the staff of the Commission may examine information of the gas corporation to confirm that the underlying costs are in accordance with the provisions of Sections 393.1009 to 393.1015, RSMo, and to confirm proper calculation of the proposed charge. The Staff “may submit a report regarding its examination to the Commission no later than sixty days” after the petition is filed.

7. In the instant case, MGE’s ISRS request results in a net decrease to the current ISRS amount paid by customers because MGE has made a correction to its three previous ISRS filings which used an incorrect depreciation rate to calculate the ISRS deferred tax reserve. MGE’s correction of its previous ISRS filings and its carryover effect into this ISRS request is explained on pp. 3-4 of Staff’s Memorandum attached as Appendix A and incorporated herein.

8. Based on its examination and calculations contained in its Memorandum, the Staff has determined that the Company’s ISRS rates should be designed to recover an incremental revenue requirement of \$823,284. This is based on an ISRS plant placed in service during the period October 1, 2011 through May 31, 2012.

9. MGE’s ISRS rates are based on a total combined revenue requirement (the total of this proposed ISRS and previous ISRS currently in effect) of \$4,601,712. Please see Staff’s attached Appendix B for the ISRS rate for each customer class.

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

1. Rejecting the tariff sheet filed by MGE on July 11, 2012, (assigned tariff number JG-2013-0028);

2. Approving the Staff's determination of the ISRS surcharge revenues in the incremental amount of annual pre-tax revenues of \$823,284;
3. Authorizing MGE to file an ISRS rate for each customer class as reflected in Appendix B that generates a total \$4,601,712 annually; and
4. Approving MGE's request for waiver of 4 CSR 240-4.020(2).

Respectfully submitted,

/s/ Robert S. Berlin

Robert S. Berlin
Senior Counsel
Missouri Bar No. 51709

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 526-7779
(573) 751-9285 (FAX)
Bob.berlin@psc.mo.gov

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 10th day of September, 2012.

/s/ Robert S. Berlin

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
File No. GO-2013-0015 / Tracking No. JG-2013-0028 – Missouri Gas Energy

FROM: Patricia Gaskins, Auditing Department ;
Michael Ensrud, Tariffs/Rate Design – Energy

/s/ Chuck Hyneman

/s/ Tom Imhoff

09/10/12

/s/ Robert S. Berlin

09/10/12

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: September 10, 2012

BACKGROUND

On July 11, 2012, 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). MGE also filed revised Tariff Sheet P.S.C MO No. 1 Fourteenth Revised Sheet No. 10 cancelling P.S.C. MO No. 1 Thirteenth Revised Sheet No. 10 with a proposed effective date of August 10, 2012.

MGE made its filing pursuant to §§ 393.1009 through 393.1015, RSMo (2000 as currently supplemented) and Commission Rule 4 CSR 240-3.265. Both the statute and the Commission rules establish rules allowing Missouri LDCs to file applications to recover certain infrastructure system replacement costs outside of a formal rate case through a surcharge on customers' bills.

This is MGE's fourth ISRS filing since its most recent rate case, Case No. GR-2009-0355. MGE initially filed a revised tariff sheet with an incremental revenue requirement of \$830,135.

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 waiver for good cause stating:

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 July 13, 2012, the Commission suspended MGE's proposed tariff for a period of 120 days until November 7, 2012, set a deadline for intervention of August 09, 2012, and ordered Commission Staff to file a report concerning MGE's petition not later than September 10, 2012.

MGE currently has three ISRS cases collecting revenue from its customers as shown in the chart below:

Current ISRS	Surcharge
GO-2011-0003	\$1,379,866
GO-2011-0269	\$1,928,196
GO-2012-0144	<u>\$1,393,096</u>
Total	\$4,701,158

STAFF'S INVESTIGATION

Staff from the Auditing and Energy Units participated in the investigation of MGE's Application. The investigation included a review of: the Application, all supporting documentation, Missouri statutory sections 393.1009, 393.1012 and 393.1015 RSMo and all additional data provided by MGE.

While this filing fails to meet the \$1,000,000 threshold requirement set forth in Rule 4 CSR 240 3.265(2), it does qualify as a valid filing by meeting the alternative requirement of the requested increase exceeding "*one half of one percent (1/2%) of the natural gas utility's base revenue level approved by the commission in the natural gas utility's most recent general rate case proceeding*".

THE APPLICATION

MGE proposes to recover costs of ISRS-qualifying plant placed in service from October 1, 2011 through May 30, 2012. The chart below details MGE's current ISRS request:

GO-2013-0015	MGE As Filed
ISRS Plant in Service Oct. 2011 to May 2012	\$ 11,350,811
Deferred Taxes GO-2013-0015	(2,833,333)
Deferred Taxes GO-2012-0144	(16,059)
Accumulated Depreciation GO-2013-0015	(191,989)
Accumulated Depreciation GO-2012-0144	(515,976)
Total ISRS Rate Base	\$ 7,793,454
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
Return on ISRS Rate Base	\$ 796,795
Annual Depreciation Expense ISRS Plant Additions/Retirements	253,328
Property Taxes on 2012 Plant due 12/31/2012	126,408
Revenue Reconciliation Due to Tax Depreciation Correction	(346,396)
Total ISRS Revenues	\$ 830,135

STAFF'S REVIEW AND EXPLANATION OF ADJUSTMENTS

MGE's overall ISRS request in this proceeding, if adopted, would actually result in a decrease to the current ISRS rate due to a correction to MGE's three previous ISRS filings, which used an incorrect liberalized depreciation expense for income tax purposes. The use of an incorrect liberalized tax depreciation rate led to an understatement of the deferred tax reserve level that is used in the computation of ISRS rates.

In its previous three ISRS filings, MGE used statutory tax depreciation rates to calculate the accumulated deferred income taxes used as an offset to eligible ISRS plant replacements. However, MGE did not use the bonus tax depreciation of 50% that was available for use during the 2010 and 2012 eligible ISRS plant replacements, or the allowed 100% bonus tax depreciation for 2011. All of these tax benefits that were applicable to ISRS plant additions in the three prior MGE ISRS filings have been incorporated in the ISRS Application. Incorporating the correct deferred tax balances into this filing has the effect of lowering the overall ISRS revenue requirement in this case, even after taking into account the additional ISRS plant investment made by MGE since its last ISRS filing.

In response to MGE's current ISRS filing, the Staff reviewed MGE's calculation of the appropriate level of pretax revenues necessary to ensure recovery of ISRS related costs and

expenses. Staff's computation included the revenues necessary to produce net operating income equal to MGE's weighted cost of capital multiplied by its net original cost of eligible infrastructure system replacements (ISRS plant), including recognition of accumulated deferred income taxes and accumulated depreciation associated with eligible infrastructure system replacements, which are included in a currently effective ISRS. In addition, the appropriate pretax revenues will include state, federal, and local income or excise taxes applicable to such ISRS income. Finally, MGE's pretax revenues include revenues necessary to recover other ISRS costs of depreciation expense and property taxes that will be due within twelve months of the ISRS filing.

ISRS plant (eligible infrastructure system replacements) is defined by statute and rule as gas utility plant projects that:

1. do not increase revenues by directly connecting the infrastructure replacement to new customers;
2. are in service and used and useful;
3. were not included in the gas corporation's rate base in its most recent general rate case; and
4. replace or extend the useful life of an existing infrastructure.

By statute, only certain projects may be included in an ISR surcharge:

- (a) mains, valves, service lines, regulator stations, vaults, and other pipeline system components installed to comply with state or federal safety requirements as replacements for existing facilities that have worn out or are in deteriorated condition;
- (b) main relining projects, service line insertion projects, joint encapsulation projects, and other similar projects extending the useful life or enhancing the integrity of pipeline system components undertaken to comply with state or federal safety requirements; and
- (c) facilities relocations required due to construction or improvement of a highway, road, street, public way, or other public work by or on behalf of the United States, this state, a political subdivision of this state, or another entity having the power of eminent domain provided that the costs related to such projects have not been reimbursed to the gas corporation.

To ensure that the plant projects in MGE's Application meet the statutory requirements of §393.1009 for plant that qualified for an ISRS, Staff reviewed the work-orders and other support MGE submitted in its Application. Staff removed the cost of one project, work order (number 20501118008) from its recommended level of ISRS plant amounting to \$60,713, because the

plant was intended to serve new customers. This resulted in a decrease of \$6,851 of additional ISRS revenues, from MGE's proposed filing of ISRS revenues of \$830,135 to \$823,284.

Based on the its review, Staff has determined the appropriate revenue requirement annual increase for the pending ISRS Application is \$823,284 based on ISRS plant placed in service during the period October 1, 2011 through May 31, 2012. The Staff's proposed ISRS calculation is shown below:

	Staff
ISRS Plant in Service October 2011 to May 2012	\$ 11,290,098
Deferred Taxes GO-2013-0015	(2,827,776)
Deferred Taxes GO-2012-0144	(16,059)
Accumulated Depreciation GO-2013-0015	(191,137)
Accumulated Depreciation GO-2012-0144	(515,976)
Total ISRS Rate Base	7,739,149
Total Grossed Up Rate of Return per GR-2009-0355	10.22%
Return on ISRS Rate Base	\$ 791,255
Annual Depreciation Expense ISRS Plant Additions/Retirements	252,017
Property Taxes on 2011 Plant From GO-2012-0144 due 12/31/2012	126,408
Revenue Reconciliation Due to Tax Depreciation Correction	(346,396)
Total ISRS Revenues	823,284

In addition to its Application to increase ISRS revenues relating to infrastructure plant replacements from October 1, 2011 through May 31, 2012, MGE also proposed adjusting its previous ISRS revenue levels to reflect updated information. MGE had proposed an adjustment to previous ISRS filings as a result of using a statutory tax depreciation rate to calculate the ISRS deferred taxes in its last three ISRS applications instead of the bonus depreciation rates offered by the Internal Revenue Service (IRS) in 2011 and 2012. In paragraph 5 of its Application in this case MGE stated:

MGE, per this Application is also requesting an adjustment to the ISRS filings made in dockets GO-2011-0003, GO-2011-0269 and GO-2012-0144. In those ISRS filings, MGE used statutory tax depreciation rates to calculate the accumulated deferred income taxes used as an offset to the eligible infrastructure system replacements. In addition to the statutory tax depreciation rates, bonus tax depreciation of 50% was available for 2010 and 2012 infrastructure system replacements and 100% bonus depreciation was available for 2011. Recognizing the bonus depreciation has the effect of lowering the revenue requirement for the aforementioned ISRS filings. The current ISRS filing reflects both an adjustment for the recovery of costs for infrastructure system replacements and relocations eligible for ISRS recognition for the period October 2011 through May 2012 (or since the ISRS filing approved in Docket No. GO-2012-0144) and an adjustment for impacts related to the tax depreciation calculation changes.

Staff has accepted and incorporated MGE's adjustment for the bonus depreciation impact on previous ISRS charges into its ISRS recommendation. Staff notes that MGE's ISRS rates in File No. GO-2012-0144 became effective on February 14, 2012. The Commission granted an incremental increase of ISRS revenues in the amount of \$1,393,096 on February 14, 2012, and this amount will need to be reconciled by MGE and approved by the Commission no later than February 14, 2013. At the time MGE completes this reconciliation, the Staff will review MGE's recommendation concerning its over- or under-recovery of ISRS revenues, after considering the impact of the bonus depreciation and other factors on the amount of ISRS collected. As required by Section 393.1015 Paragraph 5(2), a reconciliation of an ISRS must take place at the end of each twelve month period:

At the end of each twelve-month calendar period the ISRS is in effect, the gas corporation shall reconcile the differences between the revenues resulting from an ISRS and the appropriate pretax revenues as found by the commission for that period and shall submit the reconciliation and a proposed ISRS adjustment to the commission for approval to recover or refund the difference, as appropriate, through adjustments of an ISRS charge.

Staff has discussed its proposed ISRS revenue requirement recommendation with MGE and understands that MGE does not take issue with the Staff's recommendation. If the Commission accepts the Staff's recommendation, the total of all MGE ISRS charges will be \$4,601,712 on the effective date of rates from this current filing. This amount, as shown below, reflects the Staff recommendation for GO-2013-0015 and MGE's proposed adjustments to the previous three ISRS in effect currently.

GO-2011-0003	\$1,224,824
GO-2011-0269	\$1,662,349
GO-2012-0144	\$891,255
GO-2013-0015-proposed	<u>\$823,284</u>
Total	\$4,601,712

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 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.

P.S.C. MO. No. 1

13th Revised SHEET NO. 10, Cancelling 12th SHEET NO. 10

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 object to 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 (JG-2013-0028) filed by MGE on July 11, 2012;
2. Approves the Staff's determination of the ISRS surcharge revenues in the incremental amount of annual pre-tax revenues of \$823,284.
3. Authorizes MGE to file an ISRS rate for each customer class as reflected in Appendix B that generates \$4,601,712 annually; and
4. Approves MGE's waiver request.

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

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File No. GO-2013-0015

AFFIDAVIT OF PATRICIA GASKINS

STATE OF MISSOURI)

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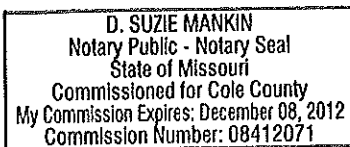
ss.

COUNTY OF COLE)

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 10th day of September, 2012.




Notary Public

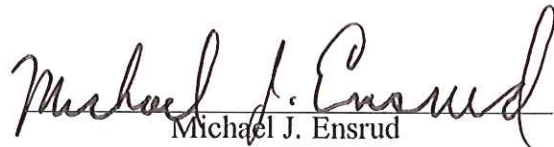
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Replacement Surcharge)	

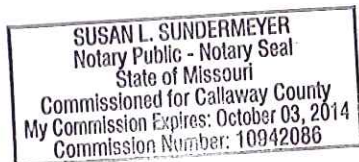
AFFIDAVIT OF MICHAEL J. ENSRUD

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 10th day of September, 2012.




Notary Public

MISSOURI GAS ENERGY

GO-2011-0003	\$1,224,824
GO-2011-0269	\$1,662,349
GO-2012-0144	\$891,255
Proposed GO-2013-0015	<u>\$823,284</u>
Total	\$4,601,712

CASE NO. GO-2013-0015

FILE NO. JG-2013-0028

Company's Total ISRS Revenues

\$4,601,712

Total

ISRS RATE DESIGN

Customer Rate Class	Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS Charge	ISRS Revenues
Residential	440,361	\$26.88	1.0000	440,361	75.4553%	\$0.66	\$3,472,235
Small General Service	57,170	\$39.26	1.4606	83,501	14.3077%	\$0.96	\$658,399
Large General Service	2,808	\$111.31	4.1410	11,628	1.9924%	\$2.72	\$91,686
Large Volume Service	1,483	\$872.12	32.4449	48,116	8.2446%	\$21.32	\$379,392
TOTAL	<u>501,822</u>			<u>583.605</u>	<u>100.0000%</u>		<u>\$4,601,712</u>

* Due to rounding to the nearest penny, the designed ISRS rates will over-collect by \$15,609. However, it should be noted that the total amount collected will be trued-up at a later date.