

**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. _____
for approval to change its infrastructure system)
replacement surcharge.)

**MGE’S APPLICATION AND PETITION TO CHANGE ITS
INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

COMES NOW Missouri Gas Energy (MGE), a division of Southern Union Company, by and through counsel, pursuant to Sections 393.1009, 393.1012 and 393.1015 RSMo; 4 CSR 240-3.265; and, 4 CSR 240-2.060, and for its Application and Petition to Change Its Infrastructure System Replacement Surcharge, respectfully states as follows to the Missouri Public Service Commission (the Commission):

SUMMARY

1. Sections 393.1009, 393.1012 and 393.1015, RSMo, and Commission Rule 4 CSR 240-3.265, provide eligible gas corporations with the 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). A petition must be filed with the Commission for review and approval before an adjustment can be made to a gas corporation’s rates and charges to provide for the recovery of the costs associated with eligible infrastructure system replacements. This Application and Petition seeks to adjust the ISRS rate elements on its established ISRS rate schedule.

THE APPLICANT

2. MGE is a division of Southern Union Company which is duly incorporated under the laws of the State of Delaware and conducts business in Missouri under the fictitious name of Missouri Gas Energy. MGE’s principal office and place of

business is located at 3420 Broadway, Kansas City, Missouri 64111. A copy of a certificate from the Missouri Secretary of State that Southern Union Company is authorized to do business in Missouri as a foreign corporation was submitted in Case No. GM-2003-0238 and is incorporated herein by reference. A copy of a certificate from the Missouri Secretary of State that Missouri Gas Energy is a registered fictitious name of Southern Union Company was submitted in Case No. GM-2003-0238 and is incorporated herein by reference. Other than cases that have been docketed at the Commission, MGE has no pending action or final unsatisfied judgments against it from any state or federal agency or court within the past three (3) years that involve customer service. MGE has no annual report or assessment fees that are overdue. MGE currently conducts business as a “gas corporation” and provides natural gas service to approximately 500,000 customers in the Missouri counties of Andrew, Barry, Barton, Bates, Buchanan, Carroll, Cass, Cedar, Christian, Clay, Clinton, Dade, Dekalb, Greene, Henry, Howard, Jackson, Jasper, Johnson, Lafayette, Lawrence, McDonald, Moniteau, Pettis, Platte, Ray, Saline, Stone, and Vernon, subject to the jurisdiction of the Missouri Public Service Commission as provided by law.

3. Communications in regard to this Application should be addressed to:

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THE ISRS REQUEST

4. MGE, per this application, requests an adjustment to its rates and charges through its established ISRS rate schedule to provide for the recovery of costs for infrastructure system replacements and relocations eligible for ISRS recognition. In accordance with the provisions of sections 393.1009, 393.1012 and 393.1015 RSMo, and Commission Rule 4 CSR 240-3.265, the proposed ISRS rate schedule should reflect the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to MGE's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements. MGE also seeks to recover all state, federal and local income or excise taxes applicable to such ISRS income and to recover all other ISRS costs such as depreciation expense, and property taxes due within 12 months of this filing.

5. The summary of the infrastructure system replacements for which MGE seeks ISRS recognition are set forth on page 1 of **Appendix A**, with the details set forth on **Appendices B, C and D**, which are attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed in the appendices are eligible gas utility plant projects in that they are either: 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; or, 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; or, c) unreimbursed infrastructure facility relocations due to the construction or improvement of a highway, road, street, public way or other public work required by or on behalf of the United States, the State of Missouri, a political subdivision of the State of Missouri, or another entity having the power of eminent domain.

6. The infrastructure system replacements listed in the appendices are eligible for ISRS treatment as they are gas utility plant projects that: a) did not increase revenues by directly connecting to new customers; b) currently are in service and used and useful; c) were not included in MGE's rate base in its most recently completed general rate case; and, d) replaced and/or extended the useful life of existing infrastructure. The details in **Appendices B, C and D** further describe when the ISRS projects were completed and became used and useful; the net original cost, costs eligible for recovery and a breakdown of those costs in accordance with Commission Rule 4 CSR 240-3.265(20)(K); and, a description of the projects in accordance with Commission Rule 4 CSR 240-3.265(20)(L).

7. MGE's current ISRS was reset to zero effective April 3, 2007, as the result of the Commission's Order establishing customer rates in Case No. GR-2006-0422.

8. Since MGE's last general rate increase, the Company has continued to incur costs related to ISRS-eligible infrastructure system replacements. For the period from November 2006 through September 2007, those costs result in additional annualized revenues that exceed the revenue threshold necessary to make an ISRS filing. Accordingly, MGE submits this Application and Petition to change its ISRS to reflect these additional costs.

RATE SCHEDULES AND SUPPORTING DOCUMENTATION

9. Attached hereto is the rate schedule, with supporting documents in **Appendices A, B, C and D**, proposed by MGE in order to establish the new ISRS and to provide for the adjustment of its rates and charges to reflect recovery of eligible infrastructure costs. This proposed rate schedule, on an annualized basis, will produce ISRS revenues of at least the lesser of one-half of one percent (1/2%) of MGE's base revenue level as approved by the Commission in its most recently completed general rate proceeding or one million dollars, but not in excess of ten percent of MGE's base revenue level as approved by the Commission in its most recently completed general rate proceeding.

10. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes current state and federal income tax rates through a combined income tax rate conversion factor of 1.623080.

11. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes the capital structure ordered in MGE's most recently completed general rate proceeding (Case No. GR-2006-0422) and reflects an overall rate of return of 8.60%,

which is the overall rate of return ordered by the Commission in MGE's most recently completed general rate proceeding.

12. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a cost rate for long-term debt of 7.65%, short-term debt of 5.25% and a cost rate for preferred stock of 7.758%, which is, respectively, the debt cost and the preferred stock cost ordered by the Commission in MGE's most recently completed general rate proceeding.

13. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a cost of common equity of 10.5%, which was ordered by the Commission in MGE's most recently completed general rate proceeding.

14. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a current composite property tax rate of 0.79595%, which is the composite rate used by the Commission Staff in MGE's most recent general rate proceeding, for the aforelisted eligible infrastructure system replacements.

15. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes depreciation rates currently applicable to the aforelisted eligible infrastructure system replacements as approved by the Commission for MGE in its most recently completed general rate proceeding.

16. In determining the appropriate monthly ISRS charge, the proposed rate schedule is based on a reasonable estimate of billing units in the period in which the charge will be in effect, which is derived by dividing the appropriate pre tax revenues, as calculated above, by the customer numbers reported by MGE in the annual report it filed with the Commission on or about May 15, 2007, further dividing this quotient by twelve,

and then maintaining the proportional relationship among the ISRS rate element for each customer class equivalent to the proportional relationship of the monthly customer charge for each customer class. The ISRS rate elements by customer class calculated on this basis yield appropriate pre-tax revenues as shown on page 6 of **Appendix A**.

17. In determining the appropriate monthly ISRS charge, the proposed rate schedule includes a proposed ISRS adjustment to reflect the difference between the billed revenues resulting from the approved ISRS filings and the appropriate pretax revenues found by the commission for the period October 2, 2006 through April 3, 2007 in which the ISRS was in effect.

ADDITIONAL INFORMATION

18. MGE will provide periodic informational brochures, by way of bill insert, to be distributed to its customers with bills containing changes to the ISRS amount. MGE will comply with the notice requirements found in Commission Rule 4 CSR 240-3.265(8). MGE will provide a surcharge description on all affected customer bills, which informs the customers of the existence and amount of the ISRS. Attached as Appendix E is an example of the notice MGE proposes to use as both the initial notice and annual notice per Commission Rule 4 CSR 240-3.265(9)(A) and (B), as updated for appropriate rates.. The information referenced in Commission Rule 4 CSR 240-3.265(9)(C) is set forth in **Appendix F**, attached hereto.

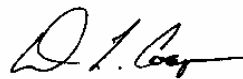
19. **Appendix G** (page 2) shows the information MGE maintains on its website to inform customers of the ISRS as referenced in Commission rule 4 CSR 240-3.265(22)(A).

20. **Appendix G** (pages 3 and 4) shows instructions provided by the Company to personnel at MGE's customer contact center regarding how those personnel should respond to calls pertaining to the ISRS as referenced in Commission rule 4 CSR 240-3.265(22)(B).

WHEREFORE, pursuant to 393.1015.2(3) Applicant respectfully requests the Commission provide notice of this filing in accordance with Commission Rule 4 CSR 240-3.265(7) and, thereafter, issue an Order—and approve any implementing tariff sheets—bearing an effective date of no later than February 17, 2008, authorizing:

- (a) MGE to recover the costs of eligible infrastructure system replacements (as summarized on **Appendix A, Page 1**) per a change to MGE's ISRS. This ISRS recovery to be accomplished via a rate element to be charged in addition to MGE's other rates and charges by reflecting the appropriate pre-tax ISRS revenues necessary to produce net operating income equal to MGE's weighted cost of capital multiplied by the net original cost of the requested infrastructure replacements which are eligible for the ISRS, including recognition of accumulated deferred income taxes and accumulated depreciation associated with the aforesaid infrastructure system replacements; and,
- (b) Granting such other relief as may be necessary and appropriate to accomplish the purposes of 393.1009 through 393.1015.

Respectfully Submitted,



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ATTORNEYS FOR MISSOURI GAS
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Certificate of Service

I hereby certify that two, true and correct copies of the above and foregoing document was sent by electronic mail on this 17th day of October, 2007, to:

General Counsel
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