

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

In the Matter of the Application of Missouri Gas     )  
Energy, a division of Southern Union Company     )     Case No. \_\_\_\_\_  
for an Accounting Authority Order Concerning the     )  
Kansas Property Tax for Gas in Storage.             )

**APPLICATION FOR AN  
ACCOUNTING AUTHORITY ORDER**

Comes now Missouri Gas Energy, a division of Southern Union Company (“MGE” or “Company”), and for its application for an accounting authority order (“AAO”), respectfully states as follows to the Missouri Public Service Commission (“Commission”):

**SUMMARY**

This application requests an order which authorizes deferred accounting treatment for certain new property taxes incurred by MGE in the state of Kansas related to the storage of natural gas.

**APPLICANT**

1.     Applicant is Missouri Gas Energy, a division of Southern Union Company. MGE’s principal office is located at 3420 Broadway, Kansas City, Missouri 64111.
2.     Southern Union Company is a corporation duly incorporated under the laws of the State of Delaware and conducts business in Missouri under the fictitious name of Missouri Gas Energy. 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. GA-2001-509 and is incorporated 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. GA-2001-509 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 or decisions against it from any state or federal agency or court within the past three (3) years that involve customer service or rates. MGE has no annual report or assessment fees that are overdue.

3. MGE conducts the business of a “gas corporation” and provides natural gas service in the Missouri counties of Andrew, Barry, Barton, Bates, Buchanan, Carroll, Cass, Cedar, Christian, Clay, Clinton, Cooper, Dade, Dekalb, Greene, Henry, Howard, Jackson, Jasper, Johnson, Lafayette, Lawrence, McDonald, Moniteau, Cedar, Pettis, Platte, Ray, Saline, Stone, and Vernon, subject to the jurisdiction of the Missouri Public Service Commission (Commission).

4. All correspondence, communications, notices, orders and decisions of the Commission with respect to this matter should be sent to the undersigned counsel and:

Mr. Michael R. Noack  
Director, Pricing and Regulatory Affairs  
Missouri Gas Energy  
3420 Broadway  
Kansas City, Missouri 64111  
Telephone: (816) 360-5560  
Facsimile: (816) 360-5536  
Email: [mnoack@mgemail.com](mailto:mnoack@mgemail.com)

#### **COMMISSION AUTHORITY**

5. The Commission, pursuant to Section 393.140, RSMo, has promulgated Commission Rule 4 CSR 240-40.040, which prescribes the use of the Uniform System of Accounts (“USOA”) adopted by the Federal Energy Regulatory Commission. The USOA

provides for the deferred treatment of extraordinary costs. An application for an AAO contains a single factual issue -- whether the costs, which are asked to be deferred, are extraordinary in nature. *In the matter of the application of Missouri Public Service*, 1 Mo.P.S.C.3d 200, 203-204 (1991). “By seeking a Commission decision [regarding the issuance of an AAO] the utility would be removing the issue of whether the item is extraordinary from the next rate case. All other issues would still remain, including, but not limited to, the prudence of any expenditures, the amount of recovery, if any, whether carrying costs should be recovered, and if there are any offsets to recovery.” *Id.*

6. The Commission has in the past issued AAO’s for costs “caused by unpredictable events, acts of government and other matters outside the control of the utility or the Commission.” *In the matter of St. Louis County Water Company's Tariff Designed to Increase Rates*, MoPSC Case No. WR-96-263, p. 13 (December 31, 1996) (emphasis added). The Commission has further stated that it “has periodically granted AAOs and subsequent ratemaking treatment for various unusual occurrences such as flood-related costs, changes in accounting standards, and other matters which are unpredictable and cannot adequately or appropriately be addressed within normal budgeting parameters.” *Id.* at p. 14.

7. There are many examples of AAO’s based upon government action (i.e. new statutes, regulations and the like). These include AAO’s for costs associated with: new gas safety rules (GO-97-301, GO-2002-0048); the implementation of FAS 87 for pension expense (*In the matter of Missouri Cities Water Company*, 2 Mo.P.S.C.3d 60 January 8, 1993); the implementation of FAS 106 (*In Re Union Electric*, 1 Mo.P.S.C.3d 328, 330 (EO-92-179) (June 12, 1992); *In Re St. Joseph Light and Power Company*, 2 Mo.P.S.C.3d 248, 270 (ER-93-41, EC-

93-252) (June 25, 1993) (In referring to the Western Resources proceeding, “[t]he Commission also found that expenses related to the adoption of FAS 106 are extraordinary or unusual items which qualify for deferral and later amortization.”); *In Re Missouri Gas Energy*, 3 Mo.P.S.C.3d 203 (GO-94-255) (September 28, 1994); *In re Empire District Electric Company* (EO-93-35) (February 2, 1993)); compliance with the Clean Air Act (*In the matter of the application of Missouri Public Service*, 1 Mo.P.S.C.3d 200, 203-204 (1991)); and the emergency cold weather rule (GA-2002-285, GA-2002-377).

### **KANSAS PROPERTY TAX FOR GAS IN STORAGE**

8. During its 2004 session, the Kansas Legislature passed Senate Bill 147 (attached hereto as Appendix A). This bill created a new property tax associated with the inventories of gas held for resale and stored in underground formations in the state of Kansas. The legislation was made retroactive to inventories held as of January 1, 2004.

9. Based upon the December 31, 2003 level of natural gas held in storage by MGE in Meade County, Kansas and other Kansas counties, MGE believes that it will pay property taxes associated with this new Kansas tax in the amount of \$1,262,059, in 2004. This new tax, which is being applied retroactively, is an unpredictable event that could not be adequately or appropriately addressed through the ratemaking process.

10. MGE plans to challenge the lawfulness of this new law. However, under Kansas law, the tax will still have to be paid in 2004. Marked Appendix B, and attached hereto, is a copy of correspondence MGE has received from Kansas assessing authorities related to the new tax and a calculation of the tax amount.

## RECENT RATE CASE

11. MGE sought to address this property tax in the true-up phase of its recent rate case (GR-2004-0209). In its decision issued on September 21, 2004, effective October 2, 2004, the Commission found that this “potential tax liability is not currently known or measurable and on that basis it cannot be included in MGE’s cost of service.” Report and Order, Case No. GR-2004-0209, p. 79. The Commission Staff suggested that the Commission issue an accounting authority order that would allow MGE to defer these property taxes until the next rate case. *Id.* at p. 79. The Commission further stated that [i]f MGE wishes to request an AAO, it may file a separate application, to which the Commission will give due consideration. *Id.* at p. 80.

## AAO

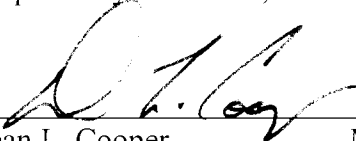
12. As a consequence of the enactment of Kansas Senate Bill 147, the Company requests a Commission order granting an AAO containing the following language:

The Company is authorized to record on its books a regulatory asset, which represents the expenses associated with the property tax to be paid to the state of Kansas pursuant to Senate Bill 147. MGE may maintain this regulatory asset on its books until the effective date of the Report and Order in MGE’s next general rate proceeding.

**WHEREFORE**, MGE respectfully requests that the Commission issue an Accounting Authority Order as described, and such further orders as the Commission should find reasonable

and just.

Respectfully submitted,



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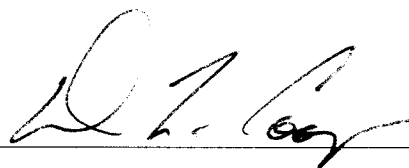
ATTORNEYS FOR MISSOURI GAS ENERGY,  
A DIVISION OF SOUTHERN UNION COMPANY

#### **CERTIFICATE OF SERVICE**

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered, or sent by electronic mail, on October 12, 2004, to the following:

Tim Schwarz  
Office of the General Counsel  
Governor Office Building, 8<sup>th</sup> Floor  
Jefferson City, Mo 65101


Douglas Micheel  
Office of the Public Counsel  
Governor Office Building, 6<sup>th</sup> Floor  
Jefferson City, MO 65101



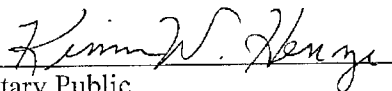
## AFFIDAVIT

STATE OF MISSOURI     )  
                                      )  
COUNTY OF JACKSON     )     ss

I, John A. Davis, having been duly sworn upon my oath, state that I am Vice President and Controller of Missouri Gas Energy, that I am duly authorized to make this affidavit on behalf of Missouri Gas Energy, and that the matters and things stated in the foregoing application are true and correct to the best of my information, knowledge and belief.

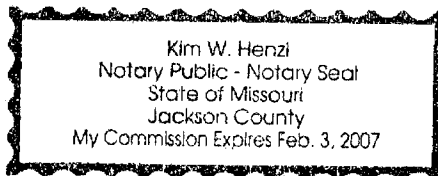
  
\_\_\_\_\_  
John A. Davis

Subscribed and sworn to before me this 12<sup>th</sup> day of October, 2004.

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

My Commission Expires:

Feb. 3, 2007



As Amended by Senate Committee

Session of 2003

SENATE BILL No. 147

By Committee on Assessment and Taxation

2-5

AN ACT relating to sales taxation; authorizing ~~Chase county~~ **certain counties** to impose a countywide sales tax; amending **K.S.A. 12-192** and K.S.A. 2002 Supp. 12-187 and repealing the existing **section sections**.

*Be it enacted by the Legislature of the State of Kansas:*

Section 1. K.S.A. 2002 Supp. 12-187 is hereby amended to read as follows: 12-187. (a) (1) No city shall impose a retailers' sales tax under the provisions of this act without the governing body of such city having first submitted such proposition to and having received the approval of a majority of the electors of the city voting thereon at an election called and held therefor. The governing body of any city may submit the question of imposing a retailers' sales tax and the governing body shall be required to submit the question upon submission of a petition signed by electors of such city equal in number to not less than 10% of the electors of such city.

(2) The governing body of any class B city located in any county which does not impose a countywide retailers' sales tax pursuant to paragraph (5) of subsection (b) may submit the question of imposing a retailers' sales tax at the rate of .25%, .5%, .75% or 1% and pledging the revenue received therefrom for the purpose of financing the provision of health care services, as enumerated in the question, to the electors at an election called and held thereon. The tax imposed pursuant to this paragraph shall be deemed to be in addition to the rate limitations prescribed in K.S.A. 12-189, and amendments thereto. As used in this paragraph, health care services shall include but not be limited to the following: Local health departments, city, county or district hospitals, city or county nursing homes, preventive health care services including immunizations, prenatal care and the postponement of entry into nursing homes by home health care services, mental health services, indigent health care, physician or health care worker recruitment, health education, emergency medical services, rural health clinics, integration of health care services, home health services and rural health networks.

(b) (1) The board of county commissioners of any county may submit



1 the question of imposing a countywide retailers' sales tax to the electors  
2 at an election called and held thereon, and any such board shall be re-  
3 quired to submit the question upon submission of a petition signed by  
4 electors of such county equal in number to not less than 10% of the  
5 electors of such county who voted at the last preceding general election  
6 for the office of secretary of state, or upon receiving resolutions request-  
7 ing such an election passed by not less than  $\frac{2}{3}$  of the membership of the  
8 governing body of each of one or more cities within such county which  
9 contains a population of not less than 25% of the entire population of the  
10 county, or upon receiving resolutions requesting such an election passed  
11 by  $\frac{2}{3}$  of the membership of the governing body of each of one or more  
12 taxing subdivisions within such county which levy not less than 25% of  
13 the property taxes levied by all taxing subdivisions within the county.

14 (2) The board of county commissioners of Anderson, Atchison, Bar-  
15 ton, Butler, Chase, Cowley, Cherokee, Crawford, Ford, Jefferson, Lyon,  
16 Montgomery, Neosho, Osage, Ottawa, Riley, Saline, Seward, Wabaunsee,  
17 Wilson and Wyandotte counties may submit the question of imposing a  
18 countywide retailers' sales tax and pledging the revenue received there-  
19 from for the purpose of financing the construction or remodeling of a  
20 courthouse, jail, law enforcement center facility or other county admin-  
21 istrative facility, to the electors at an election called and held thereon.  
22 The tax imposed pursuant to this paragraph shall expire when sales tax  
23 sufficient to pay all of the costs incurred in the financing of such facility  
24 has been collected by retailers as determined by the secretary of revenue.  
25 Nothing in this paragraph shall be construed to allow the rate of tax  
26 imposed by Butler, Chase, Cowley, Lyon, Montgomery, Neosho, Riley or  
27 Wilson county pursuant to this paragraph to exceed or be imposed at any  
28 rate other than the rates prescribed in K.S.A. 12-189, and amendments  
29 thereto.

30 (3) (A) Except as otherwise provided in this paragraph, the result of  
31 the election held on November 8, 1988, on the question submitted by  
32 the board of county commissioners of Jackson county for the purpose of  
33 increasing its countywide retailers' sales tax by 1% is hereby declared  
34 valid, and the revenue received therefrom by the county shall be ex-  
35 pended solely for the purpose of financing the Banner Creek reservoir  
36 project. The tax imposed pursuant to this paragraph shall take effect on  
37 the effective date of this act and shall expire not later than five years after  
38 such date.

39 (B) The result of the election held on November 8, 1994, on the  
40 question submitted by the board of county commissioners of Ottawa  
41 county for the purpose of increasing its countywide retailers' sales tax by  
42 1% is hereby declared valid, and the revenue received therefrom by the  
43 county shall be expended solely for the purpose of financing the erection.

1 construction and furnishing of a law enforcement center and jail facility.

2 (4) The board of county commissioners of Finney and Ford counties  
3 may submit the question of imposing a countywide retailers' sales tax at  
4 the rate of .25% and pledging the revenue received therefrom for the  
5 purpose of financing all or any portion of the cost to be paid by Finney  
6 or Ford county for construction of highway projects identified as system  
7 enhancements under the provisions of paragraph (5) of subsection (b) of  
8 K.S.A. 68-2314, and amendments thereto, to the electors at an election  
9 called and held thereon. Such election shall be called and held in the  
10 manner provided by the general bond law. The tax imposed pursuant to  
11 this paragraph shall expire upon the payment of all costs authorized pur-  
12 suant to this paragraph in the financing of such highway projects. Nothing  
13 in this paragraph shall be construed to allow the rate of tax imposed by  
14 Finney or Ford county pursuant to this paragraph to exceed the maximum  
15 rate prescribed in K.S.A. 12-189, and amendments thereto. If any funds  
16 remain upon the payment of all costs authorized pursuant to this para-  
17 graph in the financing of such highway projects in Finney county, the  
18 state treasurer shall remit such funds to the treasurer of Finney county  
19 and upon receipt of such moneys shall be deposited to the credit of the  
20 county road and bridge fund. If any funds remain upon the payment of  
21 all costs authorized pursuant to this paragraph in the financing of such  
22 highway projects in Ford county, the state treasurer shall remit such funds  
23 to the treasurer of Ford county and upon receipt of such moneys shall  
24 be deposited to the credit of the county road and bridge fund.

25 (5) The board of county commissioners of any county may submit the  
26 question of imposing a retailers' sales tax at the rate of .25%, .5%, .75%  
27 or 1% and pledging the revenue received therefrom for the purpose of  
28 financing the provision of health care services, as enumerated in the ques-  
29 tion, to the electors at an election called and held thereon. Whenever any  
30 county imposes a tax pursuant to this paragraph, any tax imposed pursuant  
31 to paragraph (2) of subsection (a) by any city located in such county shall  
32 expire upon the effective date of the imposition of the countywide tax,  
33 and thereafter the state treasurer shall remit to each such city that portion  
34 of the countywide tax revenue collected by retailers within such city as  
35 certified by the director of taxation. The tax imposed pursuant to this  
36 paragraph shall be deemed to be in addition to the rate limitations pre-  
37 scribed in K.S.A. 12-189, and amendments thereto. As used in this par-  
38 agraph, health care services shall include but not be limited to the follow-  
39 ing: Local health departments, city or county hospitals, city or county  
40 nursing homes, preventive health care services including immunizations,  
41 prenatal care and the postponement of entry into nursing homes by home  
42 care services, mental health services, indigent health care, physician or  
43 health care worker recruitment, health education, emergency medical

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1 services, rural health clinics, integration of health care services, home  
2 health services and rural health networks.

3 (6) The board of county commissioners of Allen county may submit  
4 the question of imposing a countywide retailers' sales tax at the rate of  
5 .5% and pledging the revenue received therefrom for the purpose of  
6 financing the costs of operation and construction of a solid waste disposal  
7 area or the modification of an existing landfill to comply with federal  
8 regulations to the electors at an election called and held thereon. The tax  
9 imposed pursuant to this paragraph shall expire upon the payment of all  
10 costs incurred in the financing of the project undertaken. Nothing in this  
11 paragraph shall be construed to allow the rate of tax imposed by Allen  
12 county pursuant to this paragraph to exceed or be imposed at any rate  
13 other than the rates prescribed in K.S.A. 12-189 and amendments  
14 thereto.

15 (7) The board of county commissioners of Clay, Dickinson and Miami  
16 county may submit the question of imposing a countywide retailers' sales  
17 tax at the rate of .50% in the case of Clay and Dickinson county and at a  
18 rate of up to 1% in the case of Miami county, and pledging the revenue  
19 received therefrom for the purpose of financing the costs of roadway  
20 construction and improvement to the electors at an election called and  
21 held thereon. The tax imposed pursuant to this paragraph shall expire  
22 after five years from the date such tax is first collected.

23 (8) The board of county commissioners of Sherman county may submit  
24 the question of imposing a countywide retailers' sales tax at the rate  
25 of .25%, .5% or .75% and pledging the revenue therefrom for the purpose  
26 of financing the costs of the county roads 64 and 65 construction and  
27 improvement project. The tax imposed pursuant to this paragraph shall  
28 expire upon payment of all costs authorized pursuant to this paragraph  
29 in the financing of such project.

30 (9) The board of county commissioners of Cowley, Russell and  
31 Woodson county may submit the question of imposing a countywide re-  
32 tailers' sales tax at the rate of .5% in the case of Russell and Woodson  
33 county and at a rate of up to .25%, in the case of Cowley county and  
34 pledging the revenue received therefrom for the purpose of financing  
35 economic development initiatives or public infrastructure projects. The  
36 tax imposed pursuant to this paragraph shall expire after five years from  
37 the date such tax is first collected.

38 (10) The board of county commissioners of Franklin county may sub-  
39 mit the question of imposing a countywide retailers' sales tax at the rate  
40 of .25% and pledging the revenue received therefrom for the purpose of  
41 financing recreational facilities. The tax imposed pursuant to this para-  
42 graph shall expire upon payment of all costs authorized in financing such  
43 facilities.

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1 (11) The board of county commissioners of Douglas county may sub-  
2 mit to the question of imposing a countywide retailers' sales tax at the  
3 rate of .25% and pledging the revenue received therefrom for the pur-  
4 poses of preservation, access and management of open space, and for  
5 industrial and business park related economic development.

6 (12) *The board of county commissioners of Shawnee county*  
7 *may submit the question of imposing a countywide retailers' sales*  
8 *tax at the rate of .25% and pledging the revenue received therefrom*  
9 *to the city of Topeka for the purpose of financing the costs of re-*  
10 *building the Topeka boulevard bridge and other public infrastruc-*  
11 *ture improvements associated with such project to the electors at*  
12 *an election called and held thereon. The tax imposed pursuant to*  
13 *this paragraph shall expire upon payment of all costs authorized in*  
14 *financing such project.*

15 (c) The boards of county commissioners of any two or more contig-  
16 uous counties, upon adoption of a joint resolution by such boards, may  
17 submit the question of imposing a retailers' sales tax within such counties  
18 to the electors of such counties at an election called and held thereon  
19 and such boards of any two or more contiguous counties shall be required  
20 to submit such question upon submission of a petition in each of such  
21 counties, signed by a number of electors of each of such counties where  
22 submitted equal in number to not less than 10% of the electors of each  
23 of such counties who voted at the last preceding general election for the  
24 office of secretary of state, or upon receiving resolutions requesting such  
25 an election passed by not less than  $\frac{2}{3}$  of the membership of the governing  
26 body of each of one or more cities within each of such counties which  
27 contains a population of not less than 25% of the entire population of  
28 each of such counties, or upon receiving resolutions requesting such an  
29 election passed by  $\frac{2}{3}$  of the membership of the governing body of each  
30 of one or more taxing subdivisions within each of such counties which  
31 levy not less than 25% of the property taxes levied by all taxing subdivi-  
32 sions within each of such counties.

33 (d) Any city retailers' sales tax in the amount of .5% being levied by  
34 a city on July 1, 1990, shall continue in effect until repealed in the manner  
35 provided herein for the adoption and approval of such tax or until re-  
36 pealed by the adoption of an ordinance so providing. In addition to any  
37 city retailers' sales tax being levied by a city on July 1, 1990, any such city  
38 may adopt an additional city retailers' sales tax in the amount of .25% or  
39 .5%, provided that such additional tax is adopted and approved in the  
40 manner provided for the adoption and approval of a city retailers' sales  
41 tax. Any countywide retailers' sales tax in the amount of .5% or 1% in  
42 effect on July 1, 1990, shall continue in effect until repealed in the manner  
43 provided herein for the adoption and approval of such tax.

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1 (e) A class D city shall have the same power to levy and collect a city  
2 retailers' sales tax that a class A city is authorized to levy and collect and  
3 in addition, the governing body of any class D city may submit the ques-  
4 tion of imposing an additional city retailers' sales tax in the amount of  
5 .125%, .25%, .5% or .75% and pledging the revenue received therefrom  
6 for economic development initiatives, strategic planning initiatives or for  
7 public infrastructure projects including buildings to the electors at an  
8 election called and held thereon. Any additional sales tax imposed pur-  
9 suant to this paragraph shall expire no later than five years from the date  
10 of imposition thereof, except that any such tax imposed by any class D  
11 city after the effective date of this act shall expire no later than 10 years  
12 from the date of imposition thereof.

13 (f) Any city or county proposing to adopt a retailers' sales tax shall  
14 give notice of its intention to submit such proposition for approval by the  
15 electors in the manner required by K.S.A. 10-120, and amendments  
16 thereto. The notices shall state the time of the election and the rate and  
17 effective date of the proposed tax. If a majority of the electors voting  
18 thereon at such election fail to approve the proposition, such proposition  
19 may be resubmitted under the conditions and in the manner provided in  
20 this act for submission of the proposition. If a majority of the electors  
21 voting thereon at such election shall approve the levying of such tax, the  
22 governing body of any such city or county shall provide by ordinance or  
23 resolution, as the case may be, for the levy of the tax. Any repeal of such  
24 tax or any reduction or increase in the rate thereof, within the limits  
25 prescribed by K.S.A. 12-189, and amendments thereto, shall be accom-  
26 plished in the manner provided herein for the adoption and approval of  
27 such tax except that the repeal of any such city retailers' sales tax may be  
28 accomplished by the adoption of an ordinance so providing.

29 (g) The sufficiency of the number of signers of any petition filed  
30 under this section shall be determined by the county election officer.  
31 Every election held under this act shall be conducted by the county elec-  
32 tion officer.

33 (h) The governing body of the city or county proposing to levy any  
34 retailers' sales tax shall specify the purpose or purposes for which the  
35 revenue would be used, and a statement generally describing such pur-  
36 pose or purposes shall be included as a part of the ballot proposition.

37 *Sec. 2. K.S.A. 12-192 is hereby amended to read as follows: 12-*  
38 *192. (a) Except as otherwise provided by subsection (b), (d) or (h),*  
39 *all revenue received by the director of taxation from a countywide*  
40 *retailers' sales tax shall be apportioned among the county and each*  
41 *city located in such county in the following manner: (1) One-half*  
42 *of all revenue received by the director of taxation shall be appor-*  
43 *tioned among the county and each city located in such county in*

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1 the proportion that the total tangible property tax levies made in  
2 such county in the preceding year for all funds of each such gov-  
3 ernmental unit bear to the total of all such levies made in the pre-  
4 ceding year, and (2)  $\frac{1}{2}$  of all revenue received by the director of  
5 taxation from such countywide retailers' sales tax shall be appor-  
6 tioned among the county and each city located in such county, first  
7 to the county that portion of the revenue equal to the proportion  
8 that the population of the county residing in the unincorporated  
9 area of the county bears to the total population of the county, and  
10 second to the cities in the proportion that the population of each  
11 city bears to the total population of the county, except that no per-  
12 sons residing within the Fort Riley military reservation shall be  
13 included in the determination of the population of any city located  
14 within Riley county. All revenue apportioned to a county shall be  
15 paid to its county treasurer and shall be credited to the general fund  
16 of the county.

17 (b) (1) As an alternative and in lieu of the apportionment for-  
18 mula provided in subsection (a), all revenue received by the direc-  
19 tor of taxation from a countywide retailers' sales tax imposed within  
20 Johnson county at the rate of .75% or 1% after the effective date of  
21 this act may be apportioned among the county and each city located  
22 in such county in the following manner: (A) The revenue received  
23 from the first .5% rate of tax shall be apportioned in the manner  
24 prescribed by subsection (a) and (B) the revenue received from the  
25 rate of tax exceeding .5% shall be apportioned as follows: (i) One-  
26 fourth shall be apportioned among the county and each city located  
27 in such county in the proportion that the total tangible property tax  
28 levies made in such county in the preceding year for all funds of  
29 each such governmental unit bear to the total of all such levies made  
30 in the preceding year and (ii) one-fourth shall be apportioned  
31 among the county and each city located in such county, first to the  
32 county that portion of the revenue equal to the proportion that the  
33 population of the county residing in the unincorporated area of the  
34 county bears to the total population of the county, and second to  
35 the cities in the proportion that the population of each city bears  
36 to the total population of the county and (iii) one-half shall be re-  
37 tained by the county for its sole use and benefit.

38 (2) In lieu of the apportionment formula provided in subsection  
39 (a), all money received by the director of taxation from a county-  
40 wide sales tax imposed within Montgomery county pursuant to the  
41 election held on November 8, 1994, shall be remitted to and shall  
42 be retained by the county and expended only for the purpose for  
43 which the revenue received from the tax was pledged. All revenue

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1 apportioned and paid from the imposition of such tax to the trea-  
2 surer of any city prior to the effective date of this act shall be re-  
3 mitted to the county treasurer and expended only for the purpose  
4 for which the revenue received from the tax was pledged.

5 (c) (1) Except as otherwise provided by paragraph (2) of this  
6 subsection, for purposes of subsections (a) and (b), the term "total  
7 tangible property tax levies" means the aggregate dollar amount of  
8 tax revenue derived from ad valorem tax levies applicable to all  
9 tangible property located within each such city or county. The ad  
10 valorem property tax levy of any county or city district entity or  
11 subdivision shall be included within this term if the levy of any such  
12 district entity or subdivision is applicable to all tangible property  
13 located within each such city or county.

14 (2) For the purposes of subsections (a) and (b), any ad valorem  
15 property tax levied on property located in a city in Johnson county  
16 for the purpose of providing fire protection service in such city shall  
17 be included within the term "total tangible property tax levies" for  
18 such city regardless of its applicability to all tangible property lo-  
19 cated within each such city. If the tax is levied by a district which  
20 extends across city boundaries, for purposes of this computation,  
21 the amount of such levy shall be apportioned among each city in  
22 which such district extends in the proportion that such tax levied  
23 within each city bears to the total tax levied by the district.

24 (d) (1) All revenue received from a countywide retailers' sales  
25 tax imposed pursuant to paragraphs (2), (6), (7), (8) or (9) or (12)  
26 of subsection (b) of K.S.A. 12-187, and amendments thereto, shall  
27 be remitted to and shall be retained by the county and expended  
28 only for the purpose for which the revenue received from the tax  
29 was pledged.

30 (2) Except as otherwise provided in paragraph (5) of subsection  
31 (b) of K.S.A. 12-187, and amendments thereto, all revenues received  
32 from a countywide retailers' sales tax imposed pursuant to para-  
33 graph (5) of subsection (b) of K.S.A. 12-187, and amendments  
34 thereto, shall be remitted to and shall be retained by the county  
35 and expended only for the purpose for which the revenue received  
36 from the tax was pledged.

37 (e) All revenue apportioned to the several cities of the county  
38 shall be paid to the respective treasurers thereof and deposited in  
39 the general fund of the city. Whenever the territory of any city is  
40 located in two or more counties and any one or more of such coun-  
41 ties do not levy a countywide retailers' sales tax, or whenever such  
42 counties do not levy countywide retailers' sales taxes at a uniform  
43 rate, the revenue received by such city from the proceeds of the

Appendix A  
Page 9

1 countywide retailers' sales tax, as an alternative to depositing the  
2 same in the general fund, may be used for the purpose of reducing  
3 the tax levies of such city upon the taxable tangible property located  
4 within the county levying such countywide retailers' sales tax.

5 (f) Prior to March 1 of each year, the secretary of revenue shall  
6 advise each county treasurer of the revenue collected in such county  
7 from the state retailers' sales tax for the preceding calendar year.

8 (g) Prior to December 31 of each year, the clerk of every county  
9 imposing a countywide retailers' sales tax shall provide such infor-  
10 mation deemed necessary by the secretary of revenue to apportion  
11 and remit revenue to the counties and cities pursuant to this section.

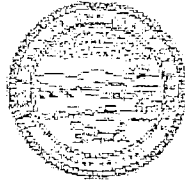
12 (h) The provisions of subsections (a) and (b) for the apportion-  
13 ment of countywide retailers' sales tax shall not apply to any rev-  
14 enues received pursuant to a county or countywide retailers' sales  
15 tax levied or collected under K.S.A. 2001-Supp. 74-8929, and amend-  
16 ments thereto. All such revenue collected under K.S.A. 2001-Supp.  
17 74-8929, and amendments thereto, shall be deposited into the re-  
18 development bond fund established by K.S.A. 2001-Supp. 74-8927,  
19 and amendments thereto, for the period of time set forth in K.S.A.  
20 2001-Supp. 74-8927, and amendments thereto.

21 Sec. 23. K.S.A. 12-192 and K.S.A. 2002 Supp. 12-187 ~~is~~ are hereby  
22 repealed.

23 Sec. 34. This act shall take effect and be in force from and after its  
24 publication in the statute book.

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KANSAS

DEPARTMENT OF REVENUE  
DIVISION OF PROPERTY VALUATION

JOAN WAGNON, SECRETARY

KATHLEEN SEBELIUS, GOVERNOR

*Appendix B*

July 2, 2004

SG-MISSOURI GAS ENERGY  
PROPERTY TAX DEPT  
3420 BROADWAY  
KANSAS CITY MO 64111

RE: Company Number G4006

Dear Sir:

During the 2004 session, the Kansas Legislature passed Senate Bill 147. In section 4 of that bill, the definition of public utility companies was amended to include every individual, company, corporation, association of persons, brokers, lessees or receivers that now or hereafter own, control and hold for resale stored natural gas in an underground formation in this state. With this change, the inventories of gas held for resale in Kansas by these companies will become taxable by the state to the owner of the gas. The legislation was made retroactive to inventories held as of January 1, 2004.

The Division has information indicating that your company has gas in a Kansas storage field as of January 1, 2004. Therefore a set of forms have been sent to you. If your company does not own, control or hold for resale stored natural gas in an underground formation in Kansas, please complete only Schedule One marking the box on the second page. Otherwise please complete all forms.

The filing deadline for completion of these forms is August 1, 2004.

If you have any questions about completing your filing, please contact either Roger Dallam at 785-296-4539 or Floyd Rumsey at 785-296-3964.

Sincerely,

John H. Hughes  
Bureau Chief, State Appraised Property Bureau

2004  
ANNUAL RENDITION  
To the  
KANSAS DEPARTMENT OF REVENUE  
DIVISION OF PROPERTY VALUATION

Appendix B  
Page 2

Robert B. Docking State Office Building, Topeka, Kansas 66612-1585

Information to Be Based Upon  
Accounting Year Ending December 31, 2003

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Company

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Address

SPECIFIC INSTRUCTIONS

Part A. Purpose

1. This report, to be submitted to the Division of Property Valuation pursuant to the provisions of K.S.A. Chapter 79-Article 5a is to provide information necessary for consideration in determining the fair market value of the respondent's property.

Part B. Filing Information

2. This report, complete with all schedules, supplementary information and copies of stockholder reports, regulatory body report and rate case orders issued during 2003; (subject to exceptions as specified in the "General Instructions", Page 2 under "Report" Paragraphs 6, 7 and 8;) must be completed and returned on or before March 20, 2004 to the Division of Property Valuation, Robert B. Docking State Office Building, 915 SW Harrison St., Topeka, Kansas 66612-1585.

COMPANIES WITH STORED GAS

Year Ending	Tax Year	Parhandle (1)		Total Mmbtu	% Oklahoma	% Kansas	NYMEX Rate/Mmbtu Rendered	Meade County, Kansas		
		Woods Co Oklahoma	Meade Co Kansas					Rendered Value	Assessed Value	Effective Tax rate
12/31/1997	1/1/1998	352,606	385,527	738,133	47.77%	52.23%				
12/31/1998	1/1/1999	231,037	580,759	811,796	28.46%	71.54%				
12/31/1999	1/1/2000	229,336	521,280	750,616	30.55%	69.45%	\$ 2.06	1,073,729	357,910	2.91%
12/31/2000	1/1/2001	237,340	338,198	575,538	41.24%	58.76%	\$ 3.17	1,073,729	357,910	3.13%
12/31/2001	1/1/2002	239,864	691,646	931,510	25.75%	74.25%	\$ 2.56	1,767,156	589,052	3.09%
12/31/2002	1/1/2003	291,188	610,324	901,512	32.30%	67.70%	Est \$ 4.14	2,526,741	842,247	3.09%
12/31/2003	1/1/2004	213,694	715,412	929,106	23.00%	77.00%	Est \$ 4.86	3,476,902	1,158,967	3.09%

(1) Per letter from Joel Lopez@Parhandle on 02/07/04.

\*2004 rate based on 2002/2003 effective rate

Year Ending	Tax Year	Williams/Southern Star (2) (3)		Total Mmbtu	% Oklahoma	% Kansas	NYMEX Rate/Mmbtu Rendered	Estimated all other Kansas counties		
		Grant Co Oklahoma	Kansas					Rendered Value	Assessed Value	Effective Tax rate
12/31/1997	1/1/1998	3,977,406	7,211,221	11,188,627	35.55%	64.45%				
12/31/1998	1/1/1999	4,690,131	7,288,555	11,978,686	39.15%	60.85%				
12/31/1999	1/1/2000	3,546,444	5,752,898	9,299,342	38.14%	61.86%	\$ 2.06	11,849,780	3,949,927	2.91%
12/31/2000	1/1/2001	2,497,830	2,291,930	4,789,760	52.15%	47.85%	\$ 3.17	7,276,541	2,425,514	3.13%
12/31/2001	1/1/2002	5,275,571	7,930,324	13,205,895	39.95%	60.05%	\$ 2.56	20,261,983	6,753,994	3.09%
12/31/2002	1/1/2003	3,694,278	6,999,263	10,693,541	34.55%	65.45%	\$ 4.14	28,976,945	9,658,982	3.09%
12/31/2003	1/1/2004	3,387,079	7,696,465	11,083,544	30.56%	69.44%	\$ 4.86	37,404,820	12,468,273	3.09%

(2) Per faxed schedule from Williams/Southern Star to Pat Verdeber on 02/25/04.

(3) Per John Hayes@MGE gas supply Williams/Southern Star has 8 storage facilities, of which seven are located in Kansas.

Total Kansas Storage		Estimated total all Kansas counties		
Year Ending	Tax Year	Rendered Value	Assessed Value	Tax
12/31/1997	1/1/1998			
12/31/1998	1/1/1999			
12/31/1999	1/1/2000			
12/31/2000	1/1/2001			
12/31/2001	1/1/2002			
12/31/2002	1/1/2003			
12/31/2003	1/1/2004			
		12,923,509	4,307,836	375,719
		8,350,270	2,783,423	261,436
		22,029,139	7,343,046	680,063
		31,503,686	10,501,229	972,550
		40,881,722	13,627,241	1,262,059