BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
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In the Matter of Missouri Gas Energy's Tariffs to Implement a General Rate Increase for Natural Gas Service	)))	**Case No. GR-2004-0209** Tariff No. YG-2004-0624

REPLY BRIEF OF THE FEDERAL EXECUTIVE AGENCIES ON COS/RATE DESIGN AND CLASS REVENUE

I. THE COMPANY, MGE, IMPROPERLY INCLUDED EXCLUDED EVIDENCE IN IT'S INITIAL BRIEF

MGE improperly discussed the excluded Staff cost of service study in its brief (Page 77 MGE Initial Brief). The Judge excluded the Staff cost of service study. While the FEA agree with MGE's comments that the OPC RSUM method over allocates main costs to the LVS class (Page 78 MGE Initial Brief), the FEA do not agree with MGE's use of excluded evidence in it's initial brief.

The FEA recommend the Commission adopt the FEA cost of service study as being the most reasonable.

II. OPC DID NOT ADEQUATELY ADDRESS IT'S CONTINUING RELIANCE ON THE RSUM METHODOLOGY

OPC has not adequately explained their continued reliance on the RSUM method in light of the Commission's 2001 decision. The OPC did not address the Commission's 2001 guidance which was: "Application of Public Counsel's modified RSUM method of allocating costs of distribution mains results in over-allocation of costs to LVS customers," (In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Service Area, 10 Mo PSC 3d pg 1 (2001), GR 96-285, at page 27)). The OPC also failed to address the Commission's observation that the estimated cost curve used by OPC in its RSUM method of mains allocation does not take into account the fact that some costs are not related to capacity (10 Mo PSC 3d, at page 19-20). And further the OPC failed to address the Commission's observation in the same case (10 Mo PSC 3d, at pg. 20) that OPC RSUM Methodology uses an estimated cost curve that failed to account for the fact that for each diameter of main that makes up MGE's distribution system, the lengths vary significantly.

OPC's reliance on Mr. Beck's testimony to support their position on cost of service (OPC Initial Brief Page 91) is questionable in light of the fact that Mr. Beck's cost of service testimony was excluded and in light of the fact that staff is not recommending the Commission adopt OPC's cost of service study. Staff recommends that the Commission maintain test year class revenue responsibilities, Staff Initial Brief page 49.

III. NO ONE HAS DISPUTED THE FEA RECOMMENDATION THAT LGS CLASS INCREASE SHOULD BE 25% LOWER THAN THE INCREASE OF THE OTHER CUSTOMER CLASSES

All studies show that the LGS class is currently paying more than its share of revenue. The LGS Class is assigned 1.99% of revenues under current rates (Exhibit 500, Price Rebuttal Testimony, Table 5, page 14, See Table on page 2 of FEA Initial Brief Brief). All of the costs of service studies presented indicate the actual LGS class cost of service is less that 1.99% of current revenue (Exhibit 500, Mr Price Rebuttal, Table 4, page 13, See Table on page 2 of FEA Initial Brief). The FEA study shows .080% as the proper percentage, the MGE study shows 1% as the proper percentage, and the OPC study shows 1.435% as the proper percentage (Exhibit 500, Mr Price Rebuttal, Table 4, page 13, See Table on page 2 of the FEA Initial Brief).

The FEA recommend the LGS class receive an increase 25% lower than the increase of the other classes. Given the small size of the LGS class the impact on the other classes would be minimal. No one has rebutted the FEA recommendation.

IV. CONCLUSION AND RECOMMENDATION

Based on the evidence presented, the FEA study is the most reasonable and the FEA recommend the Commission adopt the FEA study. Cost of service studies are a guide toward the ultimate goal of just and reasonable rates. An equal percent increase for all customer classes would be reasonable with the exception of the LGS class. The FEA recommend the LGS class receive an increase 25% lower than the increase of the other customer classes.

Respectfully submitted,

Craig Paulson
CRAIG PAULSON, Major, USAF
Utility Litigation and Negotiation Attorney
For Federal Executive Agencies
Telephone: (850) 283-6350
FAX: (850) 283-6219
e-mail: craig.paulson@tyndall.af.mil
TX Atty #24030340
MN Atty# 0164823
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