

**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. G _____
for approval to establish an infrastructure system)
replacement surcharge.)

**APPLICATION AND PETITION FOR ESTABLISHMENT OF AN
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 for Establishment of an 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:

Michael R. Noack
Director, Pricing and Regulatory Affairs
Missouri Gas Energy
3420 Broadway
Kansas City, Missouri 64111
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P.O. Box 456
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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 infrastructure system replacements for which MGE seeks ISRS recognition are set forth on **Appendix A**, which is attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed on **Appendix A** 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 on **Appendix A** 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. **Appendix A** further describes 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 has no ISRS rate element currently in effect. In Case No. GO-2004-0242, the Commission previously authorized the establishment of an ISRS for MGE, effective April 1, 2004. MGE had its last general rate proceeding decided by Commission Order issued on September 21, 2004, effective October 2, 2004 in Case No. GR-2004-0209. The GR-2004-0209 Order authorized MGE to increase its base rates,

incorporating in those rates eligible costs previously reflected in the ISRS approved in Case No. GO-2004-0242. The Commission approved tariff sheets as a result of this case effective October 2, 2004. Concurrent with the effective date of these sheets, MGE reset the ISRS to zero.

8. MGE under-recovered its ISRS for the period from April 1, 2004, through October 2, 2004, by approximately \$121,474, when comparing actual billed ISRS charges to the target annualized ISRS revenues. This under-recovery is included in the computation of the proposed ISRS.

RATE SCHEDULES AND SUPPORTING DOCUMENTATION

9. Attached hereto as **Appendix B** is the rate schedule, with supporting documents, 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-2004-0209) and reflects an overall rate of return of 8.36%.

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 debt of 7.4155% 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 1.115390%, which is based on the average rate for the years 2001-2003 and 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.¹

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

¹ The depreciation rate used for Account 380—Services in the determination of appropriate pre-tax ISRS revenues is 2.56% in accordance with the Commission's Order Regarding Corrected Partial Stipulation and Agreement issued in Case No. GR-2004-0209 on July 8, 2004.

calculated above, by the customer numbers reported by MGE in the annual report it filed with the Commission on or about April 15, 2004, 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 to yield appropriate pre-tax revenues per **Appendix B** are shown in page 6 of **Appendix B**.

ADDITIONAL INFORMATION

17. 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. Within twenty days of the filing of this Application and Petition, MGE will submit to the Commission the notice materials referenced in Commission Rule 4 CSR 240-3.265(9)(A) and (B). The information referenced in Commission Rule 4 CSR 240-3.265(9)(C) is set forth in **Appendix D**, attached hereto.

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

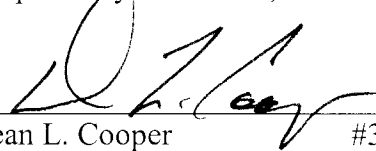
19. **Appendix C** (pages 3 and 4) shows instructions provided by the Company to personnel at MGE's customer contact center regarding how those personnel should

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 June 14, 2005, authorizing:

- (a) MGE to recover the costs of eligible infrastructure system replacements (as listed on Appendix A) per the establishment and recognition of an ISRS. This ISRS recognition 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,

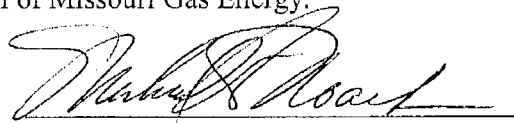

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ATTORNEYS FOR MISSOURI GAS
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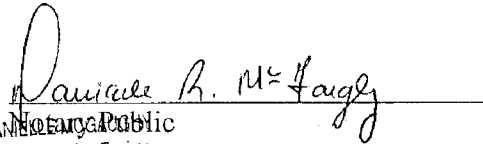
VERIFICATION

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss

I, Michael R. Noack, of lawful age, state: that I am Director of Pricing and Regulatory Affairs for Missouri Gas Energy, a division of Southern Union Company; that I have read the above and foregoing document; that the statements contained therein are true and correct to the best of my information, knowledge and belief; and, that I am authorized to make this statement on behalf of Missouri Gas Energy.

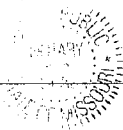


Subscribed and sworn to before me this 14th day of February, 2005.



Danielle R. McFarley
Notary Public
My Commission Expires
November 7, 2008
Buchanan County
Commission #04409075

My Commission Expires: _____

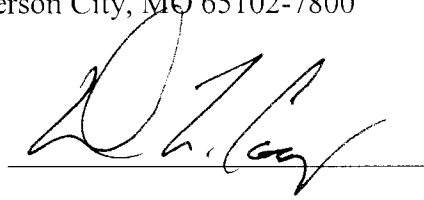


Certificate of Service

I hereby certify that two, true and correct copies of the above and foregoing document was sent by U.S. Mail, postage prepaid, or hand delivered on this 14th day of February, 2005, to:

General Counsel
Missouri Public Service Commission
Governor Office Building
P.O. Box 360
Jefferson City, MO 65102

The Office of the Public Counsel
Governor Office Building, 6th Floor
P.O. Box 7800
Jefferson City, MO 65102-7800

A handwritten signature in black ink, appearing to read "D. L. Gay", is written over a horizontal line.