BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy of Kansas City, Missouri requested authority to file a tariff reflecting a change in rates for its Missouri customers	)	**Case No. GR-2004-209**

REPLY BRIEF OF MIDWEST GAS USERS' ASSOCIATION
JACKSON COUNTY, UMKC AND CMSU

I. INTRODUCTION.

Midwest Gas Users' Association (Midwest), Jackson County, Central Missouri State University (CMSU) and University of Missouri at Kansas City (UMKC) anticipated most of the arguments that were made by opposing parties. Accordingly this Reply Brief will be just that -- brief.

II. ARGUMENT.

A. Response to Staff's Initial Brief.

1. Staff's Equal Percentage Recommendation Should be Rejected.

Staff witness Beck's class cost of service study was struck from the record of the proceeding. Regardless, Staff still recommended that an equal percentage increase be approved because it "preserved relationships." While literally true, Staff's recommendation begs the question of whether the existing "relationships" should be preserved. In our view they should not. Company's CCOSS, after correction, should represent the maximum revenue responsibility to be collected from the LVS transportation customers. Company's CCOSS shows that material discrepancies exist in the rates. Those inequities should be corrected. The Commission can have confidence in the MGE study because, if anything, it overstates the revenue requirement for the LVS class because it includes the several items of cost (e.g., costs of storage gas inventory, etc.) that these parties have addressed at length in their initial brief. Accordingly, the MGE corrected study should be used as a basepoint for rate movements.

2. Staff's Recommendation of an Accounting Authority Order for New Kansas Gas Taxes Is Inappropriate and Should Be Rejected.

After discussing the true-up issues in the case, Staff also takes the unusual position of chasing after the utility to give them an AAO. Such a process is unnecessary and oddly uncharacteristic. This is a general rate case. MGE has not asked for an AAO and no application for an AAO has been submitted. When -- and if -- such an application is submitted, the Commission can deal with it. There are ample issues in this case to resolve. There is no need for the Commission to reach out to resolve issues that are not properly before it for resolution.

B. Response To Office of Public Counsel's Class Revenue Recommendation.

OPC again makes clear that its flawed allocation methodology is based on Charles Laderoute's "RSUM" method, as modified by Phillip Thompson (a long ago OPC economist), as further modified by Barry Hall (a departed OPC engineer), as now modified by OPC witness Meisenheimer and then given to OPC Witness Busch. As repeated modifications to an orange do not make it an apple, the "chain of custody" of this method does not result in credibility when the person who began the chain, Mr. Laderoute, disowned his creation as never intended to be used for the purpose for which OPC now touts it. Midwest engaged Mr. Laderoute in MGE's last case and his testimony, quoted in our Initial Brief, excoriated OPC's distortion of his approach.

If one bothers to go back into its history, Mr. Laderoute developed RSUM as a means of attempting to allocate peak related costs to peak causing customers. OPC manipulates numbers to produce a result, labels it "RSUM," and tries to attribute it to Mr. Laderoute -- an attempt he strongly rejected in the last case.

FEA witness Price observed many of the errors with OPC's distortion of Mr. Laderoute's work (including the rejection of the original RSUM by the Michigan and New York regulatory bodies). Most of these distortions come from Mr. Halls' tinkering -- but, of course, Mr. Hall is no longer here to explain his machinations -- that did no more than seize on a high-school geometry formula and a relationship discovered thousands of years ago to trumpet as though new that the area of a circle increases at a non-linear rate as the diameter of the circle increases. The critical value is, of course, that of *pi*, which the ancient Greeks discovered had a value approximating 3.1416.....

Problem is: gas delivery systems aren't made up of nests of vacant and sterile circles, but rather of pieces of pipe whose ***lengths*** vary as well as their diameters. OPC neglects to account for this in its "study" and thus produces a result that is almost absurd in magnitude then attempts to rationalize the irrational by recommending a half-way movement.

Sadly, OPC's recommendation seems to want to ignore growth on the system (residential), peak responsibility (residential and small commercial) and the predominant need for capacity on the system (residential and small commercial). Strangely, these are the very classes that OPC "represents."

These intervenors applaud and support OPC's aggressive and well-focused efforts to oppose MGE's unwarranted return on equity claims. But OPC is simply not in the real world with respect to class cost causation. Their denial continues through Mr. Busch's vain efforts to shift gas supply inventory costs from system supply customers (for whom the gas is purchased and inventoried) to transportation customers (who purchase their own supplies and storage when needed) under the rationale that transportation customers "might" switch to sales customers (where Mr. Busch acknowledged all costs would be passed through under the PGA) or be unable to balance their deliveries on their own (where Mr. Busch acknowledged that transportation customers faced a punitive cash-out for balancing volumes in both directions). As noted in our initial brief, Mr. Busch also agreed that imbalances are both positive and negative, so by Mr. Busch's analysis, MGE should pay transportation customers when their gas is used to balance MGE's transportation deliveries. In truth, Mr. Busch's argument is specious and should be rejected.

C. Response to MGE's Initial Brief.

MGE acknowledges that its consultant's mathematical error overstated the costs he had originally allocated to the LVS customers. A substantial shift is involved in the correction as noted by FEA in their initial brief. While the MGE study has numerous additional flaws including allocating system supply inventory costs and the like to transportation customers, in other particulars MGE's study employs reproducible and recognized methods of cost allocation. Since correction of the remaining errors would only reduce the costs allocated to LVS transportation customers, these intervenors recommend that MGE's study be used as the basepoint and the maximum costs that should be allocated to LVS customers. Again, because of the uncorrected errors in the MGE study, the Commission may be confident that the MGE study does not understate LVS transportation customer costs.

D. Agreement on LVS Multiple Meter Installations Is Confirmed by All Parties.

No party took issue with the resolution of the multiple meter issue for the LVS transportation class. That resolution provides that if the LVS customer charge is increased, that the provision contained on Sheet No. 40, which provides that all meters in excess of two be charged at 50% of the LVS customer charge would also be revised in such a manner that the result would be that the rate for all LVS meters in excess of two would continue to be charged at the current rate of $204.65 ($409.30 x 50% = $204.65). Thus, as agreed, if the LVS customer charge is increased, LVS customers with more than two meters would pay whatever the new customer charge is on their first two meters and $204.65 for each meter in excess of two.

III. CONCLUSION.

For the foregoing reasons, these intervenor's recommendations regarding class cost of service studies should be adopted along with the agreed resolution of the LVS multiple meter billing issue.

Respectfully submitted,

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ATTORNEYS FOR UMKC, CMSU, JACKSON COUNTY and MIDWEST GAS USERS' ASSOCIATION

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by U.S. mail, postage prepaid addressed, or by electronic mail, to all parties upon their attorneys of record as disclosed by the pleadings and orders herein.

Stuart W. Conrad

Dated: August 17, 2004