

Exhibit No.: _____
Issues: Revenue Requirement,
True-up
Witness: Michael R. Noack
Type of Exhibit: True-Up Rebuttal Testimony
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2009-0355
Date Filed: December 3, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-0355

TRUE-UP REBUTTAL TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

December 2009

TRUE-UP REBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2009-0355

December 3, 2009

1 **INTRODUCTION**

2 **Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?**

3 A. My name is Michael R. Noack, and my business address is 3420 Broadway, Kansas
4 City, Missouri 64111.

5

6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE ON**
7 **BEHALF OF MISSOURI GAS ENERGY (MGE), A DIVISION OF**
8 **SOUTHERN UNION COMPANY?**

9 A. Yes.

10

11 **Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP REBUTTAL TESTIMONY?**

12 A. The purpose of my testimony is to respond to the True-Up Direct Testimony of Staff
13 witness Mark Oligschlaeger in the areas of depreciation expense and the prepaid
14 pension asset included in rate base. I will also very briefly respond to the True-Up
15 Direct Testimony of Office of the Public Counsel (OPC) witness Ted Robertson
16 regarding rate case expense.

17

18 **Q. WOULD YOU PLEASE IDENTIFY THE ITEMS WHICH WERE SUBJECT**
19 **TO THE TRUE-UP?**

1 A. In accordance with the Partial Stipulation and Agreement, the true-up audit addressed
2 the following items:

3 A. Rate Base – The total rate base before true-up items are included is \$619,181,554.

4 The items included in the rate base true-up are:

- 5 • Plant in Service
- 6 • Depreciation Reserve
- 7 • Deferred Taxes
- 8 • Materials and Supplies
- 9 • Natural Gas in Storage
- 10 • Prepaid Pension Assets
- 11 • The cash working capital impact of the other true-up items

12
13 B. Operating Revenues – The total as adjusted operating revenues before true-up are
14 \$186,802,700. Residential customer growth is the only component of operating
15 revenues trued-up.

16
17 C. Operating Expenses – Total operating expenses before income taxes and true-up
18 items per the Partial Stipulation and Agreement are \$137,850,000. The operating
19 expense items to be trued-up are as follows:

- 20 • Payroll – Per the stipulation, the base amount of payroll, payroll taxes and
21 employee benefits from which to measure the true-up adjustment is \$36,421,592.
- 22 • Rate case expense - Per the Partial Stipulation and Agreement, it is to be updated
23 through September 30, 2009, and is to include an estimate for the remainder of the

1 case. The base amount of rate case expense from which to measure the true-up
2 adjustment is \$72,382.

3 • Depreciation expense – Per the Partial Stipulation and Agreement, the base
4 amount of depreciation expense from which to measure the true-up adjustment is
5 \$26,224,367.

6 • Income taxes.

7
8 • D. Capital Structure.

9
10 **Q. ON WHICH OF THE TRUE-UP ITEMS LISTED ABOVE DO YOU**
11 **DISAGREE WITH STAFF WITNESS OLIGSCHLAEGER WITH RESPECT**
12 **TO THE VALUE ASSIGNED IN THE TRUE-UP?**

13 A. The items I disagree with are depreciation expense – land rights and the prepaid
14 pension asset included in rate base.

15
16 **DEPRECIATION EXPENSE – LAND RIGHTS**

17 **Q. PLEASE DESCRIBE WHAT THE DIFFERENCES ARE BETWEEN THE**
18 **COMPANY AND STAFF FOR DEPRECIATION EXPENSE?**

19 A. In calculating the annualized depreciation expense based on plant balances at
20 September 30, 2009, the Staff did not include any depreciation expense for Account
21 374.2 – Land Rights. The balance of account 374.2 included in rate base at
22 September 30, 2009, is \$2,180,950. The Commission-approved depreciation rate is
23 2.09% which results in annualized depreciation expense of \$45,581.

1

2 **Q. HAS THE COMMISSION STAFF COMPUTED DEPRECIATION EXPENSE**
3 **ON ACCOUNT 374.2 – LAND RIGHTS IN PREVIOUS MGE RATE CASES?**

4 A. Yes. In the last three cases, GR-2001-292, GR-2004-0209 and GR-2006-0422, the
5 Commission Staff has computed depreciation on Account 374.2. Attached as True-
6 Up Rebuttal Schedule MRN-1 are the portions of Staff's accounting schedules from
7 those previous cases which reflect Staff's recommended depreciation expense for
8 Account 374.2 – Land Rights.

9

10 **Q. HAVE DEPRECIATION RATES BEEN THE SUBJECT OF ANOTHER**
11 **COMMISSION CASE DURING THE PENDANCY OF THIS RATE CASE?**

12 A. Yes. Depreciation rates were the subject of a waiver case filed by MGE on July 16,
13 2009. The waiver application was designated by the Commission to be Case No. GE-
14 2010-0300. The Commission issued its Order Granting Waiver in this case on
15 August 12, 2009. Attached as True-Up Rebuttal Schedule MRN-2 is the Order
16 Granting Waiver in Case No. GE-2010-0030.

17

18 **Q. DID THE COMMISSION'S ORDER GRANTING WAIVER IN CASE NO. GE-**
19 **2010-0030 ADDRESS THE DEPRECIATION RATES TO BE USED IN THE**
20 **RATE CASE?**

21 A. Yes. Paragraph 2 of the Order stated that: "Missouri Gas Energy, a division of
22 Southern Union Company, shall retain the current depreciation rates, as listed in

Schedule A to Staff's Recommendation, and as agreed upon in the Partial
Nonunanimous Stipulation and Agreement in Commission case No. GR-2006-0422."

**Q. DOES THE REFERENCED SCHEDULE A TO THE STAFF
RECOMMENDATION IN CASE NO. GE-2010-0030 PROVIDE A
DEPRECIATION RATE FOR ACCOUNT 374.2 – LAND RIGHTS?**

A. No. It does not mention this account.

**Q. DOES THE PARTIAL NONUNANIMOUS STIPULATION IN CASE NO. GR-
2006-0422 REFERENCE ACCOUNT 374.2?**

A. Yes. Attached as True-Up Rebuttal Schedule MRN-3 is the first page of the "Partial
Nonunanimous Stipulation and Agreement Concerning Depreciation" filed in Case
No. GR-2006-0422. Paragraph 1(f) states that the depreciation rate for Land Rights
(Account 374.2) shall be 2.09%.

**Q. WAS THE DEPRECIATION RATE OF 2.09% FOR ACCOUNT 374.2
IDENTIFIED IN THE PARTIAL STIPULATION AND AGREEMENT
APPROVED BY THE COMMISSION IN CASE NO. GR-2006-0422?**

A. Yes. The Commission issued its Order Approving Stipulation and Agreement in Case
No. GR-2006-0422, on January 30, 2007.

1 Q. HAS MGE SUBSEQUENTLY AGREED OR BEEN ORDERED BY THE
2 COMMISSION TO USE ANY DIFFERENT DEPRECIATION RATE FOR
3 ACCOUNT 374.2?

4 A. No, it has not.
5

6 PREPAID PENSION ASSET

7 Q. THE SECOND DIFFERENCE BETWEEN STAFF AND COMPANY
8 RELATES TO THE VALUE IN RATE BASE OF THE PREPAID PENSION
9 ASSETS. PLEASE EXPLAIN WHAT THAT DIFFERENCE.

10 A. Staff has included prepaid pension assets of \$14,008,810 in rate base, which amount
11 is incorrect. The correct balance for the prepaid pension asset is \$18,430,227.
12

13 Q. WHAT DOES THE PREPAID ASSET REPRESENT?

14 A. The prepaid pension asset reflects the difference between the amount of pension
15 expense included in the cost of service and the actual level of pension expense
16 incurred. If the actual pension expense exceeds the amount included in rates, the
17 company records the difference as a regulatory asset, which is included in rate base
18 and which will be recovered through amortization of the asset in subsequent rate
19 cases. If the actual pension expense is less than the amount included in rates, the
20 company records a regulatory liability which is deducted from rate base and which
21 will be refunded to customers through amortization of the liability in subsequent rate
22 cases. The regulatory asset or liability is simply the difference between what is
23 included in rates and the actual expense.

1

2 **Q. HAVE YOU IDENTIFIED THE BASIS FOR THE DIFFERENCE BETWEEN**
3 **THE STAFF AND MGE?**

4 A. Yes. There are two reasons for the difference between Staff and MGE's position.

5

6 **Q. WHAT IS THE FIRST REASON FOR THE DIFFERENCE BETWEEN**
7 **STAFF AND MGE'S POSITION?**

8 A. The first reason relates to the amount of amortization expense computed for the
9 original prepaid pension assets set up in Case Nos. GR-2004-0209 and GR-2006-
10 0422. Staff's erroneous calculation assumes that amortization of the balance of the
11 prepaid asset began immediately after the true-up date in each of those cases in which
12 the asset was set up, and that the amortization ended at the conclusion of the update
13 period. On its books, however, MGE actually began amortizing the prepaid assets on
14 the effective date of the respective Commission Orders and included amortization
15 expense through the true-up date. True-Up Rebuttal Schedule MRN-4 details the
16 activity in the prepaid asset accounts starting with the approval of the Commission
17 and ending as of the true-up date in this case.

18

19 **Q. IS MGE'S APPROACH CONSISTENT WITH HOW THIS ITEM WAS**
20 **PREVIOUSLY TREATED BY THE STAFF?**

21 A. Yes. True-Up Rebuttal Schedule MRN-5 contains pages from the Staff True-Up
22 Direct Accounting Schedules from Case Nos. GR-2004-0209 and GR-2006-0422,
23 which show the recommended balance in the prepaid asset included in rate base.

1 Those rate base amounts tie to the balances shown on True-Up Rebuttal Schedule
2 MRN-4.

3
4 **Q. WHAT IS THE SECOND REASON FOR THE DIFFERENCE IN THE**
5 **VALUE OF THE PREPAID PENSION ASSET?**

6 A. Staff has reduced the balance of the prepaid asset from the GR-2006-0422 case and
7 this case by applying an expense ratio to the balance. As can be seen from True-Up
8 Rebuttal Schedule MRN-5, page 4 of 4, this is the first time Staff has made this type
9 of adjustment. Correctly, the Staff has not reduced the balance of the prepaid asset
10 from Case No. GR-2004-0209 by applying an expense ratio.

11
12 **Q. SHOULD THE VALUE OF THE PREPAID PENSION ASSET BE REDUCED**
13 **BY AN EXPENSE/CAPITALIZATION RATIO?**

14 A. No. That asset (or liability) should not be reduced by an expense/capitalization ratio.
15 That ratio is applied to expenses in the income statement to reflect that some payroll
16 and benefit costs relate to construction work and therefore should be capitalized.
17 That ratio should be applied to the amortization of the asset or liability, but not to the
18 asset or liability itself.

19
20 **RATE CASE EXPENSE**

21 **Q. WHAT POSITION DID OPC WITNESS ROBERTSON TAKE IN REGARD**
22 **TO RATE CASE EXPENSE?**

1 A. Mr. Robertson takes the position that all rate case costs, excluding legal
2 representation and outside consultant services, should be normalized over a three year
3 period.

4
5 **Q. DO YOU AGREE WITH MR. ROBERTSON'S POSITIONS?**

6 A. I agree with Mr. Robertson that the costs incurred should be normalized over a three
7 year period. I do not agree that all costs associated with legal representation and
8 outside consultants should be eliminated. My testimony in regard to this issue is
9 found in my Rebuttal Testimony in this case.

10

11 **Q. IS RATE CASE EXPENSE AN ITEM TO BE TRUED UP IN THIS CASE?**

12 A. Yes. The Commission has ordered a true-up in this case and has included rate case
13 expense as one of the items to be addressed by that true-up. Moreover, as stated
14 above, the Partial Stipulation and Agreement that has been filed in this case also
15 contemplates a true-up of rate case expense (to be updated through September 30,
16 2009, to include an estimate for the remainder of the case) and establishes that the
17 base amount of rate case expense from which to measure the true-up adjustment is
18 \$72,382.

19

20 **Q. WHAT IS YOUR POSITION AS TO RATE CASE EXPENSE?**

21 A. As part of the recommendation contained in my True-Up Direct Testimony, I
22 recommended total normalized rate case expense of \$293,958. Staff's

1 recommendation found in its True-Up Direct Accounting Schedules is \$293,352.

2 MGE is willing to accept Staff's rate case expense number.

3

4 **Q. DOES THIS CONCLUDE YOUR TRUE-UP REBUTTAL TESTIMONY?**

5 **A.** Yes.

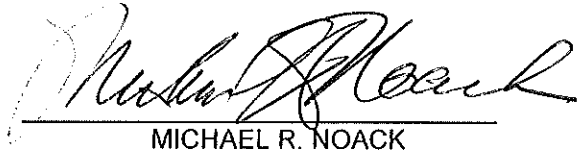
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's)	
Tariff Sheets Designed to Increase Rates)	Case No. GR-2009-0355
for Gas Service in the Company's Missouri)	
Service Area.)	

AFFIDAVIT OF MICHAEL R. NOACK

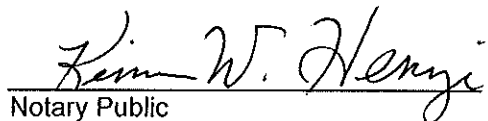
STATE OF MISSOURI)	
)	ss.
COUNTY OF JACKSON)	

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing True-up Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing True-up Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.



MICHAEL R. NOACK

Subscribed and sworn to before me this 2nd day of December, 2009.



Notary Public

My Commission Expires: 2-3-11

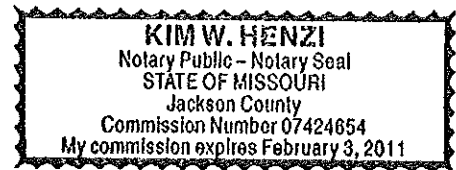


Exhibit No.	Accounting Schedules
Issues	MOUSE Accounting
Witness	MOUSE Staff
Sponsoring Party	MOUSE Staff
Case No.	CR-2001-292
Date prepared	April 19, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

MISSOURI GAS ENERGY
A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. CR-2001-292

STAFF ACCOUNTING SCHEDULES

Jefferson City, Missouri
April 2001

True-Up Rebuttal Schedule MRN-1
Page 2 of 6

Accounting Schedule: 5

Lucas

14:15 04/18/2001

Missouri Gas Energy

Case: OR-01-292

December 31, 2000

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
Intangible Plant					
1	301.000	Organization	\$ 15,600	0.0000	\$ 0
2	302.000	Franchises & Consents	51,046	0.0000	0
3	303.000	Corrosion Control Management System	1,117,800	0.0000	0
4	303.000	Landbase Digitized Mapping	1,393,602	0.0000	0
5	303.000	Premise Data Sys (PDS) Comp 12/96	985,196	0.0000	0
6	303.000	AMR Project - Programming	415,236	0.0000	0
7	303.000	FPI Main Segmentation	894,795	0.0000	0
8	303.000	Geographic Info Systems - GIS	1,006,719	0.0000	0
9	303.000	Licensing Office Pro2000	54,012	0.0000	0
10	303.000	Stoner Low Pressure/Intermediate	154,584	0.0000	0
11	303.000	BASIC - Customer Billing System	294,516	0.0000	0
12	303.000	TCS System	189,193	0.0000	0
13	303.000	GEO Tax Software	79,294	0.0000	0
14	375.200	Structures - Distribution	13,964	0.0000	0
15	390.200	Structures - Utility Offices	1,327,357	0.0000	0
16	303.000	Customer Service System (CSS)	3,786,000	0.0000	0
17		Total	\$ 11,778,914		\$ 0
Distribution Plant					
18	374.100	Land	\$ 240,448	0.0000	\$ 0
19	374.200	Land Rights	993,492	2.0900	20,764
20	375.100	Structures	6,007,068	1.6500	99,117
21	375.200	Leasehold Improvements	0	0.0000	0
22	376.000	Mains	278,969,931	1.4100	3,933,476
23	378.000	Mess. & Reg. Sta. Equip. - General	10,422,024	2.8600	298,070
24	379.000	Mess. & Reg. Sta. Equip - City Gate	3,074,013	2.1300	65,476
25	380.000	Services	248,048,065	2.2700	5,630,691
26	381.000	Meters	28,150,505	2.8600	805,104
27	382.000	Meter Installations	49,974,693	2.8600	1,429,276
28	383.000	House Regulators	9,540,154	2.4400	232,780
29	385.000	Electronic Gas Measuring	320,088	3.3300	10,659
30	387.000	Other Equipment	0	0.0000	0
31		Total	\$ 635,740,401		\$ 12,525,413

Accounting Schedule: 5-1

Exhibit No.	Staff Accounting
Issue	Schedules
Witness	MONSC Auditor
Spokane County	MONSC Staff
Case No.	GR2004-0209
Date Prepared	April 15, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

MISSOURI CASI ENERGY

CASE NO. GR 2004-0209

STAFF ACCOUNTING SCHEDULES

Jefferson City, Missouri
April 2004

True-Up Rebuttal Schedule MRN-1
Page 4 of 6

Accounting Schedule: 5

Preston

14:40 04/14/2004

Missouri Gas Energy, A Division of Southern Union Company

Case: GR-04-209

The Twelve Months Ending June 30, 2003 Updated 12/31/2003

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
Intangible Plant					
1	301.000	Organization	\$ 15,600	0.0000	\$ 0
2	302.000	Franchise & Consents	34,630	0.0000	0
3	303.000	Corrosion Control Management System	1,117,800	0.0000	0
4	303.000	Landbase Digitized Mapping	1,701,543	0.0000	0
5	303.000	Premise Data Sys (PDS)	985,196	0.0000	0
6	303.000	AMR Project -- Programming	469,443	0.0000	0
7	303.000	FPI Main Segmentation	894,795	0.0000	0
8	303.000	Geographic Info Systems -- GIS	1,006,719	0.0000	0
9	303.000	Licensing Office Pro2000	54,012	0.0000	0
10	303.000	Stoner Low Pressure/Intermediate	279,672	0.0000	0
11	303.000	BASIC -- Customer Billing System	294,516	0.0000	0
12	303.000	TCS System	189,193	0.0000	0
13	303.000	GEO Tax Software	79,294	0.0000	0
14	303.000	Customer Service System (CSS)	3,786,000	0.0000	0
15	303.000	Work Force Automation	3,785,364	0.0000	0
16	303.000	CSS Enhancement	8,360,981	0.0000	0
17	303.000	Mainframe Software/Enhancement	1,912,642	0.0000	0
18	303.000	Infinium Enhancements	6,774,073	0.0000	0
19	303.000	Witness Software	194,706	0.0000	0
20	303.000	MGE Website	485,944	0.0000	0
21		Total	\$ 32,422,123		\$ 0
Distribution Plant					
22	374.100	Land	\$ 240,448	0.0000	\$ 0
23	374.200	Land Rights	1,374,600	2.0900	28,729
24	375.100	Structures	6,065,473	1.6500	100,000
25	375.200	Leasehold Improvements	0	0.0000	0
26	376.000	Mains	310,143,777	2.2700	7,040,264
27	378.000	Meas. & Reg. Sta. Equip. - General	11,162,207	2.8600	319,239
28	379.000	Meas. & Reg. Sta. Equip - City Gate	3,211,758	2.1300	68,410
29	380.000	Services	270,090,903	2.2700	6,131,063
30	381.000	Meters	29,207,668	2.8600	835,339
31	382.000	Meter Installations	59,476,816	2.8600	1,701,037
32	383.000	House Regulators	10,508,164	2.4400	256,399
33	385.000	Electronic Gas Measuring	345,857	3.3300	11,517
34	387.000	Other Equipment	0	4.6000	0
35		Total	\$ 701,827,671		\$ 16,492,077

Accounting Schedule: S-1

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

STAFF ACCOUNTING SCHEDULES

MISSOURI GAS ENERGY

CASE NO. GR-2006-0422

Waterbury City, Missouri
October 2006

Accounting Schedule: 5
Mapoka
15.10 10/12/2006

Missouri Gas Energy
Case: GR-06-422A

Twelve Months Ending December 31, 2005 Updated 6/30/06

Depreciation Expense

Line No	Acct	Description	Adjusted Jurisdictional	Depreciation Rate	Depreciation Expense
		(A)	(B)	(C)	(D)
Distribution Plant					
24	374.000	Land	\$ 223,517	0.0000	\$ 0
25	374.200	Land Rights	1,665,693	2.0000	33,314
26	376.100	Structures	6,584,958	2.0000	111,699
27	376.200	Leasehold Improvements	0	0.0000	0
28	376.000	Mains	339,884,706	2.1100	7,171,567
29	378.000	Meas. & Reg. Sta. Equip - General	11,634,249	2.4400	283,876
30	379.000	Meas. & Reg. Sta. Equip - City Gate	3,058,251	2.4400	74,621
31	380.000	Services	294,362,067	3.0500	8,970,043
32	381.000	Meters	31,036,776	2.4600	763,505
33	382.000	Meters Installations	68,835,673	2.4400	1,679,590
34	383.000	House Regulators	11,658,045	2.2200	256,589
35	385.000	Electronic Gas Measuring	372,505	2.3300	8,679
36	387.000	Other Equipment	0	0.0000	0
37		Total	\$ 768,216,439		\$ 19,361,483
General Plant					
38	389.000	Land	\$ 773,080	0.0000	\$ 0
39	390.100	Structures	661,193	2.4400	16,133
40	390.200	Leasehold Improvements	1,546,597	0.0000	0
41	391.000	Office Furniture & Equipment	6,970,421	9.0900	633,611
42	392.000	Transportation Equipment	5,043,979	7.5000	378,298
43	393.000	Stores Equipment	530,350	3.1300	16,860
44	394.000	Tools, Shop & Garage Equipment	5,154,470	3.7000	190,715
45	395.000	Laboratory Equipment	0	0.0000	0
46	396.000	Power Operated Equipment	243,807	4.4100	10,752
47	397.100	Communication Equipment - AMR	36,324,861	5.0000	1,816,243
48	397.200	Communications Equipment	3,289,347	4.7600	156,573
49	398.000	Miscellaneous Equipment	431,485	3.8500	16,612
50		Total	\$ 60,978,390		\$ 3,236,787

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office in
Jefferson City on the 12th day of
August, 2009.

In the Matter of Missouri Gas Energy's)
Application for Waiver Concerning)
Commission Rule 4 CSR 240-3.235)
File No. GE-2010-0030

ORDER GRANTING WAIVER

Issue Date: August 12, 2009

Effective Date: August 22, 2009

Syllabus: This order grants Missouri Gas Energy a waiver from Commission Rule 4 CSR 240-3.235.

On July 16, 2009,¹ Southern Union Company d/b/a Missouri Gas Energy (hereafter "MGE") asked the Commission for a waiver from the above-cited rule. MGE states that Staff believes that the rule applies, and requires MGE to file a depreciation study in the context of MGE's pending rate case, File No. GR-2009-0355.

Staff replied to MGE's application on July 31. Staff stated that it believes the Commission has two options: either dismissing MGE's pending rate case for failure to comply with the above rule, or granting MGE the waiver it requested, subject to several conditions. The Office of the Public Counsel (hereafter "OPC") agreed with Staff. Staff recommended the latter of the two alternatives.

The Commission ordered MGE to state whether it accepted Staff's conditions. On August 7, MGE stated that it accepted those conditions.

¹ All calendar references are to 2009 unless otherwise noted.

Commission Rule 4 CSR 240-2.060(4) allows the Commission to grant waivers from Commission rules upon good cause shown. Upon review of MGE's verified application, the Commission's rules, Staff's recommendation, and OPC's concurrence in Staff's recommendation, the Commission finds that MGE has shown good cause in its request for a waiver.

THE COMMISSION ORDERS THAT:

1. The Commission grants Missouri Gas Energy, a division of Southern Union Company, a waiver from Commission Rule 4 CSR 240-3.235, subject to the agreed-upon conditions listed below.

2. Missouri Gas Energy, a division of Southern Union Company, shall retain the current depreciation rates, as listed in Schedule A to Staff's Recommendation, and as agreed upon in the Partial Nonunanimous Stipulation and Agreement in Commission case No. GR-2006-0422.

3. Missouri Gas Energy, a division of Southern Union Company, shall retain the rates described in paragraph 2 except that it will add a new depreciation rate for a transportation subaccount, which was not part of the last rate case of Missouri Gas Energy, a division of Southern Union Company, as shown in Schedule A.

4. Missouri Gas Energy, a division of Southern Union Company, shall submit a depreciation study no later than June 30, 2010, which conforms to, among other things, Commission Rule 4 CSR 240-3.275 and include actuarial analysis for all accounts inclusive, identifying those specific accounts that lack sufficient data to perform an actuarial analysis.

5. Missouri Gas Energy, a division of Southern Union Company, shall use the currently authorized Missouri depreciation rates for General Plant Accounts for the respective functional accounts of its Corporate Plant accounts.

6. Missouri Gas Energy, a division of Southern Union Company shall maintain mortality records in compliance with Commission Rule 4 CSR 240-40.040 Uniform System of Accounts – Gas Corporations and 4 CSR 240-3.275 Submission Requirements for Gas Utility Depreciation Studies.

7. Missouri Gas Energy, a division of Southern Union Company, shall account for all payments from other parties when it is required to remove, relocate, rearrange, reroute, or otherwise make changes in utility property, other than for purposes of rendering utility service, as credits to the depreciation reserve in compliance with Commission Rule 4 CSR 240-040 Uniform System of Accounts – Gas Corporations and appropriate identify amounts in their Annual Reports.

8. Missouri Gas Energy, a division of Southern Union Company, shall establish and adopt accounting policies or procedures of separation and allocation removal costs of plant that is being retired from costs to install new plant.

9. Missouri Gas Energy, a division of Southern Union Company, shall continue to keep a separate accounting of their amounts accrued for recovery of their initial investment in plant from the amounts accrued for the cost of removal, consistent with the Commission' Third Report and Order in Laclede Case No. GR-99-315.

10. This order shall become effective on August 22, 2009.
11. This case shall be closed on August 23, 2009.

BY THE COMMISSION

Steven C. Reed
Secretary

(S E A L)

Clayton, Chm., Davis, Jarrett,
and Gunn, CC., concur.

Pridgin, Senior Regulatory Law Judge

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of Missouri Gas Energy's)
Increasing Rates for Gas Service Provided)
To Customers in the Company's Missouri)
Service Area)

Case No. GR-2006-0422

PARTIAL NONUNANIMOUS STIPULATION AND AGREEMENT
CONCERNING DEPRECIATION

COME NOW Missouri Gas Energy, a division of Southern Union Company d/b/a (MGE or the Company) and the Staff of the Missouri Public Service Commission (Staff) and respectfully state to the Missouri Public Service Commission (Commission) that the undersigned signatories (signatories), have reached the following Partial Nonunanimous Stipulation and Agreement Concerning Depreciation (Partial Nonunanimous Stipulation and Agreement), and hereby submit the following to the Commission for approval:

1. The depreciation issues in this case shall be addressed as follows:
 - a. The average service life for Services (Account 380) shall be 40 years;
 - b. The net salvage value percentage for Services (Account 380) shall be negative 25% (which when coupled with the 40 year service life results in a depreciation rate of 3.13% for the Services account);
 - c. The Mains account (Account 376) will utilize an average service life of 44 years with a 5% net salvage value resulting in a depreciation rate of 2.16%;
 - d. The depreciation rate for tools, shop and garage equipment (Account 394) will remain at 5.30%;
 - e. MGE will track the amounts accrued for the life and salvage portion of annual depreciation expense separately;
 - f. The depreciation rate for Land Rights (Account 374.2) shall be 2.09%.

True-up Rebuttal Schedule MRN-4

Missouri Gas Energy
Prepaid Pension Assets
True-Up Period Ended September 30, 2009

Line No (a)	Description (b)	Case No. GR-2004-0209 (c)	Case No. GR-2006-0422 (d)	Case No. GR-2009-0355 (e)	Total Rate Base Item (f)
1	Balance True-Up Period Ending April 30, 2004	\$ 7,975,181			<u>\$ 7,975,181</u>
2	Amortization October 2004-March 2007 - 30 months	(2,848,279)			
3	Balance True-Up Period Ending October 31, 2006	5,126,902	4,016,500		<u>\$ 9,143,402</u>
4	Amortization April 2007-September 2009 - 30 months	(2,848,279)	(2,008,260)		
5	Balance True-Up Period Ending September 30, 2009	<u>\$ 2,278,623</u>	<u>\$ 2,008,240</u>	<u>\$ 14,143,364</u>	<u>\$ 18,430,227</u>

Exhibit No.	
Issue	True-Up, Direct
Witness	Accounting Schedule
Sponsoring Party	MOPSC Auditors
Case No.	MOPSC Staff
Date Prepared	GR-2004-0209
	July 19, 2004

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

TRUE-UP, DIRECT
STAFF ACCOUNTING SCHEDULES

Jefferson City, Missouri
July 2004

True-Up Rebuttal Schedule MRN-5
Page 2 of 4

Accounting Schedule: 2

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Missouri Gas Energy, A Division of Southern Union Company

Case: GR-04-2090

The Twelve Months Ending June 30, 2003 Updated 12/31/2003

Rate Base

Line	Description	Amount
(A)	(B)	
1	Total Plant in Service (Sch 3)	\$ 792,232,455
	Subtract from Total Plant	
2	Depreciation Reserve (Sch 6)	\$ 260,941,642

3	Net Plant in Service	\$ 531,290,813
	Add to Net Plant in Service	
4	Cash Working Capital (Sch 8)	\$ 2,779,908
5	Materials and Supplies	2,668,925
6	Prepayments	472,395
7	Gas Inventory	59,495,887
8	Alternative Minimum Tax Credit	12,782,852
9	Prepaid Pension Asset	7,975,181
	Subtract from Net Plant	
10	Federal Tax Offset 1.0200 %	\$ 87,601
11	State Tax Offset 1.0200 %	13,766
12	City Tax Offset 0.0000 %	0
13	Interest Expense Offset 12.0500 %	2,466,744
14	Customer Advances for Construction	10,759,375
15	Customer Deposits	3,643,210
16	Deferred Taxes - Other Timing Diff	3,718,520
17	Deferred Income Taxes 00-94-234	2,012,175
18	Deferred Income Taxes 00-97-301	512,573
19	Deferred Taxes SLRP GR-98-140	2,572,581
20	Deferred Income Taxes GR-2001-292	629,765
21	Deferred Taxes - Non SLRP Plant	67,508,530
22	Deferred Taxes - Allocated Plant	55,654
23	Deferred Taxes AAO 2000	200,643

24	Total Rate Base	\$ 523,284,824
		=====

Exhibit No.:
Issue: Accounting Schedules
Witness: MoPSC Auditors
Sponsoring Party: MoPSC Staff
Case No.: GR-2006-0422
Date Prepared: December 28, 2006

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

STAFF ACCOUNTING SCHEDULES

MISSOURI GAS ENERGY
TRUE-UP DIRECT

CASE NO. GR-2006-0422

*Jefferson City, Missouri
December 2006*

Accounting Schedule: 2
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Missouri Gas Energy
Case: QR-06-422T
Twelve Months Ending 12/31/05, True-up as of 10/11/06

Rate Base

Line Description	Amount
(A)	(B)
1 Total Plant in Service (Sch 3)	\$ 872,205,659
Subtract from Total Plant	
2 Depreciation Reserve (Sch 6)	\$ 303,702,891

3 Net Plant in Service	\$ 568,502,768
Add to Net Plant in Service	
4 Cash Working Capital (Sch 8)	\$ 5,090,846
5 Materials and Supplies	1,969,441
6 Prepayments	420,885
7 Alternative Minimum Tax Credit	12,172,523
8 Prepaid Pension Asset	9,143,402
9 Gas Inventory	102,414,757
10 Net Cost of Removal Reg. Asset	850,256
Subtract from Net Plant	
11 Federal Tax Offset 4.6918 %	\$ 545,304
12 State Tax Offset 4.6918 %	85,691
13 City Tax Offset 0.0000 %	0
14 Interest Expense Offset 12.2043 %	3,080,490
15 Customer Advances for Construction	14,986,145
16 Customer Deposits	4,135,771
17 Deferred Taxes - TOTAL SLRP	3,193,899
18 Deferred Taxes - Non SLRP Plant	81,776,457
19 Deferred Taxes - Allocated Plant	32,104
20 Deferred Taxes - Other Timing Differ	2,984,981

21 Total Rate Base	\$ 589,744,033
