BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariffs to Implement a General Rate Increase for Natural Gas Service	)))	Case No. GR-2004-0209

MISSOURI GAS ENERGY'S STATEMENT OF POSITIONS ON THE ISSUES

COMES NOW Missouri Gas Energy, a division of Southern Union Company d/b/a ("MGE") and submits to the Missouri Public Service Commission ("Commission") its Statement of Positions on the Issues:

1. **Capital Structure**

Issue Description: What is the appropriate Capital Structure (i.e., the relative proportions of long-term debt, short-term debt, preferred equity and common equity) to use in calculating MGE's cost of capital:

Value of Issue: Approximately $16.5 million

MGE Position: The appropriate capital structure to use in calculating MGE's cost of capital in this case is the stand-alone capital structure of Southern Union as of April 30, 2004, after eliminating the impact of its Panhandle Eastern subsidiary. This approach is a proper application of finance theory and consistent with the order of the Commission in Case No. GM-2003-0238 which approved the Panhandle Eastern acquisition and required the insulation of the MGE operations from Panhandle Eastern. For these reasons, rates for MGE should not be set using a Southern Union consolidated capital structure, including Panhandle Eastern. The appropriate capital structure for use in this case excluding Panhandle Eastern, consistent with generally accepted accounting principles, is as follows:

	Amount	Ratio	Cost	Weighted Cost
Long Term Debt	$948,833,985	47.39%	7.434%	3.52%
Preferred Equity	230,000,000	11.49	7.758	.89
Common Equity	823,453,958	41.13	12.00	4.94
TOTAL	$2,002,287,943	100.00%		
COST OF CAPITAL/ RATE OF RETURN				9.35%

MGE Witnesses: John C. Dunn, Direct testimony, pages 23-31
John C. Dunn, Rebuttal testimony, pages 7-27
John C. Dunn, Surrebuttal testimony, pages 5-11; 35-36
John J. Gillen, Rebuttal testimony, all
Roger A. Morin, Rebuttal testimony, pages 36-38

2. **Embedded Cost of Long-Term Debt**

Issue Description: What is the appropriate cost of long-term debt in calculating MGE's cost of capital?

Value of Issue: Has not yet been separately quantified

MGE Position: The appropriate cost of MGE's long-term debt as of April 30, 2004, the true-up date in this case, is 7.434%.

MGE Witnesses: John C. Dunn, Direct testimony, page 31
John C. Dunn, Rebuttal testimony, pages 23-26
John C. Dunn, Surrebuttal testimony, pages 3-5

3. **Return on Equity**

Issue Description: What is the appropriate return on equity in calculating MGE's cost of capital?

Value of Issue: Approximately $6.5 million

MGE Position: MGE should be authorized to earn at least 12% on its common equity. The 12% ROE is supported by an analysis of the returns of a group of gas distribution companies adjusted to the specific risk level of MGE as MGE compares to the risk level of the group. The Staff proposed ROE (8.52 - 9.52) and Public Counsel proposed ROE (9.01 - 9.34) are well outside the range of currently authorized ROE's for gas utilities in the United States and would be among the lowest, if not the lowest, ROE in the nation. The testimony and recommendations of Staff and Public Counsel witnesses are outside the mainstream of both financial theory and practice and are fundamentally unsupported and unreliable.

MGE Witnesses: John C. Dunn, Direct testimony, pages 31-63
John C. Dunn, Rebuttal testimony, pages 27-53
Roger A. Morin, Rebuttal testimony, all
John C. Dunn, Surrebuttal testimony, pages 17-30; 31-35; 36-37

4. **Cost of Preferred Stock**

Issue Description: What is the appropriate cost of MGE's preferred stock in calculating MGE's cost of capital?

Value of Issue: There does not appear to be a difference of opinion on this item.

MGE Position: The appropriate cost of preferred stock included in the capital structure is 7.758%.

MGE Witnesses: John C. Dunn, Direct testimony, page 23
John C. Dunn, Rebuttal testimony, page 17
John C. Dunn, Surrebuttal testimony, page 9

5. **Rate of Return Adder**

Issue Description: Should MGE be granted an additional 25 basis points of rate of return on account of its level of management efficiency?

Value of Issue: Approximately $2 million

MGE Position: Yes. Because the Commission has used findings of less than satisfactory management performance as justification for awarding a lower than expected compensation in the past fairness requires that when high management efficiency is shown, higher than expected compensation should be awarded. In this case, 25 basis points should be added to MGE's authorized rate of return in recognition of its high management efficiency.

MGE Witnesses: John C. Dunn, Direct testimony, page 61-63
James Oglesby, Direct testimony, pages 7-8 and 15-17
Michael R. Noack, Direct testimony, pages 24-25
Michael R. Noack, Rebuttal testimony, page 16
Michael R. Noack, Surrebuttal testimony, pages 12-17
James Oglesby, Surrebuttal testimony, pages 4-5

6. **Gas Inventory:**

Issue Description: What is the appropriate methodology to determine the injection price into storage per MMBtu to use in calculating MGE's cost of service?

Value of Issue: Price of $5.68 MMBtu used by the Staff and MGE in surrebuttal produces a rate base amount of $59,495,887.

MGE Position: MGE is responsible for purchasing very large quantities of natural gas to place into underground storage facilities so that it can reliably supply the needs of its customers in winter months by withdrawing amounts as needed. The price MGE pays for that gas represents capital that it outlays for the benefit of its customers. Rates set by the Commission should properly reflect what MGE has to pay to have the gas available and ready to supply the needs of its customers as they demand it.

MGE understands that this issue has been settled with the agreement of Staff and MGE to utilize a 12 month average price of $5.68 per MMBtu applied to the agreed upon level. No other party filed testimony in this issue. Therefore, MGE is not presenting a formal position statement at this time. If MGE's understanding proves to be incorrect, then its position is as reflected in the rebuttal testimony of Mr. Noack.

MGE Witnesses: Michael R. Noack, Direct testimony, page 10
Michael R. Noack, Rebuttal testimony pages 4-9
John Hayes, Rebuttal testimony, pages 1-6
Michael R. Noack, Surrebuttal testimony, page 10

7. **Alternative Minimum Tax Credit**

Issue Description: Should the Alternative Minimum Tax Credit be included in or excluded from Rate Base in calculating MGE's cost of service?

Value of Issue: Allocating the AMT in the manner proposed by MGE based on the AMT credit amount identified in MGE's testimony will increase Staff's rate base calculation by approximately $13 million in this case. The revenue requirement impact of this increase to rate base, all other things being equal, will depend upon the rate of return ordered by the Commission.

MGE Position: Missouri Gas Energy is a division of Southern Union Company and, as such, is a part of the Southern Union Company consolidated tax return group. This tax group incurs an alternative minimum tax ("AMT"). The AMT is a separate and distinct tax above the tax computed under the regular tax rules. It serves to impose a deferral of certain tax deductions - particularly accelerated depreciation.

Because accelerated tax depreciation enables a company to deduct depreciation expense at a faster rate for tax purposes than the Commission allows in the ratemaking process, an imbalance exists between the theoretical income taxes and the actual income taxes paid by the company. This imbalance, known as deferred income taxes, is generally reflected in the ratemaking process as an off set to rate base. Where the actual payment is less than the theoretical payment, the deferred income taxes are used to reduce rate base in order to provide the rate payers with a "return on" this amount.

The AMT complicates this process in that it defers some of the tax benefits that are assumed to be included in the deferred income tax calculation. Where such deferral of benefits has taken place, it should be reflected as an increase to rate base. Otherwise, the deferred tax amount will no longer be linked to actual tax impacts.

In this case, due to the application of the AMT, the Southern Union Company consolidated tax group has had approximately $26 million of tax benefits deferred. MGE believes that this deferral should be allocated to Southern Union's divisions based on those deductions for which benefits have been deferred. Staff's proposal to use a "stand-alone" AMT is flawed in that in that it would be based upon a hypothetical tax, not the allocation of a real tax. It is entirely possible that the actual AMT which must be paid will be quite different than the sum of the hypothetical, stand-alone AMT computations of the MGE operations. Additionally, because MGE is not a separate corporate entity, it could not file as a stand-alone company even if it so desired.

ISSUE STATUS: Staff's surrebuttal testimony (Charles R. Hyneman) indicates that Staff has decided for purposes of this case to accept MGE's method of allocating corporate consolidated AMT to MGE. Staff does not, however, yet agree with the AMT credit identified by MGE and suggests that the AMT credit amount may be determined in the true-up portion of this case.

MGE Witnesses: James I. Warren, Rebuttal testimony, all

8. **Customer Growth**

Issue Description: What is the appropriate methodology and measure of customer growth to be used in calculating the amount of revenue attributable to customer growth in calculating MGE's cost of service?

Value of Issue: $1,141,012

MGE Position: In order to update the test year margin for customer changes through the end of December 2003, MGE bases its growth adjustment on actual experience in the last two calendar years. Compared to the late 1990s, growth in recent years has been more moderate due, in part, to higher gas costs. MGE's approach captures this recent customer growth patter, while Staff's adjustment suggests substantially higher growth that cannot be expected to occur and, therefore, overstates MGE's margin.

MGE Witnesses: F. Jay Cummings, Direct testimony, page 6
F. Jay Cummings, Rebuttal testimony, pages 13-17
F. Jay Cummings, Surrebuttal testimony, pages 4-9

9. **Weather Normalization**

Issue Description: What is the appropriate normalized weather analysis to be used for determining revenues in calculating MGE's cost of service?

Value of Issue: Approximately $800,000

MGE Position: The weather normalization adjustment adjusts test year margin to reflect normal weather conditions. Regulatory commissions throughout the country have used various time periods to define normal weather, including 30-years, 20-years, 15-years, and 10-years. MGE examined the use of these periods based on historical weather experience in its service area and determined that the most recent 20-year period to define normal weather provides a reasonable basis for defining normal weather. This period is long enough so that it is not unduly affected by one or two occurrences of extremely warm or cold weather. It also avoids the influence of extreme weather that occurred many years ago but has not repeated itself with regularity in recent years. Staff's 1971-2000 weather normalization period suffers from such an influence, resulting in an abnormally cold measure of normal weather and, thus, an overstatement of test year margin.

MGE Witnesses: F. Jay Cummings, Direct testimony, pages 4-6
F. Jay Cummings, Rebuttal testimony, pages 6-13
F. Jay Cummings, Surrebuttal testimony, pages 10-13

10. Load Attrition

Issue Description: Should a Load Attrition Adjustment be made and, if so, in what amount in calculating MGE's cost of service?

Value of Issue: $1,629,718

MGE Position: During the past five fiscal years, MGE's residential customer usage has never reached the level used to set rates, resulting in MGE's inability to achieve its authorized rate of return in any of these years. An important contributor to the overstatement in usage is the fact that billing determinants have been based on historical test year data that does not consider declining usage trends. These trends, involving both declining base load and weather sensitive usage, have been recognized in industry and government publications, have been discussed at industry conferences, and have been taken into account by regulatory commissions in setting utility rates. MGE has developed detailed statistical analyses of its various customer classes in each of its geographic regions that quantifies, with a high level of confidence, the magnitude of load attrition. The resulting load attrition adjustment captures the impact of the declining trend through the end of September 2004. Unless the load adjustment is recognized in developing billing determinants used to set rates, MGE's historical inability to earn its authorized return will continue after this proceeding.

MGE Witnesses: F. Jay Cummings, Direct testimony, pages 8-15
F. Jay Cummings, Rebuttal testimony, pages 18-
F. Jay Cummings, Surrebuttal testimony, pages 13-25

11. **Capacity Release/Off System Sales**

Issue Description: What, if any, is the appropriate level of capacity release/off-system sales revenues to be used in calculating MGE's cost of service? As an alternative to including capacity release/off-system sales revenues in the calculation of MGE's revenue requirement, should the PGA-based revenue sharing mechanism proposed by MGE be adopted?

Value of Issue: Approximately $1.3 million according to the Staff adjustment; approximately $1.6 million according to the Public Counsel adjustment

MGE Position: These particular transactions are made possible by the existence of interstate transportation and storage contracts and gas commodity contracts, the costs of which are recovered through the Purchased Gas Adjustment ("PGA") rate rather than through distribution rates. They can be unpredictable as to the revenues produced in that capacity release and off-system sales transactions are largely driven by market conditions rather than actions of MGE. Physical changes in gas pipelines scheduled for early in calendar year 2005 are expected to change the market conditions such that it will become more difficult to release capacity out of the Rocky Mountain supply basin, therefore MGE's past experience is not a reliable or reasonable indicator for the future. It is therefore more appropriate for ratemaking purposes to credit revenues MGE actually receives from capacity releases and off-system sales back to its customers by using the existing mechanism. That process allows for much greater accuracy in tracking revenues actually produced as opposed to attempting to estimate what level of revenues might be produced. MGE's proposal for a revenue sharing approach to this crediting mechanism will provide a meaningful incentive for MGE to pursue such revenue opportunities for the benefit of customers and shareholders and accurately apportion revenues between customers and shareholders based on actual experience.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 27-29
John Hayes, Rebuttal testimony, pages 7-12

12. **Pension Expense**

Issue Description: What is the appropriate method of accounting for any MGE actual pension expenses in excess of the ERISA minimum amount of $0 that is recommended for use in calculating MGE's cost of service?

Value of Issue: This issue does not affect revenue requirement in this proceeding.

MGE Position: In order to protect against the possibility of earnings degradation due to pension funding requirements caused by matters (e.g., the financial performance of pension assets) largely beyond the Company's control, MGE requests that the Commission include in its order in this case language similar to language adopted by the Commission in other LDC rate proceedings (such as Aquila, Inc. in Case No. GR-2004-0072) as follows:

> MGE's rates include a $0 annual provision for jurisdiction pension cost. Company is authorized to reflect pension cost equal to the ERISA minimum and record the difference between the ERISA minimum and the annual provision for pension cost, including a provision for carrying costs associated with any such difference, as a regulatory asset or liability. This regulatory asset and/or liability is intended to track the difference between the provision for the ERISA minimum contribution included in cost of service in this case, and the Company's actual ERISA minimum contributions made after the effective date of rates established in this case. This regulatory asset and/or liability will be included in rate base in the Company's next rate case and amortized

over a five (5) year period. The Company is authorized to make such additional entries as are appropriate under FAS71 to reflect that rates do not include FAS87 in cost of service. Company is authorized to adjust its calculation of the MGE ERISA minimum, and the allocations to MGE pension related assets and costs, to reflect the exclusion of Southern Union Company's total company actual contributions that are in excess of the ERISA minimum.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 10-12

13. **Bad Debts: Expense Level**

Issue Description: What is the appropriate level of bad debt write-offs to be used in calculating MGE's cost of service?

Value of Issue: Approximately $2.3 million

MGE Position: Sometimes customers do not pay their bills for utility service. MGE, as with all utilities, attempts to collect these amounts through various means, but ultimately some amounts are simply not collectible. In utility ratemaking, the goal is to place a certain amount into the calculation of the cost of service to reflect the fact that revenues actually collected will be less than what is actually billed due to unpaid bills. That amount should reflect what level of uncollectibles is reasonably expected to be experienced by MGE on an annual basis starting when the new rates go into effect. In this situation, a three year simple average of actually incurred write-offs (which is $8,424,470) is more representative of current relevant conditions (such as employment levels and natural gas costs) than the five year average used by the Staff.

MGE Witnesses: Michael R. Noack, Direct testimony, page 15
Michael R. Noack, Rebuttal testimony, pages 17-23

14. **Bad Debts: Denial of Service Rule**

Issue Description: What, if any, is the appropriate level of bad debts resulting from the Commission's new Denial of Service Rule to be used in calculating MGE's cost of service?

Value of Issue: $750,000

MGE Position: The Commission has enacted a new rule (effective November 1, 2004) setting forth the bases on which utilities, including MGE, may deny service to an applicant. Because this new Commission rule will eliminate a tool MGE has used previously to collect revenue and cause a more costly process of debt collection to be used instead, the Commission should include $750,000 in the cost of service to reflect this change in regulatory policy.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 21-22
Michael R. Noack, Surrebuttal testimony, pages 10-11

15. **Environmental Response Fund**

Issue Description: Should the environmental response fund proposed by MGE be adopted and what, if any, level of environmental costs should be used in calculating MGE's cost of service?

Value of Issue: $750,000

MGE Position: Yes. MGE has spent $9.3 million on manufactured gas plant ("MGP") activities since February 1994 and is certain to continue to incur MGP related costs in the future. The environmental respond fund proposed by MGE is essentially a tracking mechanism designed to ensure that customers and shareholders are neither benefitted or disadvantaged by a mismatch between the level of MGP costs included in rates and the level of MGP expenses actually incurred. The environmental response fund features appropriate incentives for MGE to minimize MGP costs sought to be recovered from customers and should be implemented to mitigate the possibility of rate shock and promote the interests of intergenerational equity.

MGE Witnesses: Michael R. Noack, Direct testimony, pages 22-23
Alan Fish, Rebuttal testimony, all
Michael R. Noack, Surrebuttal testimony, pages 2-9

16. **Lobbying/Legislative costs**

Issue Description: What is the proper ratemaking treatment of lobbying/legislative activities in calculating MGE's cost of service?

Value of Issue: Approximately $95,000

MGE Position: The internal payroll costs at issue involving legislative responsibilities and activities of the three MGE employees for whom the Staff has recommended a disallowance should be included in cost of service because awareness of and involvement in the legislative process is a fundamental responsibility of operating a business affected with the public interest such as a natural gas local distribution company.

MGE Witnesses: James Oglesby, Direct testimony, pages 14-15
James Oglesby, Rebuttal testimony, pages 4-5
Michael R. Noack, Rebuttal testimony, pages 13-15

17. **Depreciation Rates**

Issue Description: What is the appropriate average service life of MGE's plant to set the depreciation rates to be used in calculating MGE's cost of service?

Value of Issue: Approximately $4.2 million

MGE Position: MGE recommends that the Commission adopt the average service lives developed by the Black & Veatch Depreciation Study (2000) which is attached to the prepared rebuttal testimony of MGE witness Thomas J. Sullivan. (Specifically, the recommended average service lives are contained in Column E of Schedule TJS-4.) These recommended service lives reflect the results of a simulated plant balance analysis, regional industry averages, reserve analysis, consideration of MGE-specific circumstances such as the Safety Line Replacement Program and Mr. Sullivan's experience with similar utility property.

MGE Witnesses: Thomas J. Sullivan, Rebuttal testimony, all

18. **Cost of Removal/Salvage**

Issue Description: What is the appropriate method for accounting for actual cost of removal/salvage expense in excess of the $771,039 recommended for use in calculating MGE's cost of service?

MGE Position: MGE recommends that the Commission authorize it to book, for its gas operations, actual levels of annual net cost of removal as an expense up to the agreed amount of $771,039. For any actual amount of annual net cost of removal that exceeds this amount, MGE recommends that it be authorized to record the difference in its accumulated depreciation reserve. This methodology will represent full recovery of all of MGE's annual net cost of removal expenditures.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 25-26

19. **Incentive Compensation**

Issue Description: What, if any, is the appropriate level of MGE's incentive compensation expense to be used in calculating MGE's cost of service? What, if any, is the appropriate level of Southern Unions' allocated incentive compensation expense to be used in calculating MGE's cost of service?

Value of Issue: Approximately $210,000

MGE Position: Incentive compensation paid at the divisional level and at the corporate level that is awarded on the basis of achieving financial and customer service objectives should be included in cost of service. MGE achieving solid financial and customer service performance is significantly driven by ratepayers interests and benefits utility operations as a whole.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 15-17
Deborah Hays, Rebuttal testimony, all

20. **Corporate Expenses: New York Office**

Issue Description: What, if any, is the appropriate level of cost associated with Southern Union's New York office to be used in calculating MGE's cost of service?

Value of Issue: Approximately $650,000 (including issue number 21)

MGE Position: All of the costs related to Southern Union's rental of office space in New York and the costs of two administrative support personnel based in that office, all of which is directly related to the service and leadership provided by that office, should be allowed in cost of service.

MGE Witnesses: Michael J. McLaughlin, Rebuttal testimony, pages 8-9

21. **Corporate Expenses: Lindemann/Brennan Salaries**

Issue Description: What is the appropriate amount of salaries for Southern Union's Chief Executive Officer/Chairman of the Board and Vice Chairman of the Board to be used in calculating MGE's cost of service?

Value of Issue: Approximately $650,000 (including issue number 20)

MGE Position: Messrs. Lindemann and Brennan lead Southern Union's executive management team. Because of their contributions as managers who help promote fiscal discipline throughout Southern Union, which fiscal discipline benefits both customers and shareholders, their salaries should be allowed in cost of service.

MGE Witnesses: Michael J. McLaughlin, Rebuttal testimony, pages 4-8

22. **Late Payment Charges**

Issue Description: Should MGE's late payment charge be reduced from 1.5% per month to 0.5% per month?

Value of Issue: Not applicable

MGE Position: No. Late payment charges have been a routine part of utility tariffs for many years. They have been designed partly to allow recovery of the costs that late payers in particular cause a company (collection costs) and partly as an incentive to customers to make timely payments since making timely payments costs less than the alternative. MGE's existing one-time charge of 1.5 percent has been approved by the Commission and therefore is presumed reasonable. There is no valid reason to significantly reduce the incentive reflected in the presently approved charge. To substantially reduce this incentive would only increase MGE's collection and uncollectible expenses, yet no corresponding proposal to reflect that increased expense in rates has been made.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 23-25

23. **Class Revenue Responsibility**

Issue Description: What is the appropriate level of revenue responsibility for each customer class to be used in calculating revenue?

Value of Issue: Not applicable

MGE Position: MGE recommends that class revenue increases be based on its class cost of service study results, tempered by not decreasing the large general service revenue reduction indicated in the study. In the alternative, MGE suggests that it would be reasonable for the Commission to assign the revenue increase to customer classes based on their current revenue responsibilities.

MGE Witnesses: F. Jay Cummings, Direct testimony, pages 20-26
F. Jay Cummings, Rebuttal testimony, pages 21-28
F. Jay Cummings, Surrebuttal testimony, pages 36-37

24. **Fixed Monthly Rate Elements**

Issue Description: What is the appropriate level and structure for fixed monthly rate elements including the residential customer charge?

Value of Issue: Not applicable

MGE Position: MGE proposes increases in the customer charge for each customer class. The proposed customer charges are consistent with but still well below the customer-related costs reflected in MGE's cost of service study. Increases in customer charges for the weather-sensitive customer classes benefit customers through smaller and less volatile winter bills and benefit MGE through reduced earnings volatility due to abnormal weather. For those large volume service customers who are eligible for the multi-meter discount under current tariff provisions, MGE proposes to maintain the current customer charge on those meters subject to the discount.

MGE Witnesses: F. Jay Cummings, Direct testimony pages 28-29, 32-33, 36-38
F. Jay Cummings, Rebuttal testimony, pages 38-40
F. Jay Cummings, Surrebuttal testimony, pages 38-39, 42-44

25. **Volumetric Rate Elements**

Issue Description: What is the appropriate level and structure of volumetric rate elements?

Value of Issue: Not applicable

MGE Position: MGE proposes a weather-mitigation rate design for the residential and small general service classes. This rate design, which mirrors the rate design that the Commission approved for Laclede Gas Company, seeks to address significant and real problems facing MGE. These significant and real problems include the extreme volatility of the Company's revenue stream due to the current rate design's heavy reliance on volumetric rates, the historical inability of the Company to reach the Residential usage levels that have been used to design rates, and the historical inability of the Company to achieve its authorized rate of return. In order to provide the Commission with an alternative to this rate design that seeks to address these significant and real problems, MGE provides an alternative recommendation to couple the current basic design with the implementation of a Weather Normalization Clause on an experimental basis. No other party, other than MGE, has provided rate design recommendations to address the real and significant problems facing MGE.

For the remaining customer classes, i.e. large general service and large volume service, MGE proposes that current volumetric rates be adjusted, as necessary after accounting for the additional revenue from the higher customer charges, to recover the revenue change assigned to each class. MGE has withdrawn its original recommendation to change the months included in the winter and summer seasons for these two classes.

MGE Witnesses: F. Jay Cummings, Direct testimony, pages 27-28
F. Jay Cummings, Rebuttal testimony, pages 28-40
F. Jay Cummings, Surrebuttal testimony, pages 38-52

26. **Miscellaneous Service Charges**

Issue Description: Should the Commission change the current tariffed charges for customer connects, standard customer reconnects, and transfer fees?

Value of Issue: MGE's proposal produces approximately $1.1 million in service charges that would otherwise need to be recovered from monthly charges for gas service.

MGE Position: MGE and the Staff agree on the level of connect, reconnect and transfer fees supported by MGE's cost study. The Office of Public Counsel's recommendation not to increase connect and reconnect fees cost causation principles and increases the customers must pay for monthly gas service.

MGE Witnesses: F. Jay Cummings, Direct testimony, pages 19-20
F. Jay Cummings, Rebuttal testimony, pages 18-21
F. Jay Cummings, Surrebuttal testimony, pages 26-30

27. **Weatherization**

Issue Description: What is the appropriate level of funding for the low-income weatherization program and how should such funding be allocated among the geographic regions of MGE's service territory?

Value of Issue: MGE proposes to increase funding by $160,000

MGE Position: MGE believes low-income weatherization funding should be increased by $160,000 to be allocated according to the existing proportions (e.g., of the $340,000 in current funding, $250,000 is administered by the City of Kansas City and $90,000 is administered throughout the balance of MGE's service territory).

MGE Witnesses: Michael R. Noack, Direct testimony, page 22
Michael R. Noack, Rebuttal testimony, pages 29-31

28. **Experimental Low Income Rate**

Issue Description: What, if any, modifications should be made to the existing Experimental Low Income Rate Program?

MGE Position: None. Because the experimental low income rate ("ELIR") cannot be conclusively described as either a success or a failure, and because sufficient funding is presently in hand, it should be continued until July of 2006 to permit continued evaluation. The changes proposed by the Staff and the changes and expansion proposed by the Public Counsel are too costly and will likely complicate evaluation of ELIR results.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 29-32

29. **Experimental Energy Efficiency Programs including PAYS**

Issue Description: Should the Pay As You Save (PAYS) program proposed by the Office of Public Counsel be adopted?

MGE Position: No. The PAYS program proposed by Public Counsel is not sufficiently well defined to adopt in this case. Moreover, until the Commission adopts a policy regarding such energy efficiency programs, as may occur through the activities in Case No. GW-2004-0452, it is premature to adopt the PAYS program proposed by Public Counsel.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, pages 29-32

30. **Merger and Acquisition Recordkeeping**

Issue Description: Should the Commission adopt Staff's proposal to order Southern Union to keep time reports related to merger and acquisition activities?

Value of Issue:

MGE Position: No. The Staff has included a proposal to require MGE, by Commission order, to keep merger and acquisition activity time reports. Merger and acquisition activities are not unique to Southern Union or MGE. If the Commission wishes utilities under its jurisdiction to keep such reports, however, it should use the rulemaking process (as it did with the Denial of Service rule) to impose the requirements equally on all similarly situated companies.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, page 33

31. **Gas Purchasing/Reliability Plan Reporting**

Issue Description: Should the Commission order MGE to submit by October 1, 2004, a Natural Gs Supply Plan (updated annually)? Should the Commission order MGE to submit by October 1, 2004, a Natural Gas Supply Reliability Analysis (updated every two to three years)?

MGE Position: No. The Staff has included a proposal to require MGE, by Commission order, to submit these plans/reports. A natural gas supply plan and a reliability analysis are not unique to MGE, and MGE has supplied information of this nature to the Staff, OPC and the Commission in the past in various formats. If the Commission wishes gas companies under its jurisdiction to file such reports, however, it should use the rulemaking process (as it did with the Denial of Service rule) to impose the requirements equally on all similarly situated companies. Further, the date proposed by Staff for such reports in this case is problematic, since if it were ordered in this case, MGE could not produce them in a timely fashion since the operation of law date is October 2, 2004.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, page 33

32. **Legislative/Lobbying Time Reporting**

Issue Description: Should the Commission adopt Staff's proposal to order MGE to keep detailed time reporting on the amount of time employees spend on lobbying and lobbying related activities?

MGE Position: No. The Staff has included a proposal to require MGE, by Commission order, to keep legislative activity time reports. Legislative activities are not unique to MGE. If the Commission wishes utilities under its jurisdiction to keep such reports, however, it should use the rulemaking process (as it did with the Denial of Service rule) to impose the requirements equally on all similarly situated companies.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, page 33

33. **Response Time to Commission-referred Customer Complaints/Inquiries**

Issue Description: Should the Commission order MGE to respond to Customer Complaints/Inquiries within three business days?

MGE Position: No. The Staff has included a proposal to require MGE, by Commission order, to respond to Commission referred complaints/inquiries within specified time periods. Commission referred complaints/inquiries are not unique to MGE. If the Commission wishes utilities under its jurisdiction to respond to Commission referred complaints/inquiries within specified time periods, however, it should use the rulemaking process (as it did with the Denial of Service rule) to impose the requirements equally on all similarly situated companies.

MGE Witnesses: Michael R. Noack, Rebuttal testimony, page 33

34. **GM-2003-0238 Cost and Allocation Study Issue**

Issue Description: Should the Commission order MGE to complete and file a study concerning the impacts of the Panhandle Eastern Pipeline Company acquisition on Southern Union's administrative and general expenses and cost allocation methodology?

MGE Position: No. MGE has fully complied with the requirement to perform and provide the study called for in paragraph III.3.G. of the Stipulation and Agreement approved by the Commission in Case No. GM-2003-0238.

MGE Witnesses: Michael J. McLaughlin, Rebuttal testimony, pages 9-11

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was hand-delivered, mailed by U.S. mail or electronically transmitted on this 15TH day of June, 2004, to all parties of record.