

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

In the Matter of the Application of Missouri Gas Energy, a division of Laclede Gas Company, for Approval to Change its Infrastructure System Replacement Surcharge.) File No. GO-2014-0_____)))

**VERIFIED APPLICATION AND PETITION OF MGE TO CHANGE ITS
INFRASTRUCTURE SYSTEM REPLACEMENT SURCHARGE**

COMES NOW Missouri Gas Energy ("MGE"), a division of Laclede Gas Company, pursuant to Sections 393.1009, 393.1012 and 393.1015 RSMo; 4 CSR 240-3.265; and, 4 CSR 240-2.060, 2.080, and 3.265 of the Rules of the Missouri Public Service Commission ("Commission"), and for its Verified Application and Petition to Change Its Infrastructure System Replacement Surcharge, respectfully states as follows to the Commission:

SUMMARY

1. Sections 393.1009-1015 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 Laclede Gas Company, which is duly incorporated under the laws of the State of Missouri and conducts business in its MGE service territory under the fictitious name of Missouri Gas Energy. Laclede's principal office is located at 720 Olive Street, St. Louis, Missouri 63101. A Certificate of Good Standing evidencing Laclede's standing to do business in Missouri was submitted in Case No. GM-2013-0254 and is incorporated herein by reference for all purposes. The information in such Certificate is current and correct. A copy of a certificate from the Missouri Secretary of State that Missouri Gas Energy is a registered fictitious name of Laclede Gas Company is attached hereto as **Appendix H**.

3. Other than cases that have been docketed at the Commission, neither MGE nor Laclede Gas Company has a pending action or final unsatisfied judgment against it from any state or federal agency or court within the past three (3) years that involve customer service or rates. Laclede has no annual report or assessment fees that are overdue.

4. The MGE division of Laclede Gas Company provides natural gas service to approximately 500,000 customers in the western 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.

5. The MGE division of Laclede Gas Company is subject to the jurisdiction of the Missouri Public Service Commission as provided by law.

6. Communications in regard to this Application should be addressed to the undersigned counsel and:

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Director, Pricing and Regulatory Affairs
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THE ISRS REQUEST

7. 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.

8. The summary of the new infrastructure system replacements for which MGE seeks ISRS recognition are set forth on page 1 of **Appendix A**, with the details set forth on **Appendices B, C and D**, which are attached hereto and made a part hereof for all purposes. The infrastructure system replacements listed in the appendices are eligible gas utility plant projects pursuant to Commission Rule 4 CSR 240-3.265(1)(G)(1) – (3); 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.

9. The infrastructure system replacements listed in the appendices 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 (GR-2009-0355); and, d) replaced and/or extended the useful life of existing infrastructure. The details in **Appendices B, C and D** further describe 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).

10. MGE's current ISRS was approved effective May 15, 2013, as the result of the Commission's Order in Case No. GO-2013-0391.

11. Since MGE's last rate case, the Company has continued to incur costs related to ISRS-eligible infrastructure system replacements for the period from January 2013 through September 2013. Accordingly, MGE submits this Application and Petition to change its ISRS to reflect these additional costs.

RATE SCHEDULES AND SUPPORTING DOCUMENTATION

12. Attached hereto is the rate schedule, with supporting documents in **Appendices A, B, C and D**, 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.

13. 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 1.62308.

14. 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-2009-0355) and reflects an overall rate of return of 7.722%, which is the overall rate of return ordered by the Commission in MGE's most recently completed general rate proceeding.

15. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a cost rate for long-term debt of 6.258%, short-term debt of 5.920% 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.

16. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a cost of common equity of 10%, which was ordered by the Commission in MGE's most recently completed general rate proceeding.

17. In determining the appropriate pre-tax ISRS revenues, the proposed rate schedule utilizes a current composite property tax rate of 0.801233%, which is the composite rate used by the Commission Staff in MGE's most recent general rate proceeding, for the aforelisted eligible infrastructure system replacements.

18. 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.

19. In determining the appropriate monthly ISRS charge herein, 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 calculated above, by the customer numbers reported by MGE in the annual report it filed with the Commission on or about April 15, 2013 and amended on June 20, 2013, 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 fixed charge for each customer class as approved in Case No. GR-2009-0355. The ISRS rate elements by customer class calculated on this basis yield appropriate pre-tax revenues as shown on page 6 of **Appendix A**.

ADDITIONAL INFORMATION

20. MGE will provide periodic informational brochures, by way of bill insert, or bill message 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. Attached as **Appendix E** is an example of the notice MGE proposes to use as both the initial notice and annual notice per Commission Rule 4 CSR 240-3.265(9)(A) and (B), to be updated when the

appropriate rates are approved. The information referenced in Commission Rule 4 CSR 240-3.265(9)(C) is set forth in **Appendix F**, attached hereto.

21. **Appendix G** (pages 1 and 2) shows the information MGE maintains on its website to inform customers of the ISRS as referenced in Commission rule 4 CSR 240-3.265(22)(A).

22. **Appendix G** (page 3) 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).

CONTINGENT MOTION FOR WAIVER

23. The Commission has previously found that this type of action, "in the Commission's experience, is not likely to be a contested case." *Order Waiving Notice of Intent and Directing Filing*, Case No. GO-2011-0269 (May 2, 2011). However, to the extent that a 60-day Notice of Filing is deemed to be required under 4 CSR 240-4.020(2), Applicant respectfully requests that such notice requirement be waived for good cause. 4 CSR 240-4.020(2)(B). The ISRS process is authorized by Sections 393.1009, 393.1012 and 393.1015, RSMo, and Commission Rule 4 CSR 240-3.265. Its goal is to provide eligible gas corporations with the ability to recover, on a timely basis, certain infrastructure replacement costs outside of a formal rate case filing via the ISRS. The purpose of these statutes would not be served by the imposition of a 60 day waiting period and, therefore, good cause exists for a waiver.

INCLUSION OF PRIOR ISRS FILING

24. As noted above, MGE's current ISRS rate schedule was approved effective May 15, 2013 as the result of the Commission's Order in Case No. GO-2013-0391, an order which has been appealed by the Office of Public Counsel. In that appeal, the Public Counsel alleges, *inter alia*, that the Commission did not have the authority to grant the ISRS based on the timing of the Commission's approval, and on the fact that MGE did not have a rate case pending at that time. The appeal is fully briefed and the matter is set for oral argument in the Western District Court of Appeals on December 10th, 2013. While MGE maintains that the Commission's order approving the ISRS schedule was both lawful and appropriate, it incorporates that ISRS filing herein as attached in Appendix I. MGE respectfully requests that the Commission approve a cumulative ISRS charge that includes the infrastructure replacement investments set forth in this filing as well as the infrastructure replacement investments previously included in MGE's ISRS request in GO-2013-0391. MGE's position is, in part, that Commission approval of a cumulative ISRS charge that includes these prior amounts would address Public Counsel's misplaced timing concerns that form the basis for its appeal, in that MGE currently has a rate case on file in GR-2014-0007. Combining the ISRS request from both filings would result in an increase in ISRS rates by \$3,318,512.

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 April 5, 2014, authorizing:

- (a) MGE to recover the costs of eligible infrastructure system replacements (as summarized on **Appendix A, Page 1 and Appendix I**) per a change to MGE's ISRS. This ISRS recovery 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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Certificate of Service

I hereby certify that two, true and correct copies of the above and foregoing document was sent by electronic mail on this 6th day of December, 2013, to:

General Counsel
Missouri Public Service Commission
Governor Office Building
P.O. Box 360
Jefferson City, MO 65102
gencounsel@psc.mo.gov

The Office of the Public Counsel
Governor Office Building, 6th Floor
P.O. Box 7800
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Todd J. Jacobs

VERIFICATION

STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

I, Michael R. Noack, of lawful age, state that I am the Senior Director of Pricing and Regulatory Affairs for MGE; 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 MGE.



Michael R. Noack

Subscribed and sworn before me this 6th day of December, 2013.

Linda L. Lane



LINDA L LANE
My Commission Expires
May 19, 2014
Clay County
Commission #10418000

My Commission expires: May 19, 2014