

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GA-2009-0264, Missouri Gas Utility, Inc.

FROM: Thomas M. Imhoff, Energy Department - Tariffs/Rate Design
Kim Bolin, Auditing Department
Arthur Rice, Engineering and Management Services
Derick Miles, Procurement Analysis Department

/s/ Thomas M. Imhoff 03/31/09
Energy Department/Date

/s/ Robert S. Berlin 03/31/09
General Counsel's Office/Date

SUBJECT: Staff Recommendation On Missouri Gas Utility, Inc.'s Application for a Certificate of Convenience and Necessity

DATE: March 31, 2009

On January 14, 2009, Missouri Gas Utility, Inc. (MGU or Company) filed an APPLICATION (Application) with the Missouri Public Service Commission (Commission). The Application requests that the Commission grant MGU a transmission line certificate and an area certificate of convenience and necessity (CCN) authorizing it to construct, install, own, operate, control, manage and maintain a natural gas distribution system to provide gas service in the west central Missouri communities of Green Ridge, Cole Camp and Warsaw and surrounding incorporated areas, all of which are located in either Pettis or Benton County.

On January 21, 2009, the Commission issued an ORDER DIRECTING NOTICE AND SETTING DATE FOR SUBMISSION OF INTERVENTION REQUESTS (Order), which allowed any interveners to file by February 9, 2009.

On February 10, 2009, the Commission issued an Order Directing Filing, which stated that the Commission Staff shall file either its recommendation or a status report including a date Staff expected to file its recommendation. The Commission noted that no applications for intervention had been filed.

The Staff issued a number of Data Requests (DRs) addressing the feasibility study and reviewed the application, feasibility studies, materials submitted by MGU, and DR responses. MGU personnel conducted a survey of households/customers in the proposed service territory and included the results of the survey in its feasibility study. The feasibility study includes the number of estimated households/customers that would potentially be served by MGU. MGU's survey designated potential customers by rate class (General Service (GS), Commercial Service (CS) or Large Volume Service (LVS)) and the likelihood of conversion. The customer conversion was based on an 80% conversion of full-time propane using customers. This study identified approximately 45% of those customers to be residential. MGU did not consider any homes that use electricity for heat in its study.

MGU's proposed rates for its requested service area are slightly higher overall when compared to the rates that are currently charged to MGU's existing customers in the Gallatin and Hamilton service area. Based on its review of MGU's proposed rates, Staff believes the proposed rates are appropriate for the requested service area. Staff recommends the Commission order that MGU maintain separate records for both certificated areas and that MGU perform for each MGU tariffed area separate class cost-of-service studies and revenue requirements when MGU files its next rate case.

The proposed rates are currently below the price of propane. The Commission should be aware that MGU will face embedded entrenched competition from propane dealers whose prices and business practices are not regulated by the Commission. However, unlike other past similar CCN requests, Staff notes that no propane companies or the propane trade association have intervened in this case. MGU has twenty-year franchise agreements with Green Ridge, Cole Camp and Warsaw. MGU has requested a transmission supply line certificate (Line) that will serve these communities. This Line will begin as a tap from Southern Star Central Pipeline (Southern Star) transmission line and will go through an area currently served by Empire District Gas Company (EDG). MGU will not serve any customers or have any taps in the EDG area off this Line. The total length of the Line will be approximately 2.25 miles. Staff's recommendation for the approval of MGU's application for new service territory is apart and separate from any recommendation that may be made by the Commission's Financial Analysis Staff in MGU's pending financing case GF-2009-0331. The Financial Analysis Staff is currently gathering information related to MGU's proposed financing as part of its continued discovery in that case.

In Staff's opinion, the Feasibility Study filed by MGU to provide natural gas in the requested service area shows MGU's proposal to be economically feasible. Staff is also of the opinion that the proposal contains risks, and the Feasibility Study alone is not enough to make the project feasible. In Staff's opinion, the proven ability of MGU to attract and secure acceptable financing is the best indicator for success of the project.

Staff from the Procurement Analysis Department reviewed the peak day estimations and reserve margins for the newly acquired capacity on the Southern Star pipeline. MGU provided an estimation of peak day and reserve margins for a period of five years that considered growth on the newly acquired system. MGU re-evaluated and revised its model and peak day estimate requirements, allowing a reserve margin in year 4 and the flexibility to serve any potential industrial customers for economic development in the Warsaw area.

The Staff has reviewed this Application and, for the following reasons, is of the opinion that granting this Application would be in the public interest if certain conditions are attached:

1. MGU has the operational capability to provide gas service in its requested service area;
2. The requested CCN area for gas service would not jeopardize natural gas service to the Company's current existing customers; and
3. No interveners have objected to this certificate request.

Staff recommends the Commission's order include the following conditions:

1. MGU's shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers;
2. MGU must keep separate books and records for the proposed service area;
3. MGU must file separate class cost-of-service studies and revenue requirements for this new service area in its next rate case;
4. MGU must use the depreciation rates contained in Appendix B for the service territory requested in this application;
5. MGU will submit to a rate review for this certified area 24 months after the effective date of the order in this case; and
6. MGU can obtain the capacity on the pipeline to fully serve this area for all of its customer classes, including capacity to serve any future growth.

Therefore, Staff recommends that MGU be granted a certificate to serve the requested areas in Green Ridge, Cole Camp and Warsaw Missouri and the transmission line certificate to supply the gas to the requested service area. Staff also recommends the Company file revised tariff sheets reflecting this proposed CCN in this case within thirty (30) days of the Commission's Order approving this Application.

The Staff has verified that this company has filed its annual report and is not delinquent on any assessment.

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


In the Matter of the Application of)
Missouri Gas Utility, Inc., for a)
Certificate of Convenience and)
Necessity Authorizing it to Construct,)
Install, Own, Operate, Control, Manage)
and Maintain a Natural Gas)
Transmission Line and a Distribution)
System to Provide Gas Service in Pettis)
and Benton Counties, Missouri, as a)
New Certificated Area.)

Case No. GA-2009-0264

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Thomas M. Imhoff, of lawful age, on oath states: that he participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was provided to him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true to the best of his knowledge and belief.


Thomas M. Imhoff

Subscribed and sworn to before me this 31st day of March, 2009.



SUSAN L. SUNDERMEYER
My Commission Expires
September 21, 2016
Callaway County
Commission #065942086


Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri Gas)
Utility, Inc., for a Certificate of Convenience and)
Necessity Authorizing it to Construct, Install, Own,)
Operate, Control, Manage and Maintain a Natural)
Gas Transmission Line and a Distribution System to)
Provide Gas Service in Pettis and Benton Counties,)
Missouri, as a New Certificated Area)

Case No. GA-2009-0264

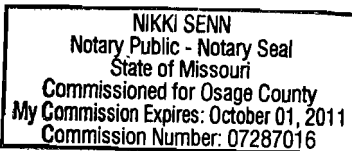
AFFIDAVIT OF KIMBERLY K. BOLIN

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Kimberly K. Bolin, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by her; that she has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of her knowledge and belief.

Kimberly K. Bolin
Kimberly K. Bolin

Subscribed and sworn to before me this 31st day of March, 2009.



Nikki Senn
Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

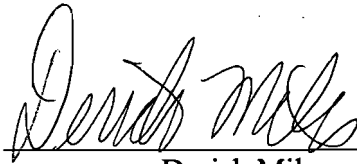
In the Matter of the Application of Missouri Gas)
Utility, Inc., for a Certificate of Convenience and)
Necessity Authorizing it to Construct, Install, Own,)
Operate, Control, Manage and Maintain a Natural)
Gas Transmission Line and a Distribution System to)
Provide Gas Service in Pettis and Benton Counties,)
Missouri, as a New Certificated Area)

Case No. GA-2009-0264

AFFIDAVIT OF DERICK MILES

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Derick Miles, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Derick Miles

Subscribed and sworn to before me this 31st day of March, 2009.

NIKKI SENN Notary Public - Notary Seal State of Missouri Commissioned for Osage County My Commission Expires: October 01, 2011 Commission Number: 07287016



Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

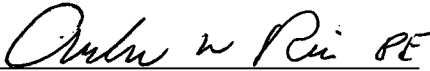
In the Matter of the Application of Missouri Gas)
Utility, Inc., for a Certificate of Convenience and)
Necessity Authorizing it to Construct, Install, Own,)
Operate, Control, Manage and Maintain a Natural)
Gas Transmission Line and a Distribution System to)
Provide Gas Service in Pettis and Benton Counties,)
Missouri, as a New Certificated Area)

Case No. GA-2009-0264

AFFIDAVIT OF ARTHUR W. RICE, PE

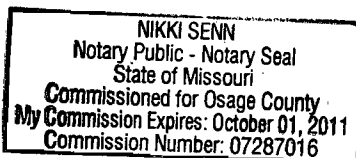
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Arthur W. Rice, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Recommendation in memorandum form, to be presented in the above case; that the information in the Staff Recommendation was developed by him; that he has knowledge of the matters set forth in such Staff Recommendation; and that such matters are true and correct to the best of his knowledge and belief.



Arthur W. Rice

Subscribed and sworn to before me this 31st day of March, 2009.





Notary Public

Missouri Gas Utility, Incorporated (Gas)
CASE NO. GA-2009-0264
Warsaw Project

ACCOUNT NUMBER	ACCOUNT	Depreciation Rates (%)
	<u>TRANSMISSION PLANT</u>	
366.0	Structures and Improvements	2.22
367.0	Mains-Metallic	1.67
369.0	Measuring and Regulating Station Eq.	2.27
	<u>DISTRIBUTION PLANT</u>	
375.0	Structures and Improvements	2.22
376.1	Mains-Metallic	2.22
376.2	Mains-Nonmetallic	2.22
378.0	Measuring and Regulating Station Eq.-General	2.27
379.0	Measuring and Regulating Station Eq.-City Gate	2.27
380.0	Services-Metallic	2.22
380.1	Services-Nonmetallic	2.22
381.0	Meters	2.50
383.0	House Regulators	2.44
382.0	Meter Installations	2.50
385.0	Measuring and Regulating Station Eq.-Industrial	2.27
386.0	Other Property on Customers Premises	2.22
387.0	Other Eq.	0.00
	<u>GENERAL PLANT</u>	
390.0	Structures and Improvements	2.22
391.1	Office Furniture and Eq.	4.55
391.3	Computer Hardware	14.29
391.4	Computer Software	14.29
391.5	Computer Systems Development	14.29
392.0	Transportation Eq.	8.33
393.0	Stores Eq.	3.70
394.0	Tools, Shop and Garage Eq.	3.70
395.0	Laboratory Eq.	3.45
396.0	Power Operated Eq.	6.25
397.0	Communication Eq.	3.45
398.0	Miscellaneous Eq.	4.35