

Exhibit No:	
Issue:	Revenue Deficiency; Tariff Changes
Witness:	Michael R. Noack
Type of Exhibit:	Direct Testimony
Sponsoring Party:	Laclede Gas Company; Missouri Gas Energy
Case No.:	GR-2017-0215; GR-2017-0216
Date Prepared:	April 11, 2017

**LACLEDE GAS COMPANY
MISSOURI GAS ENERGY**

**GR-2017-0215
GR-2017-0216**

DIRECT TESTIMONY

OF

MICHAEL R. NOACK

April 2017

TABLE OF CONTENTS

PURPOSE OF TESTIMONY..... 2

ADMINISTRATIVE MATTERS 4

MGE REVENUE DEFICIENCY..... 6

LAC REVENUE DEFICIENCY 16

SCHOOL TRANSPORTATION PROGRAM..... 23

SCHEDULES

MRN-D2

MRN-D3

DIRECT TESTIMONY OF MICHAEL R. NOACK

1
2
3
4
5
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7
8
9
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Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Michael R. Noack and my business address is 7500 E 35th Terrace, Kansas City, Missouri 64129.

Q. BY WHOM ARE YOU EMPLOYED?

A. I am employed by Missouri Gas Energy (“MGE”), an operating unit of Laclede Gas Company (“Laclede”), as Director of Pricing and Regulatory Affairs.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.

A. I received a Bachelor of Science in Business Administration with a major in Accounting from the University of Missouri in Columbia. Upon graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a Certified Public Accounting Firm in Kansas City, Missouri. I spent approximately 20 years working with TKWK or firms that were formed from former TKWK employees or partners. I was involved during that time in public utility consulting and financial accounting, concentrating primarily on rate cases for electric and gas utilities and financial audits of independent telephone companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of Kansas City which was an energy consulting company specializing in billing analysis and tariff selection for large commercial and industrial customers. In July of 2000, I started my employment with MGE.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

1 A. Yes. I have testified or submitted pre-filed testimony in numerous Commission
2 proceedings, including MGE's last five rate cases, Case Nos. GR-2001-292, GR-
3 2004-0209, GR-2006-0422, GR-2009-0355 and finally GR-2014-0007.

4 **PURPOSE OF TESTIMONY**Error! Bookmark not defined.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THESE**
6 **PROCEEDINGS?**

7 A. The purpose of my testimony is to support the revenue requirements of Laclede's
8 operating units in Eastern Missouri ("LAC") and Western Missouri ("MGE"). As
9 filed, MGE is requesting a gross revenue increase of \$50.4 million. However, since
10 MGE is already collecting \$13.4 in ISRS charges, the net incremental increase is
11 \$37.0 million. LAC is requesting a gross revenue increase of \$58.1 million. Since
12 LAC is already collecting \$29.5 million in ISRS charges, its net incremental
13 increase is \$28.5 million. Following the conclusion of LAC's and MGE's currently
14 pending ISRS filings, the requested incremental revenues will decrease by the
15 amount of the ISRS approved in those cases. The revenue deficiencies are
16 supported by Schedules MRN-D1 for MGE and MRN-D2 for LAC, which consists
17 of sections A through H, and which are attached to this testimony. I will be
18 responsible for sponsoring most of the adjustments made to the test year ending
19 December 31, 2016, and updated for known and measurable changes that support
20 the revenue deficiency.

21 **Q. HOW DO THE PROPOSED INCREMENTAL RATE INCREASES**
22 **COMPARE TO PREVIOUS REQUESTS FOR RATE RELIEF BY MGE**
23 **AND LAC?**

1 A. The amounts being requested by MGE and LAC to cover all of their non-ISRS
2 costs are significantly lower than the comparable amounts that were sought in prior
3 cases. In fact, on a combined basis, they are significantly less than the non-ISRS
4 rate increases sought by MGE and LAC in their 2009/2010 rate cases. In 2009,
5 LAC and MGE each independently filed their first rate cases in three years. They
6 sought a combined total of \$81 million in non-ISRS revenue. From the time those
7 rate cases concluded in 2010 until the present, Laclede and MGE have not increased
8 their non-ISRS rates. In the current cases, LAC and MGE are requesting a
9 combined non-ISRS increase of \$65.5 million. To put these facts in perspective,
10 LAC and MGE have not only operated for seven years without a non-ISRS
11 increase, but after those seven years, they are now requesting a combined non-ISRS
12 increase that is less than the amount they requested in 2009, even though the 2009
13 request covered a historical period (3 years), which is less than half of the
14 corresponding period (7 years) covered by the current cases.

15 **Q. HOW HAS THIS BEEN ACHIEVED?**

16 A. Much of this achievement is a result of the growth strategy that has been
17 successfully pursued by Spire and Laclede over the past several years – a strategy
18 that has allowed us to keep our promise to the Commission to “bend down” the
19 inclining cost curve that historically led LAC and MGE to seek and obtain
20 significantly larger and more frequent rate increases in the past.

21 **Q. WHEN DID LACLEDE’S OPERATING UNITS LAST FILE FOR**
22 **GENERAL RATE INCREASES?**

1 A. MGE’s last general rate case was filed on September 16, 2013, more than three
2 and a half years ago, while LAC’s last general rate case was filed on December
3 21, 2012, or well over four years ago.

4 **Q. WHY DO MGE AND LAC NEED TO FILE FOR A GENERAL RATE**
5 **INCREASE?**

6 A. LAC must file a rate case within three years of April 12, 2014, when its
7 Infrastructure System Replacement Surcharge (“ISRS”) rates first became
8 effective after the last general rate case, in order to continue to collect the ISRS
9 rates approved by the Commission. In addition to the ISRS requirement to file a
10 general rate case within three years of implementing new ISRS rates, the
11 Stipulation and Agreement approved by the Commission in GM-2013-0254
12 requires that Laclede file simultaneous rate cases for its LAC and MGE operating
13 units for the first rate case filed after October 1, 2015.

14 **ADMINISTRATIVE MATTERS**

15 **Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT**
16 **SECTIONS OF SCHEDULES MRN-D1 AND MRN-D2 ATTACHED TO**
17 **YOUR DIRECT TESTIMONY?**

18 A. Schedule MRN-D1 contains the Accounting Schedules supporting the requested
19 rate increase for MGE while Schedule MRN-D2 contains the Accounting
20 Schedules supporting the rate increase request for LAC. Both MRN-D1 and
21 MRN-D2 consist of the same component schedules for each Company.

22 Schedule A summarizes the revenue deficiency at December 31, 2016.

23 Schedule B summarizes and supports the various rate base items and offsets.

24 Schedule C summarizes and supports plant in service.

1 Schedule D summarizes and supports reserve for depreciation.
2 Schedule E summarizes and supports the various working capital components and
3 other regulatory assets.
4 Schedule F summarizes the capital structure and rate of return.
5 Schedule H summarizes and supports the operating income statement &
6 adjustments.

7 **Q. WHAT IS THE TEST YEAR USED TO DEVELOP THE REVENUE**
8 **REQUIREMENT FOR LAC AND MGE?**

9 A. The test year is the twelve months ending December 31, 2016, adjusted for known
10 and measurable changes.

11 **Q. WILL LAC AND MGE BE REQUESTING THAT THE TEST YEAR BE**
12 **UPDATED AND/OR “TRUED-UP”?**

13 A. Yes. We are requesting the test year be updated or trued-up through September
14 30, 2017. This is consistent with the process used in all five of the MGE rate
15 cases I have supervised since 2000. We believe this approach will provide a
16 relatively current time period of actual experience on which to base rates, while at
17 the same time providing an opportunity for the Commission Staff and other
18 parties to audit this actual experience.

19 **Q. WHAT “TRUE-UP” DATE ARE LAC AND MGE REQUESTING?**

20 A. At this time, we would consider September 30, 2017 as the true-up date where we
21 would update all major components of the cases including capital structure,
22 components of rate base and the major revenue and expense items and
23 adjustments. We believe this update through September 30, 2017 should be
24 sufficient to establish a reasonable and representative cost of service. I should

1 note, however, that as this proceeding unfolds there may be a need to revisit this
2 issue depending on the positions taken by other parties. There also may be a
3 need to consider certain additional changes in accounting practices, orders or
4 procedures or to incorporate tariff modifications to reflect those positions taken
5 by other parties.

6 **MGE REVENUE DEFICIENCY**

7 **Q. MR. NOACK, WOULD YOU PLEASE EXPLAIN SCHEDULE MRN-D1**
8 **ATTACHED TO YOUR TESTIMONY?**

9 A. Yes. Schedule MRN-D1 details MGE's revenue deficiency for the test year
10 ended December 31, 2016. The schedule details rate base, rate of return, required
11 net operating income, adjusted net operating income, an estimate of the
12 September 30, 2017 update on revenue requirement and, finally, the revenue
13 deficiency. The total revenue deficiency shown on Schedule A is \$50.4 million.
14 The increase in revenue will be offset partially by the elimination and
15 corresponding inclusion in base rates of \$13.4 million of ISRS revenues that are
16 currently being collected by the Company resulting in a net revenue increase of
17 \$37.0 million.

18 Schedule A-1 is the summary of net operating income per books for the test year
19 ending December 31, 2016, a summary of the adjustments made to operations,
20 and finally, the net operating income, as adjusted.

21 Schedule A-2 is a summary income tax computation, both per book and as
22 adjusted for the twelve months ending December 31, 2016. An explanation of the
23 effective tax rate used to compute as adjusted income taxes is contained in the
24 direct testimony of Laclede witness Kuper.

1 **Q. MR. NOACK, WOULD YOU PLEASE DESCRIBE SCHEDULE B, THE**
2 **CALCULATION OF RATE BASE?**

3 A. Schedule B summarizes the requested rate base of MGE at December 31, 2016.
4 Total rate base of \$792.5 million consists of net plant of \$836.1 million, Working
5 Capital components of \$72.6 million, and the balance of Accumulated Deferred
6 Income Taxes and other rate base offsets of \$116.2 million.

7 **Q. WHO WILL BE SPONSORING TESTIMONY EXPLAINING THE**
8 **VARIOUS COMPONENTS OF RATE BASE?**

9 A. Laclede witness Keathley will offer testimony on MGE's offsets to rate base of
10 Customer Deposits, Advances for Construction, Deferred Taxes and MGE's rate
11 base offset from Docket No. GM-2013-0254. He will also offer testimony on
12 Plant in Service, Reserve for Depreciation, Regulatory Assets and Working
13 Capital components of Materials and Supplies, Prepayments and Gas Storage
14 Inventory. Company witness Lyons of ScottMadden will offer testimony on Cash
15 Working Capital and Laclede witness Buck will offer testimony on Postretirement
16 Assets included in rate base.

17 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME**
18 **THAT YOU ARE SPONSORING ON SCHEDULE H.**

19 A. Schedule H, consisting of 20 sub-schedules, details all of the adjustments made to
20 cost of service. The first two pages of Schedule H detail the operating income
21 statement summarized by the uniform system of accounts. It shows the test year
22 balances per books at December 31, 2016, a summary of the pro forma
23 adjustments to each account and finally the adjusted balance at December 31,

1 2016. The next four pages detail each adjustment individually by FERC account
2 number.

3 Schedule H-1 is the detail of test year margin revenue after backing out purchased
4 gas adjustment revenue, gross receipts taxes billed, unbilled revenue, off-system
5 sales and finally ISRS revenues collected during the test year, while Schedule H-2
6 summarizes the revenue adjustments proposed by MGE.

7 **Q. ARE YOU SPONSORING THE REVENUE ADJUSTMENTS DETAILED**
8 **ON SCHEDULE H-2?**

9 A. I am sponsoring the “Commercial-Domestic Use” adjustment while Laclede
10 witness Feldman will provide direct testimony on the other revenue adjustments.

11 **Q. WHAT IS THE “COMMERCIAL-DOMESTIC USE” ADJUSTMENT?**

12 A. The commercial-domestic use adjustment reduces revenue by \$2.1 million to
13 reflect a rate change for landlords who are currently being billed as a small
14 general service (SGS) customer when their property is in their name and not in the
15 tenant’s name. Pursuant to its tariff, MGE’s residential rate currently is “not
16 available to locations served through a master meter or to a location other than the
17 customer’s domicile.” That means an MGE customer who has rental property is
18 not eligible for the residential rate when the property is unoccupied and in their
19 name. MGE has coded the account to be domestic use for sales tax purposes, but
20 the customer is being charged under a commercial rate. MGE is proposing to
21 change the availability of the residential rate to include all domestic use customers
22 (including landlords / customers with rental property).

23 **Q. APPROXIMATELY HOW MANY CUSTOMERS WILL BE AFFECTED**
24 **BY THIS CHANGE?**

1 A. During the test year ended December 31, 2016, 223,060 bills were repriced from
2 SGS to RS service or a monthly average of 18,588 customers.

3 **Q. WHY IS MGE PROPOSING THIS CHANGE?**

4 A. Landlords and owners of rental property have expressed frustration for several
5 years about the change back and forth between the residential and small general
6 service rates. The Office of Public Counsel has also questioned the reasons for
7 reclassifying these customers based on whose name the service was in. MGE is
8 currently the only gas company in the state to make this distinction between
9 landlord and tenant. With this change, MGE's definition of residential customer
10 and MGE's practices in this area will be the same as LAC's.

11 **Q. WHAT IS BEING PROPOSED BY MGE TO EFFECT THIS CHANGE?**

12 A. MGE is proposing new language in the Residential Gas Service (RS) tariff sheet
13 and the same definition of 'Residential Customer' in the General Terms and
14 Conditions that is currently included in LAC's General Terms and Conditions.
15 Laclede witness Weitzel is sponsoring those tariff changes.

16 **Q. WHAT IS THE NEW DEFINITION OF A RESIDENTIAL CUSTOMER
17 BEING PROPOSED IN THIS CASE?**

18 A. A residential customer will be defined as follows:

19 **A customer who purchases gas service for domestic use, including gas service**
20 **provided to a single family dwelling or to a single meter serving a multiple family**
21 **dwelling consisting of four (4) or fewer single family dwelling units, regardless of**
22 **whether the customer is the ultimate consumer of the gas service. In addition, a**
23 **customer who purchases gas service for such a dwelling while the dwelling is vacant**
24 **shall be classified as a Residential Customer. This definition is intended to satisfy**
25 **the provisions of Section 144.030 (23) RSMo, by establishing and maintaining a**
26 **system and rate classification of "residential" to cause sales to residential customers**
27 **under any of the Company's rate schedules to be considered as sales made for**
28 **domestic use and thus exempt from sales tax.**
29

1 As mentioned earlier, with this definition MGE will be treating residential
2 customers similar to all other gas companies in the state, including the LAC
3 operating unit.

4 **Q. PLEASE EXPLAIN SCHEDULE H-3.**

5 A. Schedule H-3, also sponsored by Laclede witness Feldman, removes purchased
6 gas costs from the operating income statement along with costs associated with
7 off-system sales, unbilled gas costs and the gross receipts tax expense. These
8 expenses should not be included in the determination of the cost of service.
9 Purchased gas costs are recovered through the PGA mechanism and not base
10 rates, while gross receipts taxes are simply pass through taxes.

11 **Q. PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.**

12 A. The payroll adjustment is detailed on Schedule H-4 while the associated
13 adjustments to the Company's match to employee 401K contributions and payroll
14 taxes are detailed on Schedules H-5 and H-6. The first part of the adjustment
15 annualizes payroll based on the actual February 17, 2017 employee levels and pay
16 rates, and includes adjustments for overtime worked based on actual overtime
17 hours and proforma pay rates, and payouts under the Annual Incentive Program
18 (AIP) based on proforma wage levels. The second part of the adjustment
19 recognizes that an additional 92 employees are expected to be hired across the
20 entire company by September 30, 2017 with 61 being hired for LAC, 17 for
21 MGE, and the final 14 being shared service employees whose time will be
22 allocated between the different units of the Company. (37 new employees began
23 with the Company on March 27, 2017.)

1 **Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE**
2 **BENEFITS?**

3 A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses
4 representing employee benefits paid on behalf of employees. Included in these
5 benefits are FAS 87 pension expense and FAS 106 post retirement benefit costs,
6 which will be discussed in the direct testimony of Laclede witness Buck. The
7 other employee benefits being adjusted are the payroll related insurance costs for
8 life insurance, accidental death & dismemberment (AD&D) insurance and long-
9 term disability (LTD) insurance along with the Company match to employee
10 401K contributions. These adjustments to insurance costs and the 401K match
11 are all related to the payroll expense adjustment on Schedule H-4.

12 **Q. PLEASE EXPLAIN TAB H-6, PR-TAXES.**

13 A. The adjustment on Schedule H-6 recognizes the increase to payroll taxes
14 associated with the payroll adjustment detailed on Schedule H-4.

15 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE**
16 **AND INJURIES AND DAMAGES?**

17 A. Schedule H-7 normalizes the property insurance and injuries and damages by
18 taking a three-year average of worker compensation claims paid and
19 auto[mobile?] and general liability claims paid and adding to that average the
20 insurance premiums increases expected to be paid on behalf of MGE.

21 **Q. WHY HAVE YOU MADE AN ADJUSTMENT TO TEST YEAR**
22 **INSURANCE COSTS?**

1 A. The adjustment has been made to reflect a normalized level of claims paid and to
2 reflect the known and measurable changes in premium costs for MGE. Those
3 costs have been included as a test year expense on Schedule H-7.

4 **Q. PLEASE EXPLAIN SCHEDULE H-8.**

5 A. Schedule H-8 reflects the proposed adjustment to include an ongoing level of
6 energy efficiency costs in MGE's cost of service. As of December 31, 2016 MGE
7 has accumulated \$14.0 million of energy efficiency costs for expenditures in a
8 regulatory asset. That balance goes all the way back to March 2010 when the
9 Commission ordered MGE to work toward developing an energy efficiency
10 program funded by up to 0.5% of gross revenues with the program expenses
11 accounted for in a regulatory asset. Pursuant to the stipulation and agreement in
12 MGE last rate case, GR-2014-0007, MGE amortized only a modest amount
13 annually of \$0.2 million, while at the same time continuing to incur expenditures
14 under its energy efficiency program. Based on the current gross revenues of
15 MGE the targeted amount of energy efficiency funds to be spent on programs for
16 the benefit of customers is approximately \$2.5 million per year. Given the size
17 and consistent amount of EEC expenditures, some amount of current expenditures
18 should be included in the cost of service, along with a ten-year amortization of the
19 current regulatory asset. Such amounts are reflected on Schedule H-8.

20 **Q. WHAT IS THE AMOUNT OF CURRENT ENERGY EFFICIENCY**
21 **FUNDING YOU ARE PROPOSING TO INCLUDE IN RATES?**

22 A. Based on the current gross revenues of MGE, the targeted amount of energy
23 efficiency funds to be spent on programs for the benefit of customers would be
24 approximately \$2.5 million per year. As shown on H-8, however, we have

1 included a lower normalized amount of \$1.8 million to better reflect actual
2 experience. This amount represents a 3-year average of spending for years 2014,
3 2015 and 2016.

4 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**
5 **EXPENSE?**

6 A. Yes. I have increased bad debt expense or uncollectible expense by \$3.1 million
7 on Schedule H-9. Laclede witness Krick will explain this adjustment in his direct
8 testimony.

9 **Q. PLEASE EXPLAIN THE ADJUSTMENTS ON SCHEDULE H-10.**

10 A. The adjustments on Schedule H-10 amortizes expected rate case expense over a 3-
11 year period, amortizes the cost of the current depreciation study prepared for this
12 case over a five-year period, and recognizes the current level of the Commission
13 assessment for the period July 1, 2016 through June 30, 2017.

14 **Q. WHAT IS THE PURPOSE OF SCHEDULE H-11?**

15 A. Schedule H-11 computes interest on the average thirteen-month balance of
16 residential customer deposits at an interest rate of 4.75%, or 1% over the prime
17 rate, as of December 31, 2016, consistent with MGE's tariff Sheet No. R-14.

18 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION**
19 **EXPENSE?**

20 A. Yes. Schedule H-12 details the adjustment to depreciation expense based upon
21 the level of plant investment at December 31, 2016.

22 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**
23 **EXPENSE.**

1 A. Schedule H-13 details the pro forma amortization expense. The adjustment
2 consists of three parts. The first part annualizes the amortization of all leasehold
3 improvements, miscellaneous intangible plant and unamortized MGE software
4 assets at December 31, 2016. This also includes amortization of the Enterprise
5 Software which has been allocated to MGE. The second part of the adjustment
6 computes amortization of Deferred Energy Efficiency Program costs and Low
7 Income Program costs based upon a requested ten-year amortization period. The
8 energy efficiency program was described above and called for an ongoing level of
9 expense be included in rates. The Low Income Programs are a “Red-Tag” Repair
10 Program and a one-time Low-Income Energy Affordability Program agreed to in
11 the Stipulation and Agreement in GR-2014-0007. The third part of the
12 adjustment amortizes one-half of the one-time non-capital transition cost balance
13 over a five-year period in accordance with the Stipulation and Agreement in GM-
14 2013-0254.

15 **Q. DO THE ANNUAL COST REDUCTIONS RELATED TO THE**
16 **SYNERGIES REALIZED BY LACLEDE EXCEED THE AMOUNT OF**
17 **TRANSITION COSTS FOR WHICH AMORTIZATION IS REQUESTED?**

18 A. Yes, cost reductions related to the synergies greatly exceed the transition costs for
19 which the amortization is being requested.

20 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

21 A. Schedule H-14 reflects an increase to property taxes to recognize the increased
22 plant at December 31, 2016 and increased assessments expected in the counties in
23 MGE’s service territory. Laclede witness Kuper will explain the adjustment in
24 his direct testimony. There is a second adjustment made to property taxes to

1 allocate to MGE a portion of the property taxes related to the Enterprise Software
2 being allocated to MGE.

3 **Q. PLEASE EXPLAIN SCHEDULE H-15.**

4 A. Schedule H-15 is a reconciliation of the regulatory asset and the ongoing expense
5 associated with Ad Valorem taxes assessed on storage gas in Kansas. As part of
6 the Stipulation and Agreement in GR-2014-0007, MGE agreed to include in rates
7 \$1.6 million associated with the amortization of the regulatory asset related to the
8 past assessment of Kansas Ad Valorem taxes and \$1.4 million to reflect an
9 ongoing level of expense. MGE also agreed to track the ongoing level of expense
10 and record to the regulatory asset the difference between the \$1,400,000 included
11 in rates and what is actually paid each year. As of December 31, 2016 the balance
12 of the regulatory asset related to Kansas Ad Valorem taxes is \$3.6 million.

13 **Q. PLEASE EXPLAIN SCHEDULE H-16.**

14 A. Schedule H-16 adjusts expenses for known increases in the contractor cost to
15 locate lines in the MGE service territory. The majority of the adjustment is
16 related to the cost to locate fiber which increased from \$13.40 to \$32.60 per locate
17 in May 2016.

18 **Q. PLEASE EXPLAIN SCHEDULE H-17, OTHER EXPENSE**
19 **ADJUSTMENTS.**

20 A. Schedule H-17 reflects a decrease to account 912 to eliminate from the cost of
21 service the cost of sports tickets included in operating expenses.

22 **Q. PLEASE EXPLAIN SCHEDULE H-18.**

23 A. Currently, MGE has included in rates \$0.75 million for low-income
24 weatherization programs administered by the Community Action Agency of

1 Greater Kansas City, and several other social agencies located in the other parts of
2 MGE's service territories. MGE would recommend that this level of funding
3 continue along with the \$0.75 million of funding in rates for MGE energy
4 efficiency and education initiatives.

5 **LAC REVENUE DEFICIENCY**

6 **Q. MR. NOACK, WOULD YOU PLEASE EXPLAIN SCHEDULE MRN-D2**
7 **ATTACHED TO YOUR TESTIMONY?**

8 A. Yes. Schedule MRN-D2 details the LAC revenue deficiency for the test year
9 ended December 31, 2016. The schedule details rate base, rate of return, required
10 net operating income, adjusted net operating income and finally, the revenue
11 deficiency. The net revenue deficiency shown on Schedule A is \$58.1 million.
12 The increase in revenue will be offset partially by the elimination and
13 corresponding inclusion in base rates of \$29.5 million of ISRS revenues that are
14 currently being collected by LAC, resulting in a net revenue increase of \$28.5
15 million.

16 Schedule A-1 is the summary of net operating income per books for the test year
17 ending December 31, 2016, a summary of the adjustments made to operations,
18 and finally, the net operating income, as adjusted.

19 Schedule A-2 is a summary income tax computation both per books and as
20 adjusted for the twelve months ending December 31, 2016. An explanation of the
21 effective tax rate used to compute as adjusted income taxes is contained in the
22 direct testimony of Laclede witness Kuper.

23 **Q. MR. NOACK, WOULD YOU PLEASE DESCRIBE SCHEDULE B, THE**
24 **CALCULATION OF RATE BASE?**

1 A. Schedule B summarizes the requested rate base of LAC at December 31, 2016.
2 Total rate base of \$1,231.7 million consists of net plant of \$1,169.3 million,
3 Working Capital components of \$274.6 million, and the balance of Accumulated
4 Deferred Income Taxes and other rate base offsets of \$212.2 million.

5 **Q. WHO WILL BE SPONSORING TESTIMONY EXPLAINING THE**
6 **VARIOUS COMPONENTS OF RATE BASE?**

7 A. Laclede witness Keathley will offer testimony on the LAC offsets to rate base of
8 Customer Deposits, Advances for Construction, and Deferred Taxes. He will also
9 offer testimony on Plant in Service, Reserve for Depreciation, Regulatory Assets
10 and Working Capital components of Materials and Supplies, Prepayments and
11 Gas Storage Inventory. Company witness Lyons of ScottMadden will offer
12 testimony on Cash Working Capital, and Laclede witness Buck will offer
13 testimony on Prepaid Pension Assets and the OPEB Regulatory Asset included in
14 rate base.

15 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME**
16 **THAT YOU ARE SPONSORING ON SCHEDULE H.**

17 A. Schedule H, consisting of 19 sub-schedules, details all of the adjustments made to
18 cost of service. The first two pages of Schedule H detail the operating income
19 statement summarized by the uniform system of accounts. It shows the test year
20 balances per books at December 31, 2016, a summary of the pro forma
21 adjustments to each account and finally the adjusted balance at December 31,
22 2016. The next four pages detail each adjustment individually by FERC account
23 number.

1 Schedule H-1 is the detail of test year margin revenue after backing out purchased
2 gas adjustment revenue, gross receipts taxes billed, unbilled revenue, off-system
3 sales and finally ISRS revenues collected during the test year, while Schedule H-2
4 summarizes the revenue adjustments proposed for LAC.

5 **Q. WHO IS SPONSORING THE REVENUE ADJUSTMENTS DETAILED**
6 **ON SCHEDULE H-2?**

7 A. Laclede witness Feldman is providing direct testimony on the revenue
8 adjustments detailed on Schedule H-2.

9 **Q. PLEASE EXPLAIN SCHEDULE H-3.**

10 A. Schedule H-3, also sponsored by Laclede Witness Feldman, removes purchased
11 gas costs from the operating income statement along with costs associated with
12 off-system sales, unbilled gas costs and the gross receipts tax expense. These
13 expenses should not be included in the determination of the cost of service.
14 Purchased gas costs are recovered through the PGA mechanism and not base rates
15 while gross receipts taxes are simply pass through taxes.

16 **Q. PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.**

17 A. The payroll adjustment is detailed on Schedule H-4 while the associated
18 adjustments to the Company's match to employee 401K contributions and payroll
19 taxes are detailed on Schedules H-5 and H-6. The first part of the adjustment
20 annualizes payroll based on the actual February 17, 2017 employee levels and pay
21 rates and includes adjustments for overtime worked based on actual overtime
22 hours and proforma pay rates, and AIP payouts based on proforma wage levels.
23 The second part of the adjustment recognizes that an additional 92 employees are
24 expected to be hired across the entire company by September 30, 2017 with 61

1 being hired for LAC, 17 for MGE, and the final 14 being shared service
2 employees whose time will be allocated between the different units of the
3 Company. (37 new employees began with the Company on March 27, 2017.)

4 **Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE**
5 **BENEFITS?**

6 A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses
7 representing employee benefits paid on behalf of employees. Included in these
8 benefits are FAS 87 pension expense and FAS 106 post retirement benefit costs,
9 which will be discussed in the direct testimony of Laclede witness Buck. The
10 other employee benefits being adjusted are the payroll related insurance costs for
11 life insurance, accidental death & dismemberment (AD&D) insurance and long-
12 term disability (LTD) insurance, along with the Company match to employee
13 401K contributions. These adjustments to the insurance costs and the 401K
14 match are all related to the payroll expense adjustment on Schedule H-4. The final
15 adjustment to employee benefits is an adjustment to SERP expense, which is
16 based on an average of payments made over that last three years.

17 **Q. PLEASE EXPLAIN TAB H-6, PR-TAXES.**

18 A. The adjustment on Schedule H-6 recognizes the increase to payroll taxes
19 associated with the payroll adjustment detailed on Schedule H-4.

20 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE**
21 **AND INJURIES AND DAMAGES?**

22 A. Schedule H-7 normalizes the property insurance and injuries and damages by
23 taking a three-year average of worker compensation claims paid and auto and

1 general liability claims paid and adding to that average the increased insurance
2 premiums expected to be paid on behalf of LAC.

3 **Q. WHY HAVE YOU MADE AN ADJUSTMENT TO TEST YEAR**
4 **INSURANCE COSTS?**

5 A. The adjustment has been made to reflect a normalized level of claims paid and to
6 reflect the known and measurable changes in premium costs for LAC. Those costs
7 have been included as a test year expense on Schedule H-7.

8 **Q. PLEASE EXPLAIN SCHEDULE H-8.**

9 A. Schedule H-8 reflects the proposed adjustment to include an ongoing level of
10 energy efficiency costs in the LAC cost of service. As of December 31, 2016,
11 LAC has accumulated \$11.6 million of energy efficiency costs in a regulatory
12 asset. Like MGE, LAC has an energy efficiency spending target of 0.5% of gross
13 revenues. Based on its current gross revenues, LAC's energy efficiency spending
14 target is approximately \$3.7 million per year, which also includes \$1.0 million of
15 Low Income Weatherization Funds. Given the size and consistent amount of
16 EEC expenditures, some amount of current expenditures should be included in the
17 cost of service, along with a ten-year amortization of the current regulatory asset.
18 Such amounts are reflected on Schedule H-8.

19 **Q. WHAT IS THE AMOUNT OF CURRENT ENERGY EFFICIENCY**
20 **FUNDING YOU ARE PROPOSING TO INCLUDE IN RATES?**

21 A. As shown on Schedule H-8, a normalized amount of \$2.0 million has been
22 included. This amount does not include any funding for the low income
23 weatherization program. This amount represents a 3-year average of spending for
24 years 2014, 2015 and 2016.

1 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**
2 **EXPENSE?**

3 A. Yes. I have increased bad debt expense or uncollectible expense by \$1.8 million
4 on Schedule H-9. Laclede witness Krick will explain this adjustment in his direct
5 testimony.

6 **Q. PLEASE EXPLAIN THE ADJUSTMENTS ON SCHEDULE H-10.**

7 A. The adjustments on Schedule H-10 amortize expected rate case expense over a 3-
8 year period, amortize the cost of the current depreciation study prepared for this
9 case over a five-year period, and recognize the current level of the Commission
10 assessment for the period July 1, 2016 through June 30, 2017.

11 **Q. WHAT IS THE PURPOSE OF SCHEDULE H-11?**

12 A. Schedule H-11 computes interest on the average thirteen-month balance of
13 residential customer deposits at an interest rate of 4.75%, or the prime rate as of
14 December 31, 2016, plus 1%, consistent with LAC Tariff Sheet No. R-5-d.

15 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION**
16 **EXPENSE?**

17 A. Yes. Schedule H-12 details the adjustment to depreciation expense based upon
18 the level of plant investment at December 31, 2016.

19 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**
20 **EXPENSE.**

21 A. Schedule H-13 details the pro forma amortization expense. The adjustment
22 consists of two parts. The first part annualizes the amortization of all leasehold
23 improvements, miscellaneous intangible plant and unamortized LAC software
24 assets at December 31, 2016. The second part of the adjustment computes

1 amortization of Deferred Energy Efficiency Program costs and Low Income
2 Program costs based upon a requested ten-year amortization period. The energy
3 efficiency program is discussed above. The Low Income Programs are a “Red-
4 Tag” Repair Program and a Low-Income Energy Affordability Program. The final
5 asset being amortized is the initial Energy Efficiency Asset of LAC which has
6 approximately 3.5 years of amortization remaining.

7 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

8 A. Schedule H-14 reflects an increase to property taxes to recognize the increased
9 plant at December 31, 2016 and increased assessments expected in the counties in
10 LAC’s service territory. Laclede witness Kuper will explain the adjustment in his
11 direct testimony. There is a second adjustment made to property taxes to allocate
12 to MGE a portion of the property taxes related to the Enterprise Software being
13 allocated to MGE.

14 **Q. PLEASE EXPLAIN SCHEDULE H-15.**

15 A. Schedule H-15 adjusts expenses for known increases in the contractor cost to
16 locate lines in LAC’s service territory. The majority of the adjustment is related
17 to the cost to locate fiber which increased from \$13.40 to \$32.60 per locate in
18 May 2016.

19 **Q. PLEASE EXPLAIN SCHEDULE H-16, OTHER EXPENSE**
20 **ADJUSTMENTS.**

21 A. Schedule H-16 reflects a decrease to accounts 912 and 921 to eliminate from the
22 cost of service the cost of tickets to various events included in operating expenses.

23 **Q. PLEASE EXPLAIN SCHEDULE H-17.**

1 A. H-17 reflects an expense for the cost to accept a credit card payment from a
2 customer for the balance of their gas bill without requiring an additional fee.
3 Currently that cost is assessed to the customer by the credit card company which
4 reduces the incentive for a customer to pay with a credit card. No fee credit card
5 payments are consistent with the approach taken by other businesses for the
6 convenience of their customers. It is also in the Company's interest to accept a
7 credit card payment, as credit card companies are in a much better position to
8 assess creditworthiness and thus to assume the risk of unpaid debt.

9 **Q. HOW DID YOU COMPUTE THE ADJUSTMENT TO CREDIT CARD**
10 **FEES?**

11 A. The LAC adjustment was based on the actual experience of MGE in the most
12 recent 12-month period and based on the average cost per transaction charged by
13 the vendor processing the credit card payments. The number of card payments
14 each month was compared to the number of residential bills for the same month
15 and that percentage of bills paid with credit cards was applied to the number of
16 LAC residential bills for the same months.

17 **SCHOOL TRANSPORTATION PROGRAM**

18 **Q. MR. NOACK, AS PART OF THE PARTIAL STIPULATION AND**
19 **AGREEMENT IN GR-2014-0324 FILED FEBRUARY 22, 2017 MGE**
20 **AGREED TO PROVIDE CERTAIN INFORMATION PERTAINING TO**
21 **THE ISSUE OF BALANCING AND CASHING OUT MONTHLY**
22 **TRANSPORTATION VOLUMES FOR SCHOOLS PARTICIPATING IN**
23 **THE SCHOOL TRANSPORTATION PROGRAM ("STP"). WHAT**

1 **INFORMATION WAS REQUESTED BY THE MISSOURI PUBLIC**
2 **SERVICE COMMISSION STAFF?**

3 A. Under the Partial Stipulation, MGE agreed to provide the following information:

- 4 1. A discussion of the costs and benefits of upgrading the reading capabilities
5 of each STP customer meter so that monthly meter reads coincide with the
6 monthly STP nominations;
7
8 2. A detailed description of the meter changes or meter reading changes that
9 could be made to allow for monthly meter reads to coincide with the
10 monthly STP nominations.
11
12 3. The cost of upgrading the reading capabilities of each STP customer meter
13 so that monthly meter reads coincide with the monthly STP nominations;
14
15 4. The Company’s position regarding the question of whether meter or meter
16 reading changes provide enough benefit to sales customers to justify
17 inclusion of the meter and meter reading change costs into a sale customer
18 cost of service.
19

20 **Q. DID THE COMMISSION APPROVE THE PARTIAL STIPULATION AND**
21 **AGREEMENT?**

22 A. Not as of this writing. MGE is nevertheless providing the information, for two
23 reasons. First, MGE agreed with Staff that it would do so. Second, MGE would
24 like to reach a mutually acceptable resolution of the STP issue with Staff and the
25 Missouri School Boards Association, which is the largest STP association in the
26 MGE territory. MGE hopes that providing Staff the information it seeks will be a
27 step in the direction of reaching such a resolution.

28 **Q. CURRENTLY WHAT IS THE PROCESS OF READING EACH STP**
29 **CUSTOMER METER?**

30 A. Currently each STP customer meter is read electronically once per month, at
31 various times throughout the month, as part of a regular cycle meter reading
32 program. Meter trucks drive through select portions of the service area and

1 collect meter reads from a device that sits atop each customer's meter. In the case
2 of very rural areas, the reads are collected using handheld devices. Because of the
3 vast service territory of MGE (31 counties in the western half of the state) it is not
4 feasible to combine all of the schools in the STP into a single meter reading route
5 that would coincide with calendar month nominations made by the marketers
6 serving the schools in the STP program. Currently there are approximately 850
7 schools taking gas service under the STP tariff and approximately 104 meter
8 reading routes serving those schools. The inability to obtain reads to match
9 calendar month nominations prevents MGE from being able to accurately cash
10 out STP customers, as prescribed in the tariff.

11 **Q. IF MGE WERE TO INSTALL ELECTRONIC GAS MEASUREMENT**
12 **(EGM) EQUIPMENT AT EACH SCHOOL SIMILAR TO THE**
13 **EQUIPMENT WHICH CURRENTLY SERVES MGE'S NON-SCHOOL**
14 **TRANSPORATION CUSTOMERS, WHAT WOULD BE THE**
15 **APPROXIMATE COST OF THOSE METERS?**

16 A. Currently the cost of the Instrument Point device, which has to be installed to call
17 in the meter reads at a set time of the month (to coincide with pipeline
18 nominations), costs approximately \$2,300 before including the labor and
19 overhead costs to install. The labor and overhead costs are estimated at \$436
20 making the total cost of equipment and installation approximately \$2,736. The
21 detail of these costs can be found on Schedule MRN-D3.

22 **Q. IS THAT THE FINAL COST TO THE CUSTOMER?**

23 A. No, it is not. When the customer pays for the meter and installation costs the
24 Company treats the payment as a contribution in aid of construction, so it is

1 taxable income to the company. As a result, there is additional language on MGE
2 tariff Sheet No. 71 which requires that the charge be “grossed-up” to cover the
3 income tax. At the current effective tax rate, the income tax amount would be
4 approximately \$1,000, making the total cost of electronic gas metering (EGM)
5 equipment \$3,736. However, if MGE paid for the meters and the installation, the
6 total cost, which would exclude the income tax component, would approximate
7 \$2.3 million.

8 **Q. WOULD THAT PROVIDE ENOUGH BENEFIT TO SALES CUSTOMERS**
9 **TO JUSTIFY INCLUDING THOSE COSTS IN RATES CHARGED TO**
10 **THE SALES CUSTOMERS.**

11 A. In my opinion, no. In an analysis prepared for Staff last June, the principal cost
12 not being recovered as a result of any imbalance at the end of a month was the
13 cost to use storage to either inject excess volumes or withdraw short volumes.
14 When those volumes were priced at the rates MGE pays for storage, the additional
15 cost not being recovered was approximately \$0.002 per Ccf.

16 **Q. HAS MGE ADJUSTED THE RATES TO ADDRESS THIS?**

17 A. Yes. As part of the stipulation and agreement, MGE attached a specimen tariff
18 sheet which increases the Balancing Fee from \$0.001 per Ccf to \$0.003 per Ccf.
19 MGE is filing a tariff with that adjustment as part of this case.

20 **Q. IS MGE LIMITED BY STATUTE AS TO WHAT CAN BE DONE TO**
21 **COMPENSATE FOR THE INABILITY TO CASH THESE CUSTOMERS**
22 **OUT?**

23 A. Yes. Section 393.310 of the Revised Missouri Statutes (the “STP Statute”)
24 prohibits charging the schools for telemetry equipment or any special metering,

1 unless the individual school uses over 100,000 therms annually. At the same
2 time, the STP Statute also states that the tariff shall not have any negative
3 financial impact on the other customers of the gas company. Those two statutory
4 provisions preclude MGE from passing on the cost of the EGM equipment to the
5 schools or the other customers. By including the additional \$0.002 per Ccf in the
6 balancing fee, MGE believes that both the schools and other customers are being
7 fairly treated.

8 **Q. DO YOU BELIEVE ANYTHING ELSE NEEDS TO BE DONE AT THIS**
9 **TIME?**

10 A. Yes. Although there has been nothing in the history of how the schools have
11 nominated their transportation volumes to suggest a pattern of imbalances that
12 have adversely affected sales customers, in response to input from Staff, MGE is
13 proposing a tariff change that will motivate the schools to minimize estimated
14 imbalances. At the same time, MGE is proposing a tariff change to remove the
15 infeasible language to try and cashout STP customer imbalances. MGE believes
16 these tariff changes, along with the increase to the Balancing Fee discussed above,
17 will improve the program at a cost that does not outweigh its benefits, while
18 protecting customers from adverse effects of the STP.

19 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes it does.

MISSOURI GAS ENERGY

Index of Schedules

<u>Schedule</u>	<u>Description</u>
A	Revenue Deficiency
A-1	Summary of Net Operating Income, Per Books and Adjusted
A-2	Income Tax
B	Rate Base
B-1	Customer Deposits
B-2	Customer Advances
B-3	Regulatory Liabilities
B-4	Accumulated Deferred Income Taxes
C	Plant In Service
D	Accumulated Reserves for Depreciation and Amortization
E	Working Capital
E-1	Materials & Supplies
E-2	Prepayments
E-3	Gas Inventory
E-4	Summary of Cash Working Capital
E-5	Regulatory Assets
F	Summary Of Cost Of Capital
H	Distribution of Revenue and Expense Adjustments by Account No.
Ha	Distribution of Revenue and Expense Adjustments by Account No.
H-1	Test Year Margin Revenue
H-2	Revenue Adjustments
H-3	Remove Purchase Gas Costs and Gross Receipts Tax
H-4	Payroll Adjustment
H-5	Employee Benefits
H-6	Payroll Taxes
H-7	Insurance / Injuries & Damages
H-8	Energy Efficiency
H-9	Uncollectible Expense
H-10	Regulatory Commission Expense
H-11	Interest on Customer Deposits
H-12	Depreciation Expense
H-13	Amortization Expense
H-14	Property Tax Adjustment
H-15	Ad Valorem Taxes on Kansas Storage Gas
H-16	Locates Expense
H-17	Other Expense Adjustments
H-18	Weatherization & Conservation

MISSOURI GAS ENERGY
December 31, 2016
Revenue Deficiency

Line No.	Description (a)	Ref. (b)	Required Return (c)	Earnings Deficiency (d)	Net Revenue Deficiency (e)
1	Rate Base	B	\$792,525,986		
2	Rate of Return	F	<u>7.700%</u>		
3	Required Return		<u>\$61,024,501</u>	\$61,024,501	
4	Adjusted Test Year Net Operating Income	A-1		<u>30,045,241</u>	
5	Earnings Deficiency			<u>\$30,979,260</u>	\$30,979,260
6	Multiply by Income Tax Gross-up Factor				<u>1.62308</u>
7	Net Revenue Deficiency				<u>\$50,281,787</u>
8	Allowance for Known and Measurable Changes/ True-up Estimate				<u>\$120,000</u>
9	Total Revenue Deficiency				<u><u>\$50,401,787</u></u>

MISSOURI GAS ENERGY
December 31, 2016
Summary of Net Operating Income
Per Books and Adjusted

Line No.	Description (a)	Per Books (b)	Adjustments (c)	As Adjusted (d)
<u>REVENUES</u>				
1	Operating Base Revenues	\$423,999,587	(\$225,855,090)	\$198,144,497
2	Other Utility Revenues	19,375,796	(17,805,582)	1,570,214
3	Total Operating Revenues	<u>\$443,375,383</u>	<u>(\$243,660,672)</u>	<u>\$199,714,711</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$243,919,227	(\$209,574,973)	\$34,344,254
5	Customer Accounts Expense	16,372,186	3,141,031	19,513,217
6	Customer Service and Information Expense	1,258,820	2,984,959	4,243,778
7	Sales Expense	1,193,643	(109,264)	1,084,379
8	Administrative and General Expense	38,474,760	5,937,200	44,411,959
9	Payroll Adjustment		2,730,213	2,730,213
10	Total Operating and Maintenance Expenses	<u>\$301,218,636</u>	<u>(\$194,890,835)</u>	<u>\$106,327,800</u>
11	Depreciation & Amortization Expense	\$31,253,205	\$5,400,301	\$36,653,506
12	Interest on Customer Deposits	412,235	(186,028)	226,207
13	Taxes Other Than Income	44,565,793	(21,253,191)	23,312,602
14	Total Operating Expenses	<u>\$377,449,869</u>	<u>(\$208,199,540)</u>	<u>\$166,520,116</u>
15	Operating Income Before Income Tax	\$65,925,515	(\$35,461,132)	\$33,194,596
16	Less: Income Tax Expense	15,714,372	(12,564,974)	3,149,398
17	Net Operating Income	<u>\$50,211,143</u>	<u>(\$22,896,158)</u>	<u>\$30,045,198</u>

MISSOURI GAS ENERGY
December 31, 2016
Income Tax

Line No.	Description (a)	Reference (b)	Per Books (c)	As Adjusted (d)
1	Total Operating Revenues	A-1	\$443,375,383	\$199,714,711
2	Total Operating Expenses	A-1	<u>(377,449,869)</u>	<u>(166,520,116)</u>
3	Net Operating Income	A-1	<u>\$65,925,515</u>	<u>\$33,194,596</u>
4	Flow-Through Adjustments		(\$10,883,774)	(\$10,883,774)
5	Less: Interest on Long Term Debt		<u>(14,106,850)</u>	<u>(14,106,850)</u>
6	Total Tax Adjustments		<u>(\$24,990,624)</u>	<u>(\$24,990,624)</u>
7	Net Taxable Income		<u>\$40,934,891</u>	<u>\$8,203,971</u>
8	Income Tax		<u>\$15,714,372</u>	<u>\$3,149,398</u>

MISSOURI GAS ENERGY
December 31, 2016
Rate Base

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$803,352
2	Distribution Plant	C	1,145,679,490
3	General Plant	C	159,829,515
4	Construction Work in Progress	C	<u>32,692,938</u>
5	Gross Plant In Service		\$1,339,005,295
6	Accumulated Depreciation & Amortization	D	<u>(502,887,842)</u>
7	Net Plant in Service		\$836,117,453
8	Working Capital	E	72,607,408
9	Customer Deposits	B-1	(4,762,253)
10	Customer Advances	B-2	(4,045,439)
11	Other Regulatory Liabilities	B-3	(78,884,239)
12	Deferred Income Taxes - Other	B-4	<u>(28,506,945)</u>
13	Total Rate Base		<u><u>\$792,525,986</u></u>

MISSOURI GAS ENERGY
Thirteen Months Ending December 31, 2016

Customer Deposits

Line No.	Month	Residential Amount
	(a)	(b)
1	Dec-15	(4,870,840)
2	Jan-16	(4,876,232)
3	Feb-16	(4,881,648)
4	Mar-16	(4,799,180)
5	Apr-16	(4,835,815)
6	May-16	(4,822,229)
7	Jun-16	(4,807,319)
8	Jul-16	(4,837,240)
9	Aug-16	(4,837,829)
10	Sep-16	(4,624,170)
11	Oct-16	(4,619,265)
12	Nov-16	(4,528,374)
13	Dec-16	<u>(4,484,623)</u>
14	Total	<u><u>(\$57,147,032)</u></u>
15	Average	<u><u>(\$4,762,253)</u></u>
16	Interest Rate	<u><u>4.75%</u></u>
17		<u><u>\$226,207</u></u>

MISSOURI GAS ENERGY
Thirteen Months Ending December 31, 2016

Customer Advances

Line No.	Month	Amount
	(a)	(b)
1	Dec-15	(4,503,359)
2	Jan-16	(4,491,583)
3	Feb-16	(4,475,912)
4	Mar-16	(4,454,741)
5	Apr-16	(4,247,964)
6	May-16	(4,107,735)
7	Jun-16	(4,100,454)
8	Jul-16	(3,909,266)
9	Aug-16	(3,702,766)
10	Sep-16	(3,690,167)
11	Oct-16	(3,654,176)
12	Nov-16	(3,638,202)
13	Dec-16	<u>(3,641,249)</u>
14	Total	<u><u>(\$48,545,270)</u></u>
15	Average	<u><u>(\$4,045,439)</u></u>

MISSOURI GAS ENERGY
Regulatory Liabilities
December 31, 2016

Line No.	Year Ended	Balance
	(a)	(b)
1	Rate Base Offset from GM-2013-0254	(\$118,326,358)
2	Amortization of Rate Base Offset	<u>\$39,442,119</u>
3	Total Regulatory Liabilities	<u><u>(\$78,884,239)</u></u>

MISSOURI GAS ENERGY
December 31, 2016

Accumulated Deferred income Taxes

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 12/31/16	(\$28,506,945)
2	Total Accumulated Deferred Income Taxes	<u>(\$28,506,945)</u>

MISSOURI GAS ENERGY
Plant in Service
December 31, 2016

Line No.	Description	Plant Balance @ 12/31/16	Total Adjustments	Total As Adjusted
	(a)	(b)	(c)	(d)
<u>INTANGIBLE PLANT</u>				
1	(301) Organization	\$15,600		\$15,600
2	(302) Franchises	13,823		13,823
3	(303) Miscellaneous Intangible	773,929		773,929
4	Total Intangible Plant	<u>\$803,352</u>		<u>\$803,352</u>
<u>DISTRIBUTION PLANT</u>				
5	(374.1) Land	\$476,088		\$476,088
6	(374.2) Land Rights	2,835,349		2,835,349
7	(375.1) Structures	12,596,158		12,596,158
8	(375.2) Leasehold Improvements	9,724		9,724
9	(376) Mains	557,987,758		557,987,758
10	(378) Meas. & Reg. Station - General	14,249,406		14,249,406
11	(379) Meas. & Reg. Station - City Gate	5,918,676		5,918,676
12	(380) Services	399,602,056		399,602,056
13	(381) Meters	40,249,691		40,249,691
14	(382) Meter Installations	94,813,508		94,813,508
15	(383) House Regulators	15,936,615		15,936,615
16	(385) Electronic Gas Measuring	1,004,461		1,004,461
17	(387) Other Equipment	0		0
18	Total Distribution Plant	<u>\$1,145,679,490</u>		<u>\$1,145,679,490</u>
<u>GENERAL PLANT</u>				
19	(389) Land	\$1,058,065		\$1,058,065
20	(390.1) Structures	878,378		878,378
21	(390.2) Leasehold Improvements	0		0
22	(391) Furniture & Fixtures	8,218,464		8,218,464
23	(391.5) Enterprise Software-EIMS	0	67,787,723	67,787,723
24	(392.1) Transportation Eq - Cars and Small Trucks	5,650,033		5,650,033
25	(392.2) Transportation Eq - Heavy Trucks	15,294,221		15,294,221
26	(393) Stores Equipment	664,474		664,474
27	(394) Tools	8,946,227		8,946,227
28	(395) Laboratory Equipment	0		0
29	(396) Power Operated Equipment	3,063,341		3,063,341
30	(397.1) Communication Equipment - AMR	40,845,110		40,845,110
31	(397.0) Communication Equipment	6,622,779		6,622,779
32	(398) Miscellaneous Equipment	800,700		800,700
33	Total General Plant	<u>\$92,041,792</u>	<u>\$67,787,723</u>	<u>\$159,829,515</u>
34	Total Original Cost Plant in Service	\$1,238,524,634	\$67,787,723	\$1,306,312,356
35	Construction Work in Progress	32,692,938		32,692,938
36	Accumulated Depreciation and Amortization	<u>(490,613,073)</u>	<u>(12,274,769)</u>	<u>(502,887,842)</u>
37	Net Plant In Service	<u>\$780,604,499</u>	<u>\$55,512,954</u>	<u>\$836,117,453</u>

MISSOURI GAS ENERGY
Accumulated Reserves for Depreciation and Amortization
December 31, 2016

Line No.	Description (a)	Test Year Direct (b)	Proforma Adjustments (c)	Test Year As Adjusted (d)
1	Intangible Plant Reserve	(\$506,426)	\$0	(\$506,426)
2	Distribution & General Plant Reserve	(492,599,724)	(12,274,769)	(504,874,493)
3	Retirement Work In Progress	<u>2,493,078</u>	<u>0</u>	<u>2,493,078</u>
4	Total Accumulated Reserves	<u><u>(\$490,613,073)</u></u>	<u><u>(\$12,274,769)</u></u>	<u><u>(\$502,887,842)</u></u>

MISSOURI GAS ENERGY
December 31, 2016
Working Capital

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$5,004,239
2	Prepayments	E-2	3,169,251
3	Gas Inventory - Volumes and Price	E-3	29,273,371
4	Cash Working Capital	E-4	7,135,564
5	Other Regulatory Assets	E-5	<u>28,018,682</u>
6	Total Working Capital		<u><u>\$72,601,107</u></u>

MISSOURI GAS ENERGY
 Thirteen Months Ending December 31, 2016
Materials & Supplies

Line No.	Month (a)	Amount (b)
1	Dec-15	\$4,913,235
2	Jan-16	4,881,291
3	Feb-16	4,987,318
4	Mar-16	4,870,002
5	Apr-16	4,806,833
6	May-16	4,887,161
7	Jun-16	5,067,569
8	Jul-16	5,077,736
9	Aug-16	4,988,857
10	Sep-16	5,160,731
11	Oct-16	5,195,761
12	Nov-16	5,058,159
13	Dec-16	5,225,674
14	Total	<u>\$60,050,872</u>
15	Average	<u>\$5,004,239</u>

MISSOURI GAS ENERGY
 Thirteen Months Ending December 31, 2016
Prepayments

Line No.	Month	Amount
	(a)	(b)
1	Dec-15	\$2,866,038
2	Jan-16	2,397,554
3	Feb-16	1,902,616
4	Mar-16	1,795,084
5	Apr-16	4,530,539
6	May-16	4,088,348
7	Jun-16	3,643,223
8	Jul-16	3,497,333
9	Aug-16	3,098,657
10	Sep-16	2,956,456
11	Oct-16	3,527,449
12	Nov-16	3,078,923
13	Dec-16	<u>4,163,622</u>
14	Total	<u><u>\$38,031,013</u></u>
15	Average	<u><u>\$3,169,251</u></u>

MISSOURI GAS ENERGY
 Thirteen Months Ending December 31, 2016
Gas Inventory

Line No.	Month	Dollars
	(a)	(b)
1	Dec-15	\$39,541,580
2	Jan-16	20,576,586
3	Feb-16	14,346,519
4	Mar-16	13,445,776
5	Apr-16	17,311,616
6	May-16	22,454,932
7	Jun-16	26,662,484
8	Jul-16	32,393,729
9	Aug-16	37,917,496
10	Sep-16	40,960,878
11	Oct-16	43,929,463
12	Nov-16	43,522,882
13	Dec-16	<u>35,974,601</u>
14	Total	<u><u>\$351,280,450</u></u>
15	Average	<u><u>\$29,273,371</u></u>

Missouri Gas Energy
Test Year Ended December 31, 2016

Summary of Cash Working Capital

<u>Line #</u>	<u>Description (A)</u>	<u>Amount (B)</u>
1	Cash Working Capital from Tim Lyon's Schedule	<u>\$7,141,865</u>

MISSOURI GAS ENERGY
Regulatory Assets
December 31, 2016

Line No.	Description (a)	Balance (b)
	<u>Regulatory Assets</u>	
1	Prepaid Pension Assets	\$2,812,626
2	Red Tag Program	39,995
3	Low Income Energy Affordability	336,181
4	MGE Software	2,239,152
5	One-Time Non-Capital Transition Costs	8,620,933
6	Energy Efficiency Program	<u>13,969,796</u>
7	Total Regulatory Assets	<u><u>\$28,018,682</u></u>

MISSOURI GAS ENERGY
Summary of Cost of Capital
December 31, 2016

Line No.	Description	Ratio	Cost Rate	Composite Rate
	(a)	(b)	(c)	(d)
1	Long-Term Debt	42.800%	4.159%	1.780%
2	Short-Term Debt	0.000%	0.000%	0.000%
3	Preferred Stock	0.000%	0.000%	0.000%
4	Common Equity	<u>57.200%</u>	10.350%	<u>5.920%</u>
5	Total	<u><u>100.000%</u></u>		<u><u>7.700%</u></u>

MISSOURI GAS ENERGY
 Twelve Months Ending December 31, 2016

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
OPERATING REVENUE					
1	480	Residential	\$306,958,336	(\$151,276,509)	\$155,681,828
2	481.1	Commercial	62,379,806	(47,402,095)	14,977,711
3	481.2	Industrial	38,710,662	(25,565,607)	13,145,054
4	483	Sales for Resale	1,003,236	(867,162)	136,074
5	487	Late Payment Charges	1,381,236	0	1,381,236
6	488	Miscellaneous Service Revenue	0	0	0
7	489	Transport	14,947,547	(743,717)	14,203,831
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	17,994,560	(17,805,582)	188,978
10		Total Operating Revenue	<u>\$443,375,383</u>	<u>(\$243,660,672)</u>	<u>\$199,714,711</u>
OPERATING & MAINTENANCE EXPENSE					
Operation Expense					
11	805	Other Gas Purchases	\$209,704,476	(\$209,773,377)	(\$68,901)
12	807	Purchased Gas Expense	0	0	0
13	859	Other Joint Expense	0	0	0
14	870	Operation, Supervision and Engineering	142,549	0	142,549
15	871	Distribution and Load Dispatching	136,772	0	136,772
16	872	Compressor Station Labor and Expense	0	0	0
17	874	Mains and Service Expenses	4,401,233	198,404	4,599,636
18	875	Distributing Regulating Station Expenses	622,739	0	622,739
19	876	Measuring and Regulating - Station Expenses	0	0	0
20	877	Measuring and Regulating - Station Expenses	0	0	0
21	878	Meter and House Regulator Expenses	2,143,852	0	2,143,852
22	879	Customer Installation Expenses	939,433	0	939,433
23	880	Other Expenses	4,384,246	0	4,384,246
24	881	Rents	50,464	0	50,464
25		Total Operation Expense	<u>\$222,525,763</u>	<u>(\$209,574,973)</u>	<u>\$12,950,790</u>
Maintenance Expense					
26	885	Maintenance Supervision and Engineering	\$192,790	\$0	\$192,790
27	886	Maintenance of Structures and Improvements	244,367	0	244,367
28	887	Maintenance of Mains	17,533,690	0	17,533,690
29	889	Maint. of Measuring and Reg. Stat Equip - General	743,037	0	743,037
30	890	Maint. of Measuring and Regulating Equipment	165,113	0	165,113
31	891	Maint. of Measuring and Regulating Equipment	187,965	0	187,965
32	892	Maintenance of Services	1,606,224	0	1,606,224
33	893	Maintenance of Meters and House Regulators	678,364	0	678,364
34	894	Maintenance of Other Equipment	41,914	0	41,914
35		Total Maintenance Expenses	<u>\$21,393,464</u>	<u>\$0</u>	<u>\$21,393,464</u>
36		Total Distribution Expense	<u>\$243,919,227</u>	<u>(\$209,574,973)</u>	<u>\$34,344,254</u>
Customer Accounts Expense					
37	901	Supervision	\$0	\$0	\$0
38	902	Meter Reading Expense	1,976,539	0	1,976,539
39	903	Customer Records and Collection Expense	12,561,118	0	12,561,118
40	904	Uncollectible Accounts	1,755,577	3,141,031	4,896,608
41	905	Miscellaneous Customer Accounts Expense	78,951	0	78,951
42		Total Customer Accounts Expenses	<u>\$16,372,186</u>	<u>\$3,141,031</u>	<u>\$19,513,217</u>
Customer Service and Informational Expense					
43	907	Supervision	\$0	\$0	\$0
44	908	Customer Assistance	1,220,120	2,984,959	4,205,079
45	909	Informational and Instructional Advertising Exp.	38,699	0	38,699
46	910	Miscellaneous Customer Accounts Expense	0	0	0
47		Total Cust. Service and Information Exp.	<u>\$1,258,820</u>	<u>\$2,984,959</u>	<u>\$4,243,778</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
Sales and Advertising Expense					
48	911	Supervision	\$162,698	\$0	\$162,698
49	912	Demonstrating and Selling Expenses	1,025,445	(109,264)	916,181
50	913	Advertising Expenses	0	0	0
51	916	Miscellaneous Sales Expenses	5,500	0	5,500
52		Total Sales and Advertising Expenses	<u>\$1,193,643</u>	<u>(\$109,264)</u>	<u>\$1,084,379</u>
Administrative and General Expense					
53	920	Administrative and General Salaries	\$10,702,321	\$0	\$10,702,321
54	921	Office Supplies and Expenses	9,786,383	0	9,786,383
55	922	Administrative Expenses Transferred	(7,449,468)	0	(7,449,468)
56	923	Outside Services Employed	5,439,918	0	5,439,918
57	924	Property Insurance	413,444	(6,368)	407,076
58	925	Injuries and Damages	2,793,528	68,537	2,862,064
59	926	Employee Pensions and Benefits	13,161,044	4,189,244	17,350,288
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	1,377,105	1,685,787	3,062,891
62	930	Miscellaneous General Expenses	1,055,293	0	1,055,293
63	931	Rents	944,538	0	944,538
64	932	Maintenance of General Plant	250,654	0	250,654
65		Total Administration and General Expense	<u>\$38,474,760</u>	<u>\$5,937,200</u>	<u>\$44,411,959</u>
66		Payroll Adjustment		\$2,730,213	2,730,213
67		Total O & M Expense	<u>\$301,218,636</u>	<u>(\$194,890,835)</u>	<u>\$106,327,800</u>
68	403	Depreciation	30,389,939	844,375	31,234,314
69	404, 405	Amortization	863,266	4,555,926	5,419,192
70	431	Interest on Customer Deposits	412,235	(186,028)	226,207
71	408	Payroll Taxes	3,697,239	197,221	3,894,460
72	408	Property Taxes	16,428,770	2,989,372	19,418,142
73	408	Gross Receipts Tax	24,439,784	(24,439,784)	0
74	408	Other Taxes	0	0	0
75	408	Taxes Other Than Income	<u>\$44,565,793</u>	<u>(\$21,253,191)</u>	<u>\$23,312,602</u>
76		TOTAL EXPENSES	<u>\$377,449,869</u>	<u>(\$210,929,753)</u>	<u>\$166,520,116</u>
77		OPERATING INCOME BEFORE INCOME TAX	<u>\$65,925,515</u>	<u>(\$32,730,919)</u>	<u>\$33,194,596</u>
78	409,410	Income Taxes	\$15,714,372	(\$12,564,974)	\$3,149,398
79		NET OPERATING INCOME	<u>\$50,211,143</u>	<u>(\$20,165,945)</u>	<u>\$30,045,198</u>

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
			Test Year Per Books	Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year Margin	Remove Purch. Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Energy Efficiency Costs	Uncollectible Expense	Regulatory Commission Expense	Interest on Customer Deposits	Depreciation Expense
OPERATING REVENUE															
1	480	Residential	\$306,958,336	(\$162,570,811)	\$11,294,303										
2	481.1/2	Small General Service	62,379,808	(37,035,540)	(10,366,555)										
3	481.1/2	Large General Service	38,710,662	(26,147,968)	592,361										
4	481.1/2	Large Volume Sales	1,003,236	(687,162)	0										
5	487	Late Payment Charges	1,381,236	0	0										
6	488	Miscellaneous Service Revenue	0												
7	489	Transport	14,947,547	(927,452)	183,736										
8	483	Rent From Property	0	0	0										
8	483	Rent From Property	17,984,560	(17,805,582)	0										
8	485	Other Gas Revenue	\$443,375,383	(\$245,354,517)	\$1,693,845										
10		Total Operating Revenue				\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE															
Operation Expense															
11	805	Other Gas Purchases	\$209,704,476			(\$209,773,377)									
12	807	Purchased Gas Expense	0												
13	859	Other Joint Expense	0												
14	870	Operation, Supervision and Engineering	142,549												
15	871	Distribution and Load Dispatching	136,772												
16	872	Compressor Station Labor and Expense	0												
17	874	Mains and Service Expenses	4,401,233												
18	875	Distributing Regulating Station Expenses	622,739												
19	876	Measuring and Regulating - Station Expenses	0												
20	877	Measuring and Regulating - Station Expenses	0												
21	878	Meter and House Regulator Expenses	2,143,852												
22	879	Customer Installation Expenses	939,433												
23	880	Other Expenses	4,384,246												
24	881	Rents	50,464												
25		Total Operation Expense	\$222,525,763	\$0	\$0	(\$209,773,377)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Maintenance Expense															
26	885	Maintenance Supervision and Engineering	\$192,790												
27	886	Maintenance of Structures and Improvements	244,367												
28	887	Maintenance of Mains	17,533,690												
29	889	Maint. of Measuring and Reg. Stat Equip - General	743,037												
30	890	Maint. of Measuring and Regulating Equipment	165,113												
31	891	Maint. of Measuring and Regulating Equipment	187,965												
32	892	Maintenance of Services	1,806,224												
33	893	Maintenance of Meters and House Regulators	678,364												
34	894	Maintenance of Other Equipment	41,914												
35		Total Maintenance Expenses	\$21,393,464	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
36		Total Distribution Expense	\$243,919,227	\$0	\$0	(\$209,773,377)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Accounts Expense															
37	901	Supervision	\$0												
38	902	Meter Reading Expense	1,976,539												
39	903	Customer Records and Collection Expense	12,561,116												
40	904	Uncollectible Accounts	1,755,577									3,141,031			
41	905	Miscellaneous Customer Accounts Expense	78,951												
42		Total Customer Accounts Expenses	\$16,372,186	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,141,031	\$0	\$0	\$0

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
			Test Year Per Books	H-1 Adj. G.L. Rev to Test Year Margin	H-2 Normalize & Adj. Test Year Margin	H-3 Remove Purch.. Gas Cost and GRT	H-4 Payroll Expense	H-5 Employee Benefits	H-6 Payroll Taxes	H-7 Insurance	H-8 Energy Efficiency Costs	H-9 Uncollectible Expense	H-10 Regulatory Commission Expense	H-11 Interest on Customer Deposits	H-12 Depreciation Expense		
43	907	Customer Service and Informational Expense															
44	908	Supervision	\$0														
45	909	Customer Assistance	1,220,120														
46	910	Informational and Instructional Advertising Exp.	38,699								2,984,959						
47		Miscellaneous Customer Accounts Expense	0														
		Total Cust. Service and Information Exp.	\$1,258,820	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,984,959	\$0	\$0	\$0	\$0	\$0	\$0
48	911	Sales and Advertising Expense															
49	912	Supervision	\$162,688														
50	913	Demonstrating and Selling Expenses	1,025,445														
51	916	Advertising Expenses	0														
52		Miscellaneous Sales Expenses	5,500														
		Total Sales and Advertising Expenses	\$1,193,643	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
53		Administrative and General Expense															
54	920	Administrative and General Salaries	\$10,702,321														
55	921	Office Supplies and Expenses	9,786,383														
56	922	Administrative Expenses Transferred	(7,449,468)														
57	924	Outside Services Employed	5,439,916														
58	925	Property Insurance	413,444														
59	926	Injuries and Damages	2,793,528														
60	927	Employee Pensions and Benefits	13,161,044				4,189,244										
61	928	Franchise Requirements	0														
62	930	Regulatory Commission Expense	1,377,105														
63	931	Miscellaneous General Expenses	1,055,293														
64	932	Rents	944,538														
65		Maintenance of General Plant	250,654														
		Total Administration and General Expense	\$38,474,760	\$0	\$0	\$0	\$4,189,244	\$0	\$0	\$62,169	\$0	\$0	\$0	\$0	\$0	\$0	\$0
66		Payroll Adjustment					\$2,730,213										
67		Total O & M Expense	\$301,218,636	\$0	\$0	(\$209,773,377)	\$2,730,213	\$4,189,244	\$0	\$62,169	\$2,984,959	\$3,141,031	(\$38,400)	\$0	\$0	\$0	\$0
68	403	Depreciation	30,389,939														
69	404, 405	Amortization	863,266														
70	431	Interest on Customer Deposits	412,235											(186,028)			
71	408	Payroll Taxes (1**)	3,697,239				197,221										
72	408	Property Taxes (2***)	16,428,770														
73	408	Gross Receipts Tax (3300 + 4000)	24,439,784			(24,439,784)											
74	408	Other Taxes (41**)	0														
75	408	Taxes Other Than Income	\$44,565,793	\$0	\$0	(\$24,439,784)	\$197,221	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
76		TOTAL EXPENSES	\$377,449,669	\$0	\$0	(\$234,213,161)	\$2,927,434	\$4,189,244	\$0	\$62,169	\$2,984,959	\$3,141,031	(\$38,400)	(\$186,028)	\$0	\$0	\$0
77		OPERATING INCOME BEFORE INCOME TAX	\$85,925,515	(\$245,354,517)	\$1,693,845	\$234,213,161	(\$2,927,434)	(\$4,189,244)	\$0	(\$62,169)	(\$2,984,959)	(\$3,141,031)	\$38,400	\$186,028			
78	409,410	Income Taxes	15,714,372														
79		NET OPERATING INCOME	\$50,211,143	(\$245,354,517)	\$1,693,845	\$234,213,161	(\$2,927,434)	(\$4,189,244)	\$0	(\$62,169)	(\$2,984,959)	(\$3,141,031)	\$38,400	\$186,028			

Note: per book & adjusted income tax computed on A-2

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
			Test Year Per Books	Amortization Expense	Property Tax	Ad Valorem Tax - KS Storage	Locates Expense	Other Expense Adjustments	Weather & Conservation	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted				
OPERATING REVENUE																
1	480	Residential	\$306,958,336								(\$151,276,509)	\$155,681,828				
2	481.1/2	Small General Service	62,378,806								(\$7,402,085)	14,977,711				
3	481.1/2	Large General Service	39,710,852								(25,565,607)	13,145,054				
4	481.1/2	Large Volume Sales	1,003,236								(867,162)	136,074				
5	487	Late Payment Charges	1,381,236								0	1,381,236				
6	488	Miscellaneous Service Revenue	0								0	0				
7	489	Transport	14,947,547								(743,717)	14,203,831				
8	493	Rent From Property	0								0	0				
9	495	Other Gas Revenue	17,994,560								(17,805,582)	188,978				
10		Total Operating Revenue	\$443,375,383	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$245,680,672)	\$199,714,711				
OPERATING & MAINTENANCE EXPENSE																
Operation Expense																
11	805	Other Gas Purchases	\$209,704,476								(\$209,773,377)	(\$66,901)				
12	807	Purchased Gas Expense	0								0	0				
13	859	Other Joint Expense	0								0	0				
14	870	Operation, Supervision and Engineering	142,549								0	142,549				
15	871	Distribution and Load Dispatching	136,772								0	136,772				
16	872	Compressor Station Labor and Expense	0								0	0				
17	874	Mains and Service Expenses	4,401,233				198,404				198,404	4,599,638				
18	875	Distributing Regulating Station Expenses	622,739								0	622,739				
19	876	Measuring and Regulating - Station Expenses	0								0	0				
20	877	Measuring and Regulating - Station Expenses	0								0	0				
21	878	Meter and House Regulator Expenses	2,143,852								0	2,143,852				
22	879	Customer Installation Expenses	939,433								0	939,433				
23	880	Other Expenses	4,384,246								0	4,384,246				
24	881	Rents	50,464								0	50,464				
25		Total Operation Expense	\$222,525,763	\$0	\$0	\$0	\$198,404	\$0	\$0	\$0	(\$209,574,973)	\$12,950,790				
Maintenance Expense																
26	885	Maintenance Supervision and Engineering	\$192,790								\$0	\$192,790				
27	885	Maintenance of Structures and Improvements	244,367								0	244,367				
28	887	Maintenance of Mains	17,533,690								0	17,533,690				
29	888	Maint. of Measuring and Reg. Stat Equip - General	743,037								0	743,037				
30	890	Maint. of Measuring and Regulating Equipment	165,113								0	165,113				
31	891	Maint. of Measuring and Regulating Equipment	187,965								0	187,965				
32	892	Maintenance of Services	1,606,224								0	1,606,224				
33	893	Maintenance of Meters and House Regulators	678,364								0	678,364				
34	894	Maintenance of Other Equipment	41,914								0	41,914				
35		Total Maintenance Expenses	\$21,393,464	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$21,393,464				
36		Total Distribution Expense	\$243,919,227	\$0	\$0	\$0	\$198,404	\$0	\$0	\$0	(\$209,574,973)	\$54,344,254				
Customer Accounts Expense																
37	901	Supervision	\$0								\$0	\$0				
38	902	Meter Reading Expense	1,976,539								0	1,976,539				
39	903	Customer Records and Collection Expense	12,561,118								0	12,561,118				
40	904	Uncollectible Accounts	1,755,577								3,141,031	4,896,608				
41	905	Miscellaneous Customer Accounts Expense	78,951								0	78,951				
42		Total Customer Accounts Expenses	\$16,372,185	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,141,031	\$19,513,217				

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	
			Test Year Per Books	Amortization Expense	Property Tax	Ad Valorem Tax - KS Storage	Locates Expense	Other Expense Adjustments	Weather & Conservation	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted							
43	907	Customer Service and Informational Expense																	
44	908	Supervision	\$0									\$0	\$0						\$0
45	909	Customer Assistance	1,220,120									4,205,079	4,205,079						
46	910	Informational and Instructional Advertising Exp.	38,699									0	0						38,699
47		Miscellaneous Customer Accounts Expense	0									0	0						0
		Total Cust. Service and Informational Exp.	\$1,258,820	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$2,984,859	\$4,243,778						
48	911	Sales and Advertising Expense																	
49	912	Supervision	\$162,698									\$0	\$162,698						
50	913	Demonstrating and Selling Expenses	1,025,445									(109,284)	916,161						
51	916	Advertising Expenses	0									0	0						0
52		Miscellaneous Sales Expenses	5,500									0	0						0
		Total Sales and Advertising Expenses	\$1,193,643	\$0	\$0	\$0	\$0	(\$109,284)	\$0	\$0	(\$109,284)	\$5,500	\$1,084,379						
53	920	Administrative and General Expense																	
54	921	Administrative and General Salaries	\$10,702,321									\$0	\$10,702,321						
55	922	Office Supplies and Expenses	9,786,383									0	9,786,383						
56	923	Administrative Expenses Transferred	(7,449,468)									0	(7,449,468)						
57	924	Outside Services Employed	5,439,918									0	5,439,918						
58	925	Property Insurance	413,444									(6,368)	407,076						
59	926	Injuries and Damages	2,793,528									68,537	2,862,064						
60	927	Employee Pensions and Benefits	13,161,044									4,189,244	17,350,288						
61	928	Franchise Requirements	0									0	0						
62	930	Regulatory Commission Expense	1,377,105									1,685,787	3,062,891						
63	931	Miscellaneous General Expenses	1,055,293									0	1,055,293						
64	932	Rents	944,538									0	944,538						
65	932	Maintenance of General Plant	250,654									0	250,654						
		Total Administration and General Expense	\$38,474,790	\$0	\$0	\$1,724,187	\$0	\$0	\$0	\$0	\$5,937,200	\$44,411,959							
66		Payroll Adjustment										2,730,213	2,730,213						
67		Total O & M Expense	\$301,218,836	\$0	\$0	\$1,724,187	\$198,404	(\$109,284)	\$0	\$0	(\$194,890,895)	\$108,327,900							
68	403	Depreciation	30,389,939									\$844,375	\$31,234,314						
69	404, 405	Amortization	863,266	4,555,926								4,555,926	\$5,419,192						
70	431	Interest on Customer Deposits	412,235									(186,028)	226,207						
71	408	Payroll Taxes (1**)	3,697,239									187,221	3,884,460						
72	408	Property Taxes (2***)	16,428,770									2,989,372	19,418,142						
73	408	Gross Receipts Tax (\$300 + 4000)	24,439,784									(24,439,784)	0						
74	408	Other Taxes (41**)	0									0	0						
75	408	Taxes Other Than Income	\$44,565,793	\$0	\$2,989,372	\$0	\$0	\$0	\$0	\$0	(\$21,255,191)	\$23,312,602							
76		TOTAL EXPENSES	\$377,449,899	\$4,555,926	\$2,989,372	\$1,724,187	\$198,404	(\$109,284)	\$0	\$0	(\$210,929,753)	\$166,520,116							
77		OPERATING INCOME BEFORE INCOME TAX	\$65,925,515	(\$4,555,926)	(\$2,989,372)	(\$1,724,187)	(\$198,404)	\$109,284	\$0	\$0	(\$20,165,945)	\$33,194,596							
78	409,410	Income Taxes	15,714,372									(12,564,974)	3,149,398						
79		Notes: per book & adjusted income tax compiled on A-2	\$50,211,143	(\$4,555,926)	(\$2,989,372)	(\$1,724,187)	(\$198,404)	\$109,284	\$0	\$12,564,974	(\$20,165,945)	\$30,045,198							
		NET OPERATING INCOME	\$34,496,771									\$12,634,524							

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Test Year Margin Revenue

Line No.	Description (a)	Main Account/Revenue Class					Total (g)		
		480 21 (b)	481.1/2 22 & 23 (c)	481.1/2 25 (d)	481.1/2 28, 38 (e)	489 (f)		487 Adj's	
1	Total Revenue per Book	306,958,336	62,879,806	38,710,662	1,003,236	14,947,547	1,381,236	17,994,560	443,375,383
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(162,570,811)	(37,035,540)	(26,147,968)	(887,162)	(927,452)	0	(17,805,582)	0
3	Test Year Margin	144,387,525	25,844,266	12,562,693	136,074	14,020,095	1,381,236	188,978	198,020,867

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Revenue Adjustments

Line No.	Description (a)	Main Account/Revenue Class							Total (i)	
		Residential Gas Sales	Small General Service	Large General Service	Large Volume Sales	Transportation Revenues	Late Payment Revenue	Other Revenue		Adj's
		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	
1	Test Year Margin	\$144,387,525	\$25,344,266	\$12,552,693	\$136,074	\$14,020,095	\$1,381,236	\$188,978	\$0	\$198,020,867
2	Weather Normalization	\$3,970,420	\$653,073	\$1,163,237	\$0	\$0	\$0	\$0	\$0	\$5,786,730
3	Rate Switching Adjustments	0	(32,333)	78,359	0	183,736	0	0	0	\$229,762
4	Customer Annualization	1,033,954	(2,726,565)	0	0	0	0	0	0	(\$1,692,611)
5	Commercial-Domestic Use	6,289,929	(8,437,203)	0	0	0	0	0	0	(\$2,147,274)
6	Rate Classification Adjustments	0	176,473	(659,236)	0	0	0	0	0	(\$482,762)
7	Total Adjustments	11,294,303	(10,366,555)	582,361	0	183,736	0	0	0	1,693,845
8	As Adjusted Test Year Margin	\$155,681,827.92	\$14,977,710.91	\$13,145,054.19	\$136,073.69	\$14,203,830.51	\$1,381,235.51	\$188,978.44	\$0.00	\$199,714,711.17

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Remove Purchase Gas Costs and Gross Receipts Tax

Line No.	Description (a)	Amount (b)
1	Purchase Gas Costs (Acct. 804)	(\$185,704,619)
2	Off System Sales Expense (Acct. 804.5)	(16,248,610)
3	Unbilled Gas Cost (804)	(7,820,148)
4	Gross Receipts Tax (Acct. 408.1)	(24,439,784)
5	Total Adjustment	<u><u>(\$234,213,161)</u></u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Payroll Adjustment

Line #	Description	Missouri Gas Energy			
		Dollars		Headcount	
	(a)	(b)	(c)	(d)	(e)
	Contract Payroll				
1	Test Year Payroll	20,987,114		438.4	
2	12 Month Normalized Payroll	<u>21,774,633</u>		<u>442.0</u>	
3			787,519		3.6
	Management Payroll				
4	Test Year Payroll	6,103,298		109.5	
5	12 Month Normalized Payroll	<u>6,749,677</u>		<u>119.0</u>	
6			646,379		9.5
	Shared Services				
7	Test Year Payroll	7,631,614			
8	12 Month Normalized Payroll	<u>7,288,776</u>			
9			<u>(342,838)</u>		0.0
10	Regular Payroll Adjustment		1,091,060		
11	Overtime Payroll Adjustment		99,980		
12	Employee Level Adjustment (Reg & OT)-Direct		1,024,273		17.0
13	Employee Level Adjustment (Reg & OT)-Shared Service		445,689		
14	AIP Adjustment		<u>69,211</u>		
15	Total Wage & Salary Adjustment		<u>2,730,213</u>		<u>30.1</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Employee Benefits

Line No.	Description (a)	Insurance Rate (b)	Amount (c)
<u>Insurance Costs</u>			
1	Life Insurance (per \$1000)	\$ 0.2190	\$6,486
2	AD&D (per \$1000)	\$ 0.0250	740
3	LTD (per \$1000)	\$ 0.8950	26,505
4	LTD/STD/FMLA Admin Fees (per person)	\$ 8.21	2,965
5	Total Payroll Related Insurance Costs		<u>\$36,697</u>
<u>401K Employee Match Adjustment</u>			
		<u>401K Match Rate</u>	<u>Amount</u>
Payroll Adjustments:			
6	Regular Payroll Adjustment	4.16%	\$45,388
7	Overtime Payroll Adjustment	4.16%	\$4,159
8	Employee Level Adjustment (Reg & OT)-Direct	4.16%	\$42,610
9	Employee Level Adjustment (Reg & OT)-Shared Service	3.80%	\$16,936
10	AIP Adjustment	4.16%	\$2,879
11	Total 401K Employee Match Adjustment		<u>\$111,972</u>
<u>Pension and OPEB Adjustment</u>			
			<u>Amount</u>
12	MGE %		14,718,000
13	Asset Amortization		281,263
14	Recovery		<u>14,999,263</u>
15	Allowance In Rates		8,819,794
16	Difference		6,179,469
17	O&M %		65.39%
18	Adjustment		<u>4,040,575</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Payroll Taxes

Line No.	Description (a)	Amount (b)
	Payroll Taxes	
1	FICA Adjustment	194,391
2	Unemployment Tax Adjustment	<u>2,829</u>
3	Total Payroll Taxes Adjustment	<u><u>197,221</u></u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Insurance / Injuries & Damages

Line No.	Description (a)	Twelve Months Ending December 31,			3 Year Avg. (e)	925 Amount (f)	924 Amount (g)
		2014 (b)	2015 (c)	2016 (d)			
MGE Claims:							
1	Workers Compensation Claims Paid	\$421,922	\$846,509	\$976,344	\$816,282		
2	Property Claims Paid	296,100	55,055	136,055	177,167		
3	Auto Claims Paid	26,424	13,901	23,347	23,153		
4	Total Proforma Claims	<u>\$744,446</u>	<u>\$915,464</u>	<u>\$1,135,746</u>	<u>\$1,016,603</u>		
5	Test Year Accrual				904,658		
6	Adjustment				<u>\$111,945</u>		
						\$111,945	
Insurance Premiums							
7	Property Insurance - Dec. 2016			\$33,393			
8	Months			12			
9	Annualized			400,719			
10	Test Year			413,444			
11	Adjustment			<u>(\$12,726)</u>			(\$6,368)
					50.039%		
O&M Transfer Rate							
Excess Liability and Worker Comp							
12	Expected Increase Rate			\$241,357			
13	5%			5%			
14	Excess Liability and Workers Comp at 4/1/17 Level			253,425			
15	Other Costs - December 2016			31,900			
16	I&D at 4/1/2017 Levels			285,325			
17	Months			12			
18	Annualized			3,423,897			
19	Test Year			3,502,786			
20	Adjustment			<u>(\$78,888)</u>			(\$39,475)
					50.039%		
D&O Insurance - Dec 2016							
21	Months			\$10,480			
22	12			12			
23	Annualized			125,764.68			
24	Test Year			133,624.16			
25	Adjustment			<u>(\$7,859)</u>			(\$3,933)
					50.039%		
26	Total Adjustments						<u>\$68,537</u> <u>(\$6,368)</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Energy Efficiency

Line No.	Description (a)	Amount (b)
	Energy Efficiency Program Expenses	
1	Calendar Year 2014	\$1,957,783
2	Calendar Year 2015	1,866,731
3	Calendar Year 2016	1,558,570
4	Total	<u>\$5,383,084</u>
5	Three year average	<u>\$1,794,361</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Uncollectible Expense

Line No.	Description (a)	Amount (b)	Amount (c)
1	Twelve Months Ended August, 2013	4,144,897	
2	Twelve Months Ended August, 2014	5,600,326	
3	Twelve Months Ended August, 2015	<u>4,944,601</u>	
4	Three Year Average		\$4,896,608
5	Less Test Year Uncollectible Expense		(1,755,577)
6	Adjustment to Test Year - Acct. 904		<u><u>\$3,141,031</u></u>

MISSOURI GAS ENERGY
 Twelve Months Ending December 31, 2016

Regulatory Commission Expense

Line No.	Description (a)	Amount (b)	Amount (c)
1	Estimate of current rate case expense	<u>\$397,779</u>	
2	Annual Amortization (3 years)		\$132,593
3	Normalized level of expense for depreciation study		\$7,000
4	Proforma NARUC Assessment		5,018
5	Other Regulatory Commission Expenses		14,166
6	Proforma MPSC Assessment - 7/1/2016 - 6/30/2017		<u>1,179,928</u>
7	Total Proforma Regulatory Commission Expense		\$1,338,705
8	Less Test Year Regulatory Commission Expense		(1,377,105)
9	Adjustment to Test Year - Acct. 928		<u><u>(\$38,400)</u></u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Interest on Customer Deposits

Line No.	Description (a)	Reference (b)	Residential (c)
1	Customer Deposits	B-2	\$4,762,253
2	Interest Rate		4.75%
3	Proforma Interest on Customer Deposits		<u>\$226,207</u>
4	Less Test Year Interest on Customer Deposits		<u>(412,235)</u>
5	Adjustment to Test Year - Acct. 431		<u><u>(\$186,028)</u></u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Depreciation Expense

Line No.	Description (a)	Amount (b)	Current Depreciation Rate (c)	Annualized Depreciation (d)	Proposed Rate (e)	Proforma Depreciation Expense (f)
INTANGIBLE PLANT						
1	(301) Organization	\$15,600	0.00%	\$0	0.00%	\$0
2	(302) Franchises	13,823	0.00%	0	0.00%	0
3	(303) Miscellaneous Intangible	<u>773,929</u>	(see adj. H-13)	<u>0</u>	(see adj. H-13)	<u>0</u>
4	Total Intangible Plant	<u>\$803,352</u>		<u>\$0</u>		<u>\$0</u>
DISTRIBUTION PLANT						
5	(374.1) Land	\$476,088	0.00%	\$0	0.00%	\$0
6	(374.2) Land Rights	2,835,349	2.08%	58,975	2.08%	58,975
7	(375.1) Structures	12,596,158	2.13%	268,298	2.13%	268,298
8	(375.2) Leasehold Improvements	9,724	(see adj. H-13)	0	(see adj. H-13)	0
9	(376.1) Mains - Steel	214,904,036	1.78%	3,825,292	1.78%	3,825,292
10	(376.11) Mains - Steel - Transmission	10,051,320	1.78%	178,914	1.78%	178,914
11	(376.2) Mains - Cast Iron	2,305,935	1.78%	41,046	1.78%	41,046
12	(376.21) Mains - Cast Iron - Encapsulation	32,846,648	1.78%	584,670	1.78%	584,670
13	(376.3) Mains - Plastic	297,879,819	1.78%	5,302,261	1.78%	5,302,261
14	(378) Meas. & Reg. Station - General	14,249,406	2.86%	407,533	2.86%	407,533
15	(379) Meas. & Reg. Station - City Gate	5,918,676	2.63%	155,661	2.63%	155,661
16	(380.1) Services - Steel	7,223,652	2.68%	193,594	2.68%	193,594
17	(380.2) Services - Plastic	392,378,404	2.68%	10,515,741	2.68%	10,515,741
18	(381) Meters	40,249,691	2.86%	1,151,141	2.86%	1,151,141
19	(382) Meter Installations	94,813,508	2.86%	2,711,666	2.86%	2,711,666
20	(383) House Regulators	15,936,615	2.44%	388,853	2.44%	388,853
21	(385) Electronic Gas Metering	1,004,461	3.33%	33,449	3.33%	33,449
22	(387) Other Equipment	<u>0</u>	4.60%	<u>0</u>	4.60%	<u>0</u>
23	Total Distribution Plant	<u>\$1,145,679,490</u>		<u>\$25,817,094</u>		<u>\$25,817,094</u>
GENERAL PLANT - DIRECT						
24	(389) Land	\$1,058,065	0.00%	\$0	0.00%	\$0
25	(390.1) Structures	878,378	2.13%	18,709	2.13%	18,709
26	(390.2) Leasehold Impr.	0	(see adj. H-13)	0	(see adj. H-13)	0
27	(391) Office Furniture & Fixtures	4,956,542	9.09%	450,550	9.09%	450,550
28	(391.3) Data Processing Software	3,261,922	9.09%	296,509	9.09%	296,509
29	(391.5) Enterprise Software-EIMS	67,787,723	(see adj. H-13)	0	(see adj. H-13)	0
30	(392.1) Transportation Eq - Cars and Small Truck	5,650,033	13.28%	750,324	13.28%	750,324
31	(392.2) Transportation Eq - Heavy Trucks	15,294,221	8.06%	1,232,714	8.06%	1,232,714
32	(393) Stores Equipment	664,474	3.57%	23,722	3.57%	23,722
33	(394) Tools	8,946,227	5.26%	470,572	5.26%	470,572
34	(395) Laboratory Equipment	0	6.00%	0	6.00%	0
35	(396) Power Operated Equipment	3,063,341	10.00%	306,334	10.00%	306,334
36	(397.1) Communication Equipment - AMR	40,845,110	5.26%	2,148,453	5.26%	2,148,453
37	(397.0) Communication Equipment - Other	6,622,779	6.25%	413,924	6.25%	413,924
38	(398) Miscellaneous Equipment	<u>800,700</u>	4.35%	<u>34,830</u>	4.35%	<u>34,830</u>
39	Total Direct General Plant	<u>\$159,829,515</u>		<u>\$6,146,641</u>		<u>\$6,146,641</u>
40	Total Proforma Plant & Depreciation	<u>\$1,306,312,356</u>		<u>\$31,963,735</u>		<u>\$31,963,735</u>
41	Less Depreciation Charged to Clearing			<u>(\$729,421)</u>		<u>(\$729,421)</u>
42	Less Test Year Depreciation Expense			<u>(\$30,389,939)</u>		<u>(\$30,389,939)</u>
43	Adjustment to Test Year - Acct. 403					<u>\$844,375</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Amortization Expense

Line No.	Description	Original Cost Plant	Monthly Test Year Amortization Expense	Proforma Amortization Expense	Acct No.
	(a)	(b)	(c)	(d)	(e)
<u>MGE Leasehold Improvements</u>					
1	(375.2) Leasehold Improvements	\$9,724	\$347	\$4,168	
2	(390.2) Leasehold Improvements	0	0	0	
3	(391.5) Enterprise Software-EIMS	<u>67,787,723</u>	<u>395,428</u>	<u>4,745,141</u>	
4	Sub Total	<u>\$67,797,447</u>	<u>\$395,776</u>	<u>\$4,749,309</u>	404.3
5	(303) Misc. Intangible - Website (7600)	<u>773,929</u>	<u>6,449</u>	<u>77,393</u>	
6	Sub Total - Acct. 303	<u>\$773,929</u>	<u>\$6,449</u>	<u>\$77,393</u>	405.0
		Unamortized Balance	Mo Amort Amt	Proforma Amortization	
<u>MGE Software Assets</u>					
7	Autonomy eTalk-Contact Ctr	39,771	1,371	16,457	
8	Mainframe Software Dev	469,684	22,036	264,438	
9	TOA Work Force Automation	949,518	13,964	167,562	
10	TOPO GIS Mapping	<u>780,178</u>	12,003	<u>144,033</u>	
11	Sub Total MGE Software Amortization	<u>2,239,152</u>		<u>592,490</u>	405.0
12	Total Amortization			\$5,419,192	
13	Less Test Year Amortization			<u>(\$863,266)</u>	
14	Adjustment to Test Year - Accts. 404 and 405			<u>\$4,555,926</u>	
<u>Deferred Energy Efficiency and Low Income Program Costs</u>					
15	Deferred Energy Efficiency Cost Balance	\$13,969,796	\$116,415	\$1,396,980	
16	Red Tag Program	\$39,995	\$333	\$4,000	
17	Low Income Energy Affordability Program	<u>\$336,181</u>	<u>\$2,802</u>	<u>\$33,618</u>	
18	Sub Total Energy Efficiency and Low Income Program Costs	<u>14,345,972</u>		1,434,597	908.0
19	Less Test Year Amortization			<u>(244,000)</u>	
20	Adjustment to Test Year - Acct 908			<u>\$1,190,597</u>	
<u>One Time Non-Capital Transition Costs</u>					
21	Total One Time Non-Capital Transition Costs	\$8,620,933	\$143,682	<u>\$1,724,187</u>	928.0

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Property Tax Adjustment

Line No.	Description (a)	Real Estate & Personal Property (b)
1	Calendar Year 2016 Taxes Paid	13,212,770
2	Calendar 2016 Assessed Values	140,014,820
3	Average 2016 Rate Per \$100 Valuation	<u>9.4367%</u>
4	Calendar Year 2017 Estimated Taxes Due	15,442,800
5	Calendar 2017 Estimated Assessed Values	163,646,295
6	Estimated Rates	9.4367%

MISSOURI GAS ENERGY
Composition of Property Tax Adjustment

7	Increase from 12/31/16 to 12/31/17	<u>\$2,230,030</u>
 <u>Pro Forma Rate Calculation:</u>		
8	Total Real Estate/Personal Property	<u>Assessed</u> <u>163,646,295</u>
9	Estimated Tax	<u>15,442,800</u>
10	Effective Real Estate/Personal Property Proforma Tax Rate	<u>9.4367%</u>
11	Allocation of Property Tax on Enterprise Software to MGE	<u>\$759,342</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Ad Valorem Taxes on Kansas Storage Gas

Line No.	Description (a)	Amount (b)
1	Balance of Regulatory Asset - April 30, 2014	\$8,420,481
2	Monthly Amortization of Regulatory Asset (32 months at 133,333.33)	(\$4,266,667)
3	Beginning regulatory asset balance	\$8,420,481
4	Monthly Expense allowed in GR-2014-0004 (32 months at \$116,666.67)	\$3,733,333
	Less: Actual ad valorem tax payments:	
5	2014 and past taxes	(\$9,219,794)
6	2015 taxes	(\$1,309,012)
7	2016 taxes	(\$1,116,725)
8	Difference between accruals and payments	<u>(\$508,285)</u>
9	Balance of regulatory asset at 12/31/16	<u><u>\$3,645,530</u></u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Locates Expense

Line No.	Description (a)	Total (b)
1	January	14,787
2	February	20,480
3	March	26,026
4	April	25,038
5	May	24,877
6	June	24,151
7	July	21,214
8	August	26,095
9	September	25,396
10	October	24,944
11	November	16,904
12	December	14,909
13	Total Locates	<u>264,821</u>

CY16 Locates - MGE

	<u>Quantity</u>	<u>Cost</u>	<u>Total</u>
14	Locates - Jan 16 - March 16	\$13.20	\$ 741,915
15	Locates - April 16 - Dec 16	13.40	2,500,905
16	Fiber Locates - Jan 16 - Mar 16	13.20	67,153
17	Fiber Locates - Apr 16	13.40	27,847
18	Fiber Locates - May 16 - Dec 16	32.60	482,957
19	Total Locates		<u>\$ 3,820,777</u>

Pro Forma Locates Cost - MGE

20	Locates	242,840	\$13.60	\$ 3,302,629
21	Fiber Locates	21,980	32.60	716,551
22	Total	<u>264,821</u>		<u>\$ 4,019,181</u>

24	Adjustment to A/C 874		\$	<u>198,404</u>
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25	Locates	91.7%		
26	Fiber Locates	8.3%		
		<u>100.0%</u>		

* Breakdown of fiber locates from USIC

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Other Expense Adjustments

Line No.	Description (a)	Acct	Total (b)
1	Eliminate Ticket Expense	912	(109,264)
2	Total		<u>(\$109,264)</u>

MISSOURI GAS ENERGY
Twelve Months Ending December 31, 2016

Weatherization & Conservation

Line No.	Description (a)	Amount (b)
1	Weatherization Program	\$750,000
2	Per Books	<u>750,000</u>
3	Adjustment	<u><u>\$0</u></u>

Electronic Gas Measurement Equipment - Cost of Service

	LAC & MGE
	Cost per Instrument Point
Measurement	
Labor	129.53
Vehicle	17.04
	146.57
Other Labor (Design & Order)	70.00
Clearings	75.54
Payroll Tax (on Labor & 92% of Clearings)	15.25
Subtotal	307.36
Overhead **	129.09
	\$ 436.45
Instrument Point Cost	2,300.00
Total Cost per Instrument Point	\$ 2,736
Approximate number of schools in STP Program	850
Approximate cost of installing electronic metering equipment (excl. income tax)	\$ 2,325,983

** Includes pension, benefit, and other overhead costs

Electronic Gas Measurement Equipment - Current Charges Per Tariff Sheet No. 71

Per Meter Site (1 instrument point)	\$ 5,000
Each addt'l instrument point	\$ 2,000
Addt'l charge for customers served by orifice meters	\$ 3,000
Monthly O&M fee	\$ 25

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

In the Matter of Laclede Gas Company's)
Request to Increase its Revenues for Gas) File No. GR-2017-0215
Service)

In the Matter of Laclede Gas Company)
d/b/a Missouri Gas Energy's Request to) File No. GR-2017-0216
Increase its Revenues for Gas Service)

AFFIDAVIT

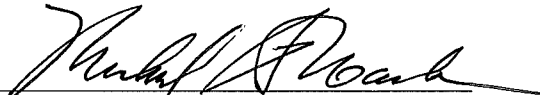
STATE OF MISSOURI)
) SS.
CITY OF ST. LOUIS)

Michael R. Noack, of lawful age, being first duly sworn, deposes and states:

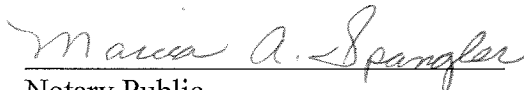
1. My name is Michael R. Noack. I am Director of Pricing and Regulatory Affairs for Missouri Gas Energy, an operating unit of Laclede Gas Company. My business address is 7500 E. 35th Terr., Kansas City, Missouri, 64129.

2. Attached hereto and made a part hereof for all purposes is my direct testimony on behalf of Laclede Gas Company and MGE.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.


Michael R. Noack

Subscribed and sworn to before me this 3rd day of April 2017.


Notary Public

