

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

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|---|---------------------------|
| In the Matter of Missouri Gas Energy and |) |
| Its Tariff Filing to Implement a General Rate |) Case No. GR-2009-0355 |
| Increase for Natural Gas Service |) Tariff No. YG-2009-0714 |

**RECOMMENDATION CONCERNING TEST YEAR AND UPDATE
AND REQUEST FOR TRUE-UP AUDIT AND HEARING**

Comes now Missouri Gas Energy (MGE or Company), a division of Southern Union Company, and, as its recommendation concerning the proper test year and update period and its request for true-up audit and hearing, states as follows to the Missouri Public Service Commission (Commission):

1. The Commission's Suspension Order and Notice, dated April 6, 2009, directed MGE to file by April 20, 2009, a pleading stating its recommendation concerning the proper test year for use in this case and any request MGE may have for a true-up audit and hearing.

TEST YEAR

2. As stated in the Direct Testimony of MGE witness Michael R. Noack (p. 3), MGE recommends that the Commission establish the twelve months ended December 31, 2008, adjusted for known and measurable changes, as the test year for this case. MGE's direct testimony has been based on this time period. It provides a good foundation for the case, as it provides a complete calendar year of audited financial information.

UPDATE

3. MGE further recommends that the test year be updated through June 30,

2009 (Noack Direct, p. 3-4). This process would provide a relatively current time period of actual experience upon which to base rates for the future (*Id.*). Further, the relevant data should be available by August 7, 2009, leaving sufficient time for the Staff and other parties to take it into account in their direct testimony filing.

TRUE-UP

4. Lastly, MGE hereby requests that the Commission “true-up” certain cost components through September 30, 2009. In *In re Kansas City Power & Light Company*, 26 Mo.P.S.C.(N.S.) 104, 110 (1983), the Commission described the test year as follows:

The purpose of using a test year is to create or construct a reasonable expected level of earnings, expenses and investments during the future period in which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward to exclude unusual or unreasonable items, or include unusual items, by amortization or otherwise, in order to arrive at a proper allowable level of all of the elements of the Company's operations. *The Commission has generally attempted to establish those levels at a time as close as possible to the period when the rates in question will be in effect.*

(emphasis added).

5. The true-up process is a tool that can be used to accomplish the goal of establishing a “reasonable expected level of earnings, expenses and investments” “at a time as close as possible to the period when the rates in question will be in effect.” The Commission further stated in *Kansas City Power & Light Company* that “[t]he true-up procedure has received broad acceptance as a proper ratemaking tool. A true-up permits adjustments outside of the test year without improperly disturbing the revenue-expense relationship.” *Id.*

6. The Commission has adopted a true-up procedure in all of MGE's rate cases that have been concluded since 1996. This is because the natural gas distribution business generally (to include MGE's business) has shown a consistent pattern of increasing revenue requirements/cost of service over time. Nothing has changed in this regard since MGE's last rate case. Moreover, and notwithstanding this fact, as explained in the direct testimony of Robert J. Hack (Hack Dir., p. 16-18), the historic regulatory process has resulted in MGE's rates being established based on assumptions that have not reasonably reflected the reality of the Company's operations. For these additional reasons, it is imperative that MGE's request for a true-up be granted.

7. MGE has proposed a true-up in this case to address certain factors. First, because construction and line replacements for MGE are limited by the Missouri weather, a substantial amount of its annual capital projects will be completed in the proposed true-up period. MGE has budgeted approximately \$12,000,000, of capital investment that it plans to place in service between June 30, 2009 and September 30, 2009. This investment represents approximately \$1,700,000, of additional annual revenue requirement.

8. Second, MGE plans to hire approximately 25 outside plant personnel during the summer of 2009. This would add approximately \$1,500,000 to the Company's annual revenue requirement. MGE also plans at least 4 customer service representatives during the summer of 2009 to fill current vacancies in time to be trained for the 2009/2010 winter season. This would add approximately \$240,000 to the annual

revenue requirement.

9. Lastly, to the extent the Commission uses a capital structure based on Southern Union Company's actual debt and equity ratios, because MGE expects the debt/equity ratio to change during the true-up period, the capital structure should also be trued-up to reflect the most current percentages.

10. Accordingly, MGE seeks inclusion in its revenue requirement and rates of certain revenues that will be experienced, expenses that will be incurred, investments that will be made and certain items that will be known on or before September 30, 2009. The items of revenue, expense and investment which the company proposes to True-Up are as follows:

RETURN:

- Capital Structure and related costs (unless a hypothetical capital structure is adopted)

RATE BASE:

- Plant in Service
- Depreciation Reserve
- Deferred Taxes
- Working Capital components including Materials and Supplies, Natural Gas Storage Inventory and Prepaid Expenses

INCOME STATEMENT:

- Revenue for Customer Growth
- Payroll, Employee Levels and Current Wage Levels
- Pension Costs
- Injuries and Damages
- Rate Case Expense
- Depreciation and Amortization Expense
- Property Taxes (to include Kansas property tax on gas in storage)
- Related Income Tax Effects
- Uncollectible Revenue

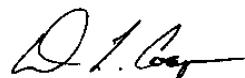
11. If the Company's request for true-up audit and hearing is denied and the

above-enumerated items of revenues, expenses and investments are not taken into account in the setting of its rates, the Company will be denied an opportunity to earn the authorized rate of return which the Commission determines is appropriate in this proceeding.

12. MGE's package of adjustments is proposed with the intent of maintaining the proper matching of revenue, expense and rate base. The true-up process allows the Commission to establish rates based upon the most current data available, while maintaining the proper balance of rate elements. MGE believes that its use in this case would accomplish that goal.

WHEREFORE, MGE respectfully requests the Commission adopt the above-described test year, as adjusted and updated, and true-up for the captioned proceeding.

Respectfully submitted,



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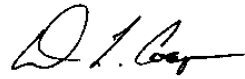
ATTORNEYS FOR MISSOURI GAS ENERGY,
A DIVISION OF SOUTHERN UNION
COMPANY

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 20th day of April, 2009, to:

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