

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

In the matter of the application of Missouri)
Gas Utility, Inc., for a certificate of)
convenience and necessity authorizing it to)
construct, install, own, operate, control,)
manage and maintain a natural gas)
transmission line and a distribution system to)
provide gas service in Greene, Polk and)
Dallas Counties, Missouri, as a new
certificated area.

Case No. GA-2010-0189

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its Recommendation, states as follows:

1. On December 22, 2009, Missouri Gas Energy (MGU or Company) filed the above-captioned application seeking a certificate of convenience and necessity (CCN) authorizing it to construct, install, own, operate, control, manage and maintain a natural gas transmission line and a distribution system to provide gas service in Greene, Polk and Dallas Counties.

2. On December 28, 2009, the Commission issued it *Corrected Notice of Application, and Order Regarding Motions for Intervention and Staff's Recommendation* which allowed parties to file intervention requests not later than January 12, 2010. No parties applied to intervene. On January 28, 2010, the Commission directed Staff to file its recommendation no later than February 5, 2010.

4. Section 393.170 RSMo requires the Commission to address the question of approving the service territory of public utilities and whether the provision of that service is necessary or convenient. Commission Rule 4 CSR 240-3.205(1)(E) requires applicants to state “The facts showing that the granting of the application is required by the public convenience and necessity.” The term “necessity” means the additional service would be an improvement justifying its costs.¹ Furthermore, the Commission’s allocation of service territory must be done on the basis of public interest.²

5. The Staff has reviewed MGU’s application and submits its Recommendation in Staff’s Memorandum, attached hereto as Appendix A. Staff is of the opinion that MGU has the operational capability to provide gas service in its requested service area and the requested CCN area for gas service would not jeopardize natural gas service to the Company’s current existing customers. However, Staff believes this Application would be in the public interest only if certain conditions are attached as further detailed in Appendix A.

WHEREFORE, for the above stated reasons, Staff respectfully recommends the Commission grant Missouri Gas Utility’s Application to provide gas service in Greene, Polk and Dallas Counties, Missouri, as a new certificated area so long as the conditions listed in the Staff Memorandum are ordered as well.

¹ *State ex rel. Intercon Gas, Inc. v. Public Service Com’n of Missouri*, (1993), 848 S.W.2d 593.

² *State ex rel. Consumers Public Service Co. v. Public Service Commission*, (1944), 180 S.W.2d 40, 352 Mo. 905.

Respectfully submitted,

/s/ Samuel D. Ritchie

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered or transmitted by facsimile or electronic mail to all counsel of record this 5th day of February 2010.

/s/ Sam Ritchie

MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. GA-2010-0189, Missouri Gas Utility, Inc.

FROM: Kim Cox, Energy Department - Tariffs/Rate Design
Kim Bolin, Auditing Department
Derick Miles, Procurement Analysis Department

/s/ Thomas M. Imhoff 02/05/10
Energy Department/Date

/s/ Samuel D. Ritchie 02/05/10
General Counsel's Office/Date

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

DATE: February 5, 2010

On December 22, 2009, Missouri Gas Utility, Inc. (MGU or Company) filed an APPLICATION (Application) with the Missouri Public Service Commission (Commission). The Application requests that the Commission grant MGU a certificate of convenience and necessity (CCN) authorizing it to construct, install, own, operate, control, manage and maintain a natural gas transmission line and a distribution system to provide gas service in Greene, Polk and Dallas Counties in Missouri, as a new certificated area.

On December 28, 2009, the Commission issued a CORRECTED NOTICE OF APPLICATION, AND ORDER REGARDING MOTIONS FOR INTERVENTION AND STAFF'S RECOMMENDATION (Order). The order stated that any motion to intervene was due no later than January 12, 2010 and that the Commission Staff shall file its recommendation no later than January 27, 2010.

On January 28, 2010, the Commission issued an ORDER SETTING DATE FOR FILING RECOMMENDATION (Order) in response to Staff's Status Report filed on January 27, 2010. The order stated that the Staff shall file its recommendation no later than February 5, 2010.

On February 1, 2010, MGU filed MGU'S REVISED MOTION FOR LEAVE TO AMEND APPLICATION, which included a corrected description of the application and an Amended Appendix B. The Amended Appendix B corrected certain matters associated with an estimated usage error.

On January 12, 2010, Missouri Gas Energy ("MGE") submitted an application to intervene. MGE sought intervention because the area for which MGU seeks a line certificate runs adjacent to the present service territory of MGE. In addition, the proposed pipeline will cross MGE's natural gas distribution lines. No other party has requested intervention. The Commission should be aware that MGU will face competition from well-established propane dealers who are not regulated by the Commission.

The Staff reviewed the application, feasibility studies, and materials submitted by MGU. MGU's projected customer count was based on an 80.9% conversion of full-time propane using customers. The projected customer counts at the end of year five are as follows: Residential or General Service Customers – 1,590; Commercial Services Customers 176; and Large Volume Service Customers 1, for a total of 1,767 customers. MGU provided a projected average usage, monthly customer charges and commodity charges for each customer class. The charges used in the calculation are the same rates approved by the Commission for the area certificated in Case Nos. GA-2009-0264, GA-2009-0422 and GA-2010-0012.

The Procurement Analysis Department (PAD) Staff reviewed the peak day estimations and reserve margins for the additional capacity required to serve Bolivar, Buffalo, and surrounding areas in Greene, Polk, and Dallas counties. MGU plans to obtain additional capacity on Southern Star Central Gas Pipeline (Southern Star) in order to serve these areas. Although MGU possesses capacity on Southern Star due to the newly certificated Benton County area, it will have to seek additional capacity, with a separate transportation contract, because Bolivar and Benton counties are served by a different leg of Southern Star.

As a result of data requests submitted for this expansion, MGU submitted a revised Appendix B. A review of this updated information supports MGU's estimate of a 6% reserve margin in Year 5 for the capacity that will be acquired as a result the addition of these new areas. The Company's estimation of peak day considers usage-per-customer, based on data from its system located in Northwest and Central Missouri. Upon completion of the first winter for this new area, Staff recommends MGU provide updated peak day estimates by June 1st for this Southern-most portion as the usage-per-customer may be different from that of the Northern region. Staff finds the Company's conservative approach to identifying capacity needs for the newly acquired area acceptable. Staff will review the capacity needs for MGU in the context of its annual ACA filings.

The Auditing Department Staff reviewed the feasibility study and found the results of the study to be reasonable. MGU's feasibility study presented a five year projection of revenue and the cost of providing utility services for the proposed service area. All estimated operation and maintenance expenses, labor and administrative costs including corporate overhead costs included in the feasibility study were examined and compared to previous feasibility studies performed by MGU that were included in Case Nos. GR-2009-0264 and GR-2010-0012.

MGU has twenty year franchise agreements with the cities of Bolivar and Buffalo. The Line will begin at a tap on the Southern Star Pipeline transmission line in Section 23, Township 28 North, Range 23 West. The first segment is approximately 21.7 miles and will have no taps or customers served. The line will cross natural gas distribution lines operated by the City of Springfield Municipal Utilities and by Missouri Gas Energy. MGU is requesting a line certificate for the first segment. From the north end of the first segment, at the intersection of the south line of Section 27, Township 31N, Range 22W and Highway 13 the line will continue for approximately 32.5 miles. MGU is requesting a certificate of convenience and necessity for the area north of the first segment.

In Staff's opinion, the Feasibility Study filed by MGU to provide natural gas in the requested service area shows MGU's proposal to be economically feasible. Staff is also of the opinion that the proposal contains

risks, and the Feasibility Study alone is not enough to make the project feasible. In Staff's opinion, the proven ability of MGU to attract and secure acceptable financing is the best indicator for success of the project.

Staff recommends the Commission order that MGU maintain separate records for the proposed certificated area and that, for each certificated area, MGU perform separate class cost of service studies and revenue requirements when MGU files its next rate case.

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

1. MGU has the operational capability to provide gas service in its requested service area; and
2. The requested CCN area for gas service would not jeopardize natural gas service to the Company's current existing customers.

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

1. MGU's shareholders are totally responsible for the success of this project, with no liability or responsibility put on customers;
2. MGU shall keep separate books and records for the proposed service area;
3. MGU shall file separate class cost of service studies and revenue requirements for this new service area in its next rate case;
4. MGU shall use the depreciation rates currently on file with the Commission;
5. MGU shall submit to a rate review for this certified area 36 months after the effective date of the order in this case; and
6. MGU shall obtain adequate capacity on the pipeline to reliably serve all customers in this area, including capacity necessary to serve any future growth.

Therefore, Staff recommends that MGU be granted a CCN to serve the requested areas in Greene, Polk and Dallas Counties, in the State of Missouri. Staff also recommends the Company file revised tariff sheets reflecting this proposed CCN in this case within thirty (30) days of the Commission's Order approving this Application.

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

