

MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2008-0113, File No. YG-2008-0240 – Missouri Gas Energy

FROM: Keith Majors, Auditing Department
Karen Herrington, Auditing Department
Michael Ensrud, Tariffs/Rate Design - Energy

/s/ Thomas M. Imhoff 12/17/07
Project Coordinator / Date

/s/ Lera L. Shemwell 12/17/07
General Counsel's Office / Date

SUBJECT: Staff Report and Recommendation Regarding the Application of Missouri Gas Energy Seeking the Missouri Public Service Commission's Approval to Re-establish an Infrastructure System Replacement Surcharge

DATE: December 17, 2007

BACKGROUND

On October 17, 2007 Missouri Gas Energy (MGE) a division of Southern Union Company (Southern Union) filed an Application and Petition (Application) to change its tariffed rate for the Infrastructure System Replacement Surcharge (ISRS).

This tariff sheet (File No. YG-2008-0240 proposes to re-establish ISRS rates, after the ISRS rates were reset to zero in Case No. GR-2006-0422. MGE requests an adjustment to ISRS rates for ISRS eligible replacements and relocations through its ISRS rate schedule.

Commission Rule 4 CSR 240-3.265(11) states that "the staff of the Commission may examine information of the gas corporation to confirm that the underlying costs are in accordance with the provisions of Sections 393.1009 to 393.1015, RSMo, and to confirm" proper calculation of the proposed charge. The Staff "may submit a report regarding its examination to the Commission no later than sixty days" after the petition is filed. .

On November 14, 2007, the Commission issued ORDER DIRECTING STAFF TO FILE REPORT. Staff was directed to file a report no later than December 17, 2007. This memo is Staff's response to that requirement.

THE APPLICATION

MGE's previous ISRS rates were set at zero as part of GR-2006-0422. This filing re-establishes ISRS rates. Since MGE's last general rate case, Case No. GR-2006-0422, the Company has

continued to incur ISRS-related costs on ISRS qualifying plant investments. In its Application, MGE is seeking to recover costs for ISRS plant placed in service during the period November 1, 2006 through September 30, 2007. These costs, reflected in this ISRS filing, are intended to generate an additional \$1,418,961 of annual revenue. The Company's proposed ISRS tariff in this application would take effect no later than February 17, 2008 (120 days after MGE's Application was filed).

STAFF'S CONCLUSIONS

Based on its examination and calculations, the Staff has determined that the Company's ISRS rates should be designed to recover annual ISRS revenues of \$1,339,878.

Based on a review of MGE's ISRS Application, responses to Staff data requests and a review of MGE's ISRS work papers and plant work orders, the Staff is proposing two adjustments that reduce MGE's proposed level of ISRS revenues by \$79,083.

The Staff's first adjustment removes the amount of property tax payments that will not be made within one year of the ISRS Application as required by 4 CSR 240-3.265 (1)(E). In its Application, MGE included property taxes for ISRS plant placed in service from January 2, 2007 to September 30, 2007. The property taxes on this plant will not be due until December 31, 2008. Property taxes for 2007 are assessed on property owned on January 1, 2007. Property taxes will not be paid in 2007 for plant completed after January 1, 2007 (January 2 to September 30, 2007) but will be due December 2008.

The Staff's second adjustment removes the effect of a work order that the Staff believes will result in: (1) additional revenues to MGE and (2) was not ordered by an entity with the power of eminent domain as required for inclusion in an ISRS. These requirements are listed in 4 CSR 240-3.265.(1)(A)(3)(3) and 4 CSR 240-3.265.(1)(G)(3), respectively.

The Staff had discussions with MGE personnel and MGE indicated that it is not opposed to the Staff's adjustments.

MGE's proposed filed rates should be replaced with those rates calculated in Attachment 1. This computation is consistent with past Staff practice when computing rates for an ISRS revenue requirement that is not equal to what was initially proposed. This ISRS filing is subject to a "true-up" which will ensure that MGE will not over or under-collect on these rates relating to its ISRS related investments.

MGE's proposed ISRS rates are based on the twelve-month average of customer counts for the period October 2005 through September 2006.

The Staff has verified that this company has filed its annual report and is not delinquent on any assessment. Staff is not aware of any other matter before the Commission that affects or is

affected by this filing.

STAFF'S RECOMMENDATIONS

Based upon the Staff's conclusions, the Staff recommends that the Commission issue an order in this case that:

1. Rejects the tariff sheet filed by MGE on October 17, 2007, (assigned tariff number YG-2008-0240);
2. Authorizes MGE to file a tariff to impose an Infrastructure System Replacement Surcharge that is sufficient to recover appropriate annual pre-tax revenues in the amount of \$1,339,878.
3. The ISRS rates should be consistent with those calculated by Staff as shown on Attachment 1.

Missouri Gas Energy

GO-2008-0113

YG-2008-0240

Company's Total ISRS Revenues \$1,339,878

Number of Customers	Customer Charges	Ratio To Res. Cust. Charge	Weighted Customer #	Customer Percentage	ISRS charge	ISRS Revenues
444,834	\$24.62	1.0000	444,834	86.6203%	\$0.22	\$1,160,606
67,653	\$18.39	0.7470	50,534	9.8402%	\$0.16	\$131,846
325	\$108.91	4.4236	1,438	0.2800%	\$0.96	\$3,751
493	\$835.95	33.9541	16,739	3.2596%	\$7.38	\$43,674
<u>513,305</u>			<u>513,545</u>	<u>100.0000%</u>		<u>\$1,339,878</u>

* Due to rounding to the nearest penny, the designed ISRS rates will over collect by \$11,782. However, it should be noted that the total amount collected will be true-up at a later date.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of)
Missouri Gas Energy, A Division of)
Southern Union Company, for Approval)
to Change its Infrastructure System)
Replacement Surcharge.)

Case No. GO-2008-0113

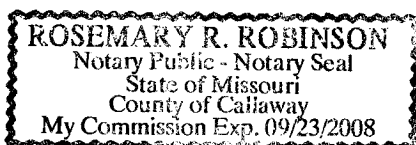
AFFIDAVIT OF MICHAEL J. ENSRUD

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Michael J. Ensrud, of lawful age, on oath states: that he has participated in the preparation of the foregoing written memorandum, to be presented in the above case; that the information in the attached written report were given by Missouri Gas Energy; that he has knowledge of the matters set forth in such memorandum; and that such matters are true to the best of his knowledge and belief.


Michael Ensrud

Subscribed and sworn to before me this 17th day of December, 2007.




Notary Public