

Opposition to Agreement and Request for Evidentiary Hearing as described in the body of this order.”

Response

4. Staff generally denies that its revenue requirement calculation recognizes any acquisition adjustment (either premium or discount). Staff’s revenue requirement was calculated using the Company’s net original cost minus accumulated depreciation.

5. OPC alleges that “...the revenue requirement agreed to by Staff and SMGC may include an acquisition premium above the value of the plant being included in rate base.” Staff assumes that by this OPC intended to allege that Staff had possibly included in Staff’s calculation of SMNG’s rate base an acquisition adjustment above the fair market value of the system at the time of a prior sale to a previous owner of the system.¹

6. Staff has insufficient information to admit or deny this allegation. Staff has not pursued this information because its calculation of revenue requirement relied on imputed sales volumes in lieu of a write-down of rate base, in accordance with the method adopted by the Commission in its September 16, 1994, Report and Order Granting a Certificate of Convenience and Necessity, in Case No. GA-94-127. Further, in the course of its audit, Staff did explore the revenue requirement that would result from use of a write-down approach. Staff determined that if the write-down approach were to be adopted, the best regulatory practice for determining the proper valuation of the system would utilize the fair market value of the system at the time of acquisition by the system’s current owners.

¹ Specifically, OPC appears to allege that Staff and Company should have “written-down” the assets of the Company’s regulated utility’s books to the fair market value of the system at the time of the sale of the system from DTE Enterprises, Inc. and Dte Ozark, Inc. (DTE) to Sendro SMGC LP Acquisition Company, LLC, Sendro SMCG GP Acquisition Company, LLC (“Sendero”) at the time of that sale in 2005. Sendero sold the system to its current owners on July 15, 2008.

7. OPC alleges that “[i]ncluding the acquisition premium in rates would be significantly detrimental to ratepayers because it would force ratepayers to overcompensate SMGC for plant that has been written-down as impaired assets.”

8. Staff denies that SMNG has written-down the assets on its regulated books. Staff admits that inclusion of acquisition adjustments in calculation of revenue requirement is not best regulatory practice.

9. OPC alleges that “[r]ate base should include the value of the assets after the write down to reflect the true value of the assets without forcing ratepayers to pay an acquisition premium.”

10. Staff denies that SMNG has written-down the assets on its regulated books. Staff admits that inclusion of acquisition adjustments in calculation of revenue requirement is not best regulatory practice.

WHEREFORE, Staff submits its response to the *Office of Public Counsel’s Response in Opposition to Agreement and Request for Evidentiary Hearing*, in compliance with the Commission’s December 16, 2010, *Notice of Contested Case and Order Directing Response*.

Respectfully submitted,

/s/ Sarah Kliethermes

Sarah L. Kliethermes
Associate Counsel
Missouri Bar No. 60024

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-6726 (Telephone)
(573) 751-9285 (Fax)
sarah.kliethermes@psc.mo.gov

Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 22nd day of December 2010.

/s/ Sarah Kliethermes
Sarah L. Kliethermes