



Commissioners
KELVIN L. SIMMONS
Chair
SHEILA LUMPE
CONNIE MURRAY
STEVE GAW

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
<http://www.psc.state.mo.us>

September 6, 2001

WESS A. HENDERSON
Director, Utility Operations
ROBERT SCHALLENBERG
Director, Utility Services
DONNA M. KOLILIS
Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

FILED³

SEP 6 2001

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GO-2002-50

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Dennis L. Frey
Associate General Counsel
(573) 751-8700
(573) 751-9285 (Fax)
dfrey03@mail.state.mo.us

DLF:ccl
Enclosure
cc: Counsel of Record

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

In the Matter of Missouri Gas Energy's)
Application for Approval of Certain)
Matters Pertaining to Ongoing Cast Iron)
Main and Service/Yard Line Replacement)
as Part of its Safety Line Replacement)
Program.)

Case No. GO-2002-50

STAFF RECOMMENDATION

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

1. On July 30, 2001, Missouri Gas Energy ("MGE"), a division of Southern Union Company, filed an Application for approval of certain matters pertaining to ongoing cast iron main and service/yard line replacement as a part of MGE's Safety Line Replacement Program ("SLRP"), pursuant to 4 CSR 240-40.030(15)(C) and (D).

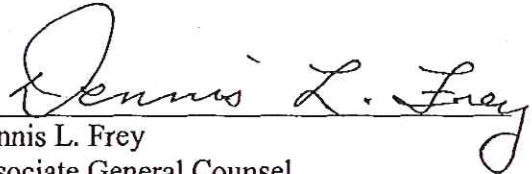
2. In the attached Memorandum (Appendix A), the Staff recommends approval of the Application, with two minor modifications to which MGE has agreed; namely, the deletion of the last sentence of subparagraph 11D of the Application and the addition of the following item to the list in paragraph 14: "Number of cast iron main leaks cleared by pipe diameter;". In addition, the Staff recommends: a) that the Commission approve MGE's requested modification of the waiver granted in Case No. GO-99-302, and direct that a copy of the Commission's order in the instant case be filed in Case No. GO-99-302; and b) in the event the Commission determines that the new SLRP costs to be incurred in connection with the instant Application may be deferred under the accounting authority order ("AAO") granted in Case No. GR-2001-

292, that the Commission state, in its order in the instant case, that the terms and conditions for SLRP deferral found in said AAO are fully applicable to said new SLRP costs.

WHEREFORE, the Staff requests that the Commission approve MGE's Application, as amended in the attached Memorandum, and adopt, as applicable, the additional recommendations set forth therein.

Respectfully submitted,

DANA K. JOYCE
General Counsel

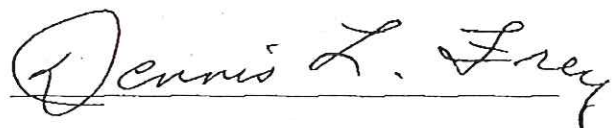


Dennis L. Frey
Associate General Counsel
Missouri Bar No. 44697

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-8700 (Telephone)
(573) 751-9285 (Fax)
e-mail: dfrey03@mail.state.mo.us

Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 6th day of September 2001.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GO-2002-50, Missouri Gas Energy

FROM: ^{RL} Robert Leonberger and ^{JK} John Kottwitz, Energy Department – Safety/Engineering

Robert K. Leonberger / 9/4/2001
Project Coordinator / Date

Thomas R. Schwanz Jr. 9/5/01 9-5-01
General Counsel's Office / Date

SUBJECT: Staff Recommendation for Approval of an Ongoing Replacement Program

DATE: September 4, 2001

Missouri Gas Energy Application

On July 30, 2001, Missouri Gas Energy (MGE) filed an APPLICATION requesting approval of certain matters pertaining to its ongoing cast iron main and service/yard line replacement programs, pursuant to 4 CSR 240-40.030 (15)(C) and (15)(D). MGE's replacement programs are also known as the Safety Line Replacement Program (SLRP). MGE's past and current replacement programs for service/yard lines have been approved in Case Nos. GO-91-239, GO-92-295 and GO-99-302, and have resulted in the replacement of more than 230,000 service/yard lines. MGE's cast iron main replacement program was approved in Case No. GO-91-277 and resulted in the replacement of nearly 300 miles of cast iron mains, but it ended in 2000. The Application includes a new long-term replacement program for cast iron mains, as required by 4 CSR 240-40.030(15)(D)2. In addition to cast iron main replacements, the Application proposes a more comprehensive program that covers the repair of cast iron joint leaks and the replacement of copper service lines, protected (cathodically-protected) bare steel mains, and unprotected (not cathodically-protected) steel service/yard lines. The Application requests that the program be scheduled and reported using MGE's fiscal year of July 1 to June 30.

The long-term cast iron main replacement program involves the minimum replacement of 5 miles per year. Past and future cast iron main fractures will be tracked and, under specific criteria, will trigger a required cast iron main replacement schedule for the main segment where fractures have occurred. A cast iron coupon (test sample) will be collected at each cast iron main fracture and will be analyzed to determine what percentage of the pipe wall exhibits graphitization (corrosion). If the percentage of graphitization exceeds the applicable criterion, this cast iron main segment will be replaced within 24 months. Special emphasis will be also given to the following cast iron mains: intermediate pressure (2 psig to 60 psig) beneath wall-to-wall pavement or near public concentrations; 3-inch diameter; in areas of disturbed soil support subject to the requirements of subsection (13)(Z); in areas of planned future developments; and in close proximity to extensive excavation, blasting, or construction activities. MGE will also place emphasis on segmenting its low-pressure (30" water column) system by extending intermediate pressure mains to areas with a history of fractures, so that replacements in those areas can be more efficient and cost-effective.

Beyond the replacement considerations in the previous paragraph, MGE proposes to repair no less than 400 leaking cast iron bell joints annually on cast iron mains that are not targeted for replacement. This will continue until leaks of this category are eliminated. Significantly more than 800 joint leaks will be repaired in the first two fiscal years ending June 30, 2003. MGE will continue to annually leak survey all 4-inch diameter and smaller cast iron mains, and to semi-annually leak survey cast iron mains in business districts.

MGE also seeks approval for several other provisions related to protected bare steel mains, copper service lines, and unprotected steel service/yard lines, including modification of the waiver granted in Case No. GO-99-302. MGE proposes to replace a minimum of 5 miles of protected bare steel mains per year, which will be triggered by a 5-5-3 program (5 leaks within 500 feet within a 3-year period). MGE proposes to replace all copper-related service lines (approximately 2,700) by June 30, 2006, and all leaking unprotected steel service/yard lines (approximately 1,200) by June 30, 2003. Instead of replacing all unprotected steel service/yard lines by December 31, 2004, as approved in Case No. GO-99-302, MGE proposes to have them all replaced by June 30, 2020 (averaging approximately 2,310 annually). Any new leaks discovered on these unprotected steel service/yard lines will be classified no lower than Class 3 and will be replaced within 5 years.

The Application includes a paragraph requesting that the costs associated with these replacements and/or rehabilitations be eligible for deferral under any current Accounting Authority Order (AAO) for SLRP related costs that has been granted by the Missouri Public Service Commission (Commission). Approval of this provision shall not be construed as requiring the Commission to grant future AAOs for these costs or to mandate subsequent rate recovery of costs deferred through current or future AAOs.

If the Application is approved, MGE will submit an annual status report to the Commission's Energy Department – Safety/Engineering Section (Staff) and the Office of Public Counsel. The report will include status information on 13 items at the end of each fiscal year ending on June 30, and will be submitted by September 24 of each year.

Staff Response

The Application is the result of extensive discussions between MGE and the Staff. These discussions began last year when the Staff requested a long-term replacement program for cast iron mains from MGE, as required by 4 CSR 240-40.030(15)(D)2. MGE's short-term cast iron replacement program required by paragraph (15)(D)1., and approved in Case No. GO-91-277, ended on December 31, 2000. The Staff recognizes and commends MGE on the effort required to complete that program and replace nearly 300 miles of cast iron main from 1992 through 2000. As a result, a large portion of the cast iron mains covered by paragraph (15)(D)1. have been replaced.

As indicated in the Application, MGE had not considered the long-term cast iron program requirement when submitting an application in 1999 to shorten the replacement deadline for unprotected steel service/yard lines from December 31, 2009 to December 31, 2004. Due to this and other factors (including copper service lines, cast iron joint leaks, and protected bare steel main leaks), the Staff has agreed with MGE that the entire system (not just cast iron) should be evaluated with regard to current leak inventory and the risk potential. This evaluation includes the fact that the replacement of all customer-owned service lines (considered by the Staff to have been the most hazardous facility in MGE's system) was completed on October 30, 2000. The remaining unprotected steel service/yard lines are either company-owned service lines or customer-owned yard lines that have a much lower risk potential, and most of the leaking lines have already been replaced. A substantial leak inventory has accumulated on cast iron bell joints and on cathodically-protected bare steel mains, and both MGE and the Staff agree this leak inventory needs to be minimized. A potential risk with copper service lines has been identified in another part of Missouri, and MGE has agreed to the Staff's request to consider replacing them. The Staff believes that MGE's proposals contained in the Application are an acceptable approach for addressing MGE's entire system.

The Staff believes that the long-term cast iron main replacement program contained in the Application is acceptable under the requirements of 4 CSR 240-40.030(15)(D)2. Most importantly, it covers each of the high-priority types of cast iron mains listed under paragraph (15)(D)1., with the greatest priority given to cast iron mains with fracture history or substantial graphitization. The highest potential for risk with cast iron mains is a fracture, and substantial graphitization indicates the pipe is weakened and more likely to fracture. The replacement criteria and schedule for cast

iron fractures are based on similar provisions contained in an ongoing replacement program for Laclede Gas Company (Laclede) that was approved by the Commission in Case No. GO-91-275. The replacement criteria and schedule for graphitization found in coupons are more stringent than ones used previously by MGE, which were based on a Kansas Corporation Commission regulation. The Staff notes a program item where a semi-annual patrol and replacement/rehabilitation emphasis are proposed, instead of scheduled replacement, for 1.6 miles of large diameter cast iron mains beneath wall-to-wall pavement or near public concentrations. This proposal corresponds to a provision that was approved by the Commission for Laclede in Case No. GO-91-275, and the Staff believes this is also acceptable for MGE due to the very low risk of fracture associated with large diameter cast iron pipe. For cast iron mains that are not prone to fracture and are not targeted for replacement, the Staff agrees with MGE's proposal to repair the leaking bell joints and significantly reduce its leak inventory. Low-pressure bell joint leaks have a low potential for risk.

The Staff believes that the request in the Application to modify the waiver granted in Case No. GO-99-302 should be approved. This will extend the replacement deadline for unprotected steel service/yard lines from 2004 to 2020 and reduce the average number of annual replacements to approximately 2,310. The Staff recognizes that this involves an abnormally long extension of the replacement deadline, but the Staff believes it is justified by the increased attention on facilities with a higher risk potential (copper-related service lines and protected bare steel mains, discussed further below) and the fact that Laclede has already been granted a deadline of 2020 for unprotected steel service/yard lines in Case No. GO-99-155. Also, MGE previously had a later deadline under its first waiver, which extended the replacement deadline from 1999 to 2009 and was granted by the Commission in Case No. GO-92-295. As discussed above (and in previous waivers for MGE, Laclede, and AmerenUE), the risk for these remaining lines is low because the yard lines operate at low-pressure and the service lines were installed using better materials and installation practices by the gas company (one of MGE's predecessors, in this case) instead of the customer. All existing leaks on these service/yard lines will be replaced by June 30, 2003, and any new leak will be classified no lower than Class 3, which requires replacement within 5 years. In addition, these unprotected steel service/yard lines will continue to be annually leak surveyed as required under subsections (13)(M) and (15)(C).

The Staff believes that the replacement program for copper-related service lines contained in the Application should be approved. In the wake of the copper service line problems experienced by Laclede that have resulted in an extensive leak survey and replacement program, the Staff has requested that other Missouri gas system operators with copper service lines consider a leak survey and replacement program for copper service lines. The Staff appreciates the fact that MGE has brought forward a copper service line replacement program in this Application.

The Staff believes that the replacement program for cathodically-protected bare steel mains contained in the Application should be approved. These bare steel mains were not cathodically protected for many years following installation and then from 1992 to 1997, cathodic protection was added to these mains under a program approved by the Commission in Case No. GO-91-277. A large number of leaks have accumulated on these mains and the Staff agrees that a replacement program is needed. The annual reporting of leaks and replacements of these protected bare steel mains will allow MGE and the Staff to monitor the appropriate level of replacements for these mains. The 5-5-3 criterion is one that was used by MGE's predecessors for many years and is a good initial criterion for this program.

MGE's request that the SLRP costs to be incurred as a result of Commission approval of this Application be allowed deferral treatment pursuant to the SLRP AAO granted by the Commission in its Order in Case No. GR-2001-292, dated July 5, 2001, is acceptable to the Staff, under the condition that the terms and conditions for a SLRP deferral found in the Order in Case No. GR-2001-292 are deemed to be fully applicable to new SLRP costs incurred if this Application is approved.

During the Staff's review of the Application as compared to Staff's discussions with MGE, two minor errors were noted. The Staff has discussed the two items with MGE, and MGE agrees that these two items should be corrected.

Since they are minor changes, MGE agreed that Staff should address them in this recommendation instead of amending the Application. First, in subparagraph 11D on page 8 of the Application, the last sentence "In addition, in an effort ..." should be deleted. This sentence incorrectly states that existing Class 4 leaks on unprotected steel service/yard lines will be re-classed to Class 3 and repaired within 5 years. Instead, all unprotected steel service/yard lines that have an existing leak (including all existing Class 4 leaks) will be repaired no later than June 30, 2003 in accordance with subparagraph 11B on page 7 of the Application. For new leaks discovered on unprotected steel service/yard lines in the future, MGE will no longer use the Class 4 leak classification that does not include a repair deadline. Second, an item was inadvertently left out of the Status Report list in paragraph 14 on page 9 of the Application. The item should have followed item J and should have stated "Number of cast iron main leaks cleared by pipe diameter;"

Staff Recommendations

The Staff recommends that the Commission approve the Application with the two following modifications that are agreeable to MGE. The first modification is to delete the last sentence of subparagraph 11D on page 8 of the Application. The second modification is to add the following item to the list in paragraph 14 on pages 9 and 10 of the Application: Number of cast iron main leaks cleared by pipe diameter.

The Staff recommends that the Commission approve a modification of the waiver granted in Case No. GO-99-302, as requested in the Application. If this modification of the waiver is granted by the Commission, the Staff further recommends that a copy of the Order in this case or a Notice to Case No. GO-99-302, or both, be filed in Case No. GO-99-302 to reflect the change.

If the Commission approves the Application and MGE's request in the Application that the SLRP costs to be incurred as a result be allowed deferral treatment pursuant to the SLRP AAO granted by the Commission in its Order in Case No. GR-2001-292, dated July 5, 2001, the Staff recommends that the Commission include a condition or finding that the terms and conditions for a SLRP deferral found in the Order in Case No. GR-2001-292 are fully applicable to new SLRP costs incurred if this Application is approved.

Service List for
Case No. GO-2002-50
Verified: September 5, 2001 (ccl)

Office of the Public Counsel
P. O. Box 7800
Jefferson City, MO 65102

Robert J. Hack
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5755

ROBERT J. HACK

Vice President, Pricing & Regulatory Affairs

September 6, 2001

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102-0360

FILED³

SEP 7 2001

Missouri Public
Service Commission

RE: Case No. GO-2002-50, Missouri Gas Energy

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter, please find an original and eight (8) conformed copies of **Missouri Gas Energy's Response to Staff Recommendation**.

A copy of this filing has been mailed or hand-delivered this date to counsel of record.

Thank you for bringing this matter to the attention of the Commission. Please call me if you have any questions regarding this matter.

Sincerely,

C: Dennis L. Frey
Douglas E. Micheel
Steve Holcomb
Jim Gorman

Enclosures

Schedule JAR-D-4

9/34

FILED³

SEP 7 2001

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy's)
Application for approval of certain matters)
Pertaining to ongoing cast iron main and)
Service/yard line replacement as a part of)
Safety Line Replacement program.)

Missouri Public
Service Commission

Case No. GO-2002-50

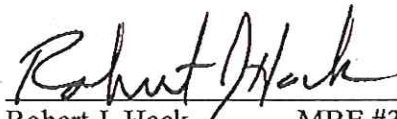
MISSOURI GAS ENERGY'S RESPONSE TO STAFF RECOMMENDATION

Comes now Missouri Gas Energy ("MGE"), a division of Southern Union Company, by and through counsel and for its response to the recommendation filed by the Commission's Staff herein on or about September 6, 2001, respectfully states as follows:

1. MGE has reviewed the Staff Recommendation and hereby states its agreement to the two (2) modifications recommended by the Staff on page 4.

Wherefore, MGE respectfully request that the Commission issue its order approving the provisions of paragraphs 10, 11, 12, 13 and 14 of the Application as modified in the two respects suggested at page 4 of the Staff Recommendation.

Respectfully submitted,



Robert J. Hack MBE #36496

3420 Broadway

Kansas City, MO 64111

(816)360-5755

FAX: (816)360-5536

e-mail: rob.hack@southernunionco.com

ATTORNEY FOR MISSOURI
GAS ENERGY

4

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered this 6th day of September, 2001, to:

Dennis L. Frey
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Douglas E. Micheel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102



STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
September 20, 2001

CASE NO: GO-2002-50

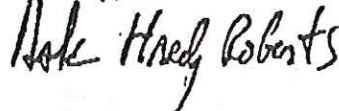
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Robert J. Hack
3420 Broadway
Kansas city, MO 64111

Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,



Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service
Commission held at its office in
Jefferson City on the 20th day of
September, 2001.

In the Matter of Missouri Gas Energy's Application)
for Approval of Certain Matters Pertaining to Ongoing) Case No. GO-2002-50
Cast Iron Main and Service/yard Replacement as a)
Part of its Safety Line Replacement Program)

ORDER APPROVING APPLICATION

On July 30, 2001, Missouri Gas Energy (MGE), a division of Southern Union Company, filed an application asking the Commission to approve certain modifications to its ongoing cast iron main, and service line and yard line replacement, as a part of its Safety Line Replacement Program. This order approves that application.

The Commission issued an Order and Notice on August 1, giving notice of MGE's application to the County Commission of the counties in MGE's service territory, to the members of the general assembly who represent the counties in MGE's service territory, and to the newspapers that serve the counties in MGE's service territory. That order also directed that any person wishing to intervene should file an application to intervene no later than August 21. No applications to intervene were filed.

The requirement for a hearing is met when the opportunity for hearing has been provided and no proper party has requested the opportunity to present evidence.¹ Since

¹ *State ex rel. Rex Deffenderfer Enterprises, Inc. v. Public Service Commission*, 776 S.W.2d 494, 496 (Mo. App. 1989).

no one has asked permission to intervene, or requested a hearing, the Commission may grant the relief requested based on the application.

On September 6, 2001, the Staff of the Commission filed its Recommendation and Memorandum. Staff indicates that MGE's line replacement programs are referred to as its Safety Line Replacement Program, known by the acronym SLRP. MGE's past and current replacement programs for service and yard lines have resulted in the replacement of more than 230,000 service and yard lines. MGE's cast iron main replacement program resulted in the replacement of nearly 300 miles of cast iron mains, but the program ended in 2000. MGE's application includes a new long-term replacement program for cast iron mains, as required by 4 CSR 240-40.030(15)(D)2. In addition to cast iron main replacements, the application proposes a more comprehensive program that covers the repair of cast iron joint leaks and the replacement of copper service lines. The application also affects the inspection and replacement of protected bare steel mains and unprotected steel service and yard lines.

Staff indicates that it finds MGE's proposal to be generally acceptable. Staff does, however, recommend two modifications to MGE's proposal. The first modification is to delete the last sentence of subparagraph 11D on page 8 of the application. That sentence refers to efforts to eliminate Class 4 leaks over unprotected steel service and yard lines. Under Commission rule 4 CSR 240-40.030(14)(c)4, class 4 leaks are those that are confined or localized and are considered to be completely non-hazardous. The gas company is not required to take any further action regarding a class 4 leak. Staff indicates that the sentence in question incorrectly states that existing Class 4 leaks on unprotected steel service and yard lines will be re-classed to Class 3 and repaired within 5 years.

Instead, all unprotected steel service and yard lines that have existing leaks, including all leaks that are currently classified as Class 4 leaks, will be replaced no later than June 30, 2003. MGE proposes this repair schedule in subparagraph 11B on page 7 of the Application. For new leaks discovered on unprotected steel service and yard lines, MGE will no longer use the Class 4 leak classification. Such leaks will be classified as Class 3 or higher, meaning that they will have an established repair deadline.

The second modification proposed by Staff refers to an item that was inadvertently left out of the Status Report list in paragraph 14 on page 9 of the application. The item should have followed item J and should have stated "Number of cast iron main leaks cleared by pipe diameter." Staff states that the two modifications are agreeable to MGE, and on September 7, MGE filed a response indicating its agreement to the modifications.

Staff recommends that the Commission approve the application with the two modifications previously indicated. Staff also recommends that the Commission approve a modification of the waiver granted in Case No. GO-99-302, as requested in the application. Staff recommends that a copy of this order, or a notice to the case, or both, then be filed in Case No. GO-99-302 to reflect the change. Finally, Staff recommends that the Commission approve MGE's request that the Safety Line Replacement Program costs to be incurred as a result of the approved program be allowed deferral treatment pursuant to the Safety Line Replacement Program Accounting Authority Order granted by the Commission in Case No. GR-2001-292.

The Commission has considered the application filed by MGE, along with the Recommendation and Memorandum filed by Staff. The Commission concludes that

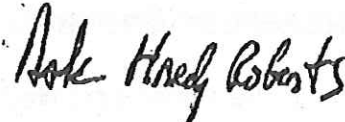
MGE's proposed changes to its existing Safety Line Replacement Program will enhance the safety of its gas distribution system. The application should be approved.

IT IS THEREFORE ORDERED:

1. That the application filed by Missouri Gas Energy, a division of Southern Union Company, on July 30, 2001 is approved with the following modifications:
 - a. The last sentence of subparagraph 11D on page 8 of the application is deleted; and
 - b. The following item is added to the list of information, found in paragraph 14 on page 9 and 10 of the application: "Number of cast iron main leaks cleared by pipe diameter."
2. That the waiver granted in Case No. GO-99-302 is modified as requested by Missouri Gas Energy in paragraph 11 of its application filed on July 30, 2001.
3. That a copy of this order shall be filed in Case No. GO-99-302.
4. That the costs associated with replacements and rehabilitations called for under the provisions of paragraphs 10, 11, and 12 of the application filed by Missouri Gas Energy on July 30, 2001, are eligible for deferral under any Accounting Authority Order granted by the Commission to Missouri Gas Energy, including the Accounting Authority Order granted by the Commission in Case No. GR-2001-292.
5. That the deferral approved in paragraph 4 of this order shall not be construed as requiring the Commission to grant an Accounting Authority Order with regard to Missouri Gas Energy's Safety Line Replacement Program in the future. Nor shall it be construed as requiring the Commission to permit subsequent rate recovery of Safety Line Replacement Program costs deferred through issuance of an Accounting Authority Order.

6. That this order shall become effective on September 30, 2001.

BY THE COMMISSION



**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

(SEAL)

Simmons, Ch., Murray and Lumpe, CC., concur
Gaw, C., dissents

Woodruff, Senior Regulatory Law Judge

Att/Sec, etary: Woodru FE/Boyer

Date Circulated 9-14 CASE NO. 60-2002-50

KS ?
Simmons, Chair

cm
Murray, Commissioner

SR ?
Lumpie, Commissioner

7/16/22 NB
Gaw, Commissioner

Commissioner

9-20
Agenda Date

Action taken: 3-1 AS (Gaw)
Must Vote Not Later Than ND

STATE OF MISSOURI
OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City, Missouri, this 20th day of Sept. 2001.

Dale Hardy Roberts
Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge





MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5755

ROBERT J. HACK

Vice President, Pricing & Regulatory Affairs

July 27, 2001

FILED

JUL 30 2001

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102-0360

RE: Case No. G0-2002-50, Missouri Gas Energy

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter, please find an original and eight (8) conformed copies of Missouri Gas Energy's **Application**.

A copy of this filing has been mailed or hand-delivered this date to counsel of record.

Thank you for bringing this matter to the attention of the Commission. Please call me if you have any questions regarding this matter.

Sincerely,

C: F. Jay Cummings
Thomas R. Schwarz, Jr.
Douglas E. Micheel
Steve Holcomb
Jim Gorman

Enclosures

FILED

JUL 30 2001

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

**Missouri Public
Service Commission**

In the matter of Missouri Gas Energy's)
Application for approval of certain matters)
Pertaining to ongoing cast iron main and)
Service/yard line Replacement as a part of its)
Safety Line Replacement program.)

Case No. GO-2002-50

APPLICATION

Comes now Missouri Gas Energy ("MGE"), a division of Southern Union Company, by and through counsel and for its application for approval of certain matters pertaining to ongoing cast iron main and service/yard line replacement as a part of MGE's Safety Line Replacement Program, pursuant to 4 CSR 240-40.030(15)(C) and (D), respectfully states as follows:

I. General Matters

1. The name and address of Applicant are: Missouri Gas Energy, 3420 Broadway, Kansas City, Missouri, 64111.

2. MGE is an operating division of Southern Union Company which is duly incorporated under the laws of the State of Delaware, and conducts business in Missouri under the name of Missouri Gas Energy. The articles of incorporation of Southern Union Company have previously been provided to the Commission in Case No. GM-94-40.

3. MGE is a gas corporation and a public utility engaged in the distribution of natural gas at retail to approximately 491,000 customers in Andrew, Barry, Barton, Bates, Buchanan, Carroll, Cass, Cedar, Christian, Clay, Clinton, Cooper, Dade, Dekalb, Greene, Henry, Howard, Jackson, Jasper, Johnson, Lafayette, Lawrence, McDonald,

Moniteau, Newton, Pettis, Platte, Ray, Saline, Stone and Vernon counties in Missouri, subject to the jurisdiction of the Missouri Public Service Commission ("Commission").

4. Although uncertain precisely what information the Commission seeks by 4 CSR 240-2.060(1)(K), MGE provides the following in an attempt to comply therewith. MGE is unaware of any pending action or final unsatisfied judgments or decision against MGE from any state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred since June 6, 1998. Nevertheless, since that time MGE has been involved in a number of judicial review proceedings, filed against the Commission, involving MGE's rates. The Commission itself should be aware of all such cases.

5. No annual report or assessment fees pertaining to MGE are overdue.

6. All correspondence, communications, notices, orders and decisions of the Commission with respect to this matter should be sent to:

Steve Holcomb
Director,
Field Operations
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111
816/360-5605
Fax: 816/360-5541

e-mail: steve.holcomb@southernunionco.com

Robert J. Hack
Vice President, Pricing
& Regulatory Affairs
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111
816/360-5755
FAX: 816/360-5536

e-mail: rob.hack@southernunionco.com

II. Purpose of Filing

7. Since 1990 MGE (and its predecessor in interest) has been engaged in a substantial infrastructure replacement project known as the Safety Line Replacement Program ("SLRP"). MGE's SLRP has been undertaken pursuant to Commission rule (4 CSR 240-40.030), many of the details of which have been administered through orders in

various Commission cases (e.g., Case Nos. GO-91-277, GO-91-239, GO-91-295 and GO-99-302). MGE's SLRP has so far entailed the replacement of more than 230,000 service lines and nearly 300 miles of cast iron main lines.

8. The cast iron main replacement component of MGE's SLRP, as approved by Commission order in Case No. GO-91-277, concluded on or about December 31, 2000. Commission rule, 4 CSR 240-40.030(15)(D)2, requires that operators who have cast iron mains (such as MGE) to develop a long-term, organized replacement program and schedule for cast iron pipelines not identified as being high priority.

III. Explanation and Specific Approvals Requested

9. Since 1990, MGE's SLRP has been a significant undertaking. This lengthy construction project has required substantial capital resources, has commanded significant management attention and, on occasion, has also inconvenienced customers. These significant costs have resulted in significant safety improvements throughout the MGE system. MGE's objective through this filing is to make certain changes to the existing SLRP, including the implementation of an ongoing cast iron main replacement program, which will continue to achieve significant safety improvements while deploying capital in an efficient and cost-effective fashion.

10. Consistent with the provisions of 4 CSR 240-40.030(15)(D)2, MGE seeks approval of the following provisions for a long-term, organized cast iron replacement program and schedule:

A. MGE will replace a minimum of 5 miles of cast iron main per year, targeting for replacement those segments for which breakage history currently exists. Replacement standards and criteria shall be as follows: i) MGE shall, on an ongoing

basis, keep a current record of cast iron breaks (excluding those caused by third party damage) and plot them on a mapping system; ii) MGE shall utilize all break records dating back to January 1, 1995, and in addition any older breakage history that is readily available such as that in the MGE mapping system for MGE's Kansas City Central division (which has been observed by the Commission's gas safety staff personnel); iii) any new break (excluding those caused by third party damage) after July 1, 2001, within 500 feet of a previously recorded break triggers a minimum replacement of 500 feet of main within five years of the discovery date of the new break; iv) any additional break on a segment of pipe targeted for replacement will accelerate the completion date to within 24 months of the discovery date of the additional break, or five years from the original trigger date, whichever causes the replacement to be completed sooner.

B. MGE shall collect a coupon¹ at every cast iron main break (excluding those caused by third party damage). Each coupon shall be analyzed for graphitization.² Cast iron mains exceeding the following percent of graphitization shall be scheduled for replacement: 3-, 4- and 6-inch diameter pipe at 50%; and 8-inch and greater diameter at 75%. (These revised criteria are more stringent than those currently in place: 60% for 3- and 4-inch diameter pipe; 75% for 6- and 8-inch diameter pipe; and 90% for 10-inch and greater diameter pipe.) Any coupon found which shows graphitization in excess of the above revised criteria shall trigger replacement of approximately 500 feet of cast iron main within 24 months.

¹ A "coupon" is a small sample of pipe.

² "Graphitization" means the degree of corrosion on cast iron pipe.

- C. MGE will place emphasis on rehabilitating or replacing intermediate pressure cast iron mains (2# to 60#) where the main is below pavement in wall-to-wall pavement applications or near public concentrations (e.g., a school, church, hospital, day-care facility, etc.). MGE will continue to patrol such existing intermediate pressure cast iron main systems on a semi-annual basis. Current records indicate that MGE has approximately 1.6 miles of cast iron main 12 to 24 inches in diameter operating in this pressure range in such locations.
- D. MGE will place emphasis on replacing the existing 3-inch cast iron main system in Independence, Missouri.
- E. MGE will place emphasis on cast iron mains as required by 4 CSR 240-40.030(13)(Z).
- F. MGE will place emphasis on replacing or rehabilitating sections of cast iron main in areas of planned future development projects, such as city, county or state highway construction and relocations. Urban renewal and public improvement projects would be monitored as well.
- G. MGE will place emphasis on replacing segments of cast iron mains in close proximity to extensive excavation, blasting or construction activities.
- H. MGE will place emphasis on segmenting its current low-pressure, 30-inch water column system to extend intermediate-pressure lines into existing low-pressure neighborhoods where the lines have a history of breakage. This will allow for more cost-effective replacement of existing cast iron pipe by utilizing smaller diameter pipes. By deploying capital in this fashion, MGE would be able to provide a more customer friendly remedial action to problems on the cast iron main system in the

future. By segmenting the low-pressure, 30-inch water column system with smaller diameter intermediate-pressure systems (2# to 60#), MGE will be able to replace existing large diameter cast iron mains (low-pressure, 30-inch water column operating at approximately 1# of pressure) with much smaller diameter pipelines. Replacing main in this fashion causes significantly less damage to customers' property and the public right-of-way. Size-on-size replacement of cast iron main is significantly less-cost-effective than utilizing smaller diameter pipe. Moreover, using smaller diameter pipe should also reduce ancillary damage and associated customer complaints.

- I. MGE will make greater use of encapsulation³ to rehabilitate cast iron mains not prone to breakage. Specifically, MGE will encapsulate no less than 400 leaking bell joints annually until leaks of this category are eliminated, on cast iron main that is not targeted for replacement. For the first two years of this program (i.e., until June 30, 2003), MGE will repair by encapsulation significantly more than the minimum pledged. This will significantly reduce MGE's leak inventory.
- J. MGE will continue its annual leak survey of all cast iron mains of 4-inch diameter and smaller (approximately 124 miles as of January 1, 2001).
- K. MGE will continue its semi-annual leak survey of cast iron mains in business districts.
- L. MGE does not have any cast iron service lines.

³ "Encapsulation" is a process whereby a mixture of chemicals within a sleeve sets up to a very hard consistency forming a permanent repair of a joint or fitting with a minimum life expectancy of 50 years.

M. To the extent so desired by the Commission or the Commission's Staff, MGE is willing to re-evaluate the effectiveness of the foregoing long-term cast replacement program after two years of implementation.

11. Consistent with the long-term cast iron replacement program as proposed in paragraph 10 herein as well as the objectives of achieving significant safety improvements while deploying capital in an efficient and cost-effective fashion, MGE seeks approval of the following provisions with respect to replacement of service lines and yard lines and modification of the waiver granted to MGE in Case No. GO-99-302⁴:

A. MGE shall replace all copper-related service lines (approximately 2700) no later than June 30, 2006, with priority given to replace any leaking service lines first. MGE shall continue to leak survey such service lines on an annual basis as recommended by the Commission's Gas Safety Staff in a letter to all operators dated January 16, 2001.

B. MGE shall replace all unprotected steel service lines and yard lines that currently have leakage on them (approximately 1200) no later than June 30, 2003.

⁴ In considering this Application, MGE wants to make sure the Commission is aware that the current deadline for replacement of unprotected steel service lines and yard lines is December 31, 2004. This was approved by Commission order in Case No. GO-99-302. MGE made that proposal to the Commission in good faith at a time when it was replacing 36 miles of cast iron main annually. When that proposal was made, MGE did not consider the implications of the development and implementation, after the year 2000, of a long-term cast iron main replacement program. The proposals made in this Application are comprehensive and believed by MGE to consider adequately future developments. This Application also offers a re-evaluation after two years if such is believed to be appropriate by the Commission or its Gas Safety Staff (See, paragraph 10.M. herein).

C. MGE shall replace all unprotected steel service lines and yard lines no later than June 30, 2020. On average, therefore, MGE shall replace approximately 2310 unprotected steel service lines and yard lines annually .

D. MGE shall continue its annual leak survey of unprotected steel service lines and yard lines as provided by Commission rule, 4 CSR 240-40.030(13)(M)2.B.(I). Any leak discovered on an unprotected steel service line or yard line shall be classified no lower than a class 3 leak and repaired within no longer than a 5-year time frame. In addition, in an effort to eliminate class 4 leaks over unprotected steel service lines and yard lines, MGE will re-classify all such existing leaks as class 3, as a minimum, and repair them accordingly.

12. Consistent with the long-term cast iron replacement program as proposed in paragraph 10 herein, the service line replacement program as proposed in paragraph 11 herein, as well as the objectives of achieving significant safety improvements while deploying capital in an efficient and cost-effective fashion, MGE seeks approval of the following provisions with respect to replacement of bare steel mains:

A. MGE shall replace a minimum of 5 miles of protected bare steel mains that will be triggered by use of what is known as a 5-5-3 program (that is, 5 leaks within 500 feet within a 3-year period of time triggers replacement).

13. The costs (e.g., depreciation expense, property taxes and carrying costs) associated with replacements and/or rehabilitations called for under the provisions of paragraphs 10, 11 and 12 herein shall be eligible for deferral under any Accounting Authority Order ("AAO") granted by the Commission to MGE, including the AAO granted by the Commission in Case No. GR-2001-292 in its order dated July 5, 2001.

Commission approval of this paragraph 13 herein shall not be construed as requiring the Commission to grant an AAO with respect to MGE's SLRP in the future or as requiring the Commission to permit subsequent rate recovery of SLRP costs deferred through issuance of an AAO.

14. MGE requests that its SLRP reporting requirements be changed from the current calendar-year based reporting to reporting based on MGE's fiscal year (July through June). Therefore, following Commission approval of this application, MGE shall submit its SLRP Status Report to the Commission's Gas Safety Staff (as well as the Office of the Public Counsel) no later than September 24 of each year, which report shall cover MGE's fiscal year (the first such report shall cover the period of July 1, 2001 through June 30, 2002). Each Status Report shall include the following information:

- A. Miles of cast iron main eliminated by pipe diameter;
- B. Miles of protected bare steel main eliminated;
- C. Number of unprotected steel service lines and yard lines eliminated;
- D. Number of copper-related service lines eliminated;
- E. Number of cast iron bell joint leaks encapsulated by pipe diameter;
- F. Number of miles patrolled semi-annually over intermediate pressure cast iron pipe in public areas;
- G. Cast iron coupon analysis report on graphitization; and
- H. Number of cast iron main breaks by pipe diameter (excluding third party damage);
- I. Number of cast iron main leaks found by pipe diameter;
- J. Number of cast iron main leaks repaired by pipe diameter;
- K. Number of protected bare steel main leaks found;

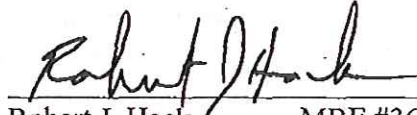
- L. Number of protected bare steel main leaks repaired; and
- M. Number of protected bare steel main leaks cleared.

IV. Conclusion

15. The above proposal is specifically targeted to reducing leakage on MGE's piping system in a systematic and organized fashion. As a result, MGE believes that the above proposal will enhance gas safety. In addition, the above proposal has been designed to prioritize capital expenditures on the basis of need and therefore results in efficient and cost-effective capital deployment.

Wherefore, MGE respectfully request that the Commission issue its order approving the provisions of paragraphs 10, 11, 12, 13 and 14 of this Application.

Respectfully submitted,



Robert J. Hack MBE #36496
 3420 Broadway
 Kansas City, MO 64111
 (816)360-5755
 FAX: (816)360-5536
 e-mail: rob.hack@southernunionco.com

ATTORNEY FOR MISSOURI
 GAS ENERGY

VERIFIED EXPLANATION OF STEVE HOLCOMB


STATE OF MISSOURI)
) ss
 COUNTY OF JACKSON)

I, Steve Holcomb, having been duly sworn upon my oath, state that I am the Director of Field Operations for Missouri Gas Energy, that I am duly authorized to make this verification on behalf of Missouri Gas Energy ("MGE") and that the matters set forth in the foregoing Application are true and correct to the best of my information, knowledge and belief. In addition, Steve Holcomb further states as follows:

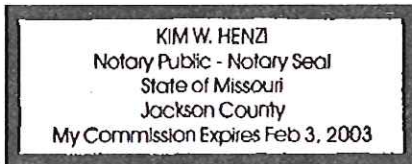
1. I have been employed by MGE, or its predecessors in interest, for 25 years. As Director of Field Operations for Missouri Gas Energy, I am responsible for ensuring that MGE's operational activities are conducted in accordance with established company policies and procedures and are in conformance with applicable governmental rules and regulations, including pipeline safety regulations.
2. Pursuant to paragraph 10 of the foregoing Application, MGE proposes to implement a long-term, organized replacement program and schedule for cast iron pipeline that is not high priority for replacement. The replacement criteria proposed for cast iron mains are rigorous, and should result in the replacement of cast iron main at the appropriate time. The use of replacement criteria makes sense to MGE because the criteria will focus capital expenditures where they are needed. Because this is a new program for MGE, it is presently not know with precision how much cast iron main will be called for replacement under these criteria. Thus, MGE has proposed the possibility for re-evaluation of the program after two years of experience.
3. Pursuant to paragraph 11 of the foregoing Application, MGE proposes to replace all copper-related service lines no later than June 30, 2006; to replace all unprotected steel service lines and yard lines that currently have leakage no later than June 30, 2003; and to replace all unprotected steel service lines and yard lines no later than June 30, 2020. In the process, MGE will give priority to any leaking service lines first. Although MGE has not experienced increased leakage history with the relatively limited number of copper-related service lines on its system, I understand that the Commission's Gas Safety Staff has expressed concerns regarding copper-related service lines with respect to another Missouri operator. In light of those expressed concerns, MGE proposes to eliminate copper-related service lines from its system, where there is no current requirement to do so. With respect to unprotected steel service lines and yard lines, MGE's belief, based on experience, is that replacing all such lines by year-end 2004 will result in significant capital expenditures without a corresponding benefit in gas safety improvement. This is because the vast majority of such service lines are not leaking and will not leak prior to December 30, 2004. MGE will continue its annual leak survey of unprotected steel service lines and yard lines.
4. Pursuant to paragraph 12 of the foregoing Application, MGE proposes to replace a minimum of 5 miles of protected bare steel mains per year using a 5-5-3 program, whereby replacement will be triggered by the occurrence of 5 leaks within 500 feet within a 3-year period. These replacement

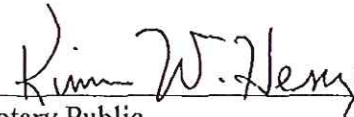
criteria are, in my opinion based on my experience, reasonable and will result in replacement of protected bare steel mains at the appropriate time.

5. The reporting provisions of paragraph 14 are designed to provide the Commission with relevant information on a timely basis and to reconcile MGE's Commission-approved SLRP operating and reporting obligations with MGE's fiscal year (July to June).
6. In total, the foregoing Application improves MGE's current SLRP requirements from both the gas safety perspective and the perspective of efficient and cost-effective deployment of capital resources. MGE will continue to address safety concerns by utilizing flame ionization devices to leak survey the entire service on each service order that currently requires a minimum number of leak checks at the property line and where the pipe enters the building. This MGE practice exceeds the requirements of the current Commission rule on this topic, 4 CSR 240-40.030(14)(B).
7. I hereby swear and affirm that the information presented herein is true and correct to the best of my information, knowledge and belief.


Steve Holcomb

Subscribed and sworn before me this 27th day of JULY, 2001.




Notary Public



CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered this 30th day of July, 2001, to:

Thomas R. Schwarz, Jr.
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Douglas E. Micheel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

