

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

In the Matter of Missouri Gas Energy's Tariffs)	
Increasing Rates for Gas Service Provided to)	Case No. GR-2006-0422
Customers in the Company's Missouri Service)	
Area.)	

**RESPONSE TO STAFF AND PUBLIC COUNSEL
RECOMMENDATIONS CONCERNING TRUE-UP**

Comes now Missouri Gas Energy (MGE), a division of Southern Union Company, and, in response to the true-up recommendations filed by certain parties, states as follows to the Missouri Public Service Commission (Commission):

1. On May 24, 2006, MGE filed its pleading recommending that the Commission establish the twelve months ended December 31, 2005, adjusted for known and measurable changes, as the test year for this case. MGE's pleading further recommended that the test year be updated through June 30, 2006. MGE also requested that the Commission conduct a true-up audit and hearing and specified certain cost components to "true-up" through October 31, 2006.

2. Responsive pleadings were filed by the Staff of the Commission (Staff), the Office of the Public Counsel ("Public Counsel") and Trigen-Kansas City Energy Corporation (Trigen). Trigen concurred with MGE's recommended test year and true-up. Staff and the Public Counsel concurred in the recommended test year and update period. However, these parties opposed a Commission determination concerning the necessity of a true-up. They suggested that there is no explanation of "what event will occur between June 30, 2006 and October 31, 2006, to justify the need for a true-up" (OPC, para. 3) and that "MGE did not provide any information that indicates any specific measurable event or events will be

occurring” during the subject time frame (Staff, para. 5). Staff and OPC further suggested that there is no need to make a decision concerning the true-up at this stage of the proceeding (OPC, para. 3) and stated that they would inform the Commission of any need for a true-up hearing in the direct testimony (Staff, para. 5; OPC, para. 3).

3. MGE would encourage the Commission to make a decision now, rather than waiting until the filing of direct testimony to determine whether or not a true-up should take place. The advisability of making such a decision early in the case is described in the Commission’s Suspension Order and Notice. Therein, the Commission stated as follows:

By establishing the hearing dates now, the Commission will ensure that this matter is heard as expeditiously as possible. Additionally, the earlier establishment of the hearing dates will allow ample time for notice to be sent to customers.

4. The Commission has traditionally made decisions as to use of the true-up process early in a rate case. That is why the suspension orders almost universally ask for true-up requests and direct that responses to any such requests be filed within a few weeks after the filing of a rate case. This process enables the Commission to make a decision early in the case and then allow the party to react accordingly. Failing to make a decision adds a high level of uncertainty to the Missouri regulatory process.

5. In its Suspension Order in this case, the Commission cited *In re Kansas City Power & Light Company*, 26 Mo.P.S.C.(N.S.) 104, 110 (1983) as support for its description of the true-up process. In *Kansas City Power & Light Company*, 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).

6. 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.*

7. The Commission has adopted a true-up procedure in all four 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, which was concluded in October 2004.

8. 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 \$14,170,000 of capital investment that it plans to place in service between June 30, 2006 and October 31, 2006. This investment represents approximately \$2,000,000 of additional annual revenue requirement.

9. Second, MGE plans to hire approximately seven additional customer service representatives during the proposed true-up period. This additional personnel would add approximately \$450,000 to the Company's annual revenue requirement. Other new employees may be hired during the true-up period as well.

10. Lastly, to the extent the Commission uses a capital structure based on the Company's debt and equity, because MGE expects the equity ratio to increase during the true-up period resulting in a higher revenue requirement, MGE would want that structure to reflect the Company's the most current percentages.

11. This being said, MGE has proposed a package of adjustments 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 that the Commission adopt the true-up process described in MGE's Recommendation Concerning Test Year and Request for True-Up

Audit and Hearing.

Respectfully submitted,

//S// Dean L. Cooper

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CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been sent by electronic mail this 18th day of June, 2006, to:

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