

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

In the Matter of Missouri Gas Energy's)
Tariffs to Implement a General Rate) Case No. GR-2004-0209
Increase for Natural Gas Service)

**CORRECTED PARTIAL NONUNANIMOUS STIPULATION AND AGREEMENT AS TO
ALTERNATIVE MINIMUM TAX, DEPRECIATION, ACCOUNTING FOR NET COST
OF REMOVAL, ACCOUNTING FOR PENSION EXPENSES, REVENUES, BAD DEBTS,
AND MAY 1, 2004 UNION WAGE INCREASE ISSUES**

COME NOW Missouri Gas Energy, a division of Southern Union Company d/b/a (MGE or the Company) and the Staff of the Missouri Public Service Commission (Staff) and respectfully state to the Missouri Public Service Commission (Commission) that as a result of extensive negotiations, the undersigned signatories (signatories), have reached the following Partial Nonunanimous Stipulations and Agreements (Stipulation and Agreement) concerning the Alternative Minimum Tax (AMT), Depreciation, Accounting for Net Cost of Removal, Accounting for Pension Expenses, Revenues¹, Bad Debts, and May 1, 2004 Union Wage Increase² issues as denominated in the Joint Statement of Issues, Order of Issues, List of Witnesses, Order of Witnesses, and Order of Cross Examination document filed on June 4, 2004, in the above-captioned case:

1. Alternative Minimum Tax. The Commission should include in its Report and Order a provision that recognizes that the Company's rate base for purposes of this case shall

¹ As used herein "Revenues" does not include the issues of capacity release/off-system sales or miscellaneous service charges.

² The May 1, 2004, Union Wage Increase had not been identified as an issue.

include an allocated portion of the Southern Union Company consolidated tax group alternative minimum tax credit. In this instance, the agreement is that the appropriate rate base amount for the Company shall be an increase of \$12,782,852. The disposition of this issue is only for purposes of settling this issue in this case and does not bind any party to its provisions in any future proceeding. This item shall not be subject to true-up in this proceeding.

2. Depreciation Rates. The Commission should include in its Report and Order a provision authorizing the Company to implement new depreciation rates for certain of its depreciable plant accounts: Account 380 - services shall be 2.7% (37-year average service life) and Account 394 - tools shall be 5.3% (19-year average service life). No other depreciation rates shall change as a result of this proceeding. The signatories further agree that in any Infrastructure System Replacement Surcharge (ISRS) filing made by MGE prior to the effective date of a Commission order resolving MGE's next rate case immediately subsequent to this proceeding, a depreciation rate of 2.56% (39-year average service life) shall be used for Account 380 - services in such filing or filings. The disposition of this issue is only for purposes of settling this issue in this case and does not bind any party to its provisions in any future proceeding, except the ISRS filings indicated in this agreement.

3. Accounting for Net Cost of Removal. The Commission should include in its Report and Order the following provision regarding accounting treatment for net cost of removal:

MGE's rates include a provision for jurisdictional net cost of removal of \$771,039 annually. MGE shall book for its gas operations, actual levels of annual cost of removal as an expense up to the amount listed above. Company is authorized to record the difference between the rate case provision of \$771,039 and the actual levels of annual net cost of removal as a regulatory asset and/or liability. This regulatory asset and/or liability is intended to track the difference between the provision for net cost of removal provision included in rates in this case and the Company's actual levels of annual net cost of removal after the effective date of rates established in this case. This regulatory asset and/or liability will be included in rate base in the Company's next rate case and amortized over a five (5) year period. The Company is authorized to make such

additional entries as are appropriate under FAS71 for this item. This methodology will be reviewed in MGE's next rate case in which its retail gas distribution rates are under review to determine whether the methodology will be continued.

The disposition of this issue is only for purposes of settlement in this case and does not bind any party to its provisions in any future proceeding, except to the extent specified in this paragraph 3.

4. Accounting for Pension Expenses. The Commission should include in its Report and Order the following provision regarding accounting treatment for pension expenses:

MGE's rates include a \$0 annual provision for jurisdictional pension cost. Company is authorized to reflect pension cost equal to the ERISA minimum and record the difference between the ERISA minimum and the annual provision for pension cost as a regulatory asset or liability. This regulatory asset and/or liability is intended to track the difference between the provision for the ERISA minimum contribution included in cost of service in this case, and the Company's actual ERISA minimum contributions made after the effective date of rates established in this case. This regulatory asset and/or liability will be included in rate base in the Company's next rate case and amortized over a five (5) year period. The Company is authorized to make such additional entries as are appropriate under FAS71 to reflect that rates in this case are not based upon a FAS87 pension expense calculation. Company is authorized to adjust its calculation of the MGE ERISA minimum, and the allocations to MGE pension-related assets and costs, to reflect the exclusion of Southern Union Company's total company actual contributions that are in excess of the ERISA minimum.

The disposition of this issue is only for purposes of settling this issue in this case and does not bind any party to its provisions in any future proceeding, except to the extent specified in this paragraph 4.

5. Revenues. The Commission should include in its Report and Order a provision that recognizes an amount of ~~\$328,337~~**471,663** as an ~~increase~~**decrease** to test year revenues for customer growth, weather normalization and adoption of the late payment charge recommended by Staff witness Imhoff, for purposes of calculating MGE's cost of service in this case. There shall be no further adjustment to revenues for customer growth during the true-up. Billing determinants to be used in the design of rates shall be consistent with the above annualized and

normalized revenues. The disposition of these issues is only for purposes of settlement in this case and does not bind any party to its provisions in any future proceeding.

6. Bad Debts. The Commission should include in its Report and Order a provision that recognizes an amount of \$7,042,000 for bad debt write-offs for purposes of calculating MGE's cost of service in this case. This agreement disposes of the issues denominated as Bad Debts Expense Level and Bad Debts - Denial of Service. The disposition of these issues is only for purposes of settlement in this case and does not bind any party to its provisions in any future proceeding.

7. May 1, 2004 Union Wage Increase. The Commission should include in its Report and Order a provision that recognizes the May 1, 2004 union wage increases for MGE's collectively bargained employees shall be reflected in MGE's cost of service through the true-up. The disposition of this issue is only for purposes of settlement in this case and does not bind any party to its provisions in any future proceeding.

8. Non Signatories. While the Office of the Public Counsel does not join in this Stipulation and Agreement, it nevertheless states that it does not oppose the Stipulation and Agreement as to Alternative Minimum Tax, Depreciation, Accounting for Net Cost of Removal, Accounting for Pension Expenses, Revenues, Bad Debts, and May 1, 2004, Union Wage Increase and do not request a hearing concerning the issues addressed by this Stipulation and Agreement.

9. This Stipulation and Agreement is being entered into solely for the purpose of settling the identified issues in this case. None of the signatories to this Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation or revenue related methodology, and none of the signatories shall be prejudiced or bound in any

manner by the terms of this Stipulation and Agreement in this or any other proceeding, whether this Stipulation and Agreement is approved or not, except as otherwise expressly specified herein.

10. This Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve this Stipulation and Agreement by the issuance date of its Report and Order in this case, or approves this Stipulation and Agreement with modifications or conditions that a signatory to this proceeding objects to prior to the effective date of the Order approving this Stipulation and Agreement, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

11. If the Commission does not unconditionally approve this Stipulation and Agreement without modification, and notwithstanding its provision that it shall become void therein, neither this Stipulation and Agreement, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any signatory has for a decision in accordance with §536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the signatories shall retain all procedural and due process rights as fully as though this Stipulation and Agreement had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this Stipulation and Agreement shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

12. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the signatories waive their respective rights to present oral argument and written briefs pursuant to §536.080.1 RSMo 2000; their respective rights to the reading of the transcript

by the Commission pursuant to §536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to §386.500 RSMo 2000; and their respective rights to judicial review pursuant to §386.510 RSMo 2000. This waiver applies only to a Commission Report and Order respecting this Stipulation and Agreement issued in this proceeding, and does not apply to any matters raised in any prior or subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation and Agreement.

13. The signatories agree that, in the event the Commission approves this Partial Stipulation and Agreement without modification or condition, then the prefiled testimony of all witnesses on the subjects of Alternative Minimum Tax, Depreciation, Accounting for Net Cost of Removal, Accounting for Pension Expenses, Bad Debts, and May 1, 2004 Union Wage Increase issues may be admitted into evidence and included in the record of this proceeding, without the necessity of such witnesses taking the stand and shall not apply to any matters raised in any subsequent Commission proceeding. The witnesses include: Jim Warren, Paul Harrison, Anne Ross, Kim Elvington, Jim Gray, Dan Beck, Dennis Patterson, F. Jay Cummings, Charles Hyneman, Tom Sullivan, Mike Noack, Jolie Mathis, and Tom Imhoff. No signatory shall be deemed to have acquiesced to any such testimony nor shall any signatory be presumed to have waived any objection that might otherwise have been made to such testimony.

14. The Staff shall file suggestions or a memorandum in support of this Stipulation and Agreement. Each of the parties shall be served with a copy of any such suggestions or memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's suggestions or memorandum, responsive suggestions or a responsive memorandum which shall also be served on all parties. The contents of any suggestions or memorandum provided by any party are its own and are not acquiesced in or otherwise adopted by the

signatories to this Stipulation and Agreement, whether or not the Commission approves and adopts this Stipulation and Agreement.

15. The Staff also shall have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.

WHEREFORE, for the foregoing reasons, the undersigned signatories respectfully request that the Commission issue its Order approving all of the specific terms and conditions of this *Corrected* Stipulation and Agreement as to Alternative Minimum Tax, Depreciation, Accounting for Net Cost of Removal, Accounting for Pension Expenses, Revenues, Bad Debts, and May 1, 2004 Union Wage Increase Issues.

Respectfully submitted,

/s/Robert J. Hack

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ATTORNEYS FOR MISSOURI GAS ENERGY

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 ~~29~~³⁰~~th~~ day of June 2004.

/s/ Robert V. Franson