

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,)	<u>Case No. GO-2005-0273</u>
for Approval to Establish an Infrastructure System)	Tariff No. YG-2005-0615
Replacement Surcharge.)	

Concurring Opinion of Commissioner Jeff Davis

I concur with the Commission's Order Approving an Infrastructure System Replacement Surcharge (ISRS) but Rejecting Submitted Tariff. However, I would like to address the issue of net salvage. This issue arose in the underlying rate case, GR-2004-0209, when Missouri Gas Energy (MGE) was not allowed to use cost of removal of assets when calculating depreciation.

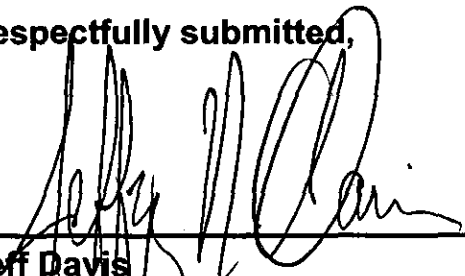
The Uniform System of Accounts, as related to Gas Corporations, states that "original cost less net salvage" is to be used when calculating depreciation. Mo. Codes Regs. Ann. Tit. 4, § 240-40.040(H) (2003). Net salvage is composed of gross salvage and cost of retiring. Wolf and Fitch, Depreciation Systems, p. 260 (1994).

If a negative net salvage occurs due to retirement costs, the company cannot pass that cost along to the consumers who use the asset over a number of years via depreciation. Instead, the retirement cost must be treated as an operation expense in the fiscal period in which the expense occurs. Therefore, the year to year financials of MGE could be skewed, particularly if a large amount of assets had to be replaced in one fiscal period. The effect of such expenses would

be a reduction in net profit after tax, and a negative impact to cash flow. Such results make attracting capital more difficult for the company.

Though this method is consistently advocated by Staff, such a method is not the preferred method of the Commission. See ER-2004-0570, Mo. Codes Regs. Ann. Tit. 4, § 240-40.040(H) (2003). While ignoring cost of removal does achieve a goal, i.e. reduction of depreciation accounts that are deemed excessive, it does not necessarily achieve long-term goals that are desirable for either consumers or utilities.

Respectfully submitted,



Jeff Davis
Commissioner

Dated at Jefferson City, Missouri,
on this 5th day of May, 2005.