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FILED[2]
JUN 2 2 2001
Missouri Public
Service Commission

June 22, 2001

Mr. Dale Hardy Roberts
Executive Secretary
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

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RE: Case No. GR-2001-292 MGE

Dear Mr. Roberts:

Enclosed for filing in the above-referenced proceeding please find an original and eight copies of the Position Statement of Missouri Gas Energy.

If you have any questions, please give me a call.

Sincerely yours,

Gary W. Duffy

/gwd
Enclosures
cc w/encl:
Office of Public Counsel
Office of the General Counsel
Larry Dority
Mark Comley
Stuart Conrad
Jerry Finnegan

FILED[2]
JUN 22 2001
Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the matter of tariff revisions of Missouri Gas Energy, a division of Southern Union Company, designed to increase rates for natural gas service to customers in the Missouri service area of the Company.	)))))	Case No. GR-2001-292

MGE'S STATEMENT OF POSITIONS

Comes now Missouri Gas Energy (MGE) and submits its Statement of Positions (Attachment 1) in response to the Commission's "Order Directing Parties to Appear for a Prehearing Conference" which was issued on June 19, 2001.

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ATTORNEYS FOR MGE

CERTIFICATE OF SERVICE

The undersigned certifies that a true and correct copy of the foregoing document was either hand delivered or placed with the U.S. Postal Service on June 22, 2001 to:

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MGE's Position Statements—GR-2001-292

1. Cost of Capital
   A. Is the appropriate regulatory approach in determining the cost of capital for MGE in this rate proceeding to analyze MGE and not Southern Union Company?

MGE's position is that the appropriate approach in determining the cost of capital for MGE in this rate proceeding is to analyze MGE. (MGE witness Dunn Direct, pp. 1-2; and rebuttal, pp. 16-18)

B. Capital Structure
   i. Is it reasonable to include short-term debt in the capital structure for ratemaking purposes in this case?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that it is reasonable to include short-term debt in the capital structure for ratemaking purposes in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is not reasonable to include short-term debt in the capital structure for ratemaking purposes in this case. (MGE witness Dunn)

   ii. Is it reasonable to use Southern Union Company's actual capital structure for ratemaking purposes in this case?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that it is reasonable to use Southern Union Company's actual capital structure for ratemaking purposes in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is not reasonable to use Southern Union Company's actual capital structure for ratemaking purposes in this case. (MGE witness Dunn Direct, pp 16-18; and Rebuttal, pp. 35-38)

a. If so, should it be adjusted for the higher equity ratio of the comparative company group?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and or an overall revenue increase of $9.9 million, is that it is reasonable to use Southern Union Company's unadjusted actual capital structure for ratemaking purposes in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that if Southern Union Company's actual capital structure is used for ratemaking purposes in this case, it should be adjusted to reflect the higher equity ratio of the comparative company group. (MGE witness Dunn Rebuttal, pp. 9-15 & 35-38)

b. If so, should it be adjusted for any difference in business risk between MGE and the comparative companies?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that it is reasonable to use Southern Union Company's unadjusted actual capital structure for ratemaking purposes in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that if Southern Union Company's actual capital structure is used for ratemaking purposes, it should be adjusted to reflect the higher business risk of MGE in relation to the comparative company group. (MGE witness Dunn Direct, pp. 37-43; and Rebuttal, pp. 16-25)

C. Return on Equity

i. Is an adjustment to the DCF-indicated return on equity necessary to reflect any difference in financial risk between the comparative companies with a 50% to 55% equity ratio and the company being analyzed (Southern Union/MGE) with approximately a 30% equity ratio?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that a return on equity of 10.5% is reasonable.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that, absent the use of a capital structure reasonably consistent with the average capital structure of the comparative company group, an upward adjustment to the DCF-indicated return on equity of 200 or more basis points is necessary to reflect the greater financial risk of Southern Union/MGE (with an equity ratio of approximately 30%) in relation to the comparative company group (with an average equity ratio of 50% to 55%). (MGE witness Dunn Rebuttal, p. 15)

ii. Is an adjustment to the DCF-indicated return on equity necessary to reflect any difference in business risk between MGE and the comparative companies?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that a return on equity of 10.5% is reasonable.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that an upward adjustment to the DCF-indicated return on equity of c-d basis points is necessary to reflect the greater business risk of MGE in relation to the comparative companies. (MGE witness Dunn Rebuttal, pp. 15-22)

iii. Is an adjustment to the DCF-indicated return on equity appropriate to reflect MGE's management efficiency and customer service performance?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that a return on equity of 10.5% is reasonable.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that an upward adjustment to the overall rate of return of 50 basis points is appropriate to reflect MGE's management efficiency and customer service performance.

(MGE witness Dunn Direct, pp 42-43; MGE witness Cattron Direct, pp. 16-17; and MGE witness Czaplewski Direct, pp. 11-12)

iv. Is an adjustment to the DCF-indicated return on equity necessary to reflect pre-offering pressure?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that a return on equity of 10.5% is reasonable.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that an adjustment to the DCF-indicated return on equity of 24 to 52 basis points is necessary to reflect pre-offering pressure. (MGE witness Dunn Direct, p. 35; and Rebuttal, pp. 47-49)

v. Should the quarterly compounding DCF model be used rather than the continuously compounding DCF model?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of 49.9 million, is that a return on equity of 10.5% is reasonable.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increae of $9.9 million is not ordered, is that it is more appropriate to use the quarterly compounding DCF model than the continuously compounding DCF model for ratemaking purposes in this case. . (MGE witness Dunn Rebuttal, p. 51)

vi. Will a proper application of each of the standards and principles of the *Bluefield Water Works* case (262 US 679) and the *Hope Natural Gas* case (320 US 591) to the evidence in this case allow the Commission to adopt a return on equity for MGE less than 12.5%?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that a return on equity of 10.5% is reasonable.

MGE' fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that proper application of each of the standards and principles of the *Bluefield Water Works* case (262 US 679) and the *Hope Natural Gas* case (320 US 591) forbid the Commission from adopting a return on equity for MGE of less than 12.5% in this case. (MGE witness Dunn Direct, all; and Rebuttal, all)

2. Depreciation
   A. What are the appropriate average service lives for MGE's plant?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that the following service lives are associated with MGE's plant:

	Life
Distribution Plant	
Account 374.2—Land Rights	47.8
Account 375.1—Structures	60.5
Account 376—Mains & Mains-Cast Iron	44.0
Account 378—Meas. & Reg. Station-General	35.0
Account 379—Meas. & Reg. Station-City Gate	47.0
Account 380—Services	44.0
Account 381—Meters	35.0
Account 382—Meter Installations	35.0
Account 383—House Regulators	41.0
Account 385—Electronic Gas Metering	30.0
Account 387—Other Equipment	21.7
(Note: Currently there is no equipment in this account. Any equipment put into this account would need to be evaluated in the next rate case.)	
General Plant-Direct	
Account 390.1—Structures	50.0
Account 391—Furniture & Fixtures	12.4
Account 392—Transportation Equipment	11.5
Account 393—Stores Equipment	37.0
Account 394—Tools	42.0
Account 395—Laboratory Equipment	16.7
Account 396—Power Operated Equipment	12.0
Account 397.1—Communication Equipment-AMR	20.0
Account 397.0—Communication Equipment-Other	16.0

Account 398—Miscellaneous Equipment	26.0
General Plant-Corporate	
Account 390—Structures	50.0
Account 391.0—Furniture & Equipment	31.0
Account 391.1—Computer Equipment	10.0
Account 392—Transportation Equipment	10.0
Account 397—Communication Equipment	16.0
Account 398—Miscellaneous Equipment	26.0

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, and based upon its depreciation study and the principle of gradualism, is that the following service lives are indicated for MGE's plant:

	Life
Distribution Plant	
Account 374.2—Land Rights	47.8
Account 375.1—Structures	49.8
Account 376—Mains & Mains-Cast Iron	47.6
Account 378—Meas. & Reg. Station-General	31.3
Account 379—Meas. & Reg. Station-City Gate	39.1
Account 380—Services	21.8
Account 381—Meters	40.7
Account 382—Meter Installations	40.5
Account 383—House Regulators	44.1
Account 385—Electronic Gas Metering	20.0
Account 387—Other Equipment	21.7
(Note: Currently there is no equipment in this account. Any equipment put into this account would need to be evaluated in the next rate case.)	
General Plant-Direct	
Account 390.1—Structures	39.7
Account 391—Furniture & Fixtures	15.0
Account 392—Transportation Equipment	9.4
Account 393—Stores Equipment	24.0
Account 394—Tools	14.3
Account 395—Laboratory Equipment	16.7
Account 396—Power Operated Equipment	15.5
Account 397.1—Communication Equipment-AMR	20.0
Account 397.0—Communication Equipment-Other	17.9
Account 398—Miscellaneous Equipment	17.8
General Plant-Corporate	
Account 390—Structures	35.8
Account 391.0—Furniture & Equipment	9.9
Account 391.1—Computer Equipment	9.9
Account 392—Transportation Equipment	8.7

Account 397—Communication Equipment	21.1
Account 398—Miscellaneous Equipment	25.5

(MGE witness Noack Direct, pp. 18-20; and MGE witness Sullivan Rebuttal, all)

B. What is the appropriate net salvage methodology for MGE's plant?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increse of $9.9 million, is that it is reasonable for net salvage cost to be normalized and included in revenue requirement in other expenses apart from depreciation rates.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that net salvage costs should be included in the depreciation rate calculation per the methodology shown in MGE's depreciation study conducted by Black & Veatch. (MGE witness Sullivan Rebuttal, pp. 27-38)

C. What are the appropriate depreciation rates for MGE's plant?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that the following depreciation rates should be adopted:

	Rate
Distribution Plant	
Account 374.2—Land Rights	2.09%
Account 375.1—Structures	1.65%
Account 376—Mains & Mains-Cast Iron	2.27%
Account 378—Meas. & Reg. Station-General	2.86%
Account 379—Meas. & Reg. Station-City Gate	2.13%
Account 380—Services	2.27%
Account 381—Meters	2.86%
Account 382—Meter Installations	2.86%
Account 383—House Regulators	2.44%
Account 385—Electronic Gas Metering	3.33%
Account 387—Other Equipment	4.60%

(Note: Currently there is no equipment in this account. Any equipment put into this account would need to be evaluated in the next rate case.)

General Plant-Direct	
Account 390.1—Structures	2.00%
Account 391—Furniture & Fixtures	8.06%
Account 392—Transportation Equipment	8.70%
Account 393—Stores Equipment	2.70%
Account 394—Tools	2.38%
Account 395—Laboratory Equipment	6.00%
Account 396—Power Operated Equipment	8.33%
Account 397.1—Communication Equipment-AMR	5.00%
Account 397.0—Communication Equipment-Other	6.25%
Account 398—Miscellaneous Equipment	3.85%
General Plant-Corporate	
Account 390—Structures	2.00%
Account 391.0—Furniture & Equipment	3.22%
Account 391.1—Computer Equipment	10.00%
Account 392—Transportation Equipment	10.00%
Account 397—Communication Equipment	6.25%
Account 398—Miscellaneous Equipment	3.85%

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, and based upon its depreciation study and the principle of gradualism, is that the following depreciation rates should be adopted:

	Rate
Distribution Plant	
Account 374.2—Land Rights	2.09%
Account 375.1—Structures	2.01%
Account 376—Mains & Mains-Cast Iron	2.10%
Account 378—Meas. & Reg. Station-General	3.19%
Account 379—Meas. & Reg. Station-City Gate	2.56%
Account 380—Services	4.58%
Account 381—Meters	2.46%
Account 382—Meter Installations	2.47%
Account 383—House Regulators	2.27%
Account 385—Electronic Gas Metering	5.00%
Account 387—Other Equipment	4.60%
(Note: Currently there is no equipment in this account. Any equipment put into this account would need to be evaluated in the next rate case.)	
General Plant-Direct	
Account 390.1—Structures	2.52%
Account 391—Furniture & Fixtures	6.67%
Account 392—Transportation Equipment	10.69%
Account 393—Stores Equipment	4.17%
Account 394—Tools	7.00%

Account 395—Laboratory Equipment	6.00%
Account 396—Power Operated Equipment	6.46%
Account 397.1—Communication Equipment-AMR	5.00%
Account 397.0—Communication Equipment-Other	5.59%
Account 398—Miscellaneous Equipment	5.63%
General Plant-Corporate	
Account 390—Structures	2.79%
Account 391.0—Furniture & Equipment	10.14%
Account 391.1—Computer Equipment	10.14%
Account 392—Transportation Equipment	11.55%
Account 397—Communication Equipment	4.75%
Account 398—Miscellaneous Equipment	3.92%

(MGE witness Noack Direct, pp. 18-20; and MGE witness Sullivan Rebuttal, all)

3. Gas Storage Inventory

A. Is it reasonable to use the Staff's 12-month average of volumes or MGE's 13-month average of volumes for purposes of valuing MGE's gas storage inventory?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that MGE's 13-month average of volumes is reasonable for purposes of valuing MGE's gas storage inventory.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is most reasonable to use MGE's 13-month average of volumes for purposes of valuing MGE's gas storage inventory. (MGE witness Noack Direct, pp. 10-11; and Rebuttal, pp. 10-12)

B. Is it reasonable to use the Staff's three-year historical average (April-October of 1998-2000) or MGE's current market price for purposes of valuing MGE's gas storage inventory?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that current market prices are reasonable for purposes of valuing MGE's gas storage inventory.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is most reasonable to use current market prices for purposes of valuing MGE's gas storage inventory. (MGE witness Noack Direct, pp. 10-11; and Rebuttal, pp. 10-12)

4. Joint & Common Costs

   A. Is it reasonable to adopt the Staff's recommendation to replace the Chairman and Vice Chairman's salaries and overheads with outside director's fees and disallow all remaining costs of the New York office?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that disallowing 50% of the Chairman and Vice Chairman's salaries and overheads and disallowing all remaining cost of the New York office is reasonable for setting MGE's revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is not reasonable to replace the Chairman and Vice Chairman's salaries and overheads with outside director's fees and disallow all remaining costs of the New York office. (MGE witness Noack Rebuttal, pp.8-9)

   B. Is it reasonable to adopt the Staff's recommendation to disallow:
      i) 100% of the salary and overheads of Southern Union Company's Senior Vice President-Legal and Secretary;
      ii) 75% of the salary and overheads of the salary and overheads of Southern Union Company's President and Chief Operating Officer; and
      iii) 50% of the salary and overheads of Southern Union Company's Executive Vice President-Chief Financial Officer?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that disallowing 50%, 37.5% and 25%, respectively, of the salaries and overheads of Southern Union Company's Senior Vice President-Legal and Secretary, President and Chief Operating Officer and Executive Vice President-Chief Financial Officer, is reasonable for setting MGE's revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is not reasonable to disallow 100%, 75% and 50%, respectively, of the salaries and overheads of Southern Union Company's Senior vice President-Legal and Secretary, President and Chief Operating Officer and Executive Vice President-Chief Financial Officer. (MGE witness Noack Rebuttal, pp. 2-8)

C. Is it reasonable to adopt Public Counsel's recommendation to disallow 100% of the manufactured gas plant-related expenditures incurred during the test year?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that disallowing 100% of the manufactured gas plant-related expenditures incurred during the test year is reasonable for setting MGE's revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is not reasonable to disallow 100% of the manufactured gas plant-related expenditures incurred during the test year. (MGE witness Harbour Rebuttal, all; and MGE witness Fish Rebuttal, all)

5. Off-System Sales and Capacity Release Revenues

A. Is it reasonable and lawful to adopt either the Staff or Public Counsel's proposal to impute off-system sales revenues in setting distribution rates in this case?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that imputation of $1.2 million for off-system sales and capacity release revenues is reasonable for setting MGE's revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is neither reasonable nor lawful to impute off-system sales revenues in setting distribution rates in this case. (MGE witness Langston Rebuttal, pp. 7-18)

B. Is it reasonable and lawful to adopt Public Counsel's proposal to recognize capacity release revenues in setting distribution rates in this case?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that imputation of $1.2 million for off-system sales and capacity release revenues is reasonable for setting MGE's revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is neither reasonable nor lawful to recognize capacity release revenues in setting distribution rates in this case. (MGE witness Langston Rebuttal, pp. 2-6)

6. SLRP Deferrals

   A. Is it reasonable to adopt Public Counsel's proposed treatment of the June 1 to September 2, 1998 period?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that Public Counsel's proposed treatment of the June 1 to September 2, 1998 period is not reasonable for setting revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is not reasonable to adopt Public Counsel's proposed treatment of the June 1 to September 2, 1998 period. (MGE witness Noack Rebuttal, pp. 19-38)

   B. Is it lawful and reasonable to adopt the Staff and Public Counsel recommendations to exclude from rate base the unamortized balance of SLRP deferrals?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that it is reasonable to exclude the unamortized balance of SLRP deferrals from rate base in setting revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is neither lawful nor reasonable to exclude from rate base the unamortized balance of SLRP deferrals. (MGE witness Noack Direct, pp. 6-9; and Rebuttal, pp. 28-33)

C. If the Commission determines that it is lawful and reasonable to exclude from rate base the unamortized balance of SLRP deferrals, is it lawful and reasonable to adopt the Staff and Public Counsel recommendations to further reduce rate base for the associated deferred income taxes?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that if the unamortized balance of SLRP deferrals has been excluded from rate base then it is reasonable to further reduce rate base for the associated deferred income taxes in setting revenue requirement in this case.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that if the unamortized balance of SLRP deferrals has been excluded from rate base, then it is unreasonable and unlawful to further reduce rate base for the associated deferred income taxes. (MGE witness Noack Direct, pp. 6-9; and Rebuttal, pp. 33-38)

7. Is it reasonable to adopt Public Counsel's proposal to credit all revenues associated with MGE's land based digitized mapping system as a reduction to the digitized mapping system plant on which MGE is permitted the opportunity to earn a return or MGE's proposal to share such revenues equally between shareholders and customers?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that it is reasonable to credit all prospective revenues associated with the land based digitized mapping system as a reduction to the digitized mapping system plant.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is reasonable to share all revenues associated with MGE's land based digitized mapping system equally between shareholders and customers. (MGE witness Noack Rebuttal, pp. 12-18)

8. Class Cost-of-Service/Class Revenue Allocations

A. What class cost of service allocation methodology is most reasonable for use in setting distribution rates in this case?

MGE's position is that class cost of service allocation methodologies and results can vary considerably depending on the analyst. Although MGE believes that class cost of service studies can represent a reasonable starting point for the allocation of class revenue responsibility, other factors may also be considered. Therefore, it is MGE's position that the Commission need not choose any single class cost of service methodology or study in setting distribution rates in this case.

(MGE witness Cummings Direct, pp. 8-10 ; Rebuttal, pp. 4-7 ; and Surrebuttal, pp. 3-5).

B. What allocation of revenue increase to the various customer classes is most reasonable for use in setting distribution rates in this case?

MGE's position is that it is reasonable for the Commission to spread the required increase proportionately to all customer classes on the basis of existing class revenues, as adjusted.

Alternatively, in an effort to reconcile the results of the parties class cost of service studies and recommendations, MGE position is that it would also be reasonable to spread the first $5,000,000 of required revenue increase to the Residential, Small General Service and Large General Service classes proportionately to their as adjusted test year revenues. The remainder of the required revenue increase would be spread to all classes proportionately to their as adjusted test year revenues.

(MGE witness Cummings Direct, pp. 8-10 ; Rebuttal, pp. 4-7 ; and Surrebuttal, pp. 3-5).

9. Is it reasonable to adopt the Staff's proposal to expand MGE's low-income weatherization program?

A. If so, how much more funding will be needed for the program expansion?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that expansion of the low-income weatherization program to the balance of MGE's service territory for $90,000 per year is reasonable.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that expansion of MGE's low-income weatherization program is reasonable so long as the associated costs are reflected in revenue requirement in this case and no undue administrative burdens are imposed on MGE. (MGE witness Cummings Rebuttal, p. 7)

10. Is it lawful and reasonable to adopt Public Counsel's proposed low-income fixed credit tariff rate?

MGE's position is to support the establishment of a well-crafted and thoughtfully designed low-income assistance program. Such a program should be on that that—1) will cause MGE neither profits nor losses and 2) MGE is capable of administering—so that data concerning the impact and advisability of expanding the availability of such a rate can be gathered. MGE's position is that Public Counsel's proposed low-income fixed credit proposal does not meet these requirements and that it is not reasonable to implement Public Counsel's proposal in the limited time available in this case after the proposal was first revealed on April 26, 2001. MGE believes that the cost impacts of Public Counsel's proposal are not quantifiable with reasonable certainty in advance of implementation of the proposal and may very well be substantially greater than those estimated by Public Counsel. MGE also cannot physically accomplish the billing system changes that, at least according to MGE's current understanding of the Public Counsel proposal, would be necessary to implement the Public Counsel proposal by the operation of law date in this case. If the Commission determines that the type of concept envisioned by Public Counsel's proposal is lawful and constitutes sound public policy, MGE recommends that the commission establish a separate docket in which a study group can assess and resolve implementation, cost, and customer impact issues associated with specific low-income programs. The group's objective would be to propose to the Commission a program(s) that could be implemented on a cost, revenue, and earnings neutral basis.

(MGE witness Cummings Rebuttal, pp. 10-21; and Surrebuttal, pp. 5-6; MGE witness Hendershot Rebuttal, all; and MGE witness Thompson Rebuttal, all).

11. Is it lawful and reasonable to adopt MGE's proposed Customer Service Effectiveness/Gas Safety Incentive Plan?

MGE's changed position, which is conditional on the treatment of a package of adjustments and items (including cost of capital, depreciation expense, gas storage inventory, joint & common costs, off-system sales & capacity release revenues, SLRP deferrals, mapping system, low-income weatherization and customer service effectiveness/gas safety incentive plan) and/or an overall revenue increase of $9.9 million, is that withdrawal of the Customer Service Effectiveness/Gas Safety Incentive Plan is a reasonable exchange for a continued accounting authority order for SLRP expenditures and release from certain provisions of the Unanimous Stipulation and Agreement in Case No. GM-200-43.

MGE's fallback position, in the event that the package of adjustments and items is not treated as proposed by MGE and/or an overall revenue increase of $9.9 million is not ordered, is that it is both lawful and reasonable to adopt MGE's proposed Customer

Service Effectiveness/Gas Safety Incentive Plan as an alternative to the accounting authority order process. (MGE witness Cummings Direct, pp. 14-17 ; and Rebuttal, pp. 8-10)