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Witness:	Michael R. Noack
Type of Exhibit:	Rebuttal Testimony
Sponsoring Party:	Missouri Gas Energy
Case No.:	GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

REBUTTAL TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

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REBUTTAL TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2001-292

May 22, 2001

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael R. Noack. My business address is 3420 Broadway, Kansas City, Missouri 64111.

Q. HAVE YOU PROVIDED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. I will first address the question of the allocation of joint and common costs and the disallowances recommended by Mr. Hyneman of the Missouri Public Service Commission Staff as they relate to merger and acquisition activity and the Southwest Gas litigation. Mr. Stuart Harbour and Mr. Alan Fish will address the issue of Manufactured Gas Plant remediation costs. In addition, I will address the issue of the proper level of natural gas storage inventory, the Land Based Digital Mapping System and finally the Safety Line Replacement Program deferrals (SLRP), particularly the issues of inclusion in rate base of the unamortized portion of the deferrals and the rate base treatment of the accumulated deferred income taxes related to the deferrals.

JOINT AND COMMON COSTS

Q. PLEASE DISCUSS THE ISSUE RELATED TO JOINT AND COMMON COSTS.

A. When MGE originally filed its case based upon a June 30, 2000 test year, a corporate allocation study was prepared for the purpose of allocating to MGE joint and common costs incurred by Southern Union Company. When the case was updated to a test year ending December 31, 2000, the allocation of joint and common costs was also updated to include updated payroll costs and also to recognize the effects on the allocation study of the inclusion of the New England properties. The Staff as a result of its review of the study has proposed to disallow several costs allocated to MGE.

Q. WHAT COSTS DID STAFF DISALLOW FROM THE JOINT AND COMMON ALLOCATION RELATED TO MERGER AND ACQUISITION ACTIVITY?

Q. The Staff as a result of its review of the joint and common costs disallowed 75% of the salary and benefits of Mr. Kelley, President and Chief Operating Officer of Southern Union Company during the test year, and 50% of the salary and benefits of Mr. Endres, the Executive Vice-President and Chief Financial Officer of Southern Union Company. In addition, staff witness Hyneman proposes to disallow 100% of the salary and benefits of Mr. Dennis Morgan, Senior Vice-President of Legal for Southern Union Company.

Q. WHAT WAS THE REASON FOR DISALLOWING THE SALARIES OF MR. KELLEY AND MR. ENDRES?

A. Mr. Hyneman in his direct testimony on page 32 states that while both individuals involve themselves with mergers and acquisitions, neither one participates in even the significant rate cases within the regulated gas distribution jurisdictions.

Q. TO YOUR KNOWLEDGE HAS MR. ENDRES BEEN INVOLVED IN THE RATE CASE IN MISSOURI EVEN THOUGH HE HAS NOT FILED TESTIMONY?

A. Absolutely. Before the case was filed, Mr. Endres had detailed discussions regarding various potential issues in the case, the proposed rate design, etc. In addition, after the filing of all direct testimony, Mr. Endres was involved in discussions regarding parameters for the resolution of issues by settlement during and after the prehearing conference.

Q. WAS MR. ENDRES INTERVIEWED BY THE MPSC STAFF DURING THE FIELD WORK CONDUCTED IN AUSTIN, TEXAS?

A. Yes, Mr. Endres was interviewed by the MPSC Staff in Austin.

Q. BASED UPON THE NOTES TAKEN BY THE STAFF AT THAT INTERVIEW, WHAT IS MR. ENDRES' ROLE AT SOUTHERN UNION?

A. Mr. Endres is responsible for all financial operations of Southern Union, with all division heads, IT, Gas Supply and Internal Audit reporting to him. Per the notes taken by Messrs. Hyneman and Traxler, he also explained that the majority of his time is spent on the businesses that Southern Union presently operates. He has had a role in acquisitions but has spent very little effort in the last 18 to 24 months on merger and acquisition activity. He stated that most of his days are spent working on the business that Southern Union already has.

Q. BASED UPON THOSE NOTES TAKEN DURING THE INTERVIEW, IS A 50% REDUCTION IN MR. ENDRES' SALARY AND BENEFITS APPROPRIATE OR REASONABLE?

A. No. As recorded in the interview notes taken by Messrs. Hyneman and Traxler, most of Mr. Endres' time is spent on the day-to-day operations of Southern Union and its divisions.

Q. WHAT PERCENTAGE OF MR. KELLEY'S SALARY HAS STAFF PROPOSED TO DISALLOW BECAUSE OF MERGER ACTIVITY?

A. Mr. Hyneman proposes to disallow 75 % of Mr. Kelley's salary and benefits because of merger related activities.

Q. DO YOU AGREE WITH THE STAFF'S PROPOSED LEVEL OF DISALLOWANCE WITH REGARD TO MR. KELLEY'S SALARY AND BENEFITS?

A. No. Mr. Kelley was the President and Chief Operating Officer of Southern Union during the test year. One would expect him to be involved in the merger activity of the Company along with being involved in all other aspects of the Company as well. Per the notes taken by Messrs. Hyneman and Traxler during the interview, Mr. Kelley held videoconferences regularly with the operating divisions, including MGE, and held regular staff meetings with Mr. Cattron of MGE and the other senior staff of MGE. He also spoke on the phone with Mr. Cattron weekly.

Q. WITH REGARD TO THE MERGERS AND ACQUISITIONS WHICH HAVE TAKEN PLACE, HAVE THEY HAD AN IMPACT ON THE CORPORATE ALLOCATION IN GENERAL AND THE PERCENTAGE OF COSTS ALLOCATED TO MGE IN PARTICULAR?

A. Yes, they have had a significant impact on the corporate allocation and the percentage of costs allocated to MGE.

Q. WOULD YOU PLEASE EXPLAIN WHAT THAT IMPACT HAS BEEN SINCE THE FIRST MGE RATE CASE?

A. In Case No. GR-96-285, which was before the acquisition of Atlantic Utilities, Pennsylvania and the New England properties, the MGE portion of corporate costs was 47.5%. In Case No. GR-98-140, which was after the acquisition of Atlantic Utilities but before the Pennsylvania and New England acquisitions, MGE's share of corporate allocated costs was 38.9%.

In the initial filing of this case based upon a June 30, 2000 test year, which was after the Pennsylvania acquisition but before New England, MGE's share of corporate allocated costs was 37.5%. After the New England properties were acquired and this case was updated to a December 31, 2000 test year the MGE share of corporate allocated costs has decreased to 33.6%.

MGE
JOINT & COMMON COST PERCENTAGE

CASE	PERCENTAGE
GR-96-285	47.46%
GR-98-140	38.93%
GR-2001-292	
06/30/00	37.50%
12/31/00	33.65%

Q. WHAT WERE THE LEVEL OF CORPORATE COSTS INCLUDED IN THE ORIGINAL FILING USING A JUNE 30, 2000 TEST YEAR VERSUS USING A DECEMBER 31, 2000 TEST YEAR?

A. The amount of corporate costs allocated to MGE at June 30, 2000 using a factor of 37.5% was $9,735,082. The amount of corporate costs allocated to MGE at December 31, 2000 using a factor of 33.6% is $8,878,635, or a decrease of $856,447, which is a savings directly tied to merger and acquisition activity.

Q. ARE YOU TRYING TO EXPLAIN TO THE COMMISSION THAT THE COMPANY'S MERGER ACTIVITY HAS ACTUALLY HAD THE EFFECT OF LOWERING THE JOINT AND COMMON COSTS ALLOCATED TO MISSOURI CUSTOMERS?

A. Yes. As pointed out previously, the change in allocated costs from June 30 to December 31, 2000 was a reduction of almost $1,000,000.

Q. EVEN THOUGH THOSE COSTS ALLOCATED TO MGE HAVE GONE DOWN SUBSTANTIALLY AS A RESULT OF MERGER RELATED ACTIVITY, IS STAFF STILL DISALLOWING A PORTION OF SALARIES AND BENEFITS WITH THE RATIONALE THAT THERE IS NO BENEFIT TO MISSOURI?

A. That is correct. As a result of the recent merger activity, MGE has realized a reduction of costs of almost $1,000,000. A further decrease in salaries and benefits is neither reasonable nor appropriate.

Q. HAS STAFF ALSO PROPOSED TO DISALLOW COSTS RELATED TO MR. MORGAN'S SALARY AND BENEFITS BECAUSE OF HIS WORK RELATED TO SOUTHWEST GAS LITIGATION?

A. Yes, Mr. Hyneman has proposed to disallow 100% of Mr. Morgan's salary and benefits. Mr. Hyneman in his testimony on page 34 states that since managing a project the size of the Southwest litigation requires a substantial amount of Mr. Morgan's time and to a lesser extent that of his staff, all of his salary and related benefits should be disallowed.

Q. DID STAFF INTERVIEW MR. MORGAN DURING ITS VISIT TO AUSTIN, TEXAS?

A. Yes they did and Mr. Morgan stated in his interview that 50%, not 100% of his time is spent on the Southwest Gas litigation.

Q. WOULD YOU CONSIDER THE SOUTHWEST GAS LITIGATION A NON-RECURRING ITEM FOR RATEMAKING PURPOSES?

A. Yes I would, and as a result there should be no adjustment made to Mr. Morgan's salary or benefits.

Q. HAS STAFF PROPOSED AN ADJUSTMENT TO DISALLOW THE EXECUTIVE SALARIES AND BENEFITS OF MR. LINDEMANN, MR. BRENNAN AND THEIR ADMINISTRATIVE ASSISTANT MS. SCHIEHLE?

A. Yes. Staff witness Hyneman proposed to disallow all expenses of the New York office that have been allocated to MGE through the corporate allocation. In place of the disallowed salaries and benefits for Mr. Lindemann and Mr. Brennan, Staff has proposed allowing an amount that equals the normal directors' fees of Southern Union.

Q. DO YOU AGREE WITH THE STAFF ADJUSTMENT?

A. No I do not. These gentlemen are the Chairman and the Vice-Chairman of Southern Union Company, a publicly traded New York Stock Exchange company. They oversee a corporation which serves 1.6 million gas customers which, as Mr. Hyneman states in his direct testimony on page 19, is now one of the top 10 natural gas utilities in the United States as measured by customers. Twenty eight percent of Southern Union's gas customers are also located in the northeastern United States (Pennsylvania, Rhode Island and Massachusetts). Some portion of their salary, benefits and office expenses (including their administrative assistant) should be allocable to MGE.

Q. DO YOU AGREE THAT ADJUSTING THE LEVEL OF SALARIES AND BENEFITS TO THE LEVEL OF DIRECTOR'S FEES IS COMMENSURATE WITH MR. LINDEMANN AND MR. BRENNAN'S IMPACT IN RUNNING SOUTHERN UNION COMPANY AND ON MISSOURI OPERATIONS?

A. No. As shown in the direct testimony of MGE witnesses Cattron and Czaplewski, MGE is considerably more efficient than other natural gas local distribution companies in Missouri and, at the same time, has achieved superior customer service performance levels. This is not an accident, but a direct result of leadership from the top echelons of the Company (in the form of Messrs. Lindemann, Brennan and Kelley) on down. Missouri customers derive substantial benefits from the Company's efficiency and customer service effectiveness. Clearly, Messrs. Lindemann and Brennan have a substantial and favorable impact on Missouri Gas Energy's operations and customers.

GAS STORAGE INVENTORY

Q. PLEASE DISCUSS THIS ISSUE?

A. This issue involves the determination of the proper value of gas storage inventory to include in rate base.

Q. WHAT IS YOUR UNDERSTANDING OF THE METHODOLOGY USED BY THE STAFF TO DERIVE THE BALANCE OF GAS STORAGE INVENTORY INCLUDED IN RATE BASE?

R. Staff witness Wallis used a three step computation to calculate the rate base balance of gas storage inventory at December 31, 2000. First, Mr. Wallis used a 12 month average of volumes in storage for the period ending December 31, 2000. Next Mr. Wallis computed a commodity price of the gas in storage by averaging the index prices in effect during the injection months of April through October for the years 1998, 1999 and 2000. The final step in the computation was to add to the average commodity price the various adders such as fuel and transportation to arrive at a total average price per Mcf of $3.197. When applied to Mr. Wallis' average volumes, storage inventory amounts to $29,811,577.

Q. HOW DOES MGE'S COMPUTATION OF STORAGE INVENTORY COMPARE TO THE STAFF'S COMPUTATION?

A. MGE used a 13 month average of volumes in storage which is similar to the averages normally used by Staff to compute such rate base items as materials and supplies, prepayments, customer deposits and advances for construction. Staff used a 12 month average for this one rate base item without an explanation of why a 12 month average and not a 13 month average was used. By using a 12 month average instead of the normal 13 month average, Mr. Wallis is using an average inventory balance which is 498,669 Mcf less than MGE's balance.

Next, MGE used the July 2001 NYMEX futures price as of December 27, 2000 to estimate the value of the gas in storage. Staff used an average of the April to October index prices for the years 1998, 1999 and 2000 plus the various adders as explained earlier.

Q. DO YOU AGREE WITH THE PRICE CALCULATION USED BY MR. WALLIS TO PRICE HIS AVERAGE INVENTORY BALANCES?

A. No I do not. Using Mr. Wallis' method of pricing, the storage inventory assumes a price of $2.729 per Mcf for the gas in storage. Attached to this testimony is Schedule MRN-1, which is a compilation of the index prices Mr. Wallis used to arrive at his $2.729 price.

Q. WHEN WAS THE LAST TIME THE INDEX PRICE DURING AN INJECTION MONTH WAS LESS THAN $2.729 PER MCF?

A. October 1999 was the last month the price was below Mr. Wallis' average price. The average price for the injection months April through October 2000 and April and May 2001 is $4.184 per Mcf. When adding Mr. Wallis' adders to that average price, the value of the average inventory is $4.652 per Mcf for a total rate base item of $43,379,249 if using the Mr. Wallis' average balance or $45,699,057 if using MGE's average balance. These compare to the Staff's balance of $29,811,577 for gas storage inventory.

Q. WHAT IS YOUR RECOMMENDATION?

A. I would recommend that the Commission at a minimum look at the current average price of the gas being injected into storage and use that price to value MGE's volumes. The gas prices of less than $2.00 per Mcf being used in Mr. Wallis' average are not realistic prices at the current time. This item will also be a part of the true-up at June 30, 2001.

LAND BASED DIGITAL MAPPING SYSTEM

Q. WHAT IS THE ISSUE INVOLVING THE LAND BASED DIGITAL MAPPING SYSTEM?

A. This issue involves the proper accounting for revenues derived from licensing the Land Based Mapping System.

Q. WHAT IS MGE'S LAND BASED DIGITAL MAPPING SYSTEM?

A. MGE's mapping system is a compilation of 5,100 AutoCAD maps that cover the territory miles served by the gas company. Each map is identified by Division, Town and Sector. Each map also contains a database that contains information on facilities specific to that map.

Q. HAS MGE INCLUDED IN THE TEST PERIOD ANY REVENUE, EITHER ABOVE OR BELOW THE LINE, RECEIVED FROM SELLING OR LICENSING THE MAPPING SYSTEM?

A. No. There was not any revenue received from sales or licensing of the mapping system during the test period.

Q. WHEN MGE HAS RECEIVED MONIES FROM LICENSING THE MAPPING SYSTEM, HOW HAS IT BEEN RECORDED ON THE BOOKS OF MGE?

A. When monies have been received in the past, they have been recorded as an offset to the construction clearing accounts and thus they reduced all plant accounts ratably.

Most of the time the actual monies received from the entities not affiliated with MGE are offset with monies paid by MGE to the same entity for enhancements made to the mapping system as a result of receiving address and parcel information. In those cases the license contract states that no actual money will change hands.

Q. WHAT IS THE OFFICE OF PUBLIC COUNSEL RECOMMENDING IN THIS CASE?

A. Mr. Robertson in his direct testimony on page 13, is recommending to quantify that portion of the mapping system which is not associated with MGE regulated operations and remove that portion from rate base. Any revenue subsequently received from that non-regulated portion of the mapping system would be treated as non-operating revenue. In the alternative under Mr. Robertson's testimony, MGE would offset the cost of the mapping system with the revenue collected until such time as the investment on MGE's books is gone and then record the revenue as other operating income.

Q. WHAT DOES MGE BELIEVE IS THE APPROPRIATE TREATMENT OF MONIES RECEIVED FROM LICENSING THE MAPPING SYSTEM?

A. In response to OPC DR 1139, the company's rationale for crediting account 184.7 (the construction overhead clearing account) for LDMS revenues received was to offset the internal labor and subcontract labor expenses incurred to enhance the LDMS system. The expenses, including company labor and subcontract labor, were also charged to 184.7.

Authoritative accounting literature does not speak to this item, so the issue became whether any monies received should be recorded as a contribution against the cost of the mapping system or as a reimbursement against any expenses incurred to provide these services during this initial limited work or as below the line revenue. While the system did receive benefit from the data obtained from our partners, MGE felt that the character of the funds received was closer to a reimbursement for services rather than a reimbursement of the system cost. Then the decision became whether to account for these as a separate revenue and expense or just offset the cost of the engineering personnel that worked on the projects. Due to the relatively small nature of the items to date, the monies received were credited against the account that is charged for labor during map development. The way MGE currently accounts for monies received from licensing the mapping system is essentially the same method as Mr. Robertson is recommending when he recommends offsetting the mapping system costs with the revenue. Rate base is decreased by the same amount in either case. Under MGE's methodology however, the balance of the mapping system is left intact and the cost of developing the system is readily obtainable from MGE's books and records.

Q. HAS THE MAPPING SYSTEM ACTUALLY BENEFITED CUSTOMERS OF MGE AS A RESULT OF THE EFFICIENCIES BUILT INTO THE MAPPING SYSTEM?

A. Yes it has.

Q. WHAT ARE THOSE EFFICIENCIES THAT ARE BUILT INTO THE MAPPING SYSTEM?

A. The Digital Mapping System data is stored on computer servers at the various service centers. This data is backed up on tape every night. Once each month, a full backup copy is stored in a fireproof vault away from the service centers. This provides full protection against loss of our maps, facility databases, engineering drawings, scanned work orders, scanned intersection sketches, and scanned service cards due to fire, flood, or vandalism. We can recover from any disaster within a few days. Before this system, we only had paper documents that were stored at the service center with no backup.

The Redline update feature allows MGE to provide the data concerning new construction to the field personnel within a few days after the hole is covered. With the old paper map system, new construction did not get placed on the maps for months to years later.

The gas facilities in the digital maps are linked to gas mains and other gas facilities databases. The addresses on the parcels in the maps are linked to the MGE service line database, the gas mains database, and the leaks database. This feature greatly facilitates main replacement planning. We can ask the database to find all of the gas mains that are cast iron and color them by size. We can then ask the leaks database to locate by address where all of the class 3 & 4 leaks are located. The system will find all of the queried facilities and leaks and highlight them on the maps. This allows us to replace the cast iron mains where we have the most leaks and thus, solve two problems at one time.

When an emergency outage occurs we can quickly pin point the location where the gas main is cut. Then we can trace the main away from the cut to find the nearest valve or regulator station in order to stop the flow of gas.

MGE has been able to centralize their dispatching because the digital mapping system can be accessed from any PC that is attached to the Wide Area Network. The dispatchers can quickly display any MGE map by simply entering the street address, or meter number, or ERT number.

The MGE line locators in KCMO are equipped with laptop computers and CD-ROM discs containing all of the mapping system data. This has decreased the number of calls they make to the dispatchers and the trips back to the field offices to get the maps showing where the facilities are located.

The Engineering Department can pull up the area where new main is to be installed or replaced and use the map in AutoCAD to do their design work. We have a translator program that allows the piping network to be imported into the Stoner Flow Analysis program so that we can quickly evaluate the effect of the new pipe. After the new design is completed, we can quickly import the data into the mapping system.

Complex queries from the Commission can be answered within hours instead of months.

Third party contractors can be provided with digital maps or faxed copies of areas where they want to build new facilities or perform trenching/directional boring within hours via e-mail and fax instead of making copies of out-of-date paper maps which had to be mailed or picked up. The digital maps include the latest Redline updates.

Trading facility data with cities and utilities that use the same landbase as MGE has reduced third party damage.

The MGE mapping system is compatible with the Global Positioning System (GPS). We have located most of our rural farm taps using GPS so that anyone in the company can find these difficult to locate facilities in the middle of the night.

Over 200 MGE employees have direct and instantaneous access to the mapping system from PC terminals scattered around the MGE service territory. Approximately 15 more employees (field inspectors, marketing, line locators) carry the mapping data with them on CD-ROM's and use laptop computers. SM & P (contract Locator Company) have the mapping data on their server in the Kansas City office and are equipping their field personnel with CD-ROM's and laptops.

Q. DOES MGE HAVE AN ALTERNATIVE RECOMMENDATION FOR DEALING WITH ANY POSSIBLE FUTURE REVENUE RECEIVED FROM LICENSING THE MAPPING SYSTEM?

A. MGE would like to propose leaving the plant investment as is and continue to amortize the mapping system. Any revenue received from the licensing of the system to third parties would then be split 50/50 between customers and MGE with 50% of the revenues being booked as an offset to the plant investment and 50% booked as non-operating revenue (below the line).

<u>SAFETY LINE REPLACEMENT PROGRAM DEFERRALS</u>

Q. WHAT IS THIS ISSUE?

A. At issue is the proper rate base treatment of the deferred costs and the associated deferred income taxes from the Safety Line Replacement Program to include in rate base at December 31, 2000.

Q. CAN YOU BRIEFLY DESCRIBE MGE'S GAS SAFETY PROGRAM?

A. Yes, I can. This program dates back to 1989 when this Commission adopted a series of safety rules that the Company often referred to as its SLRP. The safety rules issued in 1989 required Kansas Power & Light ("KPL"), the predecessor company of MGE, to replace virtually all older service and main lines with new service and main lines over a 20-year period. This program, an unprecedented gas safety initiative, initially required expenditures of over $20 million annually and in excess of approximately $250 million over the life of the program.

Q. DOES THE GAS SAFETY PROGRAM AFFECT MGE'S ACHIEVABLE RETURN?

A. Yes. As the Commission knows, there is a delay between the time a utility invests funds in gas lines like those mandated by the SLRP and the time its rates can be adjusted by the Commission to permit it to begin earning a return on and recovering the cost of its expenditures. <u>This Commission granted accounting authority orders ("AAO") to protect KPL, and subsequently MGE, from economic losses attributable to regulatory</u>

lag caused by this extraordinary expenditure. As such, these AAOs authorized MGE to defer and capitalize certain expenses until its next general rate case when the capitalized expenses could be recovered in MGE's authorized rates.

Q. HOW HAS THE COMMISSION DEALT WITH GAS SAFETY EXPENDITURES IN PAST ORDERS?

A. There is a lot of history associated with this subject. I will summarize the events chronologically.

After the Commission's adoption of the 1989 safety rules, KPL recognized the inherent regulatory lag problem created by the utility's required annual expenditures.

In August of 1989, KPL filed an application with the MPSC in Case No. GO-90-51 requesting an AAO relative to the expedited program of replacing service lines. The application noted:

> Since KPL commenced this program, it has incurred a significantly higher level of operating and maintenance expenses as well as a substantial increase in capital costs in connection with its testing and replacement of unprotected steel service lines...
>
> Since these extraordinary and unanticipated costs have not been previously reflected in KPL's rates, KPL requests an accounting order from the Commission authorizing it to accumulate and recover in its future rates the expenses and carrying costs which have and will be incurred by KPL in connection with its expanded gas safety program. Absent such an Order, KPL will be permanently deprived of an opportunity to recover these costs which have been expended on behalf of its customers.
>
> KPL accordingly seeks authority to accumulate in account 186, and recover in the permanent rates established in the rate case filed by KPL on

> August 29, 1989, those increased costs, expenses, and carrying costs (at a rate equivalent to 10.96 percent per annum) [Emphasis added] which KPL has incurred since the commencement of its expanded gas safety program and will continue to incur until this Commission authorizes KPL to increase its rates to reflect such costs on a going-forward basis. These expenses include, but are not limited to, (1) the costs incurred by KPL to conduct accelerated leak surveys of customer and Company-owned piping, (2) the additional operating and maintenance costs which KPL has or will incur as a result of its expedited [gas safety program], and (3) the carrying costs and depreciation expense associated with KPL's increased investment in its [gas safety program].

On October 4, 1989, the Commission granted KPL an AAO in Case No. GO-90-51. Like subsequent AAOs, the 1989 AAO authorized KPL to capitalize and defer expense recognition of depreciation, ad valorem taxes and carrying costs with respect to the utility's investment in new service lines and mains mandated by the SLRP. Furthermore, KPL was authorized to capitalize the carrying cost of its investment to comply with the SLRP at 10.96% per annum. That was the rate of return KPL was then allowed by the Commission to earn on assets in its rate base. That AAO provided:

> The Commission has reviewed the pleadings of KPL, Public Counsel and Staff. From KPL's initial filing it appears that KPL is seeking preapproval for recovery of costs associated with KPL's testing and replacement of unprotected steel service lines. From KPL's replies to Staff and Public Counsel's pleadings, it appears now that KPL is only seeking authority to book the costs for potential recovery in a general rate case.
>
> Since KPL indicates it is only seeking authority to reserve these costs in an appropriate account, the Commission has determined that the limited authority will be granted. Based upon Staff's pleading, KPL will be granted authority to book the costs, other than capital costs, in Account 186. KPL then may seek recovery of these costs in the appropriate general rate proceedings. KPL should book capital costs to the appropriate capital accounts and incorporate them in to the cost of service for recovery as a rate base item.

In its 1990 rate case, Case No. GR-90-50, the Commission allowed KPL to amortize -- i.e., recover or recoup -- the costs capitalized pursuant to the 1989 AAO including the 10.96% carrying cost in its rates during the next three years.

In its 1991 rate case, KPL's authorized rate of return on its rate base was reduced from 10.96% to 10.54% on a prospective basis. Pursuant to these orders, KPL capitalized 10.96% per year as a carrying cost on each dollar invested to comply with the SLRP before the effective date of the order in the 1991 rate case. Then it was allowed to earn a return of 10.54% on each unamortized dollar capitalized after the effective date of the 1991 Order. Thus, the Commission did not retroactively change the 10.96% capitalization rate authorized in the 1989 AAO. It merely reduced the prospective return on the regulatory asset from 10.96% to 10.54% after the effective date of the order in the 1991 rate case.

Also in KPL's 1991 rate case, the Commission's Staff and KPL jointly recommended that the Commission include in rates monies associated with future gas safety plant investment by KPL. Although the Commission did not adopt the Staff and Company proposal to recognize extraordinary investment levels, the Commission did state:

> "...that there is a method available to companies to have this investment deferred for consideration in a future rate case. If Company believes this investment is an extraordinary expenditure, Company may request an accounting authority order from the Commission as have other companies which are upgrading the safety of their gas plant pursuant to the Commission's recently promulgated gas safety rule. The Commission has recently demonstrated that it is willing to issue accounting authority orders where expenditures are shown to be extraordinary." RE: Kansas Power & Light, 1 MPSC 3d 236, 238 (January 22, 1992).

KPL also sought and was granted a second AAO authorizing it to capitalize and defer recognition of the same kinds of costs resulting from expenditures to comply with the SLRP after July 1, 1991, and prior to the effective date of its next general rate increase case. <u>While the carrying cost rate was not specified in the second AAO, it stated that "the costs to be deferred are substantially similar to" the costs deferred in prior accounting authority orders</u>.

Pursuant to the second AAO, KPL capitalized carrying costs at its then <u>applicable 10.54% authorized rate of return on the assets in its rate base</u>. KPL filed its next general rate increase case in mid-1993, seeking authority to recover the costs capitalized pursuant to the second AAO in its utility rates going forward. Although the rate increase case was resolved by a negotiated settlement between the parties, the Commission Order approving the settlement states:

> Also pursuant to the Staff's recommendation, [KPL] agrees, beginning with the effective date of the rates established herein, to include in rate base and amortize over a 20-year period in the cost of service those expenses related to its gas safety program which have been deferred pursuant to the [second] AAO authorized in Case No. GO-92-185.

While the Company agreed to a twenty-year recovery period for the capitalized costs instead of the three-year amortization of costs capitalized pursuant to the first AAO, the settlement did not reduce the carrying costs capitalized at 10.54%. These costs were part of the regulatory assets included in KPL's rate base and recovered as part of its cost of service over twenty years. The effective date of the Commission Order resolving KPL's 1993 rate case was October 15, 1993.

On January 31, 1994, the assets of MGE were purchased by Southern Union Company from Western Resources, Inc. (successor company of KPL). The Commission approved the transfer of assets in Case No. GM-94-40.

One day after the effective date of Southern Union's purchase of the MGE business, MGE filed an application for an AAO. Among other things, the application requested approval of a 10.54% carrying cost rate which was the same rate the Commission approved for KPL in the stub period accounting order. The 10.54% rate was also the carrying cost rate KPL used the prior October when the Commission approved the settlement authorizing KPL to include in rate base the expenditures capitalized pursuant to the second AAO.

In the Commission-approved Unanimous Stipulation and Agreement in Case No. GM-94-40, the Staff agreed to support MGE's application for an AAO "similar to" the AAO previously granted to KPL. In evaluating MGE's AAO application, Staff sent MGE data requests which explored the issue of the amount of carrying costs. MGE provided responses to Staff's data requests. After satisfying itself that MGE requested an AAO "similar to" the AAO previously granted to KPL, the Staff concluded that:

> MGE's safety expenses which are at issue in the instant application appear to be larger in magnitude than those of the other utilities which have previously been granted [AAOs] by the [Commission] for gas safety related costs. For these reasons and in accordance with the [Settlement Agreement], the Staff recommends that [MGE's] Application for an [AAO] in this proceeding be granted by the [Commission].

Neither Staff nor the Commission expressed any reservations about the 10.54% rate requested by MGE.

The application filed by MGE contained two counts: Most of the relief sought was in count I, in which MGE asked for approval to defer and capitalize "depreciation expense, property taxes <u>and carrying costs at 10.54%</u>" on capital it would invest to comply with the SLRP before the February 1, 1997 expiration of the rate moratorium agreed to by the Commission. MGE estimated that it would invest $63 million before February 1, 1997, and that $22.5 million would be deferred if the relief sought in count I were granted. The Staff and the Commission approved count I without reservations: "The Staff recommends that the Commission, in accordance with its policy in the past, grant the application for deferral in count I ... the Commission finds the request in count I to be reasonable and will approve the requested accounting treatment through February 1, 1997."

In count II, MGE sought confirmation that the Commission authorized KPL to transfer its regulatory assets including those accumulated under a stub period accounting order to Southern Union based on their book value. The Staff and the Commission also approved count II:

> In regard to count II, the Staff states that the [order authorizing the sale] speaks for itself as to the treatment of the regulatory assets held by [KPL] at the time of the sale. The Staff states that, strictly speaking, the request by MGE for additional language from the [Commission] is not necessary. The Staff continues that it does not object to the requested language *so long as the [Commission] maintains its traditional position of withholding*

> *all ratemaking findings concerning deferred amounts to a future general rate proceeding.*
>
> After examination of the [order authorizing the sale], the [Commission] finds that the transfer of regulatory assets was clearly set out in the sale agreement and approved by the [Commission]. The [Commission] finds this transfer to be reasonable and will approve the request in Count II by MGE *with the proviso as requested by the Staff* (emphasis added).

Based on these findings, the Commission entered three "Ordered" paragraphs in MGE's 1994 AAO. The three pertinent portions of the paragraphs state:

> 1. That [MGE] is authorized to defer and book ... beginning February 1, 1994 and continuing through January 31, 1997, depreciation expense, property taxes, <u>and carrying costs at 10.54%</u> [emphasis added] on costs incurred to ... replace ... service and yard lines ... cast iron mains and ... bare steel mains.
>
> 2. That MGE may record as regulatory assets ... those regulatory assets transferred pursuant to the purchase and sale agreement, [Settlement Agreement], and [order authorizing the sale].
>
> 3. That nothing in this order shall be considered a finding of the [Commission] of the reasonableness of the expenditures involved herein, or of the value for ratemaking purposes of the expenditures and property herein involved, or as an acquiescence in the value placed on those expenditures and property by MGE, and the Commission reserves the right to consider the ratemaking treatment to be afforded these expenditures in any later proceedings.

MGE's 1994 AAO became effective on October 11, 1994.

In March 1996, MGE filed Case No. GR-96-285 to increase its rates effective after the three year moratorium ("1997 Rate Case"). Although MGE sought a 12.25% return on equity, the Commission authorized an 11.30% return, which translates into a 9.46%

return on all permanent capital -- long-term debt and equity combined for the components from which the rate is derived.

The Staff initially recommended to the Commission that MGE's carrying costs on expenditures for the SLRP compliance should be retroactively reduced from the 10.54% rate authorized in MGE's 1994 AAO to MGE's Allowance for Funds Used During Construction ("AFUDC") rate. AFUDC rates are calculated according to a formula in regulations promulgated by the Federal Energy Regulatory Commission ("FERC"). The Staff used MGE's short-term interest rates of 4% in 1994 and 6% in 1995 and 1996 as its AFUDC rates. The Staff recommended the change, notwithstanding its obligation to support an AAO "similar to that previously granted to [KPL]" and its recommendation of a 10.54% carrying cost rate in the 1994 AAO.

In Case No. GR-96-285, the Commission agreed with the Staff's interpretation of the third Ordered paragraph in MGE's 1994 AAO. It found:

> Since MGE has based its position on the [Commission's] order [MGE's 1994 AAO], which by its very terms does not have a ratemaking impact, MGE's position on this issue is not persuasive. The [Commission] finds in favor of the Staff on this issue because the Staff's proposal shows a carrying cost which is more reflective of the actual carrying cost associated with the gas safety line replacements.

As the Commission knows, the Company strongly disagreed with the Commission's decision and has appealed the Commission's order to the Missouri Court of Appeals -- Western District (No. WD 54710).

Q. HAS MGE INCLUDED SAFETY LINE REPLACEMENT PROGRAM (SLRP) DEFERRALS IN RATE BASE IN THIS CASE?

A. Yes.

Q. HAVE THE MPSC STAFF AND OPC RECOMMENDED INCLUDING THE SLRP DEFERRALS IN RATE BASE?

A. No they have not. Staff witness Mark Oligschlaeger has excluded the balance on the basis that the treatment is consistent with the Commission's Report and Order in Case No. GR-98-140.

OPC witness Robertson also refers to the Report and Order in GR-98-140 as the basis for exclusion from rate base with the additional explanation that "OPC believes management is responsible for the planning and operating activities of the Company". He also goes on to say that "if management is unable to or chooses not to implement processes and procedures which would limit the effect of regulatory lag on its finances, the Company should not be protected by the Commission with an effective guarantee of earnings".

Q. DO YOU AGREE WITH STAFF AND PUBLIC COUNSEL ON THESE ISSUES?

A. No I do not. First with regard to Mr. Oligschlaeger's testimony regarding past Commission treatment of the SLRP deferrals, the Commission has changed its position regarding the ratemaking treatment of the SLRP deferrals in each MGE case thus far. If the Commission agrees that the deferrals are properly includable in rate base then they will so order.

Q. YOU STATE THAT THE COMMISSION HAS CHANGED ITS POSITION REGARDING THE RATE MAKING TREATMENT OF SLRP DEFERRALS IN THE PAST. WOULD YOU PLEASE EXPLAIN THOSE CHANGES IN POSITION?

A. Previous to MGE purchasing the gas properties from Western Resources ("Western"), the Commission allowed Western to use a carrying cost rate equal to the cost of capital approved in the last rate case, amortize the deferrals over 20 years and include the unamortized balance in rate base.

In Case No GR-96-285, the first general rate case after MGE began service, the Commission ordered a continuation of the 20 year amortization period, the continued inclusion of the unamortized balance in rate base and a change in the carrying cost rate from the authorized rate of return to an AFUDC rate.

In Case No GR-98-140 the Commission once again ordered that the carrying charge be calculated using the AFUDC rate, but in this case authorized a 10 year amortization period and refused to allow the unamortized balance in rate base while continuing to recognize the accumulated deferred taxes as an offset to rate base.

Q. WHAT IS MGE'S POSITION ON THE RATEMAKING TREATMENT OF SLRP DEFERRALS?

A. MGE's position is that the SLRP deferrals should be amortized over a 10 year period as is being done at the present time and the SLRP deferrals should be included in rate base so that MGE is permitted to earn a return "on" these deferrals.

Q. PREVIOUS TO THE COMMISSION'S ORDER IN GR-98-140, ARE YOU AWARE OF ANY TIME WHEN THE COMMISSION DENIED A RETURN "ON" A COMMISSION AUTHORIZED DEFERRAL ASSOCIATED WITH THE GAS SAFETY PROGRAM?

A. No. There has been no precedent that I am aware of regarding the exclusion of the SLRP deferrals from rate base.

Q. ARE THERE ANY CASES WITH WHICH YOU ARE FAMILIAR WHERE THE COMMISSION ACTUALLY ADDRESSED GIVING RATE BASE TREATMENT TO THE COSTS DEFERRED THROUGH THE USE OF AN AAO?

A. Yes, in St. Louis Water Company Case No. WR-95-145 the Commission acknowledged the need for rate base treatment of the deferred costs resulting from an AAO.

> "The beneficial effect of an AAO is its ability to partially protect the utility from regulatory lag associated with plant additions. An AAO lessens the impact of regulatory lag associated with plant additions by deferring the required carrying charges and depreciation expense in the company's balance sheet, where the amounts will be held for future recovery in rate cases. The

> amounts deferred through an AAO are usually given recovery in subsequent rate cases through an amortization with the unamortized portion being given rate base treatment. In this manner, an AAO can be used to protect a utility from earnings shortfalls associated with extraordinary construction programs." (emphasis added) RE: St. Louis County Water, 4 MPSC 3d 95, 98 (September 19, 1995)

Q. DO YOU AGREE THAT BY INCLUSION IN THE RATE BASE THE COMMISSION IS ESSENTIALLY GUARANTEEING A RETURN ON THE DEFERRALS?

A. No. This same situation exists for all rate base items being depreciated or amortized over a period of time. A return "on" the deferrals is appropriate since, absent the deferrals, the Company would be denied the ability to earn a reasonable rate of return on the extraordinary costs associated with the SLRP.

Additionally, even if the deferred costs associated with SLRP are included in rate base and revenue requirements and converted into service rates, there is no guarantee that those rates will ultimately produce revenue that is sufficient to cover the deferred SLRP costs. MGE only is granted the opportunity to earn its authorized return on its investments and deferred SLRP costs. There is no guarantee that every incurred cost will be recovered. OPC witness Robertson implies that by including the SLRP deferrals in rate base, the Company is somehow being guaranteed a return on those amounts. That is not true. The Company has never earned its authorized rate of return.

Q. OPC WITNESS ROBERTSON DISCUSSES THE CONCEPT OF REGULATORY LAG. IS THAT DISCUSSION PERTINENT TO THE SLRP PROGRAM?

A. No. As stated by OPC Witness Robertson; "OPC believes management is responsible for the planning and operating activities of the Company. If management is unable to or chooses not to implement processes and procedures which would limit the effect of regulatory lag on its finances, the Company should not be protected by the Commission with an effective guarantee of earnings".

The SLRP was not a decision made by the Company's management. It was a program mandated by the Commission. MGE does not have the ability to decide whether or not to continue participating in the SLRP. As previously discussed, the SLRP is an extraordinary program by virtue of its uniqueness and size, and as such, any related income items are properly recorded in Account 186 in accordance with the requirements of the USOA until such time as the Commission determines their final disposition in a rate case.

Extraordinary is defined as "beyond what is ordinary and usual". I would be more inclined to agree with Mr. Robertson's charge that the Company has the ability to implement procedures to limit the effect of regulatory lag if the deferral were not based on an extraordinary construction program mandated by the MPSC.

Q. IS THERE ANY EVIDENCE TO SUPPORT PUBLIC COUNSEL WITNESS ROBERTSON'S IMPLICATION THAT MGE'S MANAGEMENT HAS NOT EXERCISED ITS PLANNING AND OPERATING RESPONSIBILITIES RELATED TO THE SLRP?

A. No. Mr. Robertson has offered no evidence to support his assertion that MGE's management has not exercised its planning and operating responsibilities. The Company remains in compliance with the requirements of the SLRP. The impact of regulatory lag on MGE is lessened due to the deferral of the related SLRP costs. The deferrals have been authorized by the Commission due to the extraordinary nature of the SLRP, not because of MGE's inability to manage its construction projects as suggested by OPC Witness Robertson.

Q. DO YOU AGREE THAT DEFERRED TAXES ASSOCIATED WITH THE UNAMORTIZED BALANCE OF SLRP SHOULD BE DEDUCTED FROM RATE BASE?

A. No. MGE's position is that deferred taxes should be included as an offset only to the extent the associated unamortized balance of SLRP deferrals are included in rate base.

Q. PLEASE PROVIDE AN EXPLANATION OF DEFERRED INCOME TAXES AND THEIR REGULATORY IMPACTS.

A. Differences in book accounting (in the determination of income taxes included in the setting of rates) and tax accounting (in the determination of income taxes paid to the U.S. Treasury) occur for a variety of reasons, which include temporary or timing differences that reverse in subsequent years. In the case of utilities, the major component causing timing differences generally involves liberalized depreciation. Liberalized depreciation permits utilities to use accelerated depreciation rates for tax purposes as opposed to the deprecation rates used for regulatory purposes. This generates a timing difference between income tax calculated in the setting of rates for a given year and the income tax paid to the U.S. Treasury for that same year.

Q. HOW ARE DEFERRED TAXES TREATED IN RATE CASES?

A. Assets are included in rate base while the deferred tax reserves associated with those assets are deducted from rate base. Since these deferred tax reserves are viewed as representing a source of funding for the assets not supplied by investors, investors do not require a return on this portion of the assets. To recognize this source of cost-free funding, rate base is reduced by the deferred tax reserve so that ratepayers do not pay a return on those funds. By contrast, if an asset is excluded from rate base, a rate base reduction for deferred taxes associated with that asset is unnecessary and inappropriate because ratepayers are not being asked to pay a return on the asset at all and in fact, the deferred income tax benefit is coming at the expense of the shareholders who are financing the asset.

Q. WHAT CREATED THE DEFERRED TAXES ASSOCIATED WITH SLRP?

A. The only reason the Company has SLRP deferred taxes is because of the existence of the SLRP deferrals. The expenses that are deferred under the AAOs are recognized at different time periods for tax purposes than for book and regulatory purposes. Since the SLRP deferred taxes were <u>caused by</u> the SLRP deferrals, the regulatory treatment of the SLRP deferred taxes should be linked to the regulatory treatment of the SLRP deferrals.

Q. WHAT IS COMPANY'S POSITION REGARDING THE ELIMINATION OF DEFERRED TAXES RELATED TO THE UNAMORTIZED BALANCE OF SLRP DEFERRALS?

A. Consistent with the general explanation above, MGE's position is that the Commission should include the deferred taxes on the unamortized balance of SLRP deferrals as a rate base offset only for the SLRP deferrals included in rate base. For SLRP deferrals not included in rate base, associated deferred taxes should not be used as a rate base offset since ratepayers are not paying a return at all on these assets.

Q. WHY MUST RATE BASE BE OFFSET ONLY BY THE DEFERRED TAXES ASSOCIATED WITH THE UNAMORTIZED BALANCE OF SLRP DEFERRALS INCLUDED IN RATE BASE?

A. There must be a matching of the deferred tax rate base offset with the inclusion in rate base of associated unamortized balance of SLRP deferrals in order to accurately state MGE's revenue requirement. This treatment results in equitable ratemaking treatment and is consistent with my understanding of prior Commission actions.

Removing SLRP deferrals from rate base without removing the associated SLRP deferred taxes creates a significant mismatch within rate base that inappropriately overstates the revenue requirement reduction associated with removing the SLRP deferrals. Fundamental ratemaking treatment provides that rate base investment will be offset by the accumulated depreciation reserve and deferred income taxes associated with the investment. Conversely, the exclusion of investment from rate base requires the corresponding exclusion of the rate base offsets of accumulated depreciation reserve and associated deferred taxes to maintain an appropriate synchronization of components directly related to that investment. The same relationship exists between SLRP deferrals and SLRP deferred taxes, and the treatment of these two items should be equally consistent.

MGE agrees that SLRP plant subject to an Accounting Authority Order ("AAO"; i.e., plant underlying the SLRP deferrals) has been included in rate base. The critical point to understand here, however, is that such plant has been included in rate base net of accumulated book depreciation, even though no depreciation expense for such plant was recorded on MGE's income statement during the deferral period, but was instead recorded to the balance sheet pursuant to deferral authority under the AAO.

In calculating the deferred income taxes associated with the SLRP deferrals, however, the Staff multiplied the book-tax depreciation timing difference for the SLRP investment during the deferral period times the effective tax rate. Therefore there is a normalization violation by virtue of the fact that SLRP plant subject to an AAO has been included in rate base as if depreciation expense (per the regulatory depreciation rates) had been recorded on MGE's books for such plant during the deferral period, while the deferred income taxes associated with the SLRP deferrals have been calculated on the basis that no book depreciation expense had been recorded on MGE's books for SLRP plant subject to an AAO during the deferral period. This inconsistency relates to SLRP plant, which is clearly public utility property under section 168(i)(10) of the IRS Code, and violates section 168(i)(9)(B) of the IRS Code, resulting in a flow-through to ratepayers of the entirety of the tax deduction for accelerated depreciation expense used for tax purposes. The provisions of the IRS Code read as follows:

> 168(i)(9)(B) Use of inconsistent estimates and projections, etc.—
>
> 168(i)(9)(B)(i) In general.—One way in which the requirements of subparagraph (A) are not met is if the taxpayer, for ratemaking purposes, uses a procedure or adjustment which is inconsistent with the requirements of subparagraph (A).
>
> 168(i)(9)(B)(ii) Use of inconsistent estimates and projections.—The procedures and adjustments which are to be treated as inconsistent for purposes of clause (i) shall include any procedure or adjustment for ratemaking purposes which uses an estimate or projection of the taxpayer's tax expense, depreciation expense, or *reserve for deferred taxes* under subparagraph (A)(ii) unless such estimate or projection is also used, for ratemaking purposes, with respect to the other 2 such items and with respect to the *rate base.*
>
> (Emphasis Supplied).

Under the normalization requirements of the IRS Code, only the tax deduction calculated on the basis of the difference between regulatory depreciation expense and tax depreciation expense may be used to the benefit of ratepayers.

Q. PLEASE DESCRIBE WHAT YOU MEAN BY A NEGATIVE RATE BASE EFFECT.

A. Excluding all SLRP deferrals from rate base and at the same time reducing rate base for the deferred taxes associated with the deferrals produces a negative rate base. Applying a return to this negative rate base would result in a negative revenue requirement.

An example would be to assume a rate base made up entirely of deferred SLRP items. The unamortized SLRP deferrals amount to $1,000,000. The accumulated deferred taxes associated with these deferrals are $200,000. The authorized rate of return is 10%. Conventional Commission treatment of these rate base items would be to allow a rate base of $800,000 ($1,000,000 - $200,000) and a return requirement of $80,000 ($800,000 X 10%). By not allowing the unamortized balance of SLRP in rate base, the total rate base is now <$200,000> ($0 - $200,000) and the indicated return is <$20,000> (<$200,000> X 10%).

UPDATED REVENUE REQUIREMENT

Q. HAVE MGE, STAFF AND THE OFFICE OF PUBLIC COUNSEL AGREED TO SETTLE ANY OF THE REVENUE REQUIREMENT ISSUES IN THIS CASE?

A. Yes. I understand the majority of operating revenue and operating expense adjustments have been resolved for overall revenue requirement purposes. In addition, many of the rate base issues have also been resolved for revenue requirement purposes, as I understand it.

Q. HAS MGE PREPARED A SCHEDULE THAT UPDATES MGE'S REVENUE DEFICIENCY SUMMARY AS A RESULT OF RESOLVING THOSE ISSUES PREVIOUSLY MENTIONED?

A. Yes. Schedule MRN-2 is MGE's updated revenue deficiency.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Missouri Service Area.	))))	Case No. GR-2001-292

AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Michael R. Noack

MICHAEL R. NOACK

Subscribed and sworn to before me this 21st day of May 2001.

Kim W. Henzi

Notary Public

My Commission Expires: ____________

KIM W. HENZI
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires Feb 3, 2003

INDICES

1998 through Present

	IF EPNG PERMIAN	IF EPNG SAN JUAN	IF NNG TX OK KS	IF PEPL TX OK	IF TRANSWN PERMIAN	IF WNG TX OK KS	IF NGPL Midcon	IF CIG ROCKY MT
Jan-98	$2.08	$2.06	$2.05	$2.15	$2.09	$2.15	$2.14	$2.04
Feb-98	$1.84	$1.76	$1.86	$1.93	$1.87	$1.92	$1.92	$1.70
Mar-98	$2.04	$2.01	$2.06	$2.15	$2.07	$2.15	$2.15	$1.88
Apr-98	$2.12	$2.06	$2.06	$2.19	$2.15	$2.18	$2.19	$1.90
May-98	$2.10	$2.00	$2.05	$2.18	$2.12	$2.16	$2.17	$1.96
Jun-98	$1.86	$1.75	$1.84	$1.94	$1.89	$1.93	$1.94	$1.64
Jul-98	$2.18	$1.86	$2.15	$2.27	$2.17	$2.27	$2.27	$1.61
Aug-98	$1.90	$1.81	$1.79	$1.84	$1.94	$1.85	$1.84	$1.73
Sep-98	$1.59	$1.55	$1.50	$1.56	$1.59	$1.56	$1.56	$1.55
Oct-98	$1.82	$1.67	$1.78	$1.90	$1.83	$1.90	$1.90	$1.65
Nov-98	$1.92	$1.88	$1.86	$1.95	$1.99	$1.94	$1.95	$1.97
Dec-98	$1.99	$1.96	$1.98	$2.06	$1.99	$2.05	$2.05	$1.96
AVG APR-OCT						**$1.98**		
AVG 1998						**$2.01**		
Jan-99	$1.73	$1.72	$1.72	$1.78	$1.74	$1.78	$1.74	$1.75
Feb-99	$1.66	$1.63	$1.72	$1.76	$1.67	$1.75	$1.73	$1.61
Mar-99	$1.54	$1.51	$1.48	$1.58	$1.57	$1.57	$1.55	$1.49
Apr-99	$1.66	$1.59	$1.67	$1.76	$1.66	$1.74	$1.74	$1.53
May-99	$2.16	$2.03	$2.13	$2.22	$2.16	$2.22	$2.21	$1.98
Jun-99	$2.08	$1.96	$2.06	$2.12	$2.08	$2.12	$2.11	$1.93
Jul-99	$2.17	$2.05	$2.10	$2.17	$2.17	$2.17	$2.16	$1.97
Aug-99	$2.46	$2.26	$2.44	$2.51	$2.45	$2.50	$2.50	$2.16
Sep-99	$2.78	$2.63	$2.70	$2.77	$2.77	$2.77	$2.76	$2.52
Oct-99	$2.42	$2.37	$2.38	$2.43	$2.47	$2.43	$2.42	$2.35
Nov-99	$2.87	$2.84	$2.91	$2.94	$2.88	$2.94	$2.93	$2.83
Dec-99	$2.08	$2.08	$2.04	$2.06	$2.09	$2.06	$2.04	$2.04
AVG APR-OCT						**$2.28**		
AVG 1999						**$2.17**		
Jan-00	$2.19	$2.18	$2.20	$2.26	$2.18	$2.25	$2.22	$2.15
Feb-00	$2.41	$2.36	$2.45	$2.50	$2.43	$2.49	$2.47	$2.34
Mar-00	$2.41	$2.37	$2.44	$2.48	$2.41	$2.47	$2.46	$2.31
Apr-00	$2.79	$2.75	$2.73	$2.79	$2.79	$2.79	$2.77	$2.65
May-00	$2.87	$2.78	$2.86	$2.94	$2.89	$2.94	$2.93	$2.61
Jun-00	$4.10	$3.87	$4.12	$4.21	$4.12	$4.19	$4.19	$3.62
Jul-00	$4.35	$4.12	$4.16	$4.20	$4.36	$4.20	$4.18	$3.86
Aug-00	$3.77	$3.50	$3.66	$3.70	$3.80	$3.69	$3.68	$3.04
Sep-00	$4.50	$3.45	$4.44	$4.49	$4.51	$4.50	$4.46	$3.36
Oct-00	$5.15	$4.53	$5.08	$5.19	$5.17	$5.19	$5.17	$4.19
Nov-00	$4.52	$4.41	$4.36	$4.41	$4.46	$4.43	$4.39	$4.31
Dec-00	$6.27	$6.00	$5.89	$5.88	$6.31	$5.90	$5.86	$5.95
AVG APR-OCT						**$3.93**		
AVG 2000						**$3.75**		
Jan-01	$9.81	$8.80	$9.75	$9.92	$9.95	$9.98	$9.92	$8.63
Feb-01	$6.65	$6.24	$6.16	$6.22	$6.90	$6.29	$6.16	$6.31
Mar-01	$5.12	$4.83	$4.98	$5.01	$5.09	$5.03	$4.97	$4.72
Apr-01	$5.31	$4.65	$5.26	$5.31	$5.24	$5.34	$5.28	$4.49
May-01						$4.82		
Jun-01								
Jul-01								
Aug-01								
Sep-01								
Oct-01								
Nov-01								
Dec-01								
AVG 2001						**$6.29**		
AVG APR-OCT 2000, APR-MAY 2001						**$4.18**		

SCHEDULE MRN-2

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Revenue Deficiency

Line No.	Description	Ref.	Required Return	Earnings Deficiency	Revenue Deficiency	Net Revenue Deficiency
	(a)	(b)	(c)	(d)	(e)	(f)
1	Rate Base	B	$536,196,834			
2	Rate of Return	F	10.562%			
3	**Required Return**		**$56,633,110**	$56,633,110		
4	Adjusted Test Year Net Operating Income	A-1		33,683,351		
5	**Earnings Deficiency**			**$22,949,759**	$22,949,759	
6	Multiply by Income Tax Gross-up Factor				1.628900	
7	**Net Revenue Deficiency - Gross of Tax**				**$37,382,862**	

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Summary of Net Operating Income
Per Books and Adjusted

Line No.	Description	Per Books	Adjustments	As Adjusted
	(a)	(b)	(c)	(d)
	REVENUES			
1	Operating Base Revenues	$424,708,278	($293,977,394)	$130,730,884
2	Other Utility Revenues	13,431,287	(4,720,893)	8,710,394
3	Total Operating Revenues	$438,139,565	($298,698,287)	$139,441,278
	OPERATING EXPENSES			
4	Distribution Expense	$301,556,412	($279,334,088)	$22,222,324
5	Customer Accounts Expense	13,830,337	332,726	14,163,063
6	Customer Service and Information Expense	405,692	(2)	405,690
7	Sales Expense	1,059,863	(287,163)	772,700
8	Administrative and General Expense	16,410,431	7,690,736	24,101,167
9	Total Operating and Maintenance Expenses	$333,262,735	($271,597,791)	$61,664,944
10	Depreciation & Amortization Expense	$22,726,304	$4,573,587	$27,299,891
11	Interest on Customer Deposits	386,897	(58,427)	328,470
12	Taxes Other Than Income	36,148,514	(26,878,190)	9,270,324
13	Total Operating Expenses	$392,524,450	($293,960,821)	$98,563,629
14	Operating Income Before Income Tax	$45,615,115	($4,737,466)	$40,877,649
15	Less: Income Tax Expense	9,825,185	(2,630,887)	7,194,298
16	Net Operating Income	$35,789,930	($2,106,579)	$33,683,351

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Income Tax

Line No.	Description	Reference	Per Books	As Adjusted
	(a)	(b)	(c)	(d)
1	Total Operating Revenues	A-1	$438,139,565	$139,441,278
2	Total Operating Expenses	A-1	(392,524,450)	(98,563,629)
3	Net Operating Income	A-1	$45,615,115	$40,877,649
4	Equity Portion of SLRP Deferrals		$1,370,858	$0
5	COLI Amortization		303,497	303,497
6	Less: Interest on Long Term Debt		(21,074,636)	(21,780,315)
7	Total Tax Adjustments		($19,400,281)	($21,476,818)
8	Net Taxable Income		$26,214,834	$19,400,831
9	Income Tax		$10,121,548	$7,490,661
10	Less: Income Tax Reduction per Case No. GM-94-40		(296,363)	(296,363)
11	Net Income Tax		$9,825,185	$7,194,298

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Rate Base

Line No.	Description	Reference	Amount
	(a)	(b)	(c)
1	Intangible Plant - Per Settlement	C	$10,879,341
2	Distribution Plant - Per Settlement	C	654,678,587
3	General Plant - Per Settlement	C	61,084,678
4	Gross Plant In Service		$726,642,606
5	Accumulated Depreciation & Amortization - Per Settlement	D	(216,231,812)
6	Net Plant in Service		$510,410,794
7	SLRP Deferrals	B-1	$22,202,142
8	Working Capital	E	62,663,578
9	Alternative Minimum Tax Credit - Per Settlement		12,363,267
10	Customer Deposits - Per Settlement	B-2	(4,857,207)
11	Customer Advances	B-3	(10,678,465)
12	Unamortized Deferred Credit per Case No. GM-94-40		(9,000,000)
13	Deferred Income Taxes - SLRP	B-1	(6,898,638)
14	Deferred Income Taxes - Other	B-4	(40,008,637)
15	**Total Rate Base**		$536,196,834

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

SLRP Deferrals and Deferred Taxes

Line No.	Description	Gross Deferral	Accumulated Amortization	Amount
	(a)	(b)	(c)	(d)
	SLRP Deferrals			
1	Order GO-92-185 (Deferred Balance @ 5/31/98)	$5,776,280	$1,441,628	$4,334,652
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	12,399,117	3,059,187	9,339,930
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	3,060,876	714,204	2,346,672
4	Order GR-98-140	6,180,888	0	6,180,888
5	Total SLRP Deferrals	$27,417,161	$5,215,019	$22,202,142
	SLRP Deferred Taxes - Per Settlement			
6	Order GO-92-185			0
7	Order GO-94-234			3,606,147
8	Order GO-97-301			906,050
9	Order GR-98-140			2,386,441
10	Total SLRP Deferred Taxes			$6,898,638

MISSOURI GAS ENERGY
A Division of Southern Union Company
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Customer Deposits

Line No.	Month	Residential Amount	Commercial & Industrial Amount	Total Amount
	(a)	(b)	(c)	(d)
1	Dec-99	($3,648,523)	($2,661,180)	($6,309,703)
2	Jan-00	(3,642,495)	(2,644,313)	(6,286,808)
3	Feb-00	(3,540,070)	(2,644,313)	(6,184,383)
4	Mar-00	(3,570,003)	(2,515,638)	(6,085,641)
5	Apr-00	(3,462,224)	(2,469,214)	(5,931,438)
6	May-00	(3,326,599)	(2,427,857)	(5,754,456)
7	Jun-00	(3,169,669)	(2,387,478)	(5,557,147)
8	Jul-00	(3,051,182)	(2,339,885)	(5,391,067)
9	Aug-00	(2,922,749)	(2,312,726)	(5,235,475)
10	Sep-00	(2,808,176)	(2,283,367)	(5,091,543)
11	Oct-00	(2,757,744)	(2,241,143)	(4,998,887)
12	Nov-00	(2,681,247)	(2,235,920)	(4,917,167)
13	Dec-00	(2,641,126)	(2,216,081)	(4,857,207)
14	13 Month Total	($41,221,807)	($31,379,115)	($72,600,922)
15	13 Month Average	($3,170,908)	($2,413,778)	($5,584,686)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending December 31, 2000

Customer Advances

Line No.	Month (a)	Amount (b)
1	Dec-99	($10,067,227)
2	Jan-00	(10,743,283)
3	Feb-00	(10,660,560)
4	Mar-00	(10,499,534)
5	Apr-00	(10,718,307)
6	May-00	(10,772,060)
7	Jun-00	(10,681,577)
8	Jul-00	(10,901,654)
9	Aug-00	(10,750,842)
10	Sep-00	(10,907,542)
11	Oct-00	(10,937,755)
12	Nov-00	(10,776,332)
13	Dec-00	(10,403,370)
14	13 Month Total	($138,820,043)
15	13 Month Average	($10,678,465)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Deferred Taxes (Other than SLRP)

Line No.	Description	Amount
	(a)	(b)
1	Deferred Taxes, MGE Direct Plant as of 6/30/00	($33,236,263)
2	Deferred Taxes - Settlement	(4,636,965)
3	Deferred Taxes, Corporate Plant	(2,135,409)
4	Total Accumulated Deferred Income Taxes (Other than SLRP)	($40,008,637)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Plant In Service

Line No.	Description	Direct	Completed Not Classified	Total Direct & Completed	Corporate Allocated	Total Adjustments	Total As Adjusted
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	INTANGIBLE PLANT						
1	(301) Organization	$15,600	$0	$15,600	$0	$0	$15,600
2	(302) Franchises	51,046	0	51,046	0	0	51,046
3	(303) Miscellaneous Intangible	10,370,947	0	10,370,947	0	0	10,370,947
4	Total Intangible Plant	$10,437,593	$0	$10,437,593	$0	$0	$10,437,593
	DISTRIBUTION PLANT						
5	(374.1) Land	$240,448	$0	$240,448	$0	$0	$240,448
6	(374.2) Land Rights	993,492	0	993,492	0	0	993,492
7	(375.1) Structures	5,983,365	23,703	6,007,068	0	0	6,007,068
8	(375.2) Leasehold Improvements	13,965	0	13,965	0	0	13,965
9	(376) Mains	270,057,394	8,912,537	278,969,931	0	0	278,969,931
10	(378) Meas. & Reg. Station - General	10,354,134	67,890	10,422,024	0	0	10,422,024
11	(379) Meas. & Reg. Station - City Gate	2,762,737	311,276	3,074,013	0	0	3,074,013
12	(380) Services	249,039,889	1,180,960	250,220,849	0	(2,172,784)	248,048,065
13	(381) Meters	28,138,572	11,933	28,150,505	0	0	28,150,505
14	(382) Meter Installations	49,673,982	300,711	49,974,693	0	0	49,974,693
15	(383) House Regulators	9,497,032	43,122	9,540,154	0	0	9,540,154
16	(385) Electronic Gas Measuring	293,923	26,165	320,088	0	0	320,088
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	$627,048,933	$10,878,297	$637,927,230	$0	($2,172,784)	$635,754,446
	GENERAL PLANT						
19	(389) Land	$610,049	$0	$610,049	$0	$0	$610,049
20	(390.1) Structures	465,528	51,773	517,301	295,765	0	813,066
21	(390.2) Leasehold Improvements	1,286,799	40,557	1,327,356	0	0	1,327,356
22	(391) Furniture & Fixtures	3,017,576	9,254	3,026,830	10,474,116	0	13,500,946
23	(392) Transportation Equipment	4,601,351	0	4,601,351	0	0	4,601,351
24	(393) Stores Equipment	499,757	0	499,757	0	0	499,757
25	(394) Tools	4,535,973	3,333	4,539,306	0	0	4,539,306
26	(395) Laboratory Equipment	0	0	0	0	0	0
27	(396) Power Operated Equipment	535,765	0	535,765	0	0	535,765
28	(397.1) Communication Equipment - AMR	32,969,219	0	32,969,219	0	0	32,969,219
29	(397.0) Communication Equipment	1,478,273	38,562	1,516,835	4,220	0	1,521,055
30	(398) Miscellaneous Equipment	166,410	8,192	174,602	2,547	0	177,149
31	Total General Plant	$50,166,700	$151,671	$50,318,371	$10,776,648	$0	$61,095,019
	Projected Plant Increases - 6/30/01						
32	Projected Increases - Intangible	$0	$0	$0	$441,748	$0	$441,748
33	Projected Increases - Distribution	0	0	0	18,924,141	0	18,924,141
34	Projected Increases - General Plant	0	0	0	(10,341)	0	(10,341)
35	Total Projected Plant Increases	$0	$0	$0	$19,355,548	$0	$19,355,548
36	Total Original Cost Plant in Service	$687,653,226	$11,029,968	$698,683,194	$30,132,196	($2,172,784)	$726,642,606
37	Accumulated Depreciation and Amortization	(206,119,139)	0	(206,119,139)	(3,557,993)	(6,554,680)	(216,231,812)
38	Net Plant In Service	$481,534,087	$11,029,968	$492,564,055	$26,574,203	($8,727,464)	$510,410,794

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Plant in Service

Line No.	Description	Retire Inactive Meters No. 1	Total Adjustments
	(a)	(b)	(c)
	INTANGIBLE PLANT		
1	(301) Organization	$0	$0
2	(302) Franchises	0	0
3	(303) Miscellaneous Intangible	0	0
4	Total Intangible Plant	$0	$0
	DISTRIBUTION PLANT		
5	(374.1) Land	$0	$0
6	(374.2) Land Rights	0	0
7	(375.1) Structures	0	0
8	(375.2) Leasehold Improvements	0	0
9	(376) Mains & Mains - Cast Iron	0	0
10	(378) Meas. & Reg. Station - General	0	0
11	(379) Meas. & Reg. Station - City Gate	0	0
12	(380) Services	(2,172,784)	(2,172,784)
13	(381) Meters	0	0
14	(382) Meter Installations	0	0
15	(383) House Regulators	0	0
16	(385) Electronic Gas Metering	0	0
17	(387) Other Equipment	0	0
18	Total Distribution Plant	($2,172,784)	($2,172,784)
	GENERAL PLANT		
19	(389) Land	$0	$0
20	(390.1) Structures	0	0
21	(390.2) Leasehold Improvements	0	0
22	(391) Furniture & Fixtures	0	0
23	(392) Transportation Equipment	0	0
24	(393) Stores Equipment	0	0
25	(394) Tools	0	0
26	(395) Laboratory Equipment	0	0
27	(396) Power Operated Equipment	0	0
28	(397) Communication Equipment - AMR	0	0
29	(397) Communication Equipment	0	0
30	(398) Miscellaneous Equipment	0	0
31	Total General Plant	$0	$0
32	Total Original Cost Plant In Service	($2,172,784)	($2,172,784)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Test Year Direct	Corporate	Proforma Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
1	Intangible Plant Reserve	($6,255,418)	$0	$0	($6,255,418)
2	Distribution Reserve	(199,863,721)	0	2,008,021	(197,855,700)
3	Projected Increase - Distribution	0	0	(8,562,701)	(8,562,701)
4	Corporate Allocated Reserve	0	(3,557,993)	0	(3,557,993)
5	Total Accumulated Reserves	($206,119,139)	($3,557,993)	($6,554,680)	($216,231,812)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Adjustments to Plant in Service	Deprec. Rates	Adj. to Reserve for Add'l Depr. (see note) No. 1	Retire Inactive Meters No. 2	Remove Debit Balance No. 3	Total Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	DISTRIBUTION PLANT						
1	(374.1) Land	$0	0.00%	$0	$0	$0	$0
2	(374.2) Land Rights	0	Amort.	0	0	0	0
3	(375.1) Structures	0	2.01%	0	0	0	0
4	(375.2) Leasehold Improvements	0	Amort.	0	0	0	0
5	(376) Mains & Mains - Cast Iron	0	2.10%	0	0	0	0
6	(378) Meas. & Reg. Station - General	0	3.19%	0	0	0	0
7	(379) Meas. & Reg. Station - City Gate	0	2.56%	0	0	0	0
8	(380) Services	(2,172,784)	4.58%	0	2,172,784	0	2,172,784
9	(381) Meters	0	2.46%	0	0	0	0
10	(382) Meter Installations	0	2.47%	0	0	0	0
11	(383) House Regulators	0	2.27%	0	0	0	0
12	(385) Electronic Gas Metering	0	5.00%	0	0	0	0
13	(387) Other Equipment	0	4.60%	0	0	0	0
14	Total Distribution Plant	($2,172,784)		$0	$2,172,784	$0	$2,172,784
	GENERAL PLANT						
15	(389) Land	$0	0.00%	$0	$0	$0	$0
16	(390.1) Structures	0	2.52%	0	0	0	0
17	(390.2) Leasehold Improvements	0	Amort.	0	0	0	0
18	(391) Furniture & Fixtures	0	6.67%	0	0	0	0
19	(392) Transportation Equipment	0	10.69%	0	0	0	0
20	(393) Stores Equipment	0	4.17%	0	0	0	0
21	(394) Tools	0	7.00%	0	0	0	0
22	(395) Laboratory Equipment	0	6.00%	0	0	(164,763)	(164,763)
23	(396) Power Operated Equipment	0	6.46%	0	0	0	0
24	(397) Communication Equipment - AMR	0	5.00%	0	0	0	0
25	(397) Communication Equipment	0	5.59%	0	0	0	0
26	(398) Miscellaneous Equipment	0	5.63%	0	0	0	0
27	Total General Plant	$0		$0	$0	($164,763)	($164,763)
28	Total Adjustment	($2,172,784)		$0	$2,172,784	($164,763)	$2,008,021

Note: Adjustment 1 computed using the 1/2 year convention

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Working Capital

Line No.	Description	Reference	Amounts
	(a)	(b)	(c)
1	Materials and Supplies Inventory - Per Settlement	E-1	$1,884,628
2	Prepayments	E-2	415,611
3	Gas Inventory	E-3	52,457,645
4	Cash Working Capital	E-4	82,857
5	Prepaid Pension	E-5	7,822,837
6	Total Working Capital		$62,663,578

MISSOURI GAS ENERGY
A Division of Southern Union Company
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Materials & Supplies

Line No.	Month (a)	Amount (b)
1	Dec-99	2,198,929
2	Jan-00	2,096,629
3	Feb-00	2,087,509
4	Mar-00	2,068,101
5	Apr-00	2,047,869
6	May-00	2,097,372
7	Jun-00	2,118,013
8	Jul-00	2,074,261
9	Aug-00	2,005,029
10	Sep-00	2,022,894
11	Oct-00	1,886,655
12	Nov-00	1,880,932
13	Dec-00	1,884,628
14	13 Month Total	$26,468,821
15	13 Month Average	$2,036,063

SCHEDULE E-2

MISSOURI GAS ENERGY

A Division of Southern Union Company

Thirteen Months Ending December 31, 2000

Prepayments

Line No.	Month	Amount
	(a)	(b)
1	Dec-99	434,161
2	Jan-00	352,469
3	Feb-00	326,111
4	Mar-00	306,212
5	Apr-00	233,905
6	May-00	234,976
7	Jun-00	32,507
8	Jul-00	343,828
9	Aug-00	709,523
10	Sep-00	658,984
11	Oct-00	605,713
12	Nov-00	594,694
13	Dec-00	569,858
14	13 Month Total	$5,402,941
15	13 Month Average	$415,611

MISSOURI GAS ENERGY
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Gas Inventory

Line No.	Month (a)	Volumes (b)
1	Dec-99	15,807,564
2	Jan-00	10,050,227
3	Feb-00	6,237,796
4	Mar-00	4,574,627
5	Apr-00	664,507
6	May-00	2,295,712
7	Jun-00	5,833,048
8	Jul-00	9,112,905
9	Aug-00	12,401,741
10	Sep-00	14,597,387
11	Oct-00	16,041,777
12	Nov-00	17,766,963
13	Dec-00	12,321,628
14	13 Month Average	9,823,529
15	July 2001 Futures Price	$5.340
16	Inventory Value	$52,457,645

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Cash Working Capital

Line No.	Description	Test Year Expenses	Revenue Lag	Expense Lead	Net Lag (C-D)	Factor (E/365)	CWC Requirement (B*F)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
	Operation & Maintenance Expense						
1	Cash Vouchers	$30,707,545	43.0000	23.1000	19.9000	0.0545	$1,674,192
2	Bad Debt Expense	4,323,292	43.0000	43.0000	-	-	0
3	Net Payroll Expense	16,083,990	43.0000	12.5000	30.5000	0.0836	1,344,005
4	Fica Withheld	1,774,630	43.0000	9.6000	33.4000	0.0915	162,391
5	Federal Income Tax Withheld	3,172,249	43.0000	15.5900	27.4100	0.0751	238,223
6	State Income Tax Withheld	875,845	43.0000	48.7600	(5.7600)	(0.0158)	(13,822)
7	City Tax Withheld	128,476	43.0000	20.2200	22.7800	0.0624	8,018
8	Resident State Tax Withheld	15,465	43.0000	30.7271	12.2729	0.0336	520
9	Vacation Expense - Nonunion	313,128	43.0000	182.5000	(139.5000)	(0.3822)	(119,675)
10	Vacation Expense - Union	830,091	43.0000	388.1500	(345.1500)	(0.9456)	(784,948)
11	Sick Leave	559,164	43.0000	68.6400	(25.6400)	(0.0702)	(39,279)
12	Pensions	(2,200,000)	43.0000	43.0000	-	-	0
13	Medical Expense	4,653,115	43.0000	-	43.0000	0.1178	548,175
14	Purchased Gas	279,598,590	43.0000	39.1900	3.8100	0.0104	2,918,550
15	Building Rents and Leases	427,954	43.0000	(14.6500)	57.6500	0.1579	67,593
16	Total Operation & Maintenance Expense	341,263,534					6,003,943
	Taxes						
17	Property Taxes	7,005,609	43.0000	182.0000	(139.0000)	(0.3808)	(2,667,889)
18	Franchise Taxes	423,815	43.0000	59.4100	(16.4100)	(0.0450)	(19,054)
19	Gross Receipts Taxes	23,202,387	43.0000	59.4100	(16.4100)	(0.0450)	(1,043,154)
20	Employer Portion of FICA	1,774,630	43.0000	9.6000	33.4000	0.0915	162,391
21	Federal and State Unemployment	43,880	43.0000	87.8200	(44.8200)	(0.1228)	(5,388)
22	Use Taxes	30,185	43.0000	76.1200	(33.1200)	(0.0907)	(2,739)
23	Sales Taxes	5,420,783	43.0000	24.9700	18.0300	0.0494	267,772
24	Total Taxes	37,901,289					(3,308,062)
25	Total Cash Working Capital Requirement						2,695,881
26	Settlement Adjustment						(635,614)
27	Adjusted Total Cash Working Capital Requirement						2,060,267
28	Estimated Interest Expense Offset	21,700,000	43.0000	75.6000	(32.6000)	(0.0893)	(1,937,810)
29	Estimated Income Tax Offset	7,200,000	43.0000	45.0000	(2.0000)	(0.0055)	(39,600)
30	Net Cash Working Capital						$82,857

MISSOURI GAS ENERGY
A Division of Southern Union Company
Balances Ending December 31

Deferred Pension

Line No.	Year Ended	Balance
	(a)	(b)
1	December 31, 2000	7,822,837

SCHEDULE F

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending December 31, 2000

Summary of Cost of Capital

Line No.	Description	Reference	Ratio	Cost Rate	Weighted Composite Rate
	(a)	(b)	(c)	(d)	(e)
1	Long-Term Debt	F-1	50.00%	8.124%	4.062%
2	Common Equity	F-2	50.00%	12.50%	6.250%
3	Total		100.00%		10.312%
4	Rate of Return Incentive Adjustment				0.250%
5	Requested Rate of Return				10.562%

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Long Term Debt

Line No.	Description (a)	Outstanding Debt (b)	Annual Interest Rate (c)	Annualized Cost (d)	
1	7.6% Senior Notes	$364,515,000	7.600%	$27,703,140	
2	8.25% Senio Notes	300,000,000	8.250%	24,750,000	
3	8.375% Mortgage Bonds	30,000,000	8.375%	2,512,500	
4	9.34% Mortgage Bonds	15,000,000	9.340%	1,401,000	
5	7.7% Valley	6,839,000	7.700%	526,603	
6	5.62% Providence	4,800,000	5.620%	269,760	
7	6.5% Providence	14,531,000	6.500%	944,515	
8	6.82% Providence	15,000,000	6.820%	1,023,000	
9	7.24% Fall River	6,000,000	7.240%	434,400	
10	7.5% Providence	15,000,000	7.500%	1,125,000	
11	7.99% Fall River	7,000,000	7.990%	559,300	
12	8.09% Providence	12,500,000	8.090%	1,011,250	
13	8.46% Providence	12,500,000	8.460%	1,057,500	
14	9.44% Fall River	6,500,000	9.440%	613,600	
15	9.63% Providence	10,000,000	9.630%	963,000	
16	10.25% Providence	2,182,000	10.250%	223,655	
17	Term Loan	529,000,000	7.500%	39,675,000	(1)
18	Capital Lease - AMR	24,166,396	5.790%	1,399,234	
19	Total Long-Term Debt	$1,375,533,396		$106,192,457	
20	Unamortized Debt Costs - 181	(17,176,367)		2,513,563	
21	Unamortized Costs/Loss/Gain on Reacquired Debt - 189 & 257	(13,249,201)		570,460	
22	Net Long Term Debt	$1,345,107,828		$109,276,480	
23	Cost of Debt			8.124%	
24	Debt as Proportion of Total Capitalization (Line 7, Column B divided by Line 3, Column B, Schedule F)			0.5000	(2)
25	Composite Debt Cost Rate			4.062%	

NOTES:
(1) The Term Loan rate is a floating rate base off the LIBOR + 87.5 bps.
(2) Total Capitalization for 12/31/2000 has not been finalized.

MISSOURI GAS ENERGY

A Division of Southern Union Company

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Equity Capital

Line No.	Description	Cost Rate	Ratio	Composite Cost Rate
	(a)	(b)	(c)	(d)
	Common Equity			
1	Common Equity			
2	Required Return on Common Equity	12.500%		
3	Common Equity as Proportion of Total Capitalization (Line 10, Column B divided by Line 3, Column B, Schedule F)		50.0%	
4	Composite Common Cost Rate			6.250%
5	**Total Equity Capital**			6.250%

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
		OPERATING REVENUE			
1	480	Residential	$296,474,501	($202,914,914)	$93,559,587
2	481.1	Commercial	121,856,787	(90,442,108)	31,414,679
3	481.2	Industrial	4,171,343	(2,763,966)	1,407,377
4	483	Sales for Resale	4,912	0	4,912
5	487	Late Payment Charges	983,440	0	983,440
6	488	Miscellaneous Service Revenue	1,217,295	2,143,594	3,360,889
7	489	Transport	13,362,735	(4,720,893)	8,641,842
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	68,552	0	68,552
10		Total Operating Revenue	$438,139,565	($298,698,287)	$139,441,278
		OPERATING & MAINTENANCE EXPENSE			
		Operation Expense			
11	805	Other Gas Purchases	$279,598,590	($279,598,590)	$0
12	807	Purchased Gas Expense	186,500	(186,500)	0
13	859	Other Joint Expense	0	0	0
14	870	Operation, Supervision and Engineering	937,672	5,106	942,778
15	871	Distribution and Load Dispatching	20,193	83	20,276
16	872	Compressor Station Labor and Expense	1,375	(575)	800
17	874	Mains and Service Expenses	2,659,695	13,882	2,673,577
18	875	Distributing Regulating Station Expenses	610,461	17,859	628,320
19	876	Measuring and Regulating - Station Expenses	885	(544)	341
20	877	Measuring and Regulating - Station Expenses	15,549	(648)	14,901
21	878	Meter and House Regulator Expenses	4,382,171	142,405	4,524,576
22	879	Customer Installation Expenses	2,467,761	46,147	2,513,908
23	880	Other Expenses	1,135,231	(14,047)	1,121,184
24	881	Rents	121,136	0	121,136
25		Total Operation Expense	$292,137,219	($279,575,422)	$12,561,797
		Maintenance Expense			
26	885	Maintenance Supervision and Engineering	$524,476	$4,613	$529,089
27	886	Maintenance of Structures and Improvements	210,430	7,558	217,988
28	887	Maintenance of Mains	6,713,827	177,534	6,891,361
29	889	Maint. of Measuring and Reg. Stat Equip - General	289,508	4,632	294,140
30	890	Maint. of Measuring and Regulating Equipment	147,448	5,925	153,373
31	891	Maint. of Measuring and Regulating Equipment	15,283	566	15,849
32	892	Maintenance of Services	225,256	7,100	232,356
33	893	Maintenance of Meters and House Regulators	956,242	30,568	986,810
34	894	Maintenance of Other Equipment	336,723	2,838	339,561
35		Total Maintenance Expenses	$9,419,193	$241,334	$9,660,527
36		Total Distribution Expense	$301,556,412	($279,334,088)	$22,222,324
		Customer Accounts Expense			
37	901	Supervision	$657,796	$2,352	$660,148
38	902	Meter Reading Expense	597,624	17,567	615,191
39	903	Customer Records and Collection Expense	8,343,253	(1,059)	8,342,194
40	904	Uncollectible Accounts	4,005,044	318,248	4,323,292
41	905	Miscellaneous Customer Accounts Expense	226,620	(4,382)	222,238
42		Total Customer Accounts Expenses	$13,830,337	$332,726	$14,163,063

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending December 31, 2000

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct. (a)	Description (b)	Test Year Per Book (c)	Total Adjustments (d)	Test Year As Adjusted (e)
		Customer Service and Informational Expense			
43	907	Supervision	$0	$0	$0
44	908	Customer Assistance	344,488	(2)	344,486
45	909	Informational and Instructional Advertising Exp.	53,043	0	53,043
46	910	Miscellaneous Customer Accounts Expense	8,161	0	8,161
47		Total Cust. Service and Information Exp.	$405,692	($2)	$405,690
		Sales and Advertising Expense			
48	911	Supervision	$106,156	$86	$106,242
49	912	Demonstrating and Selling Expenses	947,470	(287,249)	660,221
50	913	Advertising Expenses	0	0	0
51	916	Miscellaneous Sales Expenses	6,237	0	6,237
52		Total Sales and Advertising Expenses	$1,059,863	($287,163)	$772,700
		Administrative and General Expense			
53	920	Administrative and General Salaries	$2,564,656	($5,006)	$2,559,650
54	921	Office Supplies and Expenses	2,726,877	(57,488)	2,669,389
55	922	Administrative Expenses Transferred	(408,925)	0	(408,925)
56	923	Outside Services Employed	2,307,589	7,434,246	9,741,835
57	924	Property Insurance	77,688	0	77,688
58	925	Injuries and Damages	1,123,657	252,795	1,376,452
59	926	Employee Pensions and Benefits	5,766,483	46,687	5,813,170
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	1,454,879	135,445	1,590,324
62	930	Miscellaneous General Expenses	243,219	(77,372)	165,847
63	931	Rents	463,947	(35,993)	427,954
64	932	Maintenance of General Plant	90,361	(2,578)	87,783
65		Total Administration and General Expense	$16,410,431	$7,690,736	$24,101,167
66		**Total O & M Expense**	$333,262,735	($271,597,791)	$61,664,944
67	403	**Depreciation**	21,816,176	1,885,325	23,701,501
68	404, 405	**Amortization**	910,128	2,688,262	3,598,390
69	431	**Interest on Customer Deposits**	386,897	(58,427)	328,470
70	408	Payroll Taxes	1,618,628	222,272	1,840,900
71	408	Property Taxes	6,544,654	460,955	7,005,609
72	408	Gross Receipts Tax	27,690,995	(27,690,995)	0
73	408	Other Taxes	294,237	129,578	423,815
74	408	**Taxes Other Than Income**	$36,148,514	($26,878,190)	$9,270,324
75		**TOTAL EXPENSES**	$392,524,450	($293,960,821)	$98,563,629
76		**OPERATING INCOME BEFORE INCOME TAX**	$45,615,115	($4,737,466)	$40,877,649
77	409,410	**Income Taxes**	$9,825,185	($2,630,887)	$7,194,298
78		**NET OPERATING INCOME**	$35,789,930	($2,106,579)	$33,683,351

A Division of Southern Union Company
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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-1 Adj. GL Rev to Test Year Margin	H-2 Normalize & Adj. Test Year Margin	H-3 Remove Purch.. Gas Cost and GRT	H-4 Payroll Expense	H-5 Employee Benefits	H-6 Payroll Taxes	H-7 Insurance	H-8 Joint and Common Costs	H-9 Uncollectible Expense
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		OPERATING REVENUE										
1	480	Residential	$296,474,501	($207,615,104)	$4,700,190							
2	481.1	Commercial	121,856,787	(92,411,882)	1,969,774							
3	481.2	Industrial	4,171,343	(2,763,966)	0							
4	483	Sales for Resale	4,912	0	0							
5	487	Late Payment Charges	983,440	0	0							
6	488	Miscellaneous Service Revenue	1,217,295	(137,140)	2,280,734							
7	489	Transport	13,362,735	(4,481,802)	(239,091)							
8	493	Rent From Property	0									
9	495	Other Gas Revenue	68,552									
10		Total Operating Revenue	$438,139,565	($307,409,894)	$8,711,607	$0	$0	$0	$0	$0	$0	$0
		OPERATING & MAINTENANCE EXPENSE										
		Operation Expense										
11	805	Other Gas Purchases	$279,598,590			($279,598,590)						
12	807	Purchased Gas Expense	186,500									
13	859	Other Joint Expense	0									
14	870	Operation, Supervision and Engineering	937,672				4,907					
15	871	Distribution and Load Dispatching	20,193				80					
16	872	Compressor Station Labor and Expense	1,375				(575)					
17	874	Mains and Service Expenses	2,659,695				13,807					
18	875	Distributing Regulating Station Expenses	610,461				17,756					
19	876	Measuring and Regulating - Station Expenses	885				(544)					
20	877	Measuring and Regulating - Station Expenses	15,549				(651)					
21	878	Meter and House Regulator Expenses	4,382,171				141,596					
22	879	Customer Installation Expenses	2,467,761				45,678					
23	880	Other Expenses	1,135,231				(7,340)					
24	881	Rents	121,136									
25		Total Operation Expense	$292,137,219	$0	$0	($279,598,590)	$214,714	$0	$0	$0	$0	$0
		Maintenance Expense										
26	885	Maintenance Supervision and Engineering	$524,476				$4,505					
27	886	Maintenance of Structures and Improvements	210,430				7,524					
28	887	Maintenance of Mains	6,713,827				176,424					
29	889	Maint. of Measuring and Reg. Stat Equip - General	289,508				4,868					
30	890	Maint. of Measuring and Regulating Equipment	147,448				5,898					
31	891	Maint. of Measuring and Regulating Equipment	15,283				563					
32	892	Maintenance of Services	225,256				7,050					
33	893	Maintenance of Meters and House Regulators	956,242				30,698					
34	894	Maintenance of Other Equipment	336,723				2,799					
35		Total Maintenance Expenses	$9,419,193	$0	$0	$0	$240,329	$0	$0	$0	$0	$0
36		Total Distribution Expense	$301,556,412	$0	$0	($279,598,590)	$455,043	$0	$0	$0	$0	$0
		Customer Accounts Expense										
37	901	Supervision	$657,796				$2,198					
38	902	Meter Reading Expense	597,624				17,457					
39	903	Customer Records and Collection Expense	8,343,253				(77,440)					
40	904	Uncollectible Accounts	4,005,044									318,248
41	905	Miscellaneous Customer Accounts Expense	226,620				(79)					
42		Total Customer Accounts Expenses	$13,830,337	$0	$0	$0	($57,864)	$0	$0	$0	$0	$318,248

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-1 Adj. GL Rev to Test Year Margin	H-2 Normalize & Adj. Test Year Margin	H-3 Remove Purch.. Gas Cost and GRT	H-4 Payroll Expense	H-5 Employee Benefits	H-6 Payroll Taxes	H-7 Insurance	H-8 Joint and Common Costs	H-9 Uncollectible Expense
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
		Customer Service and Informational Expense										
43	907	Supervision	$0									
44	908	Customer Assistance	344,488				(19)					
45	909	Informational and Instructional Advertising Exp.	53,043									
46	910	Miscellaneous Customer Accounts Expense	8,161									
47		Total Cust. Service and Information Exp.	$405,692	$0	$0	$0	($19)	$0	$0	$0	$0	$0
		Sales and Advertising Expense										
48	911	Supervision	$106,156				$61					
49	912	Demonstrating and Selling Expenses	947,470				(263,696)					
50	913	Advertising Expenses	0									
51	916	Miscellaneous Sales Expenses	6,237									
52		Total Sales and Advertising Expenses	$1,059,863	$0	$0	$0	($263,635)	$0	$0	$0	$0	$0
		Administrative and General Expense										
53	920	Administrative and General Salaries	$2,564,656				($5,602)					
54	921	Office Supplies and Expenses	2,726,877				(278)					
55	922	Administrative Expenses Transferred	(408,925)									
56	923	Outside Services Employed	2,307,589								7,665,276	
57	924	Property Insurance	77,688							0		
58	925	Injuries and Damages	1,123,657				(480)			253,275		
59	926	Employee Pensions and Benefits	5,766,483					46,687				
60	927	Franchise Requirements	0									
61	928	Regulatory Commission Expense	1,454,879									
62	930	Miscellaneous General Expenses	243,219									
63	931	Rents	463,947									
64	932	Maintenance of General Plant	90,361				0					
65		Total Administration and General Expense	$16,410,431	$0	$0	$0	($6,360)	$46,687	$0	$253,275	$7,665,276	$0
66		**Total O & M Expense**	$333,262,735	$0	$0	($279,598,590)	$127,165	$46,687	$0	$253,275	$7,665,276	$318,248
67	403	**Depreciation**	$21,816,176									
68	404, 405	**Amortization**	910,128									
69	431	**Interest on Customer Deposits**	386,897									
70	408	Payroll Taxes (1***)	1,618,628						222,272			
71	408	Property Taxes (2***)	6,544,654									
72	408	Gross Receipts Tax (3300 + 4000)	27,690,995			(27,690,995)						
73	408	Other Taxes (41**)	294,237									
74	408	**Taxes Other Than Income**	$36,148,514	$0	$0	($27,690,995)	$0	$0	$222,272	$0	$0	$0
75		**TOTAL EXPENSES**	$392,524,450	$0	$0	($307,289,585)	$127,165	$46,687	$222,272	$253,275	$7,665,276	$318,248
76		**OPERATING INCOME BEFORE INCOME TAX**	$45,615,115	($307,409,894)	$8,711,607	$307,289,585	($127,165)	($46,687)	($222,272)	($253,275)	($7,665,276)	($318,248)
77	409,410	**Income Taxes** Note: per book & adjusted income tax computed on A-2	9,825,185									
78		**NET OPERATING INCOME**	$35,789,930	($307,409,894)	$8,711,607	$307,289,585	($127,165)	($46,687)	($222,272)	($253,275)	($7,665,276)	($318,248)

MISSOURI GAS ENERGY
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Distribution of Revenue and Expense Adjustments by Account No.

				H-10	H-11	H-12	H-13	H-14	H-15	H-16	H-17	H-18	H-19
Line No.	Main Acct.	Description	Test Year Per Books	Regulatory Commission Expense	Interest on Customer Deposits	Depreciation Expense	Amortization Expense	TWE Clearing	Stores Load Clearing	Paid Time Off Clearing	State Franchise Tax	Property Tax	Y2K Amortization
	(a)	(b)	(c)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)
		OPERATING REVENUE											
1	480	Residential	$296,474,501										
2	481.1	Commercial	121,856,787										
3	481.2	Industrial	4,171,343										
4	483	Sales for Resale	4,912										
5	487	Late Payment Charges	983,440										
6	488	Miscellaneous Service Revenue	1,217,295										
7	489	Transport	13,362,735										
8	493	Rent From Property	0										
9	495	Other Gas Revenue	68,552										
10		Total Operating Revenue	$438,139,565	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
		OPERATING & MAINTENANCE EXPENSE											
		Operation Expense											
11	805	Other Gas Purchases	$279,598,590										
12	807	Purchased Gas Expense	186,500										
13	859	Other Joint Expense	0										
14	870	Operation, Supervision and Engineering	937,672					0		0			
15	871	Distribution and Load Dispatching	20,193					0		0			
16	872	Compressor Station Labor and Expense	1,375					0		0			
17	874	Mains and Service Expenses	2,659,695					0	0	0			
18	875	Distributing Regulating Station Expenses	610,461					0	0	0			
19	876	Measuring and Regulating - Station Expenses	885					0	0	0			
20	877	Measuring and Regulating - Station Expenses	15,549					0	0	0			
21	878	Meter and House Regulator Expenses	4,382,171					0	0	0			
22	879	Customer Installation Expenses	2,467,761					0	0	0			
23	880	Other Expenses	1,135,231					0	0	0			
24	881	Rents	121,136										
25		Total Operation Expense	$292,137,219	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
		Maintenance Expense											
26	885	Maintenance Supervision and Engineering	$524,476					$0	$0	$0			
27	886	Maintenance of Structures and Improvements	210,430					0	0	0			
28	887	Maintenance of Mains	6,713,827					0	0	0			
29	889	Maint. of Measuring and Reg. Stat Equip - General	289,508					0	0	0			
30	890	Maint. of Measuring and Regulating Equipment	147,448					0	0	0			
31	891	Maint. of Measuring and Regulating Equipment	15,283					0		0			
32	892	Maintenance of Services	225,256					0	0	0			
33	893	Maintenance of Meters and House Regulators	956,242					0	0	0			
34	894	Maintenance of Other Equipment	336,723					0	0	0			
35		Total Maintenance Expenses	$9,419,193	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
36		Total Distribution Expense	$301,556,412	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
		Customer Accounts Expense											
37	901	Supervision	$657,796										
38	902	Meter Reading Expense	597,624					0	0	0			
39	903	Customer Records and Collection Expense	8,343,253					0	0	0			
40	904	Uncollectible Accounts	4,005,044										
41	905	Miscellaneous Customer Accounts Expense	226,620						0				
42		Total Customer Accounts Expenses	$13,830,337	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0

MISSOURI GAS ENERGY
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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-10 Regulatory Commission Expense	H-11 Interest on Customer Deposits	H-12 Depreciation Expense	H-13 Amortization Expense	H-14 TWE Clearing	H-15 Stores Load Clearing	H-16 Paid Time Off Clearing	H-17 State Franchise Tax	H-18 Property Tax	H-19 Y2K Amortization
(a)		(b)	(c)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)
		Customer Service and Informational Expense											
43	907	Supervision	$0										
44	908	Customer Assistance	344,488										
45	909	Informational and Instructional Advertising Exp.	53,043										
46	910	Miscellaneous Customer Accounts Expense	8,161										
47		Total Cust. Service and Information Exp.	$405,692	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
		Sales and Advertising Expense											
48	911	Supervision	$106,156										
49	912	Demonstrating and Selling Expenses	947,470					0					
50	913	Advertising Expenses	0										
51	916	Miscellaneous Sales Expenses	6,237										
52		Total Sales and Advertising Expenses	$1,059,863	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
		Administrative and General Expense											
53	920	Administrative and General Salaries	$2,564,656										
54	921	Office Supplies and Expenses	2,726,877					0	0				23,267
55	922	Administrative Expenses Transferred	(408,925)										
56	923	Outside Services Employed	2,307,589										
57	924	Property Insurance	77,688										
58	925	Injuries and Damages	1,123,657						0				
59	926	Employee Pensions and Benefits	5,766,483										
60	927	Franchise Requirements	0										
61	928	Regulatory Commission Expense	1,454,879	135,445									
62	930	Miscellaneous General Expenses	243,219										
63	931	Rents	463,947										
64	932	Maintenance of General Plant	90,361										
65		Total Administration and General Expense	$16,410,431	$135,445	$0	$0	$0	$0	$0	$0	$0	$0	$23,267
66		**Total O & M Expense**	$333,262,735	$135,445	$0	$0	$0	$0	$0	$0	$0	$0	$23,267
67	403	**Depreciation**	$21,816,176			$1,885,325							
68	404, 405	**Amortization**	910,128				2,731,624						(43,362)
69	431	**Interest on Customer Deposits**	386,897		(58,427)								
70	408	Payroll Taxes (1***)	1,618,628										
71	408	Property Taxes (2***)	6,544,654									460,955	
72	408	Gross Receipts Tax (3300 + 4000)	27,690,995										
73	408	Other Taxes (41**)	294,237								129,578		
74	408	**Taxes Other Than Income**	$36,148,514	$0	$0	$0	$0	$0	$0	$0	$129,578	$460,955	$0
75		TOTAL EXPENSES	$392,524,450	$135,445	($58,427)	$1,885,325	$2,731,624	$0	$0	$0	$129,578	$460,955	($20,095)
76		OPERATING INCOME BEFORE INCOME TAX	$45,615,115	($135,445)	$58,427	($1,885,325)	($2,731,624)	$0	$0	$0	($129,578)	($460,955)	$20,095
77	409,410	**Income Taxes** Note: per book & adjusted income tax computed on A-2	9,825,185										
78		NET OPERATING INCOME	$35,789,930	($135,445)	$58,427	($1,885,325)	($2,731,624)	$0	$0	$0	($129,578)	($460,955)	$20,095

MISSOURI GAS ENERGY
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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-20 Office Lease Expense	H-21 Dues Expense	H-22 Incentive Compensation & Bonuses	H-23 Collection Costs	H-24 Record Non-refundable Payment Bond	H-25 Remove Non-utility Activities	H-26 Disallowance of 50% of meals	H-27 Eliminate Severance Costs	H-28 Eliminate Promotional Advertising	H-29 Eliminate Lobbying Expense
	(a)	(b)	(c)	(w)	(x)	(y)	(z)	(aa)	(ab)	(ac)	(ad)	(ae)	(af)
		OPERATING REVENUE											
1	480	Residential	$296,474,501										
2	481.1	Commercial	121,856,787										
3	481.2	Industrial	4,171,343										
4	483	Sales for Resale	4,912										
5	487	Late Payment Charges	983,440										
6	488	Miscellaneous Service Revenue	1,217,295										
7	489	Transport	13,362,735										
8	493	Rent From Property	0										
9	495	Other Gas Revenue	68,552										
10		Total Operating Revenue	$438,139,565	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
		OPERATING & MAINTENANCE EXPENSE											
		Operation Expense											
11	805	Other Gas Purchases	$279,598,590										
12	807	Purchased Gas Expense	186,500					(186,500)					
13	859	Other Joint Expense	0										
14	870	Operation, Supervision and Engineering	937,672			199							
15	871	Distribution and Load Dispatching	20,193			3							
16	872	Compressor Station Labor and Expense	1,375			0							
17	874	Mains and Service Expenses	2,659,695			75							
18	875	Distributing Regulating Station Expenses	610,461			103							
19	876	Measuring and Regulating - Station Expenses	885			0							
20	877	Measuring and Regulating - Station Expenses	15,549			3							
21	878	Meter and House Regulator Expenses	4,382,171			809							
22	879	Customer Installation Expenses	2,467,761			469							
23	880	Other Expenses	1,135,231			179				(6,886)			
24	881	Rents	121,136										
25		Total Operation Expense	$292,137,219	$0	$0	$1,840	$0	($186,500)	$0	($6,886)	$0	$0	$0
		Maintenance Expense											
26	885	Maintenance Supervision and Engineering	$524,476			$108							
27	886	Maintenance of Structures and Improvements	210,430			34							
28	887	Maintenance of Mains	6,713,827			1,110							
29	889	Maint. of Measuring and Reg. Stat Equip - General	289,508			49				(285)			
30	890	Maint. of Measuring and Regulating Equipment	147,448			27							
31	891	Maint. of Measuring and Regulating Equipment	15,283			3							
32	892	Maintenance of Services	225,256			50							
33	893	Maintenance of Meters and House Regulators	956,242			169				(299)			
34	894	Maintenance of Other Equipment	336,723			39							
35		Total Maintenance Expenses	$9,419,193	$0	$0	$1,589	$0	$0	$0	($584)	$0	$0	$0
36		Total Distribution Expense	$301,556,412	$0	$0	$3,429	$0	($186,500)	$0	($7,470)	$0	$0	$0
		Customer Accounts Expense											
37	901	Supervision	$657,796			$154							
38	902	Meter Reading Expense	597,624			110							
39	903	Customer Records and Collection Expense	8,343,253			1,131	75,803			(553)			
40	904	Uncollectible Accounts	4,005,044										
41	905	Miscellaneous Customer Accounts Expense	226,620							(4,303)			
42		Total Customer Accounts Expenses	$13,830,337	$0	$0	$1,395	$75,803	$0	$0	($4,856)	$0	$0	$0

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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-20 Office Lease Expense	H-21 Dues Expense	H-22 Incentive Compensation & Bonuses	H-23 Collection Costs	H-24 Record Non-refundable Payment Bond	H-25 Remove Non-utility Activities	H-26 Disallowance of 50% of meals	H-27 Eliminate Severance Costs	H-28 Eliminate Promotional Advertising	H-29 Eliminate Lobbying Expense
	(a)	(b)	(c)	(w)	(x)	(y)	(z)	(aa)	(ab)	(ac)	(ad)	(ae)	(af)
		Customer Service and Informational Expense											
43	907	Supervision	$0										
44	908	Customer Assistance	344,488			17							
45	909	Informational and Instructional Advertising Exp.	53,043										
46	910	Miscellaneous Customer Accounts Expense	8,161										
47		Total Cust. Service and Information Exp.	$405,692	$0	$0	$17	$0	$0	$0	$0	$0	$0	$0
		Sales and Advertising Expense											
48	911	Supervision	$106,156			$25							
49	912	Demonstrating and Selling Expenses	947,470			138				(3,499)		(7,883)	
50	913	Advertising Expenses	0										
51	916	Miscellaneous Sales Expenses	6,237										
52		Total Sales and Advertising Expenses	$1,059,863	$0	$0	$163	$0	$0	$0	($3,499)	$0	($7,883)	$0
		Administrative and General Expense											
53	920	Administrative and General Salaries	$2,564,656			$596							
54	921	Office Supplies and Expenses	2,726,877	(36,486)		0				(27,455)	(5,000)	(3,453)	
55	922	Administrative Expenses Transferred	(408,925)										
56	923	Outside Services Employed	2,307,589						(20,459)		(86,145)		(30,500)
57	924	Property Insurance	77,688										
58	925	Injuries and Damages	1,123,657			0							
59	926	Employee Pensions and Benefits	5,766,483										
60	927	Franchise Requirements	0										
61	928	Regulatory Commission Expense	1,454,879										
62	930	Miscellaneous General Expenses	243,219		(54,118)					(1,571)		(19,183)	
63	931	Rents	463,947	(30,377)									
64	932	Maintenance of General Plant	90,361	(2,578)		0							
65		Total Administration and General Expense	$16,410,431	($69,441)	($54,118)	$596	$0	$0	($20,459)	($29,026)	($91,145)	($22,636)	($30,500)
66		**Total O & M Expense**	$333,262,735	($69,441)	($54,118)	$5,600	$75,803	($186,500)	($20,459)	($44,851)	($91,145)	($30,519)	($30,500)
67	403	**Depreciation**	$21,816,176										
68	404, 405	**Amortization**	910,128										
69	431	**Interest on Customer Deposits**	386,897										
70	408	Payroll Taxes (1***)	1,618,628										
71	408	Property Taxes (2***)	6,544,654										
72	408	Gross Receipts Tax (3300 + 4000)	27,690,995										
73	408	Other Taxes (41**)	294,237										
74	408	**Taxes Other Than Income**	$36,148,514	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
75		**TOTAL EXPENSES**	$392,524,450	($69,441)	($54,118)	$5,600	$75,803	($186,500)	($20,459)	($44,851)	($91,145)	($30,519)	($30,500)
76		**OPERATING INCOME BEFORE INCOME TAX**	$45,615,115	$69,441	$54,118	($5,600)	($75,803)	$186,500	$20,459	$44,851	$91,145	$30,519	$30,500
77	409,410	**Income Taxes**	9,825,185										
		Note: per book & adjusted income tax computed on A-2											
78		**NET OPERATING INCOME**	$35,789,930	$69,441	$54,118	($5,600)	($75,803)	$186,500	$20,459	$44,851	$91,145	$30,519	$30,500

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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	Remove Non-recurring Legal Costs (H-30)	Various Other Items (H-31)	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(ag)	(ah)	(ai)	(aj)	(ak)
		OPERATING REVENUE						
1	480	Residential	$296,474,501				($202,914,914)	$93,559,587
2	481.1	Commercial	121,856,787				(90,442,108)	31,414,679
3	481.2	Industrial	4,171,343				(2,763,966)	1,407,377
4	483	Sales for Resale	4,912				0	4,912
5	487	Late Payment Charges	983,440				0	983,440
6	488	Miscellaneous Service Revenue	1,217,295				2,143,594	3,360,889
7	489	Transport	13,362,735				(4,720,893)	8,641,842
8	493	Rent From Property	0				0	0
9	495	Other Gas Revenue	68,552				0	68,552
10		Total Operating Revenue	$438,139,565	$0	$0	$0	($298,698,287)	$139,441,278
		OPERATING & MAINTENANCE EXPENSE						
		Operation Expense						
11	805	Other Gas Purchases	$279,598,590				($279,598,590)	$0
12	807	Purchased Gas Expense	186,500				(186,500)	0
13	859	Other Joint Expense	0				0	0
14	870	Operation, Supervision and Engineering	937,672				5,106	942,778
15	871	Distribution and Load Dispatching	20,193				83	20,276
16	872	Compressor Station Labor and Expense	1,375				(575)	800
17	874	Mains and Service Expenses	2,659,695				13,882	2,673,577
18	875	Distributing Regulating Station Expenses	610,461				17,859	628,320
19	876	Measuring and Regulating - Station Expenses	885				(544)	341
20	877	Measuring and Regulating - Station Expenses	15,549				(648)	14,901
21	878	Meter and House Regulator Expenses	4,382,171				142,405	4,524,576
22	879	Customer Installation Expenses	2,467,761				46,147	2,513,908
23	880	Other Expenses	1,135,231				(14,047)	1,121,184
24	881	Rents	121,136				0	121,136
25		Total Operation Expense	$292,137,219	$0	$0	$0	($279,575,422)	$12,561,797
		Maintenance Expense						
26	885	Maintenance Supervision and Engineering	$524,476				$4,613	$529,089
27	886	Maintenance of Structures and Improvements	210,430				7,558	217,988
28	887	Maintenance of Mains	6,713,827				177,534	6,891,361
29	889	Maint. of Measuring and Reg. Stat Equip - General	289,508				4,632	294,140
30	890	Maint. of Measuring and Regulating Equipment	147,448				5,925	153,373
31	891	Maint. of Measuring and Regulating Equipment	15,283				566	15,849
32	892	Maintenance of Services	225,256				7,100	232,356
33	893	Maintenance of Meters and House Regulators	956,242				30,568	986,810
34	894	Maintenance of Other Equipment	336,723				2,838	339,561
35		Total Maintenance Expenses	$9,419,193	$0	$0	$0	$241,334	$9,660,527
36		Total Distribution Expense	$301,556,412	$0	$0	$0	($279,334,088)	$22,222,324
		Customer Accounts Expense						
37	901	Supervision	$657,796				$2,352	$660,148
38	902	Meter Reading Expense	597,624				17,567	615,191
39	903	Customer Records and Collection Expense	8,343,253				(1,059)	8,342,194
40	904	Uncollectible Accounts	4,005,044				318,248	4,323,292
41	905	Miscellaneous Customer Accounts Expense	226,620				(4,382)	222,238
42		Total Customer Accounts Expenses	$13,830,337	$0	$0	$0	$332,726	$14,163,063

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-30 Remove Non-recurring Legal Costs	H-31 Various Other Items	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(ag)	(ah)	(ai)	(aj)	(ak)
		Customer Service and Informational Expense						
43	907	Supervision	$0				$0	$0
44	908	Customer Assistance	344,488				(2)	344,486
45	909	Informational and Instructional Advertising Exp.	53,043				0	53,043
46	910	Miscellaneous Customer Accounts Expense	8,161				0	8,161
47		Total Cust. Service and Information Exp.	$405,692	$0	$0	$0	($2)	$405,690
		Sales and Advertising Expense						
48	911	Supervision	$106,156				$86	$106,242
49	912	Demonstrating and Selling Expenses	947,470		(12,309)		(287,249)	660,221
50	913	Advertising Expenses	0				0	0
51	916	Miscellaneous Sales Expenses	6,237				0	6,237
52		Total Sales and Advertising Expenses	$1,059,863	$0	($12,309)	$0	($287,163)	$772,700
		Administrative and General Expense						
53	920	Administrative and General Salaries	$2,564,656				($5,006)	$2,559,650
54	921	Office Supplies and Expenses	2,726,877		(8,083)		(57,488)	2,669,389
55	922	Administrative Expenses Transferred	(408,925)				0	(408,925)
56	923	Outside Services Employed	2,307,589	(93,926)			7,434,246	9,741,835
57	924	Property Insurance	77,688				0	77,688
58	925	Injuries and Damages	1,123,657				252,795	1,376,452
59	926	Employee Pensions and Benefits	5,766,483				46,687	5,813,170
60	927	Franchise Requirements	0				0	0
61	928	Regulatory Commission Expense	1,454,879				135,445	1,590,324
62	930	Miscellaneous General Expenses	243,219		(2,500)		(77,372)	165,847
63	931	Rents	463,947		(5,616)		(35,993)	427,954
64	932	Maintenance of General Plant	90,361				(2,578)	87,783
65		Total Administration and General Expense	$16,410,431	($93,926)	($16,199)	$0	$7,690,736	$24,101,167
66		**Total O & M Expense**	$333,262,735	($93,926)	($28,508)	$0	($271,597,791)	$61,664,944
67	403	**Depreciation**	$21,816,176				$1,885,325	$23,701,501
68	404, 405	**Amortization**	910,128				2,688,262	3,598,390
69	431	**Interest on Customer Deposits**	386,897				(58,427)	328,470
70	408	Payroll Taxes (1***)	1,618,628				222,272	1,840,900
71	408	Property Taxes (2***)	6,544,654				460,955	7,005,609
72	408	Gross Receipts Tax (3300 + 4000)	27,690,995				(27,690,995)	0
73	408	Other Taxes (41**)	294,237				129,578	423,815
74	408	**Taxes Other Than Income**	$36,148,514	$0	$0	$0	($26,878,190)	$9,270,324
75		TOTAL EXPENSES	$392,524,450	($93,926)	($28,508)	$0	($293,960,821)	$98,563,629
76		OPERATING INCOME BEFORE INCOME TAX	$45,615,115	$93,926	$28,508	$0	($4,737,466)	$40,877,649
77	409,410	**Income Taxes**	9,825,185			(2,630,887)	(2,630,887)	7,194,298
		Note: per book & adjusted income tax computed on A-2						
78		NET OPERATING INCOME	$35,789,930	$93,926	$28,508	$2,630,887	($2,106,579)	$33,683,351

MISSOURI GAS ENERGY
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Adjust Test Year Revenue per Book to Test Year Margin

Line No.	Description	Main Account/Revenue Class 480 21	481.1 22 & 23	481.2 25	483, 489 28, 38	487, 488, 493, 495	Total
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Total Revenue per Book	$296,474,501	$121,856,787	$4,171,343	$13,367,647	$2,269,287	$438,139,565
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(207,615,104)	(92,411,882)	(2,763,966)	(4,481,801)	(137,140)	(307,409,893)
3	Test Year Margin	$88,859,397	$29,444,905	$1,407,377	$8,885,846	$2,132,147	$130,729,672

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Test Year Margin Adjustments

Line No.	Description	Residential Gas Sales 480 21	Commercial Gas Sales 481.1 22 & 23	Industrial Gas Sales 481.2 25	Transportation Revenues 489, 483 38, 28	Service Charges and Other 487, 488, 493, 495	Total
		Main Account/Revenue Class					
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Test Year Margin	$88,859,397	$29,444,905	$1,407,377	$8,885,846	$2,132,147	$130,729,672
2	Weather Normalize	3,314,356	1,396,596		118,494		4,829,446
3	Customer Growth Annualization	1,365,378	637,687				2,003,065
4	Rate Switching GS to LVS (1)		(82,352)		49,325		(33,027)
5	LVS Customer Deletions		(2,047)		(3,859)		(5,906)
6	Annualize Flex Credits				(388,739)		(388,739)
7	Economic Development Discounts				(14,312)		(14,312)
8	365 Days Consumption	20,456	19,890				40,346
9	Off-System Sales					1,200,000	1,200,000
10	Proposed Reconnect Fee Increase					1,080,734	1,080,734
11	Total Adjustments	4,700,190	1,969,774	0	(239,091)	2,280,734	8,711,607
12	As Adjusted Test Year Margin	$93,559,587	$31,414,679	$1,407,377	$8,646,755	$4,412,881	$139,441,279

(1) LVS customer charges are recorded in 481.1 and 481.2. The ($82,352) adjustment is the sum of ($132,696) in general service revenue reductions and $50,344 added LVS customer charges. The total LVS revenue effect is $95,190, or $50,344 plus $44,846.

MISSOURI GAS ENERGY
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Remove Purchase Gas Costs and Gross Receipts Tax

Line No.	Description	Amount
	(a)	(b)
1	Purchase Gas Costs (Acct. 805)	($279,598,590)
2	Gross Receipts Tax (Acct. 4081)	(27,690,995)
3	Total Adjustment	($307,289,585)

MISSOURI GAS ENERGY
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Payroll Expense

Line No.	Main Acct.	Proforma Payroll Expense	Settlement - Payroll Increases	Settled Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)	(e)	(f)
1	870	$819,749	$32,824	$852,573	$847,666	$4,907
2	871	13,962	555	14,517	14,437	80
3	872	298	0	298	873	(575)
4	874	310,883	12,390	323,273	309,466	13,807
5	875	424,110	16,920	441,030	423,274	17,756
6	876	0	0	0	544	(544)
7	877	11,521	462	11,983	12,634	(651)
8	878	3,339,403	133,606	3,473,009	3,331,413	141,596
9	879	1,937,471	77,482	2,014,953	1,969,275	45,678
10	880	737,683	29,495	767,178	774,518	(7,340)
11	885	445,047	17,845	462,892	458,387	4,505
12	886	141,364	5,640	147,004	139,480	7,524
13	887	4,580,004	183,165	4,763,169	4,586,745	176,424
14	889	201,349	8,044	209,393	204,525	4,868
15	890	111,858	4,438	116,296	110,398	5,898
16	891	11,807	462	12,269	11,706	563
17	892	205,613	8,229	213,842	206,792	7,050
18	893	698,157	27,923	726,080	695,382	30,698
19	894	162,522	6,472	168,994	166,195	2,799
20	901	634,567	25,427	659,994	657,796	2,198
21	902	454,067	18,122	472,189	454,732	17,457
22	903	4,669,914	186,868	4,856,782	4,934,222	(77,440)
23	905	0	0	0	79	(79)
24	908	70,770	2,866	73,636	73,655	(19)
25	911	102,149	4,068	106,217	106,156	61
26	912	568,074	22,745	590,819	854,515	(263,696)
27	920	2,461,105	98,471	2,559,576	2,565,178	(5,602)
28	921	1,819	92	1,911	2,189	(278)
29	925	0	0	0	480	(480)
30	932	0	0	0	0	0
31	Total	$23,115,266	$924,611	$24,039,877	$23,912,712	$127,165

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Employee Benefits

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension - Settled	($2,200,000)	
2	Retirement Power - Settled	547,133	
3	Life & AD&D Insurance	167,714	
4	Long Term Disability Insurance	107,256	
5	Medical / Dental Benefit - Settled	4,256,022	
6	FAS 106 - Accrual - Settled	1,500,000	
7	FAS 106 - Amortization of	2,664,792	
8	401K - Settled	1,201,530	
9	COLI Amortization	303,497	
10	Supplemental Retirement	135,560	
11	Settlement of capitalization	(1,027,644)	
12	Other Benefits	85,382	
13	Total Proforma Benefits	$7,741,242	
14	Payroll Expense Ratio	0.750935	
15	Proforma Benefits Expense	$5,813,170	$5,813,170
16	Less Test Year Benefits Expense	($5,766,483)	
17	Add back payroll charged to Acct. 9260 (already deducted from proforma amounts on payroll adjustment)	0	
18	Net Test Year Benefits Expense (not deducted elsewhere)	($5,766,483)	(5,766,483)
19	Adjustment to Test Year Expense - Acct. 926		$46,687

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Payroll Taxes

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	$2,354,574
2	Payroll Taxes on Incentive Compensation Adjustment	576
3	Per Settlement	93,712
4	Payroll Taxes on step/pay grade increases	2,615
5	Total Proforma Payroll Taxes	$2,451,477
6	Payroll Expense Ratio	0.750935
7	Proforma Payroll Tax Expense	$1,840,900
8	Less Test Year Payroll Tax Expense	(1,618,628)
9	Adjustment to Test Year Expense - Acct. 4081	$222,272

MISSOURI GAS ENERGY
A Division of Southern Union Company
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Insurance - Account 924 & Account 925

Line No.	Description	1996	1997	1998	1999	2000	5 Year Avg.	925 Amount	924 Amount	Total Amount
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
	MGE Claims:									
1	Workers Compensation claims paid	$592,929	$580,294	$476,028	$607,686	$752,140	$601,815			
2	Auto & General Liability	145,399	403,507	284,683	2,053,498	275,978	632,613			
3	Total Proforma Claims	$738,328	$983,801	$760,711	$2,661,184	$1,028,118	$1,234,428	$1,234,428		$1,234,428
4	Per Settlement							(72,850)		(72,850)
5	Adjusted Total Proforma Claims							1,161,578	0	1,161,578
6	Insurance Premiums - 924								77,688	77,688
7	Insurance Premiums - 925							639,264		639,264
8	Non-Insurance Items - 925							32,781		32,781
9	Total Proforma Insurance Cost							$1,833,623	$77,688	$1,911,311
10	Test Year Payroll Expense Ratio							0.750935	1.000000	
11	Proforma Insurance Expense							$1,376,932	$77,688	$1,454,620
12	Less Test Year Insurance Expense							(1,123,657)	(77,688)	(1,201,345)
13	Adjustment to Test Year - Accts. 924 and 925							$253,275	$0	$253,275

MISSOURI GAS ENERGY
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Joint and Common Costs

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	$10,565,268
2	Expense Capital Ratio	79.2495%
3	Proforma Joint and Common Expense	$8,372,923
4	Settled - SERP	(745,392)
5	Settled - FAS 87 Pension	73,152
6	Settled - Dental	30,970
7	Settled - Meals & Entertainment	(19,610)
8	Settled - SGA Dues	(5,786)
9	Settled - AGA Dues	(18,007)
10	Settled - Various	(3,425)
11	Settled - Legal Fees	(8,637)
12	Settled - IT Payment	(8,837)
13	Settled - IT Equipment	(2,075)
14	Settled Proforma Joint and Common Expense	$7,665,276
15	Less Test Year Expense Recorded on MGE's Books	0
16	Adjustment to Test Year - Acct. 923	$7,665,276

MISSOURI GAS ENERGY
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Uncollectible Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Twelve Months Ended 1996 Charge Offs	$4,605,837	
2	Twelve Months Ended 1997 Charge Offs	5,249,016	
3	Twelve Months Ended 1998 Charge Offs	5,327,305	
4	Twelve Months Ended 1999 Charge Offs	2,507,795	
5	Twelve Months Ended 2000 Charge Offs	2,532,408	
6	Five Year Average		$4,044,472
7	Adjustment to Settlement		278,820
8	Total Settled Expense		$4,323,292
9	Less Test Year Uncollectible Expense		(4,005,044)
10	Adjustment to Test Year - Acct. 904		$318,248

MISSOURI GAS ENERGY
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Regulatory Commission Expense

Line No.	Description (a)	Amount (b)	Amount (c)
1	Proforma, Current Rate Case	$600,000	
2	Normalization Period (years)	2	
3	Normalization - Current Case		$300,000
4	Normalized level of expense for depreciation study **(Note 1)**		$7,444
5	Proforma NARUC Assessment - fiscal 7/1/00-6/30/01		6,198
6	Proforma MPSC Assessment - fiscal 7/1/00-6/30/01		1,276,682
7	Total Proforma Regulatory Commission Expense		$1,590,324
8	Less Test Year Regulatory Commission Expense		(1,454,879)
9	Adjustment to Test Year - Acct. 928		$135,445

Note 1:

Line No.	Description	Amount
10	Total charges from Black & Veatch for the depreciation study	$37,218
11	Amortization period (years)	5
12	Annual amortization	$7,444

MISSOURI GAS ENERGY
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Interest on Customer Deposits

Line No.	Description	Reference	Residential	Commercial & Industrial	Amount
	(a)	(b)	(c)	(d)	(e)
1	Customer Deposits	B-2	$2,641,126	$2,216,081	$4,857,207
2	Interest Rate		9.50%	3.50%	6.76%
3	Proforma Interest on Customer Deposits		$250,907	$77,563	$328,470
4	Less Test Year Interest on Customer Deposits				(386,897)
5	Adjustment to Test Year - Acct. 431				($58,427)

MISSOURI GAS ENERGY
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Depreciation Expense

Line No.	Description (a)	Amount (b)	Approved Rate (c)	Annualized Depreciation (d)	Proposed Rate (e)	Proforma Total Depreciation (f)	Less Depr. Capitalized To Clearing Accts. (g)	Proforma Depreciation Expense (h)
	INTANGIBLE PLANT							
1	(301) Organization	$15,600	0.00%	$0	0.00%	$0	$0	$0
2	(302) Franchises	51,046	0.00%	0	0.00%	0	0	0
3	(303) Miscellaneous Intangible	10,370,947	(see adj. H-13)	0	(see adj. H-13)	0	0	0
4	Total Intangible Plant	$10,437,593		$0		$0	$0	$0
	DISTRIBUTION PLANT							
5	(374.1) Land	$240,448	0.00%	$0	0.00%	$0	$0	$0
6	(374.2) Land Rights	993,492	2.17%	21,559	2.09%	20,764	0	20,764
7	(375.1) Structures	6,007,068	2.28%	136,961	2.01%	120,742	0	120,742
8	(375.2) Leasehold Improvements	13,965	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	278,969,931	1.88%	5,244,635	2.10%	5,858,369	0	5,858,369
10	(378) Meas. & Reg. Station - General	10,422,024	3.00%	312,661	3.19%	332,463	0	332,463
11	(379) Meas. & Reg. Station - City Gate	3,074,013	2.66%	81,769	2.56%	78,695	0	78,695
12	(380) Services	248,048,065	5.50%	13,642,644	4.58%	11,360,601	0	11,360,601
13	(381) Meters	28,150,505	2.05%	577,085	2.46%	692,502	0	692,502
14	(382) Meter Installations	49,974,693	2.05%	1,024,481	2.47%	1,234,375	0	1,234,375
15	(383) House Regulators	9,540,154	2.05%	195,573	2.27%	216,561	0	216,561
16	(385) Electronic Gas Metering	320,088	5.00%	16,004	5.00%	16,004	0	16,004
17	(387) Other Equipment	0	6.33%	0	4.60%	0	0	0
18	Total Distribution Plant	$635,754,446		$21,253,372		$19,931,076	$0	$19,931,076
	GENERAL PLANT - DIRECT							
19	(389) Land	$610,049	0.00%	$0	0.00%	$0	$0	$0
20	(390.1) Structures	517,301	3.33%	17,226	2.52%	13,036	0	13,036
21	(390.2) Leasehold Impr.	1,327,356	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	3,026,830	3.06%	92,621	6.67%	201,890	0	201,890
23	(392) Transportation Equipment	4,601,351	10.13%	466,117	10.69%	491,884	(137,833)	354,051
24	(393) Stores Equipment	499,757	3.33%	16,642	4.17%	20,840	0	20,840
25	(394) Tools	4,539,306	4.00%	181,572	7.00%	317,751	0	317,751
26	(395) Laboratory Equipment	0	4.00%	0	6.00%	0	0	0
27	(396) Power Operated Equipment	535,765	6.25%	33,485	6.46%	34,610	(9,698)	24,912
28	(397.1) Communication Equipment - AMR	32,969,219	5.00%	1,648,461	5.00%	1,648,461	0	1,648,461
29	(397.0) Communication Equipment - Other	1,516,835	4.50%	68,258	5.59%	84,791	0	84,791
30	(398) Miscellaneous Equipment	174,602	6.25%	10,913	5.63%	9,830	0	9,830
31	Total Direct General Plant	$50,316,371		$2,535,295		$2,823,093	($147,531)	$2,675,562
	GENERAL PLANT - CORPORATE							
32	(390) Structures	$295,765	2.83%	$8,370	2.79%	$8,252	$0	$8,252
33	(390) Leasehold Impr.	0	(amortized)	0	(amortized)	0	0	0
34	(391) Furniture & Fixtures	10,474,116	10.00%	1,047,412	10.14%	1,062,075	0	1,062,075
35	(392) Transportation Equipment	0	12.50%	0	11.55%	0	0	0
36	(397) Communication Equipment	4,220	2.83%	119	4.75%	200	0	200
37	(398) Miscellaneous Equipment	2,547	2.83%	72	3.92%	100	0	100
38	Total Corporate General Plant	$10,776,648		$1,055,973		$1,070,627	$0	$1,070,627
39	Total Proforma Plant & Depreciation	$707,287,058		$24,844,640		$23,824,796	($147,531)	$23,677,265
40	Projected Plant Increases - Intangible	$441,748	10.00%	$44,175	10.00%	$4,418	$0	$4,418
41	Projected Plant Increases - Distribution	18,924,141	3.34%	632,066	3.14%	19,847	0	19,847
42	Projected Plant Increases - General Plant	(10,341)	5.04%	(521)	5.61%	(29)	0	(29)
43	Total Projected Plant Increases	$19,355,548		$675,720		$24,236	$0	$24,236
44	Total Proforma Plant & Depreciation	$726,642,606		$25,520,360		$23,849,032	($147,531)	$23,701,501
45	Less Depreciation Charged to Clearing A/Cs			(499,602)		(526,494)		
46	Less Test Year Depreciation Expense			($21,816,176)		($25,520,360)		($21,816,176)
47	Adjustment to Test Year - Acct. 403			$3,204,582		($2,197,822)		$1,885,325

MISSOURI GAS ENERGY
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Amortization Expense

Line No.	Description	Original Cost Plant	Monthly Test Year Amortization Expense	Proforma Amortization Expense
	(a)	(b)	(c)	(d)
	MGE Direct Non-SLRP Amortization:			
1	(375.2) Leasehold Improvements	$13,965	$423	$5,078
2	(390.2) Leasehold Improvements	1,327,356	5,013	60,158
3	Sub Total	$1,341,321	$5,436	$65,236
4	(303) Misc. Intangible - Corrosion Control Mgmt. System (4000)	$1,117,800	$9,555	$114,665
5	(303) Misc. Intangible - Landbase Digitized Mapping (4500)	1,393,602	12,454	149,445
6	(303) Misc. Intangible - Premise Data System (5000)	985,196	0	0
7	(303) Misc. Intangible - AMR - Beta Phase (5500)	415,236	2,307	27,682
8	(303) Misc. Intangible - Facility Priority Index (6000)	894,795	7,465	89,583
9	(303) Misc. Intangible - Geographic Information System (6500)	1,006,719	7,191	86,296
10	(303) Misc. Intangible - Customer Service System (7000)	3,786,000	21,035	252,426
11	(303) Misc. Intangible - Licensing Office Pro2000 (7500)	54,012	450	5,401
12	(303) Misc. Intangible - Stoner Low Pressure/Intermediate Model (8000)	154,584	1,104	13,251
13	(303) Misc. Intangible - BASIC (8500)	294,516	3,005	36,063
14	(303) Misc. Intangible - TCS System (9000)	189,193	1,592	19,106
15	(303) Misc. Intangible - Geo Tax Software (9500)	79,294	661	7,929
16	Sub Total - Acct. 303	$10,370,947	$66,821	$801,847
	SLRP Amortization:		Amort. Period	
17	SLRP Deferrals Subject to Amortization	$27,417,161	10	$2,741,716
18	Amortize Debit Reserve Balance In Account 395.0	$164,763	5	$32,953
19	Pro-Forma Amortization Expense			$3,641,752
20	Less Test Year Amortization Expense			(910,128)
21	Adjustment to Test Year - Accts. 404 and 405			$2,731,624

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Transportation and Work Equipment Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into TWE Clearing Account 1841		$4,406,743		
2	Less Test Year Amounts Cleared Out of Account 1841		(4,407,135)		
3	Test Year Amount Under/(Over) Cleared		($392)		($392)
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1841:				
		Proforma	Test Year	Adjustment	
5	Depreciation	$0	$482,065	($482,065)	
6	Lease Costs	2,366,340	1,965,803	400,537	
7	Other	2,040,795	1,958,875	81,920	
8	Total	$4,407,135	$4,406,743	$392	392
9	Total Adjusted Amount Under/(Over) Cleared				$0

Spread Under/(Over) Clearing to Main Accounts based on Test Year Clearing:

Line No.		Main Acct.	Amount	Percentage	Amount
10		870	$71,902	0.016315	$0
11		871	3,984	0.000904	0
12		872	297	0.000067	0
13		874	78,641	0.017844	0
14		875	92,413	0.020969	0
15		876	150	0.000034	0
16		877	1,822	0.000413	0
17		878	727,519	0.165078	0
18		879	403,635	0.091587	0
19		880	45,559	0.010338	0
20		885	52,919	0.012008	0
21		886	37,401	0.008486	0
22		887	1,013,315	0.229926	0
23		889	31,135	0.007065	0
24		890	29,867	0.006777	0
25		891	2,858	0.000648	0
26		892	47,699	0.010823	0
27		893	116,207	0.026368	0
28		894	28,704	0.006513	0
29		902	111,517	0.025304	0
30		903	226,478	0.051389	0
31		912	4,018	0.000912	0
32		921	44,151	0.010018	0
33	**Total Adjustment to Test Year Expense**		$3,172,191	0.719786	$0
34	Balance Sheet Accounts		1,234,944	0.280215	0
35	Total Test Year Clearing		$4,407,135	1	$0

MISSOURI GAS ENERGY
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Stores Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into Stores Account 1630		$2,247,290		
2	Less Test Year Amounts Cleared Out of Account 1630		(2,107,937)		
3	Test Year Amount Under/(Over) Cleared		$139,353		$139,353
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1630:				
		Proforma	Test Year	Adjustment	
5	Other	2,107,937	2,247,290	(139,353)	
6	Total	$2,107,937	$2,247,290	($139,353)	(139,353)
7	Total Adjusted Amount Under/(Over) Cleared				$0

Spread Under/(Over) Clearing to Main Accounts based on Test Year Clearing:

Line No.		Main Acct.	Amount	Percentage	Amount
8		874	$5,454	0.002587	$0
9		875	14,536	0.006896	0
10		876	0	0.000000	0
11		877	31	0.000015	0
12		878	30,538	0.014487	0
13		879	6,454	0.003062	0
14		880	2,240	0.001063	0
15		885	1	0.000000	0
16		886	1,534	0.000728	0
17		887	126,757	0.060133	0
18		889	5,228	0.002480	0
19		890	41	0.000019	0
20		892	8,776	0.004163	0
21		893	17,312	0.008213	0
22		894	23,725	0.011255	0
23		902	208	0.000099	0
24		903	69	0.000033	0
25		905	114	0.000054	0
26		921	2,496	0.001184	0
27		925	1,220	0.000579	0
28	**Total Adjustment to Test Year Expense**		246,734	0.11705	0
29	Balance Sheet Accounts		1,861,203	0.882950	0
30	Total Test Year Clearing		2,107,937	1	0

MISSOURI GAS ENERGY
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Paid Time Off Clearing

Line No.	Description (a)	Proforma (b)	Test Year (c)	Adjustment (d)	Amount (e)
1	Test Year Charges into Paid Time Off Account 1846		$4,929,033		
2	Less Test Year Amounts Cleared Out of Account 1846		(4,615,028)		
3	Test Year Amount Under/(Over) Cleared		$314,005		$314,005
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1846:				
		Proforma	Test Year	Adjustment	
5	Other	4,615,028	4,929,033	(314,005)	
6	Total	$4,615,028	$4,929,033	($314,005)	(314,005)
7	Total Adjusted Amount Under/(Over) Cleared				$0

Spread Under/(Over) Clearing to Main Accounts based on Test Year Clearing:

Line		Main Acct.	Amount	Percentage	Amount
8		870	$75,151	0.016284	$0
9		871	3,902	0.000845	0
10		872	216	0.000047	0
11		874	79,619	0.017252	0
12		875	96,545	0.020920	0
13		876	191	0.000041	0
14		877	1,421	0.000308	0
15		878	790,145	0.171211	0
16		879	423,584	0.091784	0
17		880	50,520	0.010947	0
18		885	56,486	0.012240	0
19		886	36,816	0.007977	0
20		887	1,043,309	0.226068	0
21		889	29,589	0.006411	0
22		890	28,460	0.006167	0
23		891	3,217	0.000697	0
24		892	47,297	0.010248	0
25		893	160,911	0.034867	0
26		894	29,953	0.006490	0
27		902	109,461	0.023718	0
28		903	237,375	0.051435	0
29	**Total Adjustment to Test Year Expense**		3,304,168	0.715957	0
30	Balance Sheet Accounts		1,310,858	0.284041	0
31	Total Test Year Clearing		4,615,026	1	0

MISSOURI GAS ENERGY
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Missouri State Franchise Tax

Line No.	Description	Amount
	(a)	(b)
1	Proforma State Franchise Tax Expense	$423,815
2	Less Test Year State Franchise Tax Expense	(294,237)
3	Adjustment to Test Year - Acct. 4081	$129,578

MISSOURI GAS ENERGY

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Property Tax Expense

Line No.	Description (a)	Reference (b)	Amount (c)
1	Total Direct Plant In Service @ 12/31/00		$687,653,226
2	Material & Supply Inventory @ 12/31/00		1,884,628
3	Completed Not Classified @ 12/31/00		11,023,023
4	Proforma Plant, excluding Intangible Plant		$700,560,877
5	Property tax rate		1.00000%
6	Proforma Property Tax Expense		$7,005,609
7	Less Test Year Property Tax Expense		(6,544,654)
8	Adjustment to Test Year - Acct. 4081		$460,955

MISSOURI GAS ENERGY
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Y2K Amortization

Line No.	Description (a)	Amount (b)
1	Deferred Balance of MGE's Y2K Expenses	$173,930
2	Number of Years to Amortize	10
3	Yearly Amortization	$17,393
4	Deferred Balance of MGE's share of Corporate Y2K Expenses	$804,200
5	Number of Years to Amortize	10
6	Yearly Amortization	$80,420
7	Total Proforma Amortization	$97,813
8	Settled Adjustment	(4,458)
9	Adjusted Total Proforma Amortization	$93,355
10	Reclassify Test Year Expense	
11	From Account 404.3	($43,362)
12	To Account 921.0	$43,362
13	Less Test Year Amortization in Account 921.0	(70,088)
14	Adjustment to Test Year - Account 921.0 (Line 7 plus Line 11 minus Line 10)	($20,095)

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Office Lease Expense

Line No.	Description (a)	Amount (b)
1	Net Proforma Broadway and PBO Office Lease Expense	$319,202
2	Less Test Year Broadway and PBO Office Lease Expense	(349,579)
3	Adjustment to Test Year - Acct. 931	($30,377)
4	Net Proforma Broadway Utilities, Outside Services & Supplies Expense	$271,589
5	Less Test Year Broadway Utilities, Outside Services & Supplies Expense	(308,075)
6	Adjustment to Test Year - Acct. 921	($36,486)
7	Net Proforma Broadway Maintenance Expense	$17,937
8	Less Test Year Broadway Maintenance Expense	(20,515)
9	Adjustment to Test Year - Acct. 932	($2,578)

MISSOURI GAS ENERGY
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Dues Expense

Line No.	Description	Amount
	(a)	(b)
1	Remove Certain Expense from Acct. 930.2	(54,118)

MISSOURI GAS ENERGY
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Incentive Compensation and Bonuses

Line No.	Description	Incentive Compensation	Bonuses	Total
	(a)	(b)	(c)	(d)
1	1998 Incentive and Bonus Payments	$117,053	$180,453	$297,506
2	1999 Incentive and Bonus Payments	249,566	119,333	368,899
3	2000 Incentive and Bonus Payments	0	111,401	111,401
4	Three-Year Average	$122,206	$137,062	$259,269
5	Per Settlement			(140,411)
6	Test Year Incentive and Bonus Payments			(111,401)
7	Adjustment			7,457
8	Expense Ratio			0.750935
9	Amount Charged to Expense			$5,600

SCHEDULE H-23

MISSOURI GAS ENERGY
A Division of Southern Union Company
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Customer Collection Costs

Line No.	Description	Total
	(a)	(b)
1	Proforma Charges for Customer Collections	$309,520
2	Less: Actual cost of collection	$233,717
3	Adjustment	$75,803

MISSOURI GAS ENERGY
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Non-refundable Payment Bond

Line No.	Description	Total
	(a)	(b)
1	Adjust for non-refundable payment bond to energy supplier	$0
2	Less Test Year Expense	(186,500)
3	Adjustment to Test Year - Acct. 807	($186,500)

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Non-Utility Activity

Line No.	Description (a)	Total (b)
1	Remove non-utility activity from account 9230	($20,459)

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Per Settlement - Disallowance of 50% of Meals & Entertainment

Line No.	Description	Total
	(a)	(b)
1	Remove 50% of meals - Acct. 880.0	($6,886)
2	Remove 50% of meals - Acct. 889.0	(285)
3	Remove 50% of meals - Acct. 893.0	(299)
4	Remove 50% of meals - Acct. 903.0	(553)
5	Remove 50% of meals - Acct. 905.0	(4,303)
6	Remove 50% of meals - Acct. 912.0	(3,499)
7	Remove 50% of meals - Acct. 921.0	(27,455)
8	Remove 50% of meals - Acct. 930.0	(1,571)
9	Total Adjustment	($44,851)

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Per Settlement - Eliminate Severence Costs

Line No.	Description	Total
	(a)	(b)
1	Remove Severance Payment - Acct. 921.0	($5,000)
2	Remove Severance Payment - Acct. 923.0	(86,145)
3	Total Adjustment	($91,145)

SCHEDULE H-28

MISSOURI GAS ENERGY

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Per Settlement - Eliminate Promotional Advertising

Line No.	Description	Total
	(a)	(b)
1	Remove Advertising - Account 912.0	($7,883)
2	Remove Advertising - Account 921.0	(3,453)
3	Remove Advertising - Account 930.0	(19,183)
4	Total Adjustment	($30,519)

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Per Settlement - Eliminate Lobbying Expense

Line No.	Description	Total
	(a)	(b)
1	Remove Lobbying Expense	($30,500)

SCHEDULE H-30

MISSOURI GAS ENERGY
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Per Settlement - Remove Nonrecurring Legal Costs

Line No.	Description	Total
	(a)	(b)
1	Remove Nonrecurring Legal Costs	($93,926)

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Per Settlement - Various Other Items

Line No.	Description	Total
	(a)	(b)
1	Normalize MP Gold database - Acct. 912.0	($12,309)
2	Capitalize sink & water heater installation	($5,000)
3	Remove 2nd Christmas party	(1,138)
4	Capitalize refinish of furniture	(1,945)
5	Adjustment Account 921.0	($8,083)
6	Remove preliminary survey costs of an abandoned project - Acct. 930.0	($2,500)
7	Annualize rent offset from Broadway Ford - Acct. 931.0	($5,616)