

Exhibit No.:

Issues: Revenue Deficiency  
Rate Base  
Expenses  
Test Year  
True-Up

Witness: Michael R. Noack

Sponsoring Party: Missouri Gas Energy

Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

November 7, 2000

Exhibit No. 212  
Date 6-25-01 Case No. GR-2001-292  
Reporter Stewart



**DIRECT TESTIMONY OF MICHAEL R. NOACK**

**CASE NO. GR-2001-292**

**NOVEMBER 7, 2000**

1   **Q.    WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS**  
2       **ADDRESS?**

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

5  
6   **Q.    WHO ARE YOU EMPLOYED BY?**

7    A.   I am employed by Missouri Gas Energy (MGE), a division of Southern Union  
8       Company (Company), as Manager of Pricing and Regulatory Affairs.

9  
10   **Q.   PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
11       **EXPERIENCE.**

12   A.   I received a Bachelor of Science in Business Administration with a major in  
13       Accounting from the University of Missouri in Columbia in 1973. Upon  
14       graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a  
15       Certified Public Accounting Firm in Kansas City, Missouri. I spent  
16       approximately 20 years working with TKWK or firms that were formed from  
17       former TKWK employees or partners. I was involved during that time in public  
18       utility consulting and financial accounting, concentrating primarily on rate cases  
19       for electric and gas utilities and financial audits of independent telephone  
20       companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of  
21       Kansas City which was an energy consulting company specializing in billing

1 analysis and tariff selection for large commercial and industrial customers. In July  
2 of this year I started my position with MGE. Presently I hold in good standing, a  
3 Certified Public Accountant certificate in the state of Kansas and am a member of  
4 the Kansas Society of Certified Public Accountants.

5  
6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
7 **PROCEEDING?**

8 A. The purpose of my testimony is to support MGE's requested revenue increase.

9  
10 The revenue deficiency is supported by Schedules A through H, which are  
11 attached to this testimony. I will be responsible for sponsoring most of the  
12 adjustments made to the test year ending June 30, 2000 and which support the  
13 revenue deficiency. Other MGE witnesses providing direct testimony are F. Jay  
14 Cummings, supporting revenue adjustments, rate design and other tariff matters;  
15 Karen M. Czaplewski, discussing customer service operations; John C. Dunn,  
16 supporting the capital structure and the cost of capital shown in Schedule F; and  
17 Steve W. Cattron, providing policy testimony.

18  
19 **Q. WHY DOES MGE NEED TO FILE FOR A GENERAL RATE INCREASE?**

20 A. MGE is not achieving its currently authorized rate of return. Since MGE's last  
21 general rate increase, approximately \$80 million has been invested in plant due to:  
22 1) the safety line replacement program ("SLRP"); 2) plant relocation or public  
23 improvement programs; 3) growth within the MGE service area.

1   **Q.   MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT**  
2       **SECTIONS OF SCHEDULES ATTACHED TO YOUR DIRECT**  
3       **TESTIMONY?**

4    A.   Schedule A summarizes the revenue deficiency at June 30, 2000.  
5       Schedule B summarizes and supports the various rate base components.  
6  
7       Schedule C summarizes and supports plant in service.  
8  
9       Schedule D summarizes and supports Reserve for Depreciation.  
10  
11      Schedule E summarizes and supports the various working capital components.  
12  
13      Schedule F summarizes the rate of return.  
14  
15      Schedule H summarizes and supports the operating income statement and  
16      adjustments.  
17

18   **Q.   WHAT IS THE TEST YEAR USED IN THIS DETERMINATION OF**  
19       **MGE'S REVENUE REQUIREMENT?**

20   A.   The test year is the twelve months ending June 30, 2000 adjusted for known and  
21       measurable changes.  
22

23   **Q.   SHOULD THIS TEST YEAR BE USED FOR THIS CASE OR WOULD A**  
24       **LATER TEST YEAR REFLECTING MORE CURRENT OPERATING**  
25       **RESULTS BE MORE APPROPRIATE?**

26   A.   A later test period ending December 31, 2000 is what MGE assumes the  
27       Commission will adopt as the test year, as updated, for official use in this  
28       proceeding. This would provide a relatively current time period of actual

1 experience on which to base rates for the future while at the same time allowing  
2 the Commission staff and other parties to audit this actual experience.

3  
4 **Q. IS MGE REQUESTING A "TRUE-UP" PROCESS?**

5 A. MGE as part of the direct case is requesting a "Customer Service  
6 Effectiveness/Gas Safety Program Experimental Incentive Plan" ("CSE/GSIP")  
7 which will allow MGE to recover annually the costs of the safety program if  
8 certain customer service criteria are met (see the direct testimony of MGE witness  
9 Cummings). MGE does not need a true up if the Commission approves this  
10 CSE/GSIP. If it is denied, MGE requests a "true-up" through June 30, 2001, in  
11 order to update the following significant cost components:

12 **RATE BASE:**

13 Plant in Service  
14 Service Line Replacement Program (SLRP) deferrals  
15 Depreciation Reserve  
16 Deferred Taxes  
17 Unamortized Deferred Credit from GM-94-40  
18 Working Capital Components

19  
20 **INCOME STATEMENT:**

21 Revenue for Customer Growth  
22 Payroll, Employee Levels and Current Wage Levels  
23 Updated Gas Prices  
24 Rate Case Expense  
25 Depreciation and Amortization Expense  
26 Property Taxes  
27 Related Income Tax Effects  
28

1    **Q.    MR. NOACK, WOULD YOU PLEASE EXPLAIN THE SCHEDULES**  
2    **ATTACHED TO YOUR TESTIMONY?**

3    A.    Yes. Schedule A is a summary of the MGE revenue deficiency for the test year  
4    ended June 30, 2000. The schedule summarizes the rate base, rate of return,  
5    required net operating income, adjusted net operating income and, finally, the  
6    revenue deficiency grossed up to include income taxes and uncollectibles and  
7    grossed down to include late payment fees. The net revenue deficiency shown on  
8    Schedule A is \$39,383,803.

9  
10    Schedule A-1 is the summary of net operating income per books for the test year  
11    ending June 30, 2000, a summary of the adjustments made to operations and,  
12    finally, the as adjusted net operating income.

13  
14    Schedule A-2 is a summary income tax computation both per books and as  
15    adjusted for the twelve months ending June 30, 2000.

16  
17   **Q.    MR. NOACK, WOULD YOU PLEASE DESCRIBE SCHEDULE B, THE**  
18   **CALCULATION OF RATE BASE?**

19   A.    Schedule B summarizes the requested rate base of MGE at June 30, 2000. Total  
20   rate base of \$496,614,732 consists of net plant of \$486,076,871, SLRP Deferrals  
21   of \$21,019,546, Working Capital of \$57,336,794, and total rate base offsets of  
22   \$67,818,478.

23

1   **Q.    WOULD YOU PLEASE DESCRIBE THE SCHEDULES SUPPORTING**  
2       **SCHEDULE B?**

3   A.   Schedule B-1 is the Summary of SLRP ("Safety Line Replacement Program")  
4       Deferrals and SLRP Deferred Taxes. The SLRP program requires significant  
5       costs to be incurred which MGE continues to defer pursuant to five separate  
6       Accounting Authority Orders (AAOs).

7  
8   **Q.    BEFORE DETAILING THE AMOUNT REQUESTED IN RATE BASE,**  
9       **WOULD YOU PLEASE EXPLAIN THE SLRP?**

10  A.   In 1989 the Commission implemented new rules, which required systematic  
11       upgrades to portions of Missouri utilities' natural gas distribution systems (4 CSR  
12       240-40.030). Promulgation of these rules substantially increased gas utilities'  
13       construction expenditures, especially for MGE and its predecessor, Western  
14       Resources, Inc.

15  
16       Given the extraordinary nature of the SLRP expenditures, the Commission has  
17       consistently approved AAOs to allow MGE to defer certain SLRP costs between  
18       rate cases. These costs consist of depreciation, property taxes, and carrying costs.

19



1    **Q.    WOULD YOU PLEASE DISCUSS EACH OF THE PREVIOUS AAOS,**  
2           **WHICH HAVE GIVEN RISE TO THE ACCUMULATED DEFERRALS**  
3           **INCLUDED IN MGE'S RATE BASE AT JUNE 30, 2000?**

4    A.    The first AAO (Case No. GO-92-185) allowed the deferral of carrying costs,  
5           depreciation and property taxes on safety related plant investments for the period  
6           July 1, 1991 through October 15, 1993.

7  
8           The second AAO (Case No. GO-94-133) covered the period from October 15,  
9           1993 through February 1, 1994.

10  
11          The third AAO (Case No. GO-94-234) allowed MGE to defer depreciation  
12          expense, property taxes and compute carrying costs at a rate of 10.54% for the  
13          period from February 1, 1994 through October 31, 1996.

14  
15          The fourth AAO (Case No. GO-97-301) allowed MGE to defer depreciation,  
16          property taxes and carrying costs from February 1, 1997 through May 31, 1998 or  
17          the date at which the true-up ended and also seek rate recovery in GR-98-140 of  
18          those regulatory assets recorded from November 1, 1996 through January 31,  
19          1997.

20  
21          The fifth and final AAO to date was granted in the report and order issued in GR-  
22          98-140 and allowed MGE to begin deferring costs on September 3, 1998 and

1 allows them to continue until the end of the test year, updated test year or the true-  
2 up period (if one is granted) in this case.

3  
4 **Q. PREVIOUS TO THE COMMISSION'S ORDER IN GR-98-140, WAS MGE**  
5 **ALLOWED TO INCLUDE THE UNAMORTIZED PORTION OF SLRP**  
6 **DEFERRALS IN RATE BASE AND ALSO INCLUDE AS A RATE BASE**  
7 **OFFSET THE DEFERRED TAXES ASSOCIATED WITH THE SLRP**  
8 **DEFERRALS?**

9 A. Yes. In Case No. GR-96-285 the Commission included in rate base the  
10 unamortized portion of the SLRP deferred balances as well as the rate base  
11 reduction associated with the SLRP deferred taxes.

12  
13 In the report and order in GR-98-140, the Commission found credence in the  
14 OPC's argument that guaranteeing the Company a "return of" and "return on" the  
15 SLRP deferred balance is not a fair allocation of regulatory lag resulting from the  
16 Company's ongoing construction projects. OPC argued that the Company should  
17 be able to choose to implement processes and procedures which would limit the  
18 Company's exposure to regulatory lag and the resulting effect on its finances and  
19 not be protected by the Commission with "guaranteed earnings" or the total effect  
20 of regulatory lag.

21  
22 In the case of SLRP the Company does not enjoy the ability to choose to  
23 implement a construction plan, which will mitigate the Company's exposure to

1 regulatory lag. The Company must instead continue replacing the service lines as  
2 mandated by 4 CSR 240-40.030 Safety Standards – Transportation of Gas by  
3 Pipeline and do so within the time required by Commission order. The  
4 unamortized balance of these SLRP deferrals should be allowed in rate base with  
5 a corresponding reduction of rate base for the accumulated deferred income taxes  
6 associated the these deferrals. If the Company did in fact attempt to schedule its  
7 SLRP construction around rate filings in order to mitigate regulatory lag, MGE  
8 would no longer be in compliance with the safety plan filed with the Commission.  
9

10 **Q. WHAT AMOUNT OF SLRP DEFERRALS HAVE YOU INCLUDED IN**  
11 **RATE BASE AT JUNE 30, 2000?**

12 A. Schedule B-1 details the total unamortized SLRP deferrals of \$21,019,546 and  
13 associated deferred taxes of \$6,178,486 at June 30, 2000.  
14

15 **Q. PLEASE EXPLAIN THE OTHER COMPONENTS INCLUDED IN RATE**  
16 **BASE?**

17 A. Generally there are three types of costs and related approaches considered in  
18 developing rate base. The first type of cost and approach relates to amounts  
19 which are included in rate base in compliance with Commission Orders. The  
20 Commission had included the SLRP Accounting Authority Orders (AAOs), which  
21 I described above, in rate base in cases prior to Case No. GR-98-140.  
22 Additionally, a deferred credit is included in rate base in accordance with the  
23 order in Case No. GM-94-40. Under that order, MGE amortizes the total deferred

1 credit over 10 years. MGE is amortizing \$30 million over 120 months for  
2 ratemaking purposes. It is, therefore, appropriate to calculate the credit based on  
3 the unamortized amount at the end of any test period or true-up period utilized.  
4 At June 30, 2000 the unamortized balance is \$12,000,000.

5  
6 The second type of cost and approach relates to amounts that fluctuate monthly  
7 due to many variables. Adjusting any one of these costs at a date specific would  
8 not provide a reasonable basis for determining an appropriate level of on-going  
9 cost of service. Specifically, a thirteen-month average has been utilized to more  
10 accurately reflect the on-going nature of these fluctuating balances.

11  
12 The third type of cost and approach relates to actual test period amounts which are  
13 adjusted for known and measurable changes that have occurred or will take place  
14 prior to rates being placed into effect. These adjustments minimize the effects of  
15 regulatory lag. The objective is to establish rates prospectively, synchronizing the  
16 cost of service with the revenue stream so that MGE in fact has a reasonable  
17 opportunity to earn its authorized rate of return.

18  
19 **Q. PLEASE DESCRIBE COSTS, WHICH ARE AFFORDED A THIRTEEN-**  
20 **MONTH AVERAGE.**

21 **A.** The rate base items afforded a thirteen month average are material and supplies  
22 inventory, prepayments, and natural gas inventory, as well as other rate base  
23 deductions of customer deposits and customer advances. Schedules B-2 and B-3

1 show the monthly amounts related to customer deposits and customer advances,  
2 respectively. Schedule E provides a summary of all working capital components  
3 with the monthly amounts for Materials and Supplies and Prepayments being  
4 shown on Schedules E-1 and E-2.  
5

6 **Q. DOES GAS INVENTORY REPRESENT A THIRTEEN-MONTH**  
7 **AVERAGE SIMILAR TO MATERIALS AND SUPPLIES INVENTORY?**

8 A. No. Because of the volatility being experienced currently in the price of gas and  
9 because the prices are not expected to come down any time soon, I have used a  
10 thirteen month average of volumes in storage and priced that storage based upon  
11 the NYMEX July 2000 futures price of \$4.369 per Mcf. This method more  
12 accurately represents the average dollar balance of gas inventory, which needs to  
13 be included in the rate base at June 30, 2000.  
14

15 **Q. HAVE YOU ALSO COMPUTED A CASH WORKING CAPITAL**  
16 **COMPONENT OF RATE BASE AT JUNE 30, 2000?**

17 A. Yes I have. I have included in rate base an amount for cash working capital in the  
18 amount of \$6,700,102. For this adjustment, I have used the bulk of the  
19 methodology used in Case Nos. GR-96-285 and GR-98-140. Two changes have  
20 been made however to the lead/lag days, one subtle and one substantial. The  
21 subtle change involves the natural gas purchase expense where each invoice was  
22 analyzed and the lead/lag days were recomputed based upon the test year  
23 purchases. The substantial change involved the revenue lead/lag days.

1   **Q.   PLEASE EXPLAIN YOUR COMPUTATION OF LEAD/LAG DAYS FOR**  
2   **REVENUES.**

3   A.   The revenue lag days computation consists of four separate lags. The first is  
4       usage lag, which is the midpoint of average time elapsed from the beginning of  
5       the service period through the last day of the service period. The second lag is  
6       billing lag, or the time between when the meter is read and when the bills are  
7       mailed. The respective lag days are 15.21 days and 5.69 days.

8  
9       Third is the collection lag, which represents the average time necessary to collect  
10      revenue from the time a bill is rendered until the company receives the funds. I  
11      compute a collection lag of 29.05 days by averaging accounts receivable and  
12      daily revenues over 366 day periods.

13  
14      Fourth is the funds clearing lag, which represents the time necessary to deposit  
15      cash receipts in the bank, and the lag in availability to use those funds. I have  
16      assumed a 1-day lag for this component of revenue lag.

17  
18      The total revenue lag days I have computed are 50.95 days.

19  
20   **Q.   HAVE YOU INCLUDED ANY OTHER WORKING CAPITAL**  
21   **COMPONENTS IN YOUR RATE BASE?**

22   A.   Schedule E-5 includes the net prepaid pension asset in the working capital  
23       component of rate base.

1   **Q.   WHY IS IT APPROPRIATE TO INCLUDE THE PREPAID PENSION**  
2       **ASSET IN RATE BASE?**

3   A.   Over the last few years the FAS 87 calculations have produced a significant gain  
4       in the pension plan assets. Customers will benefit from the inclusion of the  
5       negative pension expense in rates as a result of these gains. These gains result in  
6       the prepaid pension asset, but do not provide MGE with any additional cash  
7       flows. Rather, those gains relate to assets held under a pension trust arrangement  
8       and cannot be withdrawn for any other use. The net effect of the inclusion of this  
9       negative pension expense in cost of service is to lower MGE's revenue  
10      requirement and the resulting cash flow. Because the investment in this prepaid  
11      pension asset has not been made with customer provided funds, a return should be  
12      provided on this asset. This treatment is similar to the Commission's traditional  
13      treatment of deferred taxes in rate base.

14  
15   **Q.   PLEASE EXPLAIN YOUR SCHEDULE OF PLANT IN SERVICE.**

16   A.   Schedule C, page 1 of 2 summarizes the various categories of plant investment  
17      including the direct plant MGE accounts for on its books; completed construction  
18      not classified; joint and common plant accounted for on Southern Union  
19      Company's books which is allocated to MGE; and total adjustments. The only  
20      adjustment included in the June 30, 2000 plant in service eliminates from rate  
21      base the investment in inactive services. This adjustment, while not having a  
22      direct effect on rate base since the retirement decreases both plant and

1 accumulated depreciation by the same amount, does decrease depreciation  
2 expense for the test year.

3

4 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME,**  
5 **WHICH YOU ARE SPONSORING, ON SCHEDULE H.**

6 A. Schedule H, consisting of 25 schedules, details all of the adjustments made to cost  
7 of service. The first two pages of schedule H detail the operating income  
8 statement summarized by the uniform system of accounts. It shows the test year  
9 balances per books at June 30, 2000, a summary of the proforma adjustments to  
10 each account and finally the adjusted balance at June 30, 2000. The next six  
11 pages detail each adjustment individually by account number.

12

13 Schedules H-1 and H-2 are the revenue adjustments and are being sponsored by  
14 MGE witness Cummings.

15

16 Schedule H-3 removes purchased gas costs and gross receipts tax expense from  
17 the operating income statement. These expenses should not be included in the  
18 determination of the cost of service. Purchased gas costs are recovered through  
19 the PGA mechanism, while the gross receipts tax expense is recovered through a  
20 separate tax adjustment on the bills.

21

22



1     **Q.     PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.**

2     A.     Proforma payroll and the related payroll adjustment is detailed by account number  
3           on schedule H-4. The adjustment takes into consideration the employee levels at  
4           June 30, 2000 and the level of wage at that time. The proforma level also includes  
5           overtime, which was based on actual overtime hours worked during the test year.  
6           Dividing total proforma payroll charged to operating expenses by total proforma  
7           payroll developed a payroll expense ratio. This payroll expense ratio was  
8           subsequently applied to the proforma levels of employee benefits, payroll taxes  
9           and injuries and damages.

10

11          A separate adjustment has been proposed on Schedule H-22 which normalizes  
12          MGE compensation and bonuses based on the three year period 1998 through  
13          2000.

14

15          Payroll taxes on schedule H-6 are adjusted for the payroll annualization and the  
16          change in FICA wage limits as of January 1, 2000.

17

18     **Q.     WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE**  
19           **BENEFITS?**

20     A.     The adjustment to employee benefits on Schedule H-5 normalizes all expenses  
21           representing employee benefits paid on behalf of employees. Included in these  
22           benefits are the FAS 87 pension expense, which at June 30, 2000 was a credit

1 amount of \$1,802,978 and represents current costs plus five-year amortization of  
2 the five year average net gain or loss.

3  
4 Other benefits expense costs include insurance, FAS 106 post retirement benefit  
5 costs, 401K costs, COLI amortization costs and other miscellaneous employee  
6 benefit costs charged to account 926. These proforma costs were then multiplied  
7 by the payroll expense ratio to arrive at the adjustment to operating expenses.

8  
9 **Q. PLEASE EXPLAIN THE COLI (COMPANY OWNED LIFE INSURANCE)**  
10 **EXPENSE OF \$315,768.**

11 A. The Commission ruled in Case No. GR-96-285 that the final COLI loss incurred  
12 by MGE of \$613,545 should be amortized over a five-year period. This was also  
13 included in Case No. GR-98-140. The unamortized balance at June 30, 2000 is  
14 \$194,289. On October 26, 2000 a tentative settlement was reached with the IRS  
15 whereby 20% of the COLI interest expense previously deducted on the tax returns  
16 was allowed as a deduction and 80% was disallowed resulting in additional taxes  
17 due of \$1,384,552. I have combined this tax liability with the previously  
18 mentioned unamortized balance at June 30, 2000 and amortized the total over a  
19 new five-year period resulting in annual expense of \$315,768.

1    **Q.    WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE**  
2           **AND INJURIES AND DAMAGES?**

3    A.    Schedule H-7 normalizes the property insurance and injuries and damages by  
4           taking a three-year average of workmen's compensation claims paid and auto and  
5           general liability claims paid and adding that average to the insurance premiums  
6           paid during the test year. The test year payroll expense to capital ratio is then  
7           applied to the normalized injuries and damages cost in order to compute the  
8           normalized test year operating expense.

9

10   **Q.    PLEASE EXPLAIN SCHEDULE H-8.**

11   A.    Schedule H-8 increases administrative and general expenses to properly assign or  
12           allocate joint and common corporate functions to MGE. These functions support  
13           the ongoing operations of MGE and include accounting, gas supply, taxes,  
14           regulatory, shareholder relations, and treasury, human resources, legal and  
15           information technology.

16

17   **Q.    HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**  
18           **EXPENSE?**

19   A.    Schedule H-9 normalizes uncollectibles expense by averaging the past three years  
20           of charge-offs.

21

1   **Q.   PLEASE EXPLAIN THE ADJUSTMENT TO REGULATORY**  
2   **COMMISSION EXPENSE.**

3   A.   This adjustment on Schedule H-10 is a two-part adjustment, which first  
4       normalizes rate case expense over a two-year period, and the depreciation study  
5       over a five-year period and secondly annualizes the NARUC and MPSC  
6       assessments based on invoices received in June 2000.

7

8   **Q.   WHAT IS THE PURPOSE OF SCHEDULE H-11?**

9   A.   Schedule H-11 computes interest on the average thirteen-month balance of  
10       residential customer deposits at an interest rate of 9.50% and on the average  
11       thirteen-month balance of commercial customer deposits at an interest rate of  
12       3.50%.

13

14   **Q.   HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION**  
15   **EXPENSE?**

16   A.   Schedule H-12 details the adjustment to depreciation expense based upon the  
17       level of plant investment at June 30, 2000. The adjustment being proposed on  
18       schedule H-12 is a two part adjustment with the first part of the adjustment being  
19       made to annualize depreciation expense based on the year end levels of plant  
20       using the depreciation rates approved by the Commission and applied in Case No.  
21       GR-98-140. The second part of the adjustment uses new proposed depreciation  
22       rates.

23

1     **Q.     HOW WERE THE NEW DEPRECIATION RATES DEVELOPED?**

2     A.     Black & Veatch prepared a depreciation study on MGE's behalf which MGE  
3           submitted to the Commission's depreciation department in June 2000 pursuant to  
4           the Commission directive to review depreciation rates every five years. The last  
5           study was prepared in 1995 but the rates were not implemented at that time  
6           because the retirement history was not sufficient to complete a study based on  
7           survivor curve analysis and other sources of data were inadequate to conduct a  
8           complete simulated plant balance analysis for each of the accounts.

9  
10          The current study recommends that management consider changing depreciation  
11          rates at this time. After careful review of the study it was decided to implement  
12          one-half of the shift in depreciation rates in this filing and wait until the time of  
13          the next study in five years when even better and more complete data will be  
14          available. If at that time on the basis of more complete information, the study  
15          reflects rates similar to the current study, the Company would consider completing  
16          the shift to those new rates.

17  
18     **Q.     WHY DIDN'T YOU MAKE THE COMPLETE SHIFT TO NEW RATES**  
19     **AT THIS TIME?**

20     A.     After careful review of the study, it appears that there are still considerable gaps in  
21           the historical plant data, which limits the types of analysis, which can be used to  
22           develop the new rates. MGE's continuing property records only contain  
23           retirement data back to 1994. Per Black & Veatch that is not enough data to

1 produce reliable results using survivor curve analysis. As a result, alternative  
2 methods were used to calculate average service lives. Management decided to  
3 take a conservative approach to changing depreciation rates by implementing one-  
4 half of the increase or decrease in individual rates at this time.

5  
6 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**  
7 **EXPENSE.**

8 A. Schedule H-13 details the proforma amortization expense. The adjustment  
9 consists of two parts. The first part annualizes the amortization of all leasehold  
10 improvements and miscellaneous intangible plant at June 30, 2000. The second  
11 part of the adjustment computes SLRP amortization based upon the ten-year  
12 amortization period, which the Commission granted in Case No. GR-98-140.

13  
14 **Q. PLEASE EXPLAIN SCHEDULES H-14, H-15, AND H-16 RELATING TO**  
15 **THE VARIOUS CLEARING ACCOUNTS.**

16 A. These adjustments normalize the amounts included in the test year expense  
17 accounts relating to dollars charged from clearing accounts.

18 **Q. PLEASE EXPLAIN THE FUNCTION OF CLEARING ACCOUNTS.**

19 A. Clearing accounts are specific accounts required by the uniform system of  
20 accounts. They serve as a clearinghouse for various costs that are incurred for a  
21 similar function. For example, the TWE account accumulates various costs  
22 relating to vehicles and major work equipment including payroll, benefits, taxes,  
23 and insurance as well as the cost of tires, oil, and repairs and depreciation and/or

1 vehicle lease expense. Similarly, the stores load account accumulates costs  
2 relating to managing the inventory and purchasing function, and the paid time off  
3 account accumulates the payroll and related costs of vacations, sick leave, etc. By  
4 accumulating varied but related costs into one account these costs can more easily  
5 and consistently be charged back to other expense and capital accounts. On  
6 average and over time, the total amounts charged into a clearing account should  
7 be equal to the amount charged out to the other accounts.

8  
9 **Q. WHY IS IT NECESSARY TO REFLECT ADJUSTMENTS RELATING TO**  
10 **THESE ITEMS IN A RATE CASE?**

11 A. There are two reasons. First, timing differences routinely occur relating to the  
12 amounts charged into and cleared out of clearing accounts. For any given twelve-  
13 month test year period, the total amounts charged into the clearing account  
14 typically do not exactly equal the amounts cleared out. For ratemaking purposes,  
15 it is necessary to normalize this process so that test year expense accounts are  
16 adjusted to the level that would have existed absent the timing difference. The  
17 second reason is that in the ratemaking process, adjustments are made to the direct  
18 expense portion of many of the items typically charged into a clearing account.  
19 As discussed above, these items include payroll and payroll related costs such as  
20 benefits, taxes, etc. and in the case of the TWE account, depreciation and lease  
21 expense. While the adjustment relating to the direct expense portion of each of  
22 these items is accounted for and discussed on other Schedules, Schedules H-14,  
23 H-15 and H-16 adjust the portion of these items that are charged into and cleared

1 out of clearing accounts. These adjustments enable test year clearing to be  
2 adjusted consistently with the remainder of the case.

3

4 **Q. PLEASE EXPLAIN SCHEDULE H-17.**

5 A. Schedule H-17 adjusts Missouri State Franchise Tax to the actual level of tax on  
6 the filed franchise tax return.

7

8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

9 A. Schedule H-18 synchronizes ad valorem taxes with plant in service excluding  
10 intangible plant and corporate allocated plant at June 30, 2000.

11

12 **Q. HAS THE COMPANY INCLUDED AN ADJUSTMENT TO ACCOUNT**  
13 **FOR ANY INCURRED Y2K COSTS?**

14 A. Schedule H-19 amortizes MGE's deferred Y2K costs and Corporate's Y2K costs  
15 over a 10-year period in accordance with the AAO granted in Docket No. GO-99-  
16 258.

17

18 **Q. PLEASE EXPLAIN THE REMAINDER OF YOUR SCHEDULES.**

19 A. Schedule H-20 annualizes rent expense and MGE's share of operating expenses,  
20 taxes and maintenance at the headquarters building and annualizes rent only at the  
21 39<sup>th</sup> and Main public business office.

22



1 Schedule H-21 removes an extra payment made to the Kansas City Chamber of  
2 Commerce and all Country Club dues from the test year ending June 30, 2000.

3  
4 Schedule H-22 normalizes MGE incentive compensation and bonuses paid based  
5 on a three-year period 1998 through 2000. The payroll expense ratio is then  
6 applied to the normalized level in order to calculate the amount, which should be  
7 charged to expense.

8  
9 Schedule H-23 normalizes the customer collection costs during the test period.

10  
11 Schedule H-24 makes an adjustment to recognize a non-refundable payment bond  
12 required by energy supplier in lieu of a letter of credit.

13  
14 Finally, Schedule H-25 removes from utility operations expenditures deemed to  
15 be non-utility related in nature.

16  
17 **Q. ARE THERE ANY OTHER TARIFF ISSUES, WHICH NEED TO BE**  
18 **ADDRESSED AT THIS TIME?**

19 A. Yes. Sheet Nos. R-50 and R-88 have been revised to reflect a returned payment  
20 (check) charge of \$15. These "clean-up" changes simply reflect the Company's  
21 practices.

1 Sheet No. 24.7 has been revised to include a reference to Sheet No. 24.32, which  
2 is the "Fixed Commodity Price PGA" summary statement. This, too, is a "clean-  
3 up" made necessary due to the fact that references are made at numerous places in  
4 the tariff to the "Summary Statement on Sheet No. 24.7". Due to the approval of  
5 the fixed commodity price PGA, the summary statement is now found on Sheet  
6 No. 24.32.

7  
8 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A.** Yes it does.

10

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 )

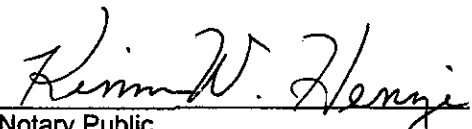
) ss.

COUNTY OF JACKSON )

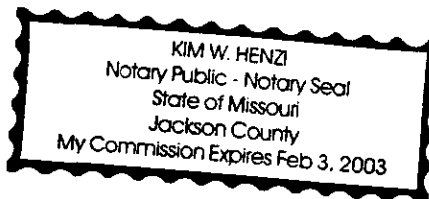
Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters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

  
MICHAEL R. NOACK

Subscribed and sworn to before me this 6<sup>th</sup> day of November 2000.

  
Notary Public

My Commission Expires: \_\_\_\_\_



**MISSOURI GAS ENERGY**  
A Division of Southern Union Company

**Index of Schedules**

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**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 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	\$496,614,732			
2	Rate of Return	F	<u>10.651%</u>			
3	<b>Required Return</b>		<u><b>\$52,894,435</b></u>	\$52,894,435		
4	Adjusted Test Year Net Operating Income	A-1		<u>29,171,419</u>		
5	<b>Earnings Deficiency</b>			<u><b>\$23,723,016</b></u>	\$23,723,016	
6	Multiply by Income Tax Gross-up Factor				<u>1.646904</u>	
7	Revenue Deficiency - Gross of Tax				<u>\$39,069,530</u>	
8	Multiply by Uncollectibles Gross-up Factor				<u>1.01030600</u>	
9	<b>Revenue Deficiency before Late Pay Fee Gross Down</b>				<u><b>\$39,472,181</b></u>	\$39,472,181
10	Multiply by Late Pay Fee Gross-down Factor					<u>0.997761</u>
11	<b>Net Revenue Deficiency</b>					<u><u><b>\$39,383,803</b></u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Summary of Net Operating Income  
Per Books and Adjusted**

Line No.	Description (a)	Per Books (b)	Adjustments (c)	As Adjusted (d)
<b><u>REVENUES</u></b>				
1	Operating Base Revenues	\$350,222,122	(\$223,167,434)	\$127,054,688
2	Other Utility Revenues	13,118,268	(4,223,482)	8,894,786
3	Total Operating Revenues	<u>\$363,340,390</u>	<u>(\$227,390,916)</u>	<u>\$135,949,474</u>
<b><u>OPERATING EXPENSES</u></b>				
4	Distribution Expense	\$236,889,185	(\$215,063,724)	\$21,825,461
5	Customer Accounts Expense	11,184,968	2,727,976	13,912,944
6	Customer Service and Information Expense	382,764	(414)	382,350
7	Sales Expense	1,324,262	(343,734)	980,528
8	Administrative and General Expense	17,198,686	11,036,967	28,235,653
9	Total Operating and Maintenance Expenses	<u>\$266,979,865</u>	<u>(\$201,642,929)</u>	<u>\$65,336,936</u>
10	Depreciation & Amortization Expense	\$22,438,736	\$3,541,035	\$25,979,771
11	Interest on Customer Deposits	798,690	(89,330)	709,360
12	Taxes Other Than Income	31,099,187	(22,413,124)	8,686,063
13	Total Operating Expenses	<u>\$321,316,478</u>	<u>(\$220,604,348)</u>	<u>\$100,712,130</u>
14	Operating Income Before Income Tax	\$42,023,912	(\$6,786,568)	\$35,237,344
15	Less: Income Tax Expense	8,731,689	(2,665,764)	6,065,925
16	Net Operating Income	<u>\$33,292,223</u>	<u>(\$4,120,804)</u>	<u>\$29,171,419</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Income Tax**

Line No.	Description	Reference	Per Books	As Adjusted
	(a)	(b)	(c)	(d)
1	Total Operating Revenues	A-1	\$363,340,390	\$135,949,474
2	Total Operating Expenses	A-1	<u>(321,316,478)</u>	<u>(100,712,130)</u>
3	Net Operating Income	A-1	<u>\$42,023,912</u>	<u>\$35,237,344</u>
4	Equity Portion of SLRP Deferrals		\$1,258,638	\$1,258,638
5	COLI Amortization		315,768	315,768
6	Less: Interest on Long Term Debt		<u>(20,614,478)</u>	<u>(20,614,478)</u>
7	Total Tax Adjustments		<u>(\$19,040,072)</u>	<u>(\$19,040,072)</u>
8	Net Taxable Income		<u>\$22,983,840</u>	<u>\$16,197,272</u>
9	Income Tax		\$9,028,052	\$6,362,288
10	Less: Income Tax Reduction per Case No. GM-94-40		<u>(296,363)</u>	<u>(296,363)</u>
11	Net Income Tax		<u>\$8,731,689</u>	<u>\$6,065,925</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Calculation of Rate Base**

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$10,471,991
2	Distribution Plant	C	612,080,484
3	General Plant	C	60,672,139
4	Gross Plant In Service		<u>\$683,224,615</u>
5	Accumulated Depreciation & Amortization	D	<u>(197,147,744)</u>
6	Net Plant in Service		\$486,076,871
7	SLRP Deferrals	B-1	\$21,019,546
8	Working Capital	E	57,336,794
9	Customer Deposits	B-2	(6,224,661)
10	Customer Advances	B-3	(10,197,236)
11	Unamortized Deferred Credit per Case No. GM-94-40		(12,000,000)
12	Deferred Income Taxes - SLRP	B-1	(6,178,486)
13	Deferred Income Taxes - Other	B-4	<u>(33,218,095)</u>
14	<b>Total Rate Base</b>		<u><u>\$496,614,732</u></u>



**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**SLRP Deferrals and Deferred Taxes**

Line No.	Description (a)	Gross Deferral (b)	Accumulated Amortization (c)	Amount (d)
<u>SLRP Deferrals</u>				
1	Order GO-92-185 (Deferred Balance @ 5/31/98)	\$5,776,280	\$1,152,814	\$4,623,466
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	12,399,117	2,439,231	9,959,886
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	3,060,876	561,161	2,499,715
4	Order GR-98-140	3,936,479	0	3,936,479
5	Total SLRP Deferrals	<u>\$25,172,752</u>	<u>\$4,153,206</u>	<u>\$21,019,546</u>
 <u>SLRP Deferred Taxes</u>				
6	Order GO-92-185			1,259,709
7	Order GO-94-234			2,713,670
8	Order GO-97-301			681,072
9	Order GR-98-140			1,524,035
10	Total SLRP Deferred Taxes			<u>\$6,178,486</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending June 30, 2000

**Customer Deposits**

Line No.	Month	Residential Amount	Commercial & Industrial		Total Amount
			Amount	Amount	
	(a)	(b)	(c)		(d)
1	Jun-99	(\$3,695,422)	(\$2,971,801)		(\$6,667,223)
2	Jul-99	(3,627,592)	(2,903,182)		(6,530,774)
3	Aug-99	(3,589,304)	(2,859,205)		(6,448,509)
4	Sep-99	(3,583,433)	(2,818,668)		(6,402,101)
5	Oct-99	(3,607,005)	(2,776,730)		(6,383,735)
6	Nov-99	(3,628,677)	(2,749,996)		(6,378,673)
7	Dec-99	(3,648,523)	(2,661,180)		(6,309,703)
8	Jan-00	(3,642,495)	(2,644,313)		(6,286,808)
9	Feb-00	(3,540,070)	(2,644,313)		(6,184,383)
10	Mar-00	(3,570,003)	(2,515,638)		(6,085,641)
11	Apr-00	(3,462,224)	(2,469,214)		(5,931,438)
12	May-00	(3,326,599)	(2,427,857)		(5,754,456)
13	Jun-00	<u>(3,169,669)</u>	<u>(2,387,478)</u>		<u>(5,557,147)</u>
14	13 Month Total	<u>(\$46,091,016)</u>	<u>(\$34,829,575)</u>		<u>(\$80,920,591)</u>
15	13 Month Average	<u>(\$3,545,463)</u>	<u>(\$2,679,198)</u>		<u>(\$6,224,661)</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending June 30, 2000

**Customer Advances**

Line No.	Month	Amount
	(a)	(b)
1	Jun-99	(\$9,419,430)
2	Jul-99	(9,705,659)
3	Aug-99	(9,859,030)
4	Sep-99	(9,712,615)
5	Oct-99	(9,764,085)
6	Nov-99	(9,960,702)
7	Dec-99	(10,067,227)
8	Jan-00	(10,743,283)
9	Feb-00	(10,660,560)
10	Mar-00	(10,499,534)
11	Apr-00	(10,718,307)
12	May-00	(10,772,060)
13	Jun-00	<u>(10,681,577)</u>
14	13 Month Total	<u><u>(\$132,564,069)</u></u>
15	13 Month Average	<u><u>(\$10,197,236)</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Deferred Taxes (Other than SLRP)**

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 6/30/00	(\$31,148,263)
2	Deferred Taxes, Corporate Plant	<u>(2,069,832)</u>
3	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u><u>(\$33,218,095)</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 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)
<b>INTANGIBLE PLANT</b>							
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	10,359,626	0	10,359,626	45,719	0	10,405,345
4	Total Intangible Plant	<u>\$10,426,272</u>	<u>\$0</u>	<u>\$10,426,272</u>	<u>\$45,719</u>	<u>\$0</u>	<u>\$10,471,991</u>
<b>DISTRIBUTION PLANT</b>							
5	(374.1) Land	\$240,448	\$0	\$240,448	\$0	\$0	\$240,448
6	(374.2) Land Rights	991,634	0	991,634	0	0	991,634
7	(375.1) Structures	5,987,064	0	5,987,064	0	0	5,987,064
8	(375.2) Leasehold Improvements	13,965	0	13,965	0	0	13,965
9	(376) Mains	263,977,010	1,362,158	265,339,168	0	0	265,339,168
10	(378) Meas. & Reg. Station - General	10,224,777	35,980	10,260,757	0	0	10,260,757
11	(379) Meas. & Reg. Station - City Gate	2,754,562	20,510	2,775,072	0	0	2,775,072
12	(380) Services	243,057,772	(22,247)	243,035,525	0	(1,569,089)	241,466,436
13	(381) Meters	27,559,456	48,822	27,608,278	0	0	27,608,278
14	(382) Meter Installations	47,944,381	(51,552)	47,892,829	0	0	47,892,829
15	(383) House Regulators	9,253,471	1,027	9,254,498	0	0	9,254,498
16	(385) Electronic Gas Measuring	293,923	(43,588)	250,335	0	0	250,335
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	<u>\$612,298,463</u>	<u>\$1,351,110</u>	<u>\$613,649,573</u>	<u>\$0</u>	<u>(\$1,569,089)</u>	<u>\$612,080,484</u>
<b>GENERAL PLANT</b>							
19	(389) Land	\$615,659	\$0	\$615,659	\$0	\$0	\$615,659
20	(390.1) Structures	419,125	0	419,125	44,055	0	463,180
21	(390.2) Leasehold Improvements	1,283,068	3,731	1,286,799	0	0	1,286,799
22	(391) Furniture & Fixtures	2,999,386	13,139	3,012,525	11,024,415	0	14,036,940
23	(392) Transportation Equipment	4,470,517	0	4,470,517	14,454	0	4,484,971
24	(393) Stores Equipment	499,757	0	499,757	0	0	499,757
25	(394) Tools	4,436,919	4,729	4,441,648	0	0	4,441,648
26	(395) Laboratory Equipment	0	0	0	0	0	0
27	(396) Power Operated Equipment	586,189	0	586,189	0	0	586,189
28	(397.1) Communication Equipment - AMR	32,608,707	(1,150)	32,607,557	0	0	32,607,557
29	(397.0) Communication Equipment	1,478,273	0	1,478,273	4,432	0	1,482,705
30	(398) Miscellaneous Equipment	164,059	0	164,059	2,675	0	166,734
31	Total General Plant	<u>\$49,561,659</u>	<u>\$20,449</u>	<u>\$49,582,108</u>	<u>\$11,090,031</u>	<u>\$0</u>	<u>\$60,672,139</u>
32	Total Original Cost Plant in Service	<u>\$672,286,394</u>	<u>\$1,371,559</u>	<u>\$673,657,953</u>	<u>\$11,135,751</u>	<u>(\$1,569,089)</u>	<u>\$683,224,615</u>
33	Accumulated Depreciation and Amortization	<u>(194,863,609)</u>	<u>0</u>	<u>(194,863,609)</u>	<u>(3,889,156)</u>	<u>1,605,021</u>	<u>(197,147,744)</u>
34	Net Plant in Service	<u>\$477,422,785</u>	<u>\$1,371,559</u>	<u>\$478,794,344</u>	<u>\$7,246,595</u>	<u>\$35,932</u>	<u>\$486,076,871</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Plant in Service**

Line No.	Description (a)	Retire Inactive Meters No. 1 (b)	Total Adjustments (c)
<b><u>INTANGIBLE PLANT</u></b>			
1	(301) Organization	\$0	\$0
2	(302) Franchises	0	0
3	(303) Miscellaneous Intangible	0	0
4	Total Intangible Plant	<u>\$0</u>	<u>\$0</u>
<b><u>DISTRIBUTION PLANT</u></b>			
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	(1,569,089)	(1,569,089)
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	<u>(\$1,569,089)</u>	<u>(\$1,569,089)</u>
<b><u>GENERAL PLANT</u></b>			
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	<u>\$0</u>	<u>\$0</u>
32	Total Original Cost Plant In Service	<u>(\$1,569,089)</u>	<u>(\$1,569,089)</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 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	(\$5,822,205)	\$0	\$0	(\$5,822,205)
2	Distribution Reserve	(189,041,404)	0	1,605,021	(187,436,383)
3	Corporate Allocated Reserve	0	(3,889,156)	0	(3,889,156)
4	Total Accumulated Reserves	<u>(\$194,863,609)</u>	<u>(\$3,889,156)</u>	<u>\$1,605,021</u>	<u>(\$197,147,744)</u>

**MISSOURI GAS ENERGY**  
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**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	Total Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)
<b><u>DISTRIBUTION PLANT</u></b>						
1	(374.1) Land	\$0	0.00%	\$0	\$0	\$0
2	(374.2) Land Rights	0	Amort.	0	0	0
3	(375.1) Structures	0	2.01%	0	0	0
4	(375.2) Leasehold Improvements	0	Amort.	0	0	0
5	(376) Mains & Mains - Cast Iron	0	2.10%	0	0	0
6	(378) Meas. & Reg. Station - General	0	3.19%	0	0	0
7	(379) Meas. & Reg. Station - City Gate	0	2.56%	0	0	0
8	(380) Services	(1,569,089)	4.58%	35,932	1,569,089	1,605,021
9	(381) Meters	0	2.46%	0	0	0
10	(382) Meter Installations	0	2.47%	0	0	0
11	(383) House Regulators	0	2.27%	0	0	0
12	(385) Electronic Gas Metering	0	5.00%	0	0	0
13	(387) Other Equipment	0	4.60%	0	0	0
14	Total Distribution Plant	<u>(\$1,569,089)</u>		<u>\$35,932</u>	<u>\$1,569,089</u>	<u>\$1,605,021</u>
<b><u>GENERAL PLANT</u></b>						
15	(389) Land	\$0	0.00%	\$0	\$0	\$0
16	(390.1) Structures	0	2.52%	0	0	0
17	(390.2) Leasehold Improvements	0	Amort.	0	0	0
18	(391) Furniture & Fixtures	0	6.67%	0	0	0
19	(392) Transportation Equipment	0	10.69%	0	0	0
20	(393) Stores Equipment	0	4.17%	0	0	0
21	(394) Tools	0	7.00%	0	0	0
22	(395) Laboratory Equipment	0	6.00%	0	0	0
23	(396) Power Operated Equipment	0	6.46%	0	0	0
24	(397) Communication Equipment - AMR	0	5.00%	0	0	0
25	(397) Communication Equipment	0	5.59%	0	0	0
26	(398) Miscellaneous Equipment	0	5.63%	0	0	0
27	Total General Plant	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
28	Total Adjustment	<u>(\$1,569,089)</u>		<u>\$35,932</u>	<u>\$1,569,089</u>	<u>\$1,605,021</u>

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



**MISSOURI GAS ENERGY**  
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**Working Capital**

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$2,155,943
2	Prepayments	E-2	420,953
3	Gas Inventory	E-3	41,329,818
4	Cash Working Capital	E-4	6,700,102
5	Prepaid Pension	E-5	<u>6,729,978</u>
6	Total Working Capital		<u><u>\$57,336,794</u></u>

## SCHEDULE E-1

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending June 30, 2000

**Materials & Supplies**

Line No.	Month (a)	Amount (b)
1	Jun-99	\$2,334,965
2	Jul-99	2,164,639
3	Aug-99	2,267,867
4	Sep-99	2,223,368
5	Oct-99	2,154,358
6	Nov-99	2,167,640
7	Dec-99	2,198,929
8	Jan-00	2,096,629
9	Feb-00	2,087,509
10	Mar-00	2,068,101
11	Apr-00	2,047,869
12	May-00	2,097,372
13	Jun-00	<u>2,118,013</u>
14	13 Month Total	<u><u>\$28,027,259</u></u>
15	13 Month Average	<u><u>\$2,155,943</u></u>

SCHEDULE E-2

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending June 30, 2000

**Prepayments**

Line No.	Month (a)	Amount (b)
1	Jun-99	\$45,301
2	Jul-99	826,193
3	Aug-99	765,911
4	Sep-99	701,513
5	Oct-99	641,489
6	Nov-99	460,784
7	Dec-99	464,118
8	Jan-00	377,467
9	Feb-00	346,985
10	Mar-00	323,642
11	Apr-00	245,482
12	May-00	240,953
13	Jun-00	<u>32,552</u>
14	13 Month Total	<u><u>\$5,472,390</u></u>
15	13 Month Average	<u><u>\$420,953</u></u>

SCHEDULE E-3

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending June 30, 2000

**Gas Inventory**

Line No.	Month (a)	Volumes (b)
1	Jun-99	6,780,986
2	Jul-99	10,428,866
3	Aug-99	13,036,804
4	Sep-99	14,656,660
5	Oct-99	15,710,534
6	Nov-99	16,899,929
7	Dec-99	15,807,564
8	Jan-00	10,050,227
9	Feb-00	6,237,796
10	Mar-00	4,574,627
11	Apr-00	664,507
12	May-00	2,295,712
13	Jun-00	<u>5,833,048</u>
14	13 Month Average	9,459,789
15	July 2000 Futures Price	<u>\$4.369</u>
16	Inventory Value	<u><u>\$41,329,818</u></u>

MISSOURI GAS ENERGY  
A Division of Southern Union Company  
Twelve Months Ending June 30, 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)
<b>Operation &amp; Maintenance Expense</b>							
1	Cash Vouchers	\$33,836,415	50.9500	23.1000	27.8500	0.0763	\$2,581,765
2	Bad Debt Expense	4,702,847	50.9500	50.9500	-	-	\$0
3	Net Payroll Expense	16,034,424	50.9500	12.5000	38.4500	0.1053	\$1,689,106
4	Fica Withheld	1,739,636	50.9500	9.6000	41.3500	0.1133	\$197,079
5	Federal Income Tax Withheld	3,139,594	50.9500	15.5900	35.3600	0.0969	\$304,154
6	State Income Tax Withheld	851,915	50.9500	48.7600	2.1900	0.0060	\$5,111
7	City Tax Withheld	127,075	50.9500	20.2200	30.7300	0.0842	\$10,699
8	Resident State Tax Withheld	13,492	50.9500	30.7271	20.2229	0.0554	\$748
9	Vacation Expense - Nonunion	311,374	50.9500	182.5000	(131.5500)	(0.3604)	(\$112,223)
10	Vacation Expense - Union	825,393	50.9500	388.1500	(337.2000)	(0.9238)	(\$762,527)
11	Sick Leave	551,324	50.9500	68.6400	(17.6900)	(0.0485)	(\$26,720)
12	Pensions	(1,802,978)	50.9500	50.9500	-	-	\$0
13	Medical Expense	4,653,115	50.9500	-	50.9500	0.1396	\$649,524
14	Purchased Gas	215,644,856	50.9500	38.7600	12.1900	0.0334	\$7,201,947
15	Building Rents and Leases	353,310	50.9500	(14.6500)	65.6000	0.1797	\$63,499
16	Total Operation & Maintenance Expense	280,981,792					11,802,161
<b>Taxes</b>							
17	Property Taxes	6,616,626	50.9500	182.0000	(131.0500)	(0.3590)	(2,375,641)
18	Franchise Taxes	307,129	50.9500	59.4100	(8.4600)	(0.0232)	(7,119)
19	Gross Receipts Taxes	22,561,932	50.9500	59.4100	(8.4600)	(0.0232)	(522,942)
20	Employer Portion of FICA	1,739,636	50.9500	9.6000	41.3500	0.1133	197,079
21	Federal and State Unemployment	41,448	50.9500	87.8200	(36.8700)	(0.1010)	(4,187)
22	Use Taxes	23,530	50.9500	76.1200	(25.1700)	(0.0690)	(1,623)
23	Sales Taxes	5,168,896	50.9500	24.9700	25.9800	0.0712	367,912
24	Total Taxes	36,459,197					(2,346,520)
25	Total Cash Working Capital Requirement						9,455,641
26	Estimated Interest Expense Offset	20,620,000	50.9500	91.3000	(40.3500)	(0.1105)	(2,279,499)
27	Estimated Income Tax Offset	5,900,000	50.9500	80.4000	(29.4500)	(0.0807)	(476,041)
28	Net Cash Working Capital						\$6,700,102

SCHEDULE E-5

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Balances Ending June 30

**Deferred Pension**

Line No.	Year Ended (a)	Balance (b)
1	June 30, 2000	<u>6,729,978</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Summary of Cost of Capital**

Line No.	Description (a)	Reference (b)	Ratio (c)	Cost Rate (d)	Weighted Composite Rate (e)
1	Long-Term Debt	F-1	50.00%	8.301%	4.151%
2	Common Equity	F-2	<u>50.00%</u>	12.50%	<u>6.250%</u>
3	Total		<u>100.00%</u>		10.401%
	Rate of Return Incentive				
4	Adjustment				<u>0.250%</u>
5	Requested Rate of Return				<u>10.651%</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Long Term Debt**

Line No.	Description	Outstanding Debt	Annual Interest Rate	Annualized Cost
	(a)	(b)	(c)	(d)
1	7.6% Senior Notes	\$364,515,000	7.600%	\$27,703,140
2	Capital Lease - AMR	25,104,000	5.790%	1,453,522
3	8.25% Senior Notes	300,000,000	8.250%	24,750,000
4	8.375% Mortgage Bonds	30,000,000	8.375%	2,512,500
5	9.34% Mortgage Bonds	15,000,000	9.340%	1,401,000
6	Total Long-Term Debt	<u>\$734,619,000</u>		<u>\$57,820,162</u>
7	Unamortized Debt Costs - 181	(10,556,000)		596,000
8	AMR Debt Costs	(67,000)		21,000
9	Unamortized Costs/Loss/Gain on Reacquired Debt - 189 & 257	(12,935,000)		585,000
10	Net Long Term Debt	<u>\$711,061,000</u>		<u>\$59,022,162</u>
11	Cost of Debt			8.301%
12	Debt as Proportion of Total Capitalization (Line 7, Column B divided by Line 3, Column B, Schedule F)			<u>0.5000</u>
13	Composite Debt Cost Rate			<u><u>4.151%</u></u>



**MISSOURI GAS ENERGY**  
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Twelve Months Ending June 30, 2000

**Equity Capital**

Line No.	Description	Cost Rate	Ratio	Composite Cost Rate
	(a)	(b)	(c)	(d)
	<b>Common Equity</b>			
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	<b>Total Equity Capital</b>			6.250%

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 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)
<b>OPERATING REVENUE</b>					
1	480	Residential	\$246,006,046	(\$154,703,237)	\$91,302,809
2	481.1	Commercial	98,899,374	(68,690,306)	30,209,068
3	481.2	Industrial	3,163,610	(1,729,229)	1,434,381
4	483	Sales for Resale	4,912	0	4,912
5	487	Late Payment Charges	928,108	(47,210)	880,898
6	488	Miscellaneous Service Revenue	1,220,072	2,002,548	3,222,620
7	489	Transport	13,055,177	(4,223,482)	8,831,695
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	63,091	0	63,091
10		Total Operating Revenue	<u>\$363,340,390</u>	<u>(\$227,390,916)</u>	<u>\$135,949,474</u>
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>					
<b>Operation Expense</b>					
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856	(\$215,458,856)	\$186,000
12	859	Other Joint Expense	0	0	0
13	870	Operation, Supervision and Engineering	855,109	3,606	858,715
14	871	Distribution and Load Dispatching	16,344	(123)	16,221
15	872	Compressor Station Labor and Expense	376	(30)	346
16	874	Mains and Service Expenses	2,651,679	13,809	2,665,488
17	875	Distributing Regulating Station Expenses	629,628	15,143	644,771
18	876	Measuring and Regulating - Station Expenses	764	(439)	325
19	877	Measuring and Regulating - Station Expenses	2,306	(738)	1,568
20	878	Meter and House Regulator Expenses	4,395,001	118,161	4,513,162
21	879	Customer Installation Expenses	2,384,749	65,187	2,449,936
22	880	Other Expenses	1,189,435	(21,674)	1,167,761
23	881	Rents	116,118	0	116,118
24		Total Operation Expense	<u>\$227,886,365</u>	<u>(\$215,265,955)</u>	<u>\$12,620,410</u>
<b>Maintenance Expense</b>					
25	885	Maintenance Supervision and Engineering	\$531,468	\$3,915	\$535,383
26	886	Maintenance of Structures and Improvements	197,444	4,217	201,661
27	887	Maintenance of Mains	6,452,974	154,264	6,607,238
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856	3,830	226,686
29	890	Maint. of Measuring and Regulating Equipment	153,559	5,661	159,220
30	891	Maint. of Measuring and Regulating Equipment	16,608	(112)	16,496
31	892	Maintenance of Services	224,456	7,143	231,599
32	893	Maintenance of Meters and House Regulators	904,544	21,061	925,605
33	894	Maintenance of Other Equipment	298,911	2,253	301,164
34		Total Maintenance Expenses	<u>\$9,002,820</u>	<u>\$202,231</u>	<u>\$9,205,051</u>
35		Total Distribution Expense	<u>\$236,889,185</u>	<u>(\$215,063,724)</u>	<u>\$21,825,461</u>
<b>Customer Accounts Expense</b>					
36	901	Supervision	\$596,268	(\$744)	\$595,524
37	902	Meter Reading Expense	617,203	15,469	632,672
38	903	Customer Records and Collection Expense	8,015,702	(292,911)	7,722,791
39	904	Uncollectible Accounts	1,696,606	3,006,241	4,702,847
40	905	Miscellaneous Customer Accounts Expense	259,189	(79)	259,110
41		Total Customer Accounts Expenses	<u>\$11,184,968</u>	<u>\$2,727,976</u>	<u>\$13,912,944</u>

**MISSOURI GAS ENERGY**  
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 Book	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
<b>Customer Service and Informational Expense</b>					
42	907	Supervision	\$0	\$0	\$0
43	908	Customer Assistance	323,325	(414)	322,911
44	909	Informational and Instructional Advertising Exp.	49,965	0	49,965
45	910	Miscellaneous Customer Accounts Expense	9,474	0	9,474
46		Total Cust. Service and Information Exp.	<u>\$382,764</u>	<u>(\$414)</u>	<u>\$382,350</u>
<b>Sales and Advertising Expense</b>					
47	911	Supervision	\$153,885	(\$425)	\$153,460
48	912	Demonstrating and Selling Expenses	1,164,206	(343,309)	820,897
49	913	Advertising Expenses	0	0	0
50	916	Miscellaneous Sales Expenses	6,171	0	6,171
51		Total Sales and Advertising Expenses	<u>\$1,324,262</u>	<u>(\$343,734)</u>	<u>\$980,528</u>
<b>Administrative and General Expense</b>					
52	920	Administrative and General Salaries	\$2,712,673	(\$45,995)	\$2,666,678
53	921	Office Supplies and Expenses	2,826,274	112,114	2,938,388
54	922	Administrative Expenses Transferred	(429,182)	0	(429,182)
55	923	Outside Services Employed	2,120,507	9,721,466	11,841,973
56	924	Property Insurance	77,688	0	77,688
57	925	Injuries and Damages	1,755,123	(21,311)	1,733,812
58	926	Employee Pensions and Benefits	5,915,019	1,166,450	7,081,469
59	927	Franchise Requirements	0	0	0
60	928	Regulatory Commission Expense	1,476,997	112,889	1,589,886
61	930	Miscellaneous General Expenses	242,750	(24,580)	218,170
62	931	Rents	339,354	13,956	353,310
63	932	Maintenance of General Plant	161,483	1,978	163,461
64		Total Administration and General Expense	<u>\$17,198,686</u>	<u>\$11,036,967</u>	<u>\$28,235,653</u>
65		Total O & M Expense	<u>\$266,979,865</u>	<u>(\$201,642,929)</u>	<u>\$65,336,936</u>
66	403	Depreciation	21,521,313	1,119,032	22,640,345
67	404, 405	Amortization	917,423	2,422,003	3,339,426
68	431	Interest on Customer Deposits	798,690	(89,330)	709,360
69	408	Payroll Taxes	\$1,598,286	\$164,022	\$1,762,308
70	408	Property Taxes	6,378,956	237,670	6,616,626
71	408	Gross Receipts Tax	22,831,899	(22,831,899)	0
72	408	Other Taxes	290,046	17,083	307,129
73	408	Taxes Other Than Income	<u>\$31,099,187</u>	<u>(\$22,413,124)</u>	<u>\$8,686,063</u>
74		TOTAL EXPENSES	<u>\$321,316,478</u>	<u>(\$220,604,348)</u>	<u>\$100,712,130</u>
75		OPERATING INCOME BEFORE INCOME TAX	<u>\$42,023,912</u>	<u>(\$6,786,568)</u>	<u>\$35,237,344</u>
76	409,410	Income Taxes	\$8,731,689	(\$2,665,764)	\$6,065,925
77		NET OPERATING INCOME	<u>\$33,292,223</u>	<u>(\$4,120,804)</u>	<u>\$29,171,419</u>

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

Line No.	Main Acct.	Description	Test Year Per Books	H-1	H-2	H-3	H-4	H-5	H-6	H-7	H-8	H-9	H-10	H-11
				Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year Margin	Remove Purch. Gas Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Joint and Common Costs	Uncollectible Expense	Regulatory Commission Expense	Interest on Customer Deposits
		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
<b>OPERATING REVENUE</b>														
1	480	Residential	\$246,006,046	(\$160,991,483)	\$6,268,246									
2	481.1	Commercial	98,899,374	(71,410,982)	2,720,676									
3	481.2	Industrial	3,163,610	(1,753,916)	24,687									
4	483	Sales for Resale	4,912	0	0									
5	487	Late Payment Charges	928,108	(47,210)	0									
6	488	Miscellaneous Service Revenue	1,220,072	(70,143)	2,072,691									
7	489	Transport	13,055,177	(4,531,157)	307,675									
8	493	Rent From Property	0											
9	495	Other Gas Revenue	63,091											
10		Total Operating Revenue	\$383,340,390	(\$238,804,891)	\$11,413,975	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>														
<b>Operation Expense</b>														
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856			(\$215,644,856)								
12	859	Other Joint Expense	0											
13	870	Operation, Supervision and Engineering	855,109				(6,492)							
14	871	Distribution and Load Dispatching	16,344				(378)							
15	872	Compressor Station Labor and Expense	376				(33)							
16	874	Mains and Service Expenses	2,651,679				5,035							
17	875	Distributing Regulating Station Expenses	629,628				4,908							
18	876	Measuring and Regulating - Station Expenses	764				(450)							
19	877	Measuring and Regulating - Station Expenses	2,306				(760)							
20	878	Meter and House Regulator Expenses	4,395,001				36,839							
21	879	Customer Installation Expenses	2,384,749				20,750							
22	880	Other Expenses	1,189,435				(28,188)							
23	881	Rents	116,118											
24		Total Operation Expense	\$227,886,365	\$0	\$0	(\$215,644,856)	\$31,231	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Maintenance Expense</b>														
25	885	Maintenance Supervision and Engineering	\$531,468				(\$3,090)							
26	886	Maintenance of Structures and Improvements	197,444				846							
27	887	Maintenance of Mains	8,452,974				45,671							
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856				1,050							
29	890	Maint. of Measuring and Regulating Equipment	153,559				2,377							
30	891	Maint. of Measuring and Regulating Equipment	16,608				(458)							
31	892	Maintenance of Services	224,456				2,247							
32	893	Maintenance of Meters and House Regulators	904,544				8,059							
33	894	Maintenance of Other Equipment	298,911				(873)							
34		Total Maintenance Expenses	\$9,002,820	\$0	\$0	\$0	\$55,829	\$0	\$0	\$0	\$0	\$0	\$0	\$0
35		Total Distribution Expense	\$236,889,185	\$0	\$0	(\$215,644,856)	\$87,060	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Customer Accounts Expense</b>														
36	901	Supervision	\$596,268				(\$4,108)							
37	902	Meter Reading Expense	617,203				3,027							
38	903	Customer Records and Collection Expense	8,015,702				(312,578)							
39	904	Uncollectible Accounts	1,696,606									3,006,241		
40	905	Miscellaneous Customer Accounts Expense	259,189				(76)							
41		Total Customer Accounts Expenses	\$11,184,968	\$0	\$0	\$0	(\$313,733)	\$0	\$0	\$0	\$0	\$3,006,241	\$0	\$0

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

			H-1	H-2	H-3	H-4	H-5	H-6	H-7	H-8	H-9	H-10	H-11	
Line No.	Main Acct.	Description	Test Year Per Books	Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year Margin	Remove Purch.. Gas Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Joint and Common Costs	Uncollectible Expense	Regulatory Commission Expense	Interest on Customer Deposits
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
Customer Service and Informational Expense														
42	907	Supervision	\$0											
43	908	Customer Assistance	323,325				(826)							
44	909	Informational and Instructional Advertising Exp.	49,965											
45	910	Miscellaneous Customer Accounts Expense	9,474											
46		Total Cust. Service and Information Exp	\$382,764	\$0	\$0	\$0	(\$826)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales and Advertising Expense														
47	911	Supervision	\$153,885				(\$1,292)							
48	912	Demonstrating and Selling Expenses	1,164,206				(347,791)							
49	913	Advertising Expenses	0											
50	916	Miscellaneous Sales Expenses	8,171											
51		Total Sales and Advertising Expenses	\$1,324,262	\$0	\$0	\$0	(\$349,083)	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Administrative and General Expense														
52	920	Administrative and General Salaries	\$2,712,673				(\$61,268)							
53	921	Office Supplies and Expenses	2,826,274				1,146							
54	922	Administrative Expenses Transferred	(429,182)											
55	923	Outside Services Employed	2,120,507								9,735,082			
56	924	Property Insurance	77,688							0				
57	925	Injuries and Damages	1,755,123				(308)			(20,981)				
58	926	Employee Pensions and Benefits	5,915,019					1,166,450						
59	927	Franchise Requirements	0											
60	928	Regulatory Commission Expense	1,476,997										112,889	
61	930	Miscellaneous General Expenses	242,750											
62	931	Rents	339,354											
63	932	Maintenance of General Plant	161,483				2							
64		Total Administration and General Expense	\$17,198,686	\$0	\$0	\$0	(\$60,428)	\$1,166,450	\$0	(\$20,981)	\$9,735,082	\$0	\$112,889	\$0
65		Total O & M Expense	\$266,979,865	\$0	\$0	(\$215,644,856)	(\$637,010)	\$1,166,450	\$0	(\$20,981)	\$9,735,082	\$3,006,241	\$112,889	\$0
66	403	Depreciation	\$21,521,313											
67	404, 405	Amortization	917,423											
68	431	Interest on Customer Deposits	798,690											(89,330)
69	408	Payroll Taxes (1****)	1,598,286						164,022					
70	408	Property Taxes (2****)	6,378,956											
71	408	Gross Receipts Tax (3300 + 4000)	22,831,899			(22,831,899)								
72	408	Other Taxes (41**)	290,046											
73	408	Taxes Other Than Income	\$31,099,187	0	0	(22,831,899)	0	0	164,022	0	0	0	0	0
74		TOTAL EXPENSES	\$321,316,478	\$0	\$0	(\$238,476,756)	(\$637,010)	\$1,166,450	\$164,022	(\$20,981)	\$9,735,082	\$3,006,241	\$112,889	(\$89,330)
75		OPERATING INCOME BEFORE INCOME TAX	\$42,023,912	(\$238,804,891)	\$11,413,975	\$238,476,756	\$637,010	(\$1,166,450)	(\$164,022)	\$20,981	(\$9,735,082)	(\$3,006,241)	(\$112,889)	\$89,330
76	409, 410	Income Taxes	8,731,689											
77		NET OPERATING INCOME	\$3,292,223	(\$238,804,891)	\$11,413,975	\$238,476,756	\$637,010	(\$1,166,450)	(\$164,022)	\$20,981	(\$9,735,082)	(\$3,006,241)	(\$112,889)	\$89,330

Note: per book & adjusted income tax computed on A-2

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-12	H-13	H-14	H-15	H-16	H-17	H-18	H-19	H-20	H-21	H-22	H-23
				Depreciation Expense	Amortization Expense	TWE Clearing	Stores Load Clearing	Paid Time Off Clearing	State Franchise Tax	Property Tax	Y2K Amortization	Office Lease Expense	Dues Expense	Incentive Compensation & Bonuses	Collection Costs
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)
<b>OPERATING REVENUE</b>															
1	480	Residential	\$246,006,046												
2	481.1	Commercial	98,899,374												
3	481.2	Industrial	3,163,610												
4	483	Sales for Resale	4,912												
5	487	Late Payment Charges	928,108												
6	488	Miscellaneous Service Revenue	1,220,072												
7	489	Transport	13,055,177												
8	493	Rent From Property	0												
9	495	Other Gas Revenue	63,091												
10		Total Operating Revenue	\$363,340,390	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>															
<b>Operation Expense</b>															
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856												
12	859	Other Joint Expense	0												
13	870	Operation, Supervision and Engineering	855,109			5,411		330						4,357	
14	871	Distribution and Load Dispatching	16,344			192		12						51	
15	872	Compressor Station Labor and Expense	376			1		0						2	
16	874	Mains and Service Expenses	2,651,679			6,669	(150)	398						1,859	
17	875	Distributing Regulating Station Expenses	629,628			7,567	(319)	465						2,522	
18	876	Measuring and Regulating - Station Expenses	764			10	0	1						0	
19	877	Measuring and Regulating - Station Expenses	2,306			23	(3)	1						1	
20	878	Meter and House Regulator Expenses	4,395,001			59,032	(739)	3,842						19,187	
21	879	Customer Installation Expenses	2,384,749			31,590	(51)	1,977						10,921	
22	880	Other Expenses	1,189,435			2,890	(118)	179						3,563	
23	881	Rents	116,118												
24		Total Operation Expense	\$227,886,365	\$0	\$0	\$113,385	(\$1,380)	\$7,203	\$0	\$0	\$0	\$0	\$0	\$42,462	\$0
<b>Maintenance Expense</b>															
25	885	Maintenance Supervision and Engineering	\$531,468			\$4,101	\$0	\$254						\$2,650	
26	886	Maintenance of Structures and Improvements	197,444			2,579	(50)	151						691	
27	887	Maintenance of Mains	6,452,974			80,512	(2,616)	4,935						25,762	
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,858			1,860	(118)	108						930	
29	890	Maint. of Measuring and Regulating Equipment	153,559			2,468	(3)	145						674	
30	891	Maint. of Measuring and Regulating Equipment	16,608			261		16						69	
31	892	Maintenance of Services	224,456			3,738	(223)	217						1,164	
32	893	Maintenance of Meters and House Regulators	904,544			8,734	(341)	748						3,861	
33	894	Maintenance of Other Equipment	298,911			2,380	(353)	151						948	
34		Total Maintenance Expenses	\$9,002,820	\$0	\$0	\$108,633	(\$3,704)	\$6,725	\$0	\$0	\$0	\$0	\$0	\$36,748	\$0
35		Total Distribution Expense	\$236,889,185	\$0	\$0	\$220,018	(\$5,084)	\$13,928	\$0	\$0	\$0	\$0	\$0	\$79,210	\$0
<b>Customer Accounts Expense</b>															
36	901	Supervision	\$598,268											\$3,364	
37	902	Meter Reading Expense	617,203			9,186	0	543						2,713	
38	903	Customer Records and Collection Expense	8,015,702			15,390	(2)	932						26,159	(22,814)
39	904	Uncollectible Accounts	1,696,606												
40	905	Miscellaneous Customer Accounts Expense	259,189				(3)								
41		Total Customer Accounts Expenses	\$11,184,968	\$0	\$0	\$24,576	(\$5)	\$1,475	\$0	\$0	\$0	\$0	\$0	\$32,236	(\$22,814)

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

			H-12	H-13	H-14	H-15	H-16	H-17	H-18	H-19	H-20	H-21	H-22	H-23	
Line No.	Main Acct.	Description	Test Year Per Books	Depreciation Expense	Amortization Expense	TWE Clearing	Stores Load Clearing	Paid Time Off Clearing	State Franchise Tax	Property Tax	Y2K Amortization	Office Lease Expense	Dues Expense	Incentive Compensation & Bonuses	Collection Costs
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
Customer Service and Informational Expense															
42	907	Supervision	\$0												
43	908	Customer Assistance	323,325											412	
44	909	Informational and Instructional Advertising Exp.	49,965												
45	910	Miscellaneous Customer Accounts Expense	9,474												
46		Total Cust. Service and Information Exp.	\$382,764	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$412	\$0
Sales and Advertising Expense															
47	911	Supervision	\$153,885											\$867	
48	912	Demonstrating and Selling Expenses	1,164,206			351								4,131	
49	913	Advertising Expenses	0												
50	916	Miscellaneous Sales Expenses	6,171												
51		Total Sales and Advertising Expenses	\$1,324,262	\$0	\$0	\$351	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,998	\$0
Administrative and General Expense															
52	920	Administrative and General Salaries	\$2,712,673											\$15,273	
53	921	Office Supplies and Expenses	2,826,274			3,851	(76)				92,213	14,959		21	
54	922	Administrative Expenses Transferred	(429,182)												
55	923	Outside Services Employed	2,120,507												
56	924	Property Insurance	77,888												
57	925	Injuries and Damages	1,765,123				(22)							0	
58	926	Employee Pensions and Benefits	5,915,019												
59	927	Franchise Requirements	0												
60	928	Regulatory Commission Expense	1,476,997												
61	930	Miscellaneous General Expenses	242,750												
62	931	Rents	339,354									13,956			
63	932	Maintenance of General Plant	161,483									1,974		2	
64		Total Administration and General Expense	\$17,198,686	\$0	\$0	\$3,851	(\$98)	\$0	\$0	\$0	\$92,213	\$30,889	(\$24,580)	\$15,296	\$0
65		Total O & M Expense	\$268,979,865	\$0	\$0	\$248,796	(\$5,187)	\$15,403	\$0	\$0	\$92,213	\$30,889	(\$24,580)	\$132,152	(\$22,814)
66	403	Depreciation	\$21,521,313	\$1,119,032											
67	404, 405	Amortization	917,423		2,465,365						(43,362)				
68	431	Interest on Customer Deposits	798,690												
69	408	Payroll Taxes (1***)	1,598,286												
70	408	Property Taxes (2***)	6,378,956							237,670					
71	408	Gross Receipts Tax (3300 + 4000)	22,831,899												
72	408	Other Taxes (41**)	280,046						17,083						
73	408	Taxes Other Than Income	\$31,099,187	0	0	0	0	0	17,083	237,670	0	0	0	0	0
74		TOTAL EXPENSES	\$321,316,478	\$1,119,032	\$2,465,365	\$248,796	(\$5,187)	\$15,403	\$17,083	\$237,670	\$48,851	\$30,889	(\$24,580)	\$132,152	(\$22,814)
75		OPERATING INCOME BEFORE INCOME TAX	\$42,023,912	(\$1,119,032)	(\$2,465,365)	(\$248,796)	\$5,187	(\$15,403)	(\$17,083)	(\$237,670)	(\$48,851)	(\$30,889)	\$24,580	(\$132,152)	\$22,814
76	409,410	Income Taxes	8,731,889												
Note: per book & adjusted income tax computed on A-2															
77		NET OPERATING INCOME	33,292,223	(\$1,119,032)	(\$2,465,365)	(\$248,796)	\$5,187	(\$15,403)	(\$17,083)	(\$237,670)	(\$48,851)	(\$30,889)	\$24,580	(\$132,152)	\$22,814

Note: per book & adjusted income tax computed on A-2

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	Record Non-refundable Payment Bond	Remove Non-utility Activities	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(aa)	(ab)	(ac)	(ad)	(ae)
<b>OPERATING REVENUE</b>								
1	480	Residential	\$246,006,046				(\$154,703,237)	\$91,302,809
2	481.1	Commercial	98,899,374				(68,690,306)	30,209,068
3	481.2	Industrial	3,163,610				(1,729,229)	1,434,381
4	483	Sales for Resale	4,912				0	4,912
5	487	Late Payment Charges	828,108				(47,210)	880,898
6	488	Miscellaneous Service Revenue	1,220,072				2,002,548	3,222,620
7	489	Transport	13,055,177				(4,223,482)	8,831,695
8	493	Rent From Property	0				0	0
9	495	Other Gas Revenue	63,091				0	63,091
10		Total Operating Revenue	\$363,340,390	\$0	\$0	\$0	(\$227,390,916)	\$135,949,474
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>								
<b>Operation Expense</b>								
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856	\$186,000			(\$215,458,856)	\$186,000
12	859	Other Joint Expense	0				0	0
13	870	Operation, Supervision and Engineering	855,109				3,608	858,715
14	871	Distribution and Load Dispatching	16,344				(123)	16,221
15	872	Compressor Station Labor and Expense	378				(30)	348
16	874	Mains and Service Expenses	2,651,679				13,809	2,665,488
17	875	Distributing Regulating Station Expenses	629,628				15,143	644,771
18	876	Measuring and Regulating - Station Expenses	764				(439)	325
19	877	Measuring and Regulating - Station Expenses	2,308				(738)	1,568
20	878	Meter and House Regulator Expenses	4,395,001				118,161	4,513,162
21	879	Customer Installation Expenses	2,384,749				65,187	2,449,936
22	880	Other Expenses	1,188,435				(21,874)	1,167,761
23	881	Rents	116,118				0	116,118
24		Total Operation Expense	\$227,886,365	\$186,000	\$0	\$0	(\$215,265,955)	\$12,620,410
<b>Maintenance Expense</b>								
25	885	Maintenance Supervision and Engineering	\$531,468				\$3,915	\$535,383
26	886	Maintenance of Structures and Improvements	197,444				4,217	201,661
27	887	Maintenance of Mains	6,452,974				154,264	6,607,238
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856				3,830	226,686
29	890	Maint. of Measuring and Regulating Equipment	153,559				5,661	159,220
30	891	Maint. of Measuring and Regulating Equipment	16,608				(112)	16,496
31	892	Maintenance of Services	224,458				7,143	231,599
32	893	Maintenance of Meters and House Regulators	904,544				21,061	925,605
33	894	Maintenance of Other Equipment	298,911				2,263	301,184
34		Total Maintenance Expenses	\$9,002,820	\$0	\$0	\$0	\$202,231	\$9,205,051
35		Total Distribution Expense	\$236,889,185	\$186,000	\$0	\$0	(\$215,063,724)	\$21,825,461
<b>Customer Accounts Expense</b>								
36	901	Supervision	\$596,268				(\$744)	\$595,524
37	902	Meter Reading Expense	617,203				16,469	632,672
38	903	Customer Records and Collection Expense	8,015,702				(292,911)	7,722,791
39	904	Uncollectible Accounts	1,696,806				3,008,241	4,702,847
40	905	Miscellaneous Customer Accounts Expense	259,189				(79)	259,110
41		Total Customer Accounts Expenses	\$11,184,968	\$0	\$0	\$0	\$2,727,976	\$13,912,944



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

		H-24		H-25				
Line No.	Main Acct.	Description	Test Year Per Books	Record Non-refundable Payment Bond	Remove Non-utility Activities	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(aa)	(ab)	(ac)	(ad)	(ae)
Customer Service and Informational Expense								
42	907	Supervision	\$0				\$0	\$0
43	908	Customer Assistance	323,325				(414)	322,911
44	909	Informational and Instructional Advertising Exp.	49,965				0	49,965
45	910	Miscellaneous Customer Accounts Expense	9,474				0	9,474
46		Total Cust. Service and Information Exp.	\$382,764	\$0	\$0	\$0	(\$414)	\$382,350
Sales and Advertising Expense								
47	911	Supervision	\$153,885				(\$425)	\$153,460
48	912	Demonstrating and Selling Expenses	1,164,206				(343,309)	820,897
49	913	Advertising Expenses	0				0	0
50	916	Miscellaneous Sales Expenses	6,171				0	6,171
51		Total Sales and Advertising Expenses	\$1,324,262	\$0	\$0	\$0	(\$343,734)	\$980,528
Administrative and General Expense								
52	920	Administrative and General Salaries	\$2,712,673				(\$45,995)	\$2,666,678
53	921	Office Supplies and Expenses	2,826,274				112,114	2,938,388
54	922	Administrative Expenses Transferred	(429,182)				0	(429,182)
55	923	Outside Services Employed	2,120,507		(13,616)		9,721,466	11,841,973
56	924	Property Insurance	77,688				0	77,688
57	925	Injuries and Damages	1,755,123				(21,311)	1,733,812
58	926	Employee Pensions and Benefits	5,915,019				1,166,450	7,081,469
59	927	Franchise Requirements	0				0	0
60	928	Regulatory Commission Expense	1,476,997				112,889	1,589,886
61	930	Miscellaneous General Expenses	242,750				(24,580)	218,170
62	931	Rents	339,354				13,956	353,310
63	932	Maintenance of General Plant	161,483				1,978	163,461
64		Total Administration and General Expense	\$17,198,686	\$0	(\$13,616)	\$0	\$11,036,967	\$28,235,653
65		Total O & M Expense	\$266,979,865	\$186,000	(\$13,616)	\$0	(\$201,642,929)	\$65,336,936
66	403	Depreciation	\$21,521,313				\$1,119,032	\$22,640,345
67	404, 405	Amortization	917,423				2,422,003	3,339,426
68	431	Interest on Customer Deposits	798,690				(89,330)	709,360
69	408	Payroll Taxes (1****)	1,598,286				164,022	1,762,308
70	408	Property Taxes (2****)	6,378,956				237,670	6,616,626
71	408	Gross Receipts Tax (3300 + 4000)	22,831,899				(22,831,899)	0
72	408	Other Taxes (41****)	290,046				17,083	307,129
73	408	Taxes Other Than Income	\$31,099,187	0	0	0	(22,413,124)	8,686,063
74		TOTAL EXPENSES	\$321,316,478	\$186,000	(\$13,616)	\$0	(\$220,604,348)	\$100,712,130
75		OPERATING INCOME BEFORE INCOME TAX	\$42,023,912	(\$186,000)	\$13,616	\$0	(\$6,786,668)	\$35,237,344
76	409, 410	Income Taxes	8,731,689			(2,665,764)	(2,665,764)	6,065,925
77		NET OPERATING INCOME	\$33,292,223	(\$186,000)	\$13,616	\$2,665,764	(\$4,120,804)	\$29,171,419

Note: per book & adjusted income tax computed on A-2

SCHEDULE H-1

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending June 30, 2000

**Adjust Test Year Revenue per Book to Test Year Margin**

Line No.	Description	Main Account/Revenue Class					Total
		480	481.1	481.2	483, 489	487, 488, 493, 495	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Total Revenue per Book	\$246,006,046	\$98,899,374	\$3,163,610	\$13,060,089	\$2,211,271	\$363,340,390
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(160,991,483)	(71,410,982)	(1,753,916)	(4,531,157)	(117,353)	(238,804,891)
3	Test Year Margin	<u>\$85,014,563</u>	<u>\$27,488,392</u>	<u>\$1,409,694</u>	<u>\$8,528,932</u>	<u>\$2,093,918</u>	<u>\$124,535,499</u>

**MISSOURI GAS ENERGY**  
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**Test Year Margin Adjustments**

Line No.	Description	Main Account/Revenue Class					Total
		Residential Gas Sales	Commercial Gas Sales	Industrial Gas Sales	Transportation Revenues	Service Charges and Other	
		480	481.1	481.2	489, 483	487, 488, 493, 495	
	(a)	21	22 & 23	25	38, 28	(f)	(g)
1	Test Year Margin	\$85,014,563	\$27,488,393	\$1,409,694	\$8,528,932	\$2,093,918	\$124,535,500
2	Weather Normalize	5,870,178	2,543,910	24,687	243,422		8,682,197
3	Customer Growth Annualization	418,088	240,849				658,917
4	Rate Switching GS to LVS (1)		(41,571)		32,412		(9,159)
5	LVS Customer Deletions		(20,056)		(17,442)		(37,498)
6	Annualize Flex Credits		(2,456)		59,404		56,948
7	Economic Development Discounts				(10,121)		(10,121)
7	Proposed Reconnect Fee Increase					2,072,691	2,072,691
8	Total Adjustments	6,288,246	2,720,676	24,687	307,675	2,072,691	11,413,975
9	As Adjusted Test Year Margin	\$91,302,809	\$30,209,069	\$1,434,381	\$8,836,607	\$4,166,609	\$135,949,475

- (1) LVS customer charges are recorded in 481.1 and 481.2. The (\$41,571) adjustment is the sum of (\$87,822) in general service revenue reductions and \$46,251 added LVS customer charges. The total LVS revenue effect is \$78,663, or \$46,251 plus \$32,412.

**MISSOURI GAS ENERGY**  
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**Remove Purchase Gas Costs and Gross Receipts Tax**

Line No.	Description (a)	Amount (b)
1	Purchase Gas Costs (Accts. 804-808)	(\$215,644,856)
2	Gross Receipts Tax (Acct. 4081)	(22,831,899)
3	Total Adjustment	<u>(\$238,476,755)</u>

**MISSOURI GAS ENERGY**  
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**Payroll Expense**

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$766,856	\$773,348	(\$6,492)
2	871	8,976	9,354	(378)
3	872	299	332	(33)
4	874	327,210	322,175	5,035
5	875	443,923	439,015	4,908
6	876	0	450	(450)
7	877	149	909	(760)
8	878	3,377,343	3,340,504	36,839
9	879	1,922,301	1,901,551	20,750
10	880	612,457	640,645	(28,188)
11	885	466,384	469,474	(3,090)
12	886	121,690	120,844	846
13	887	4,534,640	4,488,969	45,671
14	889	163,628	162,578	1,050
15	890	118,626	116,249	2,377
16	891	12,089	12,547	(458)
17	892	204,916	202,669	2,247
18	893	679,532	671,473	8,059
19	894	166,892	167,765	(873)
20	901	592,160	596,268	(4,108)
21	902	477,533	474,506	3,027
22	903	4,369,382	4,681,958	(312,576)
23	905	0	76	(76)
24	908	72,499	73,325	(826)
25	911	152,593	153,885	(1,292)
26	912	727,215	1,075,006	(347,791)
27	920	2,651,404	2,712,672	(61,268)
28	921	3,619	2,473	1,146
29	925	0	308	(308)
30	932	428	426	2
31	Total	\$22,974,744	\$23,611,754	(\$637,010)

**MISSOURI GAS ENERGY**  
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**Employee Benefits**

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	(\$1,802,978)	
2	Retirement Power	520,458	
3	Life & AD&D Insurance	153,095	
4	Long Term Disability Insurance	108,493	
5	Medical / Dental Benefit	4,569,846	
6	FAS 106 - Accrual	1,419,357	
7	FAS 106 - Amortization of	2,664,792	
8	401K	1,360,992	
9	COLI Amortization	315,768	
10	Supplemental Retirement	231,491	
11	Other Benefits	88,280	
12	Total Proforma Benefits	<u>\$9,629,595</u>	
13	Payroll Expense Ratio	0.735386	
14	Proforma Benefits Expense	<u>\$7,081,469</u>	\$7,081,469
15	Less Test Year Benefits Expense	(\$5,915,019)	
16	Add back payroll charged to Acct. 9260 (already deducted from proforma amounts on payroll adjustment)	0	
17	Net Test Year Benefits Expense (not deducted elsewhere)	<u>(\$5,915,019)</u>	<u>(5,915,019)</u>
18	Adjustment to Test Year Expense - Acct. 926		<u>\$1,166,450</u>

**MISSOURI GAS ENERGY**  
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**Payroll Taxes**

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	\$2,380,000
2	Payroll Taxes on Incentive Compensation Adjustment	\$13,827
3	Payroll Taxes on step/pay grade increases	<u>\$2,613</u>
4	Total Proforma Payroll Taxes	\$2,396,440
5	Payroll Expense Ratio	0.735386
6	Proforma Payroll Tax Expense	<u>\$1,762,308</u>
7	Less Test Year Payroll Tax Expense	<u>(1,598,286)</u>
8	Adjustment to Test Year Expense - Acct. 4081	<u><u>\$164,022</u></u>

**MISSOURI GAS ENERGY**  
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**Insurance - Account 924 & Account 925**

Line

No.	Description	1998	1999	2000	3 Year Avg.	925 Amount	924 Amount	Total Amount
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	MGE Claims:							
1	Workers Compensation claims paid	\$515,824	\$582,292	\$256,693	\$451,603			
2	Auto & General Liability	428,802	688,130	1,543,600	886,844			
3	Total Proforma Claims	<u>\$944,626</u>	<u>\$1,270,422</u>	<u>\$1,800,293</u>	<u>\$1,338,447</u>	\$1,338,447		\$1,338,447
4	Insurance Premiums - 924						77,688	77,688
5	Insurance Premiums - 925					<u>1,019,692</u>		<u>1,019,692</u>
6	Total Proforma Insurance Cost					\$2,358,139	\$77,688	\$2,435,827
7	Test Year Payroll Expense Ratio					<u>0.735386</u>	<u>1.000000</u>	
8	Proforma Insurance Expense					\$1,734,142	\$77,688	\$1,811,830
9	Less Test Year Insurance Expense					(1,755,123)	(77,688)	(1,832,811)
10	Adjustment to Test Year - Accts. 924 and 925					<u>(\$20,981)</u>	<u>\$0</u>	<u>(\$20,981)</u>



**MISSOURI GAS ENERGY**  
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**Joint and Common Costs**

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	\$12,472,346
2	Expense Capital Ratio	78.0533%
3	Proforma Joint and Common Expense	<u>\$9,735,082</u>
4	Less Test Year Expense Recorded on MGE's Books	<u>0</u>
5	Adjustment to Test Year - Acct. 923	<u><u>\$9,735,082</u></u>

**MISSOURI GAS ENERGY**  
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**Uncollectible Expense**

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Fiscal Year 1998 Charge Offs	\$6,570,665	
2	Fiscal Year 1999 Charge Offs	4,156,362	
3	Fiscal Year 2000 Charge Offs	<u>3,381,514</u>	
4	Three Year Average		\$4,702,847
5	Less Test Year Uncollectible Expense		(1,696,606)
6	Adjustment to Test Year - Acct. 904		<u><u>\$3,006,241</u></u>

**MISSOURI GAS ENERGY**  
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**Regulatory Commission Expense**

Line No.	Description	Amount (b)	Amount (c)
1	Proforma, Current Rate Case	\$600,000	
2	Normalization Period (years)	<u>2</u>	
3	Normalization - Current Case		\$300,000
4	Normalized level of expense for depreciation study ( <b>Note 1</b> )		\$7,006
5	Proforma NARUC Assessment - fiscal 7/1/00-6/30/01		6,198
6	Proforma MPSC Assessment - fiscal 7/1/00-6/30/01		<u>1,276,682</u>
7	Total Proforma Regulatory Commission Expense		\$1,589,886
8	Less Test Year Regulatory Commission Expense		(1,476,997)
9	Adjustment to Test Year - Acct. 928		<u><u>\$112,889</u></u>

**Note 1:**

	Total charges from Black & Veatch for the depreciation study	\$35,030
10	Amortization period (years)	<u>5</u>
11	Annual amortization	<u><u>\$7,006</u></u>

**MISSOURI GAS ENERGY**  
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***Interest on Customer Deposits***

Line No.	Description (a)	Reference (b)	Residential (c)	Commercial & Industrial (d)	Amount (e)
1	Customer Deposits	B-2	\$3,545,463	\$2,679,198	\$6,224,661
2	Interest Rate		9.50%	3.50%	6.92%
3	Proforma Interest on Customer Deposits		<u>\$336,819</u>	<u>\$93,772</u>	<u>\$430,591</u>
4	Less Test Year Interest on Customer Deposits				<u>(519,921)</u>
5	Adjustment to Test Year - Acct. 431				<u><u>(\$89,330)</u></u>

**MISSOURI GAS ENERGY**  
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Depreciation Expense								
Line No	Description	Amount	Approved Rate	Annualized Depreciation	Proposed Rate	Proforma Total Depreciation	Less Depr. Booked to Clearing Accts.	Proforma Depreciation Expense
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
<b>INTANGIBLE PLANT</b>								
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	10,359,626	(see adj. H-13)	0	(see adj. H-13)	0	0	0
4	Total Intangible Plant	\$10,426,272		\$0		\$0	\$0	\$0
<b>DISTRIBUTION PLANT</b>								
5	(374.1) Land	\$240,448	0.00%	\$0	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	991,634	2.17%	21,518	2.09%	20,725	0	20,725
7	(375.1) Structures	5,987,064	2.28%	136,505	2.01%	120,340	0	120,340
8	(375.2) Leasehold Improvements	13,965	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Meins - Cast Iron	265,339,168	1.88%	4,988,376	2.10%	5,572,123	0	5,572,123
10	(378) Meas. & Reg. Station - General	10,260,757	3.00%	307,823	3.19%	327,318	0	327,318
11	(379) Meas. & Reg. Station - City Gate	2,775,072	2.66%	73,817	2.56%	71,042	0	71,042
12	(380) Services	241,466,436	5.50%	13,280,654	4.58%	11,059,163	0	11,059,163
13	(381) Meters	27,608,278	2.05%	565,970	2.46%	679,164	0	679,164
14	(382) Meter Installations	47,892,829	2.05%	981,803	2.47%	1,182,953	0	1,182,953
15	(383) House Regulators	9,254,498	2.05%	189,717	2.27%	210,077	0	210,077
16	(386) Electronic Gas Metering	250,335	5.00%	12,517	5.00%	12,517	0	12,517
17	(387) Other Equipment	0	6.33%	0	4.60%	0	0	0
18	Total Distribution Plant	\$612,080,484		\$20,558,700		\$19,255,422	\$0	\$19,255,422
<b>GENERAL PLANT - DIRECT</b>								
19	(389) Land	\$615,659	0.00%	\$0	0.00%	\$0	\$0	\$0
20	(390.1) Structures	419,125	3.33%	13,957	2.52%	10,562	0	10,562
21	(390.2) Leasehold Impr.	1,286,799	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	3,012,525	3.06%	92,183	6.67%	200,935	0	200,935
23	(392) Transportation Equipment	4,470,517	10.13%	452,863	10.69%	477,898	(477,898)	0
24	(393) Stores Equipment	499,757	3.33%	16,642	4.17%	20,840	0	20,840
25	(394) Tools	4,441,648	4.00%	177,666	7.00%	310,915	0	310,915
26	(395) Laboratory Equipment	0	4.00%	0	6.00%	0	0	0
27	(396) Power Operated Equipment	586,189	6.25%	36,637	6.48%	37,868	(37,868)	0
28	(397.1) Communication Equipment - AMR	32,607,557	5.00%	1,630,378	5.00%	1,630,378	0	1,630,378
29	(397.0) Communication Equipment - Other	1,478,273	4.50%	66,522	5.59%	82,635	0	82,635
30	(398) Miscellaneous Equipment	164,059	6.25%	10,254	5.63%	9,237	0	9,237
31	Total Direct General Plant	\$49,582,108		\$2,497,102		\$2,781,265	(\$515,766)	\$2,265,502
<b>GENERAL PLANT - CORPORATE</b>								
32	(390) Structures	\$44,055	2.83%	\$1,247	2.79%	\$1,229	\$0	\$1,229
33	(390) Leasehold Impr.	0	(amortized)	0	(amortized)	0	0	0
34	(391) Furniture & Fixtures	11,024,415	10.00%	1,102,441	10.14%	1,117,876	0	1,117,876
35	(392) Transportation Equipment	14,454	12.50%	1,807	11.55%	1,669	(1,669)	0
36	(397) Communication Equipment	4,432	2.83%	125	4.75%	211	0	211
37	(398) Miscellaneous Equipment	2,675	2.83%	76	3.92%	105	0	105
38	Total Corporate General Plant	\$11,090,031		\$1,105,696		\$1,121,090	(\$1,669)	\$1,119,421
39	Total Proforma Plant & Depreciation	\$683,178,895		\$24,161,498		\$23,157,780	(\$517,435)	\$22,640,345
40	Less Depreciation Charged to Clearing A/Cs			(489,500)		(517,435)		
41	Less Test Year Depreciation Expense			(\$21,521,313)		(\$23,671,998)		(\$21,521,313)
42	Adjustment to Test Year - Acct. 403			\$2,150,685		(\$1,031,653)		\$1,119,032

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**Amortization Expense**

Line No.	Description	Original Cost Plant	Monthly Test Year Amortization Expense	Proforma Amortization Expense
	(a)	(b)	(c)	(d)
<u>MGE Direct Non-SLRP Amortization:</u>				
1	(375.2) Leasehold Improvements	\$13,965	\$423	\$5,078
2	(390.2) Leasehold Improvements	1,286,799	4,992	59,907
3	Sub Total	<u>\$1,300,764</u>	<u>\$5,415</u>	<u>\$64,985</u>
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)	177,872	1,482	17,787
15	(303) Misc. Intangible - Geo Tax Software (9500)	79,294	661	7,929
16	Sub Total - Acct. 303	<u>\$10,359,626</u>	<u>\$66,711</u>	<u>\$800,528</u>
<u>SLRP Amortization:</u>				
17	SLRP Deferrals Subject to Amortization	<u>\$25,172,752</u>	<u>Amort. Period 10</u>	<u>\$2,517,275</u>
18	Pro-Forma Amortization Expense			\$3,382,788
19	Less Test Year Amortization Expense			<u>(917,423)</u>
20	Adjustment to Test Year - Accts. 404 and 405			<u>\$2,465,365</u>

**MISSOURI GAS ENERGY**  
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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		\$4,194,652		
2	Less Test Year Amounts Cleared Out of Account 1841		(4,196,471)		
3	Test Year Amount Under/(Over) Cleared		<u>(\$1,819)</u>		(\$1,819)
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1841:				
		Proforma	Test Year	Adjustment	
5	Depreciation	\$517,435	\$454,338	\$63,097	
6	Lease Costs	2,076,720	1,782,037	294,683	
7	Other	1,958,277	1,958,277	0	
8	Total	<u>\$4,552,432</u>	<u>\$4,194,652</u>	<u>\$357,780</u>	357,780
9	Total Adjusted Amount Under/(Over) Cleared				<u>\$355,961</u>

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

	Main Acct.	Amount	Percentage	Amount	
10	870	\$61,918	0.015200	\$5,411	
11	871	2,196	0.000539	192	
12	872	12	0.000003	1	
13	874	76,312	0.018734	6,669	
14	875	86,588	0.021257	7,567	
15	876	120	0.000029	10	
16	877	268	0.000066	23	
17	878	675,529	0.165837	59,032	
18	879	361,498	0.088745	31,590	
19	880	33,067	0.008118	2,890	
20	885	46,933	0.011522	4,101	
21	886	29,510	0.007244	2,579	
22	887	921,343	0.226182	80,512	
23	889	21,287	0.005226	1,860	
24	890	28,238	0.006932	2,468	
25	891	2,991	0.000734	261	
26	892	42,772	0.010500	3,738	
27	893	99,952	0.024537	8,734	
28	894	27,236	0.006686	2,380	
29	902	105,118	0.025806	9,186	
30	903	176,112	0.043234	15,390	
31	912	4,011	0.000985	351	
32	921	44,073	0.010820	3,851	
33	Total Adjustment to Test Year Expense		\$2,847,084	0.698936	\$248,796
34	Balance Sheet Accounts		1,226,371	0.301064	107,167
35	Total Test Year Clearing		\$4,073,455	1	\$355,963

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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		\$2,183,178		
2	Less Test Year Amounts Cleared Out of Account 1630		(2,234,375)		
3	Test Year Amount Under/(Over) Cleared		<u>(\$51,197)</u>		(\$51,197)
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1630:				
		Proforma	Test Year	Adjustment	
5	Other	2,183,178	2,183,178	0	
6	Total	<u>\$2,183,178</u>	<u>\$2,183,178</u>	<u>\$0</u>	0
7	Total Adjusted Amount Under/(Over) Cleared				<u>(\$51,197)</u>

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

	Main Acct.	Amount	Percentage	Amount
8	874	\$6,495	0.002930	(\$150)
9	875	13,797	0.006224	(319)
10	876	7	0.000003	0
11	877	144	0.000065	(3)
12	878	32,015	0.014443	(739)
13	879	2,224	0.001003	(51)
14	880	5,114	0.002307	(118)
15	885	1	0.000000	0
16	886	2,170	0.000979	(50)
17	887	113,254	0.051093	(2,616)
18	889	5,105	0.002303	(118)
19	890	125	0.000056	(3)
20	892	9,645	0.004351	(223)
21	893	14,756	0.006657	(341)
22	894	15,284	0.006895	(353)
23	902	10	0.000005	0
24	903	69	0.000031	(2)
25	905	114	0.000051	(3)
26	921	3,303	0.001490	(76)
27	925	946	0.000427	(22)
28	<b>Total Adjustment to Test Year Expense</b>	<u>224,578</u>	<u>0.101313</u>	<u>(5,187)</u>
29	Balance Sheet Accounts	1,992,030	0.898684	(46,010)
30	Total Test Year Clearing	<u>2,216,608</u>	<u>1</u>	<u>(51,197)</u>



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**Paid Time Off Clearing**

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into Paid Time Off Account 1846		\$4,735,553		
2	Less Test Year Amounts Cleared Out of Account 1846		(4,713,574)		
3	Test Year Amount Under/(Over) Cleared		<u>\$21,979</u>		\$21,979
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1846:				
		Proforma	Test Year	Adjustment	
5	Other	4,735,553	4,735,553	0	
6	Total	<u>\$4,735,553</u>	<u>\$4,735,553</u>	<u>\$0</u>	0
7	Total Adjusted Amount Under/(Over) Cleared				<u>\$21,979</u>

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

	Main Acct.	Amount	Percentage	Amount
8	870	\$70,643	0.015000	\$330
9	871	2,512	0.000533	12
10	872	32	0.000007	0
11	874	84,869	0.018020	396
12	875	99,660	0.021161	465
13	876	163	0.000035	1
14	877	155	0.000033	1
15	878	823,243	0.174798	3,842
16	879	423,700	0.089964	1,977
17	880	38,372	0.008147	179
18	885	54,320	0.011534	254
19	886	32,281	0.006854	151
20	887	1,057,451	0.224527	4,935
21	889	23,049	0.004894	108
22	890	31,096	0.006603	145
23	891	3,471	0.000737	16
24	892	46,556	0.009885	217
25	893	160,266	0.034029	748
26	894	32,307	0.006860	151
27	902	116,315	0.024697	543
28	903	199,693	0.042401	932
29	<b>Total Adjustment to Test Year Expense</b>	<b>3,300,154</b>	<b>0.700719</b>	<b>15,403</b>
30	Balance Sheet Accounts	1,409,530	0.299283	6,578
31	Total Test Year Clearing	<u>4,709,684</u>	<u>1</u>	<u>21,981</u>

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**Missouri State Franchise Tax**

Line No.	Description (a)	Amount (b)
1	Proforma State Franchise Tax Expense	\$307,129
2	Less Test Year State Franchise Tax Expense	<u>(290,046)</u>
3	Adjustment to Test Year - Acct. 4081	<u><u>\$17,083</u></u>

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**Property Tax Expense**

Line No.	Description	Reference	Amount
	(a)	(b)	(c)
1	Proforma Total Plant in Service excluding Corporate Allocated Plant	C	\$672,134,583
2	Less Intangible Plant	C	<u>(10,471,991)</u>
3	Proforma Plant, excluding Intangible Plant		\$661,662,592
4	Property tax rate		<u>1.000%</u>
5	Proforma Property Tax Expense		\$6,616,626
6	Less Test Year Property Tax Expense		<u>(6,378,956)</u>
7	Adjustment to Test Year - Acct. 4081		<u><u>\$237,670</u></u>

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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	<u>10</u>
3	Yearly Amortization	<u>\$17,393</u>
4	Deferred Balance of MGE's share of Corporate Y2K Expenses	\$804,200
5	Number of Years to Amortize	<u>10</u>
6	Yearly Amortization	<u>\$80,420</u>
7	Total Proforma Amortization	<u>\$97,813</u>
8	Reclassify Test Year Expense	
9	From Account 404.3	<u>(\$43,362)</u>
10	To Account 921.0	<u>\$43,362</u>
11	Less Test Year Amortization in Account 921.0	<u>(48,962)</u>
12	Adjustment to Test Year - Account 921.0	<u>\$48,851</u>

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**Office Lease Expense**

Line No.	Description (a)	Amount (b)
1	Net Proforma Broadway and PBO Office Lease Expense	\$294,857
2	Less Test Year Broadway and PBO Office Lease Expense	<u>(280,901)</u>
3	Adjustment to Test Year - Acct. 931	<u>\$13,956</u>
4	Net Proforma Broadway Utilities, Outside Services & Supplies Expense	\$270,739
5	Less Test Year Broadway Utilities, Outside Services & Supplies Expense	<u>(255,780)</u>
6	Adjustment to Test Year - Acct. 921	<u>\$14,959</u>
7	Net Proforma Broadway Maintenance Expense	\$26,916
8	Less Test Year Broadway Maintenance Expense	<u>(24,942)</u>
9	Adjustment to Test Year - Acct. 932	<u>\$1,974</u>

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**Dues Expense**

Line No.	Description (a)	Amount (b)
1	Remove Certain Expense from Acct. 930.2	<u>(24,580)</u>

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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	<u>0</u>	<u>64,406</u>	<u>64,406</u>
4	Three-Year Average	<u>\$122,206</u>	<u>\$121,397</u>	\$243,604
5	Test Year Incentive and Bonus Payments			<u>64,406</u>
6	Adjustment			179,198
7	Expense Ratio			<u>0.735386</u>
8	Amount Charged to Expense			<u>\$131,779</u>





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**Customer Collection Costs**

Line No.	Description (a)	Total (b)
1	Proforma Charges for Customer Collections	\$232,960
2	Less: Actual cost of collection	<u>\$255,774</u>
3	Adjustment	<u><u>(\$22,814)</u></u>

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**Non-refundable Payment Bond**

Line No.	Description (a)	Total (b)
1	Adjust for non-refundable payment bond to energy supplier	<u>\$186,000</u>

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**Non-Utility Activity**

Line No.	Description (a)	Total (b)
1	Remove non-utility activity from account 9230	<u><u>(\$13,616)</u></u>

