

Exhibit No.: \_\_\_\_\_  
Issues: Revenue Deficiency  
Witness: Michael R. Noack  
Sponsoring Party: Missouri Gas Energy  
Case No.: GR-2009-  
Date Testimony Prepared: April 2, 2009

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2009-

**FILED<sup>2</sup>**

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Missouri Public  
Service Commission

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

April 2009

MGE Exhibit No. 30  
Case No(s) GR-2009-0355  
Date 10-26-09 Rptr RF

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**APRIL 2009**

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**DIRECT TESTIMONY OF MICHAEL R. NOACK**

**CASE NO. GR-2009-\_\_\_\_\_**

**APRIL 2009**

1

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

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

6

7 **Q. WHO ARE YOU EMPLOYED BY?**

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

10

11 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**  
12 **EXPERIENCE.**

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

1 selection for large commercial and industrial customers. In July of 2000 I started  
2 my employment with MGE. Presently I hold in good standing, a Certified Public  
3 Accountant certificate in the state of Kansas and am a member of the Kansas  
4 Society of Certified Public Accountants.

5  
6 **1. EXECUTIVE SUMMARY**

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

9 A. The purpose of my testimony is to support MGE's requested revenue increase of  
10 \$32,416,997, or 4.7% of as adjusted revenues.

- 11  
12 • The revenue deficiency is supported by Schedule MRN-1, sections A  
13 through H, which is attached to this testimony. I will be responsible for  
14 sponsoring most of the adjustments made to the test year ending  
15 December 31, 2008 and which support the revenue deficiency.

16  
17 **Q. WHY DOES MGE NEED TO FILE FOR A GENERAL RATE INCREASE?**

18 A. Simply stated, MGE is not achieving its authorized rate of return. There are two  
19 primary reasons for not achieving the authorized rate of return;

- 20 1. Plant in service has increased approximately \$73 million since  
21 MGE's last rate case; and  
22 2. Operating expenses as adjusted are significantly higher due  
23 environmental remediation costs, rising employee related costs and  
24 steadily increasing uncollectible revenue.

1

2

3

4

**2. ADMINISTRATIVE MATTERS**

5

**Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT SECTIONS OF SCHEDULE MRN-1 ATTACHED TO YOUR DIRECT TESTIMONY?**

6

7

8

**A. Schedule A summarizes the revenue deficiency at December 31, 2008.**

9

Schedule B summarizes and supports the various rate base components.

10

Schedule C summarizes and supports plant in service.

11

Schedule D summarizes and supports reserve for depreciation.

12

Schedule E summarizes and supports the various working capital components.

13

Schedule F summarizes the rate of return.

14

Schedule G is a comparison of statistical information

15

Schedule H summarizes and supports the operating income statement &

16

adjustments.

17

18

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

19

20

**A. The test year is the twelve months ending December 31, 2008 adjusted for known and measurable changes.**

21

22

23

**Q. WILL MGE BE REQUESTING THAT THE TEST YEAR BE UPDATED?**

1 A. Yes. MGE will request that the test year be updated through June 30, 2006. This  
2 is consistent with the process used in the last three MGE rate cases. MGE  
3 believes that this approach will provide a relatively current time period of actual  
4 experience on which to base rates, while at the same time providing an  
5 opportunity for the Commission Staff and other parties to audit this actual  
6 experience.

7

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

9 A. Yes. MGE will request a "true-up" through September 30, 2009 in order to  
10 mitigate regulatory lag and update the following significant cost components:

11 **RETURN:**

12 Capital Structure and related costs (unless a hypothetical capital structure  
13 is adopted)

14  
15 **RATE BASE:**

16 Plant in Service  
17 Depreciation Reserve  
18 Deferred Taxes  
19 Working Capital Components including Materials and Supplies, Natural  
20 Gas Storage Inventory and Prepaid Pensions

21

22 **INCOME STATEMENT:**

23 Revenue for Customer Growth  
24 Payroll, Employee Levels and Current Wage Levels  
25 Pension Costs  
26 Injuries and Damages  
27 Rate Case Expense  
28 Depreciation and Amortization Expense  
29 Property Taxes  
30 Related Income Tax Effects  
31 Uncollectible Revenue

32

33

**3. REVENUE DEFICIENCY**

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

3 A. Yes. Schedule A is a summary of the MGE revenue deficiency for the test year  
4 ended December 31, 2008. The schedule summarizes the rate base, rate of return,  
5 required net operating income, adjusted net operating income and, finally, the  
6 revenue deficiency. The net revenue deficiency shown on Schedule A is  
7 \$32,416,997, or an approximate increase of 4.7% over as adjusted revenues.

8

9 Schedule A-1 is the summary of net operating income per books for the test year  
10 ending December 31, 2008, a summary of the adjustments made to operations  
11 and, finally, the as adjusted net operating income.

12

13 Schedule A-2 is a summary income tax computation both per books and as  
14 adjusted for the twelve months ending December 31, 2008.

15

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

18 A. Schedule B summarizes the requested rate base of MGE at December 31, 2008.  
19 Total rate base of \$603,945,933 consists of net plant of \$593,052,574, Working  
20 Capital of \$119,658,230, and the balance of net cost of removal costs and total  
21 rate base net offsets of \$109,164,872.

22

23 Q. WOULD YOU PLEASE DESCRIBE THE SCHEDULES SUPPORTING  
24 SCHEDULE B?



1 A. Schedule B-1 is the summary of service line replacement program (SLRP)  
2 deferrals net of accumulated amortization for which deferred taxes have been  
3 computed and deducted from rate base. The SLRP program requires significant  
4 infrastructure replacement costs to be incurred. These deferrals represent costs  
5 that MGE was allowed to defer, before the advent of the infrastructure system  
6 replacement surcharge (ISRS) rate, pursuant to six separate Accounting Authority  
7 Orders (AAOs). The first four AAOs are now fully amortized.

8

9 **Q. WHAT IS THE AMOUNT OF SLRP DEFERRED TAXES YOU**  
10 **INCLUDED IN RATE BASE AT DECEMBER 31, 2008?**

11 A. Schedule B-1 details the total SLRP deferred taxes of \$1,278,767 at December 31,  
12 2008.

13

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

16 A. Generally there are three types of costs and related approaches considered in  
17 developing rate base. The first type of cost and approach relates to amounts that  
18 are included in rate base in compliance with Commission Orders. The deferred  
19 taxes associated with the SLRP AAOs, which I described above, and the  
20 unamortized net cost of removal balance are those types of costs.

21

22 The second type of cost and approach relates to amounts that fluctuate monthly  
23 due to many variables. Adjusting any one of these costs at a date specific may not  
24 provide a reasonable basis for determining an appropriate level of on-going cost

1 of service. Specifically, a thirteen-month average has been utilized to more  
2 accurately reflect the on-going nature of these fluctuating balances.

3

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

10

11 **Q. PLEASE DESCRIBE COSTS THAT ARE AFFORDED A THIRTEEN-**  
12 **MONTH AVERAGE.**

13 A. The rate base items afforded a thirteen month average are material and supplies  
14 inventory, prepayments, natural gas in storage, as well as the rate base offsets of  
15 customer deposits and customer advances. Schedules B-2 and B-3 show the  
16 monthly amounts related to customer deposits and customer advances,  
17 respectively. Schedule E provides a summary of all working capital components  
18 with the monthly amounts for Materials and Supplies, Prepayments and Natural  
19 Gas in Storage being shown on Schedules E-1, E-2 and E-3 respectively.

20

21 **Q. HAVE YOU ALSO INCLUDED A CASH WORKING CAPITAL**  
22 **COMPONENT OF RATE BASE AT DECEMBER 31, 2008?**

23 A. Yes. MGE witness Robert O'Brien is sponsoring testimony supporting cash  
24 working capital in rate base in the amount of \$20,105,085.

1

2 **Q. HAVE YOU INCLUDED ANY OTHER WORKING CAPITAL**  
3 **COMPONENTS IN YOUR RATE BASE?**

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

6

7 **Q. PLEASE EXPLAIN YOUR SCHEDULE OF PLANT IN SERVICE.**

8 A. Schedule C, page 1 of 2 summarizes the various categories of plant investment  
9 including the direct plant MGE accounts for on its books; completed construction  
10 not classified; joint and common plant accounted for on Southern Union  
11 Company's books that is allocated to MGE; and any adjustments. There are three  
12 adjustments included in the December 31, 2008 plant in service balance. The first  
13 adjustment eliminates from rate base the investment in inactive services. This  
14 adjustment, while not having a direct effect on rate base since the retirement  
15 decreases both plant and accumulated depreciation by the same amount, does  
16 decrease depreciation expense for the test year. The second adjustment increases  
17 transportation equipment, stores equipment and power operated equipment to  
18 reflect vehicles and equipment which is currently under lease but which MGE  
19 will be purchasing because the lease has been cancelled. The \$8,096,231 plant  
20 adjustment represents the original cost of the assets being purchased while a  
21 corresponding adjustment to the depreciation reserve has been made in the  
22 amount of \$4,507,369 to reflect the amount already paid on the lease before  
23 cancellation. The third adjustment increases transportation equipment by  
24 \$368,000 to reflect the cost associated with purchasing vehicles for the outside

1 plant employees being hired in connection with the new MGE apprenticeship  
2 program.

3

4 **Q. WHAT IS THE MGE APPRENTICESHIP PROGRAM?**

5 A. As part of the new *collective bargaining agreement* reached with the unions at the  
6 end of 2008, it was agreed that MGE would begin an apprenticeship program to  
7 hire new outside plant employees to train under MGE's more experienced work  
8 force. With this program, MGE will hire 20 employees in May and June at an  
9 entry level wage level to gain experience and learn the trade of an outside gas  
10 plant employee. Each of the employees hired will have the use of a Company  
11 vehicle.

12

13 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME  
14 THAT YOU ARE SPONSORING ON SCHEDULE H.**

15 A. Schedule H, consisting of 21 schedules, details all of the adjustments made to cost  
16 of service. The first two pages of Schedule H detail the operating income  
17 statement summarized by the uniform system of accounts. It shows the test year  
18 balances per books at December 31, 2008, a summary of the pro forma  
19 adjustments to each account and finally the adjusted balance at December 31,  
20 2008. The next six pages detail each adjustment individually by FERC account  
21 number.

22

23 Schedules H-1 and H-2 are the revenue adjustments that are being sponsored by  
24 MGE witness Larry Loos.

1

2 Schedule H-3 removes purchased gas costs from the operating income statement.

3

These expenses should not be included in the determination of the cost of service.

4

Purchased gas costs are recovered through the PGA mechanism and not base

5

rates.

6

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

8

A. Pro forma payroll and the related payroll adjustment are detailed by account

9

number on Schedule H-4. The adjustment takes into consideration the employee

10

levels at December 31, 2008 and the level of wages that are known and

11

measurable as of April 1, 2009. The pro forma level also includes overtime,

12

which was based on actual overtime hours worked during the test year and an

13

adjustment to include the 20 new employees to be hired as part of the

14

apprenticeship program. Dividing total pro forma payroll charged to operating

15

expenses by total pro forma payroll developed a payroll expense ratio. This

16

payroll expense ratio was subsequently applied to the pro forma levels of

17

employee benefits, payroll taxes and injuries and damages.

18

19

A separate adjustment has been proposed on Schedule H-18, which eliminates

20

financially based MGE incentive compensation and bonuses included in the test

21

year.

22

23

Payroll taxes on Schedule H-6 are adjusted for the payroll annualization.

24

1 Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE  
2 BENEFITS?

3 A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses  
4 representing employee benefits paid on behalf of employees. Included in these  
5 benefits is the FAS 87 pension expense, which represents the average cash  
6 funding made for the years 2007 and 2008 and that which is scheduled for 2009.  
7 Also included is amortization of the FAS 87 regulatory asset on MGE's books at  
8 December 31, 2008 over a six year period.

9  
10 Other benefits expense costs include insurance, FAS 106 post retirement benefit  
11 costs, 401k costs and other miscellaneous employee benefit costs charged to  
12 account 926. These pro forma costs were then multiplied by the payroll expense  
13 ratio to arrive at the adjustment to operating expenses.

14

15 Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE  
16 AND INJURIES AND DAMAGES?

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

23

24 Q. PLEASE EXPLAIN SCHEDULE H-8.

1 A. Schedule H-8 increases administrative and general expenses to properly assign or  
2 allocate joint and common corporate functions to MGE. These functions support  
3 the ongoing operations of MGE and include accounting, taxes, shareholder  
4 relations, treasury, human resources, environmental and legal.

5

6 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**  
7 **EXPENSE?**

8 A. Yes. I have increased bad debt expense or uncollectible expense by \$1,569,363.

9

10 **Q. PLEASE EXPLAIN HOW YOU COMPUTED THE ADJUSTMENT.**

11 A. The adjustment was computed by taking the averaging bad debt write-offs for  
12 2006 through 2008 and comparing that average to the bad debt expense recorded  
13 in 2008. The average write-offs of \$9,435,379 when compared to the actual  
14 expense of \$7,866,016 results in the adjustment of \$1,569,363.

15

16

17 **Q. ARE THERE ANY OTHER ALTERNATIVES THAT THE COMMISSION**  
18 **MIGHT CONSIDER TO ADDRESS THE UNPREDICTABLE NATURE**  
19 **OF THE UNCOLLECTIBLE EXPENSE?**

20 A. In my opinion there are. One alternative would be to separate the uncollectible  
21 write-offs into two pieces; the gas cost piece and the distribution piece.

22

23 The gas cost portion of the uncollectible expense is a risk the Company should  
24 not have to bear. The purchased gas adjustment (PGA) clause is meant to be the

1 mechanism by which the Company is reimbursed for the cost of gas including the  
2 commodity, storage, transportation costs and other costs of acquiring the gas  
3 which is delivered to end use customers. Sheet no. 14 of MGE's tariff describes  
4 the various costs that should be included in the current cost of gas but also states  
5 that the costs are not solely limited to just those costs:

6 Current Cost of Gas (CCG) - A per Ccf factor to reflect the current  
7 estimate of the annualized cost of various natural gas services  
8 purchased by the Company, including but not limited to firm and  
9 interruptible gas supply, gathering, processing and treating  
10 services, firm and interruptible transportation service, storage  
11 services, gas price volatility mitigation instruments, including but  
12 not limited to financial instruments and any service which bundles  
13 or aggregates these various services.  
14  
15

16  
17 **Q. WOULD MGE HAVE AN INCENTIVE TO PURSUE UNPAID BILLS IF**  
18 **IT WAS ALLOWED TO RECOVER UNPAID GAS COSTS THROUGH**  
19 **THE PGA MECHANISM?**

20 **A.** Yes. MGE would still have about 30 percent of any unpaid bill that represents  
21 distribution charge at risk and would still try to collect that balance along with the  
22 gas cost portion of that unpaid bill. If a customer wants gas service their bill  
23 needs to be paid. The gas cost portion of all uncollectible recoveries would then  
24 be credited back to the customers through the PGA mechanism.  
25

26 **Q. IS THERE ANOTHER APPROACH THAT CAN BE CONSIDERED BY**  
27 **THE COMMISSION TO ADDRESS UNCOLLECTIBLES?**



1 A. Yes. Another alternative would be for the Commission to permit MGE to defer  
2 the gas portion of uncollectible expense in a way similar to the tracking  
3 mechanisms in place for the over/under recovery of pension expense and cost of  
4 removal. Currently MGE is allowed to recover a set amount of pension expense  
5 and cost of removal in rates. If at the end of the year, MGE has either over- or  
6 under-collected those costs from ratepayers, the difference is recorded in a  
7 deferred asset/liability account and amortized to rates in the subsequent rate  
8 filing. Using that same mechanism, MGE would be allowed to include in rates  
9 \$6,478,331 of uncollectibles associated with gas costs and \$2,957,048 related to  
10 non gas costs. If at the end of the year, MGE's actual uncollectible expense  
11 associated with gas costs is \$8,000,000 then MGE would be allowed to defer the  
12 difference and include amortization of the deferral over 3 years in the next rate  
13 case. The non-gas portion of \$2,957,048 would not be included in this  
14 mechanism and remain at risk for MGE.

15

16 **Q. IF MGE WERE ALLOWED TO PASS THROUGH THE GAS PORTION**  
17 **OF UNCOLLECTIBLES THROUGH THE PGA, WHAT ADJUSTMENT**  
18 **WOULD BE MADE TO UNCOLLECTIBLES?**

19 A. Instead of an adjustment of \$1,569,363 the adjustment attributable to the non-gas  
20 portion of uncollectibles would be \$491,838.

21

22 **Q. HAS MGE FILED PROPOSED TARIFF LANGUAGE TO APPLY TO THE**  
23 **INCLUSION OF THE GAS PORTION OF UNCOLLECTIBLES IN THE**  
24 **PGA?**

1 A. Yes. Proposed Sheet No. 17 contains the suggested tariff language.

2

3 **Q. HAS MGE PROPOSED TO INCLUDE ANY OTHER ITEMS IN THE**  
4 **PGA?**

5 A. Yes. Proposed Sheet Nos. 14 and 16 include language which would include as a  
6 cost of gas, the property taxes assessed on gas held in storage and any FERC  
7 related regulatory costs.

8 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO REGULATORY**  
9 **COMMISSION EXPENSE.**

10 A. This adjustment on Schedule H-10 first amortizes expected rate case expense over  
11 a three-year period, and the 2005 depreciation study over a five-year period,  
12 annualizes the NARUC and MPSC assessments based on invoices received in  
13 2008 and adjusts other regulatory costs to more normal level.

14

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

16 A. Schedule H-11 computes interest on the average thirteen-month balance of  
17 residential customer deposits at an interest rate of 4.25% or 1% over the prime  
18 rate as of December 31, 2008, consistent with MGE's tariff Sheet No. R-14 and  
19 on the average thirteen-month balance of commercial customer deposits at the  
20 statutory interest rate of 3.00%.

21

22 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION**  
23 **EXPENSE?**

1 A. Schedule H-12 details the adjustment to depreciation expense based upon the  
2 level of plant investment at December 31, 2008. The adjustment being proposed  
3 on schedule H-12 is a two part adjustment with the first part of the adjustment  
4 being made to annualize depreciation expense based on the year end levels of  
5 plant using the current depreciation rates approved by the Commission in Case  
6 No. GR-2006-0422. The second part of the adjustment uses the depreciation rates  
7 recommended by MGE witness Thomas J. Sullivan.

8

9

10 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**  
11 **EXPENSE.**

12 A. Schedule H-13 details the pro forma amortization expense. The adjustment  
13 consists of three parts. The first part annualizes the amortization of all leasehold  
14 improvements and miscellaneous intangible plant at December 31, 2008. The  
15 second part of the adjustment computes SLRP amortization based upon the ten-  
16 year amortization period, which the Commission determined in Case No. GR-98-  
17 140. The third part of the adjustment amortizes the unamortized cost of the  
18 infinium software and net cost of removal balance over a five year period.

19

20 **Q. PLEASE EXPLAIN SCHEDULE H-14 RELATING TO THE**  
21 **TRANSPORTATION AND WORK EQUIPMENT CLEARING ACCOUNT.**

22 A. These adjustments normalize the amounts included in the test year expense  
23 accounts relating to dollars charged from clearing accounts to operating expense  
24 and capital accounts. The adjustment reflects the change in the depreciation of

1 transportation equipment and power operated equipment because of the  
2 cancellation of the equipment lease by the lessor. The additional depreciation  
3 expense resulting from the increase in equipment has been offset by the  
4 elimination of the lease payments made during the test period resulting in an  
5 overall decrease to expense of \$613,821.

6  
7 **Q. PLEASE EXPLAIN THE FUNCTION OF "CLEARING ACCOUNTS".**

8 A. Clearing accounts are specific accounts required by the uniform system of  
9 accounts. They serve as a clearing house for various costs that are incurred for a  
10 similar function. For example, the TWE account accumulates various costs  
11 relating to vehicles and major work equipment including payroll, benefits, taxes,  
12 and insurance as well as the cost of tires, oil, and repairs and depreciation and/or  
13 vehicle lease expense. By accumulating varied but related costs into one account  
14 these costs can more easily and consistently be charged back to other expense and  
15 capital accounts. At the end of the year these clearing accounts should have a  
16 balance of \$0.

17  
18 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

19 A. Schedule H-15 synchronizes ad valorem taxes with plant in service excluding  
20 intangible plant and corporate allocated plant at December 31, 2008. The  
21 property tax rate is based on the 2008 actual property tax rate. Property taxes  
22 have also been increased to include an estimated amount for Kansas property tax  
23 on gas in storage in Kansas.

1 **Q. WHY ARE YOU INCLUDING AN AMOUNT FOR KANSAS PROPERTY**  
2 **TAXES?**

3 A. A previous attempt by Kansas to tax gas in storage was decided in MGE's favor  
4 by the Kansas courts in 2007, but the Kansas legislature is once again trying to  
5 pass a law which will allow the taxation of the storage gas in Kansas. As of the  
6 time of filing this testimony, the Kansas Senate has already passed the measure,  
7 and a House Tax Committee will be including it in package set to be voted on at  
8 the end of April. It is my understanding that the bill, unless changed, will be  
9 retroactive to January 1, 2009, meaning MGE will have to pay this tax in 2009.

10

11 **Q. PLEASE EXPLAIN SCHEDULE H-16.**

12 A. Schedule H-16 annualizes the postage costs to reflect the postage increase which  
13 went into effect in early 2008 and which will once again increase on May 1, 2009.

14

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

16 A. Schedule H-17 annualizes rent expense and MGE's share of operating expenses,  
17 taxes and maintenance at the headquarters building.

18

19 **Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE ON SCHEDULE H-18.**

20 A. Schedule H-18 removes all MGE incentive compensation and bonuses during the  
21 test year which were based on meeting financial targets. Those bonuses earned as  
22 a result of meeting service level targets and other outstanding contribution awards  
23 remain in expense. The payroll expense ratio is then applied to the adjusted level  
24 in order to calculate the amount, which should be removed from expense.

1

2 **Q. PLEASE EXPLAIN SCHEDULE H-19.**

3 A. H-19 reflects an expense for the cost to accept a credit card payment from a  
4 customer for the balance of their gas bill. Currently that cost is assessed to the  
5 customer by the credit card company which reduces the incentive for a customer  
6 to pay with a credit card. It is in the Company's interest to accept a credit card  
7 payment as that debt if later unpaid would revert to the credit card company and  
8 not MGE. During 2008, credit cards were used over 195,000 times to pay a gas  
9 bill. Those payments however declined from a high of 21,000 in March to a low  
10 of 12,800 in November. MGE would like to see the number of these payments  
11 increase as they may very well help keep uncollectible accounts from increasing  
12 beyond what is expected.

13

14 **Q. PLEASE EXPLAIN SCHEDULE H-20.**

15 A. Schedule H-20 eliminates the cost of contract lobbyists from the cost of service  
16 and adds to expense one fifth of the costs incurred in negotiating a new contract  
17 with all of MGE's unions. One fifth has been used to reflect the five year length  
18 of the new union contracts.

19

20 **Q. PLEASE EXPLAIN SCHEDULE H-21.**

21 A. Currently, MGE has included in rates \$750,000 for low-income weatherization  
22 programs administered by the City of Kansas City, Missouri and several other  
23 social agencies located in the other parts of MGE's service territories. MGE  
24 would recommend that this level of funding continue along with the \$750,000 of

1 funding in rates for MGE energy efficiency and education initiatives. MGE  
2 witness David Hendershot addresses this issue in his testimony.

3

4 **Q. HAS MGE PROPOSED TO IMPLEMENT NATURAL GAS**  
5 **CONSERVATION INITIATIVES IN THIS CASE?**

6 A. Yes. MGE witness Hendershot has put forth a proposal in his direct testimony  
7 where, under certain conditions, MGE would implement natural gas conservation  
8 initiatives to include the following elements:

- 9 • Communication and education regarding natural gas conservation  
10 and energy efficiency; and
- 11 • Promotion of a water heater rebate program designed to encourage  
12 the installation of energy efficient appliances and, therefore,  
13 improve natural gas conservation efforts.

14

15 **Q. WHY IS IT REASONABLE FOR MGE'S CUSTOMERS TO FUND THESE**  
16 **INITIATIVES?**

17 A. These programs are designed to provide direct benefits to MGE's customers and  
18 therefore should be funded through customer rates.

19

20 **Q. YOU MENTIONED PREVIOUSLY IN YOUR TESTIMONY THAT ONE**  
21 **OF THE REASONS MGE HAS FILED THIS CASE IS THAT IT HAS**  
22 **EXPERIENCED HIGHER OPERATING EXPENSES DUE TO**  
23 **ENVIRONMENTAL REMEDIATION COSTS. TO WHAT**  
24 **ENVIRONMENTAL REMEDIATION COSTS ARE YOU REFERRING?**

25 A. MGE has had significant costs during the test year associated with the clean-up of  
26 former manufactured gas plant (FMGP) sites.

1

2 **Q. WHAT AMOUNT OF FMGP REMEDIATION COSTS HAS MGE**  
3 **INCURRED DURING THE TEST YEAR?**

4 A. During the test year ending December 31, 2008, MGE incurred almost \$5,000,000  
5 of FMGP remediation costs.

6

7 **Q. HOW HAVE THESE COSTS BEEN TREATED FOR PURPOSES OF THIS**  
8 **FILING?**

9 A. These costs have been treated as a normal ongoing operating expense or as a  
10 normal cost of doing business for a local distribution company.

11

12 **Q. HAS THE COMMISSION PREVIOUSLY INDICATED ITS BELIEF**  
13 **THAT THESE FMGP REMEDIATION COSTS ARE ONGOING IN**  
14 **NATURE?**

15 A. Yes. Recently, in the Report and Order issued on December 17, 2008 in  
16 Commission Case No. GU-2007-0480, the Commission made the following  
17 findings in regard to MGE's FMGP sites and its remediation costs:

- 18 1) "Cleanup costs are certain to occur in the near future;"  
19 2) "Remediation of former manufactured gas plant sites is a normal cost of  
20 doing business for a local distribution gas company;" and,  
21 3) "Remediation of FMGP sites is typical of a natural gas utility."

22

23

24

**4. MISCELLANEOUS MATTERS**



1 **Q. HAVE YOU PREPARED ANY OTHER SCHEDULES IN THIS FILING?**

2 A. Yes. Section G contains schedules which compare some of MGE's statistics  
3 related to operations and maintenance (O&M) expense per customer and annual  
4 residential margin bills with other reasonably comparable LDC's regulated in  
5 Missouri and also compares MGE's actual uncollectible expense with the level  
6 allowed by the Commission in the last three rate cases.

7

8 The first schedule, Schedule G-1 compares MGE's O&M expense per customer  
9 for the years 1998 through 2007 with the O&M expense per customer for the  
10 same period for Laclede, AmerenUE and the Missouri Public Service (MoPub)  
11 division of Aquila now Empire District Gas. As shown by Schedule G-1, MGE is  
12 consistently much lower than the other utilities shown on the schedule.

13

14 Schedule G-2 is a comparison of annual residential bills on the basis of margin  
15 rates (monthly customer charge plus volumetric delivery rates). The schedule  
16 shows that MGE is considerably lower-priced than these companies. The  
17 comparison is based on the average residential usage MGE used to set rates in  
18 Case No. GR-2006-0422.

19

20 **Q. PLEASE CONTINUE.**

21 A. Schedule G-3 compares the actual uncollectible expense included in MGE's net  
22 operating income with the rate case allowance. The comparison is for each fiscal  
23 or calendar year from 1996 through 2008. For the thirteen years shown on the

1 schedule, MGE has realized a shortfall of almost \$19,000,000 in expense  
2 recovery or \$1,450,000 per year on average.

3  
4 **Q. DO YOU HAVE ANY INFORMATION COMPARING MGE'S ACTUAL**  
5 **ACHIEVED EARNINGS TO MGE'S COMMISSION-AUTHORIZED**  
6 **RETURNS?**

7 A. Yes. Schedule G-4 shows that in each fiscal year from 1996 through 2008,  
8 MGE's achieved rate of return was below the return authorized by the  
9 Commission in the most recent previous case. In 2005, MGE's per books  
10 achieved return was close to the return authorized in Case No. GR-2004-0209  
11 only because MGE was able to favorably resolve a series of property tax appeals  
12 related to a number of preceding years. Absent that non-recurring event, pursuant  
13 to which MGE received property tax refunds and adjustments in 2005 of  
14 \$8,309,218, MGE's achieved return for 2005 would have been 7.49%, well short  
15 of the return authorized in Case No. GR-2004-0209. In 2007 and 2008 the  
16 achieved return was again close to the return authorized in Case No. GR-2006-  
17 0422 primarily due to the improvement in residential revenues because of the  
18 SFV rate design approved in that case. However because of environmental costs  
19 in 2008, uncollectible costs in 2007 and the increase in plant, MGE still was not  
20 able to achieve its authorized return. Taken a step further, over the thirteen and  
21 one-half year period shown on Schedule G-4, MGE has realized an earnings  
22 deficiency of about \$118 million, which tax adjusted equates to a revenue  
23 deficiency of over \$190 million.

24

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**5. TARIFF CHANGES**

**Q. WOULD YOU PLEASE SUMMARIZE THE TARIFF CHANGES BEING REQUESTED BY MGE?**

A. MGE is filing fifty (50) proposed tariffs sheets that contain either a language or rate change.

Proposed Sheets Nos. 10, 25, 27, 28, 30, 31, 40, 42, 76, 77, 83 and 94 reflect the new rates and tariff class volume requirements being proposed by MGE witness Russell Feingold for each of the tariff classes.

**Q. IS MGE REQUESTING A CHANGE TO THE TRANSPORTATION PROVISIONS OF ITS TARIFF?**

A. Yes. MGE is revising the Transportation Provisions (TRPR) of the tariff to address Aggregation, Daily Scheduling Requirements, and Monthly Cash Out, and to add a Periods of Daily Balancing section. MGE considered a proposal to change the tariff to strict daily balancing, but has chosen instead to make a proposal that retains the flexibility afforded by monthly cash out and encourage customers to manage the business within the intent of daily balancing.

1 The tariff language change is designed to clarify the intent that customers to  
2 schedule nominations in kind with usage, as adjusted for retention for lost and  
3 unaccounted for gas.

4  
5 Aggregation has been changed to clarify that the Agent will pool customer  
6 nominations and usage by pipeline. The liability section has been clarified to  
7 incorporate Section 3.19 of MGE's tariff.

8  
9 Cash out has been changed to narrow the balancing tolerances by 5%, to change  
10 the cash out value to the lower of index prices when MGE is purchasing cash out  
11 supply and to the higher of index prices when MGE is selling supply. While  
12 changing the tolerance band will not affect most customers, as customers  
13 typically balance within the +/- 5% tolerance on a monthly basis, changing the  
14 cash out price will hopefully encourage customers to reduce imbalance volumes.  
15 MGE has also removed the PGA transportation component when purchasing  
16 monthly cash out supply. MGE has already incurred this cost in the PGA and  
17 does not require this additional cost to purchase incremental supplies for the  
18 commodity customer. These provision changes will reduce the impact of cash out  
19 to MGE commodity customers.

20  
21 MGE has added a Period of Daily Balancing provision to address individual  
22 circumstances where a customer or agent may continue to nominate more supply  
23 than required at receipt points. It is anticipated that MGE will only need this  
24 authority in limited circumstances. We anticipate that the changes proposed for

1 the balancing tolerances will encourage customers to meet the daily balancing  
2 intent of the tariff.

3  
4 Finally, MGE has added a Definitions section to the TRPR which includes the  
5 definitions of terms that are not well defined or not found in the other portions of  
6 the TRPR tariff language.

7  
8 **Q. WHAT ARE SOME OF THE OTHER TARIFF CHANGES YOU HAVE**  
9 **PROPOSED?**

10 A. The PGA Sheets Nos. 14 and 16 have been changed to include any property taxes  
11 on gas held in storage in the cost of gas and also to include any FERC regulatory  
12 costs. Sheets Nos. 17 and 17.1 have been changed to contain language that  
13 includes any over or under-collected uncollectible gas costs in the costs used to  
14 calculate the annual ACA factor. PGA Sheets Nos. 24 and 24.1 restate the PGA  
15 computation volumes to reflect the current mix of pipeline transportation, storage  
16 and commodity assets under contract to MGE for purposes of calculating PGA  
17 factors after May 2, 2009.

18  
19 Sheets Nos. 55 through 58.4 have the word “experimental” removed from the  
20 School Transportation Program (ESTP) tariff language. These tariffs have been  
21 in effect for over six years and should probably not be considered experimental  
22 anymore.

23

1 Finally, Sheet No. 98 has been modified to reflect that MGE is proposing to make  
2 the High-Efficiency Natural Gas Water Heating and Space Heating Incentive  
3 Program available to Small General Service (SGS) customers.

4  
5 MGE is proposing to withdraw the Experimental Low Income Rate (ELIR) tariff,  
6 Sheet Nos. 103 through 103.3. This program was approved by the Commission in  
7 GR-2001-292, and was short lived. The Commission, in the Report and Order in  
8 Case No. GR-2004-0209, allowed the program to end in July 2006, at which time  
9 the remaining funds were given to the MidAmerican Assistance Coalition to be  
10 used as energy assistance funds.

11  
12 The final tariff change proposed on Sheet No. R-87 would increase the following  
13 items in the Schedule of Other Charges:

14 Collection or disconnection from \$8.00 to \$20.00

15 Transfer charge from \$6.50 to \$15.00

16 All types of reconnection charges from \$45.00 to \$65.00

17 All of these increases in the charges are cost based and more closely reflect the  
18 MGE labor and overheads actually incurred.

19  
20 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

21 **A. Yes it does.**


BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's )  
Tariff Sheets Designed to Increase Rates ) Case No. GR-2009-\_\_\_\_  
for Gas Service in the Company's Missouri )  
Service Area. )

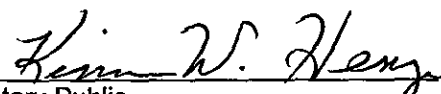
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI            )  
                                      )  
COUNTY OF JACKSON        )            ss.

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 1<sup>st</sup> day of APRIL 2009.

  
\_\_\_\_\_  
Notary Public

My Commission Expires: Feb. 3, 2011



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

**Index of Schedules**

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B	Rate Base
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B-3	Customer Advances
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**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
December 31, 2008  
**Revenue Deficiency**

Line No.	Description (a)	Ref. (b)	Required Return (c)	Earnings Deficiency (d)	Net Revenue Deficiency (e)
1	Rate Base	B	\$604,954,779		
2	Rate of Return	F	<u>8.434%</u>		
3	<b>Required Return</b>		<u><b>\$51,021,886</b></u>	\$51,021,886	
4	Adjusted Test Year Net Operating Income	A-1		<u>31,049,354</u>	
5	<b>Earnings Deficiency</b>			<u><b>\$19,972,532</b></u>	\$19,972,532
6	Multiply by Income Tax Gross-up Factor				<u>1.62308</u>
7	<b>Net Revenue Deficiency</b>				<u><b>\$32,416,997</b></u>
8	GR-2006-0422 Revenue Increase				<u><b>\$27,206,968</b></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
December 31, 2008  
**Summary of Net Operating Income**  
**Per Books and Adjusted**

Line No.	Description (a)	Per Books (b)	Adjustments (c)	As Adjusted (d)
<u>REVENUES</u>				
1	Operating Base Revenues	\$732,145,245	(\$550,071,147)	\$182,074,097
2	Other Utility Revenues	6,456,128		6,456,128
3	Total Operating Revenues	<u>\$738,601,373</u>	<u>(\$550,071,147)</u>	<u>\$188,530,226</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$529,514,357	(\$501,604,126)	\$27,910,231
5	Customer Accounts Expense	21,173,183	2,605,624	23,778,807
6	Customer Service and Information Expense	1,183,469	3,374	1,186,843
7	Sales Expense	1,028,158	5,263	1,033,421
8	Administrative and General Expense	51,904,046	1,375,237	53,279,283
9	Total Operating and Maintenance Expenses	<u>\$604,803,213</u>	<u>(\$497,614,628)</u>	<u>\$107,188,585</u>
10	Depreciation & Amortization Expense	\$26,971,271	\$3,405,748	\$30,377,019
11	Interest on Customer Deposits	161,519	(14,944)	146,575
12	Taxes Other Than Income	53,762,684	(41,903,995)	11,858,689
13	Total Operating Expenses	<u>\$685,698,687</u>	<u>(\$536,127,818)</u>	<u>\$149,570,869</u>
14	Operating Income Before Income Tax	\$52,902,686	(\$13,943,329)	\$38,959,357
15	Less: Income Tax Expense	22,022,840	(14,112,837)	7,910,003
16	Net Operating Income	<u>\$30,879,846</u>	<u>\$169,508</u>	<u>\$31,049,354</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
December 31, 2008  
**Income Tax**

Line No.	Description (a)	Reference (b)	Per Books (c)	As Adjusted (d)
1	Total Operating Revenues	A-1	\$738,601,373	\$188,530,226
2	Total Operating Expenses	A-1	<u>(685,698,687)</u>	<u>(149,570,869)</u>
3	Net Operating Income	A-1	<u>\$52,902,686</u>	<u>\$38,959,357</u>
4	Equity Portion of SLRP Deferrals		\$518,965	\$0
5	Less: Interest on Long Term Debt		<u>(21,074,636)</u>	<u>(18,354,328)</u>
6	Total Tax Adjustments		<u>(\$20,555,671)</u>	<u>(\$18,354,328)</u>
7	Net Taxable Income		<u>\$32,347,015</u>	<u>\$20,605,029</u>
8	Income Tax		<u>\$12,417,599</u>	<u>\$7,910,003</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
December 31, 2008  
**Rate Base**

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$29,991,344
2	Distribution Plant	C	840,012,483
3	General Plant	C	75,753,292
4	Gross Plant In Service		<u>\$945,757,118</u>
5	Accumulated Depreciation & Amortization	D	<u>(351,765,909)</u>
6	Net Plant in Service		\$593,991,209
7	Working Capital	E	120,128,442
8	Net Cost of Removal Balance		552,665
9	Customer Deposits	B-2	(4,559,511)
10	Customer Advances - Thirteen Month Average	B-3	(13,393,902)
11	Deferred Income Taxes - SLRP	B-1	(1,278,767)
12	Deferred Income Taxes - Other ( Net of AMT)	B-4	<u>(90,485,357)</u>
13	<b>Total Rate Base</b>		<u><u>\$604,954,779</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**SLRP Deferrals and Deferred Taxes**  
December 31, 2008

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)	\$0	(0)	\$0
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	0	(0)	0
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	0	0	(0)
4	Order GR-98-140	9,182,136	6,810,084	2,372,052
5	Order GR-2001-282	1,629,639	692,596	937,043
6	Total SLRP Deferrals	<u>\$10,811,775</u>	<u>\$7,502,680</u>	<u>\$3,309,095</u>
7	Annual Amortization	<u>\$1,081,178</u>		
<u>SLRP Deferred Taxes</u>				
8	Order GO-92-185	0		
9	Order GO-94-234	0		
10	Order GO-97-301	0		
11	Order GR-98-140	(916,656)		
12	Order GR-2001-292	(362,111)		
13	Total SLRP Deferred Taxes	<u>(\$1,278,767)</u>		

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending December 31, 2008

**Customer Deposits**

Line No.	Month	Residential	Commercial & Industrial	Total
		Amount	Amount	Amount
	(a)	(b)	(c)	(d)
1	Dec-07	(806,071)	(3,631,820)	(4,437,891)
2	Jan-08	(862,763)	(3,679,011)	(4,541,774)
3	Feb-08	(859,856)	(3,744,583)	(4,604,439)
4	Mar-08	(899,515)	(3,752,727)	(4,652,241)
5	Apr-08	(799,345)	(3,795,560)	(4,594,905)
6	May-08	(779,288)	(3,778,542)	(4,557,831)
7	Jun-08	(754,253)	(3,771,453)	(4,525,705)
8	Jul-08	(743,377)	(3,796,964)	(4,540,341)
9	Aug-08	(738,566)	(3,808,411)	(4,546,977)
10	Sep-08	(731,797)	(3,813,742)	(4,545,538)
11	Oct-08	(737,517)	(3,827,786)	(4,565,303)
12	Nov-08	(731,427)	(3,827,032)	(4,558,459)
13	Dec-08	<u>(737,672.63)</u>	<u>(3,864,570)</u>	<u>(4,602,243)</u>
14	13 Month Total	<u>(\$10,181,446)</u>	<u>(\$49,092,201)</u>	<u>(\$59,273,648)</u>
15	13 Month Average	<u>(\$783,188)</u>	<u>(\$3,776,323)</u>	<u>(\$4,559,511)</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending December 31, 2008

**Customer Advances**

Line No.	Month	Amount
	(a)	(b)
1	Dec-07	(14,415,451)
2	Jan-08	(14,329,489)
3	Feb-08	(14,170,145)
4	Mar-08	(13,776,562)
5	Apr-08	(13,633,849)
6	May-08	(13,354,019)
7	Jun-08	(13,285,504)
8	Jul-08	(13,053,857)
9	Aug-08	(12,953,206)
10	Sep-08	(12,963,050)
11	Oct-08	(12,828,284)
12	Nov-08	(12,740,058)
13	Dec-08	<u>(12,617,246)</u>
14	13 Month Total	<u><u>(\$174,120,721)</u></u>
15	13 Month Average	<u><u>(\$13,393,902)</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
December 31, 2008

**Deferred Taxes (Other than SLRP)**

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 12/31/08	(\$90,453,253)
2	Deferred Taxes, Corporate Plant	<u>(32,104)</u>
3	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u><u>(\$90,485,357)</u></u>



**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**Plant in Service**  
December 31, 2008

Line No.	Description	Direct	Completed Not Classified	Total Direct & Completed	Corporate Allocated	Total Adjustments	Total As Adjusted
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>INTANGIBLE PLANT</u>							
1	(301) Organization	\$15,600	\$0	\$15,600	\$0	\$0	\$15,600
2	(302) Franchises	13,823	0	13,823	0	0	13,823
3	(303) Miscellaneous Intangible	29,961,921	0	29,961,921	0	0	29,961,921
4	Total Intangible Plant	<u>\$29,991,344</u>	<u>\$0</u>	<u>\$29,991,344</u>	<u>\$0</u>	<u>\$0</u>	<u>\$29,991,344</u>
<u>DISTRIBUTION PLANT</u>							
5	(374.1) Land	\$150,610	\$0	\$150,610	\$0	\$0	\$150,610
6	(374.2) Land Rights	2,148,602	0	2,148,602	0	0	2,148,602
7	(375.1) Structures	8,605,252	0	8,605,252	0	0	8,605,252
8	(375.2) Leasehold Improvements	0	0	0	0	0	0
9	(376) Mains	375,529,186	651,612	376,180,798	0	0	376,180,798
10	(378) Meas. & Reg. Station - General	12,239,619	18,518	12,258,137	0	0	12,258,137
11	(379) Meas. & Reg. Station - City Gate	3,298,287	2,414	3,298,701	0	0	3,298,701
12	(380) Services	323,088,664	35,505	323,124,169	0	(7,882,550)	315,241,619
13	(381) Meters	32,554,921	0.00	32,554,921	0	0	32,554,921
14	(382) Meter Installations	76,552,808	43,297	76,596,105	0	0	76,596,105
15	(383) House Regulators	12,597,793	0	12,597,793	0	0	12,597,793
16	(385) Electronic Gas Measuring	379,944	0	379,944	0	0	379,944
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	<u>\$847,143,686</u>	<u>\$751,346</u>	<u>\$847,895,032</u>	<u>\$0</u>	<u>(\$7,882,550)</u>	<u>\$840,012,483</u>
<u>GENERAL PLANT</u>							
19	(389) Land	\$1,104,164	\$0	\$1,104,164	\$0	\$0	\$1,104,164
20	(390.1) Structures	715,993	0	715,993	0	0	715,993
21	(390.2) Leasehold Improvements	1,884,544	0	1,884,544	4,436	0	1,888,980
22	(391) Furniture & Fixtures	8,030,528	37,293	8,067,821	934,199	0	9,002,020
23	(392.1) Transportation Eq - Cars and Small Trucks	0	0	0	0	6,251,827	6,251,827
24	(392.2) Transportation Eq - Heavy Trucks	6,004,147	0	6,004,147	0	456,374	6,460,521
25	(393) Stores Equipment	529,488	0	529,488	0	127,230	656,718
26	(394) Tools	5,340,862	14,259	5,355,121	0	0	5,355,121
27	(395) Laboratory Equipment	0	0	0	0	0	0
28	(396) Power Operated Equipment	130,439	0	130,439	0	1,628,800	1,759,239
29	(397.1) Communication Equipment - AMR	38,278,014	0	38,278,014	0	0	38,278,014
30	(397.0) Communication Equipment	3,813,854	0	3,813,854	0	0	3,813,854
31	(398) Miscellaneous Equipment	466,837	0	466,837	0	0	466,841
32	Total General Plant	<u>\$66,298,870</u>	<u>\$51,552</u>	<u>\$66,350,422</u>	<u>\$938,635</u>	<u>\$8,464,231</u>	<u>\$75,753,292</u>
33	Total Original Cost Plant in Service	<u>\$943,433,900</u>	<u>\$802,898</u>	<u>\$944,236,798</u>	<u>\$938,635</u>	<u>\$581,681</u>	<u>\$945,757,118</u>
34	Accumulated Depreciation and Amortization	<u>(355,141,090)</u>	<u>0</u>	<u>(355,141,090)</u>	<u>0</u>	<u>3,375,181</u>	<u>(351,765,909)</u>
35	Net Plant in Service	<u>\$588,292,810</u>	<u>\$802,898</u>	<u>\$589,095,708</u>	<u>\$938,635</u>	<u>\$3,956,862</u>	<u>\$593,991,209</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**Plant In Service**  
December 31, 2008

Line No.	Description	Retire Inactive Services No. 1 (b)	Switch Fleet from Lease to Purchase No. 2 (c)	Truck Assoc with the Apprentice Program No. 3 (d)	Total Adjustments (e)
<u>INTANGIBLE PLANT</u>					
1	(301) Organization				0
2	(302) Franchises				
3	(303) Miscellaneous Intangible				0
4	Total Intangible Plant	\$0	\$0		\$0
<u>DISTRIBUTION PLANT</u>					
5	(374.1) Land				
6	(374.2) Land Rights				
7	(375.1) Structures				
8	(375.2) Leasehold Improvements				
9	(376) Mains & Mains - Cast Iron				
10	(378) Meas. & Reg. Station - General				
11	(379) Meas. & Reg. Station - City Gate				
12	(380) Services	(7,882,550)			(7,882,550)
13	(381) Meters				
14	(382) Meter Installations				
15	(383) House Regulators				
16	(385) Electronic Gas Metering				
17	(387) Other Equipment				
18	Total Distribution Plant	(\$7,882,550)	\$0		(\$7,882,550)
<u>GENERAL PLANT</u>					
19	(389) Land				
20	(390.1) Structures				
21	(390.2) Leasehold Improvements				
22	(391) Furniture & Fixtures				
23	(392.1) Transportation Equipment		5,883,827	368,000	6,251,827
24	(392.2) Transportation Equipment		456,374		456,374
25	(393) Stores Equipment		127,230		127,230
26	(394) Tools				
27	(395) Laboratory Equipment				
28	(396) Power Operated Equipment		1,628,800		1,628,800
29	(397) Communication Equipment - AMR				
30	(397) Communication Equipment				
31	(398) Miscellaneous Equipment				
32	Total General Plant	\$0	\$8,096,231	\$368,000	\$8,464,231
33	Total Original Cost Plant In Service	(\$7,882,550)	\$8,096,231	\$368,000	\$581,681

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**Accumulated Reserves for Depreciation and Amortization**  
**December 31, 2008**

Line No.	Description (a)	Test Year Direct (b)	Corporate (c)	Proforma Adjustments (d)	Test Year As Adjusted (e)
1	Intangible Plant Reserve	(\$23,089,550)	\$0	\$0	(\$23,089,550)
2	Distribution & General Plant Reserve	<u>(331,675,603)</u>	<u>(375,937)</u>	<u>3,375,181</u>	<u>(328,676,359)</u>
3	Total Accumulated Reserves	<u><u>(\$354,765,154)</u></u>	<u><u>(\$375,937)</u></u>	<u><u>\$3,375,181</u></u>	<u><u>(\$351,765,909)</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**Accumulated Reserves for Depreciation and Amortization**  
December 31, 2008

Line No.	Description	Adjustments to Plant in Service	Deprec. Rates	Retire Inactive Services	Switch Fleet from Lease to Purchase	Total Adjustments
	(a)	(b)	(c)	No. 1 (d)	No. 2 (e)	(f)
<u>INTANGIBLE PLANT</u>						
1	(301) Organization					
2	(302) Franchises					
3	(303) Miscellaneous intangible	\$0				\$0
4	Total Intangible Plant	\$0			\$0	\$0
<u>DISTRIBUTION PLANT</u>						
5	(374.1) Land		0.00%			
6	(374.2) Land Rights		Amort.			
7	(375.1) Structures		1.49%			
8	(375.2) Leasehold Improvements		Amort.			
9	(376) Mains & Mains - Cast Iron		2.39%			
10	(378) Meas. & Reg. Station - General		2.86%			
11	(379) Meas. & Reg. Station - City Gate		2.13%			
12	(380) Services	(7,882,550)	3.38%	7,882,550		7,882,550
13	(381) Meters		2.89%			
14	(382) Meter Installations		2.86%			
15	(383) House Regulators		2.44%			
16	(385) Electronic Gas Metering		3.33%			
17	(387) Other Equipment		6.25%			
18	Total Distribution Plant	(\$7,882,550)		\$7,882,550		\$7,882,550
<u>GENERAL PLANT</u>						
19	(389) Land		0.00%			
20	(390.1) Structures		2.00%			
21	(390.2) Leasehold Improvements		Amort.			
22	(391) Furniture & Fixtures		8.06%			
23	(392.1) Transportation Equipment	5,883,827	13.33%		(3,438,401)	(3,438,401)
24	(392.2) Transportation Equipment	456,374			(238,970)	(238,970)
25	(393) Stores Equipment	127,230	2.70%		(53,534)	(53,534)
26	(394) Tools		5.30%			
27	(395) Laboratory Equipment		6.00%			
28	(396) Power Operated Equipment	1,628,800	6.25%		(776,464)	(776,464)
29	(397) Communication Equipment - AMR		5.00%			
30	(397) Communication Equipment		6.25%			
31	(398) Miscellaneous Equipment		3.85%			
32	Total General Plant	\$8,096,231		\$0	(\$4,507,369)	(\$4,507,369)
33	Total Adjustment	\$213,681		\$7,882,550	(\$4,507,369)	\$3,375,181

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
December 31, 2008  
**Working Capital**

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$2,199,670
2	Prepayments - Thirteen Month Average	E-2	543,993
3	Gas Inventory - Volumes and Price	E-3	91,535,864
4	Cash Working Capital	E-4	20,105,085
5	Prepaid Pension	E-5	<u>5,743,830</u>
6	Total Working Capital		<u><u>\$120,128,442</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending December 31, 2008  
**Materials & Supplies**

Line No.	Month (a)	Amount (b)
1	Dec-07	2,088,524
2	Jan-08	2,123,959
3	Feb-08	2,069,114
4	Mar-08	2,042,423
5	Apr-08	2,029,621
6	May-08	1,918,231
7	Jun-08	2,222,153
8	Jul-08	2,192,422
9	Aug-08	2,214,747
10	Sep-08	2,537,062
11	Oct-08	2,396,559
12	Nov-08	2,345,275
13	Dec-08	<u>2,415,622</u>
14	13 Month Total	<u><u>\$28,595,712</u></u>
15	13 Month Average	<u><u>\$2,199,670</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending December 31, 2008  
**Prepayments**

Line	Month	Amount
No.	(a)	(b)
1	Dec-07	872,700
2	Jan-08	773,414
3	Feb-08	569,643
4	Mar-08	437,185
5	Apr-08	298,017
6	May-08	189,563
7	Jun-08	83,659
8	Jul-08	211,810
9	Aug-08	228,657
10	Sep-08	1,062,145
11	Oct-08	873,885
12	Nov-08	819,944
13	Dec-08	<u>651,285</u>
14	13 Month Total	<u><u>\$7,071,906</u></u>
15	13 Month Average	<u><u>\$543,993</u></u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Thirteen Months Ending December 31, 2008  
**Gas Inventory**

Line No.	Month (a)	Dollars (b)
1	Dec-07	67,459,104
2	Jan-08	41,088,969
3	Feb-08	11,692,104
4	Mar-08	10,589,127
5	Apr-08	22,681,888
6	May-08	60,581,880
7	Jun-08	96,404,831
8	Jul-08	139,168,010
9	Aug-08	157,685,159
10	Sep-08	162,676,030
11	Oct-08	160,415,607
12	Nov-08	145,992,320
13	Dec-08	113,531,199
14	13 Month Average	<u><u>\$91,535,864</u></u>



**Missouri Gas Energy**  
**A Division of Southern Union Gas Company**  
**Test Year Ended December 31, 2008**  
**( \$ in Thousands )**

**Summary of Cash Working Capital**

Line #	Description (A)	Reference (B)	Test Year Expenses (C)	Number of Payment (Lead) / Lag Days (D)	Weighted Dollar Days [ 2 ] * [ 3 ] (E)	Totals (F)
<b><u>WORKING CAPITAL REQUIREMENT</u></b>						
1	REVENUE LAG DAYS	Page 2				48.57
2	EXPENSE LAG DAYS	Page 3				
3	Payroll & FICA Expense	H-4, H-6	\$ 36,102,199	11.00	\$ 397,124,189	
4	Pension & Benefits	H-5	16,389,067	18.20	298,274,457	
5	Commodity Purchased	H-3	502,616,530	34.23	17,204,563,822	
6	Other Expenses	L 22 - L 3 to L 5	42,281,636	45.49	1,923,391,622	
7	Total	Sum (L 3 to L 5)	<u>\$ 597,389,432</u>		<u>\$ 19,823,354,089</u>	
8	O & M Expense Payment Lag Days	L7, C 4 / C 2				33.18
9	Net Revenue (Lead) Lag Days	L 1 - L 8				15.39
10	Operating Expenses Per Day	L 7, C 2 / 365				<u>\$ 1,636,683</u>
11	Working Capital for O & M Expense	L 9 * L 10				\$25,183,147
12	Interest Payments	Page 6				(1,701,277)
13	Preferred Dividend Payments	Page 7				0
14	Franchise (Gross Receipt) Tax	Page 8				(1,492,674)
15	Property Tax	Page 8				(3,485,615)
16	Federal & State Income Taxes	Page 9			238,872	238,872
17	Other Taxes	Page 9				1,362,632
18	Total Working Capital	Sum (L 11 to L 16)				<u>\$20,105,085</u>
19	Pro Forma O & M Expense		\$ 609,677,116			
	Less:					
20	Uncollectible Expense		9,435,379			
21	Other Non-Cash		2,852,305			
22	Sub-Total	Sum L18 to L20	<u>12,287,684</u>			
23	Pro Forma Cash O&M Expense	L 18 - L 21	<u>\$ 597,389,432</u>			

The page number reference in column (B) is to Schedule RLO-1 included in Mr. O'Brien's Testimony

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**Prepaid Pension**  
December 31, 2008

Line		
No.	Year Ended	Balance
	(a)	(b)
1	Unamortized Portion of Prepaid Pension Assets	<u>\$5,743,830</u>

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
**Summary of Cost of Capital**

Line No.	Description (a)	Ratio (b)	Cost Rate (c)	Weighted Composite Rate (d)
1	Long-Term Debt	41.060%	6.080%	2.496%
2	Short-Term Debt	10.940%	4.920%	0.538%
3	Preferred Stock	0.000%	0.000%	0.000%
4	Common Equity	<u>48.000%</u>	11.250%	<u>5.400%</u>
5	Total	<u>100.000%</u>		<u>8.434%</u>

**Missouri Gas Energy  
Comparison of FERC Form 2 Information  
Expense Per Customer**

	<b>MGE</b>	<b>Laclede</b>	<b>AmerenUE</b>	<b>MoPub/Empire</b>
1998	\$116.85	\$166.35	\$167.82	\$185.21
1999	\$115.37	\$162.00	\$167.01	\$180.30
2000	\$119.18	\$164.89	\$184.86	\$212.23
2001	\$141.59	\$188.43	\$215.26	\$224.42
2002	\$117.35	\$193.29	\$274.22	\$252.15
2003	\$141.04	\$212.95	\$237.04	\$204.56
2004	\$150.58	\$216.96	\$197.07	\$214.26
2005	\$142.95	\$225.02	\$224.90	\$217.56
2006	\$148.69	\$231.59	\$222.73	\$193.78
2007	\$179.68	\$242.51	\$259.47	\$264.49

### Missouri Gas Energy Comparison of FERC Form 2 Information Expense Per Customer

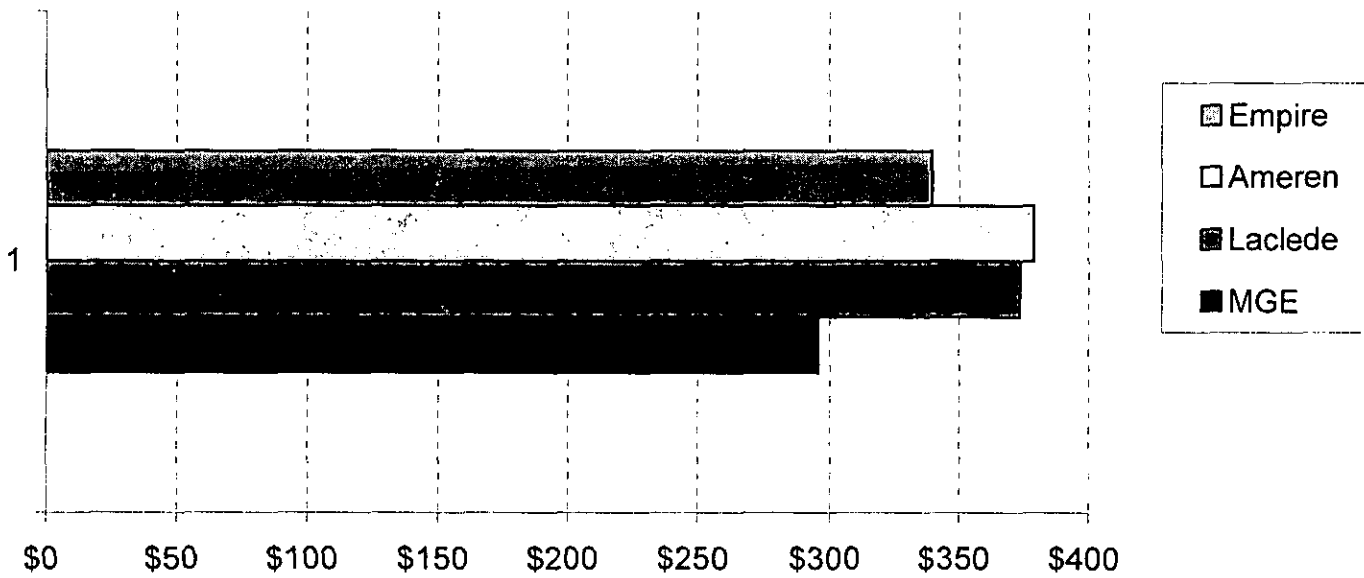


**COMPARISON OF MISSOURI LDCS  
AVERAGE ANNUAL RESIDENTIAL BILL  
(EXCLUDING PGA AND TAXES)**

	Normal <u>Usage (Ccf)</u>	<u>MGE</u>	<u>Laclede</u>	<u>Ameren</u>	<u>Empire</u>
January	175.34	\$24.62	\$42.19	\$57.24	\$57.49
February	154.28	24.62	42.19	52.17	51.73
March	116.81	24.62	42.19	43.14	41.47
April	73.88	24.62	42.19	32.80	29.72
May	32.14	24.62	22.12	22.74	18.30
June	23.16	24.62	20.35	20.58	15.84
July	16.94	24.62	19.05	19.08	14.14
August	15.16	24.62	18.67	18.65	13.65
September	16.65	24.62	18.98	19.01	14.06
October	26.51	24.62	21.05	21.39	16.76
November	57.03	24.62	42.19	28.74	25.11
December	<u>116.29</u>	<u>24.62</u>	<u>42.19</u>	<u>43.01</u>	<u>41.33</u>
 Average Annual Residential Bill	 <u>824.18</u>	 <u>\$295.44</u>	 <u>\$373.33</u>	 <u>\$378.55</u>	 <u>\$339.58</u>
 Tariff Effective Date		 <u>4/3/2007</u>	 <u>8/1/2007</u>	 <u>4/1/2007</u>	 <u>9/8/2007</u>

Source: AGA Rate Service  
Missouri Public Service Commission

### Missouri Gas Energy Average Annual Residential Bill (Excluding PGA and Taxes)



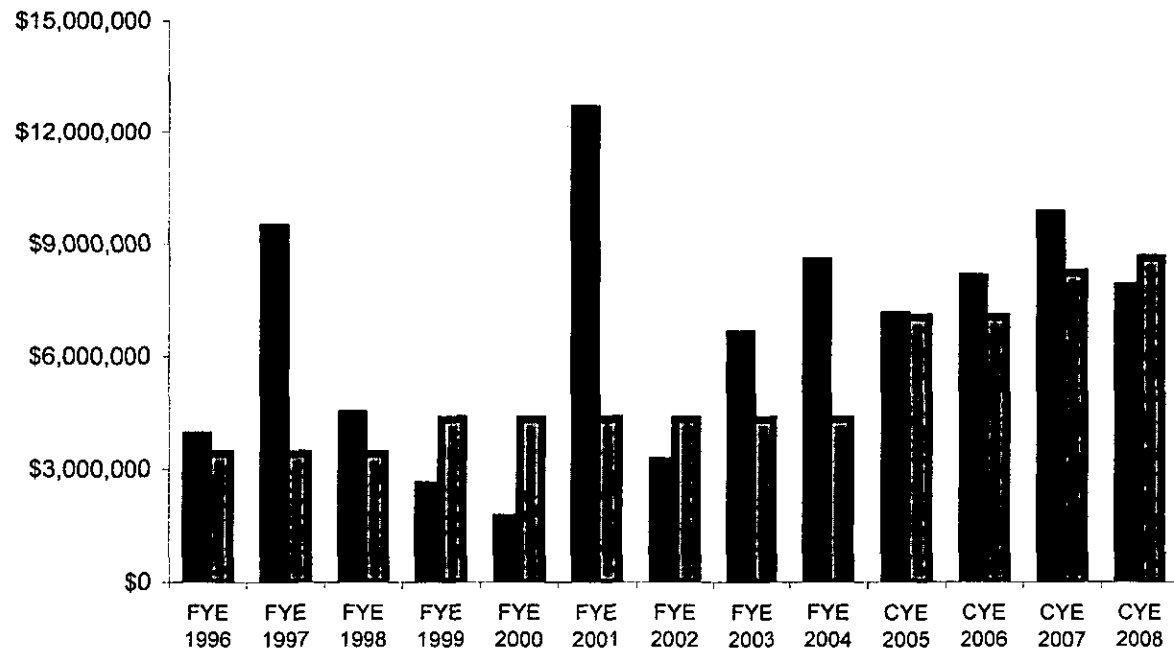
**MISSOURI GAS ENERGY  
COMPARISON OF ACTUAL UNCOLLECTIBLES  
AND UNCOLLECTIBLES INCLUDED IN RATES**

	<b>Actual Uncollectibles</b>	<b>Rate Case Allowance</b>	<b>Difference</b>
FYE 1996	\$ 3,906,455	\$ 3,409,662	\$ (496,793)
FYE 1997	9,442,692	3,409,662	(6,033,030)
FYE 1998	4,469,856	3,409,662	(1,060,194)
FYE 1999	2,584,998	4,325,000	1,740,002
FYE 2000	1,696,606	4,325,000	2,628,394
FYE 2001	12,653,781	4,325,000	(8,328,781)
FYE 2002	3,211,390	4,323,292	1,111,902
FYE 2003	6,602,056	4,323,292	(2,278,764)
FYE 2004	8,537,318	4,323,292	(4,214,026)
CYE 2005	7,108,777	7,042,000	(66,777)
CYE 2006	8,106,922	7,042,000	(1,064,922)
CYE 2007	9,819,563	8,231,555	(1,588,008)
CYE 2008	<u>7,866,016</u>	<u>8,628,073</u>	<u>762,057</u>
<b>Total</b>	<b><u>\$ 86,006,430</u></b>	<b><u>\$ 67,117,490</u></b>	<b><u>\$ (18,888,940)</u></b>
Cumulative difference between actual and rate case allowance		<b><u>\$ (18,888,940)</u></b>	
Average difference between actual and rate case allowance per year		<b><u>\$ (1,452,995)</u></b>	



## Missouri Gas Energy Actual Uncollectibles Versus Uncollectibles Included in Rates

Actual Uncollectibles
  Rate Case Allowance

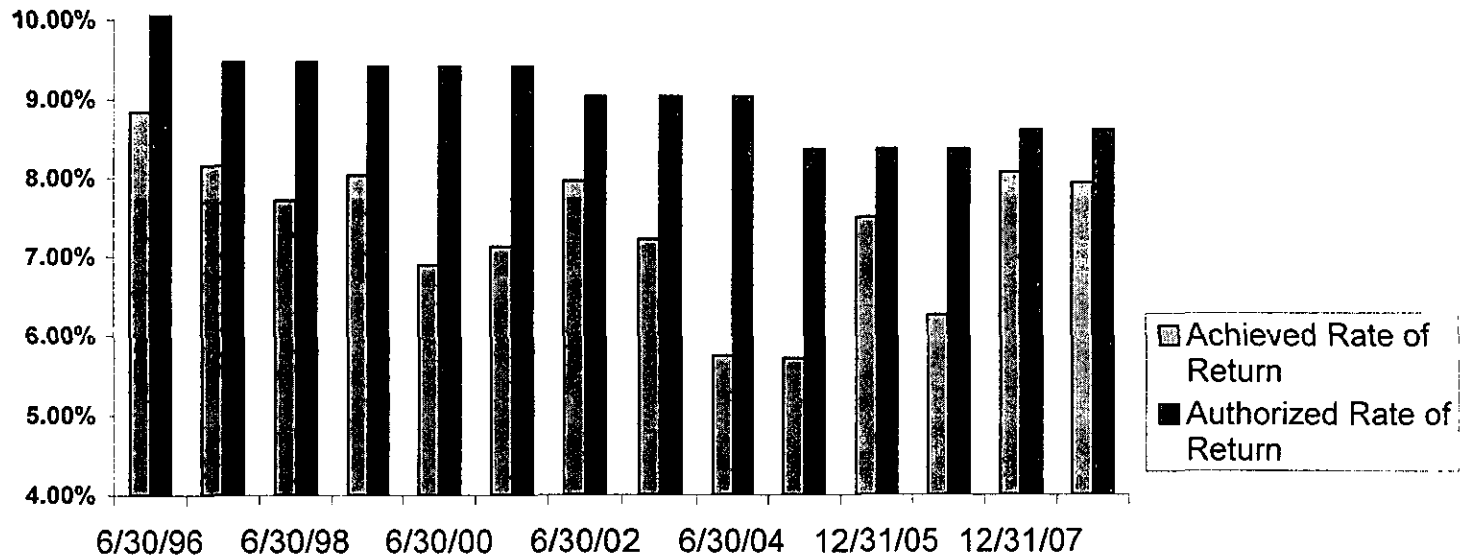


**COMPARISON OF ACHIEVED RATE OF RETURN  
VS. AUTHORIZED RATE OF RETURN**

Description	6/30/1996 (000)	6/30/1997 (000)	6/30/1998 (000)	6/30/1999 (000)	6/30/2000 (000)	6/30/2001 (000)	6/30/2002 (000)	6/30/2003 (000)	6/30/2004 (000)	6/30/2006 (000)	12/31/2005 (000)	12/31/2006 (000)	12/31/2007 (000)	12/31/2008 (000)
Net Sales Margin	\$ 119,106	\$ 121,390	\$ 123,759	\$ 130,859	\$ 125,088	\$ 141,971	\$ 136,311	\$ 144,483	\$ 142,799	\$ 154,167	\$ 159,807	\$ 151,710	\$ 190,618	\$ 191,726
Operating Expenses excluding Uncollectible Expense	(50,686)	(48,037)	(47,390)	(49,273)	(49,638)	(51,176)	(48,693)	(53,967)	(61,294)	(70,534)	(63,995)	(65,551)	(79,974)	(83,688)
Uncollectible Expense	(3,906)	(9,443)	(4,470)	(2,585)	(1,697)	(12,854)	(3,211)	(6,602)	(6,537)	(10,212)	(7,109)	(8,107)	(9,820)	(7,866)
Corporate Allocated Expenses Per Rate Case	(5,612)	(5,612)	(5,991)	(5,991)	(5,991)	(5,991)	(6,935)	(6,935)	(6,935)	(1,762)	(1,762)	(1,762)	(2,370)	(2,572)
Taxes Other than Income Taxes	(6,406)	(5,730)	(7,084)	(7,341)	(8,267)	(9,263)	(10,759)	(9,983)	(10,097)	(11,115)	(10,108) (1)	(8,523)	(9,077)	(9,504)
Depreciation & Amortization	(14,806)	(16,344)	(19,131)	(21,740)	(22,439)	(22,986)	(20,015)	(22,691)	(23,787)	(26,400)	(26,416)	(27,201)	(26,870)	(26,971)
Income Taxes	(6,843)	(5,732)	(6,783)	(7,999)	(4,972)	(5,821)	(6,553)	(6,449)	(1,614)	(3,368)	(9,523)	(5,432)	(13,744)	(13,202)
Total Operating Expenses	88,261	90,898	90,829	94,929	93,004	107,891	96,166	106,627	112,264	123,391	118,913	116,576	141,855	143,803
Net Operating Income	\$ 30,845	\$ 30,492	\$ 32,930	\$ 35,930	\$ 32,084	\$ 34,080	\$ 40,145	\$ 37,858	\$ 30,535	\$ 30,776	\$ 40,894	\$ 35,134	\$ 48,763	\$ 47,923
Net plant from most recent rate case	\$ 359,290	\$ 359,290	\$ 431,152	\$ 431,152	\$ 431,152	\$ 431,152	\$ 503,192	\$ 503,192	\$ 503,192	\$ 531,291	\$ 531,291	\$ 531,291	\$ 568,503	\$ 568,503
Net Plant Balance at x/0/x/0/x	360,288	384,986	440,251	460,145	478,794	491,271	505,412	525,495	532,473	547,463	554,457	570,262	583,202	588,668
Increase in plant since most recent rate case	\$ 998	\$ 25,696	\$ 9,099	\$ 28,993	\$ 47,642	\$ 60,119	\$ 2,220	\$ 22,303	\$ 29,281	\$ 16,172	\$ 23,166	\$ 38,971	\$ 14,699	\$ 20,165
Total rate base from most recent case updated for annual plant increases	\$ 349,040	\$ 373,738	\$ 427,318	\$ 447,212	\$ 485,861	\$ 478,338	\$ 504,650	\$ 524,733	\$ 531,711	\$ 538,944	\$ 545,938	\$ 561,743	\$ 604,447	\$ 604,955
Achieved Rate of Return	8.84%	8.16%	7.71%	8.03%	6.89%	7.12%	7.95%	7.21%	5.74%	5.71%	7.46%	6.25%	8.07%	7.92%
Authorized Rate of Return	10.54%	9.46%	9.46%	9.40%	9.40%	9.40%	9.03%	9.03%	9.03%	8.36%	8.36%	8.36%	8.60%	8.60%
Date Rates Went into Effect	1-Feb-94	1-Feb-97		2-Sep-98			6-Aug-01	6-Aug-01	6-Aug-01	1-Oct-04	1-Oct-04	1-Oct-04	1-Apr-07	1-Apr-07
Return Deficiency	-1.70%	-1.30%	-1.75%	-1.37%	-2.51%	-2.28%	-1.08%	-1.82%	-3.29%	-2.65%	-0.87%	-2.11%	-0.53%	-0.68%
Earnings Deficiency	\$ (5,944)	\$ (4,864)	\$ (7,494)	\$ (6,109)	\$ (11,707)	\$ (10,883)	\$ (5,425)	\$ (9,528)	\$ (17,479)	\$ (14,279)	\$ (4,747)	\$ (11,828)	\$ (3,219)	\$ (4,103)
Revenue Deficiency	\$ (9,682)	\$ (7,923)	\$ (12,207)	\$ (9,950)	\$ (19,070)	\$ (17,728)	\$ (8,837)	\$ (15,520)	\$ (28,471)	\$ (23,260)	\$ (7,732)	\$ (19,266)	\$ (5,244)	\$ (6,683)
Cumulative Earnings Deficiency														\$ (117,608)
Cumulative Revenue Deficiency														\$ (161,571)

(1) - excludes property tax refunds for the years 2002-2004

**Missouri Gas Energy  
COMPARISON OF ACHIEVED RATE OF RETURN  
VS. AUTHORIZED RATE OF RETURN**



**MISSOURI GAS ENERGY**  
**A Division of Southern Union Company**  
 Twelve Months Ending December 31, 2008

**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	\$505,927,343	(\$375,251,456)	\$130,675,888
2	481.1	Commercial	206,472,781	(169,147,664)	37,325,117
3	481.2	Industrial	8,794,246	(6,598,094)	2,196,153
4	483	Sales for Resale	0	0	0
5	487	Late Payment Charges	445,846	(194,920)	250,926
6	488	Miscellaneous Service Revenue	4,383,636	0	4,383,636
7	489	Transport	10,950,874	2,592,708	13,543,581
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	1,826,646	(1,471,721)	154,925
10		Total Operating Revenue	<u>\$738,601,373</u>	<u>(\$550,071,147)</u>	<u>\$188,530,226</u>
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>					
<b>Operation Expense</b>					
11	805	Other Gas Purchases	\$502,616,530	(\$502,616,530)	\$0
12	807	Purchased Gas Expense	0	0	0
13	859	Other Joint Expense	0	0	0
14	870	Operation, Supervision and Engineering	697,941	2,329	700,270
15	871	Distribution and Load Dispatching	27,353	1,425	28,778
16	872	Compressor Station Labor and Expense	0	0	0
17	874	Mains and Service Expenses	3,113,677	11,225	3,124,902
18	875	Distributing Regulating Station Expenses	813,434	(1,856)	811,578
19	876	Measuring and Regulating - Station Expenses	(3,349)	415	(2,934)
20	877	Measuring and Regulating - Station Expenses	9,159	(873)	8,286
21	878	Meter and House Regulator Expenses	6,422,653	(351)	6,422,302
22	879	Customer Installation Expenses	3,143,640	24,612	3,168,252
23	880	Other Expenses	(867,405)	889,077	21,672
24	881	Rents	186,376	0	186,376
25		Total Operation Expense	<u>\$516,160,009</u>	<u>(\$501,690,525)</u>	<u>\$14,469,484</u>
<b>Maintenance Expense</b>					
26	885	Maintenance Supervision and Engineering	\$1,216,206	\$60,381	\$1,276,587
27	886	Maintenance of Structures and Improvements	113,741	(971)	112,770
28	887	Maintenance of Mains	9,609,573	12,480	9,622,053
29	889	Maint. of Measuring and Reg. Stat Equip - General	699,627	2,826	702,453
30	890	Maint. of Measuring and Regulating Equipment	251,595	1,196	252,791
31	891	Maint. of Measuring and Regulating Equipment	25,916	417	26,333
32	892	Maintenance of Services	935,672	3,038	938,710
33	893	Maintenance of Meters and House Regulators	329,361	6,412	335,773
34	894	Maintenance of Other Equipment	172,657	622	173,279
35		Total Maintenance Expenses	<u>\$13,354,348</u>	<u>\$86,400</u>	<u>\$13,440,748</u>
36		Total Distribution Expense	<u>\$529,514,357</u>	<u>(\$501,604,126)</u>	<u>\$27,910,231</u>
<b>Customer Accounts Expense</b>					
37	901	Supervision	\$262,744	(\$5,137)	\$257,607
38	902	Meter Reading Expense	943,699	28,187	971,886
39	903	Customer Records and Collection Expense	12,057,003	1,071,220	13,128,223
40	904	Uncollectible Accounts	7,866,016	1,569,363	9,435,379
41	905	Miscellaneous Customer Accounts Expense	43,721	(58,010)	(14,289)
42		Total Customer Accounts Expenses	<u>\$21,173,183</u>	<u>\$2,605,624</u>	<u>\$23,778,807</u>
<b>Customer Service and Informational Expense</b>					
43	907	Supervision	\$0	\$0	\$0
44	908	Customer Assistance	1,105,288	3,374	1,108,662
45	909	Informational and Instructional Advertising Exp.	78,181	0	78,181
46	910	Miscellaneous Customer Accounts Expense	0	0	0

**MISSOURI GAS ENERGY**  
**A Division of Southern Union Company**  
 Twelve Months Ending December 31, 2008

**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)
47		Total Cust. Service and Information Exp.	\$1,183,469	\$3,374	\$1,186,843
<b>Sales and Advertising Expense</b>					
48	911	Supervision	\$0	\$0	\$0
49	912	Demonstrating and Selling Expenses	1,021,699	5,263	1,026,962
50	913	Advertising Expenses	4,813	0	4,813
51	916	Miscellaneous Sales Expenses	1,646	0	1,646
52		Total Sales and Advertising Expenses	\$1,028,158	\$5,263	\$1,033,421
<b>Administrative and General Expense</b>					
53	920	Administrative and General Salaries	\$6,996,018	\$90,505	\$7,086,523
54	921	Office Supplies and Expenses	11,539,458	140,608	11,680,066
55	922	Administrative Expenses Transferred	(525,286)	0	(525,286)
56	923	Outside Services Employed	8,677,170	(5,328,218)	3,348,952
57	924	Property Insurance	24,300	0	24,300
58	925	Injuries and Damages	1,414,653	1,395,900	2,810,553
59	926	Employee Pensions and Benefits	16,375,933	5,837,678	22,213,611
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	2,584,881	(498,738)	2,086,143
62	930	Miscellaneous General Expenses	2,158,307	0	2,158,307
63	931	Rents	1,022,728	(262,544)	760,184
64	932	Maintenance of General Plant	1,635,884	46	1,635,930
65		Total Administration and General Expense	\$51,904,046	\$1,375,237	\$53,279,283
66		Total O & M Expense	\$604,803,213	(\$497,614,628)	\$107,188,585
67	403	Depreciation	25,018,077	1,919,001	26,937,078
68	404, 405	Amortization	1,953,194	1,486,747	3,439,941
69	431	Interest on Customer Deposits	161,519	(14,944)	146,575
70	408	Payroll Taxes	2,238,216	451,705	2,689,921
71	408	Property Taxes	6,965,658	1,903,074	8,868,732
72	408	Gross Receipts Tax	44,258,774	(44,258,774)	0
73	408	Other Taxes	300,036	0	300,036
74	408	Taxes Other Than Income	\$53,762,684	(\$41,903,995)	\$11,858,689
75		TOTAL EXPENSES	\$685,698,687	(\$536,127,818)	\$149,570,869
76		OPERATING INCOME BEFORE INCOME TAX	\$52,902,686	(\$13,943,329)	\$38,959,357
77	409,410	Income Taxes	\$22,022,840	(\$14,112,837)	\$7,910,003
78		NET OPERATING INCOME	\$30,879,846	\$169,508	\$31,049,354

MISSOURI GAS ENERGY  
A Division of Southern Union Company  
Twelve Months Ending December 31, 2008

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	
			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	Depreciation Expense	Amortization Expense	
<b>OPERATING REVENUE</b>																	
1	480	Residential	505,927,343.49	(\$375,824,194)	\$572,738												
2	481.1	Commercial	208,472,781.08	(163,281,754)	(5,865,910)												
3	481.2	Industrial	8,794,248.37	(8,387,030)	(211,084)												
4	483	Sales for Resale	0	(194,920)	0												
5	487	Life Payment Charges	445,846	0	0												
6	488	Miscellaneous Service Revenue	4,383,636	0	0												
7	489	Transport	10,850,874	(112,422)	2,705,129												
8	493	Rent From Property	0	0	0												
9	495	Other Gas Revenue	1,826,646	(1,471,721)													
10		Total Operating Revenue	\$738,601,373	(\$547,272,040)	(\$2,799,107)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>																	
<b>Operation Expense</b>																	
11	805	Other Gas Purchases	\$502,616,530		(\$502,616,530)												
12	807	Purchased Gas Expense	0														
13	859	Other Joint Expense	0														
14	870	Operation, Supervision and Engineering	687,941				18,235										
15	871	Distribution and Load Dispatching	27,353				2,106										
16	872	Compressor Station Labor and Expense	0				0										
17	874	Meters and Service Expenses	3,113,877				38,911										
18	875	Distributing Regulating Station Expenses	813,434				31,290										
19	878	Measuring and Regulating - Station Expenses	(3,346)				415										
20	877	Measuring and Regulating - Station Expenses	9,159				(643)										
21	878	Meter and House Regulator Expenses	6,422,653				275,142										
22	879	Customer Installation Expenses	3,143,640				153,789										
23	860	Other Expenses	(667,405)				948,995										
24	861	Rents	166,376														
25		Total Operation Expense	\$516,160,009	\$0	\$0	(\$502,616,530)	\$1,468,820	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Maintenance Expense</b>																	
26	885	Maintenance Supervision and Engineering	\$1,216,206				\$90,419										
27	886	Maintenance of Structures and Improvements	113,741				3,652										
28	887	Maintenance of Mains	9,609,573				354,031										
29	889	Maint. of Measuring and Reg. Stat Equip. - General	699,627				25,231										
30	890	Maint. of Measuring and Regulating Equipment	251,595				7,773										
31	891	Maint. of Measuring and Regulating Equipment	25,916				1,128										
32	892	Maintenance of Services	935,672				36,280										
33	893	Maintenance of Meters and House Regulators	328,381				15,700										
34	894	Maintenance of Other Equipment	172,657				2,977										
35		Total Maintenance Expense	\$13,354,348	\$0	\$0	\$0	\$537,189	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
36		Total Distribution Expense	\$229,514,357	\$0	\$0	(\$502,616,530)	\$2,006,009	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Customer Accounts Expense</b>																	
37	901	Supervision	\$282,744				\$962										
38	902	Meter Reading Expense	943,699				44,498										
39	903	Customer Records and Collection Expense	12,057,003				331,281										
40	904	Uncollectible Accounts	7,868,016									1,569,363					
41	905	Miscellaneous Customer Accounts Expense	43,721				(252)										
42		Total Customer Accounts Expense	\$21,173,183	\$0	\$0	\$0	\$376,469	\$0	\$0	\$0	\$0	\$1,569,363	\$0	\$0	\$0	\$0	\$0

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	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	
			Test Year Per Books	Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year Margin	Remove Purch. Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Joint and Common Costs	Uncollectible Expense	Regulatory Commission Expense	Interest on Customer Deposits	Depreciation Expense	Amortization Expense			
43	907	Customer Service and Informational Expense																	
44	908	Supervision	\$0																
45	909	Customer Assistance	1,105,288				7,388												
46	910	Informational and Instructional Advertising Exp.	78,181																
47		Miscellaneous Customer Accounts Expense	0																
		Total Cust. Service and Informational Exp.	\$1,183,469	\$0	\$0	\$0	\$7,388	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
48	911	Sales and Advertising Expense																	
49	912	Supervision	\$0																
50	913	Demonstrating and Selling Expenses	1,021,899																
51	916	Advertising Expenses	4,813				11,674												
52		Miscellaneous Sales Expenses	1,846																
		Total Sales and Advertising Expenses	\$1,028,558	\$0	\$0	\$0	\$11,674	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
53	920	Administrative and General Expense																	
54	921	Administrative and General Salaries	\$6,996,016				\$226,863												
55	922	Office Supplies and Expenses	11,539,458				572												
56	923	Administrative Expenses Transferred	(525,286)				0												
57	924	Outside Services Employed	6,677,170																
58	925	Property Insurance	24,300							0									
59	926	Injuries and Damages	1,414,653				(101)	5,837,678		1,396,078									
60	927	Employee Pensions and Benefits	16,375,933																
61	928	Franchise Requirements	0																
62	930	Regulatory Commission Expense	2,584,881										(488,738)						
63	931	Miscellaneous General Expenses	2,158,307																
64	932	Rents	1,022,728																
65		Maintenance of General Plant	1,635,684				48												
		Total Administration and General Expense	\$51,904,646	\$0	\$0	\$0	\$227,400	\$5,837,678	\$0	\$1,396,078	(\$5,378,856)	\$0	(\$488,738)	\$0	\$0	\$0	\$0	\$0	\$0
66		Total O & M Expense	\$504,803,213	\$0	\$0	\$0	\$2,628,940	\$5,837,678	\$0	\$1,396,078	(\$5,378,856)	\$1,569,363	(\$488,738)	\$0	\$0	\$0	\$0	\$0	\$0
67	403	Depreciation	\$25,018,077																
68	404, 405	Amortization	1,953,184																
69	431	Interest on Customer Deposits	161,518											(14,944)					
70	408	Payroll Taxes (****)	2,236,216						451,705										
71	408	Property Taxes (****)	6,965,658																
72	408	Gross Receipts Tax (3300 - 4000)	44,254,774																
73	408	Other Taxes (41**)	300,036																
74	408	Taxes Other Than Income	\$53,763,684	\$0	\$0	(\$44,258,774)	\$0	\$0	\$451,705	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
75		TOTAL EXPENSES	\$685,698,687	\$0	\$0	(\$546,875,304)	\$2,628,940	\$5,837,678	\$451,705	\$1,396,078	(\$5,378,856)	\$1,569,363	(\$488,738)	(\$14,944)	\$1,919,001	\$1,486,747	\$0	\$0	\$0
76		OPERATING INCOME BEFORE INCOME TAX	\$22,902,686	(\$547,272,040)	(\$2,789,107)	\$546,875,304	(\$2,628,940)	(\$5,837,678)	(\$451,705)	(\$1,396,078)	\$5,378,856	(\$1,569,363)	\$488,738	\$14,944	(\$1,919,001)	(\$1,486,747)	\$0	\$0	\$0
77	403,410	Income Taxes	22,022,840																
78		NET OPERATING INCOME	\$0,879,846	(\$547,272,040)	(\$2,789,107)	\$546,875,304	(\$2,628,940)	(\$5,837,678)	(\$451,705)	(\$1,396,078)	\$5,378,856	(\$1,569,363)	\$488,738	\$14,944	(\$1,919,001)	(\$1,486,747)	\$0	\$0	\$0

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

**MISSOURI GAS ENERGY**  
A Division of Southern Union Company  
Twelve Months Ending December 31, 2008

**Distribution of Revenue and Expense Adjustments by Account No.**

Line No.	Mesh Acct. No.	Description	Test Year Per Boob	H-14	H-15	H-16	H-17	H-18	H-19	H-20	H-21	Total Adjustments	Test Year As Adjusted
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
<b>OPERATING REVENUE</b>													
1	480	Residential	605,927,343.49									(\$375,251,456)	\$130,675,888
2	481.1	Commercial	206,472,781.08									(168,147,864)	37,325,117
3	481.2	Industrial	8,794,246.37									(6,598,094)	2,196,153
4	483	Sales for Resale	0									0	0
5	487	Late Payment Charges	446,846									(194,920)	250,926
6	488	Miscellaneous Service Revenue	4,383,638									0	4,383,638
7	489	Transport	10,950,874									2,582,708	13,543,581
8	493	Rent From Property	0									0	0
9	495	Other Gas Revenue	1,626,646									(1,471,721)	154,925
10		Total Operating Revenue	\$738,691,373	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$550,071,147)	\$188,530,226
<b>OPERATING &amp; MAINTENANCE EXPENSE</b>													
Operation Expense													
11	805	Other Gas Purchases	\$502,616,530									(\$502,616,530)	\$0
12	807	Purchased Gas Expense	0									0	0
13	859	Other Joint Expense	0									0	0
14	870	Operation, Supervision and Engineering	697,941					(15,906)				2,329	700,270
15	871	Distribution and Load Dispatching	27,353					(681)				1,425	28,778
16	872	Compressor Station Labor and Expense	0					0				0	0
17	874	Main and Service Expenses	3,113,877	(14,346)				(13,340)				11,225	3,124,902
18	875	Distributing Regulating Station Expenses	813,434	(20,847)				(12,299)				(1,956)	811,378
19	878	Measuring and Regulating - Station Expenses	0					0				415	(2,934)
20	877	Measuring and Regulating - Station Expenses	9,158	(149)				(81)				(873)	8,286
21	878	Meter and House Regulator Expenses	6,422,653	(169,838)				(106,653)				(351)	6,422,302
22	879	Customer Installation Expenses	3,143,640	(72,403)				(56,754)				24,612	3,168,252
23	880	Other Expenses	(867,405)	(4,707)				(54,811)				889,077	21,672
24	881	Rents	196,376									0	196,376
25		Total Operation Expense	\$516,160,009	(\$282,292)	\$0	\$0	\$0	(\$280,525)	\$0	\$0	\$0	(\$501,690,525)	\$14,469,484
<b>Maintenance Expense</b>													
26	865	Maintenance Supervision and Engineering	\$1,216,206	\$0				(\$30,038)				\$60,381	\$1,276,587
27	869	Maintenance of Structures and Improvements	113,741	(2,989)				(1,634)				(971)	112,770
28	867	Maintenance of Mains	9,699,573	(205,778)				(135,773)				12,480	9,622,053
29	888	Maint. of Measuring and Reg. Stat Equip - General	699,627	(12,777)				(9,828)				2,826	702,453
30	890	Maint. of Measuring and Regulating Equipment	291,995	(2,989)				(3,588)				1,196	282,791
31	891	Maint. of Measuring and Regulating Equipment	25,916	(448)				(261)				417	26,333
32	892	Maintenance of Services	935,872	(19,851)				(13,591)				3,038	938,710
33	893	Maintenance of Meters and House Regulators	329,361	(3,960)				(5,328)				6,412	335,773
34	894	Maintenance of Other Equipment	172,657	(1,420)				(935)				622	173,279
35		Total Maintenance Expense	\$13,354,346	(\$250,012)	\$0	\$0	\$0	(\$200,777)	\$0	\$0	\$0	\$86,400	\$13,440,746
36		Total Contributions Expense	\$529,514,357	(\$532,302)	\$0	\$0	\$0	(\$481,303)	\$0	\$0	\$0	(\$501,604,126)	\$27,910,231
<b>Customer Accounts Expense</b>													
37	901	Supervision	\$262,744					(\$6,099)				(\$5,137)	\$267,607
38	902	Meter Reading Expense	943,699	0				(16,311)				28,167	971,886
39	903	Customer Records and Collection Expense	12,057,003	(23,761)				(141,946)				800,982	13,126,223
40	904	Uncollectible Accounts	7,866,016									1,569,363	9,435,379
41	905	Miscellaneous Customer Accounts Expense	43,721	(57,795)								(58,010)	(14,289)
42		Total Customer Accounts Expense	\$21,173,183	(\$81,519)	\$0	\$104,685	\$0	(\$164,356)	\$800,982	\$0	\$0	\$2,605,824	\$23,778,607



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 Books	H-14	H-15	H-16	H-17	H-18	H-19	H-20	H-21	Total Adjustments	Test Year As Adjusted
				TWE Clearing	Property Tax	Postage Increase	Office & Computer Lease Expense	Incentive Compensation & Bonuses	Customer Collection Costs	Remove Non-utility Activities	Weather & Conservation		
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
<b>Customer Service and Informational Expense</b>													
43	907	Supervision	\$0									\$0	\$0
44	908	Customer Assistance	1,105,288					(4,014)			0	3,374	1,108,662
45	909	Informational and Instructional Advertising Exp.	78,181									0	78,181
46	910	Miscellaneous Customer Accounts Expense	0									0	0
47		Total Cust. Service and Information Exp.	\$1,183,469	\$0	\$0	\$0	\$0	(\$4,014)	\$0	\$0	\$0	\$3,374	\$1,186,843
<b>Sales and Advertising Expense</b>													
48	911	Supervision	\$0					\$0				\$0	\$0
49	912	Demonstrating and Selling Expenses	1,021,899					(6,411)				5,263	1,026,962
50	913	Advertising Expenses	4,813									0	4,813
51	916	Miscellaneous Sales Expenses	1,648									0	1,648
52		Total Sales and Advertising Expenses	\$1,028,158	\$0	\$0	\$0	\$0	(\$6,411)	\$0	\$0	\$0	\$5,263	\$1,033,421
<b>Administrative and General Expense</b>													
53	920	Administrative and General Salaries	\$8,998,018					(\$136,378)				\$90,505	\$7,088,523
54	921	Office Supplies and Expenses	11,539,458	0			140,223	(187)				140,608	11,680,066
55	922	Administrative Expenses Transferred	(525,288)									0	(525,288)
56	923	Outside Services Employed	8,677,170							50,638		(5,328,218)	3,348,952
57	924	Property Insurance	24,300									0	24,300
58	925	Injuries and Damages	1,414,653					(77)				1,395,900	2,810,553
59	926	Employee Pensions and Benefits	16,375,933									5,837,678	22,213,611
60	927	Franchise Requirements	0									0	0
61	928	Regulatory Commission Expense	2,584,881									(498,738)	2,086,143
62	930	Miscellaneous General Expenses	2,158,307									0	2,158,307
63	931	Rents	1,022,728				(262,544)					(262,544)	760,184
64	932	Maintenance of General Plant	1,835,884				0	0				46	1,835,930
65		Total Administration and General Expense	\$51,904,046	\$0	\$0	\$0	(\$122,321)	(\$136,642)	\$0	\$50,638	\$0	\$0	\$1,375,237
66		Total O & M Expense	\$604,803,213	(\$613,821)	\$0	\$104,685	(\$122,321)	(\$772,725)	\$800,982	\$50,638	\$0	\$0	(\$497,614,628)
67	403	Depreciation	\$25,018,077									\$1,919,001	\$26,937,078
68	404, 405	Amortization	1,953,194									1,486,747	\$3,439,941
69	431	Interest on Customer Deposits	161,519									(14,944)	146,575
70	408	Payroll Taxes (1***)	2,238,216									451,705	2,689,921
71	408	Property Taxes (2***)	6,965,658		1,903,074	0						1,903,074	8,868,732
72	408	Gross Receipts Tax (3300 + 4000)	44,258,774									(44,258,774)	0
73	408	Other Taxes (41**)	300,036									0	300,036
74	408	Taxes Other Than Income	\$53,762,684	\$0	\$1,903,074	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$11,658,689
75		TOTAL EXPENSES	\$685,698,687	(\$613,821)	\$1,903,074	\$104,685	(\$122,321)	(\$772,725)	\$800,982	\$50,638	\$0	\$0	(\$536,127,818)
76		OPERATING INCOME BEFORE INCOME TAX	\$52,902,686	\$613,821	(\$1,903,074)	(\$104,685)	\$122,321	\$772,725	(\$800,982)	(\$50,638)	\$0	\$0	(\$13,943,329)
77	409, 410	Income Taxes	22,022,840									(14,112,837)	7,910,003
78		NET OPERATING INCOME	\$30,879,846	\$613,821	(\$1,903,074)	(\$104,685)	\$122,321	\$772,725	(\$800,982)	(\$50,638)	\$0	\$14,112,837	\$31,049,354

**MISSOURI GAS ENERGY**  
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**Test Year Margin Revenue**

Line	Description	Main Account/Revenue Class					Total
		480	481.1	481.2	483, 489		
No.	(a)	21 (b)	22 & 23 (c)	25 (d)	28, 38 (e)	487, 488, 493, 495 (f)	(g)
1	Total Revenue per Book	505,927,343	206,472,781	8,794,246	10,950,874	6,456,128	738,601,373
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(375,824,194)	(163,281,754)	(6,387,030)	(112,422)	(1,666,642)	(547,272,041)
3	Test Year Margin	130,103,150	43,191,027	2,407,216	10,838,452	4,789,486	191,329,331

**MISSOURI GAS ENERGY**  
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**Revenue 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 21	481.1 22 & 23	481.2 25	489, 483 38, 28	487, 488, 493, 495	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Test Year Margin	\$130,103,150	\$43,191,027	\$2,407,216	\$10,838,452	\$4,789,486	\$191,329,331
2	Weather Normalize	0	(2,380,697)	(169,388)	(98,614)	0	(2,648,699)
3	Customer Growth Annualization	572,738	(3,485,214)	(41,675)	2,803,743	0	(150,408)
4	Total Adjustments	572,738	(5,865,910)	(211,064)	2,705,129	0	(2,799,107)
5	As Adjusted Test Year Margin	\$130,675,888	\$37,325,117	\$2,196,153	\$13,543,581	\$4,789,486	\$188,530,225

**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 (Acct. 805)	(\$502,616,530)
2	Gross Receipts Tax (Acct. 4081)	(44,258,774)
3	Total Adjustment	<u>(\$502,616,530)</u>

**MISSOURI GAS ENERGY**  
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**Payroll Adjustment**

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$687,749	\$669,514	\$18,235
2	871	\$29,426	27,320	2,106
3	872	\$0	0	0
4	874	\$576,818	537,907	38,911
5	875	\$531,810	500,520	31,290
6	876	\$0	(415)	415
7	877	\$3,490	4,133	(643)
8	878	\$4,611,718	4,335,576	276,142
9	879	\$2,454,004	2,300,235	153,769
10	880	\$2,369,988	1,421,393	948,595
11	885	\$1,298,847	1,208,428	90,419
12	886	\$70,637	66,985	3,652
13	887	\$5,870,769	5,516,738	354,031
14	889	\$416,308	391,077	25,231
15	890	\$155,164	147,391	7,773.00
16	891	\$11,303	10,177	1,126
17	892	\$587,683	551,403	36,280
18	893	\$230,379	214,679	15,700
19	894	\$40,425	37,448	2,977
20	901	\$263,706	262,744	962
21	902	\$705,267	660,769	44,498
22	903	\$6,137,685	5,806,424	331,261
23	905	\$0	252	(252)
24	908	\$173,550	166,162	7,388
25	911	\$0	0	0
26	912	\$277,230	265,556	11,674
27	920	\$5,896,921	5,670,038	226,883
28	921	\$8,075	7,503	572
29	923	\$0	0	0
30	925	\$3,326	3,427	(101)
31	932	\$0	0	0
	ADJ			46
32	Total	\$33,412,278	\$30,783,384	\$2,628,940

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

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	\$10,530,919	
2	Retirement Power	528,918	
3	Life & AD&D Insurance	114,183	
4	Long Term Disability Insurance	238,522	
5	Medical / Dental Benefit	7,486,471	
6	FAS 106 - Accrual	880,091	
7	FAS 106 - Amortization of	2,664,792	
8	401K	1,469,539	
9	Other Misc Benefits	66,120	
10	Total Proforma Benefits	\$23,979,555	
11	Payroll Expense Ratio	0.8046260	
12		<u>19,294,574</u>	
13	Add amortization of prepaid pensions (amortized over a 6 year period)	<u>2,919,037</u>	
14	Proforma Benefits Expense	<u>\$22,213,611</u>	
15	Less Test Year Benefits Expense	<u>(\$16,375,933)</u>	
16	Adjustment to Test Year Expense - Acct. 926		<u><u>\$5,837,678</u></u>

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

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	\$3,313,775
2	Payroll Taxes on Incentive Compensation Adjustment	<u>29,295</u>
3	Total Proforma Payroll Taxes	\$3,343,070
4	Payroll Expense Ratio	0.804626
5	Proforma Payroll Tax Expense	<u>\$2,689,921</u>
6	Less Test Year Payroll Tax Expense	<u>(2,238,216)</u>
7	Adjustment to Test Year Expense - Acct. 4081	<u><u>451,705.21</u></u>

**MISSOURI GAS ENERGY**  
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**Insurance / Injuries & Damages**

Line No.	Description	2006	2007	2008	3 Year Avg.	925 Amount	924 Amount	Total Amount
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	MGE Claims:							
1	Workers Compensation claims paid	\$978,261	\$1,309,926	\$1,114,227	\$1,134,138			
2	Auto & General Liability	954,642	1,882,608	(669,095)	722,718			
3	Total Proforma Claims	<u>\$1,932,903</u>	<u>\$3,192,534</u>	<u>\$445,132</u>	<u>\$1,856,856</u>	\$1,856,856		\$1,856,856
4	Other costs not related to claims or premiums					\$87,088		
5	Insurance Premiums - 924						24,300	24,300
6	Insurance Premiums - 925					<u>1,549,270</u>		<u>1,549,270</u>
7	Total Proforma Insurance Cost					\$3,493,215	\$24,300	\$3,430,426
8	Test Year Payroll Expense Ratio					0.804626	1.000000	
9	Proforma Insurance Expense					<u>\$2,810,731</u>	<u>\$24,300</u>	<u>\$2,835,031</u>
10	Less Test Year Insurance Expense					(1,414,653)	(24,300)	(1,438,953)
11	Adjustment to Test Year - Accts. 924 and 925					<u>\$1,396,078</u>	<u>\$0</u>	<u>\$1,396,078</u>



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**Corporate Allocation**

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	\$7,337,592
2	Expense Capital Ratio	<u>71.6033%</u>
3	Proforma Joint and Common Expense	\$5,253,961
4	Less Test Year Expense Recorded on MGE's Books	<u>10,632,817</u>
5	Adjustment to Test Year - Acct. 923	<u><u>(\$5,378,856)</u></u>

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

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Twelve Months Ended December 31, 2006	10,369,681	
2	Twelve Months Ended December 31, 2007	9,208,092	
3	Twelve Months Ended December 31, 2008	<u>8,728,364</u>	
4	Five Year Average		\$9,435,379
5	Less Test Year Uncollectible Expense		(7,866,016)
6	Adjustment to Test Year - Acct. 904		<u><u>\$1,569,363</u></u>

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

Line No.	Description (a)	Amount (b)	Amount (c)
1	Estimate of current rate case expense	<u>\$777,688</u>	
2	Annual Amortization (3 years)		\$259,229
3	Normalized level of expense for depreciation study		\$6,878
4	Proforma NARUC Assessment - fiscal 7/1/04-6/30/05		5,018
5	Other Regulatory Commission Expenses		211,656
6	Proforma MPSC Assessment - fiscal 7/1/08-6/30/09		<u>1,603,362</u>
7	Total Proforma Regulatory Commission Expense		\$2,086,143
8	Less Test Year Regulatory Commission Expense		(2,584,881)
9	Adjustment to Test Year - Acct. 928		<u><u>(\$498,738)</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	\$783,188	\$3,776,323	\$4,559,511
2	Interest Rate		4.25%	3.00%	3.21%
3	Proforma Interest on Customer Deposits		<u>\$33,285</u>	<u>\$113,290</u>	<u>\$146,575</u>
4	Less Test Year Interest on Customer Deposits				<u>(161,519)</u>
5	Adjustment to Test Year - Acct. 431				<u><u>(\$14,944)</u></u>

**MISSOURI GAS ENERGY**  
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Depreciation Expense

Line No.	Description (a)	Amount (b)	Current Depreciation Rate (c)	Annualized Depreciation (d)	Proposed Rate (e)	Proforma Total Depreciation (f)	Less Depr. Capitalized To Clearing Accts. (g)	Proforma Depreciation Expense (h)
<b>INTANGIBLE PLANT</b>								
1	(301) Organization	\$15,600	0.00%	\$0	0.00%	\$0	\$0	\$0
2	(302) Franchises	13,823	0.00%	0	0.00%	0	0	0
3	(303) Miscellaneous Intangible	<u>29,961,921</u>	(see adj. H-13)	<u>0</u>	(see adj. H-13)	<u>0</u>	<u>0</u>	<u>0</u>
4	Total Intangible Plant	<u>\$29,991,344</u>		<u>\$0</u>		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>DISTRIBUTION PLANT</b>								
5	(374.1) Land	\$150,610	0.00%	\$0	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	2,148,602	2.09%	44,906	2.09%	44,906	0	44,906
7	(375.1) Structures	8,605,252	1.49%	128,218	1.49%	128,218	0	128,218
8	(375.2) Leasehold Improvements	0	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	376,180,798	2.16%	8,125,505	2.39%	8,990,721	0	8,990,721
10	(376) Meas. & Reg. Station - General	12,258,137	2.86%	350,583	2.86%	350,583	0	350,583
11	(379) Meas. & Reg. Station - City Gate	3,298,701	0.02	70,262	2.13%	70,262	0	70,262
12	(380) Services	315,241,619	3.13%	9,867,063	3.38%	10,655,167	0	10,655,167
13	(381) Meters	32,554,921	2.89%	940,837	2.89%	940,837	0	940,837
14	(382) Meter Installations	76,596,105	2.88%	2,190,649	2.86%	2,190,649	0	2,190,649
15	(383) House Regulators	12,597,793	2.44%	307,386	2.44%	307,386	0	307,386
16	(385) Electronic Gas Metering	379,944	3.33%	12,652	3.33%	12,652	0	12,652
17	(387) Other Equipment	<u>0</u>	4.60%	<u>0</u>	6.25%	<u>0</u>	<u>0</u>	<u>0</u>
18	Total Distribution Plant	<u>\$840,012,483</u>		<u>\$22,038,081</u>		<u>\$23,691,381</u>	<u>\$0</u>	<u>\$23,691,381</u>
<b>GENERAL PLANT - DIRECT</b>								
19	(389) Land	\$1,104,164	0.00%	\$0	0.00%	\$0	\$0	\$0
20	(390.1) Structures	715,993	2.00%	14,320	2.00%	14,320	0	14,320
21	(390.2) Leasehold Impr.	1,884,544	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	8,067,821	8.06%	650,266	8.06%	650,266	0	650,266
23	(392.1) Transportation Eq - Cars and Small Trucl	6,251,827	7.83%	489,518	13.33%	633,369	0	633,369
24	(392.2) Transportation Eq - Heavy Trucks	6,460,521	7.83%	505,859	7.62%	492,292	0	492,292
25	(393) Stores Equipment	656,718	2.70%	17,731	2.70%	17,731	0	17,731
26	(394) Tools	5,355,121	5.30%	283,821	5.30%	283,821	0	283,821
27	(395) Laboratory Equipment	0	6.00%	0	6.00%	0	0	0
28	(396) Power Operated Equipment	1,759,239	6.25%	109,952	6.25%	109,952	0	109,952
29	(397.1) Communication Equipment - AMR	38,278,014	5.00%	1,913,901	5.00%	1,913,901	0	1,913,901
30	(397.0) Communication Equipment - Other	3,813,854	6.25%	238,366	6.25%	238,366	0	238,366
31	(398) Miscellaneous Equipment	<u>466,841</u>	3.85%	<u>17,973</u>	3.85%	<u>17,973</u>	<u>0</u>	<u>17,973</u>
32	Total Direct General Plant	<u>\$74,814,657</u>		<u>\$4,241,707</u>		<u>\$4,571,991</u>	<u>\$0</u>	<u>\$4,571,991</u>
<b>GENERAL PLANT - CORPORATE</b>								
33	(390) Structures	\$0		\$0		\$0	\$0	\$0
34	(390) Leasehold Impr.	4,436	2.50%	111	2.50%	\$111	0	111
35	(391) Furniture & Fixtures	934,199	11.69%	109,208	11.69%	\$109,208	0	109,208
36	(392) Transportation Equipment	0	"	0		\$0	0	0
37	(397) Communication Equipment	0		0		0	0	0
38	(398) Miscellaneous Equipment	<u>0</u>		<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>
39	Total Corporate General Plant	<u>\$938,635</u>		<u>\$109,319</u>		<u>\$109,319</u>	<u>\$0</u>	<u>\$109,319</u>
40	Total Proforma Plant & Depreciation	<u>\$945,757,118</u>		<u>\$26,389,087</u>		<u>\$28,372,691</u>	<u>\$0</u>	<u>\$28,372,691</u>
41	Less Depreciation clearing							(\$1,435,613)
42	Less Test Year Depreciation Expense							(\$25,018,077)
43	Adjustment to Test Year - Acct. 403							<u>\$1,919,001</u>

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**Amortization Expense**

Line No.	Description	Original Cost Plant	Monthly Test Year Amortization Expense	Proforma Amortization Expense
	(a)	(b)	(c)	(d)
<b>MGE Direct Non-SLRP Amortization:</b>				
1	(375.2) Leasehold Improvements	\$0	\$0	\$0
2	(390.2) Leasehold Improvements	1,884,544	11,963	143,559
3	Sub Total	<u>\$1,884,544</u>	<u>\$11,963</u>	<u>\$143,559</u>
4	(303) Misc. Intangible - Work Force Automation (1000)	\$3,785,364 x	21,024	\$252,287
5	(303) Misc. Intangible - ADP Software	311,930	3,670	44,037
6	(303) Misc. Intangible - Corrosion Control Mgmt System (4000)	1,117,800 x	0	0
7	(303) Misc. Intangible - Landbase Digitized Mapping (4500)	1,701,543 x	0	0
8	(303) Misc. Intangible - Premise Data System (5000)	985,196 x	0	0
9	(303) Misc. Intangible - AMR Project - Programming (5500)	472,455 x	2,784	33,408
10	(303) Misc. Intangible - Facility Priority Index (6000)	894,795 x	0	0
11	(303) Misc. Intangible - Geographic Information System (6500)	1,006,719 x	0	0
12	(303) Misc. Intangible - Customer Service System (7000)	3,786,000 x	0	0
13	(303) Misc. Intangible - CSS Enhancements (7100)	7,894,021	65,784	789,402
14	(303) Misc. Intangible - Mainframe Software (7200)	3,626,110	28,195	338,338
15	(303) Misc. Intangible - Website (7600)	485,944 x	4,051	48,615
16	(303) Misc. Intangible - Stoner Low Pressure/Intermediate Model (8000)	279,672 x	0	0
17	(303) Misc. Intangible - BASIC (8500)	294,516 x	0	0
18	(303) Misc. Intangible - TCS System (9000)	189,193 x	1,592	19,106
19	(303) Misc. Intangible - GEO Tax Software (9500)	79,294 x	661	7,929
20	(303) Misc. Intangible - Oracle Software	2,415,660 x	20,117	241,409
21	(303) Misc. Intangible - Power Plant Software	187,288 x	1,561	18,729
22	(303) Misc. Intangible - Virtual Hold Call Center	196,570 x	1,661	19,928
23	(303) Misc. Intangible - Witness Software (9600)	251,851 x	2,664	31,972
24	Sub Total - Acct. 303	<u>\$29,961,921</u>	<u>\$153,763</u>	<u>\$1,845,160</u>
<b>Amortization of Infinium Software:</b>			<b>Mo Amort Amt</b>	
25	Unamortized balance of replaced software	\$999,954	16,666	\$199,992
<b>SLRP Amortization:</b>			<b>Amort Period</b>	
26	SLRP Deferrals Subject to Amortization	\$10,811,775	10	\$1,081,178
<b>Cost of Removal Amortization</b>			<b>Mo Amort Amt</b>	
27	Net Cost of Removal Balance	\$552,665	14,171	\$170,052
29	Pro-Forma Amortization Expense			\$3,439,941
30	Less Test Year Amortization Expense			(1,953,194)
31	Adjustment to Test Year - Accts. 404 and 405			<u>\$1,486,747</u>

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**Transportation and Work Equipment Clearing**

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Total per books depreciation cleared				(\$451,816)
2	Total proforma depreciation subject to clearing adjusted for fleet costs				1,435,613
3	Elimination of fleet lease expense				(1,730,995)
4	Total adjustment to fleet related costs				<u>(747,198)</u>

Spread Clearing to Main Accounts based on Test Year Clearing:

Line No.	Main Acct.	Percentage	Amount
5	8700	0.00%	0
6	8710	0.00%	0
7	8720	0.00%	0
8	8740	1.92%	(14,346)
9	8750	2.79%	(20,847)
10	8760	0.00%	0
11	8770	0.02%	(149)
12	8780	22.73%	(169,838)
13	8790	9.69%	(72,403)
14	8800	0.63%	(4,707)
15	8850	0.00%	0
16	8860	0.40%	(2,989)
17	8870	27.54%	(205,778)
18	8890	1.71%	(12,777)
19	8900	0.40%	(2,989)
20	8910	0.06%	(448)
21	8920	2.63%	(19,651)
22	8930	0.53%	(3,960)
23	8940	0.19%	(1,420)
24	9010	0.00%	0
25	9020	3.18%	(23,761)
26	9030	7.73%	(57,758)
27	9050	0.00%	0
28	9080	0.00%	0
29	9110	0.00%	0
30	9120	0.00%	0
31	9200	0.00%	0
32	9210	0.00%	0
33	9230	0.00%	0
34	9250	0.00%	0
35	9320	0.00%	0
36	<u>TOTAL EXPENSE</u>	<u>82.15%</u>	<u>(613,821)</u>
37	<u>TOTAL NON-EXPENSE</u>	<u>17.85%</u>	<u>(133,375)</u>
38	<u>TOTAL</u>	<u>100.00%</u>	<u>(\$747,196)</u>

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**Property Tax Expense**

Line No.	Description (a)	Reference (b)	Amount (c)
	Proforma Total Plant in Service excluding Corporate		
1	Allocated Plant	C	\$944,818,483
2	Less Intangible Plant	C	<u>(29,991,344)</u>
3	Proforma Plant, excluding Intangible Plant		\$914,827,139
4	Property tax rate		<u>0.79717%</u>
5	Proforma Property Tax Expense		\$7,292,732
6	Estimated Kansas Property Tax Expense		1,576,000
7	Less Test Year Property Tax Expense		<u>6,965,658</u>
8	Adjustment to Test Year - Acct. 4081		<u><u>\$1,903,074</u></u>



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Postage Increase

Line No.	Description (a)	Amount (b)
	<u>Average Postage cost per item</u>	
1	2008	\$ 0.3244
2	2009- with postage increase	\$ 0.3382
3	Average Increase in Postage Cost per Item	<u>\$ 0.0138</u>
4	Number of mail pieces in 2008	<u>7,585,840</u>
5	Total increase	<u>\$ 104,685</u>

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**Broadway Rent Expense**

Line No.	Description (a)	Amount (b)
	<b>OFFICE LEASE</b>	
1	Proforma Broadway rent - Rent	\$516,814
2	Proforma Broadway Taxes	119,030
3	Less: Proforma rent from subleases	<u>(437,570)</u>
4	Total proforma rent expense - Acct. 931	198,274
5	Actual rent expense - Acct. 931	<u>460,818</u>
6	Adjustment to Acct. 931	<u><u>(\$262,544)</u></u>
7	Net proforma Broadway building utility costs	\$230,854
8	Less: Actual Broadway building utility costs	<u>188,129</u>
9	Adjustment to Test Year - Acct. 921.00014	<u><u>\$42,725</u></u>
10	Net proforma Broadway supplies expense	\$34,942
11	Actual Broadway supplies expense	<u>25,387</u>
12	Adjustment to Test Year - Acct. 921.00017	<u><u>\$9,555</u></u>
13	Net proforma Broadway building maintenance expense	\$400,550
14	Actual Broadway building maintenance expense	<u>312,607</u>
15	Adjustment to Test Year - Acct. 9210.0014	<u><u>\$87,943</u></u>

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**Incentive Compensation and Bonuses**

Line No.	Description	Incentive Compensation	Holiday Bonuses	Work Performance Bonuses	Total
	(a)	(b)	(c)	(d)	(e)
1	2008 Incentive and Bonus Payments	\$1,275,200	\$51,215	\$8,550	\$1,334,965
2	Non Financial Based Incentives	<u>366,060</u>	<u>0</u>	<u>8,550</u>	<u>374,610</u>
3	Adjustment	<u>(\$909,140)</u>	<u>(\$51,215)</u>	<u>\$0</u>	<u>(960,355)</u>
4	Expense Ratio				<u>0.804626</u>
5	Amount Charged to Expense				<u>(\$772,725)</u>

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**Customer Collection Costs**

Line No.	Description (a)	Total (b)
1	Number of credit card payments estimated	<u>228,852</u>
2	Fee per payment to credit card company	<u>\$3.50</u>
3	Total expense to Company	\$800,982
4	Per books	<u>0</u>
5	Adjustment	<u>\$800,982</u>

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**Other Expense Adjustments**

Line No.	Description (a)	Total (b)
1	Other expense adjustments	<u>\$50,638</u>

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**Weatherization & Conservation**

Line No.	Description (a)	Amount (b)
1	Weatherization Program	\$750,000
2	Natural Gas Conservation	<u>750,000</u>
3	Total	1,500,000
4	Per Books	<u>1,500,000</u>
5	Adjustment	<u><u>\$0</u></u>