

*Exhibit No.:*  
*Issues:* Lobbying; Cost of Removal;  
Pension expense; True-up Audit;  
Corporate Incentive Compensation;  
Executive Compensation; NYC Office;  
Stipulation Compliance; Alternative  
Minimum Tax  
*Witness:* Charles R. Hyneman  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case No.:* GR-2004-0209  
*Date Testimony Prepared:* June 14, 2004

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**CHARLES R. HYNEMAN**

**FILED**

JUL 13 2004

Missouri Public  
Service Commission

**MISSOURI GAS ENERGY**

**CASE NO. GR-2004-0209**

Exhibit No. 817  
Case No(s) GR-2004-0209  
Date 6-28-04 Rptr KR

Jefferson City, Missouri  
June 2004

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

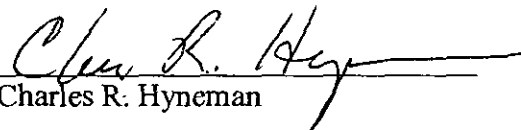
In the Matter of Missouri Gas Energy's       )  
Tariffs to Implement a General Rate       )  
Increase for Natural Gas Service       )

Case No. GR-2004-0209

**AFFIDAVIT OF CHARLES R. HYNEMAN**

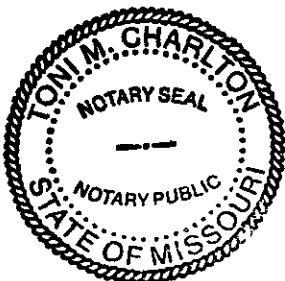
STATE OF MISSOURI       )  
                                      )  
COUNTY OF COLE       )       ss.

Charles R. Hyneman, being of lawful age, on his oath states: that he has participated in the preparation of the following surrebuttal testimony in question and answer form, consisting of 38 pages to be presented in the above case; that the answers in the following surrebuttal 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.

  
Charles R. Hyneman

Subscribed and sworn to before me this 12<sup>th</sup> day of June 2004.





TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004

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**TABLE OF CONTENTS OF**  
**SURREBUTTAL TESTIMONY**  
**CHARLES R. HYNEMAN**  
**MISSOURI GAS ENERGY**  
**CASE NO. GR-2004-0209**

COST OF LOBBYING ACTIVITIES..... 2

LOBBYING RECORD KEEPING..... 7

COST OF REMOVAL ..... 9

PENSION EXPENSE ..... 14

CORPORATE INCENTIVE COMPENSATION ..... 17

LINDEMANN AND BRENNAN ..... 23

COSTS OF NEW YORK OFFICE..... 30

REPORTS ON CHANGES IN CORPORATE COSTS..... 33

ALTERNATIVE MINIMUM TAX ..... 35

TRUE-UP..... 37

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **CHARLES R. HYNEMAN**

4 **MISSOURI GAS ENERGY**

5 **CASE NO. GR-2004-0209**

6 Q. Please state your name and business address.

7 A. Charles R. Hyneman, Fletcher Daniels State Office Building, Room G8,  
8 615 East 13th Street, Kansas City, Missouri 64106.

9 Q. By whom are you employed and in what capacity?

10 A. I am employed by the Missouri Public Service Commission (Commission)  
11 as a Regulatory Auditor.

12 Q. Are you the same Charles R. Hyneman who has previously filed direct  
13 testimony in this case?

14 A. Yes, I am.

15 Q. What is the purpose of your surrebuttal testimony?

16 A. The purpose of my surrebuttal testimony is to respond to certain issues  
17 raised in the rebuttal testimonies of several of Missouri Gas Energy (MGE) witnesses.

18 These issues and MGE's witnesses are listed below:

19 Cost of Lobbying Activities - Noack and Oglesby  
20 Cost of Removal - Noack  
21 Pension Expense - Noack  
22 Corporate Incentive Compensation - Noack and Hays  
23 Lindemann and Brennan Compensation - McLaughlin  
24 Cost of New York Office - McLaughlin  
25 Merger and Acquisition Documentation - Noack  
26 Stipulation and Agreement in GM-02-0238 - McLaughlin  
27 Alternative Minimum Tax - Warren

**COST OF LOBBYING ACTIVITIES**

Q. In the rebuttal testimonies of MGE witnesses Michael Noack and James Oglesby, they propose to the Commission that MGE be allowed to recover costs of its lobbying activities. Mr. Hyneman, are you aware of any federal or state utility regulatory commissions that allow lobbying costs to be included in cost of service?

A. No. I have spent a significant number of hours researching this issue. All the documents I have reviewed indicate that it is a universal regulatory presumption that lobbying costs should not be included in rates, both at federal and state level regulatory jurisdictions.

Q. Is MGE aware of any federal or state regulatory body that allows lobbying costs to be included in rates?

A. No. In response to Staff Data Request No. 362, MGE stated that it is not aware of any federal or state regulatory body which allows lobbying costs to be included in cost of service.

Q. Please summarize the difference between the Staff and MGE on this issue.

A. The Staff believes that the cost of both external (outside lobbyists) and internal (employee lobbyists) lobbying activities should be excluded from MGE's cost of service in this case. The Staff believes that the distinction between outside and internal lobbying costs is a distinction without substance. Due to inadequate documentation kept by MGE, the Staff was forced to use an estimate of MGE's employee lobbying activities to remove from cost of service in this case.

Q. Is there a commonly accepted broader definition of "lobbying" than what was included in your direct testimony?

1           A.    Yes.  The Federal Communications Commission (FCC) has defined  
2   “lobbying” in Part 32 of The Uniform System of Accounts for Telecommunications  
3   Companies, Section 32.7370, as follows:

4                   Lobbying includes expenditures for the purpose of influencing  
5                   public opinion with respect to the election or appointment of public  
6                   officials, referenda, legislation, or ordinances (either with respect  
7                   to the possible adoption of new referenda, legislation or  
8                   ordinances, or repeal or modification of existing referenda,  
9                   legislation or ordinances) or approval, modification, or revocation  
10                  of franchises, or for the purposes of influencing the decisions of  
11                  public officials.  This also includes advertising, gifts, honoraria,  
12                  and political contributions.  This does not include such  
13                  expenditures, which are directly related to communications with  
14                  and appearances before regulatory or other governmental bodies in  
15                  connection with the reporting utility’s existing or proposed  
16                  operations.

17           The Staff agrees with this definition.

18           Q.    At page 13 of his rebuttal testimony, MGE witness Noack states, “the  
19   Staff’s proposal, which is apparently based on the belief that all legislative activities  
20   should be disallowed from rates because no benefits from such activities accrue to the  
21   ratepayers, is unfounded.” Does Mr. Noack correctly represent the Staff’s position on  
22   lobbying?

23           A.    No.  The Staff’s position, as clearly stated in my direct testimony, is that  
24   all costs of MGE’s lobbying activities should be recorded below-the-line for ratemaking  
25   purposes as required by the FERC Uniform System of Accounts (USOA).  These costs  
26   include dollars paid to external lobbyists (outside vendors and contractors) and internal  
27   lobbyists, such as Messrs. Hack, Oglesby and Snider.  In addition, if MGE believes that  
28   the costs of specific lobbying activities were incurred to provide safe and adequate utility  
29   at reasonable rates, then it has the burden to provide evidence to demonstrate this belief  
30   to the Commission in a rate case.

Surrebuttal Testimony of  
Charles R. Hyneman

1 Q. Has MGE tried to justify to the Commission that its lobbying costs had the  
2 purpose of providing safe and adequate utility service at reasonable rates?

3 A. Apparently not. MGE has made no attempt, either in its direct filing or its  
4 rebuttal testimony to show how its involvement in lobbying activities aided MGE in its  
5 attempt to provide safe and adequate utility service at reasonable rates.

6 Q. In the past, has MGE recorded its lobbying costs in accordance with the  
7 FERC's USOA?

8 A. No. Prior to December of 2003, MGE recorded all lobbying costs above  
9 the line to utility Operation and Maintenance accounts (O&M accounts). This accounting  
10 was in direct violation of the requirements of the FERC's USOA, for which, MGE is  
11 required by Commission rules to comply with for financial record keeping purposes.

12 The FERC USOA requires expenditures for the purpose of influencing public  
13 opinion and other lobbying type costs to be charged, not to utility operating accounts, but  
14 to a below-the line Account No. 426.4, entitled "Expenditures for certain civic, political  
15 and related activities." The full description of this account is included as Schedule 2 to  
16 this testimony.

17 Q. Is MGE's accounting for lobbying costs still in violation of the FERC's  
18 USOA?

19 A. Yes, the Staff believes it is in violation. MGE does not charge the time its  
20 employees spend on lobbying activities to Account No. 426.4, as it is required to do by  
21 the FERC. The FERC's USOA does not make a distinction between internal and external  
22 lobbying costs, as MGE does.

23 Q. Who are employed as lobbyists for MGE?

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     According to the Missouri Ethics Commission, MGE employs eight  
2 lobbyists. The two individuals MGE hires as independent contractor lobbyists are  
3 Charles "Andy" Arnold of Wright City, Missouri, and Joseph Thompson of Oakville,  
4 Missouri. MGE's employee lobbyists are Robert Hack, Jim Oglesby, Paul Snider,  
5 Barbara LaBass, Pam Levetzow and Carl Ricketts.

6           Q.     Has MGE provided any evidence that any of the costs of its lobbying  
7 activities were incurred to provide safe and adequate utility service at reasonable rates?

8           A.     No. However, Mr. Noack did mention legislation passed in 2002 known  
9 as the Experimental School Transportation Program as the only example of MGE's  
10 involvement with legislative activities that did not directly benefit Southern Union's  
11 shareholders. This legislation required Missouri gas corporations to file tariffs allowing  
12 school districts to purchase natural gas and pipeline transportation in the aggregate.

13           If MGE attempted to make the case in this proceeding that complying with this  
14 type of legislation was a recurring event, and if this event occurred in the test year in this  
15 case, then it would have a legitimate basis in which to seek recovery of the specific costs  
16 it was required to incur as a result of this legislation. In its direct filing, MGE would  
17 make an adjustment to the lobbying costs it recorded below-the-line in Account 426.4 to  
18 an above the line expense. However, MGE has provided no evidence in this case that  
19 would support recovery of the costs of its test year lobbying/legislative activities.

20           Q.     At page 14 of his rebuttal testimony Mr. Noack attempts to make a  
21 correlation between the time the Missouri General Assembly spends in session with the  
22 time Mr. Snider spends on his legislative activities. Is this a reasonable correlation?



Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     No. Mr. Snider not only works with MGE's outside lobbyists, but he also  
2 spends time working on Missouri Energy Development Association (MEDA) activities.  
3 The Staff has seen no evidence that MEDA is only active during the legislative session.  
4 MGE's involvement in lobbying activities, such as its work in support of the various  
5 utility-sponsored legislation requires a significant amount of research, communication,  
6 meetings, and other activities that most likely take place prior to the attempts to directly  
7 influence the legislature to support the proposals.

8           Q.     At pages 4 and 5 of his rebuttal testimony in this case, MGE's Chief  
9 Operating Officer, Mr. James Oglesby describes the amount of time he and the other  
10 MGE employees spend on lobbying activities. Do you have any comments on this  
11 testimony?

12          A.     Yes. Mr. Oglesby estimates that he and other MGE lobbyists spend less  
13 amount of time on lobbying activities than proposed by the Staff in direct testimony.  
14 However, Mr. Oglesby not only provides no support for his assertions, he provides no  
15 alternative estimate of the amount of time MGE 's internal lobbyists spend on lobbying  
16 activities. He just says it is less than the amount the Staff proposes.

17           If the Commission determines that MGE's internal lobbying costs should not be  
18 included in MGE's cost of service in this case, as it appropriately should, then the  
19 Commission should adopt Staff's proposal on the amount of lobbying costs it should  
20 disallow based upon the evidence provided in this proceeding.

21          Q.     Does the Staff have any evidence lobbying activities are a significant and  
22 important part of Southern Union's and MGE's corporate culture?

1           A.     Yes. The Staff has one clear example of this. On May 15, 2002, Messrs.  
2     Oglesby and Hack made a presentation before Southern Union's Board of Directors and  
3     other executives at the Metropolitan Club in New York City. The basis of this  
4     presentation was legislative initiatives and regulatory relationships. It is clear from my  
5     reading of the notes from this presentation that both Southern Union Board Members and  
6     executives consider lobbying activities at its utility division level to be important  
7     activities. If lobbying activities are important to Messrs. Oglesby's and Hack's superiors,  
8     it clearly is important to them in their role as MGE executive officers.

9     **LOBBYING RECORD KEEPING**

10          Q.     Does the Staff believe that that MGE should maintain adequate time  
11     records that reflect the amount of time each MGE employee lobbyist spends on lobbying  
12     activities and made these records available to the Commission in future rate cases?

13          A.     Yes. This Staff is recommending that the Commission order MGE to  
14     record and maintain time records on the amount of time each employee spends on  
15     lobbying and lobbying-related activities. Such records should considerably reduce: 1) the  
16     level of future Staff discovery, and 2) future litigation costs incurred by both the Staff and  
17     MGE in future MGE rate cases.

18          Q.     Is MGE opposed to recording the actual amount of time it spends on  
19     lobbying activities?

20          A.     Yes. Although MGE's position is not clearly stated, at page 33 of  
21     Mr. Noack's rebuttal testimony he appears to oppose the Staff's lobbying record keeping  
22     proposal. The Staff has a proposal that MGE maintain documentation on both the cost of  
23     its lobbying activities and the cost of its merger and acquisition activities (M&A). The

Surrebuttal Testimony of  
Charles R. Hyneman

1 Staff is not clear if Mr. Noack is referring to either one of these proposals or both of these  
2 proposals in his rebuttal testimony.

3 Q. If MGE appropriately accounted for its lobbying activities, would it need  
4 to keep time records on its employees who perform lobbying activities?

5 A. Yes. If MGE correctly charged internal employee lobbying costs of  
6 Account 426.4, it would have to have adequate time reporting records to support this  
7 charge.

8 Q. Is the Staff recommending that the Commission order MGE to record all  
9 of its lobbying costs, including its internal employee lobbying costs to account 426.4?

10 A. Yes, it is.

11 Q. In rebuttal testimony has MGE found it beneficial to its position on this  
12 issue that certain Commission employees maintain time records on the amount of time  
13 they spend on lobbying-related activities?

14 A. Yes. At page 14 of his rebuttal testimony, Mr. Noack states, "it is clear  
15 from a review of job descriptions as well as the Commission's time reporting records that  
16 various Commission personnel are involved in the legislative process and commission  
17 personnel devote substantial time to legislative activities." Here MGE uses the Staff's  
18 time reporting system to support its position on this issue. Clearly, then, MGE should  
19 support the Staff's proposal to have it document the extent of its involvement in lobbying  
20 activities.

21 Q. Is it appropriate for Mr. Noack to compare the operations of a state  
22 regulatory agency with the operations of an investor-owned public utility company?

1           A.     No, it is not. The Commission is a state agency that is directly answerable  
2 to the executive and legislative branches of Missouri state government. In addition, the  
3 Commission's salaries, employee levels and budgets are all set by the executive and  
4 legislative branch of Missouri government. For MGE, these decisions are made by its  
5 executive management. Also, the Commission serves as a resource for legislators on  
6 legislation as opposed to primarily taking an advocacy position.

7     **COST OF REMOVAL**

8           Q.     Please summarize the difference between MGE and the Staff as it relates to  
9 the issue of cost of removal?

10          A.     In MGE's last rate case, Case No. GR-2001-292, MGE and the Staff agreed  
11 that MGE would record cost of removal as a separate operating expense instead of  
12 combining net cost of removal with actual depreciation expense and charging this  
13 "bundled" cost to the depreciation reserve. In this case, the Staff and MGE agreed to  
14 continue this accounting treatment of cost of removal, using a five-year average of actual  
15 net cost of removal costs incurred by MGE for ratemaking purposes. The difference  
16 between the Staff and MGE on this issue is what course of action to take when the actual  
17 cost of removal expense incurred in a particular year doesn't exactly match the five-year  
18 average of net cost of removal that will be included in MGE's rates from this case.

19          The Staff's position is to treat net cost of removal the same as any other operating  
20 expense. In some years net cost of removal expense actually incurred will be higher than  
21 the amount included in rates, while in some years it will be less. For example, in Case No.  
22 GR-2001-292, the Staff included \$713,624 in expense for net cost of removal. MGE's  
23 actual net cost of removal was less than this amount in three of the past five fiscal years,

1 approximately equal to this amount in one of the years, and significantly more than this  
2 amount in one of the years.

3 MGE's position is described at pages 26 and 27 of Mr. Noack's rebuttal testimony.  
4 Mr. Noack describes that MGE's position is to charge the reserve for accumulated  
5 depreciation for any actual net cost of removal costs that exceed the level included in rates  
6 from this case. For example, both the Staff and MGE agree that the appropriate level of  
7 net cost of removal to include in this case is \$771,039. If MGE incurs \$871,039 in net cost  
8 of removal in a subsequent year, it will reduce the depreciation reserve (and thereby  
9 increase rate base) by \$100,000.

10 Q. What does Mr. Noack propose when actual net cost of removal is less than  
11 the level included in rates?

12 A. In this instance, Mr. Noack does not propose to increase the depreciation  
13 reserve (and decrease rate base) for the amount the actual expense is less than the amount  
14 in rates. What Mr. Noack proposes is to allow the over-recovery of this expense to flow  
15 directly to net income and its shareholders.

16 MGE's position is completely one-sided and biased in favor of its shareholders to  
17 the detriment of its ratepayers.

18 Q. Did MGE make it clear in its rebuttal testimony that its position would treat  
19 its shareholders on a more favorable basis than its ratepayers?

20 A. No. At page 26 of his rebuttal testimony Mr. Noack provides language that  
21 it recommends the Commission include in its Report and Order in this case. This language  
22 is essentially copied word for word from the Stipulation and Agreement in Case No.

1 GR-2004-0072, Aquila, Inc. (Aquila Stipulation). However, Mr. Noack decided to change  
2 one very significant word in this language.

3 While the Aquila Stipulation (discussed below) allows for a symmetrically-  
4 designed and balanced treatment of net cost of removal (an equal chance of benefiting  
5 either ratepayers or shareholders), Mr. Noack insertion of the word "exceeds" in the place  
6 of "differs from", changes the substance of the methodology to one that can only provide a  
7 benefit to MGE's shareholders. Under MGE's proposal, unlike the method described in  
8 the Aquila Stipulation, there is no chance for its customers to benefit from variances in  
9 cost. The benefit is restricted solely for its shareholders.

10 The original sentence in the Aquila Stipulation reads "For any actual amount of  
11 annual net cost of removal that differs from these amounts, Aquila will record the  
12 difference in its accumulated depreciation reserve." Mr. Noack's version reads " For any  
13 actual amount of annual net cost of removal that exceeds this amount, MGE will record the  
14 difference in its accumulated depreciation reserve."

15 Q. At page 26 of his rebuttal testimony, Mr. Noack compares the net cost of  
16 removal with the Staff's position on accounting for actual ERISA minimum pension  
17 expense. Are the two types of expense comparable?

18 A. No. MGE has virtually no control over the calculation of the minimum  
19 required ERISA contribution to its pension plan. This calculation is performed in  
20 accordance with federal labor law and is largely influenced by the results of the pension  
21 fund assets in the financial markets. To the contrary, like most O&M expenses, such as  
22 maintenance expense, MGE has some control over the level of net cost of removal it will  
23 incur on a year-to-year basis.

1           Q.     At page 25 of his rebuttal testimony Mr. Noack says he is uncertain about  
2 the Staff position because it is silent on how MGE should treat net cost of removal costs in  
3 future years that differ from the net cost of removal level included in rates in this case. Do  
4 you understand why Mr. Noack is uncertain about the Staff's position?

5           A.     No. The Staff and MGE have had discussions on this issue. MGE made it  
6 clear it wanted the treatment of cost of removal language from the Aquila Stipulation  
7 included in this case. The Staff made it clear to MGE that it was opposed to this treatment.  
8 There should be no uncertainty on the part of MGE as to the Staff's position on this issue.

9           Q.     Please explain the treatment of net cost of removal in the Aquila  
10 Stipulation.

11          A.     As part of an overall agreement to settle all of the remaining contested  
12 issues in Case No. GR-2004-0072, the Staff agreed to special treatment for Aquila's net  
13 cost of removal. Stipulation Paragraph No. 4, Depreciation, states that Aquila shall book  
14 the actual levels of annual net cost of removal as an expense up to the amounts included in  
15 rates. For any actual amounts of annual net cost of removal that differs from this amount,  
16 Aquila will record the difference in its accumulated depreciation reserve.

17          As an example, using the same example as above, if Aquila's rates were set on  
18 \$771,039 of net cost of removal and Aquila actually incurred \$881,039, it would decrease  
19 its depreciation reserve by \$100,000 and thus increase rate base by this amount. If it  
20 incurred \$671,039 of actual net cost of removal, it would increase its depreciation reserve  
21 by \$100,000 and thus decrease rate base by this amount. In effect, the actual net cost of  
22 removal is "tracked" against the level included in rates and the depreciation reserve is  
23 adjusted to make up for the difference.

Surrebuttal Testimony of  
Charles R. Hyneman

1           Q.     Why is the Staff not proposing the net cost of removal tracking mechanism  
2 that it agreed to in the Aquila Stipulation for MGE in this case?

3           A.     The Staff notes that the net cost of removal tracking mechanism in the  
4 Aquila Stipulation was part of an overall settlement of a case. Concessions were made by  
5 all Parties in the Aquila Stipulation, often involving multiple issues. However, herein,  
6 MGE tries to "cherry pick" the Aquila Stipulation for the ratemaking methodologies that  
7 would benefit its shareholders and ignore other components that would provide protection  
8 to its ratepayers.

9           Q.     Does MGE provide to the Commission any substantive support for its  
10 position on this issue?

11          A.     No. MGE's sole support for this position is included on page 25, lines 4  
12 through 7 of Mr. Noack's rebuttal testimony. This evidence consists of an unsupported  
13 claim that accounting for cost of removal as an expense could cause the Company to suffer  
14 earnings degradation as a result of matters entirely beyond the Company's control.

15          Q.     Is the accounting community moving away from accounting for asset  
16 removal costs by charges to the depreciation reserve?

17          A.     Yes. Current generally accepted accounting principles (GAAP) require that  
18 the cost of removal of the types of assets owned by MGE be charged to expense as  
19 incurred. This is the position recommended by the Staff. Although the Commission is not  
20 by any means bound to comply with GAAP, the Staff believes that the Commission should  
21 be aware of this fact. Also, since the FERC's USOA follows GAAP to a significant extent,  
22 it is likely that FERC will also require this type of treatment for removal costs.



1           Q.     You've made it clear that the Staff opposes the Aquila Stipulation tracking  
2 mechanism ratemaking treatment for MGE in this case. However, does the Staff have a  
3 recommendation for the Commission in the chance that the Commission favors the  
4 tracking mechanism for MGE in this case?

5           A.     Yes. The Staff recommends that the Commission include explicit language  
6 that net cost of removal expense tracking mechanism works both ways. Actual costs  
7 incurred over and above the level included in rates would be a debit (decrease) to the  
8 depreciation reserve. Likewise, actual costs incurred less than the level included in rate  
9 would require a credit (increase) to the depreciation reserve.

10    **PENSION EXPENSE**

11           Q.     Has MGE agreed to the Staff's recommended method for calculating  
12 pension expense in this case?

13           A.     To a significant extent, yes. The Staff and MGE have agreed to use  
14 generally the same method of accounting for pension expense that was ordered in  
15 Aquila's most recent electric rate case, Case No. ER-2004-0034 (the Aquila method).  
16 This method is described in Mr. Noack's testimony at page 12 lines 9 through 23.  
17 However, MGE's proposal for treatment of pension expense in this proceeding differs  
18 from the Aquila method in that MGE is seeking extraordinary accounting treatment  
19 specifically reserved for certain types of accounting authority orders.

20           Q.     What special accounting and ratemaking treatment is MGE seeking?

21           A.     At page 12 lines 9 through 23 of his rebuttal testimony, Mr. Noack  
22 includes language largely borrowed from the Stipulation and Agreement in Case No.  
23 ER-2004-0034 on the issue of pension expense. However, Mr. Noack inserts the eleven

1 words "including a provision for carrying costs associated with any such difference" to  
2 the language from the Aquila Stipulation. (Emphasis Added)

3 Q. Does MGE provide any other support or explanation of this position?

4 A. The only explanation or support for this position is the statement  
5 Mr. Noack makes at page 12 of his rebuttal testimony. Mr. Noack describes how it is  
6 MGE's desire to protect itself from a reduction in income caused by the difference in  
7 actual future pension expense and the level of pension expense included in this case.

8 Q. Why is the Staff opposed to MGE's proposal to capitalize a rate of return  
9 during the period between rate cases on the difference between the level of pension  
10 expense included in rates from this case and MGE's actual Minimum ERISA pension  
11 contributions?

12 A. MGE is seeking extraordinary accounting treatment for a normal recurring  
13 type of expense - pension expense. The type of extraordinary treatment sought by MGE  
14 has traditionally been reserved for long-term plant or investment-related costs that have  
15 been determined to be extraordinary costs. The Commission has only allowed such cost  
16 deferral treatment under regulatory accounting mechanisms known as accounting  
17 authority orders (AAOs). It has been this Commission's policy for several years to make  
18 a determination that to be considered for the type of treatment sought by MGE, the cost  
19 had to be unusual and infrequent, in addition to other criteria being considered.

20 Q. Is pension expense an unusual or infrequent type of expense for MGE?

21 A. No. To the contrary, pension expense is a normal recurring expense.

Surrebuttal Testimony of  
Charles R. Hyneman

1           Q.     Is pension expense a long-term plant or investment-related cost of the type  
2 where the Commission has allowed the capitalization of a rate of return between rate  
3 cases?

4           A.     No. Pension expense is not a capital cost, but a normal recurring  
5 operating expense.

6           Q.     At page 11 of his surrebuttal testimony Mr. Noack insinuates that the Staff  
7 changes its recommended method of calculating pension expense from case to case  
8 simply to achieve the lowest possible revenue requirement. Do you have any comments  
9 on this insinuation?

10          A.     Yes. This case is MGE's fourth rate case in Missouri. For the prior three  
11 rate cases, the Staff proposed a level of pension expense based on the Financial  
12 Accounting Standards No. 87 (FAS 87) method. While the Staff's method used a more  
13 reasonable calculation of the amortization of gains and losses as one component of  
14 pension expense, its proposal in all former MGE rate cases was fully consistent with the  
15 requirements of FAS 87.

16          Mr. Noack's accusation that the Staff's proposed method of calculating pension  
17 expense in this proceeding is nothing more than an attempt to lower the revenue  
18 requirement is completely without merit.

19          Q.     Is there a specific example in this case where the Staff's method of  
20 calculating pension costs results in a higher revenue requirement than MGE's proposed  
21 method?

22          A.     Yes. The Staff is proposing to amortize MGE's prepaid pension asset  
23 over the seven-year period that the asset was accumulated. While MGE proposed to

Surrebuttal Testimony of  
Charles R. Hyneman

1 recover only the Operations and Maintenance (O&M) portion of this amortization, the  
2 Staff's proposed a recovery of 100 percent of the deferral. The Staff's proposal increases  
3 MGE's revenue requirement by approximately \$326,000 over what MGE proposed. Mr.  
4 Noack concurs with this in his response to Staff Data Request No. 308, which, in part,  
5 reads:

6 Question: Would Mr. Noack agree that the Staff's method of  
7 calculating MGE's amortization of its prepaid pension asset (i.e.  
8 reflecting 100% of the amortization in O&M expense) results in a  
9 higher revenue requirement than MGE's proposed method?

10 Answer: Yes, by about \$330,000.

11 Q. Mr. Hyneman, in your direct testimony you state that one of the cases where  
12 the Staff proposed the use of the Minimum ERISA method to calculate pension expense  
13 was Case No. ER-2004-0034, Aquila. Did the Staff's proposed method increase or  
14 decrease Aquila's revenue requirement in that case?

15 A. The document Corrections to Reconciliation Filed With Staff's Statement of  
16 Positions, Appendix A-1 (Corrected 2/17/04) filed with this Commission shows that the  
17 Staff's proposed level of pension expense in that case resulted in an increase to MPS'  
18 revenue requirement over the level proposed by Aquila for its Missouri Public Service  
19 division by over \$760,000 and for its Light & Power division by over \$4 million.

20 **CORPORATE INCENTIVE COMPENSATION**

21 Q. Mr. Hyneman, are you the sole Staff witness sponsoring an adjustment to  
22 Southern Union's incentive compensation expense in this case?

23 A. No. Staff witness Dana E. Eaves is sponsoring the adjustment to MGE's  
24 divisional incentive compensation expense. I am sponsoring an adjustment to the level of  
25 incentive compensation allocated to MGE from Southern Union's corporate headquarters.

1           Q.     Please summarize the difference between the Staff and MGE on the issue  
2 of corporate incentive compensation.

3           A.     The Staff is opposed to ratemaking recovery of incentive compensation  
4 costs that are based on measures of income. As described in my direct testimony, the  
5 sole criteria for executive officers to receive compensation under Southern Union's  
6 corporate incentive compensation plan is consolidated net income as published in  
7 Southern Union's financial statements. MGE believes that a corporate incentive  
8 compensation plan that includes consolidated net income, as its sole measure, should not  
9 be included in MGE's revenue requirement calculation in this case.

10          Q.     At page 17 of his rebuttal testimony, Mr. Noack describes the Staff's  
11 response to MGE Data Request Nos. 28 and 29. The Staff response states that the Staff  
12 believes an incentive compensation plan can affect employee behavior. Is the Staff  
13 opposed, in theory, to all forms of incentive compensation?

14          A.     No. The Staff has supported and continues to support well-designed  
15 incentive compensation plans that are based on measures that promote the provision of  
16 safe and adequate service at reasonable rates. Some of these measures could include  
17 customer service measures and safety measures.

18          While the Staff supports incentive compensation plans that are ratepayer, or  
19 customer driven, it does not support rate recovery of incentive compensations plans, such  
20 as Southern Union's corporate executive plan, that are primarily shareholder driven. This  
21 is also the position taken by this Commission in a previous MGE rate case.

22          Q.     On page 16 of his rebuttal testimony, Mr. Noack states that financially  
23 based incentive compensation opportunities cause employees to seek out efficiencies that

Surrebuttal Testimony of  
Charles R. Hyneman

1 will help improve the bottom line. Is there a serious flaw, especially considering MGE's  
2 past problems with providing adequate customer service, in linking incentive  
3 compensation with criteria such as net income?

4 A. Yes. One of the most significant problems with linking compensation  
5 with factors such as net income is the potential impact on safety and customer service.  
6 With the exception of the cost of gas itself, labor expenses are MGE's largest cost of  
7 providing service and the biggest target to go after in any attempt to reduce expenses.  
8 Outside of a rate case test year, when rates are set on a certain number of employees,  
9 reducing employee levels is the easy way to cut costs and increase income. However,  
10 cutting employee levels can have a negative impact of gas safety and customer service,  
11 depending on the types of employees that are terminated. Given safety and customer  
12 service considerations, the Staff believes it is a bad idea to base employee compensation  
13 on factors such as net income that can be easily manipulated and lead to a negative  
14 impact on both safety and customer service.

15 Q. Has the Commission recognized the inherent conflict in basing incentive  
16 compensation on income objectives for MGE in the past?

17 A. Yes. At page 37 of its Report and Order in Case No. GR-96-285, the  
18 Commission specifically quoted from The Office of Public Counsel witness on incentive  
19 compensation in that case as follows:

20 Q. ....To the extent that the incentive compensation program  
21 relates to controlling costs, which is arguably a ratepayer oriented  
22 goal, should the incentive compensation be included in cost of  
23 service?

24 A. As a general rule, I would agree that if the incentive  
25 compensation is related to customer oriented goals, then it should  
26 not be excluded from the cost of service. But, and this is a big but,  
27 if one of the nominally customer oriented goals of the incentive

1 compensation program is reducing expenses, then that incentive  
2 compensation should be included in the cost of service only to the  
3 extent the intended cost containment can be achieved without  
4 compromising customer service. If employees are rewarded for  
5 reducing costs, without regard to the quality of service, then the  
6 employees have an incentive to reduce costs, even if it means  
7 compromising the quality of service. Unless the Company can  
8 demonstrate that cost reductions pursuant to which incentive  
9 compensation has been awarded were achieved while maintaining  
10 the quality of service, then the incentive compensation should be  
11 excluded from the cost of service. In fact, based on the testimony  
12 of OPC witnesses Trippensee and Kind, any cost reductions that  
13 the Company has been able to achieve have been realized at the  
14 expense of the quality of service. In these circumstances it would  
15 be inappropriate to include any incentive compensation related to  
16 expense reductions in the cost of service.

17 In its Report in Order, the Commission noted that MGE's customer service had  
18 declined precipitously during the three years preceding this rate case, yet MGE sought  
19 rate recovery of costs that the ratepayers had already paid for in terms of reduced  
20 customer service.

21 Q. What was the finding of the Commission with respect to MGE's proposal  
22 to recover incentive compensation in Case No. GR-96-285?

23 A. The Commission found that MGE's incentive compensation costs should  
24 be excluded from the cost of service because MGE's incentive compensation program is  
25 driven at least primarily, if not solely, by the goal of shareholder wealth maximization,  
26 and it is not significantly driven by the interests of the ratepayers.

27 Q. Has MGE provided any evidence in this proceeding that the interests of its  
28 ratepayers drive its corporate level incentive compensation program?

29 A. No. Southern Union's incentive compensation is 100 percent based on  
30 consolidated net income and not, either directly or indirectly, on the interests of MGE's  
31 ratepayers.

Surrebuttal Testimony of  
Charles R. Hyneman

1           Q.     Is Southern Union's corporate executive incentive compensation plan  
2 designed where MGE could have the worst customer service levels for any utility in  
3 Missouri and the worst record in terms of safety and MGE would still be charged with  
4 incentive compensation costs from its corporate headquarters?

5           A.     Yes.     Southern Union pays its officers and directors incentive  
6 compensation based only on consolidated net income. If Southern Union met its net  
7 income goals (goals that are primarily impacted by the results of its other divisions and  
8 its Panhandle Pipeline subsidiary), MGE would still be charged with corporate incentive  
9 compensation costs despite its ability to provide safe and adequate utility service.

10          Q.     Who is MGE's primary expert witness on incentive compensation plans in  
11 this case?

12          A.     MGE's primary expert witness is Ms. Deborah Hays, MGE's Vice  
13 President of Human Resources. Ms. Hays filed rebuttal testimony on the incentive  
14 compensation issue in this case.

15          Q.     Does Ms. Hays have significant experience working with incentive  
16 compensation plans?

17          A.     Yes.     In response to Staff Data Request No. 312, MGE described  
18 Ms. Hays' experience:

19                   The comments in Ms. Hays' testimony were based upon over  
20 twenty years of experience in Human Resources. As an in-house  
21 HR executive, she has designed compensation plans and has also  
22 worked with consultants such as Mercer and Wyatt to design  
23 compensation plans. In addition, she has years of experience as a  
24 consultant, with some projects in the compensation area. As a  
25 Human Resources professional, she read journals, newsletters, and  
26 studies in order to maintain current knowledge in my professional  
27 field.



Surrebuttal Testimony of  
Charles R. Hyneman

1           Q.     What does Ms. Hays believe are the components of a well-designed  
2 incentive plan?

3           A.     Ms. Hays stated in response to Staff Data Request No. 312 that  
4 “components of a well-designed incentive plan typically include financial and customer  
5 service measures, and if applicable, safety measures. That is not to say that these are the  
6 only commonly used measures. It depends upon the type of industry and the particular  
7 focus of the organization at the time.”

8           Q.     What does that indicate to you about the particular focus of Southern  
9 Union at this time?

10          A.     It indicates to me that the focus of Southern Union’s officers and directors  
11 is on earnings and only earnings. It is not currently focused on customer service or safety  
12 issues. If it were, according to Ms. Hays, it would include these measures in its incentive  
13 compensation plan.

14          Q.     Has Southern Union’s Board of Directors (Board) communicated to  
15 Southern Union’s shareholders and the general public about the only goal it considers to  
16 be strategically and operationally important?

17          A.     Yes. In its Proxy Statement filed with the Securities and Exchange  
18 Commission (SEC) on October 10, 2003, Southern Union described the purpose of  
19 making consolidated net income the sole measure for its executive officer incentive  
20 compensation plan (Bonus Plan):

21                   The Board believes that the Bonus Plan serves Southern Union’s  
22 interests by focusing management’s attention on the achievement  
23 of those goals that the Board determines to be strategically and  
24 operationally important for the Company.

Surrebuttal Testimony of  
Charles R. Hyneman

1           Q.     At page 17 of his rebuttal testimony, Mr. Noack states that no individuals  
2 on the Commission made an analysis of ascertain how MGE's compensation practices  
3 compare to practices in the market. Have you made such an analysis?

4           A.     Yes. As will be described more fully later in my surrebuttal testimony, I  
5 have performed an analysis that shows that MGE's top executive officers are far and  
6 away the highest paid executives in the peer group of 15 companies selected by MGE's  
7 witness on corporate executive compensation, Mr. Michael J McLaughlin.

8     **LINDEMANN AND BRENNAN**

9           Q.     Please explain the Staff's position as to what it believes is the appropriate  
10 compensation levels for Messrs. Lindemann and Brennan.

11          A.     The Staff's position is that Southern Union's Chairman of the Board of  
12 Directors, Mr. George Lindemann and its Vice Chairman, Mr. John Brennan do not  
13 devote their full time to Southern Union and do not function as senior executive officers  
14 of the Company.

15          The Staff feels that Messrs. Lindemann and Brennan function more as active  
16 Board members than executive officers. Both individuals maintain a primary work  
17 location in New York City, while Southern Union's headquarters is in Pennsylvania. The  
18 Staff has adjusted Messrs. Lindemann's and Brennan's compensation to a level that is  
19 more than three times the level paid to Southern Union's regular Board members.

20          Q.     In the past, has Southern Union readily admitted that Mr. Brennan devotes  
21 only a small part of his time to Southern Union and that Mr. Lindemann does not devote  
22 his full time to the Company?

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.    Yes.   The following statements concerning Messrs. Lindemann's and  
2   Brennan's actual involvement in Southern Union's operations are described in Southern  
3   Union's 1995 Proxy Statement.   Similar statements were included in the Proxy  
4   Statements for 1994 and 1996:

5                   John E. Brennan has been Vice Chairman of the Board of Southern  
6                   Union since February 1990. Mr. Brennan devotes only a small  
7                   part of his business time to the Company. Mr. Brennan has been  
8                   primarily engaged in private investments since May 1992. Prior to  
9                   May 1992, Mr. Brennan had been President and Chief Operating  
10                  Officer of Metro Mobile. (Emphasis added)

11                  George L. Lindemann has been Chairman of the Board and Chief  
12                  Executive Officer of Southern Union since February 1990. He has  
13                  been Chairman of the Executive Committee of the Board of  
14                  Directors since March 1990. Mr. Lindemann does not devote his  
15                  full business time to the Company. He was Chairman of the Board  
16                  and Chief Executive Officer of Metro Mobile from its formation in  
17                  1983 through April 1992. He has been President and a director of  
18                  Cellular Dynamics, Inc., the managing general partner of Activated  
19                  Communications Limited Partnership, a private investment  
20                  business, since May 1982. (Emphasis added)

21           Q.    At page 6 of his rebuttal testimony, Mr. McLaughlin describes Messrs.  
22   Lindemann's and Brennan's role as members of Southern Union's Board of Directors.  
23   Did the Staff seek further information from Southern Union on these individuals' work  
24   activities?

25           A.    Yes.   In Staff Data Request No. 316, the Staff asked for the dates when  
26   Mr. George Lindemann and Mr. John Brennan were physically at: A) the NY office; and  
27   B) the Pennsylvania headquarters in 2003 and 2004.

28           Q.    What was Southern Union's response to this question?

29           A.    Southern Union did not provide any dates, but provided the following:

30                   Messrs. Lindemann and Brennan's appointment calendar were  
31                   previously provided in response to Question Number 0189 in this  
32                   proceeding. Mr. Lindemann conducts meetings at the New York

Surrebuttal Testimony of  
Charles R. Hyneman

1 offices of the Company when he is in New York, and he conducts  
2 Company business telephonically while in Florida or while  
3 traveling. Mr. Brennan's principal place of business is the New  
4 York office of the Company, and he generally attends meetings  
5 one or two days per month in Pennsylvania, in addition to his  
6 travels to other offices of the Company for executive meetings.

7 Q. Do either Messrs. Lindemann or Brennan carry an executive officer title?

8 A. Yes. In addition to the title "Chairman", Mr. Lindemann also carries the  
9 title of "Chief Executive officer" (CEO) of Southern Union. Vice Chairman Brennan  
10 does not carry an executive title.

11 Q. Who at Southern Union actually performs the role CEO?

12 A. Mr. Tom Karam, who works at Southern Union's headquarters in Wilkes -  
13 Barre Pennsylvania, acts as Southern Union's CEO. Mr. Karam's official title is  
14 *President and Chief Operating Officer*.

15 Q. At pages 5 through 7 of his rebuttal testimony, Mr. McLaughlin attempts  
16 to justify the actual compensation paid to Messrs. Lindemann and Brennan by describing  
17 their duties as members of the Executive Committee of Southern Union's Board of  
18 Directors. Please comment on this testimony.

19 A. The Staff does not doubt that Mr. Lindemann and Mr. Brennan are  
20 involved members of Southern Union's Board. Mr. McLaughlin describes Messrs.  
21 Lindemann's role and Mr. Brennan's role on the Executive Committee of the Southern  
22 Union's Board of Directors, *not as senior executive officers who work full time for*  
23 *Southern Union.* Mr. McLaughlin's testimony is fully consistent with the Staff's  
24 position, in that Messrs. Lindemann and Brennan are active members of the Board and  
25 should be compensated as such.

Surrebuttal Testimony of  
Charles R. Hyneman

1           Q.     What evidence has Mr. McLaughlin offered in his rebuttal testimony that  
2 supports the position that Messrs. Lindemann and Brennan should be compensated as  
3 full-time executive officers of Southern Union?

4           A.     Mr. McLaughlin's sole support is a quote from Southern Union's 2003  
5 Proxy Statement describing the function of Executive Committee of the Board and the  
6 fact that Messrs. Lindemann and Brennan participated in seven full Board meetings and  
7 four additional meetings of the Executive Committee of the Board.

8           Q.     Where is Mr. Lindemann's personal residence?

9           A.     According to Southern Union's website, Mr. Lindemann resides in Palm  
10 Beach, Florida and Greenwich, Connecticut.

11          Q.     Where is Mr. Lindemann's primary work location?

12          A.     Mr. Lindemann's primary work location is in New York City.

13          Q.     Does the fact that Mr. Lindemann lives in Florida, works in New York  
14 City and allegedly runs the day-to day operations of a utility company in Pennsylvania  
15 seem highly unusual?

16          A.     Yes. It is a very unusual situation that puts a significant burden on MGE  
17 to show that despite living in Florida and working in New York City, with  
18 responsibilities of running other business, that Mr. Lindemann is the actual CEO and  
19 performs the traditional role of a CEO at Southern Union Company. MGE has not come  
20 anywhere close to meeting this burden in this case.

21          Q.     At page 7 of his rebuttal testimony Mr. McLaughlin references the  
22 Commission's Report and Order Case No. GR-96-285. Did the Commission require that

Surrebuttal Testimony of  
Charles R. Hyneman

1 MGE support its position that MGE's ratepayers should pay the costs of Messrs. Brennan  
2 and Lindemann's compensation?

3 A. Yes. At page 35 of the Commission's Report and Order in Case No.  
4 GR-96-285, it stated:

5 Under Section 393.150(2), R.S.Mo. (1994), MGE bears the burden  
6 to show that proposed increased rates are just and reasonable. This  
7 means that MGE must keep auditable records to show that  
8 Lindemann and Brennan provided services to MGE which services  
9 benefited Missouri ratepayers. It is not sufficient to request the  
10 increase in revenue requirement with no supporting  
11 documentation.

12 Q. What auditable records did MGE keep in support of this Commission  
13 directive?

14 A. The Staff asked for these auditable records in Data Request No. 328 in this  
15 proceeding. In response to this data request, the Staff did not receive any auditable  
16 records, only a general explanation of how MGE believes Messrs. Lindemann and  
17 Brennan provide benefits to Southern Union Company and MGE.

18 Q. Has MGE actually decreased the level of documentation is has provided to  
19 the Staff to support the compensation of Messrs. Lindemann and Brennan since the  
20 Commission's Report and Order in Case No. GR-96-285?

21 A. Yes. In Case No. GR-96-285, MGE provided the Staff with time reports  
22 for Messrs. Lindemann and Brennan. In response to Staff Data Request No. 327 in this  
23 case, MGE responded, "employees in the New York office do not fill out time reports."

24 Q. On page 7 lines 4 through 9 of his rebuttal testimony, Mr. McLaughlin  
25 states that Mr. Lindemann's total "cash compensation" (salary plus bonus) for fiscal year  
26 2003 ranked fourth lowest in a peer group of fifteen companies. Does Mr. McLaughlin  
27 accurately represent Mr. Lindemann's annual compensation?

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     No. My analysis shows that Mr. Lindemann's 2003 annual compensation  
2     was \$3,521,060, making him far and away the highest compensation officer of all the  
3     companies Southern Union's peer group. The next highest annual compensation was for  
4     the CEO of Keyspan, a company that is three times the size of Southern Union in terms  
5     of total assets and six times larger than Southern Union in terms of revenues. My  
6     analysis and the schedules supporting this analysis are included as Schedule 1 to this  
7     testimony.

8           Q.     What conclusion did you draw from your analysis?

9           A.     Based on my analysis, and the information I have reviewed in this case, I  
10    can only conclude that, even if Mr. Lindemann was a full-time executive of Southern  
11    Union, his 2003 compensation can easily be classified as excessive.

12          Q.     Were the schedules of Southern Union's peer group companies provided  
13    to the Staff by Mr. McLaughlin?

14          A.     Yes, they were.

15          Q.     On page 7 lines 11 through 14 of his rebuttal testimony, Mr. McLaughlin  
16    states that Mr. Brennan's total "cash compensation" (salary plus bonus) for fiscal year  
17    2003 ranked him fourth highest out of 15 second-highest ranking employees in the peer  
18    group of fifteen companies selected by Mr. McLaughlin for this study. Does  
19    Mr. McLaughlin accurately represent Mr. Brennan's annual compensation?

20          A.     No. Mr. Brennan's total annual compensation for 2003 was \$1,561,096.  
21    This amount was nearly double the annual compensation of Keyspan's second-highest  
22    compensated officer in the 15-company peer group. Again, Keyspan is a company that is  
23    three times the size of Southern Union in terms of total assets and six times larger than

Surrebuttal Testimony of  
Charles R. Hyneman

1 Southern Union in terms of revenues. Mr. Brennan's 2003 base salary of \$411,359 was  
2 the second-highest salary in this group. This show's that Mr. Brennan's compensation is  
3 excessive given the fact that he only devotes a portion of his time to Southern Union.

4 Q. What is the source of your analysis?

5 A. I reviewed the proxy statements for each of the companies in  
6 Mr. McLaughlin's Southern Union peer group companies to determine the compensation  
7 levels. For each of these companies, I also reviewed either the company's 2003 annual  
8 report or the 2003 SEC Form 10-K, Annual Report.

9 Q. Mr. Hyneman, are any of the highly compensated employees of Southern  
10 Union's peer group companies only members of the Board of Directors of their  
11 respective companies?

12 A. No. While some of the executives may also be Board members, they are  
13 all executive officers of the company.

14 Q. Is the level of compensation paid by Southern Union to Messrs.  
15 Lindemann and Brennan consistent with the public statements made by Southern Union's  
16 Board relative to executive compensation?

17 A. No. According to Southern Union's 2003 Proxy Statement on Executive  
18 Compensation, Southern Union's Board tries to match the compensation of Southern  
19 Union's executives with the compensation levels of members in Southern Union's peer  
20 group of companies. It apparently has not succeeded in this attempt. As I have shown  
21 above, the compensation of Southern Union's two highest paid employees - Messrs.  
22 Lindemann and Brennan significantly exceed all of the companies in Southern Union's



1 peer group of companies. On executive compensation, Southern Union's 2003 Proxy  
2 Statement states:

3           The factors and criteria utilized by the Board to set executive  
4           compensation levels include the assessment of comparable  
5           information from similarly sized operations. It is the philosophy of  
6           the Board to set the base salaries and incentives of executive  
7           officers at an amount comparable to a financial peer group of other  
8           similarly sized companies. This peer group includes neighboring  
9           and other similarly sized natural gas distribution and transmission  
10          companies and other companies that share operating and financial  
11          characteristics with the Company.

12           Q.    Mr. Hyneman, do the circumstances surrounding the excessive level of  
13           compensation paid to Messrs. Lindemann and Brennan, the fact that this compensation is  
14           not in line with public statements of Southern Union's Board, and the fact that  
15           Mr. Lindemann and his family control over 20 percent of Southern Union's common  
16           stock raise concerns about a possible conflict of interest between Southern Union and  
17           Mr. Lindemann?

18           A.    Yes, it does. There is no doubt that Mr. Lindemann, because of his  
19           ownership of over 20 percent of Southern Union, exerts significant control of the  
20           Company. He also holds the title of Chairman and CEO. Of significant concern is the  
21           fact that Mr. Lindemann does not devote his full time to Southern Union, but is paid far  
22           in excess of CEOs of major utility companies who actually do run the operations of their  
23           respective companies. These facts, and others, pose a significant concern about the  
24           quality of corporate operational controls at Southern Union.

25           **COSTS OF NEW YORK OFFICE**

26           Q.    Please provide an example of a potential conflict of interest between  
27           Southern Union and Mr. Lindemann, as a significant owner of Southern Union.

Surrebuttal Testimony of  
Charles R. Hyneman

1           A.     At page 8 of his rebuttal testimony, Mr. McLaughlin describes why MGE  
2     should pay for its share of Southern Union's lease payments for an office in New York  
3     City. As I described in my direct testimony, Messrs. Lindemann and Brennan work in an  
4     office in New York City. This New York office is leased by the firm Activated  
5     Communications, Inc., (Activated) which is owned by the Lindemann family and  
6     Mr. Brennan. This arrangement is described in Southern Union's 2003 Proxy Statement:

7                     Since 1993 Southern Union has maintained executive offices in  
8                     New York City for its Chairman and Vice Chairman, and for use  
9                     by other Company executives and representatives when conducting  
10                    business there. The space is sublet from Activated  
11                    Communications, Inc. ("Activated"), an entity owned by Chairman  
12                    Lindemann and members of his family, and by Vice Chairman  
13                    Brennan.

14           Payments to Activated by Southern Union for reimbursement of lease expenses  
15     were for the past few years are as follows:

16                                     2001 - \$259,000

17                                     2002 - \$257,000

18                                     2003 - \$690,000

19           Q.     Who approved the lease and cost sharing arrangement between Southern  
20     Union (a company 20 percent owned by Mr. Lindemann) and Activated (a company  
21     owned by Messrs. Lindemann and Brennan)?

22           A.     According to Southern Union's 2003 Proxy Statement, this lease and cost  
23     sharing arrangement was "approved by disinterested directors in 1993."

24           Q.     Did MGE provide any reasons for the increase in cost to Southern Union  
25     from \$257,000 in 2002 to \$690,000 in 2003?

26           A.     Yes. During fiscal 2003 Southern Union renovated the office space at a  
27     total cost of approximately \$4,650,000, including capitalized furniture and office

Surrebuttal Testimony of  
Charles R. Hyneman

1 equipment. In addition, in response to Staff Data Request No. 316, Southern Union  
2 explained that Southern Union has adopted a new cost sharing arrangement with  
3 Activated Communications based upon the square footage used by Southern Union  
4 personnel compared to the square footage used by Activated Communications personnel.

5 Q. In the response to this data request, did Southern Union provide the new  
6 cost sharing arrangements?

7 A. Yes. The cost sharing arrangements in 2002 and 2003 were 50% Southern  
8 Union and 50% Activated. However, the new cost sharing arrangement is 80% Southern  
9 Union and 20% Activated.

10 Q. What is the size of the New York office and how is the office space  
11 allocated?

12 A. According to MGE's response to Staff Data Request No. 316, the office is  
13 5,679 square feet. Twenty percent of this amount, or 1,167 square feet is allocated to six  
14 individuals not in the employment of Southern Union, including Mr. Lindemann's son,  
15 Adam Lindemann. The remaining 4,512 square feet, or 80 percent of the total is  
16 allocated to four Southern Union employees. These employees include Messrs.  
17 Lindemann and Brennan and their administrative assistants.

18 Q. Did Southern Union explain why the New York office needed a \$5 million  
19 renovation and why Southern Union's allocation of the cost of the New York office  
20 increased from 50% to 80%?

21 A. No.

1 Q. Mr. Hyneman, referring back to the Staff's concerns about a possible  
2 conflict of interest between Southern Union and Mr. Lindemann, did Southern Union's  
3 Board approve the \$5 million renovation of the New York office?

4 A. No, it did not. In response to Staff Data Request No. 316, Southern Union  
5 stated, "the Board of Directors did not approve the \$5 million renovation to the NY office  
6 because the approval of the Board of Directors would not be necessary for that amount  
7 and type of expense."

8 Q. Why is the fact that Southern Union's Board did not approve the \$5  
9 million New York office renovation a concern to the Staff?

10 A. In 1993, the Board felt it was necessary to approve a cost sharing  
11 arrangement with Activated when the annual lease payment was \$187,000. However,  
12 Southern Union decided that the Board did not have to approve a \$5 million renovation to  
13 this office. Apparently, Mr. Lindemann, as Chairman and CEO of Southern Union,  
14 ordered a \$5 million renovation of his personal office in New York without the  
15 involvement of Southern Union's Board of Directors. This fact alone raises a concern  
16 about the potential conflict of interest between Southern Union and Activated.

17 **REPORTS ON CHANGES IN CORPORATE COSTS**

18 Q. At pages 9 and 10 of his rebuttal testimony, Mr. McLaughlin states that  
19 Southern Union has complied with the requirements of Paragraph III3.G of the  
20 Stipulation and Agreement in Case No. GM-2003-0238, the Panhandle acquisition  
21 proceeding. Does the Staff agree?

22 A. No. While Southern Union has provided to the Staff data for it to audit its  
23 corporate costs in this case, it did not conduct a specific study on the impacts of the

Surrebuttal Testimony of  
Charles R. Hyneman

1 Panhandle acquisition as required by the Stipulation and Agreement. As part of that  
2 study, Southern Union was to provide information on how its allocated corporate  
3 overhead costs to its merger and acquisition activities (M&A). The Staff is not aware of  
4 any study or data provided to the Staff that addresses how Southern Union's M&A costs  
5 will be allocated to its regulated divisions. Because no such study was done, the Staff did  
6 not have an opportunity to comment on this allocation or provide input to Southern Union  
7 on the appropriateness of such allocation.

8 Q. Is there a potential detriment to MGE by Southern Union not completing  
9 this study?

10 A. Yes. As described in my direct testimony, the scope of the Staff's audit in  
11 this case did not include a review of Southern Union's M&A activities and the amount of  
12 time Southern Union devotes to such activities. The Staff simply did not have the  
13 appropriate resources available to complete this review during this time period. If,  
14 however, Southern Union had performed the study as required in the Stipulation and  
15 Agreement, the Staff would have had evidence available to it to determine in an M&A  
16 adjustment to corporate allocated costs was appropriate in this rate case.

17 Q. In addition to refusing to complete the specific study required by the  
18 Stipulation, is Southern Union opposing the Staff's proposal that its corporate  
19 management keep time records on its level of involvement in Southern Union's merger  
20 and acquisition activities?

21 A. Yes it is. At page 33 of his rebuttal testimony, Mr. Noack states that the  
22 Commission must promulgate state regulations or rules in order to require Southern  
23 Union to keep adequate time records on its involvement in M&A activities. While the

1 Staff disagrees with this assertion, the Staff feels that Southern Union is obligated under  
2 the terms of the Stipulation and Agreement in Case No. GM-2003-0238 to provide this  
3 documentation.

4 Q. Please explain.

5 A. In this document, Southern Union agreed to specifically identify the  
6 process used to allocate A&G costs and expenses to its regulated, merger and acquisition  
7 and other corporate functions of its operating companies. In this rate case, Southern  
8 Union did not allocate any of its corporate executive time to M&A activities. This is a  
9 strong indication that it does not have any process in place to perform such an allocation.

10 Q. Why does the Staff feel that this M&A documentation is important?

11 A. The Staff believes that it is important to have these records available in  
12 order to make accurate adjustments to M&A activities in future rate cases. Absent  
13 adequate documentation, any Staff adjustment may not be as accurate as possible and  
14 may either overstate the degree of M&A activity to the detriment of the Company or  
15 understate the degree of M&A activity to the detriment of the ratepayers. Southern  
16 Union has the capability to fix this problem, yet it refuses to do so.

17 **ALTERNATIVE MINIMUM TAX**

18 Q. At page 6 of his rebuttal testimony MGE witness James I Warren states  
19 that he does not believe the \$26 million of alternative minimum tax credits (MTC) is a  
20 subject of disagreement between the Staff and MGE. Is this correct?

21 A. No. In Staff Data Request No. 313, Southern Union was asked to reconcile  
22 the \$26 million MTC referenced on page 6 line 15 of Mr. Warren's rebuttal testimony

Surrebuttal Testimony of  
Charles R. Hyneman

1 with the \$6,263,000 MTC listed in Southern Union's June 30, 2003 SEC Form 10-K  
2 (annual report). Southern Union could not provide this reconciliation.

3 Q. Does MGE record a MTC on its books and records?

4 A. No. The MTC is only recorded by Southern Union's corporate  
5 headquarters based on the financial and income tax results of all of its subsidiaries and  
6 divisions for the fiscal year.

7 Q. What is the last known amount of MTC recorded on Southern Union's  
8 books and records?

9 A. This amount is the \$6,263,000 reported on its 2003 annual report to the  
10 SEC, Form 10-K. The Staff could not find any reference to Southern Union's MTC in a  
11 review of its quarterly financial statements (Form 10-Q) to the SEC.

12 Q. Is Southern Union's current level of MTC reflected in its most recent  
13 10-Q?

14 A. Yes. However, Southern Union's quarterly reports do not contain the  
15 detail of the annual reports. The actual level of recorded MTC is embedded in Southern  
16 Union's accumulated deferred tax reserve as reported in its most recent 10-Q for the first  
17 quarter 2004.

18 Q. Other than a potential disagreement about the actual level of corporate  
19 MTC, are there any other differences between MGE and the Staff?

20 A. No. The Staff has decided, for the purposes of this case, to accept  
21 Southern Union's proposed method of allocating corporate consolidated AMT to MGE.

22 Q. Does the Staff believe that it and MGE can resolve its differences on the  
23 actual amount of consolidated MTC in the Staff's true-up audit?

1           A.     Yes. Since the MTC is only recorded on a corporate consolidated basis,  
2 the Staff is requesting that it be provided with Southern Union's latest known and  
3 measurable level of AMT as recorded in its quarterly financial statements. If the Staff is  
4 provided with objective, audited and verifiable data, absent unforeseen circumstances,  
5 this issue should be resolved for this case.

6     **TRUE-UP**

7           Q.     Do you agree with the true-up audit cost components listed on page 4 of  
8 MGE witness Noack's rebuttal testimony?

9           A.     Yes, however, Mr. Noack's list is not complete. In my direct testimony I  
10 stated that the Staff is recommending MGE's capital structure and embedded cost of debt  
11 be included in the true-up audit through April 30, 2004. Also, while I included PSC  
12 Assessment in the true-up audit list in my direct testimony, I have since learned that  
13 MGE's next PSC Assessment amount will not be known until after completion of the  
14 Staff's true-up audit and should not be included.

15           Finally, the Staff would like to raise the issue of rate case expense at this time.  
16 The Staff proposes to include only prudent and reasonable rate case expense in any  
17 updated revenue requirement for MGE, including the revenue requirement  
18 recommendation that will follow the Staff's true up audit.

19           Q.     Please explain your concern about reasonable rate case expenses.

20           A.     The Staff has recently become aware of costs incurred by MGE that  
21 appear to be unreasonable in amount. An example is the costs of legal services provided  
22 to MGE in its attempt to strike the direct testimony of Staff witness David Murray. In  
23 response to Staff Data Request No. 292, MGE provided a copy of the invoice submitted



Surrebuttal Testimony of  
Charles R. Hyneman

1 by the New York office of the firm Kasowitz, Benson, Torres & Friedman. This firm  
2 charged MGE \$677 per hour for 122 hours of legal work, consisting mostly of reading  
3 testimony, preparing for meetings and telephone calls with Mr. Robert Hack of MGE.  
4 This invoice is attached as Schedule 3 to this testimony.

5 While it has not yet specifically sought recovery of these expenses, the Staff  
6 believes it is appropriate to advise MGE as soon as possible that it does not consider  
7 these costs to be reasonable compared costs historically incurred by MGE for Missouri  
8 regulatory proceedings.

9 Q. Does this conclude your surrebuttal testimony?

10 A. Yes, it does.

Southern Union's Chairman George Lindemann's compensation compared to companies in Southern Union's peer group.						
	CEO	CEO	CEO	CEO	Other Annual Compensation	CEO Total Annual Comp
	Base Salary	Bonus	Cash Compensation			
Southern Union (Lindemann)	\$310,419	\$149,168	\$459,587		\$3,061,473	\$3,521,060
Keyspan	\$938,000	\$1,089,056	\$2,027,056		\$0	\$2,027,056
UGI Corp	\$757,008	\$1,075,981	\$1,832,989		\$12,824	\$1,845,813
AGL Resources	\$622,115	\$837,500	\$1,459,615		\$0	\$1,459,615
WGL Holdings	\$635,000	\$419,100	\$1,054,100		\$11,422	\$1,065,522
Atmos	\$651,116	\$338,500	\$989,616		\$0	\$989,616
SW Gas Corp	\$629,055	\$323,403	\$952,458		\$0	\$952,458
NICOR	\$680,000	\$221,000	\$901,000		\$0	\$901,000
NJ Resources	\$486,154	\$250,000	\$736,154		\$0	\$736,154
NW Natural Gas	\$390,000	\$250,000	\$640,000		\$1,585	\$641,585
Laclede	\$457,150	\$159,300	\$616,450			\$616,450
Piedmont	\$373,077	\$0	\$373,077		\$207,798	\$580,875
South Jersey	\$384,330	\$144,124	\$528,454		\$9,868	\$538,322
NUI (2002)	\$450,000	\$0	\$450,000		\$0	\$450,000
Cascade NG	\$278,284	\$0	\$278,284		\$0	\$278,284

Southern Union's Vice Chairman John Brennan compensation compared to companies in Southern Union's peer group.						
	Base Salary	Cash Bonus	Cash Compensation	Other Annual	Total Annual Compensation	
Southern Union (Brennan)	\$411,539	\$197,500	\$609,039	\$952,057	\$1,561,096	
Keyspan	\$450,000	\$348,288	\$798,288	\$0	\$798,288	
AGL Resources	\$350,000	\$350,000	\$700,000	\$35,793	\$735,793	
UGI Corp	330,207	359,053	\$689,260	0	\$689,260	
WGL Holdings	370,000	203,500	\$573,500	11,128	\$584,628	
NICOR	390,500	117,744	\$508,244	0	\$508,244	
SW Gas Corp	292,027	117,720	\$409,747	0	\$409,747	
Atmos	\$293,449	\$114,300	\$407,749	\$0	\$407,749	
South Jersey	300,000	93,750	\$393,750	5,353	\$399,103	
Laclede	\$271,967	\$72,300	\$344,267	\$0	\$344,267	
NW Natural Gas	238,833	100,000	\$338,833	424	\$339,257	
Piedmont	267,116	0	\$267,116	67,430	\$334,546	
NJ Resources	\$193,077	\$125,000	\$318,077	\$0	\$318,077	
NUI	285,000	0	\$285,000	0	\$285,000	
Cascade NG	\$189,622	\$0	\$189,622	\$0	\$189,622	

# AGL Resources

## Table of Contents

### EXECUTIVE COMPENSATION

In 2001, we changed our fiscal year-end from September 30 to December 31. The Summary Compensation Table therefore includes compensation information for the calendar year ended December 31, 2003 and 2002, the three month transition period ended December 31, 2001 and the fiscal year ended September 30, 2001. The table reflects total compensation paid to, or accrued by us for, our Chief Executive Officer and each of our other most highly compensated executive officers who served as an executive officer as of December 31, 2003.

#### Summary Compensation Table

Name and Principal Position	Year/Period	Annual Compensation			Long-Term Compensation			All Other Compensation (\$)(6)
		Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	Restricted Stock Awards (\$)(3)	Securities Underlying Options (#)(4)	LTIP Payouts (\$)(5)	
Paula G. Rosput Chairman, President and Chief Executive Officer	Calendar 2003	\$ 622,115	\$ 837,500	—	\$ 1,390,000	19,283	—	\$ 32,063
	Calendar 2002	600,000	768,951	—	—	11,523	\$ 73,781	30,559
	Transition Period	138,462	192,237	—	—	—	—	6,080
	FYE 2001	562,499	700,000	—	—	75,000	31,278	24,145
Richard T. O'Brien Executive Vice President and Chief Financial Officer	Calendar 2003	350,000	350,000	\$ 35,793	1,223,200	—	—	19,175
	Calendar 2002	331,343	348,000	34,863	—	—	—	15,765
	Transition Period	69,231	87,000	—	—	—	—	12,488
	FYE 2001	123,462	225,000	—	110,800	50,000	—	4,200
Kevin P. Madden Executive Vice President of Distribution and Pipeline Operations	Calendar 2003	292,692	252,000	41,056	444,800	3,443	—	32,648
	Calendar 2002	275,000	268,000	204,826	—	—	—	14,300
	Transition Period	63,461	67,000	—	—	—	—	6,725
	FYE 2001	15,865	50,000	16,657	127,800	40,000	—	—
Paul R. Shlanta Senior Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer	Calendar 2003	270,000	221,000	—	236,300	5,379	—	31,463
	Calendar 2002	258,704	268,000	—	—	—	47,140	13,458
	Transition Period	53,018	67,000	—	—	—	—	14,904
	FYE 2001	235,846	162,000	—	—	20,000	19,543	11,990

Atmos Energy

## Executive Compensation

**Summary Compensation Table.** The following table sets forth the compensation paid by the Company for each of the Company's last three completed fiscal years to the Company's four most highly compensated executive officers other than Mr. Best.

### SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Annual Compensation			Long Term Compensation		All Other Compensation (\$)
		Salary (\$)	Bonus(a) (\$)	Other Annual Compensation (\$)	Restricted Stock Awards(b) (\$)	Securities Underlying Options/SARs(c)	
Robert W. Best .....	2003	651,116	338,500	(c)	0	111,210(d)	10,184(e)
Chairman of the Board,	2002	615,378	274,400	(c)	0	162,282(f)	8,738(e)
President and Chief Executive Officer	2001	572,788	399,600	(c)	0	75,000	8,585(e)
R. Earl Fischer .....	2003	260,551	101,900	(c)	0	18,400	9,630(e)
Senior Vice President,	2002	239,766	81,700	(c)	0	40,000	8,059(e)
Utility Operations	2001	209,102	111,100	(c)	0	30,000	6,666(e)
John P. Reddy .....	2003	293,449	114,300	(c)	0	18,400	9,835(e)
Senior Vice President and	2002	276,232	93,100	(c)	0	40,000	8,286(e)
Chief Financial Officer	2001	249,513	131,800	(c)	0	30,000	7,962(e)
JD Woodward, III(g) .....	2003	269,889	0	(c)	0	48,576(d)	9,687(e)
Senior Vice President, Nonutility	2002	258,843	85,700	(c)	0	30,000	3,465(e)
Operations	2001	115,385	129,200	(c)	0	0	780(e)
Louis P. Gregory .....	2003	207,034	82,820	(c)	0	29,897(d)	9,295(e)
Senior Vice President and	2002	195,726	66,933	(c)	0	20,000	8,791(e)
General Counsel	2001	183,842	100,590	(c)	0	20,000	1,148(e)

(a) The bonuses were actually paid after the end of the fiscal year in which they are reported. Because their payment relates to services rendered in the fiscal year prior to payment, the Company has consistently reported bonus payments in such prior fiscal year. Certain named executive officers elected to convert a portion of their 2003 fiscal year bonuses to restricted stock or nonqualified stock options under the Company's 1998 Long-Term Incentive Plan with a conversion date of November 11, 2003, which elections by Messrs. Best, Reddy and Gregory are not reflected in the table above. Mr. Best elected to convert 25% of his bonus of \$338,500, or \$84,625, to shares

# Cascade Natural Gas

## EXECUTIVE COMPENSATION

**Summary Compensation Table.** The following table shows compensation paid to the Chief Executive Officer and each of the other four most highly compensated executive officers of the Company for the years indicated.(a)

Name and Principal Position	Years of Service	Fiscal Year	Annual Compensation		Long Term Compensation Awards	All Other Compensation(c)
			Salary	Bonus(b)	Securities Underlying Options(#)	
W. Brian Matsuyama President and Chief Executive Officer	16	2003	\$ 278,284	\$ 0	0	10,155
		2002	265,752	0	10,000	7,209
		2001	245,177	109,372	7,900	7,998
J.D. Wessling Chief Financial Officer	9	2003	\$ 189,622	\$ 0	0	7,443
		2002	180,250	0	6,000	6,701
		2001	164,507	56,607	4,500	7,403
Jon T. Stoltz Senior Vice President Regulatory & Gas Supply	29	2003	\$ 163,736	\$ 0	0	6,818
		2002	158,576	0	6,000	6,836
		2001	155,516	35,531	4,500	6,998
William H. Odell Chief Operating Officer	17	2003	\$ 142,404	\$ 0	0	5,691
		2002	131,222	0	4,000	5,905
		2001	120,200	18,655	4,000	5,409
Larry C. Rosok Vice President Human Resources & Corporate Secretary	24	2003	\$ 142,324	\$ 0	0	5,868
		2002	135,915	0	4,000	5,855
		2001	126,250	23,889	4,000	5,681

(a)

Messrs. Larry E. Anderson, Vice President Safety & Engineering, and King C. Oberg, Vice President Business Development, accepted early retirement packages in conjunction with an executive management reorganization. The packages were valued at \$218,367 and \$240,297 respectively. Factors considered in determining the early retirement packages included their contribution to the Company and retirement benefits they were near accruing.

(b)

Two incentive plans were established in fiscal 2001. First, the Team Incentive Plan provided for cash payments to eligible employees if certain target levels of earnings per share and other operational measures were achieved. This plan paid 3.37% of eligible base pay for fiscal 2001 for the officers listed on the above table. In fiscal 2002 and 2003, earnings levels required for payments were not achieved, so there were no payments under this program.

Second, the Key Performance Plan established for officers, managers and supervisors, provided for cash payments to participating employees in which 70% of the award is based on achieving target levels of earnings per share and 30% is based on achieving goals established for each participant. The size of the bonus pool for the Key Performance Plan is based on the level of earnings per share compared to the target earnings per share. In fiscal 2001, the earnings per share was 80% of target, and the plan paid approximately 80% of target bonus levels with the specific amounts depending on achievement of individual goals.

In fiscal 2002 and 2003, earnings levels required for payments were not achieved, so there were no payments under this program.

(c)

Amounts in this column represent the Company's matching contribution to the 401(k) Plan.

**EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table presents the annual compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers (the "Named Executive Officers").

Name	Year	Annual Compensation		Long-Term Compensation	
		Salary (\$)	Bonus (\$)(1)	Restricted Stock Awards (\$)	Shares Underlying Options
Robert B. Catell Chairman & Chief Executive Officer	2003	938,000	1,089,056(2)	0(3)	208,800(4)
	2002	936,903	284,740(10)	434,215	372,000(11)
	2001	860,669	901,228	0	267,000(11)
Robert J. Fani President & Chief Operating Officer	2003	450,000	307,958(2)	0(3)	69,500(4)
	2002	445,154	153,184(10)	139,622	120,000(11)
	2001	361,667	247,203	0	78,200
Wallace P. Parker Jr. President, Energy Delivery and Customer Relationship Group	2003	450,000	348,288(2)	0(3)	69,500(5)
	2002	445,154	191,938(10)	139,622	120,000
	2001	360,834	243,314	0	78,200
Steven L. Zelkowitz President, Energy Assets and Supply Group	2003	392,000	278,750(2)	0(3)	43,300(5)
	2002	387,961	134,086(10)	95,694	82,000
	2001	337,345	247,203	0	60,000
Gerald Luterman Executive Vice President & Chief Financial Officer	2003	375,000	287,496(2)	0(3)	43,300(4)
	2002	370,962	128,059(10)	95,694	82,000(11)
	2001	330,486	259,360	0	60,000(11)

(1) Bonus awards paid each year are attributable to performance during the previous year.

(2) Bonus awards paid in 2003 include amounts deferred by the Named Executive Officers into the Officers' Deferred Stock Unit Plan as follows: R. B. Catell - \$544,528; R. J. Fani - \$153,978; W. P. Parker Jr. - \$174,144; S. L. Zelkowitz - \$139,375; and G. Luterman - \$71,873.

(3) As of December 31, 2003, the aggregate value of the restricted stock awards and number of restricted stock awards held by each of the Named Executive Officers are as follows: R. B. Catell - \$534,930; 14,536 shares (which includes 735 shares obtained through dividend reinvestment during 2003); R. J. Fani - \$172,006; 4,674 shares (which includes 236 shares obtained through dividend reinvestment during 2003); W. P. Parker Jr. - \$172,006; 4,674 shares (which includes 236 shares obtained through dividend reinvestment during 2003); S. L. Zelkowitz - \$117,889; 3,203 shares (which includes 161 shares obtained through dividend reinvestment during 2003); and G. Luterman - \$117,889; 3,203 shares (which includes 161 shares obtained through dividend reinvestment during 2003). The aggregate restricted stock values are based on the closing price per share of \$36.80 at December 31, 2003.

(4) The Named Executive Officer also received 2,000 stock options on September 22, 2003 and 2,000 shares of restricted stock on November 7, 2003 granted by The Houston Exploration Company as compensation for such person's service as a director of The Houston Exploration Company.

(5) The amounts are comprised of stock options granted on March 5, 2003, based on the closing price as of March 5,

# Laclede GAS

## SUMMARY COMPENSATION TABLE

The table that follows presents information about compensation for the chief executive officer and four other most highly compensated executive officers, as defined by the Securities and Exchange Commission, of the Company and its subsidiaries for the last three fiscal years.

NAME AND PRINCIPAL POSITION(1)	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION		ALL OTHER COMPENSATION(6)
		SALARY	BONUS(2)	OTHER ANNUAL COMPENSATION(4)	AWARDS SECURITIES UNDERLYING OPTIONS	PAYOUTS	
D. E. Yaeger	2003	\$457,150	\$159,300	-0-	\$40,000	\$8,443	11,987
Chairman of the Board,	2002	419,400	25,000	15,000	-0-	95,093	9,527
President and CEO	2001	386,667	-0-	16,000	-0-	82,542	9,205
K. J. Meisen	2003	271,967	72,300	-0-	15,000	46,565	33,709
Executive Vice President--	2002	254,833	-0-	-0-	-0-	45,309	25,902
Energy Administrative	2001	235,833	-0-	-0-	-0-	39,865	19,339
Services							
R. E. Shively	2003	246,333	39,900	-0-	15,000	10,050	1,301
Senior Vice President--	2002	240,000	50,000(3)	\$6,078	-0-	7,538	501
Business & Services	2001	171,304	-0-	-0-	-0-	-0-	139,167
Development							
B. C. Cooper	2003	216,433	26,400	-0-	10,000	-0-	1,781
Chief Financial Officer							
M. C. Pendergast	2003	145,000	26,500	-0-	6,000	-0-	6,611
Vice President--Associate	2002	137,458	-0-	-0-	-0-	-0-	5,574
General Counsel	2001	129,486	-0-	-0-	-0-	-0-	5,296

<P>

(1) Mr. Shively first joined the Company in January 2001 and Mr. Cooper first joined the Company in September 2002.

(2) Fiscal year 2003 was a transition period wherein four executive officers received a cash bonus awarded in January 2003 based upon their accomplishments in fiscal year 2002 prior to the implementation of the new management bonus plan, and one awarded in October 2003 under the new management bonus plan, based on fiscal year 2003 results. Under the new plan, the Compensation Committee will assess bonus plan performance immediately following the close of the fiscal year in October.

(3) This bonus reflects an employment bonus payable upon Mr. Shively's completion of one year of service with the Company.

(4) The amounts in this column reflect fees paid to Mr. Yaeger for attendance at Board of Directors and Board committee meetings. Effective October 1, 2002, these fees are no longer paid to directors who are also officers of the Company. For Mr. Shively, this column includes a \$6,078 gross-up payment in fiscal year 2002 for taxes on his living and relocation expenses and fees incurred in fiscal year 2001.

(5) The amounts in this column reflect dividend equivalents paid under the incentive compensation plan to the named executive officer during the three most recent fiscal years. For a more detailed discussion of the plan, see the Long-Term Incentive Plan Table and discussion beginning on page 11.

(6) For 2003 this column includes (a) above-market interest on deferrals under the deferred income plan described on page 11 (Mr. Yaeger, \$-0-; Mr. Meisen, \$7,774; Mr. Cooper, \$-0-; Mr. Shively, \$-0-; and Mr. Pendergast, \$-0-); (b) above-market interest on deferrals under the deferred income plan II described on page 13 (Mr. Yaeger, \$4,000; Mr. Meisen, \$17,986; Mr. Cooper, \$987; Mr. Shively, \$1,180; and Mr. Pendergast, \$-0-); (c) matching contributions under the salary deferral savings plan, which was established under Section 401(k) of the Internal Revenue Code (Mr. Yaeger, \$7,866; Mr. Meisen, \$7,828; Mr. Cooper, \$673; Mr. Shively, \$-0-; and Mr. Pendergast \$6,490); and (d) the Company-paid premiums for supplemental travel and accident insurance for accidental death or dismemberment with benefits of up to \$250,000 (approximately \$121 for each named executive officer).



NJ Resources**Compensation Committee Interlocks and Insider Participation**

No member of the Committee is a former or current officer or employee of the Company or any of its subsidiaries, nor does any executive officer of the Company serve as an officer, director or member of a compensation committee of any entity whose executive officer or director is a director of the Company.

**Leadership Development & Compensation Committee:**

Joe B. Foster, Chair      George R. Zoffinger  
Nina Aversano            Gary W. Wolf  
Dorothy K. Light

**SUMMARY COMPENSATION TABLE**

Name and Principal Position	Year*	Annual Compensation		Long-Term Compensation Awards		All Other Compensation***
		Salary (\$)	Bonus (\$)	LTIP Unit Award(s)** (#)	Options** (#)	
Laurence M. Downes ..... Chairman, CEO and President	2003	486,154	250,000	16,000	60,000	4,000
	2002	437,711	220,000	0	0	4,000
	2001	396,923	160,000	5,000	100,000	3,400
Glenn C. Lockwood ..... Senior Vice President & Chief Financial Officer	2003	207,231	54,000	6,000	30,000	6,217
	2002	197,269	58,000	0	0	5,318
	2001	188,654	50,000	2,500	50,000	5,387
Oleta J. Harden ..... Senior Vice President, General Counsel & Secretary	2003	196,400	50,490	6,000	30,000	5,892
	2002	183,723	54,000	0	0	5,160
	2001	172,019	45,000	2,000	30,000	5,161
Joseph P. Shields ..... Senior Vice President, Energy Services, NJNG	2003	193,077	125,000	6,000	30,000	5,375
	2002	172,269	75,000	0	0	5,168
	2001	160,961	52,000	1,500	40,000	4,829
Wayne K. Tarney ..... President, NJR Home Services Company	2003	179,170	45,401	2,700	16,000	5,792
	2002	175,088	49,000	0	0	5,253
	2001	168,308	45,000	1,500	40,000	5,049

\* For fiscal year ended September 30.

\*\* Represents a share of Common Stock.

\*\*\* Represents the Company's matching contributions under the Employees' Retirement Savings Plan (the "Savings Plan").

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table shows executive compensation for the years indicated for the Chief Executive Officer and the four other highest-compensated executive officers.

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation				All Other Compensation(2)
		Salary	Bonus	Awards		Payouts		
				Restricted Stock Award	Shares Underlying Options	Long-Term Incentive Plan(1)		
T. L. Fisher	2003	\$680,000	\$221,000	\$ 0	110,400	\$ 118,080	\$ 89,324	
Chairman and Chief	2002	670,769	0	0	60,000	194,625	84,508	
Executive Officer of Nicor and Chairman of Nicor Gas	2001	633,077	499,200	0	60,000	85,925	77,825	
R. M. Strobel	2003	\$390,500	\$117,744	\$ 0	52,100	\$ 25,338	\$ 56,438	
President of Nicor, President	2002	316,154	0	0	18,400	0	64,730	
and Chief Executive Officer of Nicor Gas	2001	269,712	173,500	0	12,900	0	13,341	
K. L. Halloran	2003	\$310,000	\$ 77,500	\$ 0	33,600	\$ 28,782	\$ 33,131	
Executive Vice President	2002	301,923	0	0	18,700	54,495	31,253	
and Chief Risk Officer of Nicor and Nicor Gas	2001	271,539	165,000	0	14,600	39,015	27,509	
P. C. Gracey, Jr.	2003	\$250,000	\$ 43,750	\$ 0	14,900	\$ 0	\$ 30,056	
Vice President, General Counsel and Secretary of Nicor and Nicor Gas(3)	2002	19,231	28,000(4)	0	0	0	1,370	
D. R. Dodge	2003	\$235,000	\$ 41,125	\$ 0	16,500	\$ 11,562	\$ 29,109	
Senior Vice President	2002	203,996	0	0	7,900	25,302	40,794	
Diversified Ventures & Corporate Planning of Nicor and Nicor Gas	2001	184,231	62,178	205,550(5)	5,900	11,048	10,571	

- (1) Payouts under the Performance Unit program of the Long-Term Incentive Plan are made in cash or can be deferred (up to 50%) and converted into share unit equivalents in the Stock Deferral Plan. Payouts in 2003 relate to the Performance Units awarded in 2001 having a 2001-2003 performance period.
- (2) Amounts shown for 2003 include company contributions to the Savings Investment Plan and credits to the Supplemental Savings Investment Plan for Mr. Fisher, Mr. Strobel, Ms. Halloran, Mr. Gracey and Mr. Dodge of \$32,130, \$23,463, \$14,648, \$12,073 and \$12,541, respectively; interest earned in excess of market on deferred salary for Mr. Fisher, Mr. Strobel, Ms. Halloran and Mr. Gracey of \$51,108, \$2,480, \$18,483 and \$358, respectively; credits to the Supplemental Senior Officer Retirement Plan for Mr. Strobel, Mr. Gracey and Mr. Dodge of \$30,495, \$17,625 and \$16,568; credits under the 1968 Incentive Compensation Plan for Mr. Fisher of \$6,086.
- (3) Mr. Gracey joined Nicor in November 2002.
- (4) One-time signing bonus payable as an inducement for Mr. Gracey to accept employment.
- (5) The value of 5,000 shares at December 31, 2003 is \$170,200. Mr. Dodge is entitled to receive any dividends paid on restricted shares.

EXECUTIVE COMPENSATION

Shown below is information concerning the annual and other compensation for services in all capacities to the Company for the years ended December 31, 2003, 2002, and 2001, of those persons who were, during 2003 and at December 31, 2003 (i) the chief executive officer, (ii) the four most highly compensated executive officers and (iii) a key employee of the Company (the Named Executive Officers):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION		
		SALARY	BONUS	OTHER ANNUAL COMPENSATION <sup>1</sup>	RESTRICTED STOCK AWARD <sup>2</sup>	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION <sup>3</sup>
Mark S. Dodson President and Chief Executive Officer	2003	\$390,000	\$250,000	\$1,585	\$0	0	\$20,811
	2002	252,409	85,600	720	0	12,500	10,447
	2001	222,745	106,700	0	0	0	13,136
Michael S. McCoy Executive Vice President	2003	238,833	100,000	424	0	0	19,601
	2002	231,500	68,400	894	0	13,000	23,651
	2001	222,501	87,800	322	0	0	22,145
Bruce R. DeBolt Senior Vice President and Chief Financial Officer	2003	238,833	90,000	305	0	0	29,297
	2002	228,665	66,900	321	0	8,000	32,615
	2001	222,501	83,400	0	108,305	0	31,141
Beth A. Ugoretz Senior Vice President and General Counsel (became an officer on 1/1/03)	2003	200,004	68,000	0	0	0	7,321
	2002	11,772	0	0	0	5,000	0
	2001	0	0	0	0	0	0
Gregg S. Kantor Senior Vice President	2003	157,500	58,000	154	0	0	7,217
	2002	141,000	29,200	80	0	5,000	5,835
	2001	135,000	37,000	0	0	0	5,439
David A. Weber Chief Information Officer	2003	168,359	64,000	0	0	0	39,719
	2002	135,156	28,400	0	0	5,000	37,567
	2001	138,027	37,700	0	0	0	36,947

<sup>1</sup> All amounts shown for the Named Executive Officers represent the employee portion of the Medicare Hospital Insurance Tax liability paid by the Company on the present value increase in those years of their benefits under the Executive Supplemental Retirement Income Plan, together with an additional payment relating to income tax payable by such officers in respect of the payments made by the Company.

<sup>2</sup> The aggregate number of shares of restricted stock at December 31, 2003 was 4,500 shares with a market value of \$138,375. Dividends are paid on all shares of restricted stock.

<sup>3</sup> Amounts for the year 2003 include Company matching amounts contributed or accrued for the Named Executive Officers under the Company's Executive Deferred Compensation Plan (\$16,836 for Mr. Dodson, \$8,598 for Mr. McCoy, \$3,806 for Mr. DeBolt, \$720 for Ms. Ugoretz, \$279 for Mr. Kantor and \$8,163 for Mr. Weber) and its Retirement K Savings Plan (\$0 each for Messrs. Dodson, Mr. McCoy and Weber, \$7,200 for Mr. DeBolt, \$6,480 for Ms. Ugoretz and \$6,442 for Mr. Kantor). Amounts for 2003 also include above-market interest credited to the Executive Deferred Compensation Plan accounts of the Named Executive Officers (\$3,975 for Mr. Dodson, \$11,003 for Mr. McCoy, \$18,291 for Mr. DeBolt, \$120 for Ms. Ugoretz, \$495 for Mr. Kantor and \$1,556 for Mr. Weber). The amount shown for Mr. Weber for the year 2003 also includes the final \$30,000 installment of a hiring bonus.

NUI	100.0	101.6	113.9	143.9	101.3	111.7
S&P Utilities	100.0	130.3	128.1	183.5	137.4	88.9
S&P 500	100.0	109.0	139.3	157.7	115.8	92.2

NUI

### ANNUAL COMPENSATION, LONG-TERM COMPENSATION AND ALL OTHER COMPENSATION

The following table summarizes the compensation paid during fiscal years 2002, 2001 and 2000 to the Company's Chief Executive Officer and each of the four other executive officers.

Summary Compensation Table

Name and Principal Position	Long Term					
	Annual Compensation			Compensation		All Other Compensation
	Fiscal Year	Salary	Bonus	Restricted Stock Awards (1)(2)	Securities Underlying Options/ SARs	
John Kean, Jr. President and Chief Executive Officer	2002	\$450,000	\$ 0	\$ 612,408	0	\$4,808
	2001	397,500	61,500	691,500	435,000	\$7,144
	2000	345,000	208,300	598,760	0	6,624
A. Mark Abramovic Senior Vice President, Chief Operating Officer & Chief Financial Officer	2002	\$285,000	\$ 0	\$219,146	0	\$7,296
	2001	258,838	66,300	230,500	120,000	6,653
	2000	232,500	132,000	299,380	0	6,180
James R. Van Horn Chief Administrative Officer, General Counsel and Secretary	2002	\$210,950	\$ 0	\$130,587	0	\$7,033
	2001	194,018	49,000	138,300	75,000	6,692
	2000	182,225	92,500	104,783	0	6,407
Robert F. Lurie Vice President— Corporate Development & Planning	2002	\$172,800	\$ 0	\$ 78,803	0	\$5,376
	2001	167,389	25,400	80,675	40,500	4,923
	2000	160,000	59,500	89,814	0	4,800
Michael J. Behan Vice President— New Ventures	2002	\$169,100	\$ 0	\$79,553	0	\$5,260
	2001	164,194	24,800	80,675	40,500	4,382
	2000	159,400	73,100	104,783	0	4,503

(1) Shares of restricted stock carry a significant risk of forfeiture. In order to earn all shares, all targeted financial performance objectives must be achieved. The number of shares of restricted stock granted to the listed officers with respect to fiscal year 2002 is as follows: John Kean, Jr.: 40,800; A. Mark Abramovic: 14,600; James R. Van Horn: 8,700; Robert F. Lurie: 5,250; and Michael J. Behan: 5,300. Restricted shares will vest over a one-year period if pre-established Company performance objectives are achieved. The value of the award is based upon the fair market value of the Common Stock on the date of grant. A portion of the restricted shares reflected in the table above are scheduled to vest on March 31, 2003, with the remainder vesting on November 26, 2003, each subject to the company meeting pre-established performance criteria. These awards were granted on November 26, 2002, and the fair market value for the Common Stock was \$15.01 on that date.

(2) Since the Company did not achieve its performance objectives in fiscal year 2002, shares of previously granted restricted stock, the vesting of which was contingent upon meeting these objectives, were forfeited. The number and value of shares forfeited by each of the listed officers is as follows: John Kean, Jr.: 45,000 shares (\$675,000); A. Mark Abramovic: 17,000 shares (\$255,170); James R. Van Horn: 8,625 shares (\$129,461); Robert F. Lurie: 5,750 shares (\$86,307.50); and Michael J. Behan: 6,125 shares (\$91,936).

(3) Represents the employer match under qualified savings plans during fiscal year 2002.

Set forth below is information on current outstanding restricted stock for the listed officers as of September 30, 2002. Prior to vesting, the recipients receive dividends on these shares and have voting rights with respect to these shares.

Piedmont

- (1) Unless otherwise indicated, each person listed has sole voting and investment power.
- (2) No person listed in the table beneficially owned more than 1% of the outstanding Common Stock as of December 31, 2003. The number of shares beneficially owned by all Directors and officers as a group represents less than 2% of the outstanding Common Stock.
- (3) The number of shares shown includes those credited to participants' accounts under the Company's Dividend Reinvestment and Stock Purchase Plan.
- (4) Includes 112 shares held by Mr. Amos' grandson, a minor, of whom Mr. Amos is custodian of the shares, and 805 shares held by his spouse.
- (5) Includes 200 shares held by his spouse.
- (6) Includes 423 shares held by her spouse.
- (7) Includes 13,881 shares held by his spouse.
- (8) The number of shares shown includes those credited to participants' accounts under the Company's Salary Investment Plan.

#### EXECUTIVE COMPENSATION AND OTHER INFORMATION

The following Summary Compensation Table sets forth a summary of the compensation paid to the Chief Executive Officer and the four other most highly compensated executive officers in the three fiscal years ended October 31, 2003, 2002 and 2001:

Name and Principal Position	Year	Annual Compensation		Long-Term Compensation	All Other Compensation(2)
		Salary	Other Annual Compensation(1)	Payouts	
Thomas E. Skains	2003	\$373,077	\$207,798	\$185,900	\$21,340
Chairman, President and Chief Executive Officer	2002	283,462	59,159	168,410	15,839
	2001	238,692	34,655	185,281	13,107
David J. Dzuricky	2003	267,116	67,430	174,611	31,136
Senior Vice President and Chief Financial Officer	2002	252,308	50,183	158,214	29,126
	2001	237,731	32,940	174,063	27,455
Ray B. Killough	2003	266,308	47,377	197,155	23,788
Senior Vice President—Utility Operations	2002	252,308	51,971	178,637	22,110
	2001	238,308	35,668	196,499	20,904
Franklin H. Yoho	2003	247,923	34,475	—	18,011
Senior Vice President—Commercial Operations	2002	144,615	22,994	—	6,627
	2001	—	—	—	—
	2003	184,885	48,685	90,212	34,932
Richard A. Linville	2002	174,077	47,692	81,755	33,263
Vice President—Human Resources	2001	164,077	18,526	89,912	31,475
	2003	165,385	127,171	251,269	103,518
Ware F. Schiefer	2002	440,385	89,874	227,660	195,468
Retired Chief Executive Officer (3)	2001	388,846	49,690	250,433	103,059

- (1) The amounts for 2003 consist of the following:

	Skains	Dzuricky	Killough	Yoho	Linville	Schiefer
Dividend equivalents on units awarded, but not yet	\$46,724	\$37,294	\$38,053	\$25,841	\$22,503	\$57,557

South Jersey

## EXECUTIVE COMPENSATION

### Summary Compensation Table

The following table sets forth compensation paid to or earned by each of the Named Executives during the past three fiscal years.

(a) Name and Principal Position(s)	(b) Year	Annual Compensation			Long-Term Compensation	(g) All Other Compensation(3)
		(c) Base Salary	(d) Annual Cash	(e) Other Annual Compensation(1)	(f) Restricted Stock Awards(2)	
Charles Bisciegla <sup>(4)</sup> Chairman & CEO; CEO of South Jersey Gas Company	2003	\$ 384,330	\$144,124	\$9,868	\$230,598	\$29,900
	2002	367,780	110,335	9,874	183,890	11,945
	2001	351,020	108,155	4,436	175,634	11,365
Edward J. Graham <sup>(5)</sup> President and Chief Operating Officer and President of South Jersey Gas Company	2003	300,000	93,750	5,353	165,000	6,990
	2002	225,110	45,021	2,237	90,044	6,229
	2001	214,314	44,132	4,467	86,000	3,666
David A. Kindlick Vice President, Treasurer and Chief Financial Officer; Executive Vice President and Chief Financial Officer of South Jersey Gas Company	2003	203,820	50,957	205	101,910	6,648
	2002	195,050	39,009	627	78,020	6,121
	2001	186,060	38,238	592	74,516	5,685
Albert V. Ruggiero Vice President; Executive Vice President and Chief Administrative Officer of South Jersey Gas Company	2003	203,820	50,957	205	101,910	7,858
	2002	195,050	39,009	627	78,020	6,452
	2001	186,158	38,238	3,871	74,516	4,047
Richard H. Walker, Jr. <sup>(6)</sup> Vice President, Corporate Counsel & Corporate Secretary; Senior Vice President, Corporate Secretary & Corporate Counsel of South Jersey Gas Company	2003	149,030	36,575	-	43,890	6,676
	2002	140,000	28,000	-	19,632	6,135
	2001	125,000	19,243	-	18,750	6,066

### Footnotes to Summary Compensation Table

(1) The Internal Revenue Code limits the contributions that may be made by or on behalf of an individual under defined contribution plans such as the Company's 401(k) Plan. The Company has adopted a policy of currently reimbursing its executive officers with the amount of Company contributions that may not be made because of this limitation. This includes the tax liability incurred by the additional income. Amounts paid pursuant to this policy are included in column (e) of the table.

(2) The dollar values of restricted shares expressed are based on market price at the time of the grant. On March 1, 2004, restricted stock grants reflected as 2001 Long-Term Compensation vested, with the Company achieving total shareholder return for the three year period ending December 31, 2003 at the 73.9th percentile of its predefined peer group of companies. Shares vested and awarded for the Named Executives and their aggregate value as of December 31, 2003 were as follows: Mr. Bisciegla - 9,488/\$384,264; Mr. Graham - 4,646/\$188,163; Mr. Kindlick - 4,025/\$163,013; Mr. Ruggiero - 4,025/\$163,013; Mr. Walker - 1,013/\$41,027. Dividends paid on restricted shares are reinvested in additional shares that have the same

**Summary Compensation Table**

The following table provides for fiscal years ended December 31, 2001, 2002, and 2003 compensation earned by the Company's chief executive officer and each of the four most highly compensated executive officers of the Company at year-end 2003.

**SUMMARY COMPENSATION TABLE (1)**

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation			
		Salary (\$)	Bonus (\$)(2)	Other Annual Compensation (\$)	Awards		Payouts	All Other Compensation (\$)(5)
					Restricted Stock Award(s) (\$)(2)(3)(4)	Options/SARs(#)	LTIP Payouts (\$)	
Michael O. Maffie C.E.O.	2003	629,055	323,403	0	485,105	50,000	N/A	144,535
	2002	596,301	311,190	0	466,785	50,000	N/A	133,054
	2001	563,890	256,132	0	384,197	50,000	N/A	111,233
Jeffrey W. Shaw President	2003	251,918	141,700	0	212,550	25,000	N/A	20,116
	2002	182,695	61,876	0	92,813	15,000	N/A	16,103
	2001	173,938	51,410	0	77,114	15,000	N/A	13,472
George C. Biehl Executive Vice President/ Chief Financial Officer & Corporate Secretary	2003	292,027	117,720	0	176,580	15,000	N/A	56,633
	2002	276,986	112,860	0	169,290	15,000	N/A	51,952
	2001	263,019	93,314	0	139,970	15,000	N/A	43,534
Edward S. Zub Executive Vice President/ Consumer Resources & Energy Services	2003	272,027	109,872	0	164,808	15,000	N/A	67,916
	2002	254,315	104,940	0	157,410	15,000	N/A	59,095
	2001	234,797	84,673	0	127,010	15,000	N/A	47,096
James P. Kane Executive Vice President/ Operations	2003	261,370	106,733	0	160,099	15,000	N/A	18,291
	2002	241,315	99,792	0	149,688	15,000	N/A	15,458
	2001	220,186	80,180	0	120,271	15,000	N/A	12,299

- (1) All compensation reflected in the Summary Compensation Table is reported on an earned basis for each fiscal year.
- (2) MIP awards accrued for calendar years 2001, 2002, and 2003 were paid in cash and performance shares in 2002, 2003, and 2004, respectively.
- (3) Dividends equal to the dividends paid on the Company's Common Stock will be accrued or paid on the performance shares awarded under the long-term component of the MIP during the restriction period.
- (4) The total number of performance shares granted in 2001, 2002, and 2003, for calendar years 2000, 2001, and 2002, and their value based on the market price of Company Common Stock at December 31, 2003, for the listed officers are as follows:

	Shares	Value
Mr. Maffie	64,267	\$ 1,442,794
Mr. Shaw	12,880	289,156
Mr. Biehl	23,411	525,577
Mr. Zub	21,175	475,379
Mr. Kane	19,945	447,765

- (5) The amounts shown in this column for each year consist of above-market interest on deferred compensation (in excess of 120% of the Applicable Federal Long-term Rate) and matching contributions under the Company's executive deferral plan. Under the plan, executive officers may defer up to 100% of their annual compensation for payment at retirement or at some other employment terminating event. Interest on such deferrals is set at 150% of the Moody's Seasoned Corporate Bond Rate. As part of the plan, the Company provides matching contributions that parallel the contributions made under the Company's 401(k) plan, which is available to all Company employees, equal to one-half of the deferred amount, up to 6% of their annual salary. The breakdown of this compensation for each named executive officer is as follows:

	Interest	Contributions
Mr. Maffie	\$125,704	\$ 18,831
Mr. Shaw	12,746	7,370
Mr. Biehl	47,892	8,741
Mr. Zub	59,776	8,140
Mr. Kane	10,477	7,814

UGI Corp

COMPENSATION OF EXECUTIVE OFFICERS

Summary of Compensation

The following table shows cash and other compensation paid or accrued during the last three fiscal years to the Company's Chief Executive Officer and each of the five other most highly compensated executive officers.

Summary Compensation Table								
Name and Principal Position	Fiscal Year	Annual Compensation			Long Term Compensation			
		Salary	Bonus <sup>(1)</sup>	Other Annual Compensation <sup>(2)</sup>	Awards	Payouts		All Other Compensation <sup>(4)</sup>
					Restricted Stock Awards <sup>(3)</sup>	Securities Underlying Options/SARs	LTIP Payouts	
Lon R. Greenberg Chairman, President and Chief Executive Officer	2003	\$ 757,008	\$ 1,075,981	\$ 12,824	\$ 972,140	180,000	\$ 0	\$ 28,757
	2002	\$ 705,015	\$ 521,092	\$ 15,342	\$ 785,200 \$ 785,200 \$ 785,200	120,000	\$ 0	\$ 28,033
	2001	\$ 667,799	\$ 595,010	\$ 14,849	\$ 323,438 \$1,000,875	0	\$ 0	\$ 20,939
Anthony J. Mendicino Senior Vice President- Finance and Chief Financial Officer	2003	\$ 330,207	\$ 359,053	\$ 0	\$ 243,035	52,500	\$ 0	\$ 11,196
	2002	\$ 305,894	\$ 167,413	\$ 0	\$ 196,300 \$ 196,300 \$ 196,300	35,000	\$ 0	\$ 10,360
	2001	\$ 285,864	\$ 154,562	\$ 0	\$ 64,688 \$ 226,866	0	\$ 0	\$ 8,226
Eugene V. N. Bissell President and Chief Executive Officer, AmeriGas Propane, Inc.	2003	\$ 372,080	\$ 245,281	\$ 2,520	\$ 238,500	52,500	\$ 0	\$ 60,277
	2002	\$ 352,656	\$ 109,941	\$ 585	\$ 190,145	35,000	\$ 0	\$ 42,717
	2001	\$ 329,415	\$ 236,313	\$ 300	\$ 28,263 \$ 99,725	0	\$ 0	\$ 55,648
Robert J. Chaney President and Chief Executive Officer, UGI Utilities, Inc.	2003	\$ 307,534	\$ 230,880	\$ 8,695	\$ 149,560	27,000	\$ 0	\$ 9,299
	2002	\$ 294,415	\$ 105,754	\$ 6,814	\$ 120,800 \$ 120,800 \$ 120,800	18,000	\$ 0	\$ 9,867
	2001	\$ 285,500	\$ 144,144	\$ 7,511	\$ 64,688 \$ 133,450	0	\$ 0	\$ 9,609



# WGL Holdings

## Executive Compensation

The table that follows presents information about compensation for the Chief Executive Officer and the four other most highly compensated executive officers of the Company. It includes all compensation awarded to, earned by, or paid to the named executive officers for each of the last three fiscal years.

Summary Compensation Table

Name and Principal Position*	Fiscal Year	Annual Compensation			Long-Term Compensation			
		Salary	Bonus	Other Annual Compensation(1)	Awards		Payouts	
					Restricted Stock Awards(2)	Securities Underlying Options(3)	LTP Payouts(4)	All Other Compensation(1)
James H. DeGraffenreidt, Jr.	2003	\$ 635,000	\$ 419,100	\$ 11,422	\$ 0	71,863	\$ 207,243	\$ 7,384
Chairman and	2002	600,000	72,000	11,448	0	52,501	195,549	7,677
Chief Executive Officer	2001	510,000	330,000	567	0	26,791	266,872	6,800
Terry D. McCallister	2003	370,000	203,500	11,128	0	29,129	114,760	8,000
President and	2002	300,000	53,000	10,994	0	15,750	0	6,127
Chief Operating Officer	2001	250,000	125,000	76	0	7,661	0	6,800
Frederic M. Kline	2003	275,000	123,750	11,179	0	17,590	53,326	7,919
Vice President and Chief	2002	255,000	34,000	11,137	0	12,272	53,425	7,665
Financial Officer	2001	225,000	105,000	199	0	6,895	75,769	6,800
Beverly J. Burke	2003	255,000	114,750	11,088	0	16,311	27,759	5,846
Vice President and	2002	200,000	23,000	11,029	0	9,625	26,417	5,939
General Counsel	2001	184,000	80,000	123	0	3,590	37,508	5,890
James B. White	2003	215,000	96,750	11,055	0	11,637	46,231	8,000
Vice President	2002	210,000	24,000	10,991	0	10,107	41,112	7,680
	2001	195,000	90,000	163	0	5,975	60,033	6,800

\* Principal positions shown on this table are as of September 30, 2003.

- The amounts shown in the column titled "Other Annual Compensation" represent taxes paid on behalf of the named executive officer relating to group term life insurance coverage with benefits exceeding \$50,000 in each listed fiscal year, contributions toward the cost of long-term care insurance and a vehicle allowance. The amounts shown in the column titled "All Other Compensation" represent Washington Gas Light Company's matching contributions to Washington Gas Light Company's Savings Plan for Management Employees during each of the listed fiscal years.
- The number and value of the aggregate restricted stock holdings at the end of fiscal year 2003 for each named executive officer were as follows:

Name	Shares	Value
James H. DeGraffenreidt, Jr.	2,400	\$66,192
Terry D. McCallister	400	11,032
Frederic M. Kline	0	0
Beverly J. Burke	0	0
James B. White	0	0

- Options granted to purchase shares of WGL Holdings, Inc. common stock.
- The amounts in this column represent the value of the performance shares vested under the 1999 Incentive Compensation Plan as amended and restated for the respective performance periods. The awards were based on the Company's total shareholder return relative to its peer group and closing stock price as follows:

Fiscal Year	Performance Period	Percent of Target Grant	Closing Stock Price
2003	36 Months Ending September 30, 2003	75.0%	\$27.58
2002	36 Months Ending September 30, 2002	95.0	\$23.91
2001	30 Months Ending September 30, 2001	127.5	\$26.89

Executive officers of the Company participate in a qualified, trusted, noncontributory pension plan covering all active employees and vested former employees of Washington Gas Light Company. Executive officers also participate in a Supplemental Executive Retirement Plan. Upon normal retirement (age 65), each eligible participant is entitled under the supplemental executive retirement plan to an annual benefit that is based on both years of benefit service (up

relate, or such lesser period of time as may be adopted and consistently used by the company.

#### **421 Miscellaneous nonoperating income.**

This account shall include all revenue and expense items except taxes properly includible in the income account and not provided for elsewhere. Related taxes shall be recorded in account 408.2, Taxes Other Than Income Taxes, Other Income and Deductions, or account 409.2, Income Taxes, Other Income and Deductions, as appropriate.

##### **ITEMS**

1. Profit on sale of timber. (See gas plant instruction 7C.)
2. Profits from operations of others realized by the utility under contracts.
3. Gains on disposition of investments. Also gains on reacquisition and resale or retirement of utilities debt securities when the gain is not amortized and used by a jurisdictional regulatory agency to reduce embedded debt cost in establishing rates. See General Instruction 17.

##### **421.1 Gain on disposition of property.**

This account shall be credited with the gain on the sale, conveyance, exchange or transfer of utility or other property to another. Amounts relating to gains on land and land rights held for future use recorded in accounts 105, Gas Plant Held for Future Use and 105.1, Production Properties Held for Future Use, will be accounted for as prescribed in paragraphs B, C, and D thereof. (See gas plant instructions 5F, 7E, and 10E.) Income taxes on gains recorded in this account shall be recorded in account 409.2, Income Taxes, Other Income and Deductions.

##### **421.2 Loss on disposition of property.**

This account shall be charged with the loss on the sale, conveyance, exchange or transfer of utility or other property to another. Amounts relating to losses on land and land rights held for future use recorded in accounts 105, Gas Plant Held for Future Use and 105.1, Production Properties Held for Future Use, will be accounted for as prescribed in paragraphs B, C, and D thereof. (See gas plant instructions 5F, 7E, and 10E.) The reduction in income taxes relating to losses recorded in this

account shall be recorded in account 409.2, Income Taxes, Other Income and Deductions.

#### **425 Miscellaneous amortization.**

This account shall include amortization charges not includible in other accounts which are properly deductible in determining the income of the utility before interest charges. Charges includible herein, if significant in amount, must be in accordance with an orderly and systematic amortization program.

##### **ITEMS**

1. Amortization of utility plant acquisition adjustments, or of intangibles included in utility plant in service when not authorized to be included in utility operating expenses by the Commission.
2. Other miscellaneous amortization charges allowed to be included in this account by the Commission.

##### **SPECIAL INSTRUCTIONS**

##### **Accounts 426.1, 426.2, 426.3, 426.4 and 426.5**

These accounts shall include miscellaneous expense items which are nonoperating in nature but which are properly deductible before determining total income before interest charges.

**NOTE:** The classification of expenses as nonoperating and their inclusion in these accounts is for accounting purposes. It does not preclude Commission consideration of proof to the contrary for ratemaking or other purposes.

##### **426.1 Donations.**

This account shall include all payments or donations for charitable, social or community welfare purposes.

##### **426.2 Life insurance.**

This account shall include all payments for life insurance of officers and employees where company is beneficiary (net premiums less increase in cash surrender value of policies).

##### **426.3 Penalties.**

This account shall include payments by the company for penalties or fines for violation of any regulatory statutes by the company or its officials.

##### **426.4 Expenditures for certain civic, political and related activities.**

This account shall include expenditures for the purpose of influencing

public opinion with respect to the election or appointment of public officials, referenda, legislation, or ordinances (either with respect to the possible adoption of new referenda, legislation or ordinances or repeal or modification of existing referenda, legislation or ordinances) or approval, modification, or revocation of franchises; or for the purpose of influencing the decisions of public officials, but shall not include such expenditures which are directly related to appearances before regulatory or other governmental bodies in connection with the reporting utility's existing or proposed operations.

#### 426.5 Other deductions.

This account shall include other miscellaneous expenses which are nonoperating in nature, but which are properly deductible before determining total income before interest charges.

##### ITEMS

1. Loss relating to investments in securities written-off or written-down.
2. Loss on sale of investments.
3. Loss on reacquisition, resale or retirement of utility's debt securities, when the loss is not amortized and used by a jurisdictional regulatory agency to increase embedded debt cost in establishing rates. See General Instruction 17.
4. Preliminary survey and investigation expenses related to abandoned projects, when not written-off to the appropriate operating expense account.
5. Costs of preliminary abandonment costs recorded in accounts 182.1, Extraordinary Property Losses, and 182.2, Unrecovered Plant and Regulatory Study Costs, not allowed to be amortized to account 407.1, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs.

#### 427 Interest on long-term debt.

A. This account shall include the amount of interest on outstanding long-term debt issued or assumed by the utility, the liability for which is included in account 221, Bonds, or account 224, Other Long-Term Debt.

B. This account shall be so kept or supported as to show the interest accruals on each class and series of long-term debt.

NOTE: This account shall not include interest on nominally issued or nominally outstanding long-term debt, including securities assumed.

#### 428 Amortization of debt discount and expense.

A. This account shall include the amortization of unamortized debt discount and expense on outstanding long-term debt. Amounts charged to this account shall be credited concurrently to accounts 181, Unamortized Debt Expense, and 226, Unamortized Discount on Long-Term Debt—Debit.

B. This account shall be so kept or supported as to show the debt discount and expense on each class and series of long-term debt.

#### 428.1 Amortization of loss on reacquired debt.

A. This account shall include the amortization of the losses on reacquisition of debt. Amounts charged to this account shall be credited concurrently to account 189, Unamortized Loss on Reacquired Debt.

B. This account shall be maintained so as to allow ready identification of the loss amortized applicable to each class and series of long-term debt reacquired. See General Instruction 17.

#### 429 Amortization of premium on debt—Credit.

A. This account shall include the amortization of unamortized net premium on outstanding long-term debt. Amounts credited to this account shall be charged concurrently to account 225, Unamortized Premium on Long-Term Debt.

B. This account shall be so kept or supported as to show the premium on each class and series of long-term debt.

#### 429.1 Amortization of gain on reacquired debt—Credit.

A. This account shall include the amortization of the gains realized from reacquisition of debt. Amounts credited to this account shall be charged concurrently to account 257, Unamortized Gain on Reacquired Debt.

B. This account shall be maintained so as to allow ready identification of the gains amortized applicable to each class and series of long-term debt reacquired. See General Instruction 17.

## KASOWITZ, BENSON, TORRES &amp; FRIEDMAN LLP

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Dennis Morgan, Esq.  
General Counsel  
Southern Union Company  
1301 S. Mopac Expressway, Suite 400  
Austin, TX 78746

INVOICE NO.: 43187

May 12, 2004

RE: Missouri Public Service Commission Rate Case

FOR PROFESSIONAL SERVICES rendered  
through the month of March 2004  
as reflected on the attached printout.

Fees	\$81,171.00
Disbursements	2,648.87
TOTAL AMOUNT DUE	\$83,819.87

5563  
05220034

KASOWITZ, BENSON, TORRES & FRIEDMAN LLP  
1633 BROADWAY  
NEW YORK, NEW YORK 10019-6799

Federal I.D. # 13-3720397

MARCH 31, 2004

05220034  
Southern Union Company  
Missouri Public Service Commission Rate Case

DATE	ATTORNEY OR ASSISTANT	HOURS
12/12/03	ERIC HERSCHMANN Telephone calls with R. Hack; review documents.	4.00
12/15/03	ERIC HERSCHMANN Begin review of new materials from R. Hack; prep case strategy; telephone calls with DM re same.	6.00
12/16/03	ERIC HERSCHMANN Email TQF re Schallanberg and Bible; telephone calls with DM re same.	.50
12/17/03	ERIC HERSCHMANN Telephone calls with R. Hack, P. Boudreau, DM re case strategy; continue review of info; telephone calls with GL re same.	5.40
12/18/03	ERIC HERSCHMANN Prep. for meeting; meeting with DM; meeting with RH et al re case strategy; meeting with DM; telephone calls with GL re same.	8.50
01/07/04	ERIC HERSCHMANN Telephone call with R. Hack; review email re same.	.50
01/09/04	ERIC HERSCHMANN Review Murry testimony on Aquila.	2.40
02/03/04	ERIC HERSCHMANN Review Stamm testimony; prior Bible/Schallenberg testimony.	4.40
02/04/04	ERIC HERSCHMANN Review new MoPSC filings and prior testimony.	2.40

Southern Union Company  
FILE NUMBER: 05220034  
INVOICE NO.: 43187

Mar 31, 2004

PAGE 2

02/16/04	ERIC HERSCHMANN Review testimony from Aquila case.	3.40
02/25/04	ERIC HERSCHMANN Prep. for meeting; review materials.	6.70
02/26/04	ERIC HERSCHMANN Prep. for meeting with client and experts; attend same.	5.30
03/01/04	ERIC HERSCHMANN Telephone calls with RH.	.75
03/02/04	ERIC HERSCHMANN Review info from R. Hack; telephone calls with RH re same.	2.30
03/03/04	ERIC HERSCHMANN Review info from RH; review decision from PB; telephone calls with DM.	1.50
03/04/04	MICHAEL M. FAY Review Daubert case law and regulatory opinions re cap structure, ROC.	4.30
03/05/04	MICHAEL M. FAY Review Daubert case law and regulatory opinions re cap structure, ROC; t/c with EDH.	1.60
03/08/04	MICHAEL M. FAY Work w/r/t in limine motions; review case law and precedents for same.	4.10
03/08/04	SEAN K. O'SHEA Review files for information concerning Missouri Rates matter at the request of E. Herschmann.	3.50
03/22/04	ERIC HERSCHMANN Prep. for meeting.	5.30
03/23/04	MICHAEL M. FAY Review Missouri Commission testimony in Aquila.	1.20
03/23/04	ERIC HERSCHMANN Telephone calls with R. Hack; prep. for meeting; telephone calls with DM; review docs from CD.	3.00

Southern Union Company  
FILE NUMBER: 05220034  
INVOICE NO.: 43187

Mar 31, 2004 PAGE 3

03/24/04	MICHAEL M. FAY	2.70
	Review testimony of D. Murray and schedules thereto; t/c with EDH re Daubert challenge; review caselaw re ratemaking.	
03/24/04	ERIC HERSCHMANN	4.00
	Prep. for meeting; telephone calls with MF re Daubert re experts; review testimony rec'd. RH re same.	
03/25/04	MICHAEL M. FAY	2.40
	Meeting with MGE representatives re rate case; review prior commission testimony; review literature re regulatory finance.	
03/25/04	ERIC HERSCHMANN	9.10
	Prep. for and attend meeting with clients, co-counsel re case prep.	
03/26/04	MICHAEL M. FAY	2.30
	T/c with A. Mani; review literature re ROE, cap structure; review Commission testimony.	
03/26/04	ERIC HERSCHMANN	7.50
	Meeting with clients and co-counsel re prep; work re same.	
03/29/04	MICHAEL M. FAY	4.70
	Work w/r/t in limine motions; review testimony, caselaw review MGE direct testimony.	
03/30/04	MICHAEL M. FAY	6.90
	Review testimony of Dunn, Noack and Oglesby; review Murray cross outline; review Daubert research; read literature re utilities cost of capital.	
03/30/04	ERIC HERSCHMANN	2.40
	Work re expert testimony.	
03/31/04	MICHAEL M. FAY	3.50
	Conf. with EDH re limine issues; review cost of capital literature; correspondence with C. Dodd re MGE rate strategies; review Morin textbook.	

TOTAL HOURS

122.55

Southern Union Company  
FILE NUMBER: 05220034  
INVOICE NO.: 43187

Mar 31, 2004

PAGE 4

	HOURS	AMOUNT
PARTNER		
MICHAEL M. FAY	33.70	23,253.00
ERIC HERSCHMANN	85.35	57,305.50
PARALEGAL		
SEAN K. O'SHEA	3.50	612.50

## TOTAL FEES

\$81,171.00

TRAVEL EXPENSES	472.03
BUSINESS MEALS	1,786.30
DOCUMENT REPRODUCTION	367.40
DOCUMENT DELIVERY	20.82
TELEPHONE	1.72
MAILING CHARGES	.60

## TOTAL COSTS

\$2,648.87

## TOTAL FEES AND COSTS

\$83,819.87