

Exhibit No.: 8
Issues: Revenue Deficiency
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2004- 0209

MISSOURI PUBLIC SERVICE COMMISSION

FILED⁴

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MISSOURI GAS ENERGY

Missouri Public
Service Commission

CASE NO. GR-2004-

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

November 2003

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CASE NO. GR-2004-

NOVEMBER 2003

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DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2001-292

NOVEMBER 4, 2003

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

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

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

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

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

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

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

5
6 **1. INTRODUCTION AND ADMINISTRATIVE MATTERS**

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

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

10
11 The revenue deficiency is supported by Schedules A through H, which are
12 attached to this testimony. I will be responsible for sponsoring most of the
13 adjustments made to the test year ending June 30, 2003 and which support the
14 revenue deficiency. Other MGE witnesses providing direct testimony are F. Jay
15 Cummings, supporting revenue adjustments, rate design, cost of service
16 allocation, weather mitigation and other tariff matters; Carlton A. Ricketts,
17 discussing customer service operations; John C. Dunn, supporting the capital
18 structure and the cost of capital shown in Schedule F; and John M. Quain and
19 James Oglesby, providing policy testimony.

20
21 **Q. WHY DOES MGE NEED TO FILE FOR A GENERAL RATE INCREASE?**

22 A. MGE is not achieving its authorized rate of return. Since MGE's last general rate
23 increase, approximately \$55 million has been expended on capital items due to: 1)

1 the safety line replacement program ("SLRP"); 2) plant relocation or public
2 improvement programs; 3) growth within the MGE service area. In addition,
3 operating costs have increased since MGE's last rate adjustment took effect in
4 August 2001.

5 **Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT**
6 **SECTIONS OF SCHEDULES ATTACHED TO YOUR DIRECT**
7 **TESTIMONY?**

8 A. Schedule A summarizes the revenue deficiency at June 30, 2003.
9 Schedule B summarizes and supports the various rate base components.
10 Schedule C summarizes and supports plant in service.
11 Schedule D summarizes and supports Reserve for Depreciation.
12 Schedule E summarizes and supports the various working capital components.
13 Schedule F summarizes the rate of return.
14 Schedule G is a comparison of statistical information
15 Schedule H summarizes & supports the operating income statement &
16 adjustments.
17 Schedule T includes example PGA tariff sheets

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

21 A. The test year is the twelve months ending June 30, 2003 adjusted for known and
22 measurable changes.
23

1 Q. SHOULD THIS TEST YEAR BE USED FOR THIS CASE OR WOULD A
2 LATER TEST YEAR REFLECTING MORE CURRENT OPERATING
3 RESULTS BE MORE APPROPRIATE?

4 A. A later test period ending December 31, 2003 is what MGE proposes that the
5 Commission adopt as the test year, as updated, for official use in this proceeding.
6 This would provide a relatively current time period of actual experience on which
7 to base rates for the future while at the same time allowing the Commission staff
8 and other parties to audit this actual experience.

9
10 Q. IS MGE REQUESTING A "TRUE-UP" PROCESS?

11 A. MGE is requesting a "true-up" through April 30, 2004 in order to update the
12 following significant cost components:

13 **RETURN:**

14 Capital Structure

15 **RATE BASE:**

16 Plant in Service

17 Depreciation Reserve

18 Deferred Taxes

19 Working Capital Components including Materials and Supplies, Natural
20 Gas Storage Inventory and Prepaid Pensions

21
22 **INCOME STATEMENT:**

23 Revenue for Customer Growth

24 Payroll, Employee Levels and Current Wage Levels

25 Updated Gas Prices

26 Rate Case Expense

27 Depreciation and Amortization Expense

28 Property Taxes

29 Related Income Tax Effects

30 Expenses associated with gas supply, IT and payroll departments

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

4 A. Schedule B-1 is the summary of SLRP Deferrals net of accumulated amortization
5 and associated deferred taxes. The SLRP program requires significant costs to be
6 incurred which MGE continues to defer pursuant to the most recent of six separate
7 Accounting Authority Orders (AAOs).

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

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

16
17 Given the extraordinary nature of the SLRP expenditures, the Commission has
18 consistently approved AAOs to allow MGE to defer certain SLRP costs between
19 rate cases. These costs consist of depreciation, property taxes, and carrying costs.
20
21

1 Q. WOULD YOU PLEASE DISCUSS EACH OF THE PREVIOUS AAOS,
2 WHICH HAVE GIVEN RISE TO THE ACCUMULATED DEFERRALS
3 INCLUDED IN MGE'S RATE BASE AT JUNE 30, 2003?

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

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

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

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

20
21 The fifth AAO was granted in the report and order issued in Case No. GR-98-140
22 and allowed MGE to begin deferring costs on September 3, 1998 and allowed
23 them to continue July 31, 2001.

1
2 The sixth and most recent AAO to date was granted in the report and order issued
3 in Case No. GR-2001-292 and allows MGE to defer costs from July 1, 2001
4 through the test year or true-up period in this case.
5

6 **Q. WHAT AMOUNT OF SLRP DEFERRALS HAVE YOU INCLUDED IN**
7 **RATE BASE AT JUNE 30, 2003?**

8 A. Schedule B-1 details the total unamortized SLRP deferrals of \$18,294,317 and
9 associated deferred taxes of \$6,215,473 at June 30, 2003.
10

11 **Q. PLEASE EXPLAIN THE OTHER COMPONENTS INCLUDED IN RATE**
12 **BASE?**

13 A. Generally there are three types of costs and related approaches considered in
14 developing rate base. The first type of cost and approach relates to amounts that
15 are included in rate base in compliance with Commission Orders. The
16 Commission had included the SLRP Accounting Authority Orders (AAOs), which
17 I described above, in rate base in cases prior to Case No. GR-98-140.
18 Additionally, a deferred credit was included in rate base in accordance with the
19 order in Case No. GM-94-40. Under that order, MGE amortized \$30 million of
20 deferred credits over 120 months for ratemaking purposes. Prior to the end of the
21 true-up period proposed by MGE, the deferred credit from Case No. GM-94-40 is
22 fully amortized.
23

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

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

13
14 **Q. PLEASE DESCRIBE COSTS, WHICH ARE AFFORDED A THIRTEEN-**
15 **MONTH AVERAGE.**

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

1 Q. DOES GAS INVENTORY REPRESENT A THIRTEEN-MONTH
2 AVERAGE SIMILAR TO MATERIALS AND SUPPLIES INVENTORY?

3 A. No. Because of the the volatility being experienced currently in the price of gas
4 and because the prices are not expected to come down any time soon, I have used
5 a thirteen-month average of volumes in storage and priced that storage based upon
6 an estimated injection price of \$4.92 per Mcf. This method more accurately
7 represents the average dollar balance of gas inventory, which needs to be included
8 in the rate base at June 30, 2003. As of September 30, 2003 the value of natural
9 gas in storage is \$94,562,537.
10

11 Q. HAVE YOU ALSO COMPUTED A CASH WORKING CAPITAL
12 COMPONENT OF RATE BASE AT JUNE 30, 2003?

13 A. Yes I have. I have included in rate base an amount for cash working capital in the
14 amount of \$5,599,685.
15

16 Q. PLEASE EXPLAIN YOUR COMPUTATION OF LEAD/LAG DAYS FOR
17 REVENUES.

18 A. The revenue lag days computation consists of three separate lags. The first is
19 usage lag, which is the midpoint of average time elapsed from the beginning of
20 the service period through the last day of the service period. The second lag is
21 billing lag, or the time between when the meter is read and when the bills are
22 mailed. The respective lag days are 15.21 days and 5.75 days.
23

1 Third is the collection lag, which represents the average time necessary to collect
2 revenue from the time a bill is rendered until the company receives the funds. I
3 have computed a collection lag of 25.54 days by averaging accounts receivable
4 and daily revenues over 365 day periods.

5
6 The total revenue lag days I have computed are 46.50 days.

7
8 **Q. HAVE YOU INCLUDED ANY OTHER WORKING CAPITAL**
9 **COMPONENTS IN YOUR RATE BASE?**

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

12
13 **Q. WHY IS IT APPROPRIATE TO INCLUDE THE PREPAID PENSION**
14 **ASSET IN RATE BASE?**

15 A. Over the last six years the FAS 87 calculations have produced a significant gain in
16 the pension plan assets. Customers benefit from the inclusion of the negative
17 pension expense in rates as a result of these gains. These gains result in the
18 prepaid pension asset, but do not provide MGE with any additional cash flows.
19 Rather, those gains relate to assets held under a pension trust arrangement and
20 cannot be withdrawn for any other use. The net effect of the inclusion of this
21 negative pension expense in cost of service has been to lower MGE's revenue
22 requirement and the resulting cash flow. Because the investment in this prepaid
23 pension asset has not been made with customer provided funds, a return should be

1 provided on this asset. This treatment is similar to the Commission's traditional
2 treatment of deferred taxes in rate base. If the Commission deems a change in
3 methodology is necessary in the way FAS 87 expense is computed, then this asset
4 should be amortized over a six-year period that is equal to the time over which the
5 balance was accumulated.

6
7 **Q. PLEASE EXPLAIN YOUR SCHEDULE OF PLANT IN SERVICE.**

8 A. Schedule C, page 1 of 2 summarizes the various categories of plant investment
9 including the direct plant MGE accounts for on its books; completed construction
10 not classified; joint and common plant accounted for on Southern Union
11 Company's books which is allocated to MGE; and total adjustments. There are
12 two adjustments included in the June 30, 2003 plant in service balance. The first
13 eliminates from rate base the investment in inactive services. This adjustment,
14 while not having a direct effect on rate base since the retirement decreases both
15 plant and accumulated depreciation by the same amount, does decrease
16 depreciation expense for the test year. The second adjustment eliminates
17 enhancements made to the CSS computer system that were recorded on MGE's
18 books but did not provide a benefit to MGE.

19
20 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME,**
21 **WHICH YOU ARE SPONSORING, ON SCHEDULE H.**

22 A. Schedule H, consisting of 29 schedules, details all of the adjustments made to cost
23 of service. The first two pages of schedule H detail the operating income

1 statement summarized by the uniform system of accounts. It shows the test year
2 balances per books at June 30, 2003, a summary of the proforma adjustments to
3 each account and finally the adjusted balance at June 30, 2003. The next six
4 pages detail each adjustment individually by account number.

5
6 Schedules H-1 and H-2 are the revenue adjustments and are being sponsored by
7 MGE witness Cummings.

8
9 Schedule H-3 removes purchased gas costs and gross receipts tax expense from
10 the operating income statement. These expenses should not be included in the
11 determination of the cost of service. Purchased gas costs are recovered through
12 the PGA mechanism, while the gross receipts tax expense is recovered through a
13 separate tax adjustment on the bills

14
15 **Q. PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.**

16 A. Proforma payroll and the related payroll adjustment is detailed by account number
17 on schedule H-4. The adjustment takes into consideration the employee levels at
18 June 30, 2003 and the level of wage at that time. The proforma level also includes
19 overtime, which was based on actual overtime hours worked during the test year.
20 Dividing total proforma payroll charged to operating expenses by total proforma
21 payroll developed a payroll expense ratio. This payroll expense ratio was
22 subsequently applied to the proforma levels of employee benefits, payroll taxes
23 and injuries and damages.

1
2 A separate adjustment has been proposed on Schedule H-22, which normalizes
3 MGE compensation and bonuses based on the three-year period 2001 through
4 2003.

5
6 Payroll taxes on schedule H-6 are adjusted for the payroll annualization and the
7 change in FICA wage limits as of January 1, 2003.

8
9 **Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE**
10 **BENEFITS?**

11 A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses
12 representing employee benefits paid on behalf of employees. Included in these
13 benefits is the FAS 87 pension expense, which at June 30, 2003 amounts to
14 \$1,305,457 and which represents the net periodic pension cost under SFAS 87.

15
16 Other benefits expense costs include insurance, FAS 106 post retirement benefit
17 costs, 401K costs and other miscellaneous employee benefit costs charged to
18 account 926. These proforma costs were then multiplied by the payroll expense
19 ratio to arrive at the adjustment to operating expenses.

20
21 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE**
22 **AND INJURIES AND DAMAGES?**

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

7
8 **Q. PLEASE EXPLAIN SCHEDULE H-8.**

9 A. Schedule H-8 increases administrative and general expenses to properly assign or
10 allocate joint and common corporate functions to MGE. These functions support
11 the ongoing operations of MGE and include accounting, taxes, shareholder
12 relations, treasury, human resources, environmental and legal. Joint and common
13 costs allocated to MGE for the test year total \$4,325,651 for account 923. This
14 compares to the following amount from MGE's last rate case, Case No. GR-2001,
15 292 of \$6,934,982 for account 923.

16
17 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**
18 **EXPENSE?**

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

21
22 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO REGULATORY**
23 **COMMISSION EXPENSE.**

1 A. This adjustment on Schedule H-10 first normalizes rate case expense over a three-
2 year period, and the 2000 depreciation study over a five-year period, annualizes
3 the NARUC and MPSC assessments based on invoices received in June 2003 and
4 averages other regulatory commission expenses over a three-year period.
5

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

7 A. Schedule H-11 computes interest on the average thirteen-month balance of
8 residential customer deposits at an interest rate of 5.00% or 1% over the prime
9 rate as of the filing date, consistent with MGE's proposal to change the interest on
10 customer deposits rate reflected on Sheet No. R-14 of its tariff, and on the average
11 thirteen-month balance of commercial customer deposits at the statutory interest
12 rate of 3.00%.
13

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

16 A. Schedule H-12 details the adjustment to depreciation expense based upon the
17 level of plant investment at June 30, 2003. The adjustment being proposed on
18 schedule H-12 is a two part adjustment with the first part of the adjustment being
19 made to annualize depreciation expense based on the year end levels of plant
20 using the depreciation rates agreed to in the stipulation and agreement approved
21 by the Commission in Case No. GR-2001-292. The second part of the adjustment
22 uses new proposed depreciation rates.
23

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

2 A. Black & Veatch prepared a depreciation study on MGE's behalf that MGE
3 submitted to the Commission's depreciation department in June 2000 pursuant to
4 Commission rule. The last study had been prepared in 1995 but the rates were not
5 implemented at that time.

6
7 The 2000 study recommended that management consider changing depreciation
8 rates at the time of the next rate case. After careful review of the study MGE
9 decided to seek to implement one-half of the shift in depreciation rates in its rate
10 filing in Case No. GR-2001-292 and wait until the time of the next study in 2005
11 before assessing further movement. For settlement purposes, rates other than
12 those recommended by Black & Veatch were used in Case No. GR-2001-292. In
13 this case MGE is again seeking to implement one-half of the shifts in rates from
14 those in effect prior to Case No. GR-2001-292 to those recommended by Black &
15 Veatch. MGE will review the rates again in 2005 after the new study is complete
16 and if necessary propose to change them.

17
18
19 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**
20 **EXPENSE.**

21 A. Schedule H-13 details the proforma amortization expense. The adjustment
22 consists of four parts. The first part annualizes the amortization of all leasehold
23 improvements and miscellaneous intangible plant at June 30, 2003. The second

1 part of the adjustment computes SLRP amortization based upon the ten-year
2 amortization period, which the Commission granted in Case No. GR-98-140. The
3 third part of the adjustment amortizes the cost of implementing the Emergency
4 Cold Weather Rule during the winter of 2000/2001 over an eighteen-month period
5 that coincides with the period customers had to pay off their balances under the
6 emergency rule. The final part of the adjustment requests amortization of the
7 debit balances in the depreciation reserve accounts due to extraordinary
8 retirements.

9
10 **Q. PLEASE EXPLAIN SCHEDULES H-14, H-15, AND H-16 RELATING TO**
11 **THE VARIOUS CLEARING ACCOUNTS.**

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

14
15 **Q. PLEASE EXPLAIN THE FUNCTION OF CLEARING ACCOUNTS.**

16 A. Clearing accounts are specific accounts required by the uniform system of
17 accounts. They serve as a clearinghouse for various costs that are incurred for a
18 similar function. For example, the TWE account accumulates various costs
19 relating to vehicles and major work equipment including payroll, benefits, taxes,
20 and insurance as well as the cost of tires, oil, and repairs and depreciation and/or
21 vehicle lease expense. Similarly, the stores load account accumulates costs
22 relating to managing the inventory and purchasing function, and the paid time off
23 account accumulates the payroll and related costs of vacations, sick leave, etc. By

1 accumulating varied but related costs into one account these costs can more easily
2 and consistently be charged back to other expense and capital accounts. On
3 average and over time, the total amounts charged into a clearing account should
4 be equal to the amount charged out to the other accounts.

5
6 **Q. WHY IS IT NECESSARY TO REFLECT ADJUSTMENTS RELATING TO**
7 **THESE ITEMS IN A RATE CASE?**

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

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

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

4
5 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

6 A. Schedule H-18 synchronizes ad valorem taxes with plant in service excluding
7 intangible plant and corporate allocated plant at June 30, 2003. The property tax
8 rate is based upon a three-year average rate developed by comparing actual
9 property taxes to year-end plant.

10
11 **Q. PLEASE EXPLAIN SCHEDULE H-19.**

12 A. Schedule H-19 annualizes the non-payroll related expenses associated with have a
13 gas supply department at MGE. Previous to January 2003, the gas supply
14 department was headquartered in Austin, Texas and managed the gas supply
15 requirements of both Southern Union Gas and MGE. After Southern Union Gas
16 was sold to Oneok, MGE hired employees for an in-house gas supply department.
17 The adjustment of \$98,353 represents the additional expense needed to reflect
18 twelve full months of operations for the new MGE gas supply department.

19
20 **Q. PLEASE EXPLAIN SCHEDULES H-20 AND H-21.**

21 A. Schedule H-20 annualizes rent expense and MGE's share of operating expenses,
22 taxes and maintenance at the headquarters building.

23

1 Schedule H-21 removes the dues payments made to the Missouri Energy
2 Development Association (MEDA) from the test year ending June 30, 2003.

3
4 **Q. PLEASE EXPLAIN THE ADJUSTMENTS MADE ON SCHEDULES H-22**
5 **AND H-23.**

6 A. Schedule H-22 normalizes MGE incentive compensation and bonuses paid based
7 on a three-year period 2001 through 2003. The payroll expense ratio is then
8 applied to the normalized level in order to calculate the amount, which should be
9 charged to expense. Included in the adjustment are the corporate gas supply and
10 information technology bonuses paid from 2001 through 2003 since those
11 payments will now be paid directly by MGE.

12
13 Schedule H-23 normalizes the customer collection costs during the test period by
14 annualizing the payments made to Brazen Software, Inc. for the monthly
15 maintenance and usage fees for the Fleetcon system.

16
17 **Q. PLEASE CONTINUE.**

18 A. Schedule H-24 is a two-part adjustment to eliminate from the test period all of the
19 shared services allocated to MGE by the Southern Union Gas division during the
20 first six months of the test period and also eliminate all payments made either to
21 Oneok or received from Oneok during the transition period while Oneok takes
22 over the Texas operations.

1 Schedule H-25 removes from utility operations expenditures deemed to be non-
2 recurring or non-utility related in nature.

3
4 Schedule H-26 annualizes tax-consulting services provided by the accounting firm
5 Deloitte & Touche for sales, use and franchise tax compliance and property tax
6 reviews.

7
8 **Q. SCHEDULE H-27 INCREASES THE FUNDING FOR**
9 **WEATHERIZATION SERVICES FROM \$340,000 TO \$500,000. PLEASE**
10 **EXPLAIN THE REASON FOR THE INCREASE?**

11 A. Weatherization of customers' homes provides a tangible benefit that continues on
12 into the future, akin to an investment that yields continuing returns. Also, we
13 understand that providers of low-income weatherization services, including the
14 City of Kansas City and the Economic Security Corporation in Joplin, have long
15 waiting lists of eligible customers requesting weatherization improvements. The
16 additional funding will provide assistance to about another 100 homes annually.

17
18 **Q. PLEASE EXPLAIN SCHEDULE H-28.**

19 A. Schedule H-28 requests annual funding of \$750,000 to cover the clean up costs
20 associated with former manufactured gas plant ("FMGP") sites and other
21 environmental clean up costs.

1 Q. DID THE COMPANY INCUR ENVIRONMENTAL COSTS RELATED TO
2 INVESTIGATION AND REMEDIATION OF FORMER
3 MANUFACTURED GAS PLANT ("FMGP") FACILITIES DURING THE
4 TEST YEAR?

5 A. Yes. MGE expended \$6,320,000 in FMGP-related costs during the test period.
6

7 Q. HOW DOES THE COMPANY PROPOSE TO RECOVER SUCH COSTS?

8 A. FMGP costs can be significant, as shown by MGE's experience during the test
9 year. And although MGE fully expects to continue to incur FMGP-related costs
10 in the future, it is difficult to pinpoint when or how much because of the site-
11 specific nature of FMGP-related costs. Therefore, MGE proposes the creation of
12 an Environmental Response Fund for the recovery of FMGP-related costs, to be
13 funded initially at a level of \$750,000 per year by way of a discrete rate element
14 included in the per-unit delivery charge of all customer classes. MGE's proposed
15 Environmental Response Fund, attached hereto as Schedule H-28 page 2, will
16 ensure appropriate regulatory review of FMGP-related cost recovery while at the
17 same time ensuring that the Company neither over- nor under-recovers FMGP-
18 related costs.
19

20 Q. PLEASE EXPLAIN SCHEDULE H-29 THAT ANNUALIZES
21 INFORMATION TECHNOLOGY EXPENSES.

22 A. Schedule H-29 annualizes the non-payroll related costs associated with the IT
23 departments. During the first six months of the test year, IT expenses were

1 accounted for on the Southern Union Gas division's books and MGE made
2 payment through the attribution of costs for shared services. The \$1,631,645
3 adjustment reflects an annualized expense amount based upon known costs in the
4 last six months of the test period.

5
6 **3. MISCELLANEOUS MATTERS**

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

8 **A.** Yes. Section G contains schedules which compare some of MGE's statistics
9 related to operations and maintenance ("O&M") expense per customer and annual
10 residential margin bills with other reasonably comparable LDC's regulated in
11 Missouri and also compares MGE's actual uncollectibles expense with the level
12 allowed by the Commission in the last three rate cases.

13
14 The first schedule, Schedule G-1 compares MGE's O&M expense per customer
15 for the years 1998 through 2002 with the O&M expense per customer for the
16 same period for Laclede, AmerenUE and the Missouri Public Service division of
17 Aquila. As shown by Schedule G-1, MGE is consistently much lower than the
18 other utilities shown on the schedule.

19
20 Schedule G-2 is a comparison of annual residential bills on the basis of margin
21 rates (monthly customer charge plus volumetric delivery rates). The schedule
22 shows that MGE is considerably lower-priced than these companies. The

1 comparison is based on the average residential usage MGE used to set rates in
2 Case No. GR-2001-292.

3
4 **Q. PLEASE CONTINUE.**

5 **A.** Schedule G-3 compares the actual bad debt expense included in MGE's net
6 operating income with the rate case allowance. The comparison is for each fiscal
7 year from 1996 through 2003. For the eight years shown on the schedule, MGE
8 has realized a shortfall of \$12,717,264 in expense recovery or \$1,589,658 per
9 year.

10
11 **Q. DO YOU HAVE ANY INFORMATION COMPARING MGE'S ACTUAL**
12 **ACHIEVED EARNINGS TO MGE'S COMMISSION-AUTHORIZED**
13 **RETURNS?**

14 **A.** Yes. Schedule G-4 shows that in each fiscal year from 1996 through 2003,
15 MGE's achieved rate of return was below the return authorized by the
16 Commission in the most recent previous case. Taken a step further, over the eight
17 year period shown on Schedule G-4, MGE has realized an earnings deficiency of
18 almost \$62 million, which equates to a revenue deficiency of over \$100 million.

19
20 **Q. WILL ANY OTHER TARIFF CHANGES, IN ADDITION TO THOSE**
21 **INCLUDED IN THE REVISED TARIFF SHEETS THAT INITIATED**
22 **THIS PROCEEDING, BE NECESSARY IF MGE'S PROPOSED**
23 **WEATHER MITIGATION RATE DESIGN IS ADOPTED?**

1
2 A. Yes. Certain tariff sheets in MGE's PGA clause will need to be modified to
3 reflect the weather mitigation rate design. The Company did not officially file
4 those revised tariff sheets with this general rate case because changes therein will
5 likely need to occur—due to PGA rate changes as well as the need to implement
6 the results of the generic PGA docket—while this general rate case is being
7 processed. The customary prohibition of “pancaking” would preclude such
8 changes if those tariff sheets were suspended as a part of this general rate case.
9 For illustrative purposes, however, attached hereto as Schedule T-1 are examples
10 of the PGA tariff changes MGE believes are necessary to effectuate its proposed
11 weather mitigation rate design.
12

13 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes it does.

MISSOURI GAS ENERGY
A Division of Southern Union Company

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MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Revenue Deficiency

Line No.	Description (a)	Ref. (b)	Required Return (c)	Earnings Deficiency (d)	Net Revenue Deficiency (e)
1	Rate Base	B	\$545,157,136		
2	Rate of Return	F	9.417%		
3	Required Return		<u>\$51,337,448</u>	\$51,337,448	
4	Adjusted Test Year Net Operating Income	A-1		<u>24,149,295</u>	
5	Earnings Deficiency			<u>\$27,188,153</u>	\$27,188,153
6	Multiply by Income Tax Gross-up Factor				<u>1.629800</u>
7	Net Revenue Deficiency - Gross of Tax				<u>\$44,311,252</u>
8	Multiply by Uncollectibles Gross-up Factor				<u>1.01509114</u>
9	Revenue Deficiency before Late Pay Fee Gross Down				<u>\$44,979,959</u>
10	Multiply by Late Pay Fee Gross-down Factor				<u>0.997681</u>
11	Net Revenue Deficiency				<u>\$44,875,635</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

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

Line No.	Description (a)	Per Books (b)	Adjustments (c)	As Adjusted (d)
<u>REVENUES</u>				
1	Operating Base Revenues	\$486,795,087	(\$354,009,822)	\$132,785,265
2	Other Utility Revenues	8,302,684	90,973	8,393,657
3	Total Operating Revenues	<u>\$495,097,771</u>	<u>(\$353,918,849)</u>	<u>\$141,178,922</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$343,363,642	(\$321,056,771)	\$22,306,871
5	Customer Accounts Expense	17,519,501	1,315,399	18,834,900
6	Customer Service and Information Expense	476,630	161,906	638,536
7	Sales Expense	245,559	5,568	251,127
8	Administrative and General Expense	<u>20,946,520</u>	<u>11,356,826</u>	<u>32,303,346</u>
9	Total Operating and Maintenance Expenses	<u>\$382,551,852</u>	<u>(\$308,217,072)</u>	<u>\$74,334,780</u>
10	Depreciation & Amortization Expense	\$22,691,101	\$5,322,530	\$28,013,631
11	Interest on Customer Deposits	218,822	(77,479)	141,343
12	Taxes Other Than Income	<u>40,041,548</u>	<u>(29,146,477)</u>	<u>10,895,071</u>
13	Total Operating Expenses	<u>\$445,503,323</u>	<u>(\$332,118,498)</u>	<u>\$113,384,825</u>
14	Operating Income Before Income Tax	\$49,594,448	(\$21,800,351)	\$27,794,097
15	Less: Income Tax Expense	11,248,450	(7,603,648)	3,644,802
16	Net Operating Income	<u>\$38,345,998</u>	<u>(\$14,196,703)</u>	<u>\$24,149,295</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Income Tax

Line No.	Description	Reference	Per Books	As Adjusted
	(a)	(b)	(c)	(d)
1	Total Operating Revenues	A-1	\$495,097,771	\$141,178,922
2	Total Operating Expenses	A-1	<u>(445,503,323)</u>	<u>(113,384,825)</u>
3	Net Operating Income	A-1	<u>\$49,594,448</u>	<u>\$27,794,097</u>
4	Equity Portion of SLRP Deferrals		\$1,354,612	\$0
5	Less: Interest on Long Term Debt		<u>(21,074,636)</u>	<u>(17,595,575)</u>
6	Total Tax Adjustments		<u>(\$19,720,024)</u>	<u>(\$17,595,575)</u>
7	Net Taxable Income		<u>\$29,874,424</u>	<u>\$10,198,522</u>
8	Income Tax		\$11,544,813	\$3,941,165
9	Less: Income Tax Reduction per Case No. GM-94-40		<u>(296,363)</u>	<u>(296,363)</u>
10	Net Income Tax		<u>\$11,248,450</u>	<u>\$3,644,802</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Rate Base

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$32,348,320
2	Distribution Plant	C	688,090,750
3	General Plant	C	54,397,804
4	Gross Plant In Service		<u>\$774,836,874</u>
5	Accumulated Depreciation & Amortization	D	<u>(250,953,951)</u>
6	Net Plant in Service		\$523,882,923
7	SLRP Deferrals	B-1	\$18,974,317
8	Working Capital	E	71,188,542
9	Alternative Minimum Tax Credit		11,588,953
10	Customer Deposits	B-2	(3,671,229)
11	Customer Advances - Thirteen Month Average	B-3	(10,305,989)
12	Unamortized Deferred Credit per Case No. GM-94-40		0
13	Deferred Income Taxes - SLRP	B-1	(6,215,473)
14	Deferred Income Taxes - Other	B-4	(61,024,830)
15	ECWR Deferrals	B-5	<u>739,923</u>
16	Total Rate Base		<u><u>\$545,157,136</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

SLRP Deferrals and Deferred Taxes

Line No.	Description (a)	Gross Deferral (b)	Accumulated Amortization (c)	Amount (d)
<u>SLRP Deferrals</u>				
1	Order GO-92-185 (Deferred Balance @ 5/31/98)	\$5,776,280	2,885,698	\$2,890,582
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	12,399,117	6,158,966	6,240,151
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	3,060,876	1,479,423	1,581,453
4	Order GR-98-140	9,182,136	1,759,909	7,422,227
5	Order GR-2001-282	839,904	0	839,904
6	Total SLRP Deferrals	<u>\$31,258,313</u>	<u>\$12,283,996</u>	<u>\$18,974,317</u>
 <u>SLRP Deferred Taxes</u>				
7	Order GO-92-185			0
8	Order GO-94-234			2,411,473
9	Order GO-97-301			611,144
10	Order GR-98-140			2,868,280
11	Order GR-2001-292			324,576
12	Total SLRP Deferred Taxes			<u>\$6,215,473</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2003

Customer Deposits

Line No.	Month	Residential Amount	Commercial & Industrial Amount	Total Amount
	(a)	(b)	(c)	(d)
1	Jun-02	(\$1,712,805)	(\$2,086,692)	(\$3,799,497)
2	Jul-02	(1,683,204)	(2,098,690)	(3,781,894)
3	Aug-02	(1,638,729)	(2,077,669)	(3,716,398)
4	Sep-02	(1,601,495)	(2,075,656)	(3,677,151)
5	Oct-02	(1,572,849)	(2,085,731)	(3,658,580)
6	Nov-02	(1,556,143)	(2,085,570)	(3,641,713)
7	Dec-02	(1,534,317)	(2,111,623)	(3,645,940)
8	Jan-03	(1,544,250)	(2,124,060)	(3,668,310)
9	Feb-03	(1,530,320)	(2,151,447)	(3,681,767)
10	Mar-03	(1,522,115)	(2,140,489)	(3,662,604)
11	Apr-03	(1,506,298)	(2,125,956)	(3,632,254)
12	May-03	(1,463,678)	(2,124,531)	(3,588,209)
13	Jun-03	<u>(1,417,912)</u>	<u>(2,153,752)</u>	<u>(3,571,664)</u>
14	13 Month Total	<u>(\$20,284,115)</u>	<u>(\$27,441,866)</u>	<u>(\$47,725,981)</u>
15	13 Month Average	<u>(\$1,560,317)</u>	<u>(\$2,110,913)</u>	<u>(\$3,671,229)</u>

SCHEDULE B-3

MISSOURI GAS ENERGY

A Division of Southern Union Company
Thirteen Months Ending June 30, 2003

Customer Advances

Line No.	Month (a)	Amount (b)
1	Jun-02	(\$9,920,542)
2	Jul-02	(10,002,842)
3	Aug-02	(10,019,610)
4	Sep-02	(10,107,128)
5	Oct-02	(10,307,724)
6	Nov-02	(10,420,295)
7	Dec-02	(10,382,694)
8	Jan-03	(10,408,714)
9	Feb-03	(10,381,355)
10	Mar-03	(10,419,364)
11	Apr-03	(10,431,656)
12	May-03	(10,611,023)
13	Jun-03	<u>(10,564,904)</u>
14	13 Month Total	<u>(\$133,977,851)</u>
15	13 Month Average	<u>(\$10,305,989)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Deferred Taxes (Other than SLRP)

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 6/30/03	(\$61,024,830)
2	Deferred Taxes, Corporate Plant	<u>0</u>
3	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u>(\$61,024,830)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Cost of Emergency Cold Weather Rule

Line No.	Description (a)	Gross Deferral (b)	Accumulated Amortization (c)	Amount (d)
1	Cost of Emergency Cold Weather Rule			
2	Arrears for accounts in bad debt status	\$739,923	\$0	\$739,923
3	Amortization Period (months)	18		
4	Monthly Amortization	\$41,107		

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Plant in Service

Line No.	Description	Direct	Completed Not Classified	Total Direct & Completed	Corporate Allocated	Total Adjustments	Total As Adjusted
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
INTANGIBLE PLANT							
1	(301) Organization	\$15,600	\$0	\$15,600	\$0	\$0	\$15,600
2	(302) Franchises	34,630	0	34,630	0	0	34,630
3	(303) Miscellaneous Intangible	32,298,090	0	32,298,090	0	0	32,298,090
4	Total Intangible Plant	\$32,348,320	\$0	\$32,348,320	\$0	\$0	\$32,348,320
DISTRIBUTION PLANT							
5	(374.1) Land	\$240,448	\$0	\$240,448	\$0	\$0	\$240,448
6	(374.2) Land Rights	1,324,112	260	1,324,372	0	0	1,324,372
7	(375.1) Structures	6,034,146	6,037	6,040,183	0	0	6,040,183
8	(375.2) Leasehold Improvements	0	0	0	0	0	0
9	(376) Mains	301,505,277	2,524,399	304,029,676	0	0	304,029,676
10	(378) Meas. & Reg. Station - General	10,920,214	186,891	11,107,105	0	0	11,107,105
11	(379) Meas. & Reg. Station - City Gate	3,208,061	0	3,208,061	0	0	3,208,061
12	(380) Services	267,525,014	1,089,275	268,614,289	0	(3,680,045)	264,934,244
13	(381) Meters	28,847,221	191,223	29,038,444	0	0	29,038,444
14	(382) Meter Installations	57,186,486	335,950	57,522,436	0	0	57,522,436
15	(383) House Regulators	10,272,508	22,181	10,294,689	0	0	10,294,689
16	(385) Electronic Gas Measuring	351,092	0	351,092	0	0	351,092
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	\$687,414,579	\$4,356,216	\$691,770,795	\$0	(\$3,680,045)	\$688,090,750
GENERAL PLANT							
19	(389) Land	\$468,315	\$0	\$468,315	\$0	\$0	\$468,315
20	(390.1) Structures	526,157	2,196	528,353	89,647	0	618,000
21	(390.2) Leasehold Improvements	1,380,409	0	1,380,409	0	0	1,380,409
22	(391) Furniture & Fixtures	5,358,750	39,078	5,397,828	91,952	(1,014,662)	4,475,118
23	(392) Transportation Equipment	4,541,766	55,011	4,596,777	37,267	0	4,634,044
24	(393) Stores Equipment	540,775	0	540,775	0	0	540,775
25	(394) Tools	4,680,888	28,234	4,709,122	0	0	4,709,122
26	(395) Laboratory Equipment	0	0	0	0	0	0
27	(396) Power Operated Equipment	325,741	0	325,741	0	0	325,741
28	(397.1) Communication Equipment - AMR	34,236,118	0	34,236,118	0	0	34,236,118
29	(397.0) Communication Equipment	2,813,804	0	2,813,804	0	0	2,813,804
30	(398) Miscellaneous Equipment	195,718	640	196,358	0	0	196,358
31	Total General Plant	\$55,068,441	\$125,159	\$55,193,600	\$218,866	(\$1,014,662)	\$54,397,804
32	Total Original Cost Plant in Service	\$774,831,340	\$4,481,375	\$779,312,715	\$218,866	(\$4,694,707)	\$774,836,874
33	Accumulated Depreciation and Amortization	(253,817,405)	0	(253,817,405)	(38,713)	2,902,167	(250,953,951)
34	Net Plant In Service	\$521,013,935	\$4,481,375	\$525,495,310	\$180,153	(\$1,792,540)	\$523,882,923

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Plant in Service

Line No.	Description	Retire Inactive Services No. 1	Texas Related CSS Enhancements No. 2	Total Adjustments
	(a)	(b)	(c)	(d)
INTANGIBLE PLANT				
1	(301) Organization	\$0	\$0	\$0
2	(302) Franchises	0	0	0
3	(303) Miscellaneous Intangible	0	0	0
4	Total Intangible Plant	\$0	\$0	\$0
DISTRIBUTION PLANT				
5	(374.1) Land	\$0	\$0	\$0
6	(374.2) Land Rights	0	0	0
7	(375.1) Structures	0	0	0
8	(375.2) Leasehold Improvements	0	0	0
9	(376) Mains & Mains - Cast Iron	0	0	0
10	(378) Meas. & Reg. Station - General	0	0	0
11	(379) Meas. & Reg. Station - City Gate	0	0	0
12	(380) Services	(3,680,045)	0	(3,680,045)
13	(381) Meters	0	0	0
14	(382) Meter Installations	0	0	0
15	(383) House Regulators	0	0	0
16	(385) Electronic Gas Metering	0	0	0
17	(387) Other Equipment	0	0	0
18	Total Distribution Plant	(\$3,680,045)	\$0	(\$3,680,045)
GENERAL PLANT				
19	(389) Land	\$0	\$0	\$0
20	(390.1) Structures	0	0	0
21	(390.2) Leasehold Improvements	0	0	0
22	(391) Furniture & Fixtures	0	(1,014,662)	(1,014,662)
23	(392) Transportation Equipment	0	0	0
24	(393) Stores Equipment	0	0	0
25	(394) Tools	0	0	0
26	(395) Laboratory Equipment	0	0	0
27	(396) Power Operated Equipment	0	0	0
28	(397) Communication Equipment - AMR	0	0	0
29	(397) Communication Equipment	0	0	0
30	(398) Miscellaneous Equipment	0	0	0
31	Total General Plant	\$0	(\$1,014,662)	(\$1,014,662)
32	Total Original Cost Plant In Service	(\$3,680,045)	(\$1,014,662)	(\$4,694,707)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Test Year Direct	Corporate	Proforma Adjustments	Test Year As Adjusted
	(a)	(b)	(c)	(d)	(e)
1	Intangible Plant Reserve	(\$15,682,381)	\$0	\$0	(\$15,682,381)
2	Distribution Reserve	<u>(238,135,023)</u>	<u>(38,713)</u>	<u>2,902,167</u>	<u>(235,271,569)</u>
3	Total Accumulated Reserves	<u>(\$253,817,405)</u>	<u>(\$38,713)</u>	<u>\$2,902,167</u>	<u>(\$250,953,951)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Adjustments to Plant in Service	Deprec. Rates	Retire Inactive Meters No. 1	Texas Related		Remove Debit Balances No. 3	Total Adjustments
					CSS Enhancements No. 2			
	(a)	(b)	(c)	(d)	(e)		(f)	(g)
DISTRIBUTION PLANT								
1	(374.1) Land	\$0	0.00%					\$0
2	(374.2) Land Rights	0	Amort.					0
3	(375.1) Structures	0	2.01%					0
4	(375.2) Leasehold Improvements	0	Amort.					0
5	(376) Mains & Mains - Cast Iron	0	2.10%					0
6	(378) Meas. & Reg. Station - General	0	3.19%					0
7	(379) Meas. & Reg. Station - City Gate	0	2.56%					0
8	(380) Services	(3,680,045)	4.58%	3,680,045				3,680,045
9	(381) Meters	0	2.46%					0
10	(382) Meter Installations	0	2.47%					0
11	(383) House Regulators	0	2.27%					0
12	(385) Electronic Gas Metering	0	5.00%					0
13	(387) Other Equipment	0	4.60%					0
14	Total Distribution Plant	<u>(\$3,680,045)</u>		<u>\$3,680,045</u>	<u>\$0</u>		<u>\$0</u>	<u>\$3,680,045</u>
GENERAL PLANT								
15	(389) Land	\$0	0.00%					\$0
16	(390.1) Structures	0	2.52%					0
17	(390.2) Leasehold Improvements	0	Amort.					0
18	(391) Furniture & Fixtures	(1,014,662)	6.67%		608,229			608,229
19	(392) Transportation Equipment	0	10.69%					0
20	(393) Stores Equipment	0	4.17%					0
21	(394) Tools	0	7.00%					0
22	(395) Laboratory Equipment	0	6.00%					0
23	(396) Power Operated Equipment	0	6.46%				(385,501)	(385,501)
24	(397) Communication Equipment - AMR	0	5.00%					0
25	(397) Communication Equipment	0	5.59%				(1,000,606)	(1,000,606)
26	(398) Miscellaneous Equipment	0	5.63%					0
27	Total General Plant	<u>(\$1,014,662)</u>		<u>\$0</u>	<u>\$608,229</u>		<u>(\$1,386,107)</u>	<u>(\$777,878)</u>
28	Total Adjustment	<u>(\$4,694,707)</u>		<u>\$3,680,045</u>	<u>\$608,229</u>		<u>(\$1,386,107)</u>	<u>\$2,902,167</u>

SCHEDULE E

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Working Capital

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$2,322,284
2	Prepayments - Thirteen Month Average	E-2	377,481
3	Gas Inventory - Volumes and Price	E-3	51,663,911
4	Cash Working Capital	E-4	5,599,685
5	Prepaid Pension	E-5	<u>11,225,181</u>
6	Total Working Capital		<u><u>\$71,188,542</u></u>

SCHEDULE E-1

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2003

Materials & Supplies

Line No.	Month (a)	Amount (b)
1	Jun-02	2,213,815
2	Jul-02	2,211,021
3	Aug-02	2,169,122
4	Sep-02	2,135,350
5	Oct-02	2,165,291
6	Nov-02	2,151,192
7	Dec-02	2,231,396
8	Jan-03	2,251,402
9	Feb-03	2,369,635
10	Mar-03	2,514,833
11	Apr-03	2,660,089
12	May-03	2,534,254
13	Jun-03	<u>2,582,297</u>
14	13 Month Total	<u><u>\$30,189,697</u></u>
15	13 Month Average	<u><u>\$2,322,284</u></u>

SCHEDULE E-2

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2003

Prepayments

Line No.	Month (a)	Amount (b)
1	Jun-02	\$0
2	Jul-02	790,729
3	Aug-02	735,346
4	Sep-02	661,811
5	Oct-02	588,276
6	Nov-02	514,742
7	Dec-02	452,202
8	Jan-03	376,835
9	Feb-03	315,328
10	Mar-03	236,496
11	Apr-03	157,664
12	May-03	77,821
13	Jun-03	<u>0</u>
14	13 Month Total	<u><u>\$4,907,249</u></u>
15	13 Month Average	<u><u>\$377,481</u></u>

SCHEDULE E-3

MISSOURI GAS ENERGY

A Division of Southern Union Company
Thirteen Months Ending June 30, 2003

Gas Inventory

Line No.	Month (a)	Volumes (b)
1	Jun-02	12,112,697
2	Jul-02	14,374,417
3	Aug-02	15,769,648
4	Sep-02	17,087,947
5	Oct-02	16,463,904
6	Nov-02	13,008,360
7	Dec-02	11,595,451
8	Jan-03	6,199,269
9	Feb-03	1,604,779
10	Mar-03	1,793,568
11	Apr-03	4,843,104
12	May-03	9,205,812
13	Jun-03	<u>12,451,375</u>
14	13 Month Average	10,500,795
15	Current Injection Prices	<u>\$4.920</u>
16	Inventory Value	<u><u>\$51,663,911</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Cash Working Capital

Line No.	Description	Test Year Expenses	Revenue Lag	Expense Lead	Net Lag (C-D)	Factor (E/365)	CWC Requirement (B*F)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>Operation & Maintenance Expense</u>							
1	Cash Vouchers	\$34,883,205	46.5000	23.1000	23.4000	0.0641	\$2,236,348
2	Bad Debt Expense	7,471,591	46.5000	46.5000	-	-	0
3	Net Payroll Expense	15,707,471	46.5000	12.5000	34.0000	0.0932	1,463,162
4	Fica Withheld	1,716,245	46.5000	9.6000	36.9000	0.1011	173,505
5	Federal Income Tax Withheld	2,862,327	46.5000	15.5900	30.9100	0.0847	242,396
6	State Income Tax Withheld	871,678	46.5000	48.7600	(2.2600)	(0.0062)	(5,397)
7	City Tax Withheld	127,108	46.5000	20.2200	26.2800	0.0720	9,152
8	Resident State Tax Withheld	16,658	46.5000	30.7271	15.7729	0.0432	720
9	Vacation Expense - Nonunion	396,108	46.5000	182.5000	(136.0000)	(0.3726)	(147,591)
10	Vacation Expense - Union	801,316	46.5000	388.1500	(341.6500)	(0.9360)	(750,054)
11	Sick Leave	506,411	46.5000	68.6400	(22.1400)	(0.0607)	(30,718)
12	Pensions	1,305,457	46.5000	46.5000	-	-	0
13	Medical Expense	6,418,860	46.5000	-	46.5000	0.1274	817,745
14	Purchased Gas	321,980,474	46.5000	38.8800	7.6200	0.0209	6,721,894
15	Building Rents and Leases	<u>1,250,346</u>	46.5000	(14.6500)	61.1500	0.1675	<u>209,476</u>
16	Total Operation & Maintenance Expense	<u>396,315,254</u>					<u>10,940,638</u>
<u>Taxes</u>							
17	Property Taxes	8,699,383	46.5000	182.0000	(135.5000)	(0.3712)	(3,229,497)
18	Franchise Taxes	259,080	46.5000	59.4100	(12.9100)	(0.0354)	(9,164)
19	Gross Receipts Taxes	28,799,163	46.5000	59.4100	(12.9100)	(0.0354)	(1,018,622)
20	Employer Portion of FICA	1,716,245	46.5000	9.6000	36.9000	0.1011	173,505
21	Federal and State Unemployment	37,110	46.5000	87.8200	(41.3200)	(0.1132)	(4,201)
22	Use Taxes	1,496	46.5000	76.1200	(29.6200)	(0.0812)	(121)
23	Sales Taxes	<u>8,064,405</u>	46.5000	24.9700	21.5300	0.0590	<u>475,689</u>
24	Total Taxes	<u>47,576,882</u>					<u>(3,612,411)</u>
25	Total Cash Working Capital Requirement						7,328,227
26	Estimated Interest Expense Offset	21,863,394	46.5000	75.6000	(29.1000)	(0.0797)	(1,742,513)
27	Estimated Income Tax Offset	3,407,571	46.5000	45.0000	1.5000	0.0041	<u>13,971</u>
28	Net Cash Working Capital						<u>\$5,599,685</u>

SCHEDULE E-5

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Deferred Pension

Line No.	Year Ended (a)	Balance (b)
1	June 30, 2003	<u>\$11,225,181</u>

SCHEDULE F

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Summary of Cost of Capital

Line No.	Description	Reference	Ratio	Cost Rate	Weighted Composite Rate
	(a)	(b)	(c)	(d)	(e)
1	Long-Term Debt	F-1	46.13%	7.35%	3.389%
2	Preferred Equity	F-2	10.53%	7.86%	0.828%
3	Common Equity	F-2	<u>43.34%</u>	12.00%	<u>5.200%</u>
4	Total		<u>100.00%</u>		<u>9.417%</u>

SCHEDULE F-1

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Long Term Debt

Line No.	Description (a)	Outstanding June 30, 2003 (b)	Ann Int Rate (c)	Annual Interest (d)
1	7.6% Senior notes	359,765,000	7.600%	27,342,000
2	8.25% Senior notes	300,000,000	8.250%	24,750,000
3	Term note	87,337,000	2.395%	2,092,000
4	Bank Debt	0	2.375%	0
5	Equity Units	125,000,000	5.750%	7,188,000
6	9.34% Mortgage bonds	15,000,000	9.340%	1,401,000
7	7.7% Debentures	6,756,000	7.700%	520,000
8	9.44% Mortgage (FR)	6,500,000	9.440%	614,000
9	7.99% Mortgage (FR)	7,000,000	7.990%	559,000
10	7.24% Mortgage (FR)	6,000,000	7.240%	434,000
11	Mortgage bonds (PR) M	1,636,000	10.250%	168,000
12	Mortgage bonds (PR) N	10,000,000	9.630%	963,000
13	Mortgage bonds (PR) O	12,500,000	8.460%	1,058,000
14	Mortgage bonds (PR) P	12,500,000	8.090%	1,011,000
15	Mortgage bonds (PR) Q	1,482,000	5.620%	83,000
16	Mortgage bonds (PR) R	15,000,000	7.500%	1,125,000
17	Mortgage bonds (PR) S	14,464,000	6.820%	986,000
18	Mortgage bonds (PR) T	13,802,000	6.500%	897,000
19	Capital lease - AMR	13,313,000	5.790% (b)	771,000
20	Other	412,000	7.000%	29,000
21	Total long term debt	1,008,467,000		71,991,000
22	Unamort debt costs-181	(16,912,000)		
23	Unamortized debt costs - 189	(13,984,000)		
24	Unamortized gain - 257	2,194,000		
25	Net long term debt	<u>\$979,765,000</u>		<u>\$71,991,000</u>
26	EFFECTIVE INTEREST RATE		7.3478%	

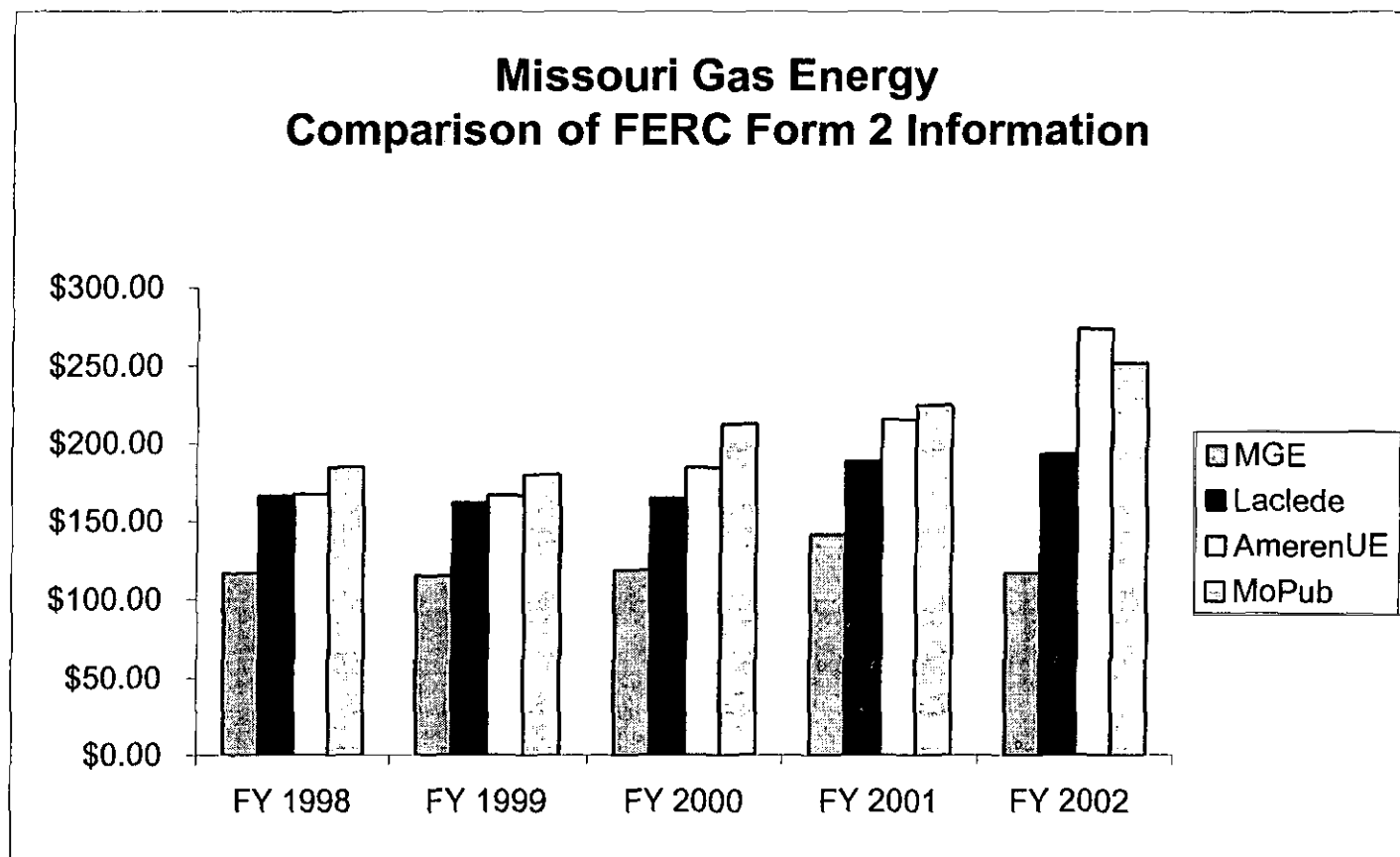
MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Equity Capital

Line No.	Description	Cost Rate	Ratio	Composite Cost Rate
	(a)	(b)	(c)	(d)
Preferred Equity				
1	\$230,000,000 of 7.55% Preferred Stock			
2	Issuance Cost Amortization			
3	Preferred Equity	7.863%		
	Preferred Equity as Proportion of Total			
4	Capitalization		10.53%	
5	Composite Preferred Cost Rate			0.828%
Common Equity				
6	Common Equity			
7	Required Return on Common Equity	12.000%		
	Common Equity as Proportion of Total			
8	Capitalization		43.3%	
9	Composite Common Cost Rate			5.200%
10	Total Equity Capital			6.028%

**Missouri Gas Energy
Comparison of FERC Form 2 Information**

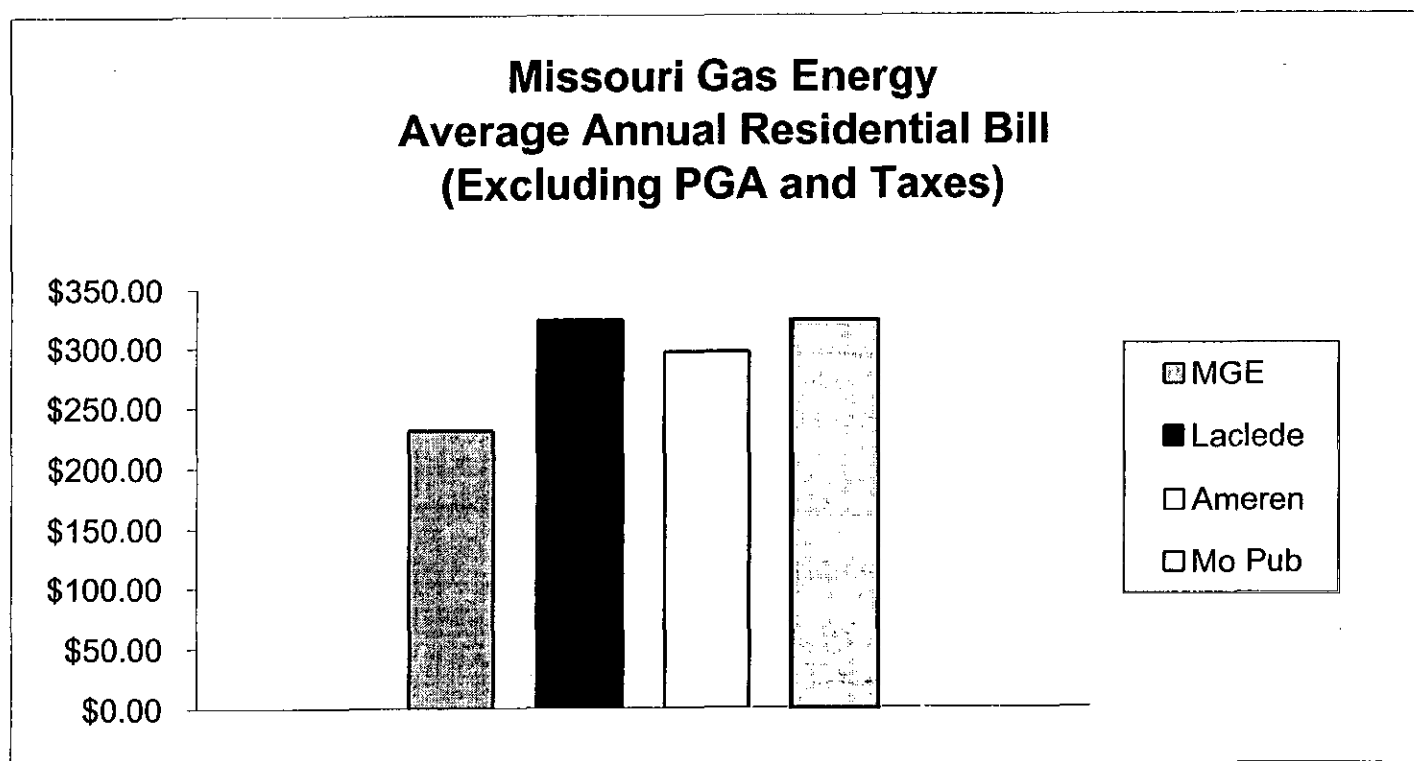
	MGE	Laclede	AmerenUE	MoPub
FY 1998	\$116.85	\$166.35	\$167.82	\$185.21
FY 1999	\$115.37	\$162.00	\$167.01	\$180.30
FY 2000	\$119.18	\$164.89	\$184.86	\$212.23
FY 2001	\$141.59	\$188.43	\$215.26	\$224.42
FY 2002	\$117.35	\$193.29	\$274.22	\$252.15



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

	<u>MGE</u>	<u>Laclede</u>	<u>Ameren</u>	<u>Mo Pub</u>
January	\$32.42	\$37.44	\$47.30	\$52.65
February	30.61	37.44	44.20	49.12
March	25.58	37.44	35.59	39.31
April	20.23	37.44	26.43	28.87
May	15.91	20.47	19.03	20.43
June	13.24	16.61	14.46	15.22
July	12.37	15.35	12.97	13.52
August	12.16	15.05	12.61	13.11
September	12.24	15.17	12.75	13.28
October	12.83	16.02	13.76	14.42
November	17.57	37.44	21.88	23.68
December	<u>25.66</u>	<u>37.44</u>	<u>35.73</u>	<u>39.47</u>
Average Annual Residential Bill	<u>\$230.80</u>	<u>\$323.29</u>	<u>\$296.70</u>	<u>\$323.09</u>
Tariff Effective Date	<u>08/06/01</u>	<u>12/09/02</u>	<u>03/14/02</u>	<u>06/13/00</u>

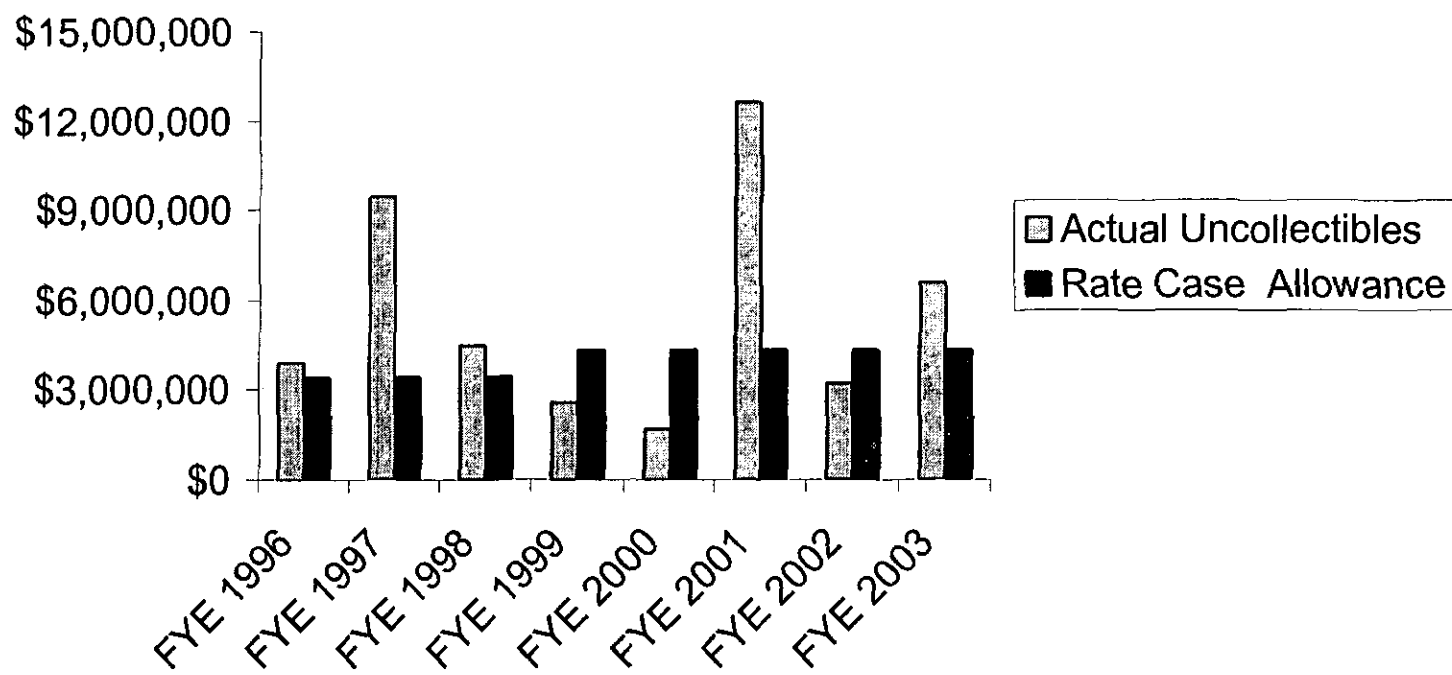
Source: AGA Rate Service
Missouri Public Service Commission



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

	<u>Actual Uncollectibles</u>	<u>Rate Case Allowance</u>	<u>Difference</u>
FYE 1996	\$ 3,906,455	\$ 3,409,662	\$ (496,793)
FYE 1997	9,442,692	3,409,662	(6,033,030)
FYE 1998	4,469,856	3,409,662	(1,060,194)
FYE 1999	2,584,998	4,325,000	1,740,002
FYE 2000	1,696,606	4,325,000	2,628,394
FYE 2001	12,653,781	4,325,000	(8,328,781)
FYE 2002	3,211,390	4,323,292	1,111,902
FYE 2003	<u>6,602,056</u>	<u>4,323,292</u>	<u>(2,278,764)</u>
Total	<u>\$ 44,567,834</u>	<u>\$ 31,850,570</u>	<u>\$ (12,717,264)</u>
Cumulative difference between actual and rate case allowance		<u>\$(12,717,264)</u>	
Average difference between actual and rate case allowance per year		<u>\$ (1,589,658)</u>	

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



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

<u>Description</u>	<u>06/30/96</u> <u>(000)</u>	<u>06/30/97</u> <u>(000)</u>	<u>06/30/98</u> <u>(000)</u>	<u>06/30/99</u> <u>(000)</u>	<u>06/30/00</u> <u>(000)</u>	<u>06/30/01</u> <u>(000)</u>	<u>06/30/02</u> <u>(000)</u>	<u>06/30/03</u> <u>(000)</u>	<u>Cumulative</u> <u>(000)</u>
Net Operating Income	\$ 30,845	\$ 30,492	\$ 32,930	\$ 35,930	\$ 32,084	\$ 34,080	\$ 40,145	\$ 37,856	
Net plant from most recent rate case	\$ 359,290	\$ 359,290	\$ 431,152	\$ 431,152	\$ 431,152	\$ 431,152	\$ 503,192	\$ 503,192	
Net Plant Balance at 6/30/XX	360,288	384,986	440,251	460,145	478,794	491,271	505,412	525,495	
Increase in plant since most recent rate case	\$ 998	\$ 25,696	\$ 9,099	\$ 28,993	\$ 47,642	\$ 60,119	\$ 2,220	\$ 22,303	
Total rate base from most recent case updated for annual plant increases	\$ 349,040	\$ 373,738	\$ 427,318	\$ 447,212	\$ 465,861	\$ 478,338	\$ 504,650	\$ 524,733	
Achieved Rate of Return	<u>8.84%</u>	<u>8.16%</u>	<u>7.71%</u>	<u>8.03%</u>	<u>6.89%</u>	<u>7.12%</u>	<u>7.95%</u>	<u>7.21%</u>	
Authorized Rate of Return	<u>10.54%</u>	<u>9.46%</u>	<u>9.46%</u>	<u>9.40%</u>	<u>9.40%</u>	<u>9.40%</u>	<u>9.03%</u>	<u>9.03%</u>	
Date Rates Went into Effect	<u>01-Feb-94</u>	<u>01-Feb-97</u>		<u>02-Sep-98</u>			<u>06-Aug-01</u>	<u>06-Aug-01</u>	
Return Deficiency	<u>-1.70%</u>	<u>-1.30%</u>	<u>-1.75%</u>	<u>-1.37%</u>	<u>-2.51%</u>	<u>-2.28%</u>	<u>-1.08%</u>	<u>-1.82%</u>	
Earnings Deficiency	\$ (5,944)	\$ (4,864)	\$ (7,494)	\$ (6,108)	\$ (11,707)	\$ (10,883)	\$ (5,425)	\$ (9,528)	\$ (61,953)
Revenue Deficiency	\$ (9,682)	\$ (7,923)	\$ (12,207)	\$ (9,950)	\$ (19,070)	\$ (17,728)	\$ (8,837)	\$ (15,520)	\$ (100,916)

* - High end of Staff recommendation implicit in the settlement

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
(a)	(b)	(c)	(d)	(e)	
OPERATING REVENUE					
1	480	Residential	\$340,727,514	(\$242,020,875)	\$98,706,639
2	481.1	Commercial	138,675,790	(110,664,937)	28,010,853
3	481.2	Industrial	3,930,121	(2,549,814)	1,380,307
4	483	Sales for Resale	0	(113,664)	(113,664)
5	487	Late Payment Charges	1,148,304	(55,895)	1,092,409
6	488	Miscellaneous Service Revenue	2,313,358	1,395,364	3,708,722
7	489	Transport	8,439,483	90,973	8,530,456
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	(136,799)	0	(136,799)
10		Total Operating Revenue	<u>\$495,097,771</u>	<u>(\$353,918,849)</u>	<u>\$141,178,922</u>
OPERATING & MAINTENANCE EXPENSE					
Operation Expense					
11	805	Other Gas Purchases	\$321,980,474	(\$321,980,474)	\$0
12	807	Purchased Gas Expense	38,000	(38,000)	0
13	859	Other Joint Expense	0	0	0
14	870	Operation, Supervision and Engineering	506,443	14,476	520,919
15	871	Distribution and Load Dispatching	13,427	399	13,826
16	872	Compressor Station Labor and Expense	0	0	0
17	874	Mains and Service Expenses	2,571,135	21,774	2,592,909
18	875	Distributing Regulating Station Expenses	644,338	34,619	678,957
19	876	Measuring and Regulating - Station Expenses	5,310	(448)	4,862
20	877	Measuring and Regulating - Station Expenses	4,050	481	4,531
21	878	Meter and House Regulator Expenses	4,258,435	226,272	4,484,707
22	879	Customer Installation Expenses	2,248,341	142,479	2,390,820
23	880	Other Expenses	1,107,496	38,106	1,145,602
24	881	Rents	69,814	0	69,814
25		Total Operation Expense	<u>\$333,447,263</u>	<u>(\$321,540,316)</u>	<u>\$11,906,947</u>
Maintenance Expense					
26	885	Maintenance Supervision and Engineering	\$780,481	\$50,978	\$831,459
27	886	Maintenance of Structures and Improvements	139,484	7,436	146,920
28	887	Maintenance of Mains	6,748,357	317,936	7,066,293
29	889	Maint. of Measuring and Reg. Stat Equip - General	211,527	8,829	220,356
30	890	Maint. of Measuring and Regulating Equipment	310,825	13,055	323,880
31	891	Maint. of Measuring and Regulating Equipment	80,971	1,698	82,669
32	892	Maintenance of Services	557,520	31,624	589,144
33	893	Maintenance of Meters and House Regulators	859,716	46,168	905,884
34	894	Maintenance of Other Equipment	227,498	5,821	233,319
35		Total Maintenance Expenses	<u>\$9,916,379</u>	<u>\$483,545</u>	<u>\$10,399,924</u>
36		Total Distribution Expense	<u>\$343,363,642</u>	<u>(\$321,056,771)</u>	<u>\$22,306,871</u>
Customer Accounts Expense					
37	901	Supervision	\$578,740	\$11,592	\$590,332
38	902	Meter Reading Expense	630,162	35,305	665,467
39	903	Customer Records and Collection Expense	9,623,169	398,967	10,022,136
40	904	Uncollectible Accounts	6,602,056	869,535	7,471,591
41	905	Miscellaneous Customer Accounts Expense	85,374	0	85,374
42		Total Customer Accounts Expenses	<u>\$17,519,501</u>	<u>\$1,315,399</u>	<u>\$18,834,900</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Book	Total Adjustments	Test Year As Adjusted
(a)	(b)		(c)	(d)	(e)
Customer Service and Informational Expense					
43	907	Supervision	\$0	\$0	\$0
44	908	Customer Assistance	422,120	161,906	584,026
45	909	Informational and Instructional Advertising Exp.	43,018	0	43,018
46	910	Miscellaneous Customer Accounts Expense	11,492	0	11,492
47		Total Cust. Service and Information Exp.	<u>\$476,630</u>	<u>\$161,906</u>	<u>\$638,536</u>
Sales and Advertising Expense					
48	911	Supervision	\$0	\$0	\$0
49	912	Demonstrating and Selling Expenses	243,883	5,568	249,451
50	913	Advertising Expenses	0	0	0
51	916	Miscellaneous Sales Expenses	1,676	0	1,676
52		Total Sales and Advertising Expenses	<u>\$245,559</u>	<u>\$5,568</u>	<u>\$251,127</u>
Administrative and General Expense					
53	920	Administrative and General Salaries	\$3,718,333	\$1,140,696	\$4,859,029
54	921	Office Supplies and Expenses	3,221,659	1,265,417	4,487,076
55	922	Administrative Expenses Transferred	(165,936)	(1,318,332)	(1,484,268)
56	923	Outside Services Employed	2,013,943	4,840,769	6,854,712
57	924	Property Insurance	164,136	0	164,136
58	925	Injuries and Damages	1,515,813	707,879	2,223,692
59	926	Employee Pensions and Benefits	7,769,789	3,830,579	11,600,368
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	1,854,587	34,610	1,889,197
62	930	Miscellaneous General Expenses	(279,283)	436,997	157,714
63	931	Rents	956,683	293,663	1,250,346
64	932	Maintenance of General Plant	176,796	124,548	301,344
65		Total Administration and General Expense	<u>\$20,946,520</u>	<u>\$11,356,826</u>	<u>\$32,303,346</u>
66		Total O & M Expense	<u>\$382,551,852</u>	<u>(\$308,217,072)</u>	<u>\$74,334,780</u>
67	403	Depreciation	20,289,660	3,750,713	24,040,373
68	404, 405	Amortization	2,401,441	1,571,817	3,973,258
69	431	Interest on Customer Deposits	218,822	(77,479)	141,343
70	408	Payroll Taxes	1,593,999	342,609	1,936,608
71	408	Property Taxes	8,280,724	418,659	8,699,383
72	408	Gross Receipts Tax	30,058,800	(30,058,800)	0
73	408	Other Taxes	108,025	151,055	259,080
74	408	Taxes Other Than Income	<u>\$40,041,548</u>	<u>(\$29,146,477)</u>	<u>\$10,895,071</u>
75		TOTAL EXPENSES	<u>\$445,503,323</u>	<u>(\$332,118,498)</u>	<u>\$113,384,825</u>
76		OPERATING INCOME BEFORE INCOME TAX	<u>\$49,594,448</u>	<u>(\$21,800,351)</u>	<u>\$27,794,097</u>
77	409,410	Income Taxes	\$11,248,450	(\$7,603,648)	\$3,644,802
78		NET OPERATING INCOME	<u>\$38,345,998</u>	<u>(\$14,196,703)</u>	<u>\$24,149,295</u>

Distribution of Revenue and Expense Adjustments by Account No.

			H-1	H-2	H-3	H-4	H-5	H-6	H-7	H-8	H-9	H-10	H-11	
Line No.	Main Acct.	Description	Test Year Per Books	Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year Margin	Remove Purch.. Gas Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Joint and Common Costs	Uncollectible Expense	Regulatory Commission Expense	Interest on Customer Deposits
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
OPERATING REVENUE														
1	480	Residential	\$340,727,514	(\$242,269,140)	\$248,264									
2	481.1	Commercial	138,675,790	(106,422,670)	(4,242,267)									
3	481.2	Industrial	3,930,121	(2,549,814)	0									
4	483	Sales for Resale	0	(113,664)	0									
5	487	Late Payment Charges	1,148,304	(55,895)	0									
6	488	Miscellaneous Service Revenue	2,313,358		1,395,364									
7	489	Transport	8,439,483		90,973									
8	493	Rent From Property	0											
9	495	Other Gas Revenue	(138,799)											
10		Total Operating Revenue	\$495,097,771	(\$351,411,183)	(\$2,507,666)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE														
Operation Expense														
11	805	Other Gas Purchases	\$321,980,474			(\$321,980,474)								
12	807	Purchased Gas Expense	38,000											
13	859	Other Joint Expense	0											
14	870	Operation, Supervision and Engineering	506,443				12,270							
15	871	Distribution and Load Dispatching	13,427				305							
16	872	Compressor Station Labor and Expense	0				0							
17	874	Mains and Service Expenses	2,571,135				18,761							
18	875	Distributing Regulating Station Expenses	644,338				29,888							
19	876	Measuring and Regulating - Station Expenses	5,310				(482)							
20	877	Measuring and Regulating - Station Expenses	4,050				450							
21	878	Meter and House Regulator Expenses	4,258,435				183,797							
22	879	Customer Installation Expenses	2,248,341				127,201							
23	880	Other Expenses	1,107,496				33,450							
24	881	Rents	69,814											
25		Total Operation Expense	\$333,447,263	\$0	\$0	(\$321,980,474)	\$415,640	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Maintenance Expense														
26	885	Maintenance Supervision and Engineering	\$780,481				\$47,472							
27	886	Maintenance of Structures and Improvements	139,484				6,483							
28	887	Maintenance of Mains	6,748,357				272,324							
29	889	Maint. of Measuring and Reg. Stat Equip - General	211,527				7,414							
30	890	Maint. of Measuring and Regulating Equipment	310,825				10,745							
31	891	Maint. of Measuring and Regulating Equipment	80,971				731							
32	892	Maintenance of Services	557,520				26,874							
33	893	Maintenance of Meters and House Regulators	859,716				39,518							
34	894	Maintenance of Other Equipment	227,498				2,726							
35		Total Maintenance Expenses	\$9,916,379	\$0	\$0	\$0	\$414,287	\$0	\$0	\$0	\$0	\$0	\$0	\$0
36		Total Distribution Expense	\$343,363,642	\$0	\$0	(\$321,980,474)	\$829,927	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Accounts Expense														
37	901	Supervision	\$578,740				\$9,846							
38	902	Meter Reading Expense	630,162				30,985							
39	903	Customer Records and Collection Expense	9,623,169				179,008							
40	904	Uncollectible Accounts	6,602,056									869,535		
41	905	Miscellaneous Customer Accounts Expense	85,374				0							
42		Total Customer Accounts Expenses	\$17,518,501	\$0	\$0	\$0	\$219,839	\$0	\$0	\$0	\$0	\$869,535	\$0	\$0

Distribution of Revenue and Expense Adjustments by Account No.

			H-1	H-2	H-3	H-4	H-5	H-6	H-7	H-8	H-9	H-10	H-11	
Line No.	Main Acct.	Description	Test Year Per Books	Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year Margin	Remove Purch.. Gas Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Joint and Common Costs	Uncollectible Expense	Regulatory Commission Expense	Interest on Customer Deposits
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
Customer Service and Informational Expense														
43	907	Supervision	\$0											
44	908	Customer Assistance	422,120				1,579							
45	909	Informational and Instructional Advertising Exp.	43,018											
46	910	Miscellaneous Customer Accounts Expense	11,492											
47		Total Cust. Service and Information Exp.	\$476,630	\$0	\$0	\$0	\$1,579	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales and Advertising Expense														
48	911	Supervision	\$0				\$0							
49	912	Demonstrating and Selling Expenses	243,883				4,639							
50	913	Advertising Expenses	0											
51	916	Miscellaneous Sales Expenses	1,676											
52		Total Sales and Advertising Expenses	\$245,559	\$0	\$0	\$0	\$4,639	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Administrative and General Expense														
53	920	Administrative and General Salaries	\$3,718,333				\$1,121,972							
54	921	Office Supplies and Expenses	3,221,659				747							
55	922	Administrative Expenses Transferred	(185,936)											
56	923	Outside Services Employed	2,013,943								4,325,651			
57	924	Property Insurance	184,136							0				
58	925	Injuries and Damages	1,515,813				(819)			708,240				
59	926	Employee Pensions and Benefits	7,769,789					3,807,277						
60	927	Franchise Requirements	0											
61	928	Regulatory Commission Expense	1,854,587										34,610	
62	930	Miscellaneous General Expenses	(279,283)											
63	931	Rents	956,683											
64	932	Maintenance of General Plant	178,796				0							
65		Total Administration and General Expense	\$20,946,520	\$0	\$0	\$0	\$1,121,900	\$3,807,277	\$0	\$708,240	\$4,325,651	\$0	\$34,610	\$0
66		Total O & M Expense	\$382,551,852	\$0	\$0	(\$321,980,474)	\$2,177,884	\$3,807,277	\$0	\$708,240	\$4,325,651	\$869,535	\$34,610	\$0
67	403	Depreciation	\$20,289,660											
68	404, 405	Amortization	2,401,441											
69	431	Interest on Customer Deposits	218,822											(77,479)
70	408	Payroll Taxes (1***)	1,593,999						342,609					
71	408	Property Taxes (2***)	8,280,724											
72	408	Gross Receipts Tax (3300 + 4000)	30,058,800			(30,058,800)								
73	408	Other Taxes (41**)	108,025											
74	408	Taxes Other Than Income	\$40,041,548	\$0	\$0	(\$30,058,800)	\$0	\$0	\$342,609	\$0	\$0	\$0	\$0	\$0
75		TOTAL EXPENSES	\$445,503,323	\$0	\$0	(\$352,039,274)	\$2,177,884	\$3,807,277	\$342,609	\$708,240	\$4,325,651	\$869,535	\$34,610	(\$77,479)
76		OPERATING INCOME BEFORE INCOME TAX	\$49,594,448	(\$351,411,183)	(\$2,507,666)	\$352,039,274	(\$2,177,884)	(\$3,807,277)	(\$342,609)	(\$708,240)	(\$4,325,651)	(\$869,535)	(\$34,610)	\$77,479
77	409,410	Income Taxes	11,248,450											
78		NET OPERATING INCOME	\$38,345,998	(\$351,411,183)	(\$2,507,666)	\$352,039,274	(\$2,177,884)	(\$3,807,277)	(\$342,609)	(\$708,240)	(\$4,325,651)	(\$869,535)	(\$34,610)	\$77,479

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

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-12 Depreciation Expense	H-13 Amortization Expense	H-14 TWE Clearing	H-15 Stores Load Clearing	H-16 Paid Time Off Clearing	H-17 State Franchise Tax	H-18 Property Tax	H-19 Gas Supply	H-20 Office Lease Expense	H-21 Dues Expense	H-22 Incentive Compensation & Bonuses	H-23 Collection Costs
	(a)	(b)	(c)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
OPERATING REVENUE															
1	480	Residential	\$340,727,514												
2	481.1	Commercial	138,675,790												
3	481.2	Industrial	3,930,121												
4	483	Sales for Resale	0												
5	487	Late Payment Charges	1,148,304												
6	488	Miscellaneous Service Revenue	2,313,358												
7	489	Transport	8,439,483												
8	493	Rent From Property	0												
9	495	Other Gas Revenue	(136,799)												
10		Total Operating Revenue	\$495,097,771	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE															
Operation Expense															
11	805	Other Gas Purchases	\$321,980,474												
12	807	Purchased Gas Expense	38,000								(38,000)				
13	859	Other Joint Expense	0												
14	870	Operation, Supervision and Engineering	506,443			17		69						2,120	
15	871	Distribution and Load Dispatching	13,427			13		42						39	
16	872	Compressor Station Labor and Expense	0			0		0						0	
17	874	Mains and Service Expenses	2,571,135			295	524	1,073						1,121	
18	875	Distributing Regulating Station Expenses	844,338			485	461	1,811						1,974	
19	876	Measuring and Regulating - Station Expenses	5,310			5	0	16						13	
20	877	Measuring and Regulating - Station Expenses	4,050			4	1	13						13	
21	878	Meter and House Regulator Expenses	4,258,435			3,336	4,149	12,243						12,747	
22	879	Customer Installation Expenses	2,248,341			1,649	176	5,990						7,463	
23	880	Other Expenses	1,107,496			364	541	748						3,003	
24	881	Rents	69,814												
25		Total Operation Expense	\$333,447,263	\$0	\$0	\$6,168	\$5,852	\$22,005	\$0	\$0	(\$38,000)	\$0	\$0	\$28,493	\$0
Maintenance Expense															
26	885	Maintenance Supervision and Engineering	\$780,481			\$1	\$0	\$11						\$3,494	
27	886	Maintenance of Structures and Improvements	139,484			108	32	412						401	
28	887	Maintenance of Mains	6,748,357			4,242	8,643	15,328						17,399	
29	889	Maint. of Measuring and Reg. Stat Equip - General	211,527			109	303	393						610	
30	890	Maint. of Measuring and Regulating Equipment	310,825			149	730	516						915	
31	891	Maint. of Measuring and Regulating Equipment	80,971			16	813	63						75	
32	892	Maintenance of Services	557,520			348	1,585	1,251						1,555	
33	893	Maintenance of Meters and House Regulators	859,718			713	908	2,521						2,508	
34	894	Maintenance of Other Equipment	227,498			36	2,718	145						196	
35		Total Maintenance Expenses	\$9,916,378	\$0	\$0	\$5,723	\$15,742	\$20,640	\$0	\$0	\$0	\$0	\$0	\$27,153	\$0
36		Total Distribution Expense	\$343,363,642	\$0	\$0	\$11,891	\$21,594	\$42,645	\$0	\$0	(\$38,000)	\$0	\$0	\$55,646	\$0
Customer Accounts Expense															
37	901	Supervision	\$578,740											\$1,746	
38	902	Meter Reading Expense	630,162			512	4	1,808						1,996	
39	903	Customer Records and Collection Expense	9,623,169			1,285	0	4,638						18,828	195,208
40	904	Uncollectible Accounts	6,602,058												
41	905	Miscellaneous Customer Accounts Expense	85,374				0								
42		Total Customer Accounts Expenses	\$17,519,501	\$0	\$0	\$1,797	\$4	\$6,446	\$0	\$0	\$0	\$0	\$0	\$22,570	\$195,208

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-12 Depreciation Expense	H-13 Amortization Expense	H-14 TWE Clearing	H-15 Stores Load Clearing	H-16 Paid Time Off Clearing	H-17 State Franchise Tax	H-18 Property Tax	H-19 Gas Supply	H-20 Office Lease Expense	H-21 Dues Expense	H-22 Incentive Compensation & Bonuses	H-23 Collection Costs
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)
Customer Service and Informational Expense															
43	907	Supervision	\$0												
44	908	Customer Assistance	422,120											327	
45	909	Informational and Instructional Advertising Exp.	43,018												
46	910	Miscellaneous Customer Accounts Expense	11,492												
47		Total Cust. Service and Information Exp.	\$476,630	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$327	\$0
Sales and Advertising Expense															
48	911	Supervision	\$0											\$0	
49	912	Demonstrating and Selling Expenses	243,883			30								899	
50	913	Advertising Expenses	0												
51	916	Miscellaneous Sales Expenses	1,676												
52		Total Sales and Advertising Expenses	\$245,559	\$0	\$0	\$30	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$899	\$0
Administrative and General Expense															
53	920	Administrative and General Salaries	\$3,718,333											\$18,724	
54	921	Office Supplies and Expenses	3,221,659			283	656				136,353	(5,295)		22	
55	922	Administrative Expenses Transferred	(185,936)												
56	923	Outside Services Employed	2,013,943												
57	924	Property Insurance	164,136												
58	925	Injuries and Damages	1,515,813				451							7	
59	926	Employee Pensions and Benefits	7,769,789												
60	927	Franchise Requirements	0												
61	928	Regulatory Commission Expense	1,854,587												
62	930	Miscellaneous General Expenses	(279,283)												
63	931	Rents	956,683									(5,459)		(40,000)	
64	932	Maintenance of General Plant	176,798									(314)		0	
65		Total Administration and General Expense	\$20,946,520	\$0	\$0	\$283	\$1,107	\$0	\$0	\$0	\$136,353	(\$11,068)	(\$40,000)	\$18,753	\$0
66		Total O & M Expense	\$382,551,852	\$0	\$0	\$14,001	\$22,705	\$49,091	\$0	\$0	\$98,353	(\$11,068)	(\$40,000)	\$98,195	\$195,208
67	403	Depreciation	\$20,289,660	\$3,750,713											
68	404, 405	Amortization	2,401,441		1,571,817										
69	431	Interest on Customer Deposits	218,822												
70	408	Payroll Taxes (1***)	1,593,999												
71	408	Property Taxes (2***)	8,280,724							418,659					
72	408	Gross Receipts Tax (3300 + 4000)	30,058,800												
73	408	Other Taxes (41**)	108,025						151,055						
74	408	Taxes Other Than Income	\$40,041,548	\$0	\$0	\$0	\$0	\$0	\$151,055	\$418,659	\$0	\$0	\$0	\$0	\$0
75		TOTAL EXPENSES	\$445,503,323	\$3,750,713	\$1,571,817	\$14,001	\$22,705	\$49,091	\$151,055	\$418,659	\$98,353	(\$11,068)	(\$40,000)	\$98,195	\$195,208
76		OPERATING INCOME BEFORE INCOME TAX	\$49,594,448	(\$3,750,713)	(\$1,571,817)	(\$14,001)	(\$22,705)	(\$49,091)	(\$151,055)	(\$418,659)	(\$98,353)	\$11,068	\$40,000	(\$98,195)	(\$195,208)
77	409, 410	Income Taxes	11,248,450												
78		NET OPERATING INCOME	\$38,345,998	(\$3,750,713)	(\$1,571,817)	(\$14,001)	(\$22,705)	(\$49,091)	(\$151,055)	(\$418,659)	(\$98,353)	\$11,068	\$40,000	(\$98,195)	(\$195,208)

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

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-24 Shared Services Expense	H-25 Remove Non-utility Activities	H-26 Outside Services	H-27 Weatherization Fund	H-28 Environmental Response Fund	H-29 Information Technology Expenses	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted
(a)	(b)	(c)	(aa)	(ab)	(ac)	(ad)	(ae)	(af)	(ag)	(ah)	(ai)	
OPERATING REVENUE												
1	480	Residential	\$340,727,514								(\$242,020,875)	\$98,706,639
2	481.1	Commercial	138,675,790								(110,664,937)	28,010,853
3	481.2	Industrial	3,930,121								(2,549,814)	1,380,307
4	483	Sales for Resale	0								(113,664)	(113,664)
5	487	Late Payment Charges	1,148,304								(55,895)	1,092,409
6	488	Miscellaneous Service Revenue	2,313,358								1,395,364	3,708,722
7	489	Transport	8,439,483								90,973	8,530,456
8	493	Rent From Property	0								0	0
9	495	Other Gas Revenue	(138,789)								0	(138,789)
10		Total Operating Revenue	\$495,097,771	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$353,918,849)	\$141,178,922
OPERATING & MAINTENANCE EXPENSE												
Operation Expense												
11	805	Other Gas Purchases	\$321,980,474								(\$321,980,474)	\$0
12	807	Purchased Gas Expense	38,000								(38,000)	0
13	859	Other Joint Expense	0								0	0
14	870	Operation, Supervision and Engineering	506,443								14,476	520,919
15	871	Distribution and Load Dispatching	13,427								399	13,826
16	872	Compressor Station Labor and Expense	0								0	0
17	874	Mains and Service Expenses	2,571,135								21,774	2,592,909
18	875	Distributing Regulating Station Expenses	644,338								34,619	678,957
19	876	Measuring and Regulating - Station Expenses	5,310								(448)	4,862
20	877	Measuring and Regulating - Station Expenses	4,050								481	4,531
21	878	Meter and House Regulator Expenses	4,258,435								226,272	4,484,707
22	879	Customer Installation Expenses	2,248,341								142,479	2,390,820
23	880	Other Expenses	1,107,498								38,106	1,145,602
24	881	Rents	69,814								0	69,814
25		Total Operation Expense	\$333,447,263	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$321,540,316)	\$11,906,947
Maintenance Expense												
26	885	Maintenance Supervision and Engineering	\$780,481								\$50,978	\$831,459
27	886	Maintenance of Structures and Improvements	139,484								7,436	146,920
28	887	Maintenance of Mains	6,748,357								317,936	7,066,293
29	889	Maint. of Measuring and Reg. Stat Equip - General	211,527								8,829	220,356
30	890	Maint. of Measuring and Regulating Equipment	310,825								13,055	323,880
31	891	Maint. of Measuring and Regulating Equipment	80,971								1,698	82,669
32	892	Maintenance of Services	557,520								31,624	589,144
33	893	Maintenance of Meters and House Regulators	859,716								46,168	905,884
34	894	Maintenance of Other Equipment	227,488								5,821	233,319
35		Total Maintenance Expenses	\$9,910,379	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$483,545	\$10,399,924
36		Total Distribution Expense	\$343,363,642	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$321,056,771)	\$22,306,871
Customer Accounts Expense												
37	901	Supervision	\$578,740								\$11,592	\$590,332
38	902	Meter Reading Expense	630,162								35,305	665,467
39	903	Customer Records and Collection Expense	9,623,169								398,967	10,022,136
40	904	Uncollectible Accounts	6,602,056								869,535	7,471,591
41	905	Miscellaneous Customer Accounts Expense	85,374								0	85,374
42		Total Customer Accounts Expenses	\$17,519,501	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,315,399	\$18,834,900

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	H-24 Shared Services Expense	H-25 Remove Non-utility Activities	H-26 Outside Services	H-27 Weatherization Fund	H-28 Environmental Response Fund	H-29 Information Technology Expenses	Income Tax Adjustment	Total Adjustments	Test Year As Adjusted
(a)		(b)	(c)	(aa)	(ab)	(ac)	(ad)	(ae)	(af)	(ag)	(ah)	(ai)
Customer Service and Informational Expense												
43	907	Supervision	\$0								\$0	\$0
44	908	Customer Assistance	422,120				160,000				161,906	584,026
45	909	Informational and Instructional Advertising Exp.	43,018								0	43,018
46	910	Miscellaneous Customer Accounts Expense	11,492								0	11,492
47		Total Cust. Service and Information Exp.	\$476,630	\$0	\$0	\$0	\$160,000	\$0	\$0	\$0	\$161,906	\$638,536
Sales and Advertising Expense												
48	911	Supervision	\$0								\$0	\$0
49	912	Demonstrating and Selling Expenses	243,883								5,568	249,451
50	913	Advertising Expenses	0								0	0
51	916	Miscellaneous Sales Expenses	1,678								0	1,676
52		Total Sales and Advertising Expenses	\$245,559	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$5,568	\$251,127
Administrative and General Expense												
53	920	Administrative and General Salaries	\$3,718,333								\$1,140,696	\$4,859,029
54	921	Office Supplies and Expenses	3,221,659						1,132,650		1,265,417	4,487,076
55	922	Administrative Expenses Transferred	(165,936)	(1,318,332)							(1,318,332)	(1,484,268)
56	923	Outside Services Employed	2,013,943		(322,005)	35,415		750,000	51,708		4,840,769	6,854,712
57	924	Property Insurance	164,136								0	164,136
58	925	Injuries and Damages	1,515,813								707,879	2,223,692
59	926	Employee Pensions and Benefits	7,769,789						23,302		3,830,579	11,600,368
60	927	Franchise Requirements	0								0	0
61	928	Regulatory Commission Expense	1,854,587								34,610	1,889,197
62	930	Miscellaneous General Expenses	(279,283)	476,997							436,997	157,714
63	931	Rents	956,683						299,122		293,663	1,250,346
64	932	Maintenance of General Plant	176,796						124,862		124,548	301,344
65		Total Administration and General Expense	\$20,946,520	(\$841,335)	(\$322,005)	\$35,415	\$0	\$750,000	\$1,631,645	\$0	\$11,356,826	\$32,303,346
66		Total O & M Expense	\$382,551,852	(\$841,335)	(\$322,005)	\$35,415	\$160,000	\$750,000	\$1,631,645	\$0	(\$308,217,072)	\$74,334,780
67	403	Depreciation	\$20,289,660								\$3,750,713	\$24,040,373
68	404, 405	Amortization	2,401,441								1,571,817	\$3,973,258
69	431	Interest on Customer Deposits	218,822								(77,479)	141,343
70	408	Payroll Taxes (1***)	1,593,999								342,609	1,936,608
71	408	Property Taxes (2***)	8,280,724								418,659	8,699,383
72	408	Gross Receipts Tax (3300 + 4000)	30,058,800								(30,058,800)	0
73	408	Other Taxes (41**)	108,025								151,055	259,080
74	408	Taxes Other Than Income	\$40,041,548	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$29,146,477)	\$10,895,071
75		TOTAL EXPENSES	\$445,603,323	(\$841,335)	(\$322,005)	\$35,415	\$160,000	\$750,000	\$1,631,645	\$0	(\$332,118,498)	\$113,384,825
76		OPERATING INCOME BEFORE INCOME TAX	\$49,594,448	\$841,335	\$322,005	(\$35,415)	(\$160,000)	(\$750,000)	(\$1,631,645)	\$0	(\$21,800,351)	\$27,794,097
77	409,410	Income Taxes	11,248,450							(7,603,648)	(7,603,648)	3,644,802
78		NET OPERATING INCOME	\$38,345,998	\$841,335	\$322,005	(\$35,415)	(\$160,000)	(\$750,000)	(\$1,631,645)	\$7,603,648	(\$14,196,703)	\$24,149,295

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

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Adjust Test Year Revenue per Book to Test Year Margin

Line No.	Description (a)	Main Account/Revenue Class					Total (g)
		480 21 (b)	481.1 22 & 23 (c)	481.2 25 (d)	483, 489 28, 38 (e)	487, 488, 493, 495 (f)	
1	Total Revenue per Book	340,727,514	138,675,790	3,930,121	8,439,483	3,324,863	495,097,771
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(242,269,140)	(106,422,670)	(2,549,814)	(113,664)	(55,895)	(351,411,183)
3	Test Year Margin	98,458,374	32,253,120	1,380,307	8,325,819	3,268,968	143,686,588

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Test Year Margin Adjustments

Line No.	Description	Main Account/Revenue Class					Total
		Residential Gas Sales	Commercial Gas Sales	Industrial Gas Sales	Transportation Revenues	Service Charges and Other	
		480 21	481.1 22 & 23	481.2 25	489, 483 38, 28	487, 488, 493, 495	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Test Year Margin	\$98,458,374	\$32,253,120	\$1,380,307	\$8,325,819	\$3,268,968	\$143,686,588
2	Weather Normalize	(892,972)	(577,145)		(26,109)	0	(1,496,225)
3	Customer Growth Annualization	164,485	112,613				277,098
	Experimental Low Income Program	(416,384)					(416,384)
4	Apartment/Rental Unit Reclassification	2,553,633	(3,021,428)				(467,795)
5	Load Attrition	(1,160,498)	(469,220)				(1,629,718)
6	Annualize Flex Credits				7,832		7,832
7	Economic Development Discounts				2,834		2,834
8	General Service - Large Volume Switching		(287,087)		106,415		(180,672)
9	Service Charge Changes					1,395,364	1,395,364
10	Total Adjustments	248,264	(4,242,267)	0	90,973	1,395,364	(2,507,666)
11	As Adjusted Test Year Margin	\$98,706,638	\$28,010,853	\$1,380,307	\$8,416,792	\$4,664,332	\$141,178,922

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Remove Purchase Gas Costs and Gross Receipts Tax

Line No.	Description (a)	Amount (b)
1	Purchase Gas Costs (Acct. 805)	(\$321,980,474)
2	Gross Receipts Tax (Acct. 4081)	(30,058,800)
3	Total Adjustment	<u>(\$352,039,274)</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company
 Twelve Months Ending June 30, 2003

Payroll Expense

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$542,566	\$530,296	\$12,270
2	871	10,031	9,726	305
3	872	0	0	0
4	874	286,953	268,192	18,761
5	875	504,980	475,092	29,888
6	876	3,344	3,826	(482)
7	877	3,344	2,894	450
8	878	3,261,761	3,067,964	193,797
9	879	1,909,679	1,782,478	127,201
10	880	768,299	734,849	33,450
11	885	894,140	846,668	47,472
12	886	102,562	96,079	6,483
13	887	4,452,032	4,179,708	272,324
14	889	156,189	148,775	7,414
15	890	234,166	223,421	10,745
16	891	19,216	18,485	731
17	892	397,850	370,976	26,874
18	893	641,746	602,228	39,518
19	894	50,091	47,365	2,726
20	901	446,668	436,822	9,846
21	902	510,719	479,734	30,985
22	903	4,817,716	4,638,708	179,008
23	905	0	0	0
24	908	83,699	82,120	1,579
25	911	0	0	0
26	912	229,998	225,359	4,639
27	920	4,791,000	3,669,028	1,121,972
28	921	5,611	4,864	747
29	925	1,671	2,490	(819)
30	932	0	0	0
31	Total	<u>\$25,126,031</u>	<u>\$22,948,147</u>	<u>\$2,177,884</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Employee Benefits

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	\$1,305,457	
2	Retirement Power	502,616	
3	Life & AD&D Insurance	185,937	
4	Long Term Disability Insurance	169,892	
5	Medical / Dental Benefit	6,597,802	
6	FAS 106 - Accrual	1,006,236	
7	FAS 106 - Amortization of	2,664,792	
8	401K	939,144	
9	Supplemental Retirement	60,447	
10	Other Benefits	97,931	
	Add amortization of prepaid pensions (amortized over a		
11	6 year period)	<u>1,870,864</u>	
12	Total Proforma Benefits	<u>\$15,401,118</u>	
13	Payroll Expense Ratio	0.751703	
14	Proforma Benefits Expense	<u>\$11,577,066</u>	\$11,577,066
15	Less Test Year Benefits Expense	(\$7,769,789)	
16	Adjustment to Test Year Expense - Acct. 926		<u><u>\$3,807,277</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Payroll Taxes

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	\$2,566,235
2	Payroll Taxes on Incentive Compensation Adjustment	<u>10,059</u>
5	Total Proforma Payroll Taxes	\$2,576,294
6	Payroll Expense Ratio	0.751703
7	Proforma Payroll Tax Expense	<u>\$1,936,608</u>
8	Less Test Year Payroll Tax Expense	<u>(1,593,999)</u>
9	Adjustment to Test Year Expense - Acct. 4081	<u><u>\$342,609</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Insurance - Accounts 924 & 925

Line								
No.	Description	2001	2002	2003	3 Year Avg.	925 Amount	924 Amount	Total Amount
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	MGE Claims:							
1	Workers Compensation claims paid	\$1,069,261	\$874,871	\$698,887	\$881,006			
2	Auto & General Liability	509,955	857,535	467,137	611,542			
3	Total Proforma Claims	<u>\$1,579,216</u>	<u>\$1,732,406</u>	<u>\$1,166,024</u>	<u>\$1,492,548</u>	\$1,492,548		\$1,492,548
4	Insurance Premiums - 924						164,136	164,136
5	Insurance Premiums - 925					<u>1,466,137</u>		<u>1,466,137</u>
6	Total Proforma Insurance Cost					\$2,958,685	\$164,136	\$3,122,821
7	Test Year Payroll Expense Ratio					<u>0.751703</u>	<u>1.000000</u>	
8	Proforma Insurance Expense					\$2,224,053	\$164,136	\$2,388,189
9	Less Test Year Insurance Expense					(1,515,813)	(164,136)	(1,679,949)
10	Adjustment to Test Year - Accts. 924 and 925					<u>\$708,240</u>	<u>\$0</u>	<u>\$708,240</u>

SCHEDULE H-8

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Corporate Allocated Costs

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	\$5,225,678
2	Expense Capital Ratio	<u>82.7768%</u>
3	Proforma Joint and Common Expense	<u>\$4,325,651</u>
4	Less Test Year Expense Recorded on MGE's Books	<u>0</u>
5	Adjustment to Test Year - Acct. 923	<u><u>\$4,325,651</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Uncollectible Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	FYE Ended June 30, 2001 Charge Offs	\$7,819,417	
2	FYE Ended June 30, 2002 Charge Offs	9,168,321	
3	FYE Ended June 30, 2003 Charge Offs	<u>5,427,035</u>	
4	Three Year Average		\$7,471,591
5	Less Test Year Uncollectible Expense		(6,602,056)
6	Adjustment to Test Year - Acct. 904		<u><u>\$869,535</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Regulatory Commission Expense

Line No.	Description (a)	Amount (b)	Amount (c)
1	Proforma, Current Rate Case	\$600,000	
2	Normalization Period (years)	<u>3</u>	
3	Normalization - Current Case		\$200,000
4	Normalized level of expense for depreciation study (Note 1)		\$7,444
5	Proforma NARUC Assessment - fiscal 7/1/03-6/30/04		6,198
6	Other Regulatory Commission Expenses (3 Yr Avg)		255,965
7	Proforma MPSC Assessment - fiscal 7/1/03-6/30/04		<u>1,419,590</u>
8	Total Proforma Regulatory Commission Expense		\$1,889,197
9	Less Test Year Regulatory Commission Expense		(1,854,587)
10	Adjustment to Test Year - Acct. 928		<u><u>\$34,610</u></u>

Note 1:

	Total charges from Black & Veatch for the depreciation study	\$37,218
11	Amortization period (years)	<u>5</u>
12	Annual amortization	<u><u>\$7,444</u></u>

	Other Regulatory Commission Expenses	
14	2001	285,778
15	2002	263,239
16	2003	<u>218,878</u>
17	3 Year Average	<u><u>255,965</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Interest on Customer Deposits

Line No.	Description (a)	Reference (b)	Residential (c)	Commercial & Industrial (d)	Amount (e)
1	Customer Deposits	B-2	\$1,560,317	\$2,110,913	\$3,671,230
2	Interest Rate		5.00%	3.00%	3.85%
3	Proforma Interest on Customer Deposits		<u>\$78,016</u>	<u>\$63,327</u>	<u>\$141,343</u>
4	Less Test Year Interest on Customer Deposits				<u>(218,822)</u>
5	Adjustment to Test Year - Acct. 431				<u><u>(\$77,479)</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Depreciation Expense

Line No.	Description	Amount	Settled Rate GR-2001-282	Annualized Depreciation	Proposed Rate	Proforma Total Depreciation	Less Depr. Capitalized To Clearing Accts.	Proforma Depreciation Expense
	(e)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
INTANGIBLE PLANT								
1	(301) Organization	\$15,600	0.00%	\$0	0.00%	\$0	\$0	\$0
2	(302) Franchises	34,630	0.00%	0	0.00%	0	0	0
3	(303) Miscellaneous Intangible	<u>32,298,090</u>	(see adj. H-13)	<u>0</u>	(see adj. H-13)	<u>0</u>	<u>0</u>	<u>0</u>
4	Total Intangible Plant	<u>\$32,348,320</u>		<u>\$0</u>		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
DISTRIBUTION PLANT								
5	(374.1) Land	\$240,448	0.00%	\$0	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	1,324,372	2.09%	27,679	2.09%	27,679	0	27,679
7	(375.1) Structures	6,040,183	1.65%	99,663	2.01%	121,408	0	121,408
8	(375.2) Leasehold Improvements	0	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	304,029,676	2.27%	6,901,474	2.10%	6,384,623	0	6,384,623
10	(378) Meas. & Reg. Station - General	11,107,105	2.86%	317,663	3.19%	354,317	0	354,317
11	(379) Meas. & Reg. Station - City Gate	3,208,061	2.13%	68,332	2.56%	82,126	0	82,126
12	(380) Services	264,934,244	2.27%	6,014,007	4.58%	12,133,988	0	12,133,988
13	(381) Meters	29,038,444	2.86%	830,499	2.46%	714,346	0	714,346
14	(382) Meter Installations	57,522,436	2.86%	1,645,142	2.47%	1,420,804	0	1,420,804
15	(383) House Regulators	10,294,689	2.44%	251,190	2.27%	233,689	0	233,689
16	(385) Electronic Gas Metering	351,092	3.33%	11,691	5.00%	17,555	0	17,555
17	(387) Other Equipment	<u>0</u>	4.60%	<u>0</u>	4.60%	<u>0</u>	<u>0</u>	<u>0</u>
18	Total Distribution Plant	<u>\$688,090,750</u>		<u>\$16,167,340</u>		<u>\$21,490,535</u>	<u>\$0</u>	<u>\$21,490,535</u>
GENERAL PLANT - DIRECT								
19	(389) Land	\$468,315	0.00%	\$0	0.00%	\$0	\$0	\$0
20	(390.1) Structures	528,353	2.00%	10,567	2.52%	13,314	0	13,314
21	(390.2) Leasehold Impr.	1,380,409	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	4,383,166	8.06%	353,283	6.67%	292,357	0	292,357
23	(392) Transportation Equipment	4,598,777	8.70%	399,920	10.69%	491,395	(491,395)	0
24	(393) Stores Equipment	540,775	2.70%	14,601	4.17%	22,550	0	22,550
25	(394) Tools	4,709,122	2.38%	112,077	7.00%	329,639	0	329,639
26	(395) Laboratory Equipment	0	6.00%	0	6.00%	0	0	0
27	(396) Power Operated Equipment	325,741	8.33%	27,134	6.46%	21,043	(21,043)	0
28	(397.1) Communication Equipment - AMR	34,236,118	5.00%	1,711,806	5.00%	1,711,806	0	1,711,806
29	(397.0) Communication Equipment - Other	2,813,804	6.25%	175,863	5.59%	157,292	0	157,292
30	(398) Miscellaneous Equipment	<u>196,358</u>	3.85%	<u>7,560</u>	5.63%	<u>11,055</u>	<u>0</u>	<u>11,055</u>
31	Total Direct General Plant	<u>\$54,178,938</u>		<u>\$2,812,811</u>		<u>\$3,050,451</u>	<u>(\$512,438)</u>	<u>\$2,538,013</u>
GENERAL PLANT - CORPORATE								
32	(390) Structures	\$89,647	2.00%	\$1,793	2.79%	\$2,501	\$0	\$2,501
33	(390) Leasehold Impr.	0	(amortized)	0	(amortized)	0	0	0
34	(391) Furniture & Fixtures	91,952	10.00%	9,195	10.14%	9,324	0	9,324
35	(392) Transportation Equipment	37,267	10.00%	3,727	11.55%	4,304	(4,304)	0
36	(397) Communication Equipment	0	6.25%	0	4.75%	0	0	0
37	(398) Miscellaneous Equipment	<u>0</u>	3.85%	<u>0</u>	3.92%	<u>0</u>	<u>0</u>	<u>0</u>
38	Total Corporate General Plant	<u>\$218,866</u>		<u>\$14,715</u>		<u>\$16,129</u>	<u>(\$4,304)</u>	<u>\$11,825</u>
39	Total Proforma Plant & Depreciation	<u>\$774,836,874</u>		<u>\$18,994,866</u>		<u>\$24,557,115</u>	<u>(\$516,742)</u>	<u>\$24,040,373</u>
40	Less Depreciation Charged to Clearing A/Cs			(427,054)		(512,438)		
41	Less Test Year Depreciation Expense			(\$20,289,660)		(\$18,994,866)		(\$20,289,660)
42	Adjustment to Test Year - Acct. 403			<u>(\$1,721,848)</u>		<u>\$5,049,811</u>		<u>\$3,750,713</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
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Amortization Expense

Line No.	Description (a)	Original Cost Plant (b)	Monthly Test Year Amortization Expense (c)	Proforma Amortization Expense (d)
<u>MGE Direct Non-SLRP Amortization:</u>				
1	(375.2) Leasehold Improvements	\$0	\$0	\$0
2	(390.2) Leasehold Improvements	1,380,409	5,960	71,523
3	Sub Total	<u>\$1,380,409</u>	<u>\$5,960</u>	<u>\$71,523</u>
4	(303) Misc. Intangible - Work Force Automation (1000)	\$3,785,364	21,030	\$252,358
5	(303) Misc. Intangible - MGE Share of Corporate Plant (1100)	0	0	0
6	(303) Misc. Intangible - Corrosion Control Mgmt System (4000)	1,117,800	9,555	114,665
7	(303) Misc. Intangible - Landbase Digitized Mapping (4500)	1,701,543	16,432	197,190
8	(303) Misc. Intangible - Premise Data System (5000)	985,196	0	0
9	(303) Misc. Intangible - AMR Project - Programming (5500)	469,443	2,762	33,148
10	(303) Misc. Intangible - Facility Priority Index (6000)	894,795	7,465	89,583
11	(303) Misc. Intangible - Geographic Information System (6500)	1,006,719	7,191	86,296
12	(303) Misc. Intangible - Customer Service System (7000)	3,786,000	21,035	252,426
13	(303) Misc. Intangible - CSS Enhancements (7100)	8,360,981	69,675	836,098
14	(303) Misc. Intangible - Mainframe Software (7200)	1,912,642	15,939	191,264
15	(303) Misc. Intangible - Infinium Enhancement (7300)	6,774,073	56,451	677,407
16	(303) Misc. Intangible - Licensing Office Pro2000 (7500)	54,012	450	5,401
17	(303) Misc. Intangible - Website (7600)	485,944	4,051	48,615
18	(303) Misc. Intangible - Stoner Low Pressure/Intermediate Model (8000)	279,672	2,431	29,166
19	(303) Misc. Intangible - BASIC (8500)	294,516	3,005	36,063
20	(303) Misc. Intangible - TCS System (9000)	189,193	1,592	19,106
21	(303) Misc. Intangible - GEO Tax Software (9500)	79,294	661	7,929
22	(303) Misc. Intangible - Witness Software (9600)	194,706	1,623	19,471
23	Sub Total - Acct. 303	<u>\$32,371,891</u>	<u>\$241,349</u>	<u>\$2,896,186</u>
<u>SLRP Amortization:</u>				
24	SLRP Deferrals Subject to Amortization	<u>\$31,258,313</u>	<u>10</u>	<u>\$3,125,831</u>
25	ECWR Deferrals Subject to Amortization	<u>\$739,923</u>	<u>1.5</u>	<u>\$493,282</u>
26	Amortize Debit Accumulated Depreciation Reserve Balances	<u>\$1,386,107</u>	<u>5</u>	<u>\$277,221</u>
27	Pro-Forma Amortization Expense			\$3,973,258
28	Less Test Year Amortization Expense			<u>(2,401,441)</u>
29	Adjustment to Test Year - Accts. 404 and 405			<u>\$1,571,817</u>

MISSOURI GAS ENERGY
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Twelve Months Ending June 30, 2003

Transportation and Work Equipment Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into TWE Clearing Account 1841		\$4,161,299		
2	Less Test Year Amounts Cleared Out of Account 1841		<u>(4,161,299)</u>		
3	Test Year Amount Under/(Over) Cleared		<u>\$0</u>		\$0
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1841:				
		Proforma	Test Year	Adjustment	
5	Depreciation	\$516,742	\$412,860	\$103,882	
6	Lease Costs	1,621,908	1,706,188	(84,281)	
7	Other	2,042,250	2,042,250	0	
8	Total	<u>\$4,180,900</u>	<u>\$4,161,299</u>	<u>\$19,601</u>	19,601
9	Total Adjusted Amount Under/(Over) Cleared				<u>\$19,601</u>

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

	Main Acct.	Amount	Percentage	Amount
10	870	\$3,691	0.000887	\$17
11	871	2,813	0.000676	13
12	872	0	0.000000	0
13	874	62,654	0.015056	295
14	875	103,000	0.024752	485
15	876	1,092	0.000262	5
16	877	767	0.000184	4
17	878	708,314	0.170215	3,336
18	879	349,981	0.084104	1,649
19	880	77,305	0.018577	364
20	885	139	0.000033	1
21	886	22,963	0.005518	108
22	887	900,541	0.216409	4,242
23	889	23,083	0.005547	109
24	890	31,601	0.007594	149
25	891	3,296	0.000792	16
26	892	74,052	0.017795	349
27	893	151,470	0.036400	713
28	894	7,722	0.001856	36
29	902	108,773	0.026139	512
30	903	272,832	0.065564	1,285
31	912	6,439	0.001547	30
32	921	60,165	0.014458	283
33	Total Adjustment to Test Year Expense	\$2,972,694	0.714365	\$14,001
34	Balance Sheet Accounts	1,188,605	0.285633	5,599
35	Total Test Year Clearing	<u>\$4,161,299</u>	<u>0.999998</u>	<u>\$19,600</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Stores Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into Stores Account 1630		\$2,177,149		
2	Less Test Year Amounts Cleared Out of Account 1630		(2,029,708)		
3	Test Year Amount Under/(Over) Cleared		<u>\$147,441</u>		\$147,441
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1630:				
		Proforma	Test Year	Adjustment	
5	Other	2,177,149	2,177,149	0	
6	Total	<u>\$2,177,149</u>	<u>\$2,177,149</u>	<u>\$0</u>	0
7	Total Adjusted Amount Under/(Over) Cleared				<u><u>\$147,441</u></u>

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

	Main Acct.	Amount	Percentage	Amount
8	874	\$7,213	0.003554	\$524
9	875	6,346	0.003127	461
10	876	0	0.000000	0
11	877	11	0.000005	1
12	878	57,109	0.028142	4,149
13	879	2,419	0.001192	176
14	880	7,443	0.003668	541
15	885	0	0.000000	0
16	886	433	0.000214	32
17	887	118,954	0.058617	8,643
18	889	4,168	0.002054	303
19	890	10,047	0.004951	730
20	891	11,184	0.005511	813
21	892	21,952	0.010817	1,595
22	893	12,494	0.006157	908
23	894	37,406	0.018433	2,718
24	902	50	0.000025	4
25	905	0	0.000000	0
26	921	9,028	0.004449	656
27	925	6,208	0.003059	451
28	Total Adjustment to Test Year Expense	<u>312,464</u>	<u>0.153975</u>	<u>22,705</u>
29	Balance Sheet Accounts	1,716,868	0.846026	124,739
30	Total Test Year Clearing	<u>2,029,332</u>	<u>1.000001</u>	<u>147,444</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Paid Time Off Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into Paid Time Off Account 1846		\$4,581,937		
2	Less Test Year Amounts Cleared Out of Account 1846		(4,513,168)		
3	Test Year Amount Under/(Over) Cleared		<u>\$68,768</u>		\$68,768
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1846:				
		Proforma	Test Year	Adjustment	
5	Other	4,581,937	4,581,937	0	
6	Total	<u>\$4,581,937</u>	<u>\$4,581,937</u>	<u>\$0</u>	0
7	Total Adjusted Amount Under/(Over) Cleared				<u>\$68,768</u>

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

	Main Acct.	Amount	Percentage	Amount
8	870	\$4,520	0.001001	69
9	871	2,753	0.000610	42
10	872	0	0.000000	0
11	874	70,421	0.015603	1,073
12	875	118,841	0.026332	1,811
13	876	1,020	0.000226	16
14	877	883	0.000196	13
15	878	803,479	0.178030	12,243
16	879	393,085	0.087097	5,990
17	880	49,061	0.010871	748
18	885	749	0.000166	11
19	886	27,041	0.005991	412
20	887	1,005,986	0.222900	15,328
21	889	25,820	0.005721	393
22	890	33,887	0.007508	516
23	891	4,136	0.000916	63
24	892	82,126	0.018197	1,251
25	893	165,440	0.036657	2,521
26	894	9,515	0.002108	145
27	902	118,622	0.026284	1,808
28	903	304,405	0.067448	4,638
29	Total Adjustment to Test Year Expense	3,221,789	0.713862	49,091
30	Balance Sheet Accounts	1,291,378	0.286136	19,677
31	Total Test Year Clearing	<u>4,513,167</u>	<u>0.999998</u>	<u>68,768</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Missouri State Franchise Tax

Line No.	Description (a)	Amount (b)
1	Proforma State Franchise Tax Expense	\$259,080
2	Less Test Year State Franchise Tax Expense	<u>(108,025)</u>
3	Adjustment to Test Year - Acct. 4081	<u><u>\$151,055</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Property Tax Expense

Line No.	Description	Reference	Amount
	(a)	(b)	(c)
1	Proforma Total Plant in Service excluding Corporate Allocated Plant	C	\$774,836,874
2	Less Intangible Plant	C	<u>(32,348,320)</u>
3	Proforma Plant, excluding Intangible Plant		\$742,488,554
4	Property tax rate		<u>1.17165%</u>
5	Proforma Property Tax Expense		\$8,699,383
6	Less Test Year Property Tax Expense		<u>(8,280,724)</u>
7	Adjustment to Test Year - Acct. 4081		<u><u>\$418,659</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Gas Supply Expenses

Line			
No.	Description	Account Number	Amount
	(a)	(b)	(c)
1	Pro Forma Gas Supply Expenses		\$257,551
2	Actual Test Year Gas Supply Expenses		<u>\$121,198</u>
3	Adjustment	921	<u>\$136,353</u>
	Reclassification of \$38,000 paid to Planalytics and recorded in A/C 807.4 Other Gas Purchases - Gas Hedging Software		
4		807	<u>(\$38,000)</u>
5	Total Adjustment		<u>\$98,353</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Office Lease Expense

Line No.	Description (a)	Amount (b)
1	Net Proforma Broadway and PBO Office Lease Expense	\$388,320
2	Less Test Year Broadway and PBO Office Lease Expense	<u>(393,779)</u>
3	Adjustment to Test Year - Acct. 931	<u>(\$5,459)</u>
4	Net Proforma Broadway Utilities, Outside Services & Supplies Expense	\$376,729
5	Less Test Year Broadway Utilities, Outside Services & Supplies Expense	<u>(382,024)</u>
6	Adjustment to Test Year - Acct. 921	<u>(\$5,295)</u>
7	Net Proforma Broadway Maintenance Expense	\$22,310
8	Less Test Year Broadway Maintenance Expense	<u>(22,624)</u>
9	Adjustment to Test Year - Acct. 932	<u>(\$314)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Dues Expense

Line No.	Description (a)	Amount (b)
1	Remove Certain Expense from Acct. 930.2	<u>(\$40,000)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Incentive Compensation and Bonuses

Line No.	Description	Incentive Compensation	Bonuses	Gas Supply & IT Bonuses	Total
	(a)	(b)	(c)	(d)	(e)
1	2001 Incentive and Bonus Payments	\$0	\$168,875	\$159,055	\$327,930
2	2002 Incentive and Bonus Payments	122,402	159,504	191,353	473,259
3	2003 Incentive and Bonus Payments	<u>143,586</u>	<u>98,193</u>	<u>74,260</u>	<u>316,039</u>
4	Three-Year Average	<u>\$88,663</u>	<u>\$142,191</u>	<u>\$141,556</u>	<u>\$372,409</u>
5	Test Year Incentive and Bonus Payments				<u>(241,779)</u>
6	Adjustment				130,630
7	Expense Ratio				<u>0.751703</u>
8	Amount Charged to Expense				<u>\$98,195</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Customer Collection Costs

Line No.	Description (a)	Total (b)
<u>Proforma Charges</u>		
1	Brazen Software, Inc.	586,123
<u>Actual Charges</u>		
2	Brazen Software, Inc.	390,915
3	Adjustment	<u><u>\$195,208</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Shared Services Expense

Line No.	Description (a)	Account Number (b)	Total (c)
1	Shared Services Accrual FY 6/30/03	922.0	<u>(\$1,318,332)</u>
2	Payments to Oneok	930.2	(166,679)
3	Payments received from Oneok	930.2	<u>643,676</u>
4	Net payments from Oneok		<u>\$476,997</u>
5	Total Net Adjustment		<u>(\$841,335)</u>

SCHEDULE H-25

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Non-recurring / Non-Utility Activity

Line No.	Description (a)	Total (b)
1	Remove non-utility activity from account 9230	<u>(\$322,005)</u>

SCHEDULE H-26

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Outside Services - Tax Services

Line No.	Description (a)	Total (b)
1	Sales, use and franchise tax compliance (12 months at \$3,000 per month)	\$36,000
2	Property tax compliance (two payments of \$17,500 per year)	<u>35,000</u>
3	Total proforma costs	\$71,000
4	Actual test year costs	<u>\$35,585</u>
5	Adjustment	<u><u>\$35,415</u></u>

SCHEDULE H-27

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Weatherization

Line No.	Description	Amount
	(a)	(b)
1	Increase Weatherization to \$500,000	<u>\$160,000</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Environmental Response Fund

Line No.	Description (a)	Amount (b)
1	Environmental Response Fund	<u>\$750,000</u>

Environmental Response Fund:

An Environmental Response Fund shall be established to create a mechanism to fund the recovery of "Environmental Response Costs" as defined below.

- (a) Definition of "Environmental Response Costs". "Environmental Response Costs" are all the reasonable and prudently incurred costs associated with evaluation, remedial and clean-up obligations of Missouri Gas Energy arising out of utility-related ownership and/or operation of manufactured gas plants and sites associated with the operation and disposal activities from such gas plants. In addition to the actual remedial and clean-up costs, "Environmental Response Costs" also include costs of acquiring property associated with the clean up of such sites as well as litigation costs, claims, judgments, expenditures made in efforts to obtain insurance reimbursements, and settlements—including the costs of obtaining such settlements—associated with such sites. The Company will use best efforts to satisfy its obligation to minimize the Environmental Response Costs charged to the fund consistent with applicable regulatory requirements and sound environmental policies and to minimize litigation costs that may arise. Fifty percent (50%) of any applicable insurance proceeds and/or contributions obtained from Westar Energy (the successor of Western Resources, Inc.) and/or contributions obtained from potentially responsible parties, net of costs associated with obtaining such proceeds and/or contributions, shall be credited to the fund. The fund shall also be given credit for the accrued liability in the amount of \$3,000,000 recorded on Southern Union Company's books following the acquisition of the Missouri property (which was to become Missouri Gas Energy) from Western Resources, Inc.
- (b) Funding. The fund shall be maintained in an interest bearing trust account and shall be credited at the annual target amount of approximately \$750,000 (the current amount reflected in rates for such costs). The actual amount of the credit shall be based on the actual billed revenues produced by the discrete rate element included in the first block per-unit delivery charge of all customer classes. Any

cash expenditures shall be charged to the fund as long as the costs that are incurred or previously deferred are Environmental Response Costs, as defined above.

- (c) Annual Reports. Missouri Gas Energy shall file an annual report with the Commission (and serve the Parties with copies) on a Highly Confidential basis providing a summary and accounting of all costs incurred during such year which have been applied to the fund. A separate account shall be maintained on the Company's books for accruals and expenditures for environmental response costs. Each of the Parties retain their right to review and challenge any costs that they believe do not fall within the definition of "Environmental Response Costs", as defined in subparagraph (a) above.
- (d) Reservation of Rights. In the Company's next general rate case to establish rates after the approval of this Agreement, all parties reserve their rights to take any position they deem appropriate regarding (i) the level of funding to be permitted in rates on a prospective basis to recover costs charged to the fund as of the date of such case, and/or (ii) whether the fund should continue as designed for the recovery of prospective costs.

SCHEDULE H-29

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003

Information Technology Expenses

Line No.	Description	Total	Account Number
	(a)	(b)	(c)
1	IT Costs previously charged to Corporate summarized by typecode:		
2	330 - Training	\$6,012	921
3	335 - Mileage	850	921
4	340 - Travel	27,306	921
5	341 - Meals and Entertainment	3,983	921
6	436 - Professional fees - other	16,667	921
7	440 - System software	389,030	921
8	442 - Other software - maintenance	84,273	921
9	444 - Maintenance of hardware	(1,971)	921
10	446 - Equipment leases	49,147	921
11	450 - Maintenance of hardware	22,963	921
12	452 - Other software - maintenance	138,890	921
13	455 - Data processing supplies	13,144	921
14	490 - Communications / Telephone expenses	355,913	921
15	520 - Business forms	16,594	921
16	522 - Office Supplies	7,692	921
17	650 - Postage and freight	2,156	921
18	Total Account 921	<u>1,132,650</u>	
19	436 - Professional fees - other	2,218	923
20	439 - Subcontract labor and other outside services	49,491	923
21	Total Account 923	<u>51,708</u>	
22	390 - Other Employee related expenses	23,302	926
23	Total Account 926	<u>23,302</u>	
24	446 - Equipment leases	298,489	931
25	450 - Maintenance of hardware	387	931
26	452 - Other software - maintenance	246	931
27	Total Account 931	<u>299,122</u>	
28	444 - Maintenance of hardware	124,862	932
29	Total Account 932	<u>124,862</u>	
30	Total Adjustment	<u>\$1,631,645</u>	

P.S.C. MO. No. 1

SHEET No.

This will go right before current Sheet 24.7.

Missouri Gas Energy,
a Division of Southern Union Company
 Name of Issuing Corporation

For: All Missouri Service Areas
 Community, Town or City

FIXED COMMODITY PRICE PGA
FCP

XII. PGA ADJUSTMENT STATEMENT

Any increase or decrease in the PGA rate resulting from an increase or decrease in the CCG, ACA, Refund, TOP or TC shall be applied to customers' bills for service rendered on and after the effective date of the change. Bills computed which contain multiple PGA rate changes during a customer's billing cycle shall be prorated between the old and new rates in proportion to the number of days in the customer's billing cycle that such rates were in effect. Rates are shown as a summary statement on Sheet No. 24.7 in hundred cubic feet (Ccf).

For any customer billed under the Company's RS, SGS rate schedules, during a winter billing month the proration of an increase or decrease in the PGA rate resulting from an increase or decrease in the CCG, ACA, Refund, TOP or TC shall be based on the applicable blocked PGA rates for the time during which such PGA rates were in effect and during a summer billing month proration of such PGA rate increases or decreases shall be based on the applicable unblocked PGA rates for the time during which such PGA rates were in effect.

DATE OF ISSUE: August 7, 2000
 month day year

DATE EFFECTIVE: August 31 2000
 month day year

ISSUED BY: Robert J. Hack Vice President, Pricing and Regulatory Affairs
 Missouri Gas Energy, Kansas City, Missouri 64111

P.S.C. MO. No. 1
 Canceling P.S.C. MO. No. 1

Revised
Revised

SHEET No. 24.SHEET No. 24.

This will likely go right after current sheet 16.

Missouri Gas Energy,
 a Division of Southern Union Company
Name of Issuing Corporation

For: All Missouri Service Areas
Community, Town or City

C. Interaction of PGA rate with weather mitigation rate design

Beginning with the effective date of the Company's non-gas rates approved by the Commission in Case No. GR-2004----, the following base CCG factors shall become effective and shall be used for purposes of determining the PGA rate that shall be used in conjunction with the non-gas general service rates in effect during the winter billing months:

Base CCG	\$0.71130
Residential	
First block (usage up to 68 Ccf)	\$0.54056
Second block (usage over 68 Ccf)	\$0.86691
Small General Service	
First block (usage up to 600 Ccf)	\$0.56850
Second block (usage over 600 Ccf)	\$0.91397

With the computation of each new CCG factor in accordance with Section II of this clause, the corresponding CCG factor for the other categories set forth above shall be derived by adding the difference between the above-stated Base CCG factor and the new CCG factor to the base factors for each of the other above categories.

DATE OF ISSUE: August 1, 2002
 month day year

DATE EFFECTIVE: August 31, 2002
 month day year

ISSUED BY: Robert J. Hack

Vice President, Pricing and Regulatory Affairs
Missouri Gas Energy, Kansas City, MO. 64111

P.S.C. MO. No. 1
 Canceling P.S.C. MO. No. 1

Twentieth Revised
Nineteenth Revised

SHEET No. 24.7
 SHEET No. 24.7

Missouri Gas Energy,
 a Division of Southern Union Company
Name of Issuing Corporation

For: All Missouri Service Areas
Community, Town or City

PURCHASED GAS COST ADJUSTMENT
PGA

XIV. SUMMARY STATEMENT

<u>Customer Class</u>	<u>C.C.G.</u>	<u>A.C.A</u>	<u>Refund</u>	<u>T.O.P.</u>	<u>T.C.</u>	<u>P.G.A. Rate</u>
Residential						
Unblocked (Summer)	\$0.71130	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.75056
First Block (Up to 68 Ccf)	\$0.54056	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.57982
Second Block (Over 68 Ccf)	\$0.86691	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.90617
Small General Service						
Unblocked (Summer)	\$0.71130	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.75056
First Block (Up to 600 Ccf)	\$0.56850	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.60776
Second Block (Over 600 Ccf)	\$0.91397	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.95323
Large General Service	\$0.71130	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.75056
Unmetered Gas Light (1)	\$0.71130	\$0.04329	(\$0.00403)	\$0.00000	\$0.00000	\$0.75056
Large Volume Sales (3)	\$0.71130	\$0.04329	\$0.00000	\$0.00000	\$0.00000	\$0.75459
Large Volume Trans. (2)(4)					\$0.00000	\$0.00000

1 Each Unmetered Gaslight Unit is equal to 15 Ccf.

2 Demand related purchase gas costs of \$0.66255 per Ccf of contract demand and \$0.02179 per Ccf of daily demand for authorized sales in excess of the contract demand are directly chargeable to customers on this rate.

3 Applies to Sales Service only.

4 Applies to Transportation Service, Intrastate Transportation Service and Whiteman Air Force Base.

DATE OF ISSUE: March 17, 2003
month day year

DATE EFFECTIVE: March 31, 2003
month day year

ISSUED BY: Robert J. Hack Vice President, Pricing and Regulatory Affairs
 Missouri Gas Energy, Kansas City, Missouri 64111