MISSOURI PUBLIC SERVICE COMMISSION

STAFF REPORT

CLASS COST-OF-SERVICE

MISSOURI GAS ENERGY

CASE NO. GR-2014-0007

Jefferson City, Missouri
February 7, 2014

** **Denotes Highly Confidential Information** **

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CLASS COST-OF-SERVICE REPORT

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CLASS COST-OF-SERVICE REPORT

I. Executive Summary

Staff has conducted a Class Cost-of-Service Study in this case and allocated costs to the customer rate classes of Missouri Gas Energy ("MGE" or "Company"). Staff recommends no shift of cost between the classes. Staff computed peaks as part of its computation of the Staff Class-Cost-of-Service calculation.

Staff's rate design proposal includes the continuance of the Straight Fixed Variable ("SFV") rate for the Residential class and the Small General Service ("SGS") Class. Staff recommends the ("LGS") Large General Service, Large Volume ("LV") and Transportation customer classes continue to use the current rate design in place for these classes.

Staff supports MGE's proposed Red Tag Program and recommends that any cost incurred for the program be booked to a regulatory asset. Staff supports the continued energy efficiency programs MGE currently has in place for the Residential class and the SGS Class.

Staff proposes that MGE revise the SGS, LGS, and School Transportation ("STP") tariff sheets to clarify the capacity release requirements for school that are SGS customers and LGS customers.

Staff recommends that MGE keep the existing Purchased Gas Adjustment ("PGA") without a related Gas Supply Incentive Plan.

Staff Expert/Witness: Kim Cox

II. Class Cost-of-Service

A. Definition of Terms: Fundamental Concepts of Natural Gas Class Cost-of Service

Cost-of-Service: total costs, prudently incurred by a utility in providing services to its customers in a particular jurisdiction.

Cost-of-Service Study: a study that analyzes total company costs, adjusts them in accordance with regulatory principles (annualizations and normalizations), allocates these costs to the relevant jurisdiction, and compares the allocated costs to the revenues the utility is generating from its retail rates, off-system sales, and other revenues. The results of a cost-of-service study are expressed in terms of additional revenue required for the utility to recover its cost-of-service.

Class Cost-of-Service ("CCOS") Study: a quantitative analysis of the costs incurred by a utility to serve its various classes of customers. A Staff CCOS study consists of these steps: a) costs are categorized (functionalized) based upon the specific role they play in the operations of a local distribution company ("LDC"); b) costs are classified by whether they are customer related, demand related, or energy related; and, c) functionalized/classified costs are allocated to customer classes. The sum of all allocated costs to a customer class is called the cost-to-serve that class.

The cost-of-service of each customer class is compared to the annualized, normalized revenues the utility collects from each class through its rates during the test year, plus each class' allocated share of revenues from off-system sales and other revenues. The results of a CCOS study are expressed in terms of additional revenue required from each class for the utility to recover its cost of serving that class.

Relationship between Cost-of-Service and CCOS: conceptually, class cost-of-service is a breakdown of the utility's jurisdictional cost-of-service. A cost-of-service study determines what portion of total company costs is attributable to the retail jurisdiction; a CCOS study determines what portion of retail costs is attributable to each customer class.

Cost Allocation: a procedure by which common or joint costs are apportioned among customers or classes of customers.

Cost Functionalization: the grouping or rate base and expense accounts according to the specific function they play in the operations of an LDC. The most aggregated functional categories are production, storage, transmission, distribution, customer accounting expenses, and other costs.

Customer Class: a group of customers with similar characteristics (usage patterns, conditions of service, usage levels, etc.) that are identified for the purpose of setting rates for gas service.

Rate Design: 1) a process used to determine the rates for a gas utility once total cost-of-service is known and 2) characteristics such as rate structure, rate values and availability that define a rate schedule and provide the instructions necessary to calculate a customer's gas bill.

Rate Design Study: while a CCOS study focuses on the revenue responsibility of customer classes, a rate design study focuses on the equitable pricing of the utility service provided to individual customers within each class. The rate design process attempts to recover costs in each time period (e.g., summer/winter or on-peak/off-peak) from each rate component for each customer in a way that equates the cost of providing service with the amount the customer is billed in accordance with the rate schedule.

Rate Schedule: one or more tariff sheets that describe the availability requirements and prices applicable to a particular type of retail gas service. A customer class used in a CCOS study may consist of one or more rate schedules.

Rate Structure: rate structure is composed of the various types of monthly prices charged for the utility's products. At the most basic level there are: a) customer charges, a fixed dollar amount to be paid each month regardless of the amount of the product taken; b) usage (energy) charges, a price per unit charged on the total units of the product consumed over the month; c) purchased gas adjustments ("PGA") charges, which is a price per unit "pass-through" of gas costs; and d) demand charges, a price per unit charge for gas consumed over a 24-hour period of time. One criterion for determining the appropriate rate structures is the accuracy with which the structure tracks costs. Another criterion deals with the ease or difficulty in administering the rate, as well as the customer's understanding of how the rate structure works, i.e., what causes the customer to incur a higher or lower monthly bill.

Rate Values (Rates): the per-unit prices the utility charges to provide service to its customers. Rates are expressed as dollars per unit of measurement by volume or energy.

Units of Measurement:

Btu: British thermal unit.

MMBtu: one million Btus. One MMBtu is approximately the amount of energy contained in 1,000 Ccf (or 1 Mcf) of natural gas, 83.3 pounds of coal, 10.917 gallons of propane, 8 gallons of gasoline, or 293.083 kWh or electricity.

Ccf: a unit of volume of one cubic foot of natural gas, which contains approximately 1,000 Btus of energy.

Therm: 100,000 Btus of energy, approximately equal to the energy contained in 100 Ccf of natural gas.

Tariff: a document filed by a regulated entity with either a federal or state commission; it lists the rates (prices) the regulated entity will charge to provide service to its customers as well as the terms and conditions that it will follow in providing service.

B. General Description of the CCOS Study Filed in GR-2014-0007

The purpose of the Staff's CCOS study is to provide the Commission with a measure of relative class cost responsibility for the overall revenue requirements of MGE. For individual items of cost, the responsibility of a certain class of customers to pay that cost can be either directly assigned to a class or classes or allocated between the classes using reasonable methods for estimating the class responsibility for that item of cost. The results are then summarized so that they can be compared to revenues being collected from each class on current rates. The difference between a particular customer class' costs responsibility and the revenues generated by that customer class is the amount that class is either paying in excess of its costs (revenues greater than costs) or less than its costs (revenues are less than costs).

The annualized usage levels and customer bill counts for the Residential Service ("RES"), Small General Service ("SGS"), and Large General Service ("LGS") classes were provided by Staff witness Karen Lyons, and those for the Large Volume Service ("LVS") class were provided by Staff witness Henry Warren. The class peak demand levels for RES, SGS, LGS, and LVS customers were provided by Staff witness Mr. Daniel I. Beck. All accounting information was developed using costs and revenues produced by the Missouri Public Service Commission ("PSC") Auditing Unit, which are based upon a test year ending April 30, 2013, updated for known and measurable changes through September 30, 2013, except for LVS

revenues, which were developed by Staff. Staff will also perform a true-up based on December 31, 2013.

C. Customer Classes

The results of the Staff's CCOS study for MGE is shown on Schedule JRM 1-1. The CCOS study is presented in terms of class revenue requirements before any increase in the Company's respective revenue requirements. Staff's recommendation is to not make any revenue shifts among classes at this time.

The Staff analyzed the costs and revenues of the following customer classes:

Residential Service ("RES")
Small General Service ("SGS")
Large General Service ("LGS")
Large Volume Service ("LVS")

These classes correspond to MGE's current customer classes. The RES class is available to residential customers for non-business, non-commercial or non-industrial use at a single point of delivery. The SGS class is comprised of those small non-residential customers with usage through a single point of delivery consisting of not more than 10,000 Ccf per month. LGS customers are those non-residential customers with a single point of delivery whose usage is greater than 10,000, but not greater than 30,000 Ccf per month, and those who exceed 30,000 Ccf in any one month in a twelve-month billing period. LVS customers are those whose usage at a single address or location the Company expects will exceed 15,000 Ccf in any one month of a 12-month billing period.

The Company's costs were first categorized into functional areas that are to be allocated in the same way. This is referred to as cost functionalization. The rate base and expense accounts are assigned to one of the following functional categories: Storage, Distribution Mains, Distribution Measuring and Regulating, Purchased Gas Related, Distribution Meters,

Distribution Regulators, Distribution Services, Customer Related Billing, Meter Reading, Assigned RES, SGS, and LGS, Assigned LGS and LVS, and Revenue Related.

Those costs which cannot be directly assigned into any of these specific functional categories are divided among several functions based upon some relational factor. For example, it is reasonable to assume that property taxes are related to gross plant costs and can therefore be functionalized in the same manner as gross plant costs.

The allocation factors for Distribution Mains, as well as those for Distribution Meters, Distribution Regulators, and Distribution Service Lines were determined by using the allocation factors developed by Staff witness Mr. Daniel I. Beck. Meter Reading costs were allocated using weighted customer numbers. Revenue Related costs were allocated based upon the Staff's annualized margin revenues.

Staff Expert/Witness: Joel McNutt

III. Allocation

The allocation factor for Distribution Mains is based on the allocator developed by the Staff in Missouri Gas Energy's ("MGE's") previous rate case, Case No. GR-2009-0355, which was updated for customer numbers and peak day demands from the current case. This mains allocator is called a "Stand Alone/Integrated System" factor. Allocation factors are used to allocate costs between the various cost-of-service classes. Since the natural gas that MGE's customers use flows through the distribution mains, distribution mains benefit all customers are therefore the cost for distribution mains is often referred to as a joint cost. The Stand Alone/Integrated System allocator attempts to identify which mains costs can be assigned to a specific customer class (the Stand-Alone component) and which mains costs should be assigned to all customer classes (the Integrated System component). To determine the split between the

Stand Alone and Integrated System components, the Staff analyzed data from a random sample of customers for the four customer classes (Residential, SGS, LGS and LV) to estimate the length of main required to extend the system to that customer and used cost data provided by the Company. The Stand Alone cost component was then allocated to the classes using the same length and cost data. The Integrated System component was allocated using peak demands for each class.

The peak day demands required to develop Staff's distribution mains allocator are based on current peak day demand estimates. For the RES, SGS and LGS classes, the peak day demands were estimated by division and by class by Staff witness, Ms. Michelle Bocklage. These demands were then summed by class to develop system-wide peak day demands. For the LVS class, Staff's estimate of the normalized monthly usage for the LVS class for the two months that had peak usage, December and January, were averaged and then divided by 22 to reflect the fact that some of these customers do not operate on weekends and/or holidays that occur in December and January.

For the allocation of Distribution Meters, Distribution Regulators, Distribution Service Lines, Billing and Meter Reading, the same weighted customer allocators that were used by Staff in Case No. GR-2009-0355 were used in this case. These weights are based on the relative cost of the items that make up each account and then applied to the current customer numbers. For all allocators, the Residential Class is assumed to have a weight of one and the other classes typically had values greater than or equal to one. For example, the SGS Class was given a weight of 2.19, which is consistent with the fact that its meters typically cost more than a residential meter.

Staff Expert/Witness: Daniel I. Beck

IV. Rate Design

A. MGE's Proposed Residential and Small General Service Rate Design

MGE proposes that the current Straight Fixed Variable ("SFV") Residential and Small General Service rate structure be continued. This rate design recovers non-gas costs through a monthly fixed charge. The customers' gas costs are recovered through the per-unit PGA charge. Staff supported this rate design in the previous rate case, and continues to do so.

Collection of the Residential and Small General Service customers' cost-of-service in a fixed monthly Delivery Charge is an equitable and reasonable way to recover costs from the customers in these classes. This rate design reflects the fact that a difference in the cost of serving two RES customers within the residential rate class is not driven by the customer's load. This same concept also applies to the SGS rate class customers. Any difference in the cost to serve these two customer classes, RES and SGS, is more likely driven by factors other than customer size, such as distance from the transmission pipeline, customer density in the area, the terrain in the customer's geographical area, or the exact age and depreciated cost of the equipment serving the customer. The SFV rate design is designed to collect in rates the costs associated with actually serving customers, such as costs for metering the customers usage, preparing billing, and costs relating to the distribution system used to supply natural gas to customers. These types of costs do not vary with individual customer usage but are fixed in nature.

The SFV rate design more closely aligns the Company's and customers' interests regarding conservation, and enables MGE to actively promote conservation without harming their shareholders because revenues from Residential and Small General Service customers no longer depends on Residential and Small General Service customers' usage. Before this rate

design went into effect, cost recovery and profits were directly tied to the amount of natural gas MGE's customers used, so MGE had no incentive to educate or assist its customers regarding conservation measures; in fact, by working to lower the volume of gas used by a customer, the Company was actually harming its shareholders by lowering its revenues and its ability to recover its cost-of-service.

Concurrent with the SFV rate design's adoption, MGE began researching and implementing energy efficiency programs for the benefit of its Residential customers.

The SFV rate design provides an appropriate price signal to prospective customers, thus protecting current customers. When a new customer hooks up to the MGE system, there are costs involved – both immediate and long-term. As discussed above, these costs are not driven by the amount of gas the individual RES or SGS customer will use.

When making long-term investment decisions, the utility must take into account the ability of RES and SGS customers to change their end-use gas consumption at any time, making it impossible to predict exactly what each individual household or business is going to 'need' from the local distribution system in the future. Many of the capital investments have an expected life of over 40 years. Furthermore, the consequences of under-sizing or over-sizing equipment are expensive – for example, even if it was possible to exactly size a main to meet expected future demand, it would be very expensive for the utility to dig up and install a new main if any RES or SGS customer's usage increased or decreased in the future. Thus, even in the long-term, the investments that MGE makes to serve its RES and SGS customers will not exactly reflect the amount of gas each customer uses.

When a very small user pays a volumetric rate, that user underpays its share of these costs. Correspondingly when RES and SGS customers use more than the average amount of gas,

those customers pay more than their share of the costs. A fixed charge which accurately reflects the nature of the cost MGE incurs to serve a Residential and Small General Service customer sends a clear price signal to a customer who is making their energy decisions as to costs and benefits of that decision. Under the former traditional volumetric rate design, it is illogical to hook up a customer that does not use enough gas to pay its cost-of-service, and it is unfair to allow one customer to take service while expecting another RES or SGS customer to pay for that service.

Staff Expert/Witness: Joel McNutt

V. Peak Calculation, Energy Efficiency & Red Tag Program

A. Weather-Normalized Coincident Peak Day Demand

Staff computed weather-normalized coincident peak day demand by customer class. This calculates the estimated usage per firm customer by customer class based on Staff witness Mr. Seoung Joun Won's computed normal monthly or winter season (December – February) coldest days. The estimated use per customer per day is based on the regression of monthly use per customer per day, and monthly heating degree days ("HDD"). The daily peak is the highest daily load or draw of natural gas on a system and the demand is the amount of natural gas used on that day. Staff's estimates of each class customer's natural gas peak usage – RES (Schedule MB-1), SGS (Schedule MB-2) and LGS (Schedule MB-3) – are at the time (coincident) of a utility's system daily peak.

Staff estimates weather-normalized coincident peak day class demands because these estimates determine the relative responsibility of the RES, SGS and LGS customers for that estimated single-day system peak. For cost-of-service studies, it is important to determine each class' contribution to the peak day responsibility.

Schedules MB-1 through MB-3 of this Report contain the estimated weather-normalized coincident peak day natural gas usage in CCFs (one hundred cubic feet) per customer by billing month and customer class for the Joplin Division, St. Joseph Division and Kansas City Division. This information was provided to Staff witness Mr. Dan Beck of the Commission's Energy Engineering Analysis Department for his calculation of total peak day demand across MGE's customer classes.

Staff Expert/Witness: Michelle Bocklage

B. Energy Efficiency Programs

Staff recommends continued funding of the energy conservation programs, water heating and space heating incentive programs, Energy Star home performance programs, and the outreach and education programs. The weatherization program has also continued to be successful by improving the energy efficiency of income-eligible customer's homes, so the funding for this program should continue as well.

C. Red-Tag Program

MGE is proposing a new program called the "Red-Tag Repair Program" that is almost identical to Laclede Gas Company's program recently approved by the Commission in Laclede Gas' latest rate case, GR-2013-0171. Staff proposes that funding for the low-income portion of the program be through the use of a regulatory asset. No funding will be built into the rates at this time.

Staff Expert/Witness: Thomas M. Imhoff

VI. Miscellaneous Tariff Issue

A. School Transportation Customers - Capacity Release Requirements

Schools may obtain gas services from MGE as gas sales customers or transportation customers. MGE acquires pipeline capacity and the natural gas supplies to serve its gas sales customers. Transportation customers are responsible for obtaining their own natural gas supplies, but they may obtain pipeline capacity required to transport their natural gas supplies from MGE or from other entities.

MGE's tariff allows schools to participate as transportation customers in several ways, depending on the volumes utilized. The tariff sheets that are applicable for schools that are transportation customers include the following:

MGE Transportation Programs	Tariff Sheet Nos:
School Transportation Program ("STP")	54 - 58.4
Small General Gas Service ("SGS")	27 - 29.1
Large General Gas Service ("LGS")	30 - 35
Large Volume Service ("LV")	40 - 45

Staff commented in its 2011/2012 and 2010/2011 ACA Staff recommendations, Case Nos. GR-2012-0262 and GR-2011-0290, that Capacity Release Requirements are not clear for schools that are SGS customers or LGS customers and Staff recommended that MGE work with Staff to amend the STP, SGS, and LGS tariff sheets no later than the Company's next general rate case. Staff's comments and recommendations regarding these tariff sheets were filed in these cases on 12/6/2013 and 12/3/2012.

Staff renews its comments and recommendations that it made in its 2011/2012 and 2010/2011 ACA cases as discussed below. In addition, Staff discusses the operation of these tariff sheets and the capacity release issues that require clarification by MGE.

STP Customers that are also SGS Customers

MGE should revise its STP and SGS tariff sheets to clarify capacity release requirements for schools that are SGS transportation customers. MGE is in the best position to address modifications to the STP and SGS tariff sheets to clarify capacity release requirements to schools because MGE has knowledge of its customers, including the pool operators utilized by the school transportation customers, and knowledge of the pipeline capacity it has reserved to serve schools.

Requirements for release of pipeline capacity (capacity release) are contained in the STP tariff as follows:

> Sheet 56, Other Terms and Conditions: Section 4, Capacity Release--The Company shall **release interstate pipeline capacity to the not-for-profit school association or its designated agent for a cost equal to the company's system-wide average interstate transportation cost.** All capacity release revenue received pursuant to this provision from the not-for-profit school association or its designated agent will be credited to the Company's PGA account. The **Company shall determine the amount of capacity needed to be released based on the participating eligible school entities' total peak month with an assumed peak day requirement equal to 150% of the average daily consumption during such peak month**. (Emphasis added)

Per SGS tariff sheet 27, transportation service under the SGS schedule is only available to schools receiving transportation service under the STP tariff schedule.

Because the SGS tariff sheets contain no separate requirements for capacity release, the capacity release requirements in the STP tariff must be followed. However, in Staff discussions with MGE, the ** _____ _____ **

Provisions in the statute related to capacity release for schools are as follows:

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> Except as may be mutually agreed by the gas corporation and eligible school entities and approved by the commission, such tariffs shall not require eligible school entities to be responsible for pipeline capacity charges for longer than is required by the gas corporation's tariff for large industrial or commercial basic transportation customers. (Sub-section 5 of 393.310 RSMo)
>
> The commission shall treat the gas corporation's pipeline capacity costs for associated eligible school entities in the same manner as for large industrial or commercial basic transportation customers, which shall not be considered a negative financial impact on the gas corporation, its other customers, or local taxing authorities, and the commission may adopt by order such other procedures not inconsistent with this section which the commission determines are reasonable or necessary to administer the experimental program. (Sub-section 6 of 393.310 RSMo)

The SGS tariff sheets refer to commercial customers and industrial customers whose natural gas requirements at a single address or location do not exceed 10,000 Ccf in any one year. The statute refers to large industrial or commercial basic transportation customers. The terms large industrial or commercial basic transportation customers are not defined in the statute or in the tariff. Because the statute refers to tariffs mutually agreed by the gas corporation and eligible school entities and approved by the Commission, and because MGE has approved tariff sheets addressing capacity release by STP customers, MGE must release capacity to STP Customers that are also SGS Customers per the capacity release requirements in the STP tariff.

Renewing Staff's recommendations in its 2011/2012 and 2010/2011 ACA Staff Recommendations (Case Nos. GR-2012-0262 and GR-2011-0290), MGE should amend the tariff sheets to clarify the capacity release requirements for schools that are STP and SGS customers.

STP Customers that are also LGS Customers

MGE should revise its tariff sheets to clarify capacity release requirements for schools that are LGS transportation customers. MGE is in the best position to address modifications to the STP and LGS tariff sheets to clarify capacity release requirements to schools because MGE has

knowledge of its customers, including the pool operators utilized by the school transportation customers, and knowledge of the pipeline capacity it has reserved to serve schools.

The capacity release requirements are different in the STP Tariff Sheet No. 56 and the LGS Tariff Sheet No. 30.1. Thus, MGE should clarify which capacity release requirements apply to STP customers that are also LGS customers. Also, the capacity release obligation in the LGS tariff sheet is not clear for customers that converted to transportation service after October 1, 2013 and this needs to be clarified.

Per LGS tariff sheet 30, the service is applicable to commercial customers and industrial customers whose natural gas requirements at a single address or location are greater than 10,000 Ccf in any one year and does not exceed 30,000 Ccf in any one month. Upon application and approval by the Company, this rate is also applicable to commercial and industrial customers whose natural gas requirements at a single address or location exceeds 30,000 Ccf in any one month of a twelve-month billing period.

The LGS tariff sheet 30.1 states transportation service under this schedule will be available to schools receiving transportation service under the School Transportation Program ("STP") tariff schedule and those customers whose annual usage exceeds 30,000 Ccf in the preceding calendar year (LGS Transportation Customers).

The LGS tariff sheets 30.1 and 30.2 contain requirements for capacity release as follows:

> As a condition of Customer being able to transfer from sales service to transportation service, pool operator agrees to accept a pro-rata release of Company's prorata share of the applicable interstate pipeline's firm capacity excluding storage capacity. This pro-rata share shall be based on the customer's peak month demand volume in order to pay the pipeline for that released capacity.
>
> a. The capacity will be released as a non-biddable release to a marketer participating in a state-regulated retail access program pursuant to the requirements of the Federal Regulatory Energy Commission as set

forth in 18 C.F.R. § 284.8(h)(4), as it may be amended, restated or revised from time to time.

b. The capacity will be released on a temporary, recallable basis.

c. The release shall be at the average of MGE's interstate pipeline transportation capacity costs.

d. Not less than forty-five (45) days prior to renewing the release of capacity for a customer for the next twelve-month period, MGE will provide notice to the customer and/or the customer's agent of the volumes to be released for such customer.

. . .

h. After October 1, 2013, the sales customers that converted to transportation service prior to that date, or the customer's agent, will be responsible for acquiring transportation capacity for the customer and MGE will have no obligation to release pipeline capacity to those customers or pool operators the volumes to be released for such customer.

The LGS tariff sheet provisions stating MGE will have no obligation to release pipeline capacity to LGS customers, or its pool operators, only applies to sales customers that converted to transportation service prior to that date and the date referenced is October 1, 2013. It does not contain the provisions for LGS customers that convert to transportation service on or after October 1, 2013.

Although the LGS tariff sheets have provisions for capacity release, the LGS tariff also references the STP tariff sheets. The STP tariff sheets address pipeline capacity as follows:

> Sheet 56, Other Terms and Conditions: Section 4, Capacity Release--The Company shall **release interstate pipeline capacity to the not-for-profit school association or its designated agent for a cost equal to the company's system-wide average interstate transportation cost.** All capacity release revenue received pursuant to this provision from the not-for-profit school association or its designated agent will be credited to the Company's PGA account. The **Company shall determine the amount of capacity needed to be released based on the participating eligible school entities' total peak month with an assumed peak day**

requirement equal to 150% of the average daily consumption during such peak month. (Emphasis added)

In Staff discussions with MGE, the ** _____ _____ ** The provisions in the statute related to capacity release for schools are in the discussion above for SGS customers.

The LGS tariff sheets refers to commercial customers and industrial customers whose natural gas requirements at a single address or location are greater than 10,000 Ccf in any one year and does not exceed 30,000 Ccf in any one month. The statue refers to large industrial or commercial basic transportation customers. The terms large industrial or commercial basic transportation customers are not defined in the statue or in the tariff.

Because the statue refers to tariffs mutually agreed to by the gas corporation and eligible school entities and approved by the Commission, MGE must release capacity to STP Customers that are also LGS Customers per the capacity release requirements in the STP and LGS tariff sheets. However the STP and LGS tariff sheets have different requirements for capacity release.

Renewing Staff's recommendations made in its 2011/2012 and 2010/2011 ACA Staff Recommendations (Case Nos. GR-2012-0262 and GR-2011-0290), MGE should amend the tariff sheets to clarify the capacity release requirements for schools that are STP and LGS customers.

STP Customers that are also LV Customers

At this time Staff is proposing no change to the LV tariff sheets pertaining to capacity release.

The LV tariff sheets do not reference the STP tariff sheets for schools that are transport customers. Schools that are both STP and LV customers must comply with the requirements of the LV tariff sheets.

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Per LV tariff sheet 40, transportation service is available to natural gas service supplied to commercial and industrial customers whose natural gas requirements at a single address or location the Company expects will exceed 15,000 Ccf in any one month of a 12-month billing period.

Staff Expert/Witness: Lesa A. Jenkins

VII. Gas Supply Incentive Program ("GSIP")

A Gas Supply Incentive Plan ("GSIP") is a mechanism designed to share savings pertaining to the natural gas costs paid by the regulated utility and shared between the utility and its customers. The savings are achieved by the utility's beating an average benchmark price or target price level of natural gas costs. The underlying assumption of a GSIP is that if the gas costs are obtained by the utility at a lower price than the benchmark price, then the utility, because of its innovative or superior efforts, should be rewarded.

Staff's recommended treatment of the proposed GSIP is to keep the existing MGE status quo, which is a Purchased Gas Adjustment ("PGA") without a natural gas supply-related GSIP.

MGE already has an incentive sharing mechanism for two major gas supply-related components, off-system sales and capacity release. An expansion to a benchmarking incentive is unwarranted in this case. Past results of GSIPs in Missouri have failed to show significant customer benefits. LDC's gas procurement staff presently have available to it the tools it needs to obtain the lowest priced gas for its system, such as the issuance of a Request For Proposal ("RFP") to bid for and obtain the lowest priced gas, consistent with reliability considerations, available in the market. A disadvantage of the GSIP is that it rewards shareholders that do not study gas supply alternatives or seek "creative" ways to lower natural gas costs.

MGE has recently been acquired by Laclede. The transition of MGE's gas supply functions under its new ownership should not impact MGE's plans to continue to obtain reliable natural gas supplies at low cost. Natural gas costs are passed on to ratepayers who expect the utility to be taking necessary measures to keep natural gas costs low. Unsettled are decisions regarding how Laclede's affiliate, LER, will interact with the markets on the western side of the state, how the Laclede gas procurement Standards of Conduct will be implemented, and how contracts may or may not be combined. These issues continue to evolve since Laclede closed on its purchase of MGE operations and assets on September 1, 2013.

Because of the ongoing transition this rate increase case does not provide enough background of experience upon which Staff may conduct a comprehensive evaluation of the combined needs of the St. Louis and Kansas City service territories. This case involves only ratemaking treatment issues of the traditional MGE service areas.

The MGE rate case does not provide the necessary forum for Staff to review matters related to the coordination, modification, or even possible elimination of Laclede's existing GSIP in its service territory.

Other relevant factors of concern to Staff include the following. Laclede is still engaged in significant contractual implementation regarding a key natural gas service used to supply MGE's system. This pipeline segment is being converted from supply natural gas to transporting oil. The gas industry itself is under a transition as regional areas where MGE's traditionally acquired supply might be changing. The degree to which the gas portfolios of MGE and Laclede can be coordinated is still evolving and is unsettled. Laclede has not yet shared with Staff any proposals or recommendations on how the two separate service areas will supply gas to its customers in the

future. Therefore Staff is unable to evaluate how the two Laclede Gas and MGE entities will serve their customers on a combined basis.

The Staff is further unconvinced that the type of GSIP currently in place via Stipulation and Agreement for the Laclede Gas Division would offer any real and tangible benefits to its customers. The Laclede Gas Division current GSIP is asymmetrical, only offering the utility the opportunity to gain with no counterbalancing risk for the utility. In addition, Laclede Gas' current GSIP does not consider variable transportation and fuel charges when considering whether or not "savings" have occurred. On the other hand, MGE already has a fairly detailed method of acquiring gas supply.

For any future Staff consideration of an MGE Division GSIP, Staff must conduct an independent comparison of how the existing MGE process would be improved by a new reward system. The method of dispatching gas supplies under any proposed GSIP should be evaluated as compared to existing methods of dispatch. In summary, there is no current evidence that the proposed GSIP can return real savings to ratepayers.

The Commission should reject any proposal to institute a GSIP in this case.

Staff Expert/Witness: David M. Sommerer

CLASS COST-OF-SERVICE SUMMARY

MISSOURI GAS ENERGY
CASE NO. GR-2014-0007
TEST YEAR ENDED April 30, 2013, Updated Through 9/30/13

	TOTAL	RESIDENTIAL	SMALL GENERAL SERVICE	LARGE GENERAL SERVICE	LARGE VOLUME	UNMETERED GAS LIGHTS
RATE BASE	$536,580,536	$369,506,817	$79,655,559	$50,794,869	$36,623,291	$0
REQUESTED RETURN	6.1880%	6.1880%	6.1880%	6.1880%	6.1880%	6.1880%
RETURN ON RATE BASE	$33,203,604	$22,865,082	$4,929,086	$3,143,187	$2,266,249	$0
O & M EXPENSES	$102,679,230	$71,464,277	$15,007,445	$9,665,195	$6,542,313	$0
DEPRECIATION EXPENSE	$29,962,645	$21,846,738	$4,173,796	$2,320,166	$1,621,945	$0
TAXES OTHER THAN INCOME	$14,538,541	$10,260,255	$2,082,327	$1,268,482	$927,477	$0
INCOME TAXES	$16,035,697	$11,042,703	$2,380,505	$1,518,004	$1,094,486	$0
TOTAL EXPENSES	$163,216,113	$114,613,973	$23,644,072	$14,771,846	$10,186,221	$0
TOTAL C-O-S	$196,419,717	$137,479,055	$28,573,158	$17,915,033	$12,452,470	$0
OTHER REVENUES	$6,434,633	$6,041,677	$400,503	($4,453)	($3,095)	($0)
REQUIRED MARGIN REVENUE	$189,985,084	$131,437,378	$28,172,655	$17,919,485	$12,455,565	$0
CURRENT MARGIN REVENUES	$190,373,323	$141,085,333	$27,648,101	$11,030,183	$10,609,706	$0
ZERO REVENUE INCREASE PLUG	($388,239)	($268,596)	($57,572)	($36,619)	($25,453)	($0)
C-O-S MARGIN REVENUES @ 0%	$190,373,323	$131,705,973	$28,230,227	$17,956,104	$12,481,019	$0
REVENUE ABOVE (BELOW) COS	($0)	$9,379,360	($582,126)	($6,925,921)	($1,871,313)	($0)
% INCREASE WITHOUT GAS COSTS	0.00%	-6.65%	2.11%	62.79%	17.64%	#DIV/0!
CLASS' SHARE OF TOTAL MARGIN REVENUES	100.00%	69.18%	14.83%	9.43%	6.56%	0.00%
AVERAGE GAS COSTS	$0					
% INCREASE WITH GAS COSTS	0.00%	-6.65%	2.11%	62.79%	17.64%	#DIV/0!
CLASS' SHARE OF TOTAL REVENUES	100.00%	69.18%	14.83%	9.43%	6.56%	0.000%

Missouri Gas Energy
GR-2014-0007

Joplin

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	60.26	8.2428	63,007	519,355
Jun	55.70	7.6388	62,523	477,603
Jul	43.05	5.9633	62,093	370,280
Aug	29.18	4.1262	61,966	255,685
Sep	16.42	2.4361	62,003	151,048
Oct	5.86	1.0374	62,826	65,179
Nov	0.55	0.3341	63,912	21,355
Dec	2.05	0.5328	64,678	34,461
Jan	15.65	2.3341	65,208	152,205
Feb	26.53	3.7752	65,452	247,096
Mar	40.37	5.6083	65,464	367,145
Apr	59.39	8.1276	64,771	526,431
WINTER	60.26	**8.2428**	65,113	536,711

Kansas City

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	USTOMER	Ccf/DAY
May	63.24	8.4320	342,684	2,889,517
Jun	61.10	8.1582	340,566	2,778,416
Jul	47.29	6.3914	339,072	2,167,151
Aug	31.08	4.3176	337,767	1,458,328
Sep	16.67	2.4740	337,734	835,547
Oct	6.23	1.1383	340,208	387,264
Nov	0.31	0.3809	344,201	131,116
Dec	1.74	0.5639	347,683	196,051
Jan	16.94	2.5085	350,074	878,169
Feb	28.16	3.9440	351,285	1,385,461
Mar	44.52	6.0370	351,566	2,122,415
Apr	66.28	8.8209	348,763	3,076,419
WINTER	66.28	**8.8209**	349,681	3,084,514

St. Joseph

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	63.24	8.7462	23,588	206,306
Jun	61.10	8.4625	23,402	198,040
Jul	47.29	6.6318	23,224	154,016
Aug	31.08	4.4829	23,155	103,801
Sep	16.67	2.5726	23,145	59,542
Oct	6.23	1.1886	23,400	27,813
Nov	0.31	0.4038	23,708	9,573
Dec	1.74	0.5934	23,993	14,236
Jan	16.94	2.6084	24,152	62,997
Feb	28.16	4.0958	24,212	99,167
Mar	44.52	6.2646	24,242	151,866
Apr	66.28	9.1492	23,908	218,739
WINTER	66.28	**9.1492**	24,119	220,670

Missouri Gas Energy
GR-2014-0007

Joplin

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	16.42	4.7112	10,280	48,431
Jun	5.86	2.0323	10,133	20,594
Jul	0.55	0.6853	9,989	6,846
Aug	2.05	1.0658	9,936	10,590
Sep	15.65	4.5159	9,925	44,820
Oct	26.53	7.2759	10,118	73,617
Nov	40.37	10.7868	10,535	113,639
Dec	59.39	15.6117	10,865	169,622
Jan	60.26	15.8324	11,076	175,360
Feb	55.70	14.6757	11,055	162,240
Mar	43.05	11.4666	11,087	127,131
Apr	29.18	7.9481	10,847	86,213
WINTER	60.26	**15.8324**	10,999	174,136

Kansas City

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	USTOMER	Ccf/DAY
May	16.67	4.6156	41,979	193,759
Jun	6.23	2.1671	41,250	89,393
Jul	0.31	0.7787	40,831	31,794
Aug	1.74	1.1140	40,416	45,025
Sep	16.94	4.6789	40,213	188,155
Oct	28.16	7.3104	40,586	296,700
Nov	44.52	11.1474	41,971	467,866
Dec	66.28	16.2508	43,458	706,228
Jan	63.24	15.5378	44,477	691,076
Feb	61.10	15.0359	44,973	676,211
Mar	47.29	11.7970	44,946	530,229
Apr	31.08	7.9952	44,376	354,797
WINTER	66.28	**16.2508**	44,303	719,954

St. Joseph

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	16.67	4.9601	2,992	14,841
Jun	6.23	2.1654	2,969	6,429
Jul	0.31	0.5806	2,938	1,706
Aug	1.74	0.9634	2,946	2,838
Sep	16.94	5.0324	2,917	14,679
Oct	28.16	8.0359	2,960	23,786
Nov	44.52	12.4153	3,054	37,916
Dec	66.28	18.2403	3,155	57,548
Jan	63.24	17.4265	3,217	56,061
Feb	61.10	16.8536	3,238	54,572
Mar	47.29	13.1568	3,259	42,878
Apr	31.08	8.8175	3,205	28,260
WINTER	66.28	**18.2403**	3,203	58,430

Missouri Gas Energy
GR-2014-0007

Joplin

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	16.42	80.0632	481	38,510
Jun	5.86	44.4808	482	21,440
Jul	0.55	26.5886	482	12,816
Aug	2.05	31.6429	483	15,284
Sep	15.65	77.4687	484	37,495
Oct	26.53	114.1293	480	54,782
Nov	40.37	160.7637	482	77,488
Dec	59.39	224.8524	482	108,379
Jan	60.26	227.7839	484	110,247
Feb	55.70	212.4188	472	100,262
Mar	43.05	169.7941	431	73,181
Apr	29.18	123.0585	431	53,038
ANNUAL	60.26	**227.7839**	479	109,184

Kansas City

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	16.67	70.9486	2,509	178,010
Jun	6.23	38.2305	2,506	95,806
Jul	0.31	19.6777	2,499	49,174
Aug	1.74	24.1592	2,499	60,374
Sep	16.94	71.7948	2,492	178,913
Oct	28.16	106.9574	2,496	266,966
Nov	44.52	158.2284	2,494	394,622
Dec	66.28	226.4225	2,486	562,886
Jan	63.24	216.8954	2,485	538,985
Feb	61.10	210.1888	2,441	513,071
Mar	47.29	166.9093	2,230	372,208
Apr	31.08	116.1085	2,229	258,806
ANNUAL	66.28	**226.4225**	2,471	559,415

St. Joseph

Coincident Peak Day Demand Estimate

MONTH	MAX HDD	**Ccf/C/D**	CUSTOMERS	Ccf/DAY
May	16.67	75.9241	242	18,374
Jun	6.23	43.0217	240	10,325
Jul	0.31	24.3643	239	5,823
Aug	1.74	28.8711	238	6,871
Sep	16.94	76.7750	238	18,272
Oct	28.16	112.1357	238	26,688
Nov	44.52	163.6954	237	38,796
Dec	66.28	232.2736	239	55,513
Jan	63.24	222.6928	242	53,892
Feb	61.10	215.9485	240	51,828
Mar	47.29	172.4252	211	36,382
Apr	31.08	121.3382	211	25,602
ANNUAL	66.28	**232.2736**	240	55,823

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF KIM COX

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Kim Cox, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 1; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Kim Cox

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF JOEL McNUTT

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Joel McNutt, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 2-7 and 9-11; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Joel McNutt

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF DANIEL I. BECK

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Daniel I. Beck, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 7 - 8; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Daniel I. Beck

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF MICHELLE A. BOCKLAGE

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Michelle A. Bocklage, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 11 – 12; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Michelle A. Bocklage

Michelle A. Bocklage

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF THOMAS M. IMHOFF

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Thomas M. Imhoff, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 12; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

Thomas M. Imhoff

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF LESA A. JENKINS

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

Lesa A. Jenkins, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Staff Report in pages 13 - 19; that she has knowledge of the matters set forth in such Report; and that such matters are true to the best of her knowledge and belief.

Lesa A. Jenkins

Lesa A. Jenkins

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy, Inc.'s Filing of Revised Tariffs to Increase its Annual Revenues for Natural Gas	)))	Case No. GR-2014-0007

AFFIDAVIT OF DAVID M. SOMMERER

STATE OF MISSOURI)
) **ss**
COUNTY OF COLE)

David M. Sommerer, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Staff Report in pages 19 - 21; that he has knowledge of the matters set forth in such Report; and that such matters are true to the best of his knowledge and belief.

David M. Sommerer

Subscribed and sworn to before me this 6th day of February, 2014.

LAURA BLOCH
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: June 21, 2015
Commission Number: 11203914

Notary Public