

EXHIBIT

Exhibit No.:

233

Issue(s):

True Up of Capital Structure and
Embedded Cost

Witness/Type of Exhibit:

Allen/True Up

Sponsoring Party:

Public Counsel

Case No.:

GR-2004-0209

TRUE-UP TESTIMONY

OF

TRAVIS ALLEN

Submitted on Behalf of
the Office of the Public Counsel

FILED

JUL 29 2004

MISSOURI GAS ENERGY

Missouri Public
Service Commission

Case No. GR-2004-0209

July 19, 2004

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

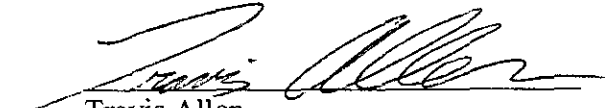
In the matter of Missouri Gas Energy's tariffs)
to implement a general rate increase for natural)
gas service.)
Case No. GR-2004-0209

AFFIDAVIT OF TRAVIS ALLEN

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

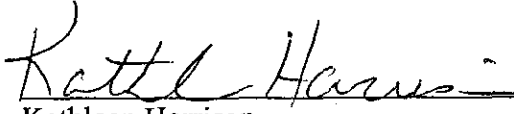
Travis Allen, of lawful age and being first duly sworn, deposes and states:

1. My name is Travis Allen. I am a Financial Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my true up testimony consisting of pages 1 through 5 and Schedules TA-1 through TA-5.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.


Travis Allen

Subscribed and sworn to me this 19th day of July 2004.

KATHLEEN HARRISON
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan. 31, 2006


Kathleen Harrison
Notary Public

My commission expires January 31, 2006.

TRUE-UP TESTIMONY
OF
TRAVIS ALLEN

MISSOURI GAS ENERGY
A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2004-0209

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TRUE-UP TESTIMONY

OF

TRAVIS ALLEN

MISSOURI GAS ENERGY

A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2004-0209

INTRODUCTION

Q. Please state your name and business address.

A. Travis Allen, 200 Madison St., P.O. Box 2230, Jefferson City Mo., 65102.

Q. Are you the same Travis Allen who filed Direct, Rebuttal, and Surrebuttal testimony in this case?

A. Yes, I am.

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to true-up my recommended capital structure, embedded cost of preferred stock, embedded cost of long-term debt, and embedded cost of short-term debt to April 30, 2004.

CAPITAL STRUCTURE

Q. What is your trued-up recommended capital structure?

A. My trued-up recommended capital structure is as follows;

	<u>Amount</u>	<u>Percent</u>
Common Stock Equity	\$ 1,048,146,000.00	28.37%
Preferred Stock	\$ 223,828,509.00	6.06%
Long-Term Debt	\$ 2,208,550,102.00	59.77%
Short-Term Debt	<u>\$ 214,413,665.00</u>	<u>5.80%</u>
	\$ 3,694,938,276.00	100.00%

Q. Is the methodology that you used to develop this capital structure consistent with the methodology you used to develop the capital structure you recommended in your direct testimony?

A. Yes.

Q. Are you still recommending that short-term debt be included into the capital structure?

A. Yes.

Q. Why?

A. Southern Union has consistently maintained a short-term debt, less construction-work-in-progress, balance that is greater than 2% of their overall capital structure. Southern Union has not, throughout the course of this hearing, demonstrated that its policy with regard to the future use of short-term debt has changed. Consequently, I believe that it should appropriately be included in the capital structure.

EMBEDDED COST RATES

Q. What is the trued-up embedded cost of preferred stock?

A. The trued-up embedded cost of preferred stock is 7.758%.

Q. Is the methodology that you used to develop this trued-up embedded cost of preferred stock consistent with the methodology you used in your direct testimony?

A. Yes.

Q. Have you attached a schedule illustrating this calculation?

A. Yes, this calculation is illustrated in True-Up Schedule TA-2.

Q. What is the trued-up embedded cost of long-term debt?

A. The trued-up embedded cost of long-term debt is 7.397%.

Q. Is the methodology that you used to develop this trued-up embedded cost of long-term debt consistent with the methodology you used in your direct testimony?

A. Yes.

Q. Have you attached a schedule illustrating this calculation?

A. Yes, this calculation is illustrated in True-Up Schedule TA-3.

Q. What is the trued-up embedded cost of short-term debt?

1 A. The trued-up embedded cost of short-term debt is 1.87%.

2 Q. Is the methodology that you used to develop this trued-up embedded cost of short-term debt
3 consistent with the methodology you used in your direct testimony?

4 A. Yes.

5 Q. Have you attached a schedule illustrating this calculation?

6 A. Yes, this calculation is illustrated in True-Up Schedule TA-4.

7 **WEIGHTED AVERAGE COST OF CAPITAL**

8 Q. What is your recommended trued-up weighted average cost of capital, (WACC) range?

9 A. The following is my recommended trued-up weighted average cost of capital range;

10 Common Equity Preferred Long-Term Debt Short-Term Debt
11 $WACCL = (.2837 * .0901) + (.0606 * .07758) + (.5977 * .07397) + (.0580 * .0187)$
12 $WACCL = 7.56\%$

13
14 Common Equity Preferred Long-Term Debt Short-Term Debt
15 $WACCH = (.2837 * .0934) + (.0606 * .07758) + (.5977 * .07397) + (.0580 * .0187)$
16 $WACCH = 7.65\%$

17 Q. Is the methodology that you used to develop this trued-up weighted average cost of capital
18 consistent with the methodology you used in your direct testimony?

1 A. Yes.

2 Q. Have you attached a schedule illustrating this calculation?

3 A. Yes, this calculation is illustrated in True-Up Schedule TA-5.

4 Q. What pre-tax coverage ratio is implied by your trued-up recommendation?

5 A. Based on a WACC of 7.56% and an assumed overall tax factor of 1.6136, as suggested by the
6 Company, the pre-tax coverage ratio is approximately 2.69x. Based on a WACC of 7.65% and
7 assuming the same overall tax factor, the pre-tax coverage ratio is approximately 2.72x.

8 Q. Does this conclude your True-Up Testimony?

9 A. Yes, it does.

Allen - True-Up
GR-2004-0209 Missouri Gas Energy

Capital Structure - April 30, 2004

	<u>Amount</u>	<u>Percent</u>
Common Stock Equity	\$ 1,048,146,000.00	28.37%
Preferred Stock	\$ 223,828,509.00	6.06%
Long Term Debt	\$ 2,208,550,102.00	59.77%
Short Term Debt	<u>\$ 214,413,665.00</u>	<u>5.80%</u>
	\$ 3,694,938,276.00	100.00%

Sources: Company response to OPC DR2001 and DR2005

Allen - True-Up
GR-2004-0209 Missouri Gas Energy

Preferred Stock as of April 30, 2004

	<u>Amount</u>	<u>Annual Dividend</u>
Preferred Stock	\$ 230,000,000.00	\$ 17,365,000.00
Less Issuance Costs	<u>\$ 6,171,491.00</u>	
Net Proceeds	\$ 223,828,509.00	

Embedded Cost of Preferred Stock

7.758%

Source: Company Response to OPC DR2002

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GR-2004-0209 Missouri Gas Energy

Embedded Cost of Long Term Debt as of April 30, 2004

Description:	Issue Date	Maturity Date	1 Principal Original Issue	3 4/30/2004 Amount Outstanding	2 Interest Rate	6 Annual Interest	4 Unamortized Issuance Expense	Annual Issuance Expense	5 Net Proceeds	Embedded Rate
7.6% Senior Notes	2/1/1994	2/1/2024	\$ 475,000,000.00	\$ 359,765,000.00	7.60%	\$ 27,342,140.00	\$ (2,720,918.00)	\$ 137,768.00	\$ 357,044,082.00	7.697%
8.25% Senior Notes	11/4/1999	11/15/2029	\$ 300,000,000.00	\$ 300,000,000.00	8.25%	\$ 24,750,000.00	\$ (5,650,648.00)	\$ 221,594.00	\$ 294,349,352.00	8.484%
PGE MTG Notes 9.34%	8/15/1989	9/1/2019	\$ 15,000,000.00	\$ 15,000,000.00	9.34%	\$ 1,401,000.00	\$ (265,077.00)	\$ 17,288.00	\$ 14,734,923.00	9.625%
Providence Series M 10.25%	8/1/1988	7/31/2008	\$ 10,000,000.00	\$ 1,363,000.00	10.25%	\$ 139,707.50	\$ (44,610.00)	\$ 10,499.00	\$ 1,318,390.00	11.393%
Providence Series N 9.63%	6/1/1990	5/30/2020	\$ 10,000,000.00	\$ 10,000,000.00	9.63%	\$ 963,000.00	\$ (239,180.00)	\$ 14,871.00	\$ 9,760,820.00	10.018%
Providence Series O 8.46%	9/1/1992	9/30/2022	\$ 12,500,000.00	\$ 11,875,000.00	8.46%	\$ 1,004,625.00	\$ (577,005.00)	\$ 31,331.00	\$ 11,297,995.00	9.169%
Providence Series P 8.09%	9/1/1992	9/30/2022	\$ 12,500,000.00	\$ 12,500,000.00	8.09%	\$ 1,011,250.00	\$ (279,213.00)	\$ 15,161.00	\$ 12,220,787.00	8.399%
Providence Series R 7.5%	12/1/1995	12/15/2025	\$ 15,000,000.00	\$ 15,000,000.00	7.50%	\$ 1,125,000.00	\$ (325,872.00)	\$ 15,098.00	\$ 14,674,128.00	7.769%
Providence Series S 6.82%	4/1/1998	4/1/2018	\$ 15,000,000.00	\$ 14,464,000.00	6.82%	\$ 986,444.80	\$ (321,283.00)	\$ 23,085.00	\$ 14,142,717.00	7.138%
Providence Series T 6.5%	2/1/1999	2/1/2029	\$ 15,000,000.00	\$ 13,737,000.00	6.50%	\$ 892,905.00	\$ (2,172,654.00)	\$ 87,783.00	\$ 11,564,346.00	8.480%
Fall River 9.44%	12/20/1989	2/15/2020	\$ 6,500,000.00	\$ 6,500,000.00	9.44%	\$ 613,600.00	\$ (186,063.00)	\$ 11,755.00	\$ 6,313,937.00	9.904%
Fall River 7.99%	9/20/1996	12/15/2026	\$ 7,000,000.00	\$ 7,000,000.00	7.99%	\$ 559,300.00	\$ (116,935.00)	\$ 5,217.00	\$ 6,883,065.00	8.202%
Fall River 7.24%	12/1/1997	12/15/2027	\$ 6,000,000.00	\$ 6,000,000.00	7.24%	\$ 434,400.00	\$ (95,707.00)	\$ 4,044.00	\$ 5,904,293.00	7.426%
Mandatory Convertibles 5.75%	6/11/2003	8/16/2006	\$ 125,000,000.00	\$ 125,000,000.00	5.75%	\$ 7,187,500.00	\$ (345,450.00)	\$ 130,579.00	\$ 124,654,550.00	5.871%
Term Loan	7/15/2002	8/26/2005	\$ 311,086,956.00	\$ 111,086,956.00	2.21%	\$ 2,450,074.00	\$ (845,959.00)	\$ 634,469.00	\$ 110,240,997.00	2.798%
Acct. 189 Unamortized Issue Costs							\$ (13,261,501.00)	\$ 667,308.00		
Acct. 257 Unamortized Premiums							\$ (2,061,342.00)	\$ (104,372.00)		
Total Long Term Debt			\$ 1,335,586,956.00	\$ 1,009,290,956.00		\$ 70,860,946.30	\$ (29,509,417.00)	\$ 1,923,478.00	\$ 995,104,382.00	7.397%

Embedded Cost Rate **7.397%**

Company Response to OPC DR2002

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GR-2004-0209 Missouri Gas Energy

Short Term Debt as of April 30, 2004

	Wtd. Avg. Effective Interest Rate	S.T. Debt EOM Balance	CWIP	Balance Less CWIP	Weight	Weighted Cost
4/30/2003	1.91%	\$ 217,550,000.00	\$ 23,348,626.00	\$ 194,201,374.00	6.97%	0.133%
5/31/2003	2.00%	\$ 260,150,000.00	\$ 26,350,395.00	\$ 233,799,605.00	8.39%	0.168%
6/30/2003	1.95%	\$ 273,250,000.00	\$ 14,848,253.00	\$ 258,401,747.00	9.27%	0.181%
7/31/2003	1.97%	\$ 282,750,000.00	\$ 11,066,371.00	\$ 271,683,629.00	9.75%	0.192%
8/31/2003	2.29%	\$ 314,250,000.00	\$ 13,997,674.00	\$ 300,252,326.00	10.77%	0.247%
9/30/2003	1.92%	\$ 319,150,000.00	\$ 16,430,578.00	\$ 302,719,422.00	10.86%	0.209%
10/31/2003	1.34%	\$ 273,950,000.00	\$ 21,244,462.00	\$ 252,705,538.00	9.07%	0.121%
11/30/2003	1.64%	\$ 283,825,000.00	\$ 24,287,098.00	\$ 259,537,902.00	9.31%	0.153%
12/31/2003	1.71%	\$ 295,175,000.00	\$ 28,575,399.00	\$ 266,599,601.00	9.56%	0.164%
1/31/2004	1.99%	\$ 224,183,870.00	\$ 26,040,937.00	\$ 198,142,933.00	7.11%	0.141%
2/29/2004	1.82%	\$ 198,665,517.00	\$ 29,525,604.00	\$ 169,139,913.00	6.07%	0.110%
3/31/2004	1.86%	\$ 126,319,354.00	\$ 35,281,560.00	\$ 91,037,794.00	3.27%	0.061%
4/30/2004	1.85%	\$ 28,083,333.00	\$ 38,927,477.00	\$ (10,844,144.00)	-0.39%	-0.007%
		\$ 3,097,302,074.00		\$ 2,787,377,640.00	100.00%	1.87%

Average Monthly Level less CWIP: \$ 214,413,664.62

Weighted Average Interest Rate: 1.87%

Company Response to OPC DR2005

Weighted Average Cost of Capital

	<u>Amount</u>	<u>Percent</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate 9.01% ROE</u>
Common Stock Equity	\$ 1,048,146,000.00	28.37%	9.010%	2.56%
Preferred Stock	\$ 223,828,509.00	6.06%	7.758%	0.47%
Long Term Debt	\$ 2,208,550,102.00	59.77%	7.397%	4.42%
Short Term Debt	<u>\$ 214,413,665.00</u>	<u>5.80%</u>	1.870%	<u>0.11%</u>
	\$ 3,694,938,276.00	100.00%		7.56%

	<u>Amount</u>	<u>Percent</u>	<u>Cost Rate</u>	<u>Weighted Cost Rate 9.34% ROE</u>
Common Stock Equity	\$ 1,048,146,000.00	28.37%	9.340%	2.65%
Preferred Stock	\$ 223,828,509.00	6.06%	7.758%	0.47%
Long Term Debt	\$ 2,208,550,102.00	59.77%	7.397%	4.42%
Short Term Debt	<u>\$ 214,413,665.00</u>	<u>5.80%</u>	1.870%	<u>0.11%</u>
	\$ 3,694,938,276.00	100.00%		7.65%

Pre-Tax Interest Coverage

Tax Factor = 1.6136

	<u>Weighted Cost</u>	<u>Pre-Tax Weighted Cost</u>		<u>Weighted Cost</u>	<u>Pre-Tax Weighted Cost</u>
Common Stock Equity (Based on 9.01% ROE)	2.56%	4.13%	Common Stock Equity (Based on 9.34% ROE)	2.65%	4.28%
Preferred Stock	0.47%	0.76%	Preferred Stock	0.47%	0.76%
Long Term Debt	4.42%	7.13%	Long Term Debt	4.42%	7.13%
Short Term Debt	0.11%	0.18%	Short Term Debt	0.11%	0.18%
Total	7.56%	12.20%	Total	7.65%	12.34%
Pre-Tax Weighted Cost Cost of Debt	12.20%	4.53%	Pre-Tax Weighted Cost Cost of Debt	12.34%	4.53%
Pre-Tax Interest Coverage	2.69		Pre-Tax Interest Coverage	2.72	