

Exhibit No.:

49

Issues:

Revenue Requirement,
True-up

Witness:

Michael R. Noack

Type of Exhibit:

True-Up Testimony

Sponsoring Party:

Missouri Gas Energy

Case No.:

GR-2004-0209

Date Filed:

July 19, 2004

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

FILED

JUL 29 2004

Missouri Public
Service Commission

CORRECTED

TRUE-UP TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

July 2004

TRUE-UP TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2004-0209

July 19, 2004

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

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

4
5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS CASE?**

6 A. Yes. I have submitted direct, updated direct, rebuttal and surrebuttal testimony
7 regarding the updated revenue requirement based upon the test period established by
8 the Commission. I testified at the evidentiary hearing conducted by the Commission
9 for Missouri Gas Energy ("MGE").

10

11 **Q. WHAT IS THE PURPOSE OF YOUR TRUE-UP TESTIMONY?**

12 A. The purpose of my testimony is to support the True-up Revenue Deficiency Summary
13 accompanying my testimony identified as Schedule MRN-1. On June 21, 2004, the
14 Commission issued an order from the bench establishing a True-up to recognize in
15 rates, changes in revenue requirement elements through April 30, 2004. MGE has
16 prepared its True-up Revenue Deficiency consistent with the understandings reached
17 regarding the true up.

18

1 **Q. WOULD YOU PLEASE IDENTIFY THE ITEMS WHICH WERE SUBJECT**
2 **TO THE TRUE-UP?**

3 A. Certainly. The true-up audit addressed the following items:

4 A. Rate Base

- 5 • All rate base components with the exception of working capital revenue and
- 6 expense lags.

7 B. Expenses

- 8 • Payroll -- employee levels, current wage rates and corresponding payroll taxes and
- 9 benefits;
- 10 • Rate case expense;
- 11 • Depreciation & amortization expense;
- 12 • Income taxes;
- 13 • FAS 106 OPEB expense;
- 14 • Medical expense (including dental and prescription drugs);

15 C. Return

- 16 • Capital structure and the embedded cost of debt.

17
18 **Q. AS A RESULT OF THE PARTIAL STIPULATION AND AGREEMENT**
19 **WERE SEVERAL OF THE ITEMS PREVIOUSLY LISTED AS TRUE UP**
20 **ITEMS ELIMINATED?**

21 A. Yes. As a result of the partial stipulation and agreement it was agreed to exclude
22 from the true-up the following items:

23 A. Rate Base

- 24 • Gas storage inventory
- 25 • Alternative minimum tax

26 B. Revenue

- 27 • Customer growth;

1 C. Expenses

- 2 • Bad debt expense.

3
4 **Q. PLEASE EXPLAIN THE REVENUE DEFICIENCY SUMMARY**
5 **SCHEDULES ATTACHED TO YOUR TRUE-UP TESTIMONY.**

6 A. The True-up schedules and resultant revenue deficiency are prepared consistent with
7 the understandings reached regarding the true-up. The Company's revenue deficiency
8 as trued-up to April 30, 2004, is \$37,900,620, or \$40,056,176 including recognition of
9 the management efficiency rate of return adjustment proposed by MGE.

10
11 **Q. PLEASE DESCRIBE HOW THE COMPANY HAS TREATED TRUE-UP**
12 **ITEMS.**

13 A. Under the category of rate base, the Company has treated those individual items as
14 follows.

15 Plant in service - individual plant balances recorded as of April 30, 2004 have been
16 included. The Federal Energy Regulatory Commission ("FERC") Uniform System of
17 Accounts ("USOA") has three primary categories of plant; Intangible plant,
18 Distribution plant and General plant. The corporate plant and reserve balance as of
19 December 31, 2003 has been used in the true up schedules.

20
21 Depreciation reserve - all individual reserve balances as of April 30, 2004 have been
22 included. Consistent with the treatment of corporate allocated plant, the associated

1 corporate depreciation reserve as of December 31, 2003 has been included and has
2 been allocated to MGE.

3
4 Deferred income taxes (including deferred taxes associated with SLRP) - as of April
5 30,2004, have been included. Consistent with the treatment of corporate allocated
6 plant and depreciation reserve, the associated corporate deferred income taxes as of
7 December 31, 2003, has been allocated to MGE.

8
9 Working capital effects - material and supplies inventory and the actual stores
10 inventory are included based upon a thirteen-month average ended April 30, 2004.
11 Prepayments have been included based upon a thirteen-month average ended April
12 30, 2004 and prepaid pension balance as of April 30, 2004 has also been included.

13
14 Other rate base offsets – rate base offsets of customer deposits and customer advances
15 are included based upon a thirteen-month average ended April 30, 2004.

16
17
18 **Q. PLEASE DESCRIBE THE TREATMENT OF EXPENSES.**

19 A. Payroll – employee levels, current wage rates and corresponding payroll taxes and
20 benefits. Annual payroll levels were determined by utilizing the known employee
21 levels and wage levels in effect as of April 30, 2004. Corporate payroll as of
22 December 31, 2003 has been allocated to MGE. The associated payroll benefits and

1 taxes were also determined using the known tax and benefit levels in effect as of
2 April 30, 2004.

3
4 Rate case expense - is included based upon the cumulative expenditures incurred for
5 services rendered as of the date of the filed testimony, July 19, 2004. Although the
6 true-up period concluded as of April 30, 2004, the Company continues to pay invoices
7 for services provided to date. Expenses related to outside fees associated with the
8 post-hearing process have not been estimated or included for true-up purposes. The
9 Company remains consistent in proposing three-year normalization of rate case
10 expense (\$461,111) but a four-year normalization (\$345,833) could be appropriate if
11 the rate case order in this case is sufficient to enable the resulting rates to remain in
12 effect for four years.

13
14 Depreciation & amortization. Depreciation expense has been determined utilizing the
15 depreciation rates agreed to in the partial stipulation and agreement based upon plant
16 balances as of April 30, 2004. Depreciation expense for corporate plant is determined
17 similarly and applied to the level of corporate plant as of December 31, 2003,
18 allocated to MGE. Also included in the depreciation computation is an amount of
19 \$771,039 to reflect the ongoing level of expense associated with cost of removal.

20
21 Income taxes have been included by synchronizing the changes of items identified
22 herein.

23
24 Property tax expense has not been trued up based upon changes in the level of plant in
25 service as of April 30, 2004. An adjustment has been made however to reflect an item
26 that only recently became known to MGE recently, a new Kansas law imposing

1 property taxes on gas held in storage in Kansas for tax years beginning January 1,
2 2004. Therefore, MGE's true-up revenue requirement reflects the level of property
3 tax expense to be paid based upon the December 31, 2003 level of natural gas in
4 storage in Meade County, Kansas and other Kansas counties. Schedule MRN-2
5 includes the new law passed in Kansas, correspondence MGE has received from
6 Kansas assessing authorities related to this new tax and calculation of the tax amount.
7 The amount of the tax is expected to be \$1,262,059, which MGE understands will
8 have to be paid even though MGE plans to challenge the lawfulness of this new law.
9 MGE has not included any property taxes associated with the gas stored in Oklahoma,
10 even though Oklahoma assessing authorities are seeking to tax such gas, because—
11 unlike in Kansas—MGE will only have to actually pay such Oklahoma taxes in the
12 event its ongoing litigation efforts are not successful.

13
14 FAS 106 OPEB expenses. The level of FAS 106 OPEB expenses has been trued up
15 to the level computed by MGE's actuary at Rudd and Wisdom, Inc.

16
17 Medical expenses (including dental and prescription drugs). Medical expenses
18 including dental and prescription drugs have been trued up to the actual 12-month
19 expense level at April 30, 2004. This adjustment is net of any employee contributions
20 or stop/loss fees which are recovered.

21
22 **Q. PLEASE DESCRIBE THE RETURN ITEM.**

23 A. The capital structure, which consists of the balances for long-term debt, preferred
24 equity and common equity, and the embedded cost of debt and preferred, has been
25 trued up to the per book levels at April 30, 2004 and appropriate adjustments were
26 made as described earlier in the proceeding to remove any impacts of the Panhandle
27 Eastern Pipeline acquisition.

1 Q. HAS THE COMPANY HAD ANY ISSUANCES OF DEBT OR EQUITY AS OF
2 THE TRUE-UP?

3 A. No.

4

5 Q. HAS THE COMPANY CHANGED ITS METHODOLOGY IN
6 DEVELOPMENT OF THE TRUE-UP REVENUE REQUIREMENT?

7 A. No.

8

9 Q. DOES THIS CONCLUDE YOUR TRUE-UP TESTIMONY?

10 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI


In the Matter of Missouri Gas Energy's
Tariff Sheets Designed to Increase Rates
for Gas Service in the Company's Missouri
Service Area.

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)
)
Case No. GR-2004-0209

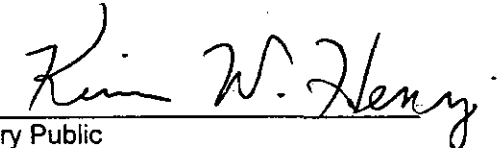
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
)
COUNTY OF JACKSON) ss.

Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Corrected True-up Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Corrected True-up Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


MICHAEL R. NOACK

Subscribed and sworn to before me this 20th day of July 2004.


Notary Public

My Commission Expires: Feb. 3, 2007

Kim W. Henzi
Notary Public - Notary Seal
State of Missouri
Jackson County
My Commission Expires Feb. 3, 2007

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
Updated Through April 30, 2004
Revenue Deficiency

Line No.	Description	Ref.	Required Return	Earnings Deficiency	Net Revenue Deficiency
	(a)	(b)	(c)	(d)	(e)
1	Rate Base	B	\$524,180,782		
2	Rate of Return	F	9.348%		
3	Required Return		<u>\$49,000,420</u>	\$49,000,420	
4	Adjusted Test Year Net Operating Income	A-1		<u>25,959,056</u>	
5	Earnings Deficiency			<u>\$23,041,364</u>	\$23,041,364
6	Multiply by Income Tax Gross-up Factor				<u>1.623080</u>
7	Net Revenue Deficiency - Gross of Tax				<u>\$37,397,977</u>
8	Multiply by Uncollectibles Gross-up Factor				<u>1.01422441</u>
9	Revenue Deficiency before Late Pay Fee Gross Down				<u>\$37,929,941</u>
10	Multiply by Late Pay Fee Gross-down Factor				<u>0.999227</u>
11	Net Revenue Deficiency				<u>\$37,900,620</u>
12	Rate of Return Efficiency Adjustment				<u>\$2,155,556</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
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	(\$351,482,865)	\$135,312,222
2	Other Utility Revenues	8,302,684	107,876	8,410,560
3	Total Operating Revenues	<u>\$495,097,771</u>	<u>(\$351,374,990)</u>	<u>\$143,722,781</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$343,360,642	(\$320,843,469)	\$22,517,173
5	Customer Accounts Expense	17,519,501	1,505,758	19,025,259
6	Customer Service and Information Expense	476,630	166,553	643,183
7	Sales Expense	245,559	16,954	262,513
8	Administrative and General Expense	20,946,520	10,296,003	31,242,523
9	Total Operating and Maintenance Expenses	<u>\$382,548,852</u>	<u>(\$308,858,201)</u>	<u>\$73,690,651</u>
10	Depreciation & Amortization Expense	\$22,691,101	\$4,576,102	\$27,267,203
11	Interest on Customer Deposits	218,822	(82,175)	136,647
12	Taxes Other Than Income	40,041,548	(28,037,835)	12,003,713
13	Total Operating Expenses	<u>\$445,500,323</u>	<u>(\$332,402,109)</u>	<u>\$113,098,214</u>
14	Operating Income Before Income Tax	\$49,597,448	(\$18,972,880)	\$30,624,568
15	Less: Income Tax Expense	11,456,039	(6,790,527)	4,665,512
16	Net Operating Income	<u>\$38,141,409</u>	<u>(\$12,182,353)</u>	<u>\$25,959,056</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Income Tax

Line No.	Description (a)	Reference (b)	Per Books (c)	As Adjusted (d)
1	Total Operating Revenues	A-1	\$495,097,771	\$143,722,781
2	Total Operating Expenses	A-1	(445,500,323)	(113,098,214)
3	Net Operating Income	A-1	<u>\$49,597,448</u>	<u>\$30,624,568</u>
4	Equity Portion of SLRP Deferrals		\$1,317,167	\$0
5	Less: Interest on Long Term Debt		(21,074,636)	(18,472,131)
6	Total Tax Adjustments		<u>(\$19,757,469)</u>	<u>(\$18,472,131)</u>
7	Net Taxable Income		<u>\$29,839,979</u>	<u>\$12,152,437</u>
8	Income Tax		\$11,456,039	\$4,665,512
9	Less: Income Tax Reduction per Case No. GM-94-40		<u>0</u>	<u>0</u>
10	Net Income Tax		<u>\$11,456,039</u>	<u>\$4,665,512</u>

SCHEDULE B

MISSOURI GAS ENERGY

A Division of Southern Union Company
 Twelve Months Ending June 30, 2003
 Updated Through April 30, 2004

Rate Base

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$32,815,599
2	Distribution Plant	C	703,425,254
3	General Plant	C	55,991,602
4	Gross Plant In Service		<u>\$792,232,454</u>
5	Accumulated Depreciation & Amortization	D	<u>(260,941,644)</u>
6	Net Plant in Service		\$531,290,810
7	SLRP Deferrals	B-1	\$0
8	Working Capital	E	71,720,146
9	Alternative Minimum Tax Credit		12,782,852
10	Customer Deposits	B-2	(3,643,210)
11	Customer Advances - Thirteen Month Average	B-3	(10,759,375)
12	Unamortized Deferred Credit per Case No. GM-94-40		0
13	Deferred Income Taxes - SLRP	B-1	(5,727,094)
14	Deferred Income Taxes - Other	B-4	(71,483,347)
15	ECWR Deferrals	B-5	<u>0</u>
16	Total Rate Base		<u><u>\$524,180,782</u></u>

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

SLRP Deferrals and Deferred Taxes Updated Through April 30, 2004

Line No.	Description	Gross Deferral	Accumulated Amortization	Amount
	(a)	(b)	(c)	(d)
<u>SLRP Deferrals</u>				
1	Order GO-92-185 (Deferred Balance @ 5/31/98)	\$5,776,280	5,776,280	\$0
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	12,399,117	12,399,117	0
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	3,060,876	3,060,876	0
4	Order GR-98-140	9,182,136	9,182,136	0
5	Order GR-2001-282	1,629,639	0	0
6	Total SLRP Deferrals	<u>\$32,048,048</u>	<u>\$30,418,409</u>	<u>\$0</u>
 <u>SLRP Deferred Taxes</u>				
7	Order GO-92-185			0
8	Order GO-94-234			2,012,175
9	Order GO-97-301			512,573
10	Order GR-98-140			2,572,581
11	Order GR-2001-292			629,765
12	Total SLRP Deferred Taxes			<u>\$5,727,094</u>

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

Customer Deposits Updated through April 30, 2004

Line No.	Month	Residential Amount	Commercial & Industrial		Total Amount
			Amount	Amount	
	(a)	(b)	(c)		(d)
1	Apr-03	(1,506,298)	(2,125,956)		(\$3,632,254)
2	May-03	(1,463,678)	(2,124,531)		(3,588,209)
3	Jun-03	(1,417,912)	(2,153,752)		(3,571,664)
4	Jul-03	(1,401,151)	(2,174,196)		(3,575,348)
5	Aug-03	(1,365,340)	(2,198,304)		(3,563,644)
6	Sep-03	(1,357,012)	(2,212,457)		(3,569,469)
7	Oct-03	(1,342,133)	(2,248,184)		(3,590,317)
8	Nov-03	(1,318,844)	(2,287,965)		(3,606,809)
9	Dec-03	(1,333,389)	(2,362,887)		(3,696,276)
10	Jan-04	(1,321,237)	(2,424,414)		(3,745,651)
11	Feb-04	(1,322,782)	(2,412,089)		(3,734,871)
12	Mar-04	(1,321,609)	(2,425,342)		(3,746,951)
13	Apr-04	<u>(1,306,550)</u>	<u>(2,433,718)</u>		<u>(3,740,268)</u>
14	13 Month Total	<u>(\$17,777,934)</u>	<u>(\$29,583,796)</u>		<u>(\$47,361,730)</u>
15	13 Month Average	<u>(\$1,367,533)</u>	<u>(\$2,275,677)</u>		<u>(\$3,643,210)</u>

SCHEDULE B-3

MISSOURI GAS ENERGY

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

Customer Advances Updated through April 30, 2004

Line No.	Month (a)	Amount (b)
1	Apr-03	(10,431,656)
2	May-03	(10,611,023)
3	Jun-03	(10,564,904)
4	Jul-03	(10,549,375)
5	Aug-03	(10,566,872)
6	Sep-03	(10,525,281)
7	Oct-03	(10,852,291)
8	Nov-03	(10,930,960)
9	Dec-03	(10,860,888)
10	Jan-04	(10,910,131)
11	Feb-04	(10,887,483)
12	Mar-04	(11,020,496)
13	Apr-04	<u>(11,160,515)</u>
14	13 Month Total	<u><u>(\$139,871,875)</u></u>
15	13 Month Average	<u><u>(\$10,759,375)</u></u>

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

Deferred Taxes (Other than SLRP) Updated through April 30, 2004

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 6/30/03	(\$71,427,693)
2	Deferred Taxes, Corporate Plant	<u>(55,654)</u>
3	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u><u>(\$71,483,347)</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
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	32,096	0	32,096	0	0	32,096
3	(303) Miscellaneous Intangible	32,371,891	396,012	32,767,903	0	0	32,767,903
4	Total Intangible Plant	\$32,419,587	\$396,012	\$32,815,599	\$0	\$0	\$32,815,599
DISTRIBUTION PLANT							
5	(374.1) Land	\$240,448	\$0	\$240,448	\$0	\$0	\$240,448
6	(374.2) Land Rights	1,376,615	0	1,376,615	0	0	1,376,615
7	(375.1) Structures	3,248,632	0	3,248,632	0	0	3,248,632
8	(375.2) Leasehold Improvements	0	0	0	0	0	0
9	(376) Mains	308,994,383	1,344,741	310,339,124	0	0	310,339,124
10	(378) Meas. & Reg. Station - General	11,209,450	36,036	11,245,486	0	0	11,245,486
11	(379) Meas. & Reg. Station - City Gate	3,214,591	0	3,214,591	0	0	3,214,591
12	(380) Services	275,990,572	682,603	276,673,175	0	(3,912,754)	272,760,421
13	(381) Meters	29,281,747	0	29,281,747	0	0	29,281,747
14	(382) Meter Installations	60,393,373	363,732	60,757,105	0	0	60,757,105
15	(383) House Regulators	10,587,043	22,606	10,609,649	0	0	10,609,649
16	(385) Electronic Gas Measuring	351,435	0	351,435	0	0	351,435
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	\$704,888,289	\$2,449,719	\$707,338,008	\$0	(\$3,912,754)	\$703,425,254
GENERAL PLANT							
19	(389) Land	\$687,569	\$350	\$687,919	\$0	\$0	\$687,919
20	(390.1) Structures	590,347	0	590,347	111,679	0	702,026
21	(390.2) Leasehold Improvements	1,389,409	0	1,389,409	0	0	1,389,409
22	(391) Furniture & Fixtures	5,608,881	50,226	5,659,107	83,465	(1,014,662)	4,727,910
23	(392) Transportation Equipment	4,819,628	88,546	4,908,174	25,107	0	4,933,281
24	(393) Stores Equipment	504,893	0	504,893	0	0	504,893
25	(394) Tools	4,810,915	1,398	4,812,313	0	0	4,812,313
26	(395) Laboratory Equipment	0	0	0	0	0	0
27	(396) Power Operated Equipment	243,807	0	243,807	0	0	243,807
28	(397.1) Communication Equipment - AMR	34,727,680	9,429	34,737,109	0	0	34,737,109
29	(397.0) Communication Equipment	2,847,334	0	2,847,334	0	0	2,847,334
30	(398) Miscellaneous Equipment	405,600	0	405,600	0	0	405,600
31	Total General Plant	\$56,636,063	\$149,950	\$56,786,013	\$220,251	(\$1,014,662)	\$55,991,602
32	Total Original Cost Plant in Service	\$793,943,939	\$2,995,680	\$796,939,619	\$220,251	(\$4,927,416)	\$792,232,454
33	Accumulated Depreciation and Amortization	(264,680,177)	0	(264,680,177)	(38,547)	3,777,080	(260,941,644)
34	Net Plant In Service	\$529,263,762	\$2,995,680	\$532,259,442	\$181,704	(\$1,150,336)	\$531,290,810

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Plant in Service

Line No.	Description	Retire Inactive Services No. 1	Texas Related CSS Enhancements No. 2	Total Adjustments
	(a)	(b)	(c)	(d)
<u>INTANGIBLE PLANT</u>				
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
<u>DISTRIBUTION PLANT</u>				
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	(3,912,754)	0	(3,912,754)
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	(\$3,912,754)	\$0	(\$3,912,754)
<u>GENERAL PLANT</u>				
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	(\$3,912,754)	(\$1,014,662)	(\$4,927,416)

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
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	(\$18,155,832)	\$0	\$0	(\$18,155,832)
2	Distribution Reserve	<u>(246,524,345)</u>	<u>(38,547)</u>	<u>3,777,080</u>	<u>(242,785,812)</u>
3	Total Accumulated Reserves	<u>(\$264,680,177)</u>	<u>(\$38,547)</u>	<u>\$3,777,080</u>	<u>(\$260,941,644)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Adjustments to Plant in Service	Deprec. Rates	Retire Inactive Meters No. 1	Texas Related CSS Enhancements No. 2	Remove Debit Balances No. 3	Total Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>DISTRIBUTION PLANT</u>							
1	(374.1) Land	\$0	0.00%				\$0
2	(374.2) Land Rights	0	Amort.				0
3	(375.1) Structures	0	1.65%				0
4	(375.2) Leasehold Improvements	0	Amort.				0
5	(376) Mains & Mains - Cast Iron	0	2.27%				0
6	(378) Meas. & Reg. Station - General	0	2.86%				0
7	(379) Meas. & Reg. Station - City Gate	0	2.13%				0
8	(380) Services	(3,912,754)	2.70%	3,912,754			3,912,754
9	(381) Meters	0	2.86%				0
10	(382) Meter Installations	0	2.86%				0
11	(383) House Regulators	0	2.44%				0
12	(385) Electronic Gas Metering	0	3.33%				0
13	(387) Other Equipment	0	4.60%				0
14	Total Distribution Plant	<u>(\$3,912,754)</u>		<u>\$3,912,754</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,912,754</u>
<u>GENERAL PLANT</u>							
15	(389) Land	\$0	0.00%				\$0
16	(390.1) Structures	0	2.00%				0
17	(390.2) Leasehold Improvements	0	Amort.				0
18	(391) Furniture & Fixtures	(1,014,662)	8.06%		692,795	(828,469)	(135,674)
19	(392) Transportation Equipment	0	8.70%				0
20	(393) Stores Equipment	0	2.70%				0
21	(394) Tools	0	5.30%				0
22	(395) Laboratory Equipment	0	6.00%				0
23	(396) Power Operated Equipment	0	8.33%			0	0
24	(397) Communication Equipment - AMR	0	5.00%				0
25	(397) Communication Equipment	0	6.25%			0	0
26	(398) Miscellaneous Equipment	0	3.85%				0
27	Total General Plant	<u>(\$1,014,662)</u>		<u>\$0</u>	<u>\$692,795</u>	<u>(\$828,469)</u>	<u>(\$135,674)</u>
28	Total Adjustment	<u>(\$4,927,416)</u>		<u>\$3,912,754</u>	<u>\$692,795</u>	<u>(\$828,469)</u>	<u>\$3,777,080</u>

0

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Working Capital

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$2,668,925
2	Prepayments - Thirteen Month Average	E-2	472,395
3	Gas Inventory - Volumes and Price	E-3	59,495,887
4	Cash Working Capital	E-4	1,107,759
5	Prepaid Pension	E-5	<u>7,975,181</u>
6	Total Working Capital		<u><u>\$71,720,146</u></u>

SCHEDULE E-1

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2003
Updated Through April 30, 2004
Materials & Supplies

Line No.	Month (a)	Amount (b)
1	Apr-03	2,709,731
2	May-03	2,653,665
3	Jun-03	2,439,502
4	Jul-03	2,688,682
5	Aug-03	2,509,144
6	Sep-03	2,812,460
7	Oct-03	2,878,848
8	Nov-03	2,668,219
9	Dec-03	2,702,305
10	Jan-04	2,627,254
11	Feb-04	2,656,009
12	Mar-04	2,743,369
13	Apr-04	2,606,839
14	13 Month Total	<u>\$34,696,028</u>
15	13 Month Average	<u>\$2,668,925</u>

SCHEDULE E-2

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2003
Updated Through April 30, 2004
Prepayments

Line No.	Month (a)	Amount (b)
1	Apr-03	223,610
2	May-03	131,259
3	Jun-03	243,867
4	Jul-03	499,098
5	Aug-03	784,585
6	Sep-03	682,329
7	Oct-03	648,275
8	Nov-03	597,854
9	Dec-03	562,134
10	Jan-04	571,172
11	Feb-04	413,515
12	Mar-04	427,903
13	Apr-04	<u>355,529</u>
14	13 Month Total	<u><u>\$6,141,129</u></u>
15	13 Month Average	<u><u>\$472,395</u></u>

SCHEDULE E-3

MISSOURI GAS ENERGY

A Division of Southern Union Company

Thirteen Months Ending June 30, 2003

Updated Through December 31, 2003

Gas Inventory

Line No.	Month (a)	Volumes (b)
1	Jan-03	6,199,269
2	Feb-03	1,604,779
3	Mar-03	1,793,568
4	Apr-03	4,843,104
5	May-03	9,205,812
6	Jun-03	12,451,375
7	Jul-03	13,914,784
8	Aug-03	15,189,442
9	Sep-03	16,457,594
10	Oct-03	17,460,027
11	Nov-03	14,562,734
12	Dec-03	<u>12,013,048</u>
13	13 Month Average	10,474,628
14	Current Injection Prices	<u>\$5.680</u>
15	Inventory Value	<u><u>\$59,495,887</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
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)
Operation & Maintenance Expense							
1	Cash Vouchers	\$24,092,055	43.0000	28.0000	15.0000	0.0411	\$990,084
2	Bad Debt Expense	7,042,000	43.0000	43.0000	-	-	0
3	Net Payroll Expense	25,176,063	43.0000	12.5000	30.5000	0.0836	2,103,753
4	Fica Withheld	2,399,110	43.0000	9.6000	33.4000	0.0915	219,535
5	Federal Income Tax Withheld	2,985,421	43.0000	15.5900	27.4100	0.0751	224,193
6	State Income Tax Withheld	974,745	43.0000	48.7600	(5.7600)	(0.0158)	(15,382)
7	City Tax Withheld	140,668	43.0000	20.2200	22.7800	0.0624	8,779
8	PSC Assessment	1,419,590	43.0000	(45.0000)	88.0000	0.2411	342,257
9	Vacation Expense - Nonunion	452,948	43.0000	182.5000	(139.5000)	(0.3822)	(173,113)
10	Vacation Expense - Union	876,515	43.0000	388.1500	(345.1500)	(0.9456)	(828,847)
11	Outside Legal Expense	505,040	43.0000	68.6400	(25.6400)	(0.0702)	(35,477)
12	Pensions	0	43.0000	43.0000	-	-	0
13	Medical Expense	6,304,753	43.0000	-	43.0000	0.1178	742,752
14	Purchased Gas	355,036,581	43.0000	38.8800	4.1200	0.0113	4,007,536
15	Building Rents and Leases	1,321,743	43.0000	(14.6500)	57.6500	0.1579	208,763
16	Total Operation & Maintenance Expense	<u>428,727,231</u>					<u>7,794,833</u>
Taxes							
17	Property Taxes	8,523,773	43.0000	182.0000	(139.0000)	(0.3808)	(3,246,040)
18	Franchise Taxes	193,682	43.0000	59.4100	(16.4100)	(0.0450)	(8,708)
19	Gross Receipts Taxes	29,738,182	33.3750	59.4100	(26.0350)	(0.0713)	(2,121,188)
20	Employer Portion of FICA	2,399,110	43.0000	9.6000	33.4000	0.0915	219,535
21	Federal and State Unemployment	37,110	43.0000	87.8200	(44.8200)	(0.1228)	(4,557)
22	Use Taxes	169,306	33.3750	76.1200	(42.7450)	(0.1171)	(19,827)
23	Sales Taxes	7,336,089	33.3750	24.9700	8.4050	0.0230	168,931
24	Total Taxes	<u>48,397,252</u>					<u>(5,011,853)</u>
25	Total Cash Working Capital Requirement						2,782,980
26	Estimated Interest Expense Offset	18,472,130	43.0000	75.6000	(32.6000)	(0.0893)	(1,649,561)
27	Estimated Income Tax Offset	4,665,513	43.0000	45.0000	(2.0000)	(0.0055)	(25,660)
28	Net Cash Working Capital						<u>\$1,107,759</u>

SCHEDULE E-5

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending June 30, 2003

Deferred Pension Updated through April 30, 2004

Line No.	Year Ended (a)	Balance (b)
1	April 30, 2004	<u>\$7,975,181</u>

SCHEDULE F

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

Summary of Cost of Capital Updated through April 30, 2004

Line No.	Description	Reference	Ratio	Cost Rate	Weighted Composite Rate
	(a)	(b)	(c)	(d)	(e)
1	Long-Term Debt	F-1	47.41%	7.434%	3.524%
2	Preferred Equity	F-2	11.49%	7.758%	0.892%
3	Common Equity	F-2	<u>41.10%</u>	12.000%	<u>4.932%</u>
4	Total		<u>100.00%</u>		<u>9.348%</u>

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

Long Term Debt Updated through April 30, 2004

Line No.	Description (a)	Outstanding 12/31/03 (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	111,086,956	2.205%	2,450,000
4	Bank Debt	0	2.100%	0
5	5.75% Equity Units	64,543,029	5.750%	3,711,000
6	9.34% Mortgage bonds	15,000,000	9.340%	1,401,000
7	9.44% Mortgage (FR)	6,500,000	9.440%	614,000
8	7.99% Mortgage (FR)	7,000,000	7.990%	559,000
9	7.24% Mortgage (FR)	6,000,000	7.240%	434,000
10	Mortgage bonds (PR) M	1,363,000	10.250%	140,000
11	Mortgage bonds (PR) N	10,000,000	9.630%	963,000
12	Mortgage bonds (PR) O	11,875,000	8.460%	1,005,000
13	Mortgage bonds (PR) P	12,500,000	8.090%	1,011,000
14	Mortgage bonds (PR) R	15,000,000	7.500%	1,125,000
15	Mortgage bonds (PR) S	14,464,000	6.820%	986,000
16	Mortgage bonds (PR) T	13,737,000	6.500%	893,000
17	Other	0	7.000%	0
18	Total long term debt	948,833,985		67,384,000
19	Unamort debt costs-181	(14,186,574)		2,591,556
20	Unamortized debt costs - 189	(13,261,501)		667,368
21	Unamortized gain - 257	2,061,342		(104,372)
22	Net long term debt	<u>\$923,447,252</u>		<u>\$70,538,552</u>
26	EFFECTIVE INTEREST RATE		7.4342%	
27	(b) This is a floating rate lease; however, the interest rate was fixed with an interest rate swap at 5.79%			

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

Equity Capital Updated through December 31, 2003

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	7.758%		
	Preferred Equity as Proportion of Total			
4	Capitalization		11.49%	
5	Composite Preferred Cost Rate			0.892%
	Common Equity			
6	Common Equity			
7	Required Return on Common Equity	12.000%		
	Common Equity as Proportion of Total			
8	Capitalization		41.1%	
9	Composite Common Cost Rate			4.932%
10	Total Equity Capital			5.824%

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

Distribution of Revenue and Expense Adjustments by Account No.
Updated through April 30, 2004

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	(\$242,727,107)	\$98,000,407
2	481.1	Commercial	138,675,790	(106,389,188)	32,286,602
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	352,803	2,666,161
7	489	Transport	8,439,483	107,876	8,547,359
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>(\$351,374,990)</u>	<u>\$143,722,781</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	47,219	553,662
15	871	Distribution and Load Dispatching	13,427	321	13,748
16	872	Compressor Station Labor and Expense	0	0	0
17	874	Mains and Service Expenses	2,571,135	20,274	2,591,409
18	875	Distributing Regulating Station Expenses	644,338	32,797	677,135
19	876	Measuring and Regulating - Station Expenses	5,310	(477)	4,833
20	877	Measuring and Regulating - Station Expenses	4,050	455	4,505
21	878	Meter and House Regulator Expenses	4,258,435	218,385	4,476,820
22	879	Customer Installation Expenses	2,248,341	148,870	2,397,211
23	880	Other Expenses	1,107,496	88,111	1,195,607
24	881	Rents	69,814	0	69,814
25		Total Operation Expense	<u>\$333,447,263</u>	<u>(\$321,462,519)</u>	<u>\$11,984,744</u>
Maintenance Expense					
26	885	Maintenance Supervision and Engineering	\$780,481	\$187,579	\$968,060
27	886	Maintenance of Structures and Improvements	139,484	6,762	146,246
28	887	Maintenance of Mains	6,748,357	320,202	7,068,559
29	889	Maint. of Measuring and Reg. Stat Equip - General	211,527	10,526	222,053
30	890	Maint. of Measuring and Regulating Equipment	310,825	17,116	327,941
31	891	Maint. of Measuring and Regulating Equipment	80,971	813	81,784
32	892	Maintenance of Services	557,520	31,498	589,018
33	893	Maintenance of Meters and House Regulators	856,716	41,473	898,189
34	894	Maintenance of Other Equipment	227,498	3,081	230,579
35		Total Maintenance Expenses	<u>\$9,913,379</u>	<u>\$619,050</u>	<u>\$10,532,429</u>
36		Total Distribution Expense	<u>\$343,360,642</u>	<u>(\$320,843,469)</u>	<u>\$22,517,173</u>
Customer Accounts Expense					
37	901	Supervision	\$578,740	\$36,391	\$615,131
38	902	Meter Reading Expense	630,162	40,908	671,070
39	903	Customer Records and Collection Expense	9,623,169	988,039	10,611,208
40	904	Uncollectible Accounts	6,602,056	440,420	7,042,476
41	905	Miscellaneous Customer Accounts Expense	85,374	0	85,374
42		Total Customer Accounts Expenses	<u>\$17,519,501</u>	<u>\$1,505,758</u>	<u>\$19,025,259</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.
Updated through April 30, 2004

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	166,553	588,673
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>\$166,553</u>	<u>\$643,183</u>
Sales and Advertising Expense					
48	911	Supervision	\$0	\$0	\$0
49	912	Demonstrating and Selling Expenses	243,883	16,954	260,837
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>\$16,954</u>	<u>\$262,513</u>
Administrative and General Expense					
53	920	Administrative and General Salaries	\$3,718,333	\$1,452,616	\$5,170,949
54	921	Office Supplies and Expenses	3,221,659	1,261,149	4,482,808
55	922	Administrative Expenses Transferred	(165,936)	(1,318,332)	(1,484,268)
56	923	Outside Services Employed	2,013,943	2,678,223	4,692,166
57	924	Property Insurance	164,136	0	164,136
58	925	Injuries and Damages	1,515,813	693,233	2,209,046
59	926	Employee Pensions and Benefits	7,769,789	4,391,062	12,160,851
60	927	Franchise Requirements	0	0	0
61	928	Regulatory Commission Expense	1,854,587	223,579	2,078,166
62	930	Miscellaneous General Expenses	(279,283)	491,062	211,779
63	931	Rents	956,683	309,410	1,266,093
64	932	Maintenance of General Plant	176,796	114,001	290,797
65		Total Administration and General Expense	<u>\$20,946,520</u>	<u>\$10,296,003</u>	<u>\$31,242,523</u>
66		Total O & M Expense	<u>\$382,548,852</u>	<u>(\$308,858,201)</u>	<u>\$73,690,651</u>
67	403	Depreciation	20,289,660	804,312	21,093,972
68	404, 405	Amortization	2,401,441	3,771,790	6,173,231
69	431	Interest on Customer Deposits	218,822	(82,175)	136,647
70	408	Payroll Taxes	1,593,999	430,200	2,024,199
71	408	Property Taxes	8,280,724	1,505,108	9,785,832
72	408	Gross Receipts Tax	30,058,800	(30,058,800)	0
73	408	Other Taxes	108,025	85,657	193,682
74	408	Taxes Other Than Income	<u>\$40,041,548</u>	<u>(\$28,037,835)</u>	<u>\$12,003,713</u>
75		TOTAL EXPENSES	<u>\$445,500,323</u>	<u>(\$332,402,109)</u>	<u>\$113,098,214</u>
76		OPERATING INCOME BEFORE INCOME TAX	<u>\$49,597,448</u>	<u>(\$18,972,880)</u>	<u>\$30,624,568</u>
77	409,410	Income Taxes	\$11,456,039	(\$6,790,527)	\$4,665,512
78		NET OPERATING INCOME	<u>\$38,141,409</u>	<u>(\$12,182,353)</u>	<u>\$25,959,056</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated through April 30, 2004

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	(c)	H-1 Adj. GL Rev to Test Year Margin	H-2 Normalize & Adj. Test Year Margin	H-3 Remove Purch., Gas Cost and GRT	H-4 Payroll Expense	H-5 Employee Benefits	H-6 Payroll Taxes	H-7 Insurance	H-8 Joint and Common Costs	H-9 Uncollectible Expense	H-10 Regulatory Commission Expense	H-11 Interest on Customer Deposits
OPERATING REVENUE																
1	480	Residential			\$340,727,514	(\$242,269,140)	(\$457,967)									
2	481.1	Commercial			138,675,790	(106,422,670)	33,482									
3	481.2	Industrial			3,930,121	(2,549,814)	0									
4	483	Sales for Resale			0	(113,694)	0									
5	487	Late Payment Charges			1,148,304	(55,895)	0									
6	488	Miscellaneous Service Revenue			2,313,358		352,803									
7	489	Transport			8,439,483		107,876									
8	493	Rent From Property			0											
9	495	Other Gas Revenue			(136,799)											
10		Total Operating Revenue			\$495,097,771	(\$351,411,183)	\$36,193	\$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				45,071							
15	871	Distribution and Load Dispatching			13,427				284							
16	872	Compressor Station Labor and Expense			0				0							
17	874	Mains and Service Expenses			2,571,135				19,201							
18	875	Distributing Regulating Station Expenses			644,338				30,908							
19	876	Measuring and Regulating - Station Expenses			5,310				(489)							
20	877	Measuring and Regulating - Station Expenses			4,050				443							
21	878	Meier and House Regulator Expenses			4,258,435				206,162							
22	879	Customer Installation Expenses			2,248,341				141,686							
23	880	Other Expenses			1,107,496				85,050							
24	881	Rents			69,814											
25		Total Operation Expense			\$333,447,263	\$0	\$0	(\$321,980,474)	\$528,316	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Maintenance Expense																
26	885	Maintenance Supervision and Engineering			\$780,481				\$183,732							
27	886	Maintenance of Structures and Improvements			139,484				6,378							
28	887	Maintenance of Mains			6,748,357				303,465							
29	888	Maint. of Measuring and Reg. Stat Equip - General			211,527				9,933							
30	890	Maint. of Measuring and Regulating Equipment			310,825				16,221							
31	891	Maint. of Measuring and Regulating Equipment			80,971				741							
32	892	Maintenance of Services			557,520				30,001							
33	893	Maintenance of Meters and House Regulators			856,716				39,079							
34	894	Maintenance of Other Equipment			227,498				2,893							
35		Total Maintenance Expense			\$9,913,378	\$0	\$0	\$0	\$592,444	\$0	\$0	\$0	\$0	\$0	\$0	\$0
36		Total Distribution Expense			\$343,360,642	\$0	\$0	(\$321,980,474)	\$1,120,760	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Accounts Expense																
37	901	Supervision			\$578,740				\$34,631							
38	902	Meter Reading Expense			630,162				38,971							
39	903	Customer Records and Collection Expense			9,623,169				772,629							
40	904	Uncollectible Accounts			6,602,056									440,420		
41	905	Miscellaneous Customer Accounts Expense			85,374				0							
42		Total Customer Accounts Expense			\$17,519,501	\$0	\$0	\$0	\$846,231	\$0	\$0	\$0	\$0	\$440,420	\$0	\$0

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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	Test Year Per Books	(c)	H-1 Adj. GL Rev to Test Year Margin	(d)	H-2 Normalize & Adj. Test Year Margin	(e)	H-3 Remove Purch. Cost and GRT	H-4 Payroll Expense	H-5 Employee Benefits	H-6 Payroll Taxes	H-7 Insurance	H-8 Joint and Common Costs	H-9 Uncollectible Expense	H-10 Regulatory Commission Expense	H-11 Interest on Customer Deposits
Customer Service and Informational Expense																			
43	907	Supervision			\$0							6,223							
44	908	Customer Assistance			422,120														
45	909	Informational and Instructional Advertising Exp.			43,018														
46	910	Miscellaneous Customer Accounts Expense			11,492														
47		Total Cust. Service and Informational Exp.			\$476,630	\$0	\$0	\$0	\$0	\$0	\$0	\$6,223	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales and Advertising Expense																			
48	911	Supervision			\$0														
49	912	Demonstrating and Selling Expenses			243,883							16,053							
50	913	Advertising Expenses			0														
51	916	Miscellaneous Sales Expenses			1,676														
52		Total Sales and Advertising Expenses			\$245,559	\$0	\$0	\$0	\$0	\$0	\$0	\$16,053	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Administrative and General Expense																			
53	920	Administrative and General Salaries			\$3,718,333							\$1,433,566							
54	921	Office Supplies and Expenses			3,221,659							946							
55	922	Administrative Expenses Transferred			(165,936)														
56	923	Outside Services Employed			2,013,943											2,418,245			
57	924	Property Insurance			164,136														
58	925	Injuries and Damages			1,515,813							(822)			694,049				
59	926	Employee Pensions and Benefits			7,768,789								4,391,062						
60	927	Franchise Requirements			0														
61	928	Regulatory Commission Expense			1,854,587													223,579	
62	930	Miscellaneous General Expense			(279,283)														
63	931	Rents			956,683														
64	932	Maintenance of General Plant			176,796							0							
65		Total Administration and General Expense			\$20,946,520	\$0	\$0	\$0	\$0	\$0	\$0	\$1,433,690	\$4,391,062	\$0	\$694,049	\$2,418,245	\$440,420	\$223,579	\$0
66		Total O & M Expense			\$382,548,852	\$0	\$0	\$0	\$0	\$0	(\$321,980,474)	\$3,422,957	\$4,391,062	\$0	\$694,049	\$2,418,245	\$440,420	\$223,579	\$0
67	403	Depreciation			\$20,289,660														
68	404, 405	Amortization			2,401,441														
69	431	Interest on Customer Deposits			218,822														(82,175)
70	408	Payroll Taxes (1****)			1,593,999									430,200					
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	\$0	\$0	\$0	(\$30,058,800)	\$0	\$0	\$430,200	\$0	\$0	\$0	\$0	\$0
75		TOTAL EXPENSES			\$445,500,323	\$0	\$0	\$0	\$0	\$0	(\$352,039,274)	\$3,422,957	\$4,391,062	\$430,200	\$694,049	\$2,418,245	\$440,420	\$223,579	(\$82,175)
76		OPERATING INCOME BEFORE INCOME TAX			\$49,587,448	(\$351,411,183)	\$36,193	\$352,039,274	(\$3,422,957)	(\$4,391,062)	(\$430,200)	(\$694,049)	(\$2,418,245)	(\$440,420)	(\$223,579)				\$82,175
77	409,410	Income Taxes			11,458,039														
78		Note: per book & adjusted income tax computed on A-2 NET OPERATING INCOME			\$38,141,409	(\$351,411,183)	\$36,193	\$352,039,274	(\$3,422,957)	(\$4,391,062)	(\$430,200)	(\$694,049)	(\$2,418,245)	(\$440,420)	(\$223,579)				\$82,175

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	Depreciation Expense	Amortization Expense	TWE Clearing	Stores Load Clearing	Paid Time Off Clearing	State Franchise Tax	Property Tax	Gas Supply	Office Lease Expense	Dues Expense	Compensation & Bonuses	Insurance	Collection Costs
	(a)	(b)	(c)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)	(z)
OPERATING REVENUE																
1	480	Residential	\$340,727,514													
2	481.1	Commercial	138,875,790													
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	(135,789)													
10		Total Operating Revenue	\$485,092,771	\$0	\$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	508,443			0		0						2,148		
15	871	Distribution and Load Dispatching	13,427			0		0						37		
16	872	Compressor Station Labor and Expense	0			0		0						0		
17	874	Main and Service Expenses	2,571,135			0		0						1,073		
18	875	Distributing Regulating Station Expenses	644,338			0		0						1,889		
19	876	Measuring and Regulating - Station Expenses	5,310			0		0						12		
20	877	Measuring and Regulating - Station Expenses	4,050			0		0						12		
21	878	Meter and House Regulator Expenses	4,258,435			0		0						12,223		
22	879	Customer Installation Expenses	2,248,341			0		0						7,184		
23	880	Other Expenses	1,107,496			0		0						3,061		
24	881	Rents	69,814													
25		Total Operation Expense	\$333,447,263	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$27,639	\$0	\$0
Maintenance Expense																
26	885	Maintenance Supervision and Engineering	\$780,481			\$0	\$0	\$0						\$3,847		
27	886	Maintenance of Structures and Improvements	139,484			0		0						383		
28	887	Maintenance of Mains	6,748,357			0		0						16,737		
29	889	Maint. of Measuring and Reg. Stat Equip - General	211,527			0		0						593		
30	890	Maint. of Measuring and Regulating Equipment	310,825			0		0						895		
31	891	Maint. of Measuring and Regulating Equipment	80,971			0		0						72		
32	892	Maintenance of Services	557,520			0		0						1,497		
33	893	Maintenance of Meters and House Regulators	856,716			0		0						2,394		
34	894	Maintenance of Other Equipment	227,498			0		0						188		
35		Total Maintenance Expenses	\$9,913,379	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$26,906	\$0	\$0
Total Distribution Expense																
36		Total Distribution Expense	\$343,360,642	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$54,245	\$0	\$0
Customer Accounts Expense																
37	901	Supervision	\$578,740											\$1,760		
38	902	Meter Reading Expense	630,162			0		0						1,937		
39	903	Customer Records and Collection Expense	9,623,189			0		0						20,202		195,208
40	904	Uncollectible Accounts	6,602,056													
41	905	Miscellaneous Customer Accounts Expense	85,374				0									
42		Total Customer Accounts Expenses	\$17,519,501	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$23,899	\$0	\$195,208

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Line No.	Main Acct.	Description	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)	(o)	(p)	(q)	(r)	(s)	(t)	(u)	(v)	(w)	(x)	(y)	(z)
43	907	Customer Service and Informational Expense																										
44	908	Supervision			\$0																							
45	909	Customer Assistance			422,120																							
46	910	Informational and Instructional Advertising Exp.			43,018																							
47		Miscellaneous Customer Accounts Expense			11,492																							
		Total Cust. Service and Informational Exp.			\$476,630																							
48	911	Sales and Advertising Expense																										
49	912	Supervision			\$0																							
50	913	Demonstrating and Selling Expenses			243,883																							
51	915	Advertising Expenses			0																							
52		Miscellaneous Sales Expenses			1,676																							
		Total Sales and Advertising Expenses			\$245,559																							
53	920	Administrative and General Expense																										
54	921	Administrative and General Salaries			\$3,718,333																							
55	922	Office Supplies and Expenses			3,221,659																							
56	923	Administrative Expenses Transferred			(165,936)																							
57	924	Outside Services Employed			2,013,943																							
58	925	Property Insurance			164,138																							
59	926	Injuries and Damages			1,515,813																							
60	927	Employee Pensions and Benefits			7,769,789																							
61	928	Franchise Requirements			0																							
62	930	Regulatory Commission Expense			1,854,587																							
63	931	Miscellaneous General Expenses			(279,263)																							
64	932	Rents			856,683																							
65		Maintenance of General Plant			176,798																							
		Total Administration and General Expense			\$20,946,520																							
66		Total O & M Expense			\$382,548,852																							
67	403	Depreciation			\$20,289,660																							
68	404, 405	Amortization			2,401,441																							
69	431	Interest on Customer Deposits			218,822																							
70	408	Payroll Taxes (1***)			1,593,989																							
71	408	Property Taxes (2****)			8,280,724																							
72	408	Gross Receipts Tax (3300 + 4000)			30,058,800																							
73	408	Other Taxes (41**)			108,025																							
74	408	Taxes Other Than Income			\$40,041,548																							
		TOTAL EXPENSES			\$445,500,323																							
75		OPERATING INCOME BEFORE INCOME TAX			\$804,312																							
76					\$49,597,448																							
77	409,410	Income Taxes			11,456,039																							
78		NET OPERATING INCOME			\$38,141,409																							

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

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Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	(a)	(b)	(c)	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
			(aa)	(ab)	(ac)	(ad)	(ae)	(af)	(ag)	(ah)	(ai)			
OPERATING REVENUE														
1	480	Residential			\$340,727,514								(\$242,727,107)	\$98,000,407
2	481.1	Commercial			138,675,790								(106,389,188)	32,286,602
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								352,803	2,666,161
7	489	Transport			8,439,483								107,876	8,547,359
8	493	Rent From Property			0								0	0
9	495	Other Gas Revenue			(138,799)								0	(138,799)
10		Total Operating Revenue			\$495,097,771	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$351,374,990)	\$143,722,781
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			508,443								47,219	553,662
15	871	Distribution and Load Dispatching			13,427								321	13,748
16	872	Compressor Station Labor and Expense			0								0	0
17	874	Mains and Service Expenses			2,571,135								20,274	2,591,409
18	875	Distributing Regulating Station Expenses			644,338								32,797	677,135
19	876	Measuring and Regulating - Station Expenses			5,310								(477)	4,833
20	877	Measuring and Regulating - Station Expenses			4,050								455	4,505
21	878	Meier and House Regulator Expenses			4,258,435								218,385	4,476,820
22	879	Customer Installation Expenses			2,248,341								148,870	2,397,211
23	880	Other Expenses			1,107,486								88,111	1,195,607
24	881	Rents			69,814								0	69,814
25		Total Operation Expense			\$333,447,283	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$321,462,519)	\$11,984,744
Maintenance Expense														
26	885	Maintenance Supervision and Engineering			\$780,481								\$187,579	\$968,060
27	886	Maintenance of Structures and Improvements			139,484								6,762	146,246
28	887	Maintenance of Mains			6,748,357								320,202	7,068,559
29	889	Maint. of Measuring and Reg. Stat Equip - General			211,527								10,526	222,053
30	890	Maint. of Measuring and Regulating Equipment			310,825								17,116	327,941
31	891	Maint. of Measuring and Regulating Equipment			80,971								813	81,784
32	892	Maintenance of Services			557,520								31,498	589,018
33	893	Maintenance of Meters and House Regulators			858,716								41,473	899,189
34	894	Maintenance of Other Equipment			227,498								3,081	230,579
35		Total Maintenance Expenses			\$9,913,379	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$619,050	\$10,532,429
36		Total Distribution Expense			\$343,360,642	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$320,843,469)	\$22,517,173
Customer Accounts Expense														
37	901	Supervision			\$578,740								\$36,391	\$615,131
38	902	Meter Reading Expense			630,162								40,908	671,070
39	903	Customer Records and Collection Expense			9,623,169								986,039	10,611,208
40	904	Uncollectible Accounts			6,802,056								440,420	7,042,476
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	\$1,505,758	\$19,025,259

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Line No.	Main Acct.	Description	(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				166,553	588,673
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 Informational Exp.			\$476,630	\$0	\$0	\$0	\$160,000	\$0	\$0	\$0	\$166,553	\$643,183
Sales and Advertising Expense														
48	911	Supervision			\$0								\$0	\$0
49	912	Demonstrating and Selling Expenses			243,883								18,954	260,837
50	913	Advertising Expenses			0								0	0
51	916	Miscellaneous Sales Expenses			1,876								0	1,876
52		Total Sales and Advertising Expenses			\$245,559	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$18,954	\$262,513
Administrative and General Expense														
53	920	Administrative and General Salaries			\$3,718,333								\$1,452,618	\$5,170,949
54	921	Office Supplies and Expenses			3,221,659						1,132,650		1,261,149	4,482,808
55	922	Administrative Expenses Transferred			(165,936)	(1,318,332)							(1,318,332)	(1,484,268)
56	923	Outside Services Employed			2,013,943					750,000	51,708		2,878,223	4,692,166
57	924	Property Insurance			164,136			35,415					0	164,136
58	925	Injuries and Damages			1,515,813								693,233	2,209,046
59	926	Employee Pensions and Benefits			7,769,789						0		4,391,082	12,160,851
60	927	Franchise Requirements			0								0	0
61	928	Regulatory Commission Expense			1,854,587								223,579	2,078,166
62	930	Miscellaneous General Expenses			(279,283)	\$31,062							491,062	211,779
63	931	Rents			956,683						289,122		309,410	1,266,093
64	932	Maintenance of General Plant			176,796						124,882		114,001	290,797
65		Total Administration and General Expense			\$20,946,520	(\$787,270)	(\$577,145)	\$35,415	\$0	\$750,000	\$1,608,343	\$0	\$10,296,003	\$31,242,523
66		Total O & M Expense			\$382,548,852	(\$787,270)	(\$577,145)	\$35,415	\$160,000	\$750,000	\$1,608,343	\$0	(\$308,858,201)	\$73,690,651
67	403	Depreciation			\$20,289,690								\$804,312	\$21,093,972
68	404, 405	Amortization			2,401,441								3,771,790	\$6,173,231
69	431	Interest on Customer Deposits			218,822								(82,175)	136,647
70	408	Payroll Taxes (1***)			1,593,999								430,200	2,024,199
71	408	Property Taxes (2****)			8,280,724								1,505,108	9,785,832
72	408	Gross Receipts Tax (3300 + 4000)			30,058,800								(30,058,800)	0
73	408	Other Taxes (41**)			108,025								85,657	193,682
74	408	Taxes Other Than Income			\$40,041,548	\$0	\$0	\$0	\$0	\$0	\$0	\$0	(\$28,037,835)	\$12,003,713
75		TOTAL EXPENSES			\$445,500,323	(\$787,270)	(\$577,145)	\$35,415	\$160,000	\$750,000	\$1,608,343	\$0	(\$332,402,109)	\$113,098,214
76		OPERATING INCOME BEFORE INCOME TAX			\$49,597,448	\$787,270	\$577,145	(\$35,415)	(\$160,000)	(\$750,000)	(\$1,608,343)	\$0	(\$18,972,880)	\$30,624,568
77	408,410	Income Taxes			11,456,039								(6,790,527)	4,665,512
78		NET OPERATING INCOME			\$38,141,409	\$787,270	\$577,145	(\$35,415)	(\$160,000)	(\$750,000)	(\$1,608,343)	\$0	(\$12,182,353)	\$25,959,056

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
Updated Through December 31, 2003
Adjust Test Year Revenue per Book to Test Year Margin

Line No.	Description (a)	Main Account/Revenue Class					Total (g)
		480 (b)	481.1 (c)	481.2 (d)	483, 489 (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

SCHEDULE H-2

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending June 30, 2003

Updated Through December 31, 2003

Test Year Margin Adjustments

Line No.	Description (a)	Main Account/Revenue Class					Total (g)
		Residential Gas Sales (b)	Commercial Gas Sales (c)	Industrial Gas Sales (d)	Transportation Revenues (e)	Service Charges and Other (f)	
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	(503,585)	(347,617)		(24,512)	0	(875,714)
3	Customer Growth Annualization	462,002	713,209				1,175,211
4	Experimental Low Income Program	(416,384)					(416,384)
5	Apartment/Rental Unit Reclassification	0	0				0
6	Load Attrition	0	0				0
7	Annualize Flex Credits				36,237		36,237
8	Economic Development Discounts				2,834		2,834
9	General Service - Large Volume Switching		(332,110)		93,317		(238,793)
10	Service Charge Changes					352,803	352,803
	Total Adjustments	(457,967)	33,482	0	107,876	352,803	36,193
11	As Adjusted Test Year Margin	\$98,000,407	\$32,286,602	\$1,380,307	\$8,433,695	\$3,621,771	\$143,722,781

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending June 30, 2003

Updated Through December 31, 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

Updated Through December 31, 2003

Payroll Expense Updated through April 30, 2004

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$575,367	\$530,296	\$45,071
2	871	\$10,010	9,726	284
3	872	\$0	0	0
4	874	\$287,393	268,192	19,201
5	875	\$506,000	475,092	30,908
6	876	\$3,337	3,826	(489)
7	877	\$3,337	2,894	443
8	878	\$3,274,126	3,067,964	206,162
9	879	\$1,924,164	1,782,478	141,686
10	880	\$819,899	734,849	85,050
11	885	\$1,030,400	846,668	183,732
12	886	\$102,458	96,079	6,379
13	887	\$4,483,173	4,179,708	303,465
14	889	\$158,708	148,775	9,933
15	890	\$239,642	223,421	16,221
16	891	\$19,226	18,485	741
17	892	\$400,977	370,976	30,001
18	893	\$641,307	602,228	39,079
19	894	\$50,258	47,365	2,893
20	901	\$471,453	436,822	34,631
21	902	\$518,705	479,734	38,971
22	903	\$5,411,337	4,638,708	772,629
23	905	\$0	0	0
24	908	\$88,343	82,120	6,223
25	911	\$0	0	0
26	912	\$241,412	225,359	16,053
27	920	\$5,102,594	3,669,028	1,433,566
28	921	\$5,810	4,864	946
29	925	\$1,668	2,490	(822)
30	932	\$0	0	0
31	Total	\$26,371,104	\$22,948,147	\$3,422,957

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Employee Benefits Updated through April 30, 2004

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	\$0	
2	Retirement Power	536,981	
3	Life & AD&D Insurance	194,391	
4	Long Term Disability Insurance	178,293	
5	Medical / Dental Benefit	8,201,810	
6	FAS 106 - Accrual	1,479,165	
7	FAS 106 - Amortization of	2,664,792	
8	401K	1,201,058	
9	Supplemental Retirement	60,447	
10	Other Benefits	97,931	
11	Total Proforma Benefits	\$14,614,868	
12	Payroll Expense Ratio	0.754132	
		<u>11,021,540</u>	
	Add amortization of prepaid pensions (amortized over a		
13	6 year period)	<u>1,139,312</u>	
14	Proforma Benefits Expense	<u>\$12,160,851</u>	
15	Less Test Year Benefits Expense	<u>(\$7,769,789)</u>	
16	Adjustment to Test Year Expense - Acct. 926		<u><u>\$4,391,062</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Payroll Taxes

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	\$2,674,085
2	Payroll Taxes on Incentive Compensation Adjustment	<u>10,059</u>
5	Total Proforma Payroll Taxes	\$2,684,144
6	Payroll Expense Ratio	0.754132
7	Proforma Payroll Tax Expense	<u>\$2,024,199</u>
8	Less Test Year Payroll Tax Expense	<u>(1,593,999)</u>
9	Adjustment to Test Year Expense - Acct. 4081	<u><u>\$430,200</u></u>

MISSOURI GAS ENERGY

A Division of Southern Union Company
 Twelve Months Ending June 30, 2003
 Updated Through December 31, 2003
Insurance - Accounts 924 & 925

Line							
No.	Description (a)	2001 (b)	2002 (c)	2003 (d)	3 Year Avg. (e)	925 Amount (f)	924 Amount Total Amount (g) (h)
MGE Claims:							
1	Workers Compensation claims paid	\$977,730	\$827,769	\$693,178	\$832,892		
2	Auto & General Liability	903,757	326,462	522,462	584,227		
3	Total Proforma Claims	<u>\$1,881,487</u>	<u>\$1,154,231</u>	<u>\$1,215,640</u>	<u>\$1,417,119</u>	\$1,417,119	\$1,417,119
4	Insurance Premiums - 924					164,136	164,136
5	Insurance Premiums - 925					<u>1,515,813</u>	<u>1,515,813</u>
6	Total Proforma Insurance Cost					\$2,932,932	\$164,136 \$3,097,068
7	Test Year Payroll Expense Ratio					0.753465	1.000000
8	Proforma Insurance Expense					<u>\$2,209,862</u>	<u>\$164,136</u> <u>\$2,373,998</u>
9	Less Test Year Insurance Expense					(1,515,813)	(164,136) (1,679,949)
10	Adjustment to Test Year - Accts. 924 and 925					<u>\$694,049</u>	<u>\$0</u> <u>\$694,049</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Corporate Allocated Costs

Line No.	Description	Amount
	(a)	(b)
1	Proforma Joint and Common Costs	\$2,925,061
2	Expense Capital Ratio	82.6733%
3	Proforma Joint and Common Expense	<u>\$2,418,245</u>
4	Less Test Year Expense Recorded on MGE's Books	<u>0</u>
5	Adjustment to Test Year - Acct. 923	<u><u>\$2,418,245</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Uncollectible Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	YE Ended December 31, 2000 Charge Offs	\$2,531,756	
2	YE Ended December 31, 2001 Charge Offs	14,666,837	
3	YE Ended December 31, 2002 Charge Offs	5,544,382	
4	YE Ended December 31, 2003 Charge Offs	<u>5,426,928</u>	
5	ThreeYear Average		\$7,042,476
6	Estimated Denial of Service Cost		\$0
7	Less Test Year Uncollectible Expense		(6,602,056)
8	Adjustment to Test Year - Acct. 904		<u><u>\$440,420</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Regulatory Commission Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Proforma, Current Rate Case	\$1,383,333	
2	Normalization Period (years)	<u>3</u>	
3	Normalization - Current Case		\$461,111
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		183,823
7	Proforma MPSC Assessment - fiscal 7/1/03-6/30/04		<u>1,419,590</u>
8	Total Proforma Regulatory Commission Expense		\$2,078,166
9	Less Test Year Regulatory Commission Expense		(1,854,587)
10	Adjustment to Test Year - Acct. 928		<u><u>\$223,579</u></u>
Note 1:			
11	Total charges from Black & Veatch for the depreciation study	\$37,218	
12	Amortization period (years)	<u>5</u>	
13	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
Updated Through December 31, 2003
Interest on Customer Deposits

Line No.	Description (a)	Reference (b)	Residential (c)	Commercial & Industrial (d)	Amount (e)
1	Customer Deposits	B-2	\$1,367,533	\$2,275,677	\$3,643,210
2	Interest Rate		5.00%	3.00%	3.75%
3	Proforma Interest on Customer Deposits		<u>\$68,377</u>	<u>\$68,270</u>	<u>\$136,647</u>
4	Less Test Year Interest on Customer Deposits				<u>(218,822)</u>
5	Adjustment to Test Year - Acct. 431				<u><u>(\$82,175)</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Depreciation Expense

Line No.	Description (a)	Amount (b)	Settled Rate GR-2001-282 (c)	Annualized Depreciation (d)	Proposed Rate (e)	Proforma Total Depreciation (f)	Less Depr. Capitalized To Clearing Accts. (g)	Proforma Depreciation Expense (h)
INTANGIBLE PLANT								
1	(301) Organization	\$15,600	0.00%	\$0	0.00%	\$0	\$0	\$0
2	(302) Franchises	32,096	0.00%	0	0.00%	0	0	0
3	(303) Miscellaneous Intangible	32,767,903	(see adj. H-13)	0	(see adj. H-13)	0	0	0
4	Total Intangible Plant	\$32,815,599		\$0		\$0	\$0	\$0
DISTRIBUTION PLANT								
5	(374.1) Land	\$240,448	0.00%	\$0	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	1,376,615	2.09%	28,771	2.09%	28,771	0	28,771
7	(375.1) Structures	3,248,632	1.65%	53,602	1.65%	53,602	0	53,602
8	(375.2) Leasehold Improvements	0	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	310,339,124	2.27%	7,044,698	2.27%	7,044,698	0	7,044,698
10	(378) Meas. & Reg. Station - General	11,245,486	2.86%	321,621	2.86%	321,621	0	321,621
11	(379) Meas. & Reg. Station - City Gate	3,214,591	2.13%	68,471	2.13%	68,471	0	68,471
12	(380) Services	272,760,421	2.70%	7,364,531	2.70%	7,364,531	0	7,364,531
13	(381) Meters	29,281,747	2.86%	837,458	2.86%	837,458	0	837,458
14	(382) Meter Installations	60,757,105	2.86%	1,737,653	2.86%	1,737,653	0	1,737,653
15	(383) House Regulators	10,609,649	2.44%	258,875	2.44%	258,875	0	258,875
16	(385) Electronic Gas Metering	351,435	3.33%	11,703	3.33%	11,703	0	11,703
17	(387) Other Equipment	0	4.60%	0	4.60%	0	0	0
18	Total Distribution Plant	\$703,425,254		\$17,727,383		\$17,727,383	\$0	\$17,727,383
GENERAL PLANT - DIRECT								
19	(389) Land	\$687,919	0.00%	\$0	0.00%	\$0	\$0	\$0
20	(390.1) Structures	590,347	2.00%	11,807	2.00%	11,807	0	11,807
21	(390.2) Leasehold Impr.	1,389,409	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	4,644,445	8.06%	374,342	8.06%	374,342	0	374,342
23	(392) Transportation Equipment	4,908,174	8.70%	427,011	8.70%	427,011	(427,011)	0
24	(393) Stores Equipment	504,893	2.70%	13,632	2.70%	13,632	0	13,632
25	(394) Tools	4,812,313	5.30%	255,053	5.30%	255,053	0	255,053
26	(395) Laboratory Equipment	0	6.00%	0	6.00%	0	0	0
27	(396) Power Operated Equipment	243,807	8.33%	20,309	8.33%	20,309	(20,309)	0
28	(397.1) Communication Equipment - AMR	34,737,109	5.00%	1,736,855	5.00%	1,736,855	0	1,736,855
29	(397.0) Communication Equipment - Other	2,847,334	6.25%	177,958	6.25%	177,958	0	177,958
30	(398) Miscellaneous Equipment	405,600	3.85%	15,616	3.85%	15,616	0	15,616
31	Total Direct General Plant	\$55,771,351		\$3,032,583		\$3,032,583	(\$447,320)	\$2,585,263
GENERAL PLANT - CORPORATE								
32	(390) Structures	\$111,679	2.00%	\$2,234	2.00%	\$2,234	\$0	\$2,234
33	(390) Leasehold Impr.	0	(amortized)	0	(amortized)	0	0	0
34	(391) Furniture & Fixtures	83,465	6.64%	5,542	6.64%	5,542	0	5,542
35	(392) Transportation Equipment	25,107	10.00%	2,511	10.00%	2,511	0	2,511
36	(397) Communication Equipment	0	6.25%	0	6.25%	0	0	0
37	(398) Miscellaneous Equipment	0	3.85%	0	3.85%	0	0	0
38	Total Corporate General Plant	\$220,251		\$10,287		\$10,287	\$0	\$10,287
39	Total Proforma Plant & Depreciation	\$792,232,454		\$20,770,253		\$20,770,253	(\$447,320)	\$20,322,933
40	Less Depreciation Charged to Clearing A/Cs			(447,320)		(447,320)		
41	Less Test Year Depreciation Expense			(\$20,289,660)		(\$20,770,253)		(\$20,289,660)
42	Cost of Removal/ Net Salvage			\$771,039				\$771,039
43	Adjustment to Test Year - Acct. 403			\$804,312		(\$447,320)		\$804,312

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through April 30, 2004
Amortization Expense

Line No.	Description	Original Cost Plant	Monthly Test Year Amortization Expense	Proforma Amortization Expense
	(a)	(b)	(c)	(d)
<u>MGE Direct Non-SLRP Amortization:</u>				
1	(375.2) Leasehold Improvements	\$0	\$0	\$0
2	(390.2) Leasehold Improvements	1,389,409	6,020	72,240
3	Sub Total	<u>\$1,389,409</u>	<u>\$6,020</u>	<u>\$72,240</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>				
			Amort. Period	
24	SLRP Deferrals Subject to Amortization	<u>\$32,048,048</u>	<u>10</u>	<u>\$3,204,805</u>
25	ECWR Deferrals Subject to Amortization	<u>\$0</u>	<u>1.5</u>	<u>\$0</u>
26	Amortize Debit Accumulated Depreciation Reserve Balances	<u>\$0</u>	<u>5</u>	<u>\$0</u>
27	Pro-Forma Amortization Expense			\$6,173,231
28	Less Test Year Amortization Expense			<u>(2,401,441)</u>
29	Adjustment to Test Year - Accts. 404 and 405			<u>\$3,771,790</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 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		(4,161,299)		
3	Test Year Amount Under/(Over) Cleared		\$0		\$0
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1841:				
		Proforma	Test Year	Adjustment	
5	Depreciation	\$447,320	\$412,860	\$34,460	
6	Lease Costs	1,621,908	1,706,188	(84,281)	
7	Other	2,042,250	2,042,250	0	
8	Total	\$4,111,478	\$4,161,299	(\$49,821)	(49,821)
9	Adjustment to Settle Issue				49,821
10	Total Adjusted Amount Under/(Over) Cleared				\$0

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

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

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 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	Adjustment to Settle Issue				(147,441)
8	Total Adjusted Amount Under/(Over) Cleared				<u><u>\$0</u></u>

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

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

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 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	Adjustment to Settle Issue				(68,768)
8	Total Adjusted Amount Under/(Over) Cleared				<u>\$0</u>

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

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

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Missouri State Franchise Tax

Line No.	Description	Amount
	(a)	(b)
1	Proforma State Franchise Tax Expense	\$193,682
2	Less Test Year State Franchise Tax Expense	<u>(108,025)</u>
3	Adjustment to Test Year - Acct. 4081	<u><u>\$85,657</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Property Tax Expense

Line No.	Description (a)	Reference (b)	Amount (c)
1	Proforma Total Plant in Service excluding Corporate Allocated Plant	C	\$789,738,767
2	Less Intangible Plant	C	<u>(32,422,123)</u>
3	Proforma Plant, excluding Intangible Plant		\$757,316,644
4	Property tax rate		<u>1.12552%</u>
5	Proforma Property Tax Expense		\$8,523,773
6	Property Tax on Storage Gas		1,262,059
7	Less Test Year Property Tax Expense		<u>(8,280,724)</u>
8	Adjustment to Test Year - Acct. 4081		<u><u>\$1,505,108</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Gas Supply Expenses

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

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Office Lease Expense

Line No.	Description (a)	Amount (b)
1	Net Proforma Broadway and PBO Office Lease Expense	\$404,067
2	Less Test Year Broadway and PBO Office Lease Expense	<u>(393,779)</u>
3	Adjustment to Test Year - Acct..931	<u>\$10,288</u>
4	Net Proforma Broadway Utilities, Outside Services & Supplies Expense	\$373,201
5	Less Test Year Broadway Utilities, Outside Services & Supplies Expense	<u>(382,024)</u>
6	Adjustment to Test Year - Acct. 921	<u>(\$8,823)</u>
7	Net Proforma Broadway Maintenance Expense	\$23,686
8	Less Test Year Broadway Maintenance Expense	<u>(22,624)</u>
9	Adjustment to Test Year - Acct. 932	<u>(\$10,861)</u>

MISSOURI GAS ENERGY

A Division of Southern Union Company

Twelve Months Ending June 30, 2003

Updated Through December 31, 2003

Dues Expense

Line No.	Description	Amount
	(a)	(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
Updated Through December 31, 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>	316,039
4	Three-Year Average	<u>\$88,663</u>	<u>\$142,191</u>	<u>\$141,556</u>	\$372,410
5	Test Year Incentive and Bonus Payments				<u>(241,779)</u>
6	Adjustment				130,631
7	Expense Ratio				<u>0.7541</u>
8	Amount Charged to Expense				<u>\$98,509</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 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>\$195,208</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 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>
3	Net payments received from Oneok	930.2	<u>531,062</u>
5	Total Net Adjustment		<u>(\$787,270)</u>

SCHEDULE H-25

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 2003
Non-recurring / Non-Utility Activity

Line No.	Description (a)	Total (b)
1	Remove non-utility activity from account 9230	<u><u>(\$577,145)</u></u>

SCHEDULE H-26

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2003
Updated Through December 31, 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
Updated Through December 31, 2003
Weatherization

Line No.	Description (a)	Amount (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
Updated Through December 31, 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.

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

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.

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.

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
Updated Through December 31, 2003
Information Technology Expenses

Line No.	Description (a)	Total (b)	Account Number (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	0	926
23	Total Account 926	<u>0</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>\$1,608,343</u>	

[As Amended by House Committee of the Whole]

*Session of 2004***HOUSE BILL No. 2897**

By Committee on Taxation

2-18

10 AN ACT concerning property taxation; relating to public utilities; ex-
11 emptions; amending K.S.A. 79-201f and K.S.A. 2003 Supp. 79-5a01
12 and repealing the existing sections.
13

14 *Be it enacted by the Legislature of the State of Kansas:*

15 Section 1. K.S.A. 79-201f is hereby amended to read as follows: 79-
16 201f. The following described property, to the extent herein specified,
17 shall be and is hereby exempt from all property or ad valorem taxes levied
18 under the laws of the state of Kansas:

19 (a) ~~Personal property which is moving in interstate commerce~~
20 ~~through or over the territory of the state of Kansas; [Personal property~~
21 **which is moving in interstate commerce through or over the ter-**
22 **ritory of the state of Kansas, except public utility inventories sub-**
23 **ject to taxation pursuant to K.S.A. 79-5a01 et seq., and amendments**
24 **thereto;]**

25 ~~—(b) [(b)]~~ Personal property which has been shipped into the state of
26 Kansas from outside the state which is stored in a warehouse or storage
27 area operated by a warehouseman if such warehouseman keeps records
28 of such property showing point of origin, date of receipt, type and quan-
29 tity, date of withdrawal and ultimate destination notwithstanding (1) that
30 the final destination of such personal property is unknown at the time of
31 storage in Kansas or (2) that the interstate movement of such personal
32 property has been interrupted for not more than five years by such storage
33 in Kansas for reasons relating to the convenience, pleasure or business of
34 the shipper or owner of the property unless the ultimate destination of
35 the property is within the state of Kansas; and

36 ~~(c) (b) [(c)]~~ goods, wares and merchandise which are manufactured,
37 assembled, joined, processed, packaged or labeled within this state, dur-
38 ing the period of time in which they are stored in a warehouse or storage
39 area operated by a warehouseman if such warehouseman keeps records
40 of such property showing point of origin, date of receipt, type and quan-
41 tity, date of withdrawal and ultimate destination. In order to qualify goods,
42 wares and merchandise in any such warehouse or storage area for the
43 exemption from taxation under this subsection, the owner of such goods,

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2

1 wares and merchandise must show by verified statement that the final
2 destination of at least 30% of the sale or shipments from such warehouse
3 or storage area during the previous calendar year were shipped in inter-
4 state commerce to a point outside the state of Kansas, and the amount
5 of exempt property shall be computed as follows: The owner shall furnish
6 the county appraiser with a report of the monthly average inventory for
7 the preceding calendar year and a report of the value of shipments for
8 final destination outside the state for each month of the previous calendar
9 year. The owner shall be entitled to exemption of a percent of the average
10 monthly inventory equivalent to the percent of value of total shipments
11 to the value of shipments that were made in interstate commerce to points
12 outside the state.

13 ~~(d)~~ ~~(e)~~ [(d)] For the purposes of this section, "warehouseman" means
14 any person, except a public utility as defined in K.S.A. 79-5a01 and
15 amendments thereto, who is engaged in the business of storing goods for
16 hire or who stores such person's own goods.

17 The provisions of this section shall apply to all taxable years commenc-
18 ing after December 31, 1983.

19 Sec. 2. K.S.A. 2003 Supp. 79-5a01 is hereby amended to read as
20 follows: 79-5a01. (a) As used in this act, the terms "public utility" or
21 "public utilities" ~~shall mean~~ *means* every individual, company, corpora-
22 tion, association of persons, *brokers*, lessees or receivers that *now or here-*
23 *after own, control and hold for resale stored natural gas in an under-*
24 *ground formation in this state, or now or hereafter are in control, manage*
25 *or operate a business of:*

26 (1) A railroad or railroad corporation if such railroad or railroad cor-
27 poration owns or holds, by deed or other instrument, an interest in right-
28 of-way, track, franchise, roadbed or trackage in this state;

29 (2) transmitting to, from, through or in this state telegraphic
30 messages;

31 (3) transmitting to, from, through or in this state telephonic messages;

32 (4) transporting or distributing to, from, through or in this state nat-
33 ural gas, oil or other commodities in pipes or pipelines, or engaging pri-
34 marily in the business of storing natural gas in an underground formation;

35 (5) generating, conducting or distributing to, from, through or in this
36 state electric power;

37 (6) transmitting to, from, through or in this state water if for profit
38 or subject to regulation of the state corporation commission; *and*

39 (7) transporting to, from, through or in this state cargo or passengers
40 by means of any vessel or boat used in navigating any of the navigable
41 watercourses within or bordering upon this state.

42 (b) The terms "public utility" or "public utilities" shall not include:

43 (1) Rural water districts established under the laws of the state of Kansas;

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3

1 or (2) any individual, company, corporation, association of persons, lessee
2 or receiver owning or operating an oil or natural gas production gathering
3 line which is situated within one county in this state and does not cross
4 any state boundary line; (3) any individual, company, corporation, asso-
5 ciation of persons, lessee or receiver owning any vessel or boat operated
6 upon the surface of any manmade waterway located entirely within one
7 county in the state; or (4) for all taxable years commencing after Decem-
8 ber 31, 1998, any natural gas distribution system which is owned and
9 operated by a nonprofit public utility described by K.S.A. 66-104c, and
10 amendments thereto, and which is operated predominantly for the pur-
11 pose of providing fuel for the irrigation of land devoted to agricultural
12 use.

13 *(c) The provisions of subsection (a) as amended by this act shall be*
14 *applicable to all taxable years commencing after December 31, 2003.*

15 Sec. 3. K.S.A. 79-201f and K.S.A. 2003 Supp. 79-5a01 are hereby
16 repealed.

17 Sec. 4. This act shall take effect and be in force from and after its
18 publication in the Kansas register.



KANSAS

JOAN WAGNON, SECRETARY

DEPARTMENT OF REVENUE
DIVISION OF PROPERTY VALUATION

KATHLEEN SEBELIUS, GOVERNOR

July 2, 2004

SG-MISSOURI GAS ENERGY
PROPERTY TAX DEPT
3420 BROADWAY
KANSAS CITY MO 64111

RE: Company Number G4006

Dear Sir:

During the 2004 session, the Kansas Legislature passed Senate Bill 147. In section 4 of that bill, the definition of public utility companies was amended to include every individual, company, corporation, association of persons, brokers, lessees or receivers that now or hereafter own, control and hold for resale stored natural gas in an underground formation in this state. With this change, the inventories of gas held for resale in Kansas by these companies will become taxable by the state to the owner of the gas. The legislation was made retroactive to inventories held as of January 1, 2004.

The Division has information indicating that your company has gas in a Kansas storage field as of January 1, 2004. Therefore a set of forms have been sent to you. If your company does not own, control or hold for resale stored natural gas in an underground formation in Kansas, please complete only Schedule One marking the box on the second page. Otherwise please complete all forms.

The filing deadline for completion of these forms is August 1, 2004.

If you have any questions about completing your filing, please contact either Roger Dallam at 785-296-4539 or Floyd Rumsey at 785-296-3964.

Sincerely,

A handwritten signature in cursive script that reads "John H. Hughes".

John H. Hughes
Bureau Chief, State Appraised Property Bureau

2004
ANNUAL RENDITION
To the
KANSAS DEPARTMENT OF REVENUE
DIVISION OF PROPERTY VALUATION

Robert B. Docking State Office Building, Topeka, Kansas 66612-1585

Information to Be Based Upon
Accounting Year Ending December 31, 2003

Company

Address

SPECIFIC INSTRUCTIONS

Part A. Purpose

1. This report, to be submitted to the Division of Property Valuation pursuant to the provisions of K.S.A. Chapter 79-Article 5a is to provide information necessary for consideration in determining the fair market value of the respondent's property.

Part B. Filing Information

2. This report, complete with all schedules, supplementary information and copies of stockholder reports, regulatory body report and rate case orders issued during 2003; (subject to exceptions as specified in the "General Instructions", Page 2 under "Report" Paragraphs 6, 7 and 8;) must be completed and returned on or before March 20, 2004 to the Division of Property Valuation, Robert B. Docking State Office Building, 915 SW Harrison St., Topeka, Kansas 66612-1585.

COMPANIES WITH STORED GAS

MGE
Stored Gas

Year Ending	Tax Year	Parhandle (1)		Total Mmbtu	% Oklahoma	% Kansas	NYMEX Rate/Mmbtu Rendered	Meade County, Kansas			Effective Tax rate*	
		Woods Co Oklahoma	Meade Co Kansas					Rendered Value	Assessed Value	Tax		
12/31/1997	1/1/1998	352,606	385,527	738,133	47.77%	52.23%						
12/31/1998	1/1/1999	231,037	580,759	811,796	28.46%	71.54%						
12/31/1999	1/1/2000	229,336	521,280	750,616	30.55%	69.45%	\$	2.06	1,073,729	357,910	31,216	2.91%
12/31/2000	1/1/2001	237,340	338,198	575,538	41.24%	58.76%	\$	3.17	1,073,729	357,910	33,617	3.13%
12/31/2001	1/1/2002	239,864	691,646	931,510	25.75%	74.25%	\$	2.56	1,767,156	589,052	54,554	3.09%
12/31/2002	1/1/2003	291,188	610,324	901,512	32.30%	67.70%	Est \$	4.14	2,526,741	842,247	78,003	3.09%
12/31/2003	1/1/2004	213,694	715,412	929,106	23.00%	77.00%	Est \$	4.86	3,476,902	1,158,967	107,355	3.09%

* 2004 rate based on 2002/2003 effective rate

*2004 rate based on 2002/2003 effective rate

(1) Per letter from Joel Lopez@Parhandle on 02/07/04.

Year Ending	Williams/Southern Star (2) (3)		Total Mmbtu	% Oklahoma	% Kansas	NYMEX Rate/Mmbtu Rendered	Estimated all other Kansas counties					
	Tax Year	Grant Co Oklahoma					Kansas	Rendered Value	Assessed Value	Tax	Effective Tax rate	
12/31/1997	1/1/1998	3,977,408	7,211,221	11,188,627	35.55%	64.45%						
12/31/1998	1/1/1999	4,690,131	7,288,555	11,978,686	39.15%	60.85%						
12/31/1999	1/1/2000	3,546,444	5,752,898	9,299,342	38.14%	61.86%	\$ 2.06	11,849,780	3,949,927	344,503		2.91%
12/31/2000	1/1/2001	2,497,830	2,291,930	4,789,760	52.15%	47.85%	\$ 3.17	7,276,541	2,425,514	227,819		3.13%
12/31/2001	1/1/2002	5,275,571	7,930,324	13,205,895	39.95%	60.05%	\$ 2.56	20,261,983	6,753,994	625,509		3.09%
12/31/2002	1/1/2003	3,694,278	6,999,263	10,693,541	34.55%	65.45%	\$ 4.14	28,976,945	9,658,982	894,547		3.09%
12/31/2003	1/1/2004	3,387,079	7,696,465	11,083,544	30.56%	69.44%	\$ 4.86	37,404,820	12,468,273	1,154,724		3.09%

(2) Per faxed schedule from Williams/Southern Star to Pat Verdeber on 02/25/04.
(3) Per John Hayes@MGE, gas supply Williams/Southern Star has 8 storage facilities, of which seven are located in Kansas.

Total Kansas Storage				
Year Ending	Tax Year	Woods Co Oklahoma	Williams/Southern Star Oklahoma	Total Mmbtu
12/31/1997	1/1/1998	352,606	7,211,221	7,563,827
12/31/1998	1/1/1999	231,037	7,288,555	7,519,592
12/31/1999	1/1/2000	229,336	5,752,898	5,982,234
12/31/2000	1/1/2001	237,340	2,291,930	2,529,270
12/31/2001	1/1/2002	239,864	7,930,324	8,170,188
12/31/2002	1/1/2003	291,188	6,999,263	7,290,451
12/31/2003	1/1/2004	213,694	7,696,465	7,910,159

07/14/04
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