#### TRUE-UP TESTIMONY

### OF

### TRAVIS ALLEN

#### MISSOURI GAS ENERGY

### A DIVISION OF SOUTHERN UNION COMPANY

CASE NO. GR-2004-0209

1		
2		INTRODUCTION
3	Q.	Please state your name and business address.
4	A.	Travis Allen, 200 Madison St., P.O. Box 2230, Jefferson City Mo., 65102.
5	Q.	Are you the same Travis Allen who filed Direct, Rebuttal, and Surrebuttal testimony in this
6		case?
7	A.	Yes, I am.
8	Q.	What is the purpose of this testimony?
9	А.	The purpose of this testimony is to true-up my recommended capital structure, embedded cost of
10		preferred stock, embedded cost of long-term debt, and embedded cost of short-term debt to April
11		30, 2004.
12		CAPITAL STRUCTURE
13	Q.	What is your trued-up recommended capital structure?
14	A.	My trued-up recommended capital structure is as follows;

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1			<u>Amount</u>	<u>Percent</u>
2		Common Stock Equity	\$ 1,048,146,000.00	28.37%
3		Preferred Stock	\$ 223,828,509.00	6.06%
4		Long-Term Debt	\$ 2,208,550,102.00	59.77%
5		Short-Term Debt	<u>\$ 214,413,665.00</u>	<u>5.80%</u>
6			\$ 3,694,938,276.00	100.00%
7	Q.	Is the methodology that you use	d to develop this capita	l structure consistent with the
8		methodology you used to develo	p the capital structure	you recommended in your direct
9		testimony?		
10	А.	Yes.		
11	Q.	Are you still recommending tha	t short-term debt be in	cluded into the capital structure?
12	А.	Yes.		
13	Q.	Why?		
14	A.	Southern Union has consistently r	maintained a short-term of	lebt, less construction-work-in-progress,
15		balance that is greater than 2% of	their overall capital strue	cture. Southern Union has not, throughout
16		the course of this hearing, demons	strated that its policy wit	h regard to the future use of short-term
17		debt has changed. Consequently,	I believe that it should ap	ppropriately be included in the capital
18		structure.		
19			2	

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<ul> <li>Q. What is the trued-up embedded cost of preferred stock?</li> <li>A. The trued-up embedded cost of preferred stock is 7.758%.</li> <li>Q. Is the methodology that you used to develop this trued-up embedded cost of preferred stoc consistent with the methodology you used in your direct testimony?</li> <li>A. Yes.</li> <li>Q. Have you attached a schedule illustrating this calculation?</li> <li>A. Yes, this calculation is illustrated in True-Up Schedule TA-2.</li> <li>Q. What is the trued-up embedded cost of long-term debt?</li> <li>A. The trued-up embedded cost of long-term debt is 7.397%.</li> <li>Q. Is the methodology that you used in your direct testimony?</li> <li>A. Yes.</li> <li>Q. Is the methodology that you used to develop this trued-up embedded cost of long-term debt is 7.397%.</li> <li>A. Yes.</li> <li>A. Yes.<!--</th--><th>1</th><th></th><th>EMBEDDED COST RATES</th></li></ul>	1		EMBEDDED COST RATES
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	16	Q.	What is the trued-up embedded cost of short-term debt? 3

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1	А.	The trued-up embedded cost of short-term debt is 1.87%.
2	Q.	Is the methodology that you used to develop this trued-up embedded cost of short-term debt
3		consistent with the methodology you used in your direct testimony?
4	A.	Yes.
5	Q.	Have you attached a schedule illustrating this calculation?
6	A.	Yes, this calculation is illustrated in True-Up Schedule TA-4.
7		WEIGHTED AVERAGE COST OF CAPITAL
8	Q.	What is your recommended trued-up weighted average cost of capital, (WACC) range?
9	A.	The following is my recommended trued-up weighted average cost of capital range;
10		Common Equity Preferred Long-Term Debt Short-Term Debt
11		WACCL = $(.2837 * .0901) + (.0606 * .07758) + (.5977 * .07397) + (.0580 * .0187)$
12		WACCL = 7.56%
13		
14		Common Equity Preferred Long-Term Debt Short-Term Debt
15		WACCH = $(.2837 * .0934) + (.0606 * .07758) + (.5977 * .07397) + (.0580 * .0187)$
16		WACCH = 7.65%
17	Q.	Is the methodology that you used to develop this trued-up weighted average cost of capital
18		consistent with the methodology you used in your direct testimony?
		4

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1	А.	Yes.
2	Q.	Have you attached a schedule illustrating this calculation?
3	A.	Yes, this calculation is illustrated in True-Up Schedule TA-5.
4	Q.	What pre-tax coverage ratio is implied by your trued-up recommendation?
5	А.	Based on a WACC of 7.56% and an assumed overall tax factor of 1.6136, as suggested by the
6		Company, the pre-tax coverage ratio is approximately 2.69x. Based on a WACC of 7.65% and
7		assuming the same overall tax factor, the pre-tax coverage ratio is approximately 2.72x.
8	Q.	Does this conclude your True-Up Testimony?
9	A.	Yes, it does.