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**MISSOURI
PUBLIC SERVICE COMMISSION**

Exhibit No.: _____

Issues: Revenue Requirement,
Rate Base,
Expenses,
Test Year,
True-up

Witness: Charles B. Hernandez

Sponsoring Party: Missouri Gas Energy

Case No.: GR-98-140

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-98-140

DIRECT TESTIMONY OF

CHARLES B. HERNANDEZ

Jefferson City, Missouri

November 26, 1997

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CASE NO. GR-98-140

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

2 A. My name is Charles B. Hernandez, and my business address is 3420 Broadway,
3 Kansas City, Missouri 64111.

4
5 **Q. BY WHOM ARE YOU EMPLOYED?**

6 A. I am employed by Missouri Gas Energy (MGE), a division of Southern Union
7 Company (Company), as Director, Pricing and Regulatory Affairs, responsible for
8 regulatory matters in the state of Missouri.

9
10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL**
11 **EXPERIENCE.**

12 A. I received a Bachelor of Science in Business Administration with a major in
13 Accountancy from the University of Southern Colorado in 1978. Immediately upon
14 graduation, I was employed by the accounting firm of McDonald, Holligan &
15 McPherson, Certified Public Accountants, P.C. Since leaving the accounting firm in
16 July 1980, I have gained seventeen years of extensive utility experience. From July
17 1980 through April 1984, I was employed by the Nevada Public Service Commission
18 as an Operations Staff Auditor involved in performing audit and compliance activities

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE MPSC?

2 A. Yes. I testified in MGE's most recent general rate proceeding, Case No. GR-96-
3 285, and was responsible for MGE's restructure of the cost of gas mechanism in Case
4 No. GO-97-409. I have also represented MGE in various formal and informal
5 regulatory forums.

6
7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

8 A. The purpose of my testimony is to support the revenue requirement requested by
9 MGE. A Revenue Deficiency Summary was previously filed on October 3, 1997 in
10 support of MGE's requested increase of \$27,817,140. The Revenue Deficiency
11 Summary, attached to my testimony as Schedules A through H, is a revised version of
12 the previously filed Revenue Deficiency Summary and reflects a revenue deficiency
13 of \$27,858,850. I am sponsoring most of the proforma adjustments used to develop
14 the proposed revenue requirement. Other MGE witnesses are: F. Jay Cummings,
15 supporting revenue adjustments, rate design and tariff matters; Karen Czaplewski,
16 discussing customer service operations; and Bruce Fairchild, supporting the capital
17 structure and cost of capital shown in Schedule F.

18
19 Q. MR. HERNANDEZ, YOU REFERENCED A REVENUE DEFICIENCY
20 SUMMARY WHICH ACCOMPANIED MGE'S FILING ON OCTOBER 3,
21 1997. EXPLAIN WHY THERE ARE REVENUE DEFICIENCY SUMMARY
22 SCHEDULES ATTACHED TO YOUR DIRECT TESTIMONY?

1 A. Subsequent to the tariff filing, MGE made corrections in certain revenue, billing unit,
2 and expense items included in the revenue deficiency. MGE chose to make those
3 corrections immediately and reflect those in the schedules attached to my direct
4 testimony.

5
6 Q. COULD YOU PLEASE DESCRIBE EACH OF THE SUMMARY
7 SCHEDULES ATTACHED TO YOUR TESTIMONY ?

8 A. Yes. Schedule A, Revenue Deficiency, provides a summary of MGE's revenue
9 requirement and current revenue deficiency. As shown on line 11, the total revenue
10 deficiency for MGE based upon a twelve month test period ending May 31, 1997 is
11 \$27,858,850. Schedule A-1 summarizes the unadjusted per books operating income,
12 adjustments to operating income and the as-adjusted operating income. Schedule A-2
13 calculates income tax expense based upon both the per books and as-adjusted levels
14 of operating income.

15
16 Schedule B, Rate Base, summarizes MGE's rate base on line 14 as \$421,431,755.

17
18 Schedule C, Plant in Service, sets forth plant in service by FERC Uniform System of
19 Account (USOA) subaccount and summarizes proposed adjustments to plant in
20 service. The details of the adjustments to plant in service are provided on Schedule
21 C, sheet 2 of 2 .

1 Schedule D, Accumulated Reserves for Depreciation and Amortization, outlines the
2 test period balances. The test period adjustments are provided on Schedule D, sheet 2
3 of 2. In consideration of the additional depreciation reserve amounts resulting from
4 incremental depreciation expense, MGE has used one-half year of expense to increase
5 the accumulated reserve as shown on Schedule D, 2 of 2.

6
7 Schedule E, Working Capital, lists the elements of working capital included in rate
8 base. Schedule E-1 summarizes Materials and Supplies, Schedule E-2 summarizes
9 Prepayments, and Schedule E-3 quantifies the level of Gas Inventory included as a
10 working capital component of rate base.

11
12 Schedules F, F-1 and F-2 set forth the capital structure and the costs of the various
13 capital components which result in an overall rate of return of 9.858%.

14
15 Schedule H, sheets 1 through 8, summarizes operating revenues and operating
16 expenses along with the respective adjustments necessary to arrive at a proforma level
17 of operating income. Schedule H-1 through H-26 provide further detail on the
18 amounts adjusted within Schedule H.

1 Q. WHAT IS THE TEST PERIOD USED IN THE DETERMINATION OF
2 MGE'S REVENUE REQUIREMENT IN THIS DIRECT TESTIMONY?

3 A. The test period used in developing Schedule A is the twelve month period ending
4 May 31, 1997, adjusted for known and measurable changes.

5
6 Q. SHOULD THIS TEST PERIOD BE USED FOR THIS CASE OR WOULD A
7 LATER TEST YEAR REFLECTING MORE CURRENT OPERATING
8 RESULTS RECORDED BY MGE BE MORE APPROPRIATE?

9 A. Although I used an initial test period ending May 31, 1997 for purposes of this direct
10 testimony, I recommend the use of the twelve months ending September 30, 1997 as
11 the test period for this case. Based upon discovery received from Staff to-date, I
12 assume this will be the Staff's test year. This test period should then be updated
13 through December 31, 1997. This test year, as updated, would provide a relatively
14 current time period of actual experience on which to base rates for the future while at
15 the same time allowing the opportunity for the Commission staff and other parties to
16 audit this actual experience. In addition, the Company requests a true-up through
17 June 30, 1998, primarily driven by extraordinary investments related both to the
18 safety program and automatic meter reading implementation.

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

2 A. Yes. As in Case No. GR-96-285, MGE was afforded an opportunity to update several
3 significant cost components beyond the close of the test period through a separate
4 true-up audit and hearing. MGE believes this true-up was appropriate in that case and
5 is also necessary in this current case. I recommend the test period be trued-up
6 through June 30, 1998 for the following items:

7 **RATE BASE:**

- 8
9 1. Plant in service.
10 2. Automated Meter Reading.
11 3. Service Line Replacement Program (SLRP) deferrals.
12 4. Depreciation reserve.
13 5. Deferred taxes.
14 6. Unamortized Deferred Credit from GM-94-40.
15 7. Related cash working capital effects.
16

17 **INCOME STATEMENT:**

- 18
19 1. Revenue for customer growth.
20 2. Payroll, employee levels and current wage levels.
21 3. Updated gas prices.
22 4. Rate case expense.
23 5. Depreciation and amortization expense.
24 6. Property taxes.
25 7. Related income tax effects.
26

27 Q. BEGINNING WITH RATE BASE SHOWN ON SCHEDULE B, COULD YOU
28 PLEASE GENERALLY EXPLAIN THE APPROACH USED AND THE
29 RELATED ADJUSTMENTS?

30 A. Yes. Generally, there are three types of costs and related approaches considered in
31 developing rate base. The first approach relates to amounts that fluctuate monthly
32 due to many variables. Adjusting any one of these costs at a date specific would not

1 provide a reasonable basis for determining an appropriate level of on-going cost of
2 service. Specifically, a thirteen month average has been utilized to more accurately
3 reflect the on-going nature of these fluctuating balances. The second approach relates
4 to amounts which are included in rate base in compliance with Commission orders.
5 The SLRP requires significant costs to be incurred which MGE continues to defer
6 pursuant to three separate Accounting Authority Orders (AAOs). Additionally, a
7 deferred credit is included in rate base in accordance with the order in Case No. GM-
8 94-40. Third are actual test period amounts which are adjusted for known and
9 measurable changes that have occurred or will take place prior to rates being placed
10 into effect.

11
12 **Q. PLEASE DESCRIBE COSTS WHICH ARE AFFORDED A THIRTEEN**
13 **MONTH AVERAGE.**

14 **A.** The rate base items afforded a thirteen month average are working capital
15 components of material and supplies inventory, prepayments, and natural gas
16 inventory, as well as other rate base deductions of customer deposits and customer
17 advances. Schedules B-2 and B-3 show the monthly amounts related to customer
18 deposits and customer advances, respectively. Schedule E provides a summary of the
19 working capital components with monthly amounts shown on Schedules E-1 through
20 E-3.

1 Q. COULD YOU PLEASE EXPLAIN THE SLRP?

2 A. In 1989, the Commission implemented new rules which required systematic upgrades
3 to portions of Missouri utilities' natural gas distribution systems (4 CSR 240-40.030).
4 Promulgation of these rules generally had an impact of substantially increasing gas
5 utilities' construction expenditures, especially for MGE and its predecessor, Western
6 Resources, Inc.

7

8 Q. HAS THE COMMISSION ALLOWED THE USE OF ANY SPECIAL
9 REGULATORY MECHANISMS TO AID UTILITIES IN RECOVERING
10 COSTS ASSOCIATED WITH THEIR SAFETY CONSTRUCTION
11 PROGRAMS?

12 A. Yes. Given the extraordinary SLRP expenditures, the Commission has approved
13 AAOs to allow gas utilities to defer certain SLRP costs between rate cases. These
14 costs are depreciation, property taxes and carrying costs.

15

16 Q. COULD YOU PLEASE DISCUSS THE THREE SEPARATE AAOs WHICH
17 HAVE GIVEN RISE TO THE ACCUMULATED DEFERRALS INCLUDED
18 IN RATE BASE AND IDENTIFY THE TIME PERIODS COVERED BY
19 EACH?

20 A. The three AAOs which allow MGE to defer carrying costs, depreciation and property
21 taxes on safety-related plant investments included in this case for cost recovery. The
22 first is Case No. GO-92-185 under which costs were deferred for the period from July

1 1, 1991 through October 15, 1993. The second is Case No. GO-94-234 under which
2 costs were deferred for the period from February 1, 1994 through January 31, 1997.
3 The third is Case No. GO-97-301, the current AAO, under which MGE is recording
4 deferrals from February 1, 1997 through the last date of the Commission's test year,
5 including any update or true-up period, in MGE's current rate case. Schedule B-1,
6 Summary of SLRP Deferrals and Deferred Taxes, provides a summary of the deferral
7 and deferred tax balances relating to each AAO.
8

9 **Q. FOR CASE NO. GO-92-185, ARE THE AMOUNTS INCLUDED IN RATE**
10 **BASE CONSISTENT WITH PREVIOUS TREATMENT BY THIS**
11 **COMMISSION ?**

12 **A.** Yes. The Commission has previously included these deferrals, including carrying
13 costs calculated on a rate of return basis, in rates.
14

15 **Q. FOR CASE NO. GO-94-234, ARE THE AMOUNTS INCLUDED**
16 **CONSISTENT WITH PREVIOUS TREATMENT BY THIS COMMISSION ?**

17 **A.** No. MGE does not agree with the rate treatment ordered in Case No. GR-96-285.
18 The issue of the appropriate carrying cost rate is on appeal in the Court of Appeals,
19 Western District. Consistent with MGE's position in the appeal, MGE has applied
20 the rate of return-based carrying cost rate the Commission authorized in Case No.
21 GO-94-234.

1 Additionally, although Case No. GO-94-234 was in effect through January 31, 1997,
2 the last rate case only recognized deferred costs associated with the SLRP investment
3 through October 31, 1996. The costs deferred from November 1, 1996 through
4 January 31, 1997 must in included in this current case.

5
6 **Q. PLEASE DESCRIBE THE COSTS RELATED TO CASE NO. GO-97-301 ?**

7 **A.** For deferred costs incurred February 1, 1997 and thereafter, MGE sought and
8 received AAO treatment under Case No. GO-97-301. MGE has utilized its
9 authorized rate of return for the carrying cost associated with deferrals under this
10 case.

11
12 **Q. WHY IS A RATE OF RETURN-BASED CARRYING COST RATE**
13 **APPROPRIATE FOR ALL OF THESE SLRP DEFERRALS?**

14 **A.** A rate of return-based carrying cost rate is appropriate for at least two reasons. One,
15 the carrying costs do not begin to accrue until the investment is placed in service and
16 begins serving customers. Two, only a rate of return based rate can fulfill the purpose
17 of an AAO, which is to eliminate the effects of regulatory lag.

18
19 **Q. IS MGE REQUESTING CONTINUED ACCOUNTING AUTHORITY**
20 **TREATMENT FOR SLRP COSTS DEFERRED SUBSEQUENT TO THE**
21 **RESOLUTION OF THIS CURRENT CASE ?**

1 A. Yes. MGE requests an AAO related to the deferral of SLRP costs contemporaneous
2 with the issuance of an order in this case. Case No. GO-97-301 specifically states the
3 period of deferral to which the AAO relates as commencing February 1, 1997 and
4 continuing through the conclusion of MGE's next general rate case, not to exceed
5 three years. Therefore, MGE asks that the Commission, as a part of its order in this
6 rate proceeding, grant continuing authority for MGE to defer depreciation, property
7 taxes and carrying costs associated with the SLRP investment subsequent to the
8 effective date of this rate order.

9
10 **Q. PLEASE DESCRIBE THE CALCULATION OF THE DEFERRED CREDIT**
11 **INCLUDED IN RATE BASE IN ACCORDANCE WITH CASE NO. GM-94-40.**

12 A. The unamortized deferred credit originated pursuant to the order in Case No. GM-94-
13 40. Under that order, MGE amortizes the total unamortized deferred credit over 10
14 years. MGE is amortizing \$30 million over 120 months for ratemaking purposes. It
15 is, therefore, appropriate to calculate the credit based on the unamortized amount at
16 the end of any test period or true-up period utilized. In the schedules, the
17 unamortized balance as of June 1998 is utilized.

18
19 **Q. PLEASE DESCRIBE THE APPROACH USED TO ADJUST THE ACTUAL**
20 **TEST PERIOD AMOUNTS INCLUDED IN RATE BASE.**

21 A. This approach involves traditional proforma adjustments considered in developing a
22 revenue requirement to reflect MGE's cost of service when new rates are placed into

1 effect. These adjustments minimize the effects of what is generally referred to as
2 regulatory lag. The objective is to establish rates prospectively, synchronizing the
3 cost of service with the revenue stream so that MGE in fact has a reasonable
4 opportunity to earn its authorized rate of return. Schedule C, page 1 of 2, summarizes
5 the various categories of plant investment including the direct plant MGE accounts
6 for on its books; completed construction not classified, which are costs incurred
7 pending accounting classification; joint and common plant, accounted for on Southern
8 Union Company's books, a portion of which is allocated to MGE; and total
9 adjustments, representing the summary of proforma amounts MGE expects to incur.

10
11 Schedule C, page 2 of 2, Adjustments to Plant to Service, identifies each specific
12 adjustment to plant in service. Adjustment Nos. 1 and 2 relate to the SLRP
13 investment which MGE expects to incur through June 30, 1998 as well as estimated
14 related retirements. Adjustment Nos. 3 and 4 relate to vehicle additions MGE has
15 approved in order to modernize an aging fleet. Adjustment No. 5, non-safety plant
16 additions, relates to significant construction expenditures on plant to be placed in
17 service through December 31, 1997. Adjustment No. 6 reflects improvements to
18 various regional business offices and upgrades to existing telecommunications
19 systems. Adjustment No. 7 removes certain carrying costs during construction that
20 were identified and agreed to in Case No. GR-96-285, and Adjustment No. 8
21 represents the initial installation phases of the Automated Meter Reading System.

1 Schedule B-4, Deferred Income Taxes and Schedule D, Accumulated Depreciation
2 and Amortization, are integrally related to the plant in service amounts.
3

4 Q. PLEASE DESCRIBE THE ADJUSTMENTS WHICH YOU ARE
5 SPONSORING TO OPERATING INCOME IN SCHEDULE H.

6 A. Schedule H consists of several pages with pages 1 and 2 summarizing the test year
7 per books amounts, adjustments to books and the resulting test year as adjusted by
8 USOA account. The remaining pages show each adjustment by USOA account.
9 MGE witness Cummings sponsors Schedules H-1 and H-2. Schedule H-3 removes
10 purchased gas expense and gross receipts tax expense. These adjustments eliminate
11 expenses which should not be included in determination of cost of service. Purchased
12 gas costs are recovered through the PGA mechanism, while franchise tax expense is
13 recovered through a separate tax adjustment on bills.
14

15 Q. EXPLAIN ADJUSTMENT NO. H-4, PAYROLL EXPENSE.

16 A. Total proforma based payroll cost was computed using the employee head count and
17 salaries at the end of September 1997. The salary rates were adjusted for the
18 contractual 1998 union wage increase and for miscellaneous known changes in rates
19 of pay. Proforma overtime payroll was computed by applying the test year overtime
20 ratio to the proforma base payroll computed above. In addition, fiscal year 1998
21 incentive compensation and commissions and test year miscellaneous pay were added
22 to determine total proforma payroll. The major categories of total proforma payroll

1 (exempt, non-exempt fixed, non-exempt variable, part time, overtime, commissions,
2 and miscellaneous) were then spread to USOA accounts by major category based on
3 the test year prorata amount incurred in each USOA account. Finally, all categories
4 were totaled by USOA account to determine total proforma payroll by USOA
5 account. The resulting total in the expense USOA accounts is equal to the proforma
6 payroll expense requested on Schedule H-4.

7
8 **Q. DID YOU DEVELOP A PAYROLL EXPENSE RATIO BASED ON THESE**
9 **CALCULATIONS?**

10 A. Yes. A payroll expense ratio was determined by dividing total proforma payroll
11 expense by total proforma payroll. The payroll expense ratio was used on Schedules
12 H-5, H-6 and H-7 to compute the expense portion of proforma benefits, payroll tax
13 and injuries and damages, respectively. Payroll ratios were also determined relating
14 to the amounts of payroll spread to the various non-expense clearing accounts. These
15 clearing accounts include the Transportation Work Equipment Clearing Account, the
16 Stores Load Account and the Paid Time Off Account. The payroll ratios related to
17 these clearing accounts were also applied to the benefits, payroll tax, and injuries and
18 damages proforma amounts to determine the proforma amount of each of these items
19 to use on Schedules H-14, H-15 and H-16. These schedules normalize the test year
20 amounts cleared from each of the clearing accounts listed above and are further
21 discussed later in my testimony.

1 **Q. EXPLAIN ADJUSTMENT NO. H-5, BENEFITS EXPENSE.**

2 A. Total proforma benefits cost include pensions, life and accidental death &
3 dismemberment (AD&D) insurance, long term disability insurance, medical and
4 dental benefits, FAS 106 post retirement benefit costs, 401K, COLI amortization
5 costs, and test year miscellaneous charges to USOA account 926. Proforma benefits
6 expense was computed by multiplying total proforma benefits costs by the payroll
7 expense ratio discussed previously.

8

9 **Q. EXPLAIN THE BASIS FOR CALCULATION OF EACH CATEGORY OF**
10 **BENEFITS LISTED ABOVE.**

11 A. The pension and FAS 106 proforma amounts were based on the most recent actuarial
12 studies performed by Southern Union Company's actuaries. For life, AD&D, long
13 term disability, and medical and dental costs, a ratio was developed using MGE's
14 most current costs as a percentage of total salaries. These ratios were applied to the
15 total proforma salaries discussed above to compute the proforma amount of benefit
16 cost for each item. For the 401K calculation, each individual's elected 401K
17 percentage was applied to the individual's total proforma payroll amount. The
18 proforma 401K cost on Schedule H-5 was computed by applying MGE's matching
19 percentages to the result. Lastly, the proforma COLI amount is equal to one-fifth of
20 the final total unamortized COLI cost. Since this represents a non-tax deductible
21 expense, the amortization amount was also reflected as an adjustment to the income
22 tax calculation on Schedule A-2.

1 Q. EXPLAIN ADJUSTMENT NO. H-6, PAYROLL TAX EXPENSE.

2 A. Adjustment H-6 synchronizes payroll taxes with proforma payroll on Schedule H-4.

3

4 Q. PLEASE PROVIDE AN EXPLANATION OF ADJUSTMENT NO. H-7.

5 A. Adjustment No. H-7 normalizes costs incurred related to various types of insurance
6 expense using a three-year average of claims plus the insurance premiums paid during
7 the test period. Proforma insurance expense was computed by multiplying total
8 proforma insurance costs by the payroll expense ratio discussed previously.

9

10

11 Q. PLEASE EXPLAIN ADJUSTMENT NO. H-8.

12 A. Adjustment No. H-8 increases administrative and general costs in order to properly
13 assign or allocate costs of joint and common functions to MGE. These functions
14 support the on-going operations of MGE and include accounting, gas supply, tax,
15 regulatory, shareholder relations, treasury, human resources, legal and information
16 technology.

17

18 Q. PLEASE PROVIDE AN EXPLANATION OF ADJUSTMENT NO. H-9.

19 A. Adjustment No. H-9 normalizes test period uncollectible accounts expense,
20 considering normal volumes and gas costs. In normalizing this expense, MGE has
21 eliminated the effect of billing errors on uncollectible accounts. This adjustment
22 eliminated only approximately \$90,000, or .023% of total revenues.

1 Q. WHAT IS THE PURPOSE OF ADJUSTMENT NO. H-10?

2 A. Adjustment No. H-10, Regulatory Commission Expense, reflects an estimated
3 amount of rate case expense, including an increase related to the Commission
4 assessment for the fiscal year beginning July 1, 1997. This adjustment should be
5 tried-up based upon the ultimate costs of this case.

6

7 Q. WHAT IS THE PURPOSE OF ADJUSTMENT NO. H-11?

8 A. Adjustment No. H-11, Interest on Customer Deposits, synchronizes the test period
9 interest paid on customer deposits held by MGE with the thirteen month average
10 utilized in Schedule B.

11

12 Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF ADJUSTMENTS
13 NO. H-12 AND H-13.

14 A. Adjustment No. H-12, Depreciation Expense, and H-13, Amortization Expense,
15 annualize the effects of depreciation and amortization expense based upon the test
16 period level of investment. With the exception of two items, MGE is using the rates
17 applied in Case No. GR-96-285. MGE proposes a 15 year life for its new automated
18 meter reading (AMR) and a 20 year life for electronic gas measurement (EGM)
19 equipment, based on recommendations from Black & Veatch, depreciation
20 consultants. The respective depreciation and amortization rates are applied to the
21 proforma test period plant in service as depicted in Schedule C. Depreciation booked

1 to the transportation, work equipment (TWE) clearing account is reflected in
2 Schedule H-14.

3
4 The SLRP costs are amortized over a 10 year period and are identified in Schedule B.

5
6 **Q. EXPLAIN ADJUSTMENTS NO. 14, 15 AND 16 RELATING TO**
7 **TRANSPORTATION WORK EQUIPMENT (TWE), STORES LOAD AND**
8 **PAID TIME OFF.**

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

11
12 **Q. PLEASE EXPLAIN THE FUNCTION AND PURPOSE OF CLEARING**
13 **ACCOUNTS.**

14 A. Clearing accounts are specific accounts required by the USOA. They serve as a
15 clearing house for various costs that are incurred for a similar function. For example,
16 the TWE account accumulates various costs relating to vehicles and major work
17 equipment including payroll, benefits, taxes, and insurance as well as the cost of tires,
18 oil, and repairs and depreciation and/or vehicle lease expense. Similarly, the Stores
19 Load Accounts accumulates costs relating to managing the inventory and purchasing
20 function, and the Paid Time Off account accumulates the payroll and related costs of
21 vacations, sick leave, etc. By accumulating varied but related costs into one account,
22 these costs can more easily and consistently be charged back to other expense and

1 capital accounts. On average and over time, the total amounts charged into a clearing
2 account should be equal to the amount charged out to the other accounts.

3
4 Q. WHY IS IT NECESSARY TO REFLECT ADJUSTMENTS RELATING TO
5 THESE ITEMS IN A RATE CASE?

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

1 Q. WHAT IS THE PURPOSE OF ADJUSTMENT NO. H-17? :

2 A. Adjustment No. H-17, Missouri State Franchise Tax, adjusts the test year Missouri
3 State Franchise taxes to the amount reflected in the most recent tax return.

4

5 Q. PLEASE DISCUSS ADJUSTMENT NO. H-18.

6 A. Adjustment No. H-18, Property Tax Expense, synchronizes ad valorem taxes with the
7 amount of plant in service reflected in Schedule B.

8

9 Q. PLEASE DESCRIBE ADJUSTMENT NO. H-19.

10 A. This adjustment accounts for various costs incurred to upgrade MGE's existing
11 telephone system and to allow for the transfer of calls received at MGE's Kansas
12 City call center to its sister call center in El Paso. The telephone system was in need
13 of improvements for the system to maintain operating integrity of daily activity, in
14 addition to providing more real-time customer information. Simultaneously, due to
15 heavy calling activity resulting from the cold weather, gas costs, and billing issues
16 experienced during the 1996-1997 heating season, MGE has implemented the ability
17 to transfer calls during peak conditions more cost effectively than temporarily
18 transferring workforce to Kansas City or adding call center employees to handle only
19 peak period calling.

1 Q. MR. HERNANDEZ, PLEASE DESCRIBE ADJUSTMENT NO. H-20.

2 A. Adjustment No. H-20 adjusts the Experimental Weatherization Program test period
3 level of expense with that level the Commission authorized in Case No. GR-96-285.
4 Under this Experimental program, MGE will expend \$250,000 annually which
5 includes amounts remitted monthly to the City of Kansas City's Weatherization
6 division and the monthly retained consultant fees associated with the evaluation of the
7 Program.

8

9 Q. PLEASE DESCRIBE ADJUSTMENTS NO. H-21 AND H-22.

10 A. Adjustment No. H-21, 3420 Broadway Lease Expense, recognizes changes to the
11 lease amounts incurred for the space used by MGE in the 3420 Broadway office
12 building. Adjustment No. H-22, New Business Office - 39th & Main, relates to
13 MGE's new business office, which opened April 1, 1997. MGE witness Czaplewski
14 discusses the positive aspects of this office now available to customers. There are
15 various costs related to maintaining this office, and the adjustment annualizes those
16 costs.

17

18 Q. PLEASE DESCRIBE ADJUSTMENT NO. H-23.

19 A. Adjustment No. H-23, Dues Expense, eliminates certain dues paid to various types of
20 organizations from the test period, thereby reducing administrative and general
21 expenses.

22

1 Q. PLEASE DESCRIBE ADJUSTMENT NO. H-24.

2 A. Adjustment No. H-24, Billing Process Enhancement, recognizes the expense MGE
3 has incurred and expects to continue to incur in the near future to evaluate and
4 implement process improvements for accurate billing to its customers. An
5 amortization of two years is proposed due to the on-going benefits produced by these
6 expenditures.

7
8 Q. PLEASE DESCRIBE ADJUSTMENT NO. H-25.

9 A. Adjustment No. H-25, Meter Reading Costs Reductions, reduces meter reading
10 expense in two ways. First, non-recurring costs incurred last winter (1996-1997) are
11 removed. Second certain meter reading costs that will no longer be incurred once
12 AMR is implemented have been removed. Although not all meter reading costs will
13 be avoided immediately, MGE has taken an aggressive approach to remove these
14 costs while it has conservatively included only a portion of cost of AMR devices in
15 plant in service.

16
17 Q. PLEASE DESCRIBE ADJUSTMENT NO. H-26.

18 A. Adjustment No. H-26, Billing Error Costs, relates to the removal of costs incurred by
19 MGE stemming from the correction of billing errors made during the 1996-1997
20 heating season.

1 Q. ARE THERE ADJUSTMENTS PROPOSED TO TAXABLE INCOME IN
2 THIS PROCEEDING?

3 A. Yes. Taxable income, as shown on Schedule A-2, is increased for the non-deductible
4 equity portion of the carrying costs included in the amortization of the Service Line
5 Replacement Program (SLRP) deferrals and the effects of the non-deductible portion
6 of SFAS 106 Corporate Owned Life Insurance (COLI) costs.

7

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY ?

9 A. Yes.

MISSOURI GAS ENERGY

A division of Southern Union Company

REVENUE DEFICIENCY SUMMARY

Twelve Months Ended May 31, 1997

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

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MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Revenue Deficiency

Line No.	Description (a)	Ref. (b)	Required Return (c)	Earnings Deficiency (d)	Revenue Deficiency (e)	Net Revenue Deficiency (f)
1	Rate Base	B	\$421,431,755			
2	Rate of Return	F	<u>9.858%</u>			
3	Required Return		<u>\$41,544,742</u>	\$41,544,742		
4	Adjusted Test Year Net Operating Income	A-1		<u>24,931,115</u>		
5	Earnings Deficiency			<u>\$16,613,627</u>	\$16,613,627	
6	Multiply by Income Tax Gross-up Factor				<u>1.646789</u>	
7	Revenue Deficiency - Gross of Tax				\$27,359,139	
8	Multiply by Uncollectibles Gross-up Factor				<u>1.021450</u>	
9	Revenue Deficiency before Late Pay Fee Gross Down				<u>\$27,945,992</u>	\$27,945,992
10	Multiply by Late Pay Fee Gross-down Factor					<u>0.996882</u>
11	Net Revenue Deficiency					<u>\$27,858,850</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

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	\$420,287,649	(\$304,087,794)	\$116,199,855
2	Other Utility Revenues	11,774,144	(4,797,012)	6,977,132
3	Total Operating Revenues	<u>\$432,061,793</u>	<u>(\$308,884,806)</u>	<u>\$123,176,987</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$301,611,137	(\$281,780,624)	\$19,830,513
5	Customer Accounts Expense	18,755,841	292,150	19,047,991
6	Customer Service and Information Expense	560,937	(57,182)	503,755
7	Sales Expense	888,540	94,990	983,530
8	Administrative and General Expense	19,045,699	5,582,201	24,627,900
9	Total Operating and Maintenance Expenses	<u>\$340,862,155</u>	<u>(\$275,868,465)</u>	<u>\$64,993,689</u>
10	Depreciation & Amortization Expense	\$16,112,551	\$7,438,893	\$23,551,444
11	Interest on Customer Deposits	632,106	(112,923)	519,183
12	Taxes Other Than Income	34,524,276	(26,775,121)	7,749,155
13	Total Operating Expenses	<u>\$392,131,087</u>	<u>(\$295,317,617)</u>	<u>\$96,813,471</u>
14	Operating Income Before Income Tax	\$39,930,706	(\$13,567,189)	\$26,363,516
15	Less: Income Tax Expense	6,708,940	(5,276,539)	1,432,401
16	Net Operating Income	<u>\$33,221,765</u>	<u>(\$8,290,650)</u>	<u>\$24,931,115</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Income Tax

Line No.	Description (a)	Reference (b)	Per Books (c)	As Adjusted (d)
1	Total Operating Revenues	A-1	\$432,061,793	\$123,176,987
2	Total Operating Expenses	A-1	(392,131,087)	(96,813,471)
3	Net Operating Income	A-1	<u>\$39,930,706</u>	<u>\$26,363,516</u>
4	Equity Portion of SLRP Deferrals		\$708,664	\$841,266
5	COLI Amortization		122,709	122,709
5	Less: Interest on Long Term Debt		(17,464,132)	(17,464,132)
6	Less: Cost of Tax Deductible Preferred Equity		(5,461,756)	(5,461,756)
7	Total Tax Adjustments		<u>(\$22,094,514)</u>	<u>(\$21,961,913)</u>
8	Net Taxable Income		<u>\$17,836,191</u>	<u>\$4,401,604</u>
9	Income Tax		\$7,005,303	\$1,728,764
10	Less: Income Tax Reduction per Case No. GM-94-40		<u>(296,363)</u>	<u>(296,363)</u>
11	Net Income Tax		<u>\$6,708,940</u>	<u>\$1,432,401</u>

SCHEDULE B

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Rate Base

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$9,438,133
2	Distribution Plant	C	532,776,979
3	General Plant	C	36,989,181
4	Gross Plant In Service		<u>\$579,204,293</u>
5	Accumulated Depreciation & Amortization	D	<u>(155,657,397)</u>
6	Net Plant in Service		\$423,546,896
7	SLRP Deferrals	B-1	\$28,153,321
8	Working Capital	E	24,382,911
9	Customer Deposits	B-2	(8,653,055)
10	Customer Advances	B-3	(6,499,609)
11	Unamortized Deferred Credit per Case No. GM-94-40		(16,750,000)
12	Deferred Income Taxes - SLRP	B-1	(8,464,514)
13	Deferred Income Taxes - Other	B-4	<u>(14,284,195)</u>
14	Total Rate Base		<u><u>\$421,431,755</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Summary of SLRP Deferrals and Deferred Taxes

Line No.	Description (a)	Amount (b)
	<u>SLRP Deferrals</u>	
1	Order GO-92-185	\$5,754,900
2	Order GO-94-234	19,050,873
3	Order GO-97-301	3,347,548
4	Total SLRP Deferrals	<u>\$28,153,321</u>
	<u>SLRP Deferred Taxes</u>	
5	Order GO-92-185	(\$2,717,894)
6	Order GO-94-234	(4,789,529)
7	Order GO-97-301	(957,091)
8	Total SLRP Deferred Taxes	<u>(\$8,464,514)</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Thirteen Months Ending May 31, 1997

Customer Deposits

Line No.	Month	Amount
	(a)	(b)
1	May-96	(\$7,999,630)
2	Jun-96	(7,973,922)
3	Jul-96	(8,106,744)
4	Aug-96	(8,249,679)
5	Sep-96	(8,384,483)
6	Oct-96	(8,647,847)
7	Nov-96	(8,867,991)
8	Dec-96	(9,010,962)
9	Jan-97	(9,103,815)
10	Feb-97	(9,101,116)
11	Mar-97	(9,074,858)
12	Apr-97	(9,046,024)
13	May-97	<u>(8,922,648)</u>
14	13 Month Total	(\$112,489,719)
15	13 Month Average	<u><u>(\$8,653,055)</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Thirteen Months Ending May 31, 1997

Customer Advances

Line No.	Month (a)	Amount (b)
1	May-96	(\$5,217,332)
2	Jun-96	(5,647,378)
3	Jul-96	(5,920,468)
4	Aug-96	(6,276,114)
5	Sep-96	(6,365,602)
6	Oct-96	(6,587,471)
7	Nov-96	(6,782,857)
8	Dec-96	(6,820,686)
9	Jan-97	(6,880,527)
10	Feb-97	(6,843,253)
11	Mar-97	(6,977,474)
12	Apr-97	(7,042,738)
13	May-97	<u>(7,133,011)</u>
14	13 Month Total	(\$84,494,911)
15	13 Month Average	<u><u>(\$6,499,609)</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Deferred Taxes (Other than SLRP)

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 5/31/97	(\$11,947,899)
2	Deferred Taxes: AMR and New Plant Adds	(730,542)
3	Deferred Taxes, Corporate Plant	<u>(1,605,754)</u>
4	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u><u>(\$14,284,195)</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Plant In Service

Line No.	Description (a)	Direct (b)	Completed Not Classified (c)	Total Direct & Completed (d)	Corporate Allocated (e)	Total Adjustments (f)	Total As Adjusted (g)
INTANGIBLE PLANT							
1	(301) Organization	\$15,600	\$0	\$15,600	\$0	\$0	\$15,600
2	(302) Franchises	55,749	0	55,749	0	0	55,749
3	(303) Miscellaneous Intangible	8,575,167	791,617	9,366,784	0	0	9,366,784
4	Total Intangible Plant	\$8,646,516	\$791,617	\$9,438,133	\$0	\$0	\$9,438,133
DISTRIBUTION PLANT							
5	(374.1) Land	\$167,237	\$0	\$167,237	\$0	\$0	\$167,237
6	(374.2) Land Rights	802,571	7,534	810,105	0	0	810,105
7	(375.1) Structures	5,547,255	0	5,547,255	0	936,354	6,483,609
8	(375.2) Leasehold Improvements	988,961	0	988,961	0	0	988,961
9	(376) Mains & Mains - Cast Iron	216,188,574	1,107,868	217,296,442	0	9,531,108	226,827,550
10	(378) Meas. & Reg. Station - General	9,804,893	6,262	9,811,155	0	0	9,811,155
11	(379) Meas. & Reg. Station - City Gate	2,422,582	0	2,422,582	0	0	2,422,582
12	(380) Services	199,246,735	9,436	199,256,171	0	14,302,015	213,558,186
13	(381) Meters	25,505,243	834,820	26,340,062	0	0	26,340,062
14	(382) Meter Installations	36,528,885	4,285	36,532,970	0	0	36,532,970
15	(383) House Regulators	8,600,883	29,128	8,630,011	0	0	8,630,011
16	(385) Electronic Gas Measuring	204,552	0	204,552	0	0	204,552
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	\$506,008,170	\$1,999,333	\$508,007,502	\$0	\$24,769,477	\$532,776,979
GENERAL PLANT							
19	(389) Land	\$708,569	\$0	\$708,569	\$0	\$0	\$708,569
20	(390.1) Structures	432,224	4,721	436,945	300,439	0	737,384
21	(390.2) Leasehold Improvements	594,295	90,380	684,675	0	225,000	909,675
22	(391) Furniture & Fixtures	3,247,966	25,276	3,273,242	8,412,457	0	11,685,699
23	(392) Transportation Equipment	689,201	0	689,201	45,478	0	734,677
24	(393) Stores Equipment	547,487	0	547,487	0	0	547,487
25	(394) Tools	4,712,836	17,095	4,729,931	0	0	4,729,931
26	(395) Laboratory Equipment	58,441	0	58,441	0	0	58,441
27	(396) Power Operated Equipment	1,472,462	0	1,472,462	0	1,648,463	3,120,925
28	(397) Communication Equipment - AMR	0	0	0	0	11,327,528	11,327,528
29	(397) Communication Equipment	1,768,284	199,684	1,967,947	116,294	110,821	2,195,062
30	(398) Miscellaneous Equipment	168,678	0	168,678	65,124	0	233,802
31	Total General Plant	\$14,400,443	\$337,136	\$14,737,579	\$8,939,790	\$13,311,812	\$36,989,181
32	Total Original Cost Plant in Service	\$529,055,129	\$3,128,086	\$532,183,214	\$8,939,790	\$38,081,289	\$579,204,293
33	Accumulated Depreciation and Amortization	(154,873,988)	0	(154,873,988)	(2,885,774)	2,106,365	(155,657,397)
34	Net Plant In Service	\$374,181,141	\$3,128,086	\$377,309,226	\$6,050,016	\$40,187,654	\$423,546,896

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending May 31, 1997

Adjustments to Plant in Service

Line No.	Description (a)	SLRP 7/97-6/98 Additions (b)	SLRP 7/97-6/98 Retirements (c)	Vehicle Additions (d)	Vehicle Retirements (e)	Non-Safety Plant Additions (f)	Building Improvements (g)	Remove AFUDC (h)	Automated Meter Reading (i)	Total Adjustments (j)
INTANGIBLE PLANT										
1	(301) Organization	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	(302) Franchises	0	0	0	0	0	0	0	0	0
3	(303) Miscellaneous Intangible	0	0	0	0	0	0	0	0	0
4	Total Intangible Plant	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
DISTRIBUTION PLANT										
5	(374 1) Land	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6	(374 2) Land Rights	0	0	0	0	0	0	0	0	0
7	(375 1) Structures	0	0	0	0	936,354	0	0	0	936,354
8	(375 2) Leasehold Improvements	0	0	0	0	0	0	0	0	0
9	(376) Mains & Mains - Cast Iron	8,512,765	(700,000)	0	0	2,064,380	0	(346,037)	0	9,531,108
10	(378) Meas. & Reg. Station - General	0	0	0	0	0	0	0	0	0
11	(379) Meas. & Reg. Station - City Gate	0	0	0	0	0	0	0	0	0
12	(380) Services	16,432,015	(2,130,000)	0	0	0	0	0	0	14,302,015
13	(381) Meters	0	0	0	0	0	0	0	0	0
14	(382) Meter Installations	0	0	0	0	0	0	0	0	0
15	(383) House Regulators	0	0	0	0	0	0	0	0	0
16	(385) Electronic Gas Metering	0	0	0	0	0	0	0	0	0
17	(387) Other Equipment	0	0	0	0	0	0	0	0	0
18	Total Distribution Plant	\$24,944,780	(\$2,830,000)	\$0	\$0	\$3,000,734	\$0	(\$346,037)	\$0	\$24,769,477
GENERAL PLANT										
19	(389) Land	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
20	(390.1) Structures	0	0	0	0	0	0	0	0	0
21	(390.2) Leasehold Improvements	0	0	0	0	0	225,000	0	0	225,000
22	(391) Furniture & Fixtures	0	0	0	0	0	0	0	0	0
23	(392) Transportation Equipment	0	0	0	0	0	0	0	0	0
24	(393) Stores Equipment	0	0	0	0	0	0	0	0	0
25	(394) Tools	0	0	0	0	0	0	0	0	0
26	(395) Laboratory Equipment	0	0	0	0	0	0	0	0	0
27	(396) Power Operated Equipment	0	0	0	0	0	0	0	0	0
28	(397) Communication Equipment - AMR	0	0	1,872,638	(224,175)	0	0	0	0	1,648,463
29	(397) Communication Equipment	0	0	0	0	0	0	0	11,327,528	11,327,528
30	(398) Miscellaneous Equipment	0	0	0	0	0	110,821	0	0	110,821
31	Total General Plant	\$0	\$0	\$1,872,638	(\$224,175)	\$0	\$335,821	\$0	\$11,327,528	\$13,311,812
32	Total Original Cost Plant In Service	\$24,944,780	(\$2,830,000)	\$1,872,638	(\$224,175)	\$3,000,734	\$335,821	(\$346,037)	\$11,327,528	\$38,081,289

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

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	(\$4,351,541)	\$0	\$0	(\$4,351,541)
2	Distribution Reserve	(150,522,447)	0	2,106,365	(148,416,082)
3	Corporate Allocated Reserve	0	(2,889,774)	0	(2,889,774)
4	Total Accumulated Reserves	<u>(\$154,873,988)</u>	<u>(\$2,889,774)</u>	<u>\$2,106,365</u>	<u>(\$155,657,397)</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Adjustments to Reserves

Line No	Description	Adjustments to Plant in Service	Deprec Rates	Adj. to Reserve for Add'l Depr. (see note) No. 1	SLRP Retirements No. 2	TWE Retirements No. 3	Salvage on TWE Retirements No. 4	Total Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
<u>DISTRIBUTION PLANT</u>								
1	(374.1) Land	\$0	0.00%	\$0	\$0	\$0	\$0	\$0
2	(374.2) Land Rights	0	Amort.	0	0	0	0	0
3	(375.1) Structures	936,354	2.28%	(10,674)	0	0	0	(10,674)
4	(375.2) Leasehold Improvements	0	Amort.	0	0	0	0	0
5	(376) Mains & Mains - Cast Iron	9,531,108	1.88%	(89,592)	700,000	0	0	610,408
6	(378) Meas. & Reg. Station - General	0	3.00%	0	0	0	0	0
7	(379) Meas. & Reg. Station - City Gate	0	2.66%	0	0	0	0	0
8	(380) Services	14,302,015	5.50%	(393,305)	2,130,000	0	0	1,736,695
9	(381) Meters	0	2.05%	0	0	0	0	0
10	(382) Meter Installations	0	2.05%	0	0	0	0	0
11	(383) House Regulators	0	2.05%	0	0	0	0	0
12	(385) Electronic Gas Metering	0	5.00%	0	0	0	0	0
13	(387) Other Equipment	0	6.33%	0	0	0	0	0
14	Total Distribution Plant	<u>\$24,769,477</u>		<u>(\$493,571)</u>	<u>\$2,830,000</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,336,429</u>
<u>GENERAL PLANT</u>								
15	(389) Land	\$0	0.00%	\$0	\$0	\$0	\$0	\$0
16	(390.1) Structures	0	3.33%	0	0	0	0	0
17	(390.2) Leasehold Improvements	225,000	Amort.	(11,250)	0	0	0	(11,250)
18	(391) Furniture & Fixtures	0	3.06%	0	0	0	0	0
19	(392) Transportation Equipment	0	10.13%	0	0	0	(11,209)	(11,209)
20	(393) Stores Equipment	0	3.33%	0	0	0	0	0
21	(394) Tools	0	4.00%	0	0	0	0	0
22	(395) Laboratory Equipment	0	4.00%	0	0	0	0	0
23	(396) Power Operated Equipment	1,648,463	6.25%	(51,514)	0	224,175	0	172,661
24	(397) Communication Equipment - AMR	11,327,528	6.67%	(377,773)	0	0	0	(377,773)
25	(397) Communication Equipment	110,821	4.50%	(2,493)	0	0	0	(2,493)
26	(398) Miscellaneous Equipment	0	6.25%	0	0	0	0	0
27	Total General Plant	<u>\$13,311,812</u>		<u>(\$443,030)</u>	<u>\$0</u>	<u>\$224,175</u>	<u>(\$11,209)</u>	<u>(\$230,064)</u>
28	Total Adjustment	<u>\$38,081,289</u>		<u>(\$936,601)</u>	<u>\$2,830,000</u>	<u>\$224,175</u>	<u>(\$11,209)</u>	<u>\$2,106,365</u>

Note: Adjustment 1 computed using the 1/2 year convention

SCHEDULE E

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Summary of Working Capital

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$2,014,760
2	Prepayments	E-2	753,191
3	Gas Inventory	E-3	<u>21,614,960</u>
4	Total Working Capital		<u><u>\$24,382,911</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Thirteen Months Ending May 31, 1997

Materials & Supplies

Line No.	Month	Amount
	(a)	(b)
1	May-96	\$2,178,328
2	Jun-96	2,150,950
3	Jul-96	2,377,012
4	Aug-96	2,010,026
5	Sep-96	2,072,961
6	Oct-96	1,900,098
7	Nov-96	1,957,402
8	Dec-96	1,964,734
9	Jan-97	1,911,325
10	Feb-97	1,919,160
11	Mar-97	1,914,936
12	Apr-97	1,910,479
13	May-97	<u>1,924,464</u>
14	13 Month Total	\$26,191,875
15	13 Month Average	<u><u>\$2,014,760</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Thirteen Months Ending May 31, 1997

Prepayments

Line No.	Month (a)	Amount (b)
1	Mar-96	\$617,881
2	Apr-96	450,509
3	May-96	459,908
4	Jun-96	363,673
5	Jul-96	1,331,244
6	Aug-96	1,161,075
7	Sep-96	1,062,601
8	Oct-96	922,700
9	Nov-96	851,351
10	Dec-96	852,907
11	Jan-97	694,495
12	Feb-97	553,891
13	Mar-97	<u>469,248</u>
14	13 Month Total	\$9,791,483
15	13 Month Average	<u><u>\$753,191</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Thirteen Months Ending May 31, 1997

Gas Inventory

Line No.	Month (a)	Amount (b)
1	May-96	\$6,548,995
2	Jun-96	14,764,081
3	Jul-96	22,784,265
4	Aug-96	32,530,202
5	Sep-96	38,709,635
6	Oct-96	41,328,165
7	Nov-96	40,772,184
8	Dec-96	29,347,900
9	Jan-97	22,478,646
10	Feb-97	12,684,400
11	Mar-97	9,288,853
12	Apr-97	5,794,325
13	May-97	<u>3,962,831</u>
14	13 Month Total	\$280,994,481
15	13 Month Average	<u><u>\$21,614,960</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Summary of Cost of Capital

Line No.	Description	Reference	Amount	Ratio	Cost Rate	Weighted Composite Rate
	(a)	(b)	(c)	(d)	(e)	(f)
1	Long-Term Debt	F-1	\$377,751,010	0.5095	8.134%	4.144%
2	Preferred Equity	F-2	96,295,457	0.1299	9.982%	1.296%
3	Common Equity	F-2	<u>267,361,667</u>	<u>0.3606</u>	12.25%	<u>4.418%</u>
4	Total		<u><u>\$741,408,134</u></u>	<u><u>1.0000</u></u>		<u><u>9.858%</u></u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Long Term Debt

Line No.	Description	Outstanding Debt	Annual Interest Rate	Annualized Cost
	(a)	(b)	(c)	(d)
1	7.6% Senior Notes	\$384,515,000	7.60%	\$29,223,140
2	Capital Lease - AMR	11,264,700	6.25%	704,044
3	Capital Lease - IBM	674,486	6.29%	42,425
4	Total Long-Term Debt	<u>\$396,454,186</u>		<u>\$29,969,609</u>
5	Unamortized Debt Costs - 181	(3,876,107)		145,354
6	AMR Debt Costs	(115,000)		23,000
7	Unamortized Costs/Loss/Gain on Reacquired Debt - 189 & 257	(14,712,069)		588,992
8	Net Long Term Debt	<u>\$377,751,010</u>		<u>\$30,726,955</u>
9	Cost of Debt			8.134%
10	Debt as Proportion of Total Capitalization (Line 7, Column B divided by Line 3, Column B, Schedule F)			<u>0.5095</u>
11	Composite Debt Cost Rate			<u>4.1440%</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Equity Capital

Line No.	Description	Balance	Annualized Cost	Cost Rate	Ratio	Composite Cost Rate
	(a)	(b)	(c)	(d)	(e)	(f)
	Preferred Equity					
1	\$100,000,000 of 9.48% Preferred Securities		\$9,480,000			
2	Issuance Cost Amortization		132,305			
3	Preferred Equity	\$96,295,457	\$9,612,305	9.982%		
4	Preferred Equity as Proportion of Total Capitalization (Line 3, Column B divided by Line 3, Column B, Schedule F)				13.0%	
5	Composite Preferred Cost Rate					1.296%
	Common Equity					
6	Common Equity	267,361,667				
7	Required Return on Common Equity			12.250%		
8	Common Equity as Proportion of Total Capitalization (Line 10, Column B divided by Line 3, Column B, Schedule F)				36.1%	
9	Composite Common Cost Rate					4.418%
10	Total Equity Capital	<u>\$363,657,124</u>				<u>5.714%</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Distribution of Revenue and Expense Adjustments by Main

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	\$288,682,802	(\$206,510,975)	\$82,171,827
2	481.1	Commercial	124,965,286	(96,025,184)	28,940,102
3	481.2	Industrial	3,620,676	(2,376,229)	1,244,447
4	483	Sales for Resale	6,092	(420)	5,672
5	487	Late Payment Charges	1,344,927	336,141	1,681,068
6	488	Miscellaneous Service Revenue	1,667,867	488,872	2,156,739
7	489	Transport	11,826,193	(4,797,012)	7,029,181
8	493	Rent From Property	22,245	0	22,245
9	495	Other Gas Revenue	(74,294)	0	(74,294)
		Total Operating Revenue	<u>\$432,061,793</u>	<u>(\$308,884,806)</u>	<u>\$123,176,987</u>
OPERATING & MAINTENANCE EXPENSE					
Operation Expense					
10	804-808	Natural Gas Purchases and Expenses	\$282,101,115	(\$282,101,115)	\$0
11	859	Other Joint Expense	3,688	0	3,688
12	870	Operation, Supervision and Engineering	384,746	(21,830)	362,915
13	871	Distribution and Load Dispatching	7,220	0	7,220
14	872	Compressor Station Labor and Expense	251	(0)	251
15	874	Mains and Service Expenses	1,839,926	29,281	1,869,207
16	875	Distributing Regulating Station Expenses	675,234	4,204	679,439
17	876	Measuring and Regulating - Station Expenses	25,996	403	26,399
18	877	Measuring and Regulating - Station Expenses	1,409	27	1,436
19	878	Meter and House Regulator Expenses	4,705,344	114,114	4,819,458
20	879	Customer Installation Expenses	2,648,734	31,138	2,679,871
21	880	Other Expenses	1,555,119	10,475	1,565,594
22	881	Rents	104,241	0	104,241
23		Total Operation Expense	<u>\$294,053,021</u>	<u>(\$281,933,303)</u>	<u>\$12,119,718</u>
Maintenance Expense					
24	885	Maintenance Supervision and Engineering	\$171,291	\$519	\$171,811
25	886	Maintenance of Structures and Improvements	103,053	1,241	104,294
26	887	Maintenance of Mains	6,195,594	127,286	6,322,880
27	889	Maint. of Measuring and Reg. Stat Equip - General	220,628	4,797	225,425
28	890	Maint. of Measuring and Regulating Equipment	83,923	1,509	85,432
29	891	Maint. of Measuring and Regulating Equipment	1,887	21	1,908
30	892	Maintenance of Services	230,233	12,036	242,269
31	893	Maintenance of Meters and House Regulators	334,651	763	335,414
32	894	Maintenance of Other Equipment	216,856	4,508	221,364
33		Total Maintenance Expenses	<u>\$7,558,116</u>	<u>\$152,679</u>	<u>\$7,710,795</u>
34		Total Distribution Expense	<u>\$301,611,137</u>	<u>(\$281,780,624)</u>	<u>\$19,830,513</u>
Customer Accounts Expense					
35	901	Supervision	\$400,692	(\$41,965)	\$358,727
36	902	Meter Reading Expense	3,157,912	(718,681)	2,439,231
37	903	Customer Records and Collection Expense	7,181,817	1,300,841	8,482,658
38	904	Uncollectible Accounts	7,993,944	(275,482)	7,718,462
39	905	Miscellaneous Customer Accounts Expense	21,476	27,437	48,913
40		Total Customer Accounts Expenses	<u>\$18,755,841</u>	<u>\$292,150</u>	<u>\$19,047,991</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Distribution of Revenue and Expense Adjustments by Main

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					
41	907	Supervision	\$0	\$0	\$0
42	908	Customer Assistance	455,254	(57,182)	398,072
43	909	Informational and Instructional Advertising Exp.	99,129	0	99,129
44	910	Miscellaneous Customer Accounts Expense	6,553	0	6,553
		Total Cust. Service and Information Exp.	<u>\$560,937</u>	<u>(\$57,182)</u>	<u>\$503,755</u>
Sales and Advertising Expense					
45	911	Supervision	\$141,940	(\$3,200)	\$138,740
46	912	Demonstrating and Selling Expenses	741,942	98,190	840,132
47	913	Advertising Expenses	568	0	568
48	916	Miscellaneous Sales Expenses	4,091	0	4,091
49		Total Sales and Advertising Expenses	<u>\$888,540</u>	<u>\$94,990</u>	<u>\$983,530</u>
Administrative and General Expense					
50	920	Administrative and General Salaries	\$3,712,659	(\$227,447)	\$3,485,212
51	921	Office Supplies and Expenses	3,324,890	28,221	3,353,111
52	922	Administrative Expenses Transferred	(436,337)	0	(436,337)
53	923	Outside Services Employed	1,596,882	7,558,331	9,155,213
54	924	Property Insurance	547,116	(547,116)	0
55	925	Injuries and Damages	1,435,032	(29,913)	1,405,119
56	926	Employee Pensions and Benefits	6,121,690	(1,665,736)	4,455,954
57	927	Franchise Requirements	0	0	0
58	928	Regulatory Commission Expense	1,183,197	444,908	1,628,105
59	930	Miscellaneous General Expenses	405,428	(9,582)	395,846
60	931	Rents	836,869	30,031	866,900
61	935	Maintenance of General Plant	318,273	504	318,777
62		Total Administration and General Expense	<u>\$19,045,699</u>	<u>\$5,582,201</u>	<u>\$24,627,900</u>
63		Total O & M Expense	<u>\$340,862,155</u>	<u>(\$275,868,465)</u>	<u>\$64,993,689</u>
64	403	Depreciation	15,273,893	4,615,664	19,889,556
65	404, 405	Amortization	838,658	2,823,229	3,661,888
66	431	Interest on Customer Deposits	632,106	(112,923)	519,183
67	408	Payroll Taxes	\$1,709,880	\$43,747	\$1,753,627
68	408	Property Taxes	4,159,531	1,538,131	5,697,662
69	408	Gross Receipts Tax	28,848,353	(28,848,353)	0
70	408	Other Taxes	(193,488)	491,354	297,866
71	408	Taxes Other Than Income	<u>\$34,524,276</u>	<u>(\$26,775,121)</u>	<u>\$7,749,155</u>
72		TOTAL EXPENSES	<u>\$392,131,087</u>	<u>(\$295,317,617)</u>	<u>\$96,813,471</u>
73		OPERATING INCOME BEFORE INCOME TAX	<u>\$39,930,706</u>	<u>(\$13,567,189)</u>	<u>\$26,363,516</u>
74	409,410	Income Taxes	\$6,708,940	(\$5,276,539)	\$1,432,401
75		NET OPERATING INCOME	<u>\$33,221,765</u>	<u>(\$8,290,650)</u>	<u>\$24,931,115</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending May 31, 1997

Distribution of Revenue and Expense Adjustments by Main													
Line No.	Main Acct	Description	Test Year Per Books	Adj. GL Rev to Test Year Margin	Normalize & Adj. Test Year		Remove Purchase Gas Cost and GRT	Payroll Expense	Employee Benefits	Payroll Taxes	Insurance	Joint and Common Costs	Uncollectible Expense
					(a)	(b)							
OPERATING REVENUE													
1	480	Residential	\$288,692,802	(\$207,537,755)	\$1,026,780								
2	481.1	Commercial	124,965,286	(96,659,453)	634,269								
3	481.2	Industrial	3,620,676	(2,381,251)	(14,978)								
4	483	Sales for Resale	6,092	(420)	0								
5	487	Late Payment Charges	1,344,927	(91)	336,232								
6	488	Miscellaneous Service Revenue	1,667,867	3,348	485,524								
7	489	Transport	11,826,193	(4,928,145)	131,133								
8	493	Rent From Property	22,245										
9	495	Other Gas Revenue	(74,294)										
10		Total Operating Revenue	\$432,061,793	(\$311,483,766)	\$2,598,960	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE													
Operation Expense													
11	804-808	Natural Gas Purchases and Expenses	\$282,101,115		(\$282,101,115)								
12	859	Other Joint Expense	3,688										
13	870	Operation, Supervision and Engineering	384,746					(29,904)					
14	871	Distribution and Load Dispatching	7,220										
15	872	Compressor Station Labor and Expense	251					(1)					
16	874	Mains and Service Expenses	1,839,926					(1,133)					
17	875	Discontinuing Regulating Station Expenses	675,234					(18,636)					
18	876	Measuring and Regulating - Station Expenses	25,996					(63)					
19	877	Measuring and Regulating - Station Expenses	1,409					(3)					
20	878	Meter and House Regulator Expenses	4,705,344					(30,426)					
21	879	Customer Installation Expenses	2,848,734					(6,908)					
22	880	Other Expenses	1,555,119					5,439					
23	881	Rents	104,241										
24		Total Operation Expense	\$294,053,021	\$0	\$0	(\$282,101,115)		(\$81,634)	\$0	\$0	\$0	\$0	\$0
Maintenance Expense													
25	885	Maintenance Supervision and Engineering	\$171,291					(\$9,082)					
26	886	Maintenance of Structures and Improvements	103,053					(185)					
27	887	Maintenance of Mains	6,195,594					(62,488)					
28	889	Maint. of Measuring and Reg. Stat Equip. - General	220,628					(468)					
29	890	Maint. of Measuring and Regulating Equipment	83,923					(189)					
30	891	Maint. of Measuring and Regulating Equipment	1,887					(4)					
31	892	Maintenance of Services	230,233					(973)					
32	893	Maintenance of Meters and House Regulators	334,651					(720)					
33	894	Maintenance of Other Equipment	216,856					3,055					
34		Total Maintenance Expenses	\$7,558,116	\$0	\$0	\$0	(\$71,055)	\$0	\$0	\$0	\$0	\$0	\$0
35		Total Distribution Expense	\$301,611,137	\$0	\$0	(\$282,101,115)		(\$152,689)	\$0	\$0	\$0	\$0	\$0
Customer Accounts Expense													
36	901	Super-vision	\$400,692					(\$43,379)					
37	902	Meter Reading Expense	3,157,912					(\$22,513)					
38	903	Customer Records and Collection Expense	7,181,817					\$996,379					
39	904	Uncollectible Accounts	7,993,944										(275,482)
40	905	Miscellaneous Customer Accounts Expense	21,478										
41		Total Customer Accounts Expenses	\$18,755,841	\$0	\$0	\$0	\$0	\$930,487	\$0	\$0	\$0	\$0	(\$275,482)
Customer Service and Informational Expense													
42	907	Supervision	\$0										
43	908	Customer Assistance	455,254					(14,974)					
44	909	Informational and Instructional Advertising Exp.	99,129										
45	910	Miscellaneous Customer Accounts Expense	6,553										

Distribution of Revenue and Expense Adjustments by Main

Line No.	Main Acc't	Description (b)	Test Year Per Books (c)	Adj. GL Rev to Test Year Margin (d)	Normalize & Adj. Test Year Margin (e)	Remove Purchase Gas Cost and GRT (f)	Payroll Expense (g)	Employee Benefits (h)	Payroll Taxes (i)	Insurance (j)	Joint and Common Costs (k)	Uncollectible Expense (l)
46		Total Cust. Service and Information Exp.	\$560,937	\$0	\$0	\$0	(\$14,974)	\$0	\$0	\$0	\$0	\$0
47		Sales and Advertising Expense										
48	911	Supervision	\$141,940				(\$3,200)					
49	912	Demonstrating and Selling Expenses	741,942				\$98,190					
50	913	Advertising Expenses	568									
51	916	Miscellaneous Sales Expenses	4,091									
		Total Sales and Advertising Expenses	\$888,540	\$0	\$0	\$0	\$94,990	\$0	\$0	\$0	\$0	\$0
52		Administrative and General Expense										
53	920	Administrative and General Salaries	\$3,712,859				(\$227,447)					
54	921	Office Supplies and Expenses	3,324,890									
55	922	Administrative Expenses Transferred	(438,337)									
56	923	Outside Services Employed	1,596,882									
57	924	Property Insurance	547,116									
58	925	Injuries and Damages	1,435,032									
59	926	Employee Pensions and Benefits	6,121,690									
60	927	Franchise Requirements	0									
61	928	Regulatory Commission Expense	1,183,197									
62	929	Miscellaneous General Expenses	405,428									
63	930	Rents	836,869									
64	931	Maintenance of General Plant	318,273				(98)					
		Total Administration and General Expense	\$19,045,699	\$0	\$0	\$0	(\$227,545)	(\$1,665,889)	\$0	(\$577,029)	\$7,558,331	\$0
		Total O & M Expense	\$340,862,155	\$0	\$0	(\$282,101,115)	\$630,269	(\$1,665,889)	\$0	(\$577,029)	\$7,558,331	(\$275,482)
65	403	Depreciation	15,273,893									
66	404, 405	Amortization	838,658									
67	431	Interest on Customer Deposits	632,106									
68	408	Payroll Taxes	\$1,709,880									
69	408	Property Taxes	4,159,531						\$43,747			
70	408	Gross Receipts Tax	28,848,353									
71	408	Other Taxes	(193,488)				(28,848,353)					
72	408	Taxes Other Than Income	\$34,524,276	0	0	(28,848,353)	0	0	43,747	0	0	0
73		TOTAL EXPENSES	\$392,131,087	\$0	\$0	(\$310,949,468)	\$630,269	(\$1,665,889)	\$43,747	(\$577,029)	\$7,558,331	(\$275,482)
74		OPERATING INCOME BEFORE INCOME TAX	\$39,920,706	(\$311,483,766)	\$2,598,960	\$310,949,468	(\$630,269)	\$1,665,889	(\$43,747)	\$577,029	(\$7,558,331)	\$275,482
75	409,410	Income Taxes	6,708,940									
76		Note: per book & adjusted income tax computed on A-2										
77		NET OPERATING INCOME	\$33,221,765	(\$311,483,766)	\$2,598,960	\$310,949,468	(\$630,269)	\$1,665,889	(\$43,747)	\$577,029	(\$7,558,331)	\$275,482

Distribution of Revenue and Expense Adjustments by Main													
Line No.	Main Acct	Description	Test Year Per Books	H-10	H-11	H-12	H-13	H-14	H-15	H-16	H-17	H-18	H-19
				Regulatory Commission Expense	Interest on Customer Deposits	Depreciation Expense	Amortization Expense	TVE Cleaning	Stores Load Cleaning	Paid Time Off Cleaning	State Franchise Tax	Property Tax	Call Center Conversion
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)
OPERATING REVENUE													
1	480	Residential	\$288,682,802										
2	481.1	Commercial	124,985,286										
3	481.2	Industrial	3,620,676										
4	483	Sales for Resale	6,092										
5	487	Late Payment Charges	1,344,927										
6	488	Miscellaneous Service Revenue	1,667,867										
7	489	Transport	11,826,193										
8	493	Rent From Property	22,245										
9	495	Other Gas Revenue	(74,294)										
10		Total Operating Revenue	\$432,061,793	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE													
Operation Expense													
11	804-808	Natural Gas Purchases and Expenses	\$282,101,115										
12	859	Other Joint Expense	3,688										
13	870	Operation, Supervision and Engineering	384,748					8,034		39			
14	871	Distribution and Load Dispatching	7,220										
15	872	Compressor Station Labor and Expense	251										
16	874	Mains and Service Expenses	1,839,926										
17	875	Distributing Regulating Station Expenses	675,234					27,423	2,684	307			
18	876	Measuring and Regulating - Station Expenses	25,996					21,301	1,275	265			
19	877	Measuring and Regulating - Station Expenses	1,409					446	3	18			
20	878	Meter and House Regulator Expenses	4,705,344					29	9,048	2,547			
21	879	Customer Installation Expenses	2,648,734					132,944	711	1,523			
22	880	Other Expenses	1,555,119					35,812	374	122			
23	881	Rents	104,241					4,540					
24		Total Operation Expense	\$294,053,021	\$0	\$0	\$0	\$0	\$230,529	\$14,095	\$4,822	\$0	\$0	\$0
Maintenance Expense													
25	885	Maintenance Supervision and Engineering	\$171,291					\$9,565		\$36			
26	886	Maintenance of Structures and Improvements	103,053					1,387	3	56			
27	887	Maintenance of Mains	6,195,594					194,522	(7,498)	2,749			
28	889	Maint. of Measuring and Reg. Stat Equip - General	220,628					4,817	323	125			
29	890	Maint. of Measuring and Regulating Equipment	93,923					1,647		51			
30	891	Maint. of Measuring and Regulating Equipment	1,887					24		1			
31	892	Maintenance of Services	230,233					11,222	1,552	235			
32	893	Maintenance of Motors and House Regulators	334,651					1,275	5	203			
33	894	Maintenance of Other Equipment	216,856					1,396		57			
34		Total Maintenance Expenses	\$7,558,116	\$0	\$0	\$0	\$0	\$225,836	(\$5,616)	\$3,514	\$0	\$0	\$0
35		Total Distribution Expense	\$301,611,137	\$0	\$0	\$0	\$0	\$456,365	\$8,479	\$8,336	\$0	\$0	\$0
Customer Accounts Expense													
36	901	Supervision	\$400,692					\$1,414					
37	902	Meter Reading Expense	3,157,912					55,424	204	1,229			
38	903	Customer Records and Collection Expense	7,181,817					43,777		323			
39	904	Uncollectible Accounts	7,993,944										
40	905	Miscellaneous Customer Accounts Expense	21,476										
41		Total Customer Accounts Expenses	\$18,755,841	\$0	\$0	\$0	\$0	\$100,614	\$204	\$1,552	\$0	\$0	\$0
Customer Service and Informational Expense													
42	907	Supervision	\$0										
43	908	Customer Assistance	455,254										
44	909	Informational and Instructional Advertising Exp.	99,129										
45	910	Miscellaneous Customer Accounts Expense	6,553										

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending May 31, 1997

SCHEDULE H
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Distribution of Revenue and Expense Adjustments by Main

Line No.	Main Acct.	Description (b)	Test Year Per Books (c)	H-10 Regulatory Commission Expense (m)	H-11 Interest on Customer Deposits (n)	H-12 Depreciation Expense (o)	H-13 Amortization Expense (p)	H-14 TWE Cleaning (q)	H-15 Stores Load Clearing (r)	H-16 Paid Time Off Cleaning (s)	H-17 State Franchise Tax (t)	H-18 Property Tax (u)	H-19 Conversion (v)
46		Total Cust. Service and Information Exp.	\$560,937	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
47		Sales and Advertising Expense											
48	911	Supervision	\$141,940										
49	912	Demonstrating and Selling Expenses	741,942										
50	913	Advertising Expenses	588										
51	916	Miscellaneous Sales Expenses	4,091										
		Total Sales and Advertising Expenses	\$888,540	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
52		Administrative and General Expense											
53	920	Administrative and General Salaries	\$3,712,659										
54	921	Office Supplies and Expenses	3,324,890										
55	922	Administrative Expenses Transferred	(436,337)					23,500	262				
56	923	Outside Services Employed	1,596,882										
57	924	Property Insurance	547,116										
58	925	Injuries and Damages	1,435,032										
59	926	Employee Pensions and Benefits	6,121,690						153				
60	927	Franchise Requirements	0										
61	928	Regulatory Commission Expense	1,183,197	444,908									
62	929	Miscellaneous General Expenses	405,428										
63	930	Rents	836,869										
64	931	Maintenance of General Plant	318,273					576		26			127,421
		Total Administration and General Expense	\$19,045,699	\$444,908	\$0	\$0	\$0	\$24,076	\$415	\$26	\$0	\$0	\$127,421
		Total O & M Expense	\$340,882,155	\$444,908	\$0	\$0	\$0	\$581,055	\$9,098	\$9,914	\$0	\$0	\$127,421
65	403	Depreciation	15,273,893			\$4,615,664							
66	404	Amortization	838,658				2,823,229						
67	431	Interest on Customer Deposits	632,106		(112,923)								
68	408	Payroll Taxes	\$1,709,880										
69	408	Property Taxes	4,159,531									1,538,131	
70	408	Gross Receipts Tax	28,848,353										
71	408	Other Taxes	(193,488)										
72	408	Taxes Other Than Income	\$34,524,276	0	0	0	0	0	0	0	491,354	1,538,131	0
73		TOTAL EXPENSES	\$392,131,087	\$444,908	(\$112,923)	\$4,615,664	\$2,823,229	\$581,055	\$9,098	\$9,914	\$491,354	\$1,538,131	\$127,421
74		OPERATING INCOME BEFORE INCOME TAX	\$59,930,706	(\$444,908)	\$112,923	(\$4,615,664)	(\$2,823,229)	(\$581,055)	(\$9,098)	(\$9,914)	(\$491,354)	(\$1,538,131)	(\$127,421)
75	409	Income Taxes	6,708,940										
76		Note: per book & adjusted income tax computed on A-2											
77		NET OPERATING INCOME	\$33,221,765	(\$444,908)	\$112,923	(\$4,615,664)	(\$2,823,229)	(\$581,055)	(\$9,098)	(\$9,914)	(\$491,354)	(\$1,538,131)	(\$127,421)

Distribution of Revenue and Expense Adjustments by Main

Line No.	Main Acct.	Description	Test Year Per Books	Weatherization Program	Broadway Rent	New Business Office Costs	Dues Expense	Billing Process Enhancement	Meter Reading Cost Reductions	Billing Error Costs	Total Adjustments	Total Year As Adjusted
		(a)	(c)	(w)	(x)	(y)	(z)	(aa)	(ab)	(ac)	(ad)	(ae)
46		Total Cust. Service and Information Exp.	\$560,937	(\$42,208)	\$0	\$0	\$0	\$0	\$0	\$0	(\$57,182)	\$503,755
47		Sales and Advertising Expense										
48	911	Supervision	\$141,940									
49	912	Demonstrating and Selling Expenses	741,942								(\$3,200)	\$138,740
50	913	Advertising Expenses	568								98,190	840,132
51	916	Miscellaneous Sales Expenses	4,091								0	568
		Total Sales and Advertising Expenses	\$888,540	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0	4,091
52		Administrative and General Expense										
53	920	Administrative and General Salaries	\$3,712,659								(\$227,447)	\$3,485,212
54	921	Office Supplies and Expenses	3,324,890			9,900	(5,441)				28,221	3,353,111
55	922	Administrative Expenses Transferred	(436,337)								0	(436,337)
56	923	Outside Services Employed	1,556,882								7,558,331	9,155,213
57	924	Property Insurance	547,116								(547,116)	0
58	925	Injuries and Damages	1,435,032								(29,913)	1,405,119
59	926	Employee Pensions and Benefits	6,121,890								(1,665,736)	4,455,954
60	927	Franchise Requirements	0								0	0
61	928	Regulatory Commission Expense	1,183,197				(9,582)				444,908	1,628,105
62	930	Miscellaneous General Expenses	405,428								(9,582)	395,846
63	931	Rentals	838,869		(115,390)	18,000					30,031	866,900
64	935	Maintenance of General Plant	318,273								504	318,777
		Total Administration and General Expense	\$19,045,699	\$0	(\$115,390)	\$27,900	(\$15,023)	\$0	\$0	\$0	\$5,582,201	\$24,627,900
65		Total O & M Expense	\$340,862,155	(\$42,208)	(\$115,390)	\$55,337	(\$15,023)	\$411,139	(\$753,026)	(\$150,776)	(\$275,868,465)	\$64,993,699
66	403	Depreciation	15,273,893								\$4,615,664	\$19,889,556
67	404, 405	Amortization	838,658								2,823,229	3,661,888
68	431	Interest on Customer Deposits	632,106								(112,623)	\$519,183
69	408	Payroll Taxes	\$1,709,880								\$43,747	\$1,753,627
70	408	Property Taxes	4,159,531								1,538,131	5,697,662
71	408	Gross Receipts Tax	28,848,353								(28,848,353)	0
72	408	Other Taxes	(193,489)								491,354	297,865
		Taxes Other Than Income	\$34,524,276	0	0	0	0	0	0	0	(26,775,121)	7,749,155
73		TOTAL EXPENSES	\$392,131,087	(\$42,208)	(\$115,390)	\$55,337	(\$15,023)	\$411,139	(\$753,026)	(\$150,776)	(\$295,317,617)	\$96,813,471
74		OPERATING INCOME BEFORE INCOME TAX	\$39,930,706	\$42,208	\$115,390	(\$55,337)	\$15,023	(\$411,139)	\$753,026	\$150,776	(\$13,567,189)	\$26,363,516
75	409,410	Income Taxes	6,708,940								(\$5,276,539)	\$1,432,401
76		Note: per book & adjusted income tax computed on A-2										
77		NET OPERATING INCOME	\$33,221,765	\$42,208	\$115,390	(\$55,337)	\$15,023	(\$411,139)	\$753,026	\$150,776	(\$8,290,650)	\$24,931,115

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Adjust Test Year Revenue per Book to Test Year Margin

Line No.	Description	Main Account/Revenue Class									
		480	481.1	481.2	483	487	489		(h)	(i)	Total
	(a)	21	22 & 23	25	28	33	38				
	(b)		(c)	(d)	(e)	(f)	(g)				
1	Total Revenue per Book	\$288,682,802	\$124,985,286	\$3,620,876	\$6,092	\$1,344,927	\$11,826,193	\$1,615,818			\$432,061,793
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(207,537,755)	(96,659,453)	(2,361,251)	(420)	(91)	(4,928,145)	3,348			(311,483,766)
3	Test Year Margin	\$81,145,047	\$28,305,833	\$1,259,425	\$5,672	\$1,344,836	\$6,898,048	\$1,619,166			\$120,578,027

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Test Year Margin Adjustments

Line No.	Description (a)	Main Account/Revenue Class							Total (i)
		480 21	481.1 22 & 23	481.2 25	483 28	487 33	489 38	(488,493,495)	
		(b)	(c)	(d)	(e)	(f)	(g)	(h)	
1	Test Year Margin	\$81,145,047	\$28,305,833	\$1,259,425	\$5,672	\$1,344,836	\$6,898,048	\$1,619,166	\$120,578,027
2	Annualize Revenue to Current Rates	4,186,591	1,985,986	16,527			318,004		6,507,108
3	Annualize Customer Charge Proration	(705,314)	(185,492)	(182)					(890,988)
4	Weather Normalize	(2,700,789)	(1,009,381)	114			(78,345)		(3,788,401)
5	Customer Growth Annualization	246,292	(70,753)	(19,413)			0		156,126
6	Rate Switching LGS to LVS		(85,421)	(10,950)			41,338		(55,033)
7	Annualize LVS Customers		(11,460)	(4,093)			(19,896)		(35,449)
8	Load changes of LVS Customers						(130,248)		(130,248)
9	Annualize Flex Credits						(2,220)		(2,220)
10	Economic Development Discounts						11,006		11,006
11	Late Payment Charge Tariff Adjustment								
12	Proposed Reconnect Fee Increase								
13	Reclassify Customers from LVS to LGS								
14	Total Adjustments	1,026,780	10,790	3,019	0	336,232	(8,506)	485,524	336,232
			534,269	(14,978)			131,133		485,524
15	As Adjusted Test Year Margin	\$82,171,827	\$28,940,102	\$1,244,447	\$5,672	\$1,681,068	\$7,029,181	\$2,104,690	\$123,176,987

MISSOURI GAS ENERGY
A division of Southern Union Company
Twelve Months Ending May 31, 1997

Remove Purchase Gas Costs and Gross Receipts Tax

Line No.	Description (a)	Amount (b)
1	Purchase Gas Costs (Accts. 804-808)	(\$282,101,115)
2	Gross Receipts Tax (Acct. 4081)	(28,848,353)
3	Total Adjustment	<u>(\$310,949,468)</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
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Payroll Expense

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$311,963	\$341,867	(\$29,904)
2	872	179	180	(1)
3	874	333,495	334,628	(1,133)
4	875	421,731	440,367	(18,636)
5	876	18,449	18,512	(63)
6	877	818	821	(3)
7	878	3,065,116	3,095,542	(30,426)
8	879	2,054,879	2,061,787	(6,908)
9	880	711,389	705,950	5,439
10	885	115,650	124,732	(9,082)
11	886	54,534	54,719	(185)
12	887	3,530,437	3,592,925	(62,488)
13	889	137,957	138,425	(468)
14	890	55,630	55,819	(189)
15	891	1,230	1,234	(4)
16	892	286,243	287,216	(973)
17	893	212,026	212,746	(720)
18	894	104,632	101,577	3,055
19	901	352,203	395,582	(43,379)
20	902	1,547,037	1,569,550	(22,513)
21	903	4,830,889	3,834,510	996,379
22	908	121,230	136,204	(14,974)
23	911	137,894	141,094	(3,200)
24	912	834,565	736,375	98,190
25	920	3,485,202	3,712,649	(227,447)
26	926	4,041	4,041	0
27	930	22,233	22,233	(0)
28	935	28,817	28,915	(98)
29	Total	\$22,780,469	\$22,150,200	\$630,269

MISSOURI GAS ENERGY
A division of Southern Union Company
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Employee Benefits

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	(\$2,293,526)	
2	Life & AD&D Insurance	71,213	
3	Long Term Disability Insurance	109,793	
4	Medical / Dental Benefit	3,298,896	
5	FAS 106	3,809,280	
6	401K	1,041,960	
7	COLI Amortization	122,709	
8	Other Benefits	188,639	
9	Total Proforma Benefits	<u>\$6,348,964</u>	
10	Payroll Expense Ratio	0.701179	
11	Proforma Benefits Expense	<u>\$4,451,760</u>	<u>\$4,451,760</u>
12	Less Test Year Benefits Expense	(\$6,121,690)	
13	Add back payroll charged to Acct. 9260 (already deducted from proforma amounts on payroll adjustment)	4,041	
14	Net Test Year Benefits Expense (not deducted elsewhere)	<u>(\$6,117,649)</u>	<u>(6,117,649)</u>
15	Adjustment to Test Year Expense - Acct. 926		<u><u>(\$1,665,889)</u></u>

MISSOURI GAS ENERGY
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Payroll Taxes

Line No.	Description	Amount
	(a)	(b)
1	Total Proforma Payroll Taxes	\$2,500,969
2	Payroll Expense Ratio	0.701179
3	Proforma Payroll Tax Expense	<u>\$1,753,627</u>
4	Less Test Year Payroll Tax Expense	<u>(1,709,880)</u>
5	Adjustment to Test Year Expense - Acct. 4081	<u><u>\$43,747</u></u>

MISSOURI GAS ENERGY
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Insurance

Line No.	Description	1995	1996	1997	3 Year Avg.	Amount
	(a)	(b)	(c)	(d)	(e)	(f)
	MGE Claims:					
1	Workers Compensation claims paid	\$528,070	\$592,929	\$580,294	\$567,098	
2	Auto Liability	45,185	56,850	271,113	124,383	
3	General Liability	86,962	88,549	132,394	102,635	
4	Total Proforma Claims	<u>\$660,217</u>	<u>\$738,328</u>	<u>\$983,801</u>	<u>\$794,115</u>	\$794,115
5	Insurance Premiums					<u>1,209,822</u>
6	Total Proforma Insurance Cost					\$2,003,937
7	Test Year Payroll Expense Ratio					<u>0.701179</u>
8	Proforma Insurance Expense					<u>\$1,405,119</u>
9	Less Test Year Insurance Expense					(1,982,148)
10	Adjustment to Test Year - Accts. 924 and 925					<u><u>(\$577,029)</u></u>

MISSOURI GAS ENERGY
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Joint and Common Costs

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	\$12,190,857
2	MGE Expense Ratio	62%
3	Proforma Joint and Common Expense	\$7,558,331
4	Less Test Year Expense Recorded on MGE's Books	<u>0</u>
5	Adjustment to Test Year - Acct. 923	<u><u>\$7,558,331</u></u>

MISSOURI GAS ENERGY
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Uncollectible Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Test Period As Adjusted Volumes (excluding transportation)	62,143,994	
2	Adjusted Test Year Cost of Gas per MCF	<u>\$3.9323</u>	
3	Adjusted Test Year PGA	<u>\$244,368,828</u>	
4	Test Year Gas Sales Margin	123,176,987	
5	Total As Adjusted Gas Sales Revenue (including PGA)	<u>\$367,545,815</u>	\$367,545,815
6	Uncollectible Expense Ratio		<u>2.1%</u>
7	Proforma Uncollectible Expense		\$7,718,462
8	Less Test Year Uncollectible Expense		(7,993,944)
9	Adjustment to Test Year - Acct. 904		<u><u>(\$275,482)</u></u>

MISSOURI GAS ENERGY
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Regulatory Commission Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Proforma, Current Rate Case	\$300,000	
2	Amortization Period (years)	<u>2</u>	
3	Amortization - Current Case	\$150,000	
4	Amortization - Case No. GR96-285	268,596	
5	Total Proforma Rate Case Expense	<u>\$418,596</u>	\$418,596
6	Proforma MPSC Assessment - fiscal 7/1/97-6/31/98		<u>1,209,509</u>
7	Total Proforma Regulatory Commission Expense		\$1,628,105
8	Less Test Year Regulatory Commission Expense		(1,183,197)
9	Adjustment to Test Year - Acct. 928		<u><u>\$444,908</u></u>

MISSOURI GAS ENERGY
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Interest on Customer Deposits

Line No.	Description (a)	Reference (b)	Amount (c)
1	Customer Deposits	B	\$8,653,055
2	Interest Rate		6.00%
3	Proforma Interest on Customer Deposits		<u>\$519,183</u>
4	Less Test Year Interest on Customer Deposits		<u>(632,106)</u>
5	Adjustment to Test Year - Acct. 431		<u><u>(\$112,923)</u></u>

MISSOURI GAS ENERGY
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Depreciation Expense and Adjustments

Line No.	Description	Amount	Rate	Proforma Total Depreciation	Less Depr. Booked to Clearing Accts.	Proforma Depreciation Expense
	(a)	(b)	(c)	(d)	(e)	(f)
INTANGIBLE PLANT						
1	(301) Organization	\$15,600	0.00%	\$0	\$0	\$0
2	(302) Franchises	55,749	0.00%	0	0	0
3	(303) Miscellaneous Intangible	9,366,784	(see adj. H-13)	0	0	0
4	Total Intangible Plant	\$9,438,133		\$0	\$0	\$0
DISTRIBUTION PLANT						
5	(374.1) Land	\$167,237	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	810,105	2.17%	17,579	0	17,579
7	(375) Structures	6,483,609	2.28%	147,826	0	147,826
8	(375) Leasehold Improvements	988,961	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	228,827,550	1.88%	4,264,358	0	4,264,358
10	(378) Meas. & Reg. Station - General	9,811,155	3.00%	294,335	0	294,335
11	(379) Meas. & Reg. Station - City Gate	2,422,582	2.66%	64,441	0	64,441
12	(380) Services	213,558,186	5.50%	11,745,700	0	11,745,700
13	(381) Meters	26,340,062	2.05%	539,971	0	539,971
14	(382) Meter Installations	36,532,970	2.05%	748,926	0	748,926
15	(383) House Regulators	8,630,011	2.05%	176,915	0	176,915
16	(385) Electronic Gas Metering	204,552	5.00%	10,228	0	10,228
17	(387) Other Equipment	0	6.33%	0	0	0
18	Total Distribution Plant	\$532,776,979		\$18,010,279	\$0	\$18,010,279
GENERAL PLANT - DIRECT						
19	(389) Land	\$708,569	0.00%	\$0	\$0	\$0
20	(390) Structures	436,945	3.33%	14,550	0	14,550
21	(390) Leasehold Impr.	909,675	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	3,273,242	3.06%	100,161	0	100,161
23	(392) Transportation Equipment	689,201	10.13%	69,816	(69,816)	0
24	(393) Stores Equipment	547,487	3.33%	18,231	0	18,231
25	(394) Tools	4,729,931	4.00%	189,197	0	189,197
26	(395) Laboratory Equipment	58,441	4.00%	2,338	0	2,338
27	(396) Power Operated Equipment	3,120,925	6.25%	195,058	(195,058)	0
28	(397) Communication Equipment - AMR	11,327,528	6.67%	755,546	0	755,546
29	(397) Communication Equipment - Other	2,078,768	4.50%	93,545	0	93,545
30	(398) Miscellaneous Equipment	168,678	6.25%	10,542	0	10,542
31	Total Direct General Plant	\$28,049,391		\$1,448,985	(\$264,874)	\$1,184,111
GENERAL PLANT - CORPORATE						
32	(390) Structures	\$300,439	3.33%	\$10,005	\$0	\$10,005
33	(390) Leasehold Impr.	0	(amortized)	0	0	0
34	(391) Furniture & Fixtures - Computer Equip	6,029,353	10.00%	602,935	0	602,935
35	(391) Furniture & Fixtures - Other	2,383,104	3.06%	72,923	0	72,923
36	(392) Transportation Equipment	45,476	10.13%	4,607	(4,607)	0
37	(397) Communication Equipment	116,294	4.50%	5,233	0	5,233
38	(398) Miscellaneous Equipment	65,124	6.25%	4,070	0	4,070
39	Total Corporate General Plant	\$8,939,790		\$699,773	(\$4,607)	\$695,166
40	Total Proforma Plant & Depreciation	\$579,204,293		\$20,159,037	(\$269,481)	\$19,889,556
41	Less Test Year Depreciation Expense					(\$15,273,893)
42	Adjustment to Test Year - Acct. 403					\$4,815,664

MISSOURI GAS ENERGY
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Amortization Expense

Line No.	Description	Original Cost Plant	Test Year Amortization Expense	Proforma Amortization Expense
	(a)	(b)	(c)	(d)
	<u>MGE Direct Non-SLRP Amortization:</u>			
1	(375.2) Leasehold Improvements	\$988,961	\$9,921	\$119,052
2	(390.2) Leasehold Improvements	909,675	9,055	108,664
3	Sub Total	<u>\$1,898,636</u>	<u>\$18,976</u>	<u>\$227,715</u>
4	(303) Misc. Intangible - Corrosion Control Mgmt. System	\$1,117,800	\$9,555	\$114,665
5	(303) Misc. Intangible - Stoner Low Pressure/Intermediate Model	154,584	1,104	13,251
6	(303) Misc. Intangible - Geographic Information System	1,006,719	7,191	86,296
7	(303) Misc. Intangible - Landbase Digitized Mapping	630,073	5,251	63,007
8	(303) Misc. Intangible - Premise Data System	985,196	0	0
9	(303) Misc. Intangible - Facility Priority Index	894,795	7,433	89,196
10	(303) Misc. Intangible - Customer Service System	4,577,617	21,035	252,426
11	Sub Total - Acct. 303	<u>\$9,366,784</u>	<u>\$51,570</u>	<u>\$618,840</u>
	<u>SLRP Amortization:</u>		<u>Amort. Period</u>	
12	SLRP Deferrals Subject to Amortization	<u>\$28,153,321</u>	<u>10</u>	<u>\$2,815,332</u>
13	Pro-Forma Amortization Expense			\$3,661,888
14	Less Test Year Amortization Expense			<u>(838,658)</u>
15	Adjustment to Test Year - Accts. 404 and 405			<u>\$2,823,229</u>

MISSOURI GAS ENERGY
A division of Southern Union Company
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Transportation and Work Equipment Clearing

Line No.	Description	Test Year	Amount		
	(a)	(b)	(c)		
1	Test Year Charges into TWE Clearing Account 1841	\$3,277,455			
2	Less Test Year Amounts Cleared Out of Account 1841	<u>(3,127,602)</u>			
3	Test Year Amount Under/(Over) Cleared	<u>\$149,853</u>	\$149,853		
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1841:				
		Proforma	Test Year	Adjustment	
5	Depreciation	\$269,481	\$179,159	\$90,321	
6	Lease Costs	1,329,205	668,806	660,399	
7	Payroll	72,508	80,957	(8,449)	
8	Benefits	14,171	37,437	(23,266)	
9	Injuries and Damages	4,473	7,282	(2,809)	
10	Payroll Taxes	5,582	6,430	(848)	
11	Other	2,297,384	2,297,384	0	
12	Total	<u>\$3,992,803</u>	<u>\$3,277,455</u>	<u>\$715,348</u>	715,348
13	Total Adjusted Amount Under/(Over) Cleared				<u>\$865,201</u>

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

	Main Acct.	Amount	Percentage	Amount
14	870	\$29,043	0.009286	\$8,034
15	874	99,134	0.031696	27,423
16	875	77,003	0.024620	21,301
17	876	1,612	0.000515	446
18	877	106	0.000034	29
19	878	480,579	0.153657	132,944
20	879	129,456	0.041391	35,812
21	880	16,411	0.005247	4,540
22	885	34,576	0.011055	9,565
23	886	4,943	0.001580	1,367
24	887	703,175	0.224829	194,522
25	889	17,413	0.005568	4,817
26	890	5,953	0.001904	1,647
27	891	87	0.000028	24
28	892	40,566	0.012970	11,222
29	893	4,610	0.001474	1,275
30	894	5,046	0.001613	1,396
31	901	5,110	0.001634	1,414
32	902	200,350	0.064059	55,424
33	903	158,247	0.050597	43,777
34	921	84,948	0.027161	23,500
35	935	2,084	0.000666	576
36	Total Adjustment to Test Year Expense	<u>\$2,100,452</u>	<u>0.671584</u>	<u>\$581,055</u>
37	Balance Sheet Accounts	1,027,150	0.328415	284,145
38	Total Test Year Clearing	<u>\$3,127,602</u>	<u>1</u>	<u>\$865,200</u>

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Stores Load Clearing

Line No.	Description	Test Year	Amount		
	(a)	(b)	(c)		
1	Test Year Charges into Stores Account 1630	\$1,896,430			
2	Less Test Year Amounts Cleared Out of Account 1630	(1,535,846)			
3	Test Year Amount Under/(Over) Cleared	<u>\$360,584</u>	\$360,584		
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1630:				
		Proforma	Test Year	Adjustment	
5	Payroll	\$432,555	\$436,226	(\$3,671)	
6	Benefits	84,530	148,257	(63,727)	
7	Injuries and Damages	26,680	29,657	(2,977)	
8	Payroll Taxes	33,298	36,108	(2,810)	
9	Other	1,246,182	1,246,182	0	
10	Total	<u>\$1,823,245</u>	<u>\$1,896,430</u>	<u>(\$73,185)</u>	(73,185)
11	Total Adjusted Amount Under/(Over) Cleared				<u>\$287,400</u>

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

	Main Acct.	Amount	Percentage	Amount
12	874	\$14,343	0.009339	\$2,684
13	875	6,812	0.004435	1,275
14	876	15	0.000010	3
15	878	48,352	0.031482	9,048
16	879	3,801	0.002475	711
17	880	1,998	0.001301	374
18	886	14	0.000009	3
19	887	(40,068)	-0.026089	(7,498)
20	889	1,725	0.001123	323
21	892	8,295	0.005401	1,552
22	893	26	0.000017	5
23	902	1,091	0.000711	204
24	921	1,401	0.000912	262
25	926	815	0.000531	153
26	Total Adjustment to Test Year Expense	<u>48,620</u>	<u>0.031657</u>	<u>9,098</u>
27	Balance Sheet Accounts	<u>1,487,226</u>	<u>0.968343</u>	<u>278,301</u>
28	Total Test Year Clearing	<u>1,535,846</u>	<u>1</u>	<u>287,400</u>

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Paid Time Off Clearing

Line No.	Description	Test Year	Amount
	(a)	(b)	(c)
1	Test Year Charges into Paid Time Off Account 1846	\$4,871,194	
2	Less Test Year Amounts Cleared Out of Account 1846	(4,378,407)	
3	Test Year Amount Under/(Over) Cleared	<u>\$492,787</u>	\$492,787
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1846:		
		Proforma	Test Year
5	Payroll	\$3,288,222	\$3,291,240
6	Benefits	642,585	1,056,180
7	Injuries and Damages	202,821	239,568
8	Payroll Taxes	253,126	279,254
9	Other	4,951	4,951
10	Total	<u>\$4,391,705</u>	<u>\$4,871,194</u>
			(Adjustment)
			(579,489)
11	Total Adjusted Amount Under/(Over) Cleared		<u>\$13,298</u>

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

	Main Acct.	Amount	Percentage	Amount
12	870	\$12,985	0.002966	\$39
13	872	72	0.000016	0
14	874	101,040	0.023077	307
15	875	87,100	0.019893	265
16	876	5,827	0.001331	18
17	877	287	0.000066	1
18	878	838,767	0.191569	2,547
19	879	501,333	0.114501	1,523
20	880	40,192	0.009180	122
21	885	11,866	0.002710	36
22	886	18,529	0.004232	56
23	887	905,185	0.206738	2,749
24	889	41,246	0.009420	125
25	890	16,739	0.003823	51
26	891	342	0.000078	1
27	892	77,367	0.017670	235
28	893	66,985	0.015299	203
29	894	18,745	0.004281	57
30	902	404,816	0.092457	1,229
31	903	106,240	0.024265	323
32	935	8,538	0.001950	26
33	Total Adjustment to Test Year Expense	3,264,201	0.745522	<u>9,914</u>
34	Balance Sheet Accounts	1,114,207	0.254478	3,384
35	Total Test Year Clearing	<u>4,378,407</u>	<u>1</u>	<u>13,298</u>

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Missouri State Franchise Tax

Line No.	Description (a)	Amount (b)
1	Proforma State Franchise Tax Expense	\$297,866
2	Less Test Year State Franchise Tax Expense	<u>193,488</u>
3	Adjustment to Test Year - Acct. 4081	<u><u>\$491,354</u></u>

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Property Tax Expense

Line No.	Description (a)	Reference (b)	Amount (c)
1	Proforma Total Plant in Service	C	\$579,204,293
2	Less Intangible Plant	C	<u>(9,438,133)</u>
3	Proforma Plant, excluding Intangible Plant		\$569,766,160
4	Property tax rate		<u>1.000%</u>
5	Proforma Property Tax Expense		\$5,697,662
6	Less Test Year Property Tax Expense		<u>(4,159,531)</u>
7	Adjustment to Test Year - Acct. 4081		<u><u>\$1,538,131</u></u>

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Call Center Conversion

Line No.	Description (a)	Amount (b)
1	Proforma conversion cost of Call Center	\$127,421
2	Less Test Year Expense	<u>0</u>
3	Adjustment to Test Year - Acct. 931	<u><u>\$127,421</u></u>

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Experimental Weatherization Program

Line No.	Description (a)	Amount (b)
1	GR-96-285 Stipulation & Agreement	\$250,000
2	Less Test Year Expense	(292,208)
3	Adjustment to Test Year - Acct. 908	<u>(\$42,208)</u>

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3420 Broadway Lease Expense

Line No.	Description	Amount	Amount
	(a)	(b)	(c)
1	Test Year Broadway Lease Expense	\$370,335	
2	Less Annualized sublease income from Cornerstone	(114,000)	
3	Less Annualized sublease income from Mercado Gas Services	(1,389)	
4	Proforma Broadway Lease Expense	<u>\$254,945</u>	\$254,945
5	Less Test Year Broadway Lease Expense		<u>(370,335)</u>
6	Adjustment to Test Year - Acct. 931		<u><u>(\$115,390)</u></u>

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New Business Office - 39th & Main

Line No.	Description	Lease Expense Acct. 931	Customer Expense Acct. 905	Office Supplies Acct. 921	Total
	(a)	(b)	(c)	(d)	(e)
1	Proforma Expenses	\$24,000	\$32,280	\$11,880	\$68,160
2	Less Test Year Expenses	(6,000)	(4,843)	(1,980)	(12,823)
3	Adjustments to Test Year	\$18,000	\$27,437	\$9,900	\$55,337

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Dues Expense

Line No.	Description (a)	Amount (b)
1	Remove Certain Expense from Acct. 921	<u>(\$5,441)</u>
2	Remove Certain Expense from Acct. 930.2	<u>(9,582)</u>

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Billing Process Enhancement

Line No.	Description	Amount
	(a)	(b)
1	Costs Relating to Customer Billing Improvements	\$822,278
2	Amortization Period (years)	2
3	Adjustment to Test Year - Acct. 903	<u>\$411,139</u>

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Meter Reading Cost Reductions

Line No.	Description (a)	Total (b)
1	Remove Non-Recurring Contractor Costs Incurred in Test Year to "Catch Up" Meters Reads	(\$227,763)
2	Remove Costs Incurred in Test Year which have been Eliminated Due to AMR	(525,263)
3	Adjustment to Test Year - Acct. 902	<u>(\$753,026)</u>

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Billing Error Costs

Line No.	Description (a)	Total (b)
1	Remove Billing Error Costs - Acct. 903	<u>(\$150,776)</u>

