

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

In the matter of Missouri Gas Ener-)	
gy of Kansas City, Missouri re-)	
quested authority to file a tariff)	Case No. GR-2004-209
reflecting a change in rates for)	
its Missouri customers)	

**MIDWEST GAS USERS' ASSOCIATION,
UMKC, CMSU AND JACKSON COUNTY'S
STATEMENT OF POSITION**

COME NOW MIDWEST GAS USERS ASSOCIATION ("Midwest"), University of Missouri at Kansas City ("UMKC"), Central Missouri State University ("CMSU") and the County of Jackson ("Jackson County") (collectively for this pleading "MGUA/UMKC/CMSU/Jackson County") and pursuant to the ordered procedural schedule submits its Statement of Position. This statement is generally organized in accordance with the Joint Statement of Issues filed on or about June 4, 2004.

I. RATE OF RETURN.

A. Capital Structure.

B. Embedded Cost of Long-Term Debt.

C. Return on Equity.

D. Cost of Preferred Stock.

On these issues MGUA/UMKC/CMSU/Jackson County agree with the positions stated by Office of Public Counsel.

E. Rate of Return Adder.

Should MGE be granted an additional 25 basis points of rate of return on account of its level of management efficiency?

No.

II. RATE BASE

A. Gas Inventory.

What is the appropriate methodology to determine the injection price into storage per MMBtu to use in calculating MGE's cost of service?

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding. MGUA/UMKC/CMSU/Jackson County do, however, assert that no part of the cost of storage inventory that is provided for MGE sales customers should be allocated or assigned to transportation customers who purchase and arrange for the transportation of their own supplies of gas and also pay a balancing fee to the applicable interstate pipeline.

B. Alternative Minimum Tax Credit.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

III. REVENUES

A. Customer Growth

B. Weather Normalization

C. Load Attrition

D. Capacity Release/Off System Sales

MGUA/UMKC/CMSU/Jackson County take no position on these issues at this time but reserve their position pending review of the evidence of record in the proceeding.

IV. EXPENSES

A. Pension Expense.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

B. Bad Debts: Expense Level.

What is the appropriate level of bad debt write-offs to be used in calculating MGE's cost of service?

MGUA/UMKC/CMSU/Jackson County do not take a position as to the amount of bad debt that should be charged. However,

MGUA/UMKC/CMSU/Jackson County do assert that the amount of bad debt should be recognized as predominantly to other customer classes than LVS and consists largely of the costs of natural gas that has been purchased by MGE and sold to its sales customers, but for which those customers have not paid. It is therefore unreasonable to charge any portion of bad debt costs related to natural gas costs to the LVS customers. Doing so would ask them to pay for gas purchased for and delivered to other customers that those other customers have not paid for.

C. Bad Debts: Denial Of Service.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

D. Environmental Response Fund.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

E. Lobbying/Legislative Costs.

What is the proper ratemaking treatment of lobbying/legislative activities in calculating MGE's cost of service?

MGUA/UMKC/CMSU/Jackson County do not believe that such costs are an ordinary and necessary cost of doing business for a public utility such as should be passed to ratepayers. The public utility is lobbying for more favorable treatment from the

legislature in making rates and may be seeking to restrict or restrain Commission jurisdiction over its activities. Such actions are not in the interests of ratepayers. While the public utility as a business concern may have the right to appropriately address members of the legislature about issues of concern, it does not follow that those costs are part of providing service to its captive ratepayer customers.

F. Depreciation Rates.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

G. Cost of Removal/Salvage.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

H. Incentive Compensation.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

I. Corporate Expenses: New York Office.

What, if any, is the appropriate level of cost associated with Southern Union's New York office to be used in calculating MGE's cost of service?

MGUA/UMKC/CMSU/Jackson County have great difficulty in understanding how or why Missouri captive ratepayers should be

charged any portion of costs associated with a New York Office for Southern Union or for Missouri Gas Energy. No clear benefit to Missouri ratepayers has been established in the record to this point.

J. Corporate Expenses: Lindermann/Brennan Salaries.

What is the appropriate amount of salaries for Southern Union's Chief Executive Officer/Chairman of the Board and Vice Chairman of the Board to be used in calculating MGE's cost of service?

As with the expenses of the New York Office, MGUA/UMKC/CMSU/Jackson County have difficulty in understanding or perceiving any Missouri ratepayer benefit from these expenditures that would support their being included in MGE's cost of service.

V. TARIFF ISSUES.

A. Late Payment Charge.

MGUA/UMKC/CMSU/Jackson County take no position on this issue at this time but reserve their position pending review of the evidence of record in the proceeding.

VI. CLASS COST OF SERVICE/RATE DESIGN.

A. CMSU, MGUA, UMKC and Jackson County share a concern that rate LVS as proposed by MGE is too high. Costs associated with sales service are included in the rate even though such customers purchase only transportation service. Transportation customers take responsibility for arranging their own gas supplies. Nevertheless, MGE has included significant

costs for planning, acquiring, managing, and financing its natural gas supplies in the LVS transportation rates. These costs need to be fully identified and removed from rate LVS. In addition, the allocation of the cost of distribution mains overstates the cost to serve LVS customers. For the purposes of this proceeding, the LVS rate should be set no higher than the level recommended by the company (after lowering LVS and all other rates to account for the overall approved revenue level) since that level will necessarily overstate the rates for transportation customers. A preferable result will incorporate recommendations set forth in this testimony to remove some of the inappropriate costs from rate LVS.

B. These inappropriate costs include but are not limited to the costs associated with MGE's inventory of natural gas that is held for resale to sales customers, bad debt expense that is related to the cost of natural gas that is sold to sales customers but for which they have not paid, the costs associated with any working capital requirements that are necessitated by MGE's need to purchase natural gas supplies ahead of the time that it sells and recovers the proceeds from such sales, the costs of metering installations that are paid for by transportation customers as a condition of being able to transport natural gas, Administrative and General expenses associated with salaries and benefits paid to MGE employees who purchase and supervise the purchase of natural gas supplies for resale and meter reading costs because the cost of reading the LVS meters is paid by the

LVS customers who must supply a telephone line at their cost to permit MGE to electronically "poll" their electronic gas measurement equipment.

C. MGUA/UMKC/CMSU/Jackson County recommend the use of the class cost of service study that was submitted by MGE witness Cummings, with adjustments to address the issues raised by Mr. Johnstone in his rebuttal testimony and delineated in paragraph G below. At a minimum, costs assigned to the LVS transportation customers should not exceed those that have been allocated to them by Mr. Cummings' study because, even without adjustment, it significantly overstates the cost of providing service to these customers.

D. MGUA/UMKC/CMSU/Jackson County also recommend that the existing seasonality in MGE transportation rates remain at 5 winter months and 7 summer months (it is our understanding that MGE has withdrawn its proposal to change to a "6 and 6" scheme). The seasonal differential is cost-based and encourages improved load factor which is of benefit to all customers.

E. Therefore, for the purposes of this case, MGUA/UMKC/CMSU/Jackson County recommend that any increase be spread so as to yield rate revenues by class according to the MGE class cost-of-service study with the adjustments proposed by Mr. Johnstone, based on the approved cost and revenue level. The Commission should use its discretion and request that such study be prepared and submitted for the record. If the Commission chooses not to require an updated class cost-of-service-study

that reflects the approved costs and revenue requirements, the rates should be adjusted to yield class revenues in equal proportion to the class cost-of-service according to the MGE class cost-of-service study instead of mitigating the move to cost-of-service based class revenues as proposed by MGE.

F. Regarding the design of rate LVS, MGE has proposed a significant increase in the monthly customer charge of 50% and this presents a significant difficulty for transportation customers that have multiple meters. For example, CMSU purchased the equipment as required for 14 metering installations and UMKC purchased equipment for 5 metering installations. To increase these costs as proposed by MGE would result in significant over-cost charges for these customers because, among other things, the MGE class cost-of-service study did not properly account for the contribution of up to \$5,000 for each meter of each LVS transportation customer. MGUA/UMKC/CMSU/Jackson County propose that for installations with over 3 meters, the multiple meter factor should be adjusted to maintain the existing per-meter cost of \$204.65 per meter.

G. The MGE class cost of service study should be adjusted in three particular areas. First, costs that have been assigned or allocated to the LVS class that relate to the purchase of gas by MGE for its sales customers should be eliminated.^{1/} Second, the larger volume of LVS customers means that

^{1/} These are detailed in Mr. Johnstone's Rebuttal Testimony at pages 8 and 9.

they do not use the smaller 2" and 4" distribution mains to any significant degree and this should be explicitly recognized in the class cost-of-service study. Third, the LVS tariff requires customers to pay the cost of electronic gas metering equipment and customers must not be required to pay any of these costs again as a result of the class cost-of-service study procedures.

H. The class cost-of-service studies of the Staff and the Office of the Public Counsel suffer from these same maladies and more as detailed in Mr. Johnstone's testimony.

See, Rebuttal Testimony of Don Johnstone.

VII. LOW INCOME PROPOSALS

MGUA/UMKC/CMSU/Jackson County take no position on these issues at this time but reserve their position pending review of the evidence of record in the proceeding.

VIII. OTHER ISSUES

MGUA/UMKC/CMSU/Jackson County take no position on these issues at this time but reserve their position pending review of the evidence of record in the proceeding.

Respectfully submitted,

FINNEGAN, CONRAD & PETERSON, L.C.

/s/ Jeremiah D. Finnegan
Jeremiah D. Finnegan 18416


Stuart W. Conrad 23966
3100 Broadway, Suite 1209

Kansas City, Missouri 64111
(816) 753-1122
Facsimile (816)756-0373
Internet: stucon@fcplaw.com

ATTORNEYS FOR MIDWEST GAS USERS'
ASSOCIATION, UMKC, CMSU and JACKSON
COUNTY MISSOURI

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by U.S. mail, postage prepaid addressed, or by electronic mail, to all parties upon their attorneys of record as disclosed by the pleadings and orders herein.



Stuart W. Conrad

Dated: June 15, 2004