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Public Service Commission~~

April 2, 2001

Mr. Dale Hardy Robert
Executive Secretary
Public Service Commission
P.O. Box 360
Jefferson City, Mo.

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APR 4 2001

**Missouri Public
Service Commission**

RE: Missouri Gas Energy—Case No. GR-2001-292

Dear Mr. Robert:

Attached is a letter addressed to the Chair of the Commission related to Health and Life Insurance benefits, which are being considered in arriving at the revenue requirements of Missouri Gas Energy in the above-referenced case before the Commission. Although our organization is not an official intervener in this case, we ask that the Commission take administrative notice of the questions and other material included with this letter and consider our request in arriving at their final decision in this case.

Thank you for your attention to this matter.

Sincerely,

Jack Adams

Jack Adams

Chairman, Mo. Gas Service Retirees' Association, Inc.
4037 N.E. 59th Terrace
Kansas City, Mo. 64119-2206

April 2, 2001

Honorable Sheila Lumpe
Chair, Public Service Commission
200 Madison Street
P.O. Box 360
Jefferson City, Mo. 65102

ATTN: Chair Sheila Lumpe
Commissioner M. Dianne Drainer
Commissioner Connie Murray
Commissioner Robert Schemenauer
Commissioner Kelvin L. Simmons

RE: Missouri Gas Energy—Case No. GR-2001-292

The purpose of this letter is to direct the Commission's attention to a matter that is being considered in the above-referenced case in determining the revenue requirement that may be granted Missouri Gas Energy.

The "Gas Service Retirees' Association of Missouri, Inc." represents some 950 retirees of Missouri Gas Energy and its predecessor companies. Our immediate concern is related to the health and life insurance benefits of our group and the related costs reflected in this case. We would ask that you consider the following points in arriving at your decision in this matter:

When Missouri Gas Energy (MGE) purchased the natural gas system in Missouri from Kansas Power and Light (KPL) in 1994, our retirees were very concerned about continuance of the health and life benefits that were available under our former company, Kansas Power & Light (KPL). There was considerable testimony by Mr. Al Singer before the Commission and we expressed our concerns that benefits be continued on a parallel basis with the retirees of KPL. It was generally agreed with all parties that The Company would continue these benefits. However, since that time, there has been a gradual eroding of these benefits or an increase in costs paid by the retirees. There were life insurance agreements under KPL that MGE did not interpret in the same manner, there were disagreements on the amount of lifetime benefits available to various retirees, dental benefits for some retirees were cancelled, and recently, there has been a major increase in the cost of our regular health benefits. As an example of this increase, a married couple was paying \$25 per month for their health coverage; that cost to the retiree as of February 1, 2001 has been increased to \$159. This is a 536% increase in this cost. Single retiree's costs were also increased from \$12 to \$71, a 492% increase. This is a major concern to our retirees particularly to those that retired several years ago and are receiving a very small pension. In some cases, the increase in cost may exceed the actual pension benefit the retiree is receiving. The Company has offered a modified plan that resulted in a smaller increase in costs but the benefits were sharply reduced and the deductibles were increased under this modified plan. MGE has also offered to buy out the health package of each retiree by adding \$60 per month to their pension benefit and canceling the much higher cost of all health coverage for that individual. A copy of the letter from MGE setting out the three options that were offered retirees is attached. Our retirees are aware that health care costs are rising, but we did not expect to receive the major increase that was initiated in February. In questioning MGE about this increase, reference is made by the Company to some "cap" that was set when the system was purchased that limited the benefit costs that would be paid by the Company, but at this time no evidence of this cap has been produced. If an agreement on such limit was made at the time MGE purchased the Missouri properties, the retirees were not informed of this provision.

In connection with the above, in 1994 a bill (House Bill No. 1405-copy attached) was passed that stated "the Commission shall not disallow or refuse to recognize the actual level of expenses the utility is required

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by Financial Accounting Standard 106 to record for post-retirement employee benefits for all the utility's employees, including retirees, if the assumptions and estimates used by a utility in determining the Financial Accounting Standard 106 expenses have been reviewed and approved by the commission, and such review and approval shall be based on sound actuarial principles". It is our understanding that the adoption of FAS 106 for rate-making purposes, allows the utility to recover over a 20-year amortization period the accrued liability as of the adoption date of FAS 106 and through annual accruals, the on-going liability and any increases in costs associated with current employees and retirees.

Since the Company is being allowed to recover its full cost of providing post-retirement benefits under FAS 106, we do not see any justification for increasing our cost for health insurance by 492%-536%. We have always considered our retirement benefits to be a promise and commitment made by our former employer(s) to each retiree. Eliminating and/or significantly reducing the benefit levels we were promised is unfair and unnecessary since the Company is being allowed to recover its full cost of providing these benefits in rates as a result of the adoption of FAS 106 for rate-making purposes.

The Gas Service Retirees' Association hereby respectfully requests that consideration be given by the Commission to allowing the additional cost increases initiated by MGE in February in rates that will become effective in October 2001.

Thank you for your attention to this matter.

Sincerely,



Jack Adams

Chairman, Gas Service Retirees' Assoc. of Mo., Inc.
4037 N.E. 59th Ter.
Kansas City, Mo. 64119-2206

(816) 455-2414

SECOND REGULAR SESSION
[TRULY AGREED TO AND FINALLY PASSED]
HOUSE COMMITTEE SUBSTITUTE FOR
HOUSE BILL NO. 1405
87TH GENERAL ASSEMBLY

2796-3

AN ACT

To repeal section 386.315, RSMo Supp. 1993, relating to the public service commission, and to enact in lieu thereof one new section relating to the same subject.

Be it enacted by the General Assembly of the state of Missouri, as follows:

Section A. Section 386.315, RSMo Supp. 1993, is repealed and one new section enacted in lieu thereof, to be known as section 386.315, to read as follows:

386.315. 1. In establishing public utility rates, the commission shall not reduce or otherwise change any wage rate, benefit, working condition, or other term or condition of employment that is the subject of a collective bargaining agreement between the public utility and a labor organization. Additionally, the commission shall not disallow or refuse to recognize the actual level of expenses the utility is required by Financial Accounting Standard 106 to record for post-retirement employee benefits for all the utility's employees, including retirees, if the assumptions and estimates used by a public utility in determining the Financial Accounting Standard 106 expenses have been reviewed and approved by the commission, and such review and approval shall be based on sound actuarial principles.

2. A public utility which uses Financial

18 Accounting Standard 106 shall be required to use
19 an independent external funding mechanism that
20 restricts disbursements only for qualified retiree
21 benefits. In no event shall any funds remaining in
22 such funding mechanism revert to the utility after
23 all qualified benefits have been paid; rather, the
24 funding mechanism shall include terms which
25 require all funds to be used for employee or retiree
26 benefits. This section shall not in any manner be
27 construed to limit the authority of the commission
28 to set rates for any service rendered or to be
29 rendered that are just and reasonable pursuant to
30 sections 392.240, 393.140 and 393.150, RSMo.

31 3. Any public utility which was the subject of
32 a rate proceeding resulting in the issuance of a
33 report and order subsequent to January 1, 1993,
34 and prior to the effective date of this section,
35 directing or permitting the establishment of new
36 rates by such utility, may file one set of tariffs
37 modifying its rates to reflect the revenue require-
38 ment associated with the utility's expenses for
39 post-retirement employee benefits other than
40 pensions, as determined by Financial Accounting
41 Standard 106, including the utility's transition
42 benefit obligation, regardless of whether the
43 deferral or immediate expense recognition method
44 was used, if such utility is funding the full extent
45 of its Financial Accounting Standard 106 obliga-
46 tion at the time such tariffs are filed. The tariffs
47 shall reflect the annual level of expenses as
48 determined in accordance with Financial Account-
49 ing Standard 106. The commission may suspend

50 such tariffs for no longer than 150 days to examine
51 the assumptions and estimates used and to review
52 and approve the expenses required by Financial
53 Accounting Standard 106 including an amortiza-
54 tion of the transition benefit obligation over no
55 greater amortization period than twenty years
56 based upon sound actuarial principles and to
57 address any rate design issues associated with the
58 utilities Financial Accounting Standard 106 bas
59 revenue requirement. The commission shall not
60 examine any other revenue requirement issues.



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 756-5261

November 17, 2000

Dear Retiree:

Enclosed is information regarding retiree medical benefits. This information is a follow up to the recent letter from Levi Snow regarding upcoming changes to your health care.

You will find the following items in this packet:

- ◆ Partnership Agreement
- ◆ Retiree Letter
- ◆ Election of Coverage document

We encourage you to review them carefully. There will be a meeting on December 13, 2000 at 10:00 a.m. at the Adam's Mark Hotel, I-70 and Blue Ridge Cutoff, Kansas City, Missouri (across from the Sport's Complex). Please bring any questions with you at that time. There will be representatives from Human Resources available to respond to your questions. Refreshments will be served. Please RSVP to Erica Luper at (816) 360-5738 by Monday, December 11, 2000. We look forward to seeing you there.

Sincerely,

MGE Labor/Management Partnership



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 756-5261

Missouri Gas Energy Retirees Receiving Retiree Medical Benefits Who Retired Before January 1, 1999

Re: Retiree Medical Benefits

Dear Retiree:

Much has been written about the rising cost of health care over the past several years. Increasing health care costs have become a national issue, particularly the impact on retiree health care plans, many of which include cost caps. Many retiree health care plans across the country reached their caps or maximums in the recent past, including the plan currently in place at Missouri Gas Energy.

In 1994, Southern Union Company formed the Missouri Gas Energy (MGE) division from certain assets and obligations it purchased from Western Resources, Inc., including the retiree medical benefit plan in which you presently participate. In 1992 Western Resources had imposed certain limits on the amounts it would spend annually for medical benefits for its retirees. Those limits were in place when Southern Union purchased the company. After eight years of plan operation and continuously increasing medical costs, the limits on annual employer expenditures have been reached. We have investigated our options fully and delayed as long as possible the impact on our retirees. Accordingly, we have developed a transition plan that will assist retirees in adjusting to increases in their retiree medical premiums.

Transition

MGE recognizes that premium increases for retirees on fixed incomes present difficult personal financial issues. As a result, MGE has developed a transition plan to help retirees adjust to the application of these long standing limits on company contributions to the retiree medical plan. The transition plan includes four key issues. First, even though the limits on employer contributions to the plan were reached in 2000, MGE has delayed the premium increases until February 1, 2001 so that it could provide retirees with adequate advance notification. Second, the company has elected to keep the February 1, 2001 premium rates in effect until December 31, 2002 (rather than a more common twelve month period). Third, MGE has developed an alternative benefit plan with lower premiums that retirees may elect to join effective February 1, 2001.

Finally, the company is offering to pay a pension supplement to any retirees or spouses of retirees who elect by January 12, 2001 to discontinue their coverage effective February 1, 2001. This will be referred to as the Buyout Option.

Company Paid Benefit Limits

In 1992 Western Resources Inc. imposed limits on the amounts the company would contribute per retiree for retiree medical benefits. At that time the amount the company paid annually to fund the plan was below the limits, but with increasing medical care costs those limits have now been reached. The table below shows the amount MGE will contribute to the plan in future years for each retiree.

Premium Category	Annual MGE Contribution Per Retiree	Monthly Equivalent Contribution per Retiree
Retiree Only Under Age 65	\$ 5,040	\$ 420
Retiree and Spouse Under Age 65	8,400	700
Retiree Only Age 65 and Over	2,400	200
Retiree and Spouse Age 65 and Over	4,080	340

Premium Increases

The MGE contributions shown in the previous table plus the current level of premiums charged to retirees will not be adequate to pay all the benefits under the plan next year. Therefore, effective February 1, 2001, the premiums for the plan will be increased as shown in the table below.

Premium Category	Current Monthly Premium	New Monthly Premium (For 18 Months)
Retiree Only Under Age 65	\$ 16.00	\$ 29.00
Retiree Under Age 65 and Spouse	32.00	126.00
Retiree Only Age 65 and Over	12.00	<u>71.00</u>
Retiree Age 65 and Over and Spouse	<u>25.00</u>	159.00

The rates shown in the table above will become effective February 1, 2001. However, they will remain in effect for eighteen months until December 31, 2002. Effective January 1, 2003 and each January 1 thereafter a new premium amount will be announced. As long as medical care costs continue to increase, it is reasonable to expect that these premiums will continue to increase, perhaps significantly. The actual rates to become effective January 1, 2003 will be determined based on the costs of the plan and the expected medical care cost increases for the new premium period. The actual new rates will be announced approximately 60 days before they become effective.

Alternative Plan

Recognizing that premium increases present difficult financial issues for retirees, MGE has developed an alternative plan with a lower schedule of benefits that produces a lower level of premiums. The benefits offered under the Alternative Plan are described more completely in the provided attachment. The premiums for the Alternative Plan effective February 1, 2001 are shown in the table below and compared to the premiums under the current retiree plan.

Premium Category	Current (Premium) Plan	Alternative (Standard) Plan
Retiree Only Under Age 65	\$ 29.00	\$ 16.00
Retiree Under Age 65 and Spouse	126.00	32.00
Retiree Only Age 65 and Over	71.00	29.00
Retiree Age 65 and Over and Spouse	159.00	76.00

The Alternative Plan will still be subject to the maximum employer contribution amounts described above. However, because the benefits under the Alternative Plan are lower, the premium cost to retirees is lower. The above premiums will remain in effect until December 31, 2002. Effective January 1, 2003 the premiums for the Alternative Plan will probably increase, although the premium cost for the Alternative Plan is expected to always be lower than the premium cost under the current plan.

Buyout Option

Each retiree who is eligible for and receiving retiree medical benefits as of January 1, 2001 and who elects on or before January 12, 2001 to discontinue his or her medical coverage effective February 1, 2001 will be entitled to a monthly pension supplement as described below.

For a retiree who is over age 65 on February 1, 2001 and who has no spouse covered under the retiree medical plan, the monthly pension supplement shall be equal to \$60 per month commencing February 1, 2001 payable for the life of the retiree.

For a retiree who is under age 65 on February 1, 2001 and who has no spouse covered under the retiree medical plan, the monthly pension supplement shall be equal to \$100 per month commencing February 1, 2001 and payable for each succeeding month the retiree remains alive up to age 65, with such monthly pension supplement decreasing at age 65 to \$60 per month for the life of the retiree.

For a retiree who is over age 65 on February 1, 2001 and who has a spouse covered under the retiree medical plan as of January 1, 2001 the monthly pension supplement (provided the spouse also declines medical coverage) shall be equal to \$120 per month commencing February 1, 2001 payable for as long as both the retiree and the spouse are alive. Upon the death of either the retiree or the spouse, the survivor shall receive \$60 per month for his or her remaining lifetime.

For a retiree who is under age 65 on February 1, 2001 and who has a spouse covered under the retiree medical plan as of January 1, 2001, the monthly pension supplement (provided the spouse also declines medical coverage) shall be equal to \$200 per month commencing February 1, 2001 and payable for each succeeding month that both the retiree and spouse are alive until the retiree reaches age 65, with such monthly pension supplement decreasing after the retiree reaches age 65 to \$120 per month provided the retiree and the spouse are both alive. Upon the death of either the retiree or the spouse the monthly pension supplement is payable to the survivor and reduces to 50% of the amount that would have been payable if both were alive.

Questions You May Have

You will no doubt have a number of questions regarding the benefit coverages and the options available to you. You may direct your questions to Danielle Murray or Joyce Ridgely in the Human Resources Department at (816) 360-5544.

You and your spouse are also invited to attend a special meeting to answer any additional questions at 10 am, December 13, 2000, at the Adams Mark Hotel in Kansas City, Missouri.

Your Election

As described above, you have a choice between the current Premium Plan and the Alternative Standard Plan. You will need to elect which plan you would like to be covered under effective February 1, 2001. Once your election of the Buyout Option is made, it cannot be changed. Therefore, if you elect the Buyout Option effective February 1, 2001 you will not have the opportunity to participate in any company sponsored medical plan in the future. Similarly, if you elect to continue in the current plan effective February 1, 2001 you can not later change to the Buyout Option. This opportunity to elect the Buyout Option is a one-time election available only up to January 12, 2001. **Your election needs to be made and returned to the address or facsimile number below after January 1, 2001, but no later than January 12, 2001.**

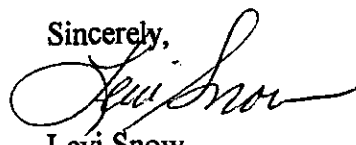
Ms. Danielle Murray
Human Resources Department
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111

Facsimile number: (816) 360-5745

Notwithstanding the above discussion regarding future premium rates and future company contributions, Southern Union Company and MGE reserve the right to change, delete, modify and/or terminate the plan at any time.

If you should have any questions, please do not hesitate to contact Danielle Murray, Joyce Ridgely or me at (816)360-5544.

Sincerely,



Levi Snow
Missouri Gas Energy

Retiree Election of Coverage Effective February 1, 2001

I elect the retiree health plan coverage indicated by the box checked below. I understand that the premiums shown will be effective during period February 1, 2001 through December 31, 2002. I understand that premiums are expected to increase, perhaps significantly, effective January 1, 2003 and each January 1 thereafter. Check the box next to your choice and sign and date as indicated below.

- ☐ 1. I elect to continue my coverage under the current schedule of benefits with the premium structure outlined immediately below.

Premium Category	Current Plan Monthly Premium
Retiree Only Under Age 65	\$ 29.00
Retiree Under Age 65 and Spouse	126.00
Retiree Only Age 65 and Over	71.00
Retiree Age 65 and Over and Spouse	159.00

- ☐ 2. I elect the Alternative Plan schedule of benefits with the premium structure outlined immediately below.

Premium Category	Alternative (Standard) Plan Monthly Premium
Retiree Only Under Age 65	\$ 16.00
Retiree Under Age 65 and Spouse	32.00
Retiree Only Age 65 and Over	29.00
Retiree Age 65 and Over and Spouse	76.00

- ☐ 3. I hereby decline medical coverage effective February 1, 2001. I understand that once coverage is declined, it cannot be reinstated at any time. In return for this election I will receive the increased pension (Buyout Option) as summarized below and explained more fully in the accompanying letter.

Buyout Option Summary		
Coverage Category	Monthly Pension Increase Up to Age 65	Monthly Pension Increase Age 65 and Above
Retiree Only Under Age 65	\$ 100	\$ 60
Retiree Under Age 65 and Spouse	200	120
Retiree Only Age 65 and Over	N/A	60
Retiree Age 65 and Over and Spouse	N/A	<u>120</u>

HEALTH PLAN OPTIONS FOR RETIREES

BENEFIT	CURRENT PREMIUM PLAN		ALTERNATIVE STANDARD PLAN	
	In-Net	Out-Net *	In-Net	Out-Net *
Benefit Percentage - Insurance	100%	70%	100%	60%
Benefit Percentage - Individual	0%	30%	0%	40%
Deductible - Individual	N/A	\$175	N/A	\$500
Deductible - Family	N/A	\$525	N/A	\$1,500
Out of Pocket Maximum - Individual	N/A	\$3,000	N/A	\$6,000
Out of Pocket Maximum - Family	N/A	\$5,000	N/A	\$10,000
Office Care				
Doctor Visits	\$10	70%	\$25	60%
Chiropractic Doctor Visits	\$10	70%	\$25	60%
Surgical Procedures in a Physician's Office (Sterilization)	\$10	70%	\$25	60%
Routine Physical Doctor Visits	\$10	70%	\$25	60%
Emergency Care				
Emergency Admission Facility Charge	\$35	70%	\$60	60%
Inpatient Care **				
Pre-admission Certification	N/A	\$200 penalty if not obtained	N/A	\$500 penalty if not obtained
Hospital Admission Facility Charge	\$100	70%	\$350	60%
Physicians' and Surgeons' Services	N/A	70%	N/A	60%
Operation Room and Intensive Care	N/A	70%	N/A	60%
Mental Health/Serious Mental Illness **				
In Hospital Admission (20 Days Maximum Each Calendar Year - 100 Days Per Lifetime Maximum)	\$200	70%	\$200	60%
Out-Patient Visits (40 Visits Maximum Each Calendar Year - 200 Visits Per Lifetime Maximum)	\$35	70%	\$35	60%
Substance Abuse **				
In Hospital Admission (20 Days Maximum Each Calendar Year)	\$200	70%	\$200	60%
Out-Patient Visits	\$35	70%	\$35	60%
Day Treatment (40 Days in lieu of Hospital Admission)	\$10	70%	\$10	60%
\$2,500 - Maximum Each Calendar Year				
\$25,000 - Lifetime Maximum				

RETIRED HEALTH PLAN FOR RETIREES

BENEFIT	CURRENT PREMIUM PLAN		ALTERNATIVE STANDARD PLAN	
	In-Net	Out-Net	In-Net	Out-Net
Other Services				
Durable Medical Equipment (\$2,500 Maximum Each Calendar Year)	75% of Allowable Amount	70%	75% of Allowable Amount	60%
Skilled Nursing Facility ** (60 Days Maximum Each Calendar Year)	100%	70%	100%	60%
Home Health Care **	100%	70%	100%	60%
Hospice Care **	100%	100%	100%	100%
Private Duty Nursing **	100%	70%	100%	60%
Home Infusion Therapy **	100%	70%	100%	60%
Chemo/Radiation Therapy	100%	70%	100%	60%
Ambulance Services for Treatment of Accidental Injury/Medical Emergency Only	70% of Allowable Amount	70%	70% of Allowable Amount	60%
Vision Benefit				
Routine Annual Vision Examination (No Deductible)	N/A	50% of Allowable Amount	N/A	N/A
Contact Lenses or Eyeglass Lenses/Frames - Every 2 Years (No Deductible)	N/A	50% of Allowable Amount - Maximum Benefit of \$50.00	N/A	N/A
Physician Choice	Designated Network	Any	Designated Network	Any
Hospital Choice	Designated Network	Any	Designated Network	Any
Dependent Child Age Limit (Through the end of the calendar year in which the child attains age 24, providing that child meets IRS dependency requirements.)	24	24	24	24
Pre-Existing Conditions	N/A	N/A	N/A	N/A

* The retiree is liable for out-of-network amounts that exceed reasonable and customary charges.

** Precertification required by Network Providers.

REVISED HEALTH PLAN FOR RETIREES

Designated Networks

If you live...

<i>In the Kansas City Area Your Designated Network is...</i>	Preferred Care Blue
<i>In the Joplin/Monett Area Your Designated Network is...</i>	Alliance

Maximum Lifetime Benefits each Participant

If You Are Under 65...

<i>And You Retire From MGE</i>	<i>Your Lifetime Maximum Benefit is...</i>
Prior to May 1992	\$100,000
May 1992 or After	\$250,000
May 1, 1999 through April 30, 2004	\$2,000,000 (will reduce to \$250,000 on 05-01-2004)

If You Are Over 65...

<i>And You Retire From MGE</i>	<i>Your Lifetime Maximum Benefit is...</i>
Prior to May 1992	\$25,000
May 1992 or After	\$50,000

Prescription Drug Benefits

Mail Service Prescription Drug Program <i>(Prescription Orders and refills, up to 90-day supply)</i> ALL RETIREES: \$5 Copayment for generic \$8 Copayment for brand name	Out-of-Hospital (Retail Pharmacy) Prescription Drug Benefit ALL RETIREES: 70% of Allowable Amount after \$175 individual Deductible	Acute Care Prescription Drug Program <i>(Prescription Orders and refills, up to 14- day supply)</i> ALL ACTIVE EMPLOYEES WHO RETIRE DIRECTLY FROM ACTIVE SERVICE FROM 05-01-99 THROUGH 04-30-2000: \$5 Copayment for generic \$10 Copayment for brand name
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These are highlights of the benefits provided. Please refer to your Summary Plan Description or Blue Cross and Blue Shield of Texas for more specific information. The plan document will prevail in the event of a conflict. The company reserves the right to change provisions and providers.