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June 22, 2001

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102

**FILED<sup>3</sup>**  
JUN 22 2001

Missouri Public  
Service Commission

**RE: Case No. GR-2001-292**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STATEMENT OF POSITIONS ON THE CONTESTED ISSUES SUBMITTED BY THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Lara L. Shemwell  
Associate General Counsel  
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LLS:sw  
Enclosure  
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

FILED<sup>3</sup>  
JUN 22 2001

In the matter of tariff revisions of )  
Missouri Gas Energy, a division of )  
Southern Union, designed to increase rates )  
for natural gas service to customers in the )  
Missouri service area. )

Case No. GR-2001-292

Missouri Public  
Service Commission

STATEMENT OF POSITIONS ON THE CONTESTED ISSUES

SUBMITTED BY THE STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION

COME NOW the Staff of the Missouri Public Service Commission (Staff) and submits the following statement of Positions on the Contested Issues.

1. **Capital Structure/Rate of Return**

A. What capital structure is appropriate for MGE?

Staff's Position: The actual capital structure should be used. (Murray).

B. What return on common equity is appropriate for MGE?

Staff's Position: A return on equity of 10.5 percent is reasonable, and is within the range recommended by Staff. (Murray).

C. What overall rate of return is appropriate for MGE?

Staff's Position: A rate of return of 9.02 percent is reasonable, and is within the range recommended by Staff. (Murray).

2. **Depreciation**

A. What are the appropriate average service lives for MGE's plant?

Staff's Position:

<u>Distribution Plant</u>	<u>Rate</u>	<u>Life</u>
Account 374.2—Land Rights	2.09%	47.8
Account 375.1—Structures	1.65%	60.5
Account 376—Mains & Mains-Cast Iron	2.27%	44.0
Account 378—Meas. & Reg. Station-General	2.86%	35.0
Account 379—Meas. & Reg. Station-City Gate	2.13%	47.0

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	<u>Rate</u>	<u>Life</u>
Account 380—Services	2.27%	44.0
Account 381—Meters	2.86%	35.0
Account 382—Meter Installations	2.86%	35.0
Account 383—House Regulators	2.44%	41.0
Account 385—Electronic Gas Metering	3.33%	30.0
Account 387—Other Equipment	4.60%	21.7

(Note: Currently there is no equipment in this account. Any equipment put into this account would need to be evaluated in the next rate case.)

General Plant-Direct

Account 390.1—Structures	2.00%	50.0
Account 391—Furniture & Fixtures	8.06%	12.4
Account 392—Transportation Equipment	8.70%	11.5
Account 393—Stores Equipment	2.70%	37.0
Account 394—Tools	2.38%	42.0
Account 395—Laboratory Equipment	6.00%	16.7
Account 396—Power Operated Equipment	8.33%	12.0
Account 397.1—Communication Equipment-AMR	5.00%	20.0
Account 397.0—Communication Equipment-Other	6.25%	16.0
Account 398—Miscellaneous Equipment	3.85%	26.0

General Plant-Corporate

Account 390—Structures	2.00%	50.0
Account 391.0—Furniture & Equipment	3.22%	31.0
Account 391.1—Computer Equipment	10.00%	10.0
Account 392—Transportation Equipment	10.00%	10.0
Account 397—Communication Equipment	6.25%	16.0
Account 398—Miscellaneous Equipment	3.85%	26.0

(Adam).

B. What is the appropriate net salvage methodology for MGE's plant?

**Staff's Position:** Staff recommends that net salvage not be included in depreciation rates, but be treated as an operating expense on the income statement.

3. **Gas Storage Inventory**

A. Should the Commission adopt the Staff's 12-month average of volumes or MGE's 13-month average of volumes for purposes of valuing MGE's gas storage inventory?

**Staff's Position:** Staff recommends adoption of the 12-month average. (Wallis).

- B. Should the Commission adopt a three-year historical average (April-October of 1998-2000) of MGE's cost of gas or futures prices of gas for purposes of valuing MGE's gas storage inventory?

**Staff's Position:** Staff recommends that the Commission value MGE's gas inventory investment at \$4.12 per MCF to reflect current conditions. (Wallis).

**4. Joint & Common Costs**

- A. Should the Commission adopt the Staff's recommendation to replace the Chairman and Vice Chairman's salaries and overheads with outside director's fees and disallow all remaining costs of the New York office?

**Staff's Position:** Yes. (Hyneman).

- B. Should the Commission adopt the Staff's recommendation to disallow:
- i) 100% of the salary and overheads of Southern Union Company's Senior Vice President-Legal and Secretary;
  - ii) 75% of the salary and overheads of the salary and overheads of Southern Union Company's President and Chief Operating Officer; and
  - iii) 50% of the salary and overheads of Southern Union Company's Executive Vice President-Chief Financial Officer?

**Staff's Position:** Yes. (Hyneman).

- C. Should the Commission adopt Staff's recommendation to disallow 100% of the manufactured gas plant-related expenditures incurred during the test year?

**Staff's Position:** Yes.

**4. Off-System Sales and Capacity Release Revenues**

- A. Should the Commission adopt the Staff's proposal to impute off-system sales revenues in setting distribution rates in this case?

**Staff's Position:** Yes, the Commission should impute revenue of \$1.2 million for off-system sales and capacity release. (Wallis).

**5. SLRP Deferrals**

- A. Should the Commission treat the June 1 to September 2, 1998 gap period as part of the AAO deferrals ?

**Staff's Position:** Yes, the Staff agrees with including this period in the AAO deferrals. (Oligschlaeger).

- B. Should the Commission adopt the Staff and Public Counsel recommendations to exclude from rate base the unamortized balance of SLRP deferrals?

**Staff's Position:** Yes. (Oligschlaeger).

- C. Should the Commission reduce rate base to reflect the associated deferred income taxes related to the unamortized balance of SLRP deferrals?

**Staff's Position:** Yes. (Oligschlaeger).

**6. Class Cost-of-Service/Class Revenue Allocations**

- A. What should be the appropriate method of class cost of service allocation in this case?

**Staff's Position:** Staff recommends that the Commission adopt Staff's allocation as reflected in Schedule 1 of the Surrebuttal Testimony of Daniel I. Beck. Staff maintains that its class cost of service study provides the best representation of the cost to serve the various classes.

- B. What is the appropriate allocation of any increase in revenues to customer classes?

**Staff's Position:** Staff recommends that the Commission adopt the recommendation of Daniel I. Beck regarding changes to the allocation of costs. This proposal would move toward cost of service, as defined by all of the studies filed in this case for the Small General Service and Large General Service classes. Specifically, Staff recommends the following revenue shifts between classes: Residential, \$315,000 increase; SGS, \$250,000 decrease; LGS, \$100,000 decrease; and Large Volume Service, \$35,000 increase. Any increase in revenues approved by the Commission would then be allocated to the classes on an equal percentage basis after the changes in class revenues are made.

In the alternative, Staff recommends that the Commission order an equal percentage of increase for each class of customer based on current revenues. (Beck)

- C. What are the appropriate adjustments to rates for the various customer classes?

**Staff's Position:** Staff recommends that each of the sales or transportation charges for the Large Volume Service class be increased by an equal percentage to reach the level of Large Volume Service class revenue requirement ordered by the Commission. For all other classes, Staff recommends that each of the commodity charges be increased by an equal

percentage to reach the level of class revenue requirement ordered by the Commission. (Beck).

8. **Weatherization Program**

- A. Should the Commission adopt the Staff's proposal to expand MGE's low-income weatherization program?

**Staff's Position:** Yes, the independent evaluation of the MGE Experimental Weatherization Program by TecMRKT Works confirmed that the program is beneficial to the ratepayers and the company as well as the low-income customers receiving weatherization (Warren Direct).

9. **Low-income Credit Tariff Rate**

- A. Should the Commission adopt Public Counsel's proposed low-income fixed credit tariff rate?

**Staff's Position:** Staff does not support the complete adoption of Public Counsel's proposed low-income fixed credit tariff rate because of the numerous legitimate questions about the administration and implementation of the program as specifically proposed by Public Counsel. However, based on the success of the Low-Income Weatherization programs of MGE and AmerenUE, Staff recommends that an experimental program be developed to implement the Residential Low-Income Rates program, that an independent evaluation of the program be conducted, and that an end use study of residential customers stratified by income be conducted. (Warren Surrebutal). The experimental program could be funded by the Residential Customer Class as proposed by Public Counsel, and if the results of the experimental program and end use study warrant and the law allows, then the rates could be implemented with funding from all customer classes and the Company shareholders.

10. **Customer Service Effectiveness / Gas Safety Incentive Plan**

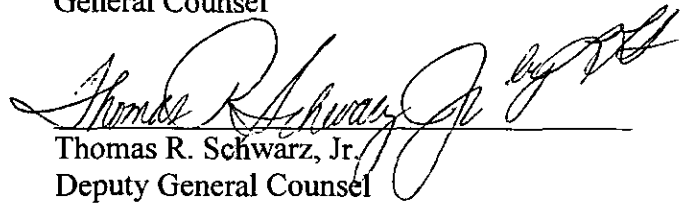
- A. Should the Commission adopt MGE's proposed Customer Service Effectiveness/Gas Safety Incentive Plan?

**Staff's Position:** No. (Kremer).

WHEREFORE the Staff respectfully recommends that the Commission adopt Staff's positions on the contested issues.

Respectfully submitted,

DANA K. JOYCE  
General Counsel



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### Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 22nd day of June 2001.



**Service List for  
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Revised: June 22, 2001 (SW)**

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