

Exhibit No.: _____
Issues: Revenue Deficiency
Rate Base
Expenses
Test Year
True-Up
Witness: Michael R. Noack
Sponsoring Party: Missouri Gas Energy
Case No.: GR-2001-292

MISSOURI PUBLIC SERVICE COMMISSION

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Missouri Public
Service Commission

MISSOURI GAS ENERGY

CASE NO. GR-2001-292

DIRECT TESTIMONY OF

MICHAEL R. NOACK

Jefferson City, Missouri

November 7, 2000

DIRECT TESTIMONY OF MICHAEL R. NOACK

CASE NO. GR-2001-292

NOVEMBER 7, 2000

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

3 A. My name is Michael R. Noack and my business address is 3420 Broadway,
4 Kansas City, Missouri 64111.

5
6 **Q. WHO ARE YOU EMPLOYED BY?**

7 A. I am employed by Missouri Gas Energy (MGE), a division of Southern Union
8 Company (Company), as Manager of Pricing and Regulatory Affairs.

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 Accounting from the University of Missouri in Columbia in 1973. Upon
14 graduation, I was employed by Troupe Kehoe Whiteaker & Kent (TKWK), a
15 Certified Public Accounting Firm in Kansas City, Missouri. I spent
16 approximately 20 years working with TKWK or firms that were formed from
17 former TKWK employees or partners. I was involved during that time in public
18 utility consulting and financial accounting, concentrating primarily on rate cases
19 for electric and gas utilities and financial audits of independent telephone
20 companies across the United States. In 1992, I started Carleton B. Fox Co. Inc. of
21 Kansas City which was an energy consulting company specializing in billing

1 analysis and tariff selection for large commercial and industrial customers. In July
2 of this year I started my position with MGE. Presently I hold in good standing, a
3 Certified Public Accountant certificate in the state of Kansas and am a member of
4 the Kansas Society of Certified Public Accountants.

5
6 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. The purpose of my testimony is to support MGE's requested revenue increase.

9
10 The revenue deficiency is supported by Schedules A through H, which are
11 attached to this testimony. I will be responsible for sponsoring most of the
12 adjustments made to the test year ending June 30, 2000 and which support the
13 revenue deficiency. Other MGE witnesses providing direct testimony are F. Jay
14 Cummings, supporting revenue adjustments, rate design and other tariff matters;
15 Karen M. Czaplewski, discussing customer service operations; John C. Dunn,
16 supporting the capital structure and the cost of capital shown in Schedule F; and
17 Steve W. Catron, providing policy testimony.

18
19 **Q. WHY DOES MGE NEED TO FILE FOR A GENERAL RATE INCREASE?**

20 A. MGE is not achieving its currently authorized rate of return. Since MGE's last
21 general rate increase, approximately \$80 million has been invested in plant due to:
22 1) the safety line replacement program ("SLRP"); 2) plant relocation or public
23 improvement programs; 3) growth within the MGE service area.

1 **Q. MR. NOACK, WOULD YOU PLEASE SUMMARIZE THE DIFFERENT**
2 **SECTIONS OF SCHEDULES ATTACHED TO YOUR DIRECT**
3 **TESTIMONY?**

4 A. Schedule A summarizes the revenue deficiency at June 30, 2000.

5 Schedule B summarizes and supports the various rate base components.

6

7 Schedule C summarizes and supports plant in service.

8

9 Schedule D summarizes and supports Reserve for Depreciation.

10

11 Schedule E summarizes and supports the various working capital components.

12

13 Schedule F summarizes the rate of return.

14

15 Schedule H summarizes and supports the operating income statement and
16 adjustments.

17

18 **Q. WHAT IS THE TEST YEAR USED IN THIS DETERMINATION OF**
19 **MGE'S REVENUE REQUIREMENT?**

20 A. The test year is the twelve months ending June 30, 2000 adjusted for known and
21 measurable changes.

22

23 **Q. SHOULD THIS TEST YEAR BE USED FOR THIS CASE OR WOULD A**
24 **LATER TEST YEAR REFLECTING MORE CURRENT OPERATING**
25 **RESULTS BE MORE APPROPRIATE?**

26 A. A later test period ending December 31, 2000 is what MGE assumes the
27 Commission will adopt as the test year, as updated, for official use in this
28 proceeding. This would provide a relatively current time period of actual

1 experience on which to base rates for the future while at the same time allowing
2 the Commission staff and other parties to audit this actual experience.

3

4 **Q. IS MGE REQUESTING A “TRUE-UP” PROCESS?**

5 A. MGE as part of the direct case is requesting a “Customer Service
6 Effectiveness/Gas Safety Program Experimental Incentive Plan” (“CSE/GSIP”)
7 which will allow MGE to recover annually the costs of the safety program if
8 certain customer service criteria are met (see the direct testimony of MGE witness
9 Cummings). MGE does not need a true up if the Commission approves this
10 CSE/GSIP. If it is denied, MGE requests a “true-up” through June 30, 2001, in
11 order to update the following significant cost components:

12

RATE BASE:

13

- 13 Plant in Service
- 14 Service Line Replacement Program (SLRP) deferrals
- 15 Depreciation Reserve
- 16 Deferred Taxes
- 17 Unamortized Deferred Credit from GM-94-40
- 18 Working Capital Components

19

20

INCOME STATEMENT:

21

- 21 Revenue for Customer Growth
- 22 Payroll, Employee Levels and Current Wage Levels
- 23 Updated Gas Prices
- 24 Rate Case Expense
- 25 Depreciation and Amortization Expense
- 26 Property Taxes
- 27 Related Income Tax Effects

28

1 **Q. MR. NOACK, WOULD YOU PLEASE EXPLAIN THE SCHEDULES**
2 **ATTACHED TO YOUR TESTIMONY?**

3 A. Yes. Schedule A is a summary of the MGE revenue deficiency for the test year
4 ended June 30, 2000. The schedule summarizes the rate base, rate of return,
5 required net operating income, adjusted net operating income and, finally, the
6 revenue deficiency grossed up to include income taxes and uncollectibles and
7 grossed down to include late payment fees. The net revenue deficiency shown on
8 Schedule A is \$39,383,803.

9
10 Schedule A-1 is the summary of net operating income per books for the test year
11 ending June 30, 2000, a summary of the adjustments made to operations and,
12 finally, the as adjusted net operating income.

13
14 Schedule A-2 is a summary income tax computation both per books and as
15 adjusted for the twelve months ending June 30, 2000.

16
17 **Q. MR. NOACK, WOULD YOU PLEASE DESCRIBE SCHEDULE B, THE**
18 **CALCULATION OF RATE BASE?**

19 A. Schedule B summarizes the requested rate base of MGE at June 30, 2000. Total
20 rate base of \$496,614,732 consists of net plant of \$486,076,871, SLRP Deferrals
21 of \$21,019,546, Working Capital of \$57,336,794, and total rate base offsets of
22 \$67,818,478.

23

1 **Q. WOULD YOU PLEASE DESCRIBE THE SCHEDULES SUPPORTING**
2 **SCHEDULE B?**

3 A. Schedule B-1 is the Summary of SLRP (“Safety Line Replacement Program”)
4 Deferrals and SLRP Deferred Taxes. The SLRP program requires significant
5 costs to be incurred which MGE continues to defer pursuant to five separate
6 Accounting Authority Orders (AAOs).

7

8 **Q. BEFORE DETAILING THE AMOUNT REQUESTED IN RATE BASE,**
9 **WOULD YOU PLEASE EXPLAIN THE SLRP?**

10 A. In 1989 the Commission implemented new rules, which required systematic
11 upgrades to portions of Missouri utilities’ natural gas distribution systems (4 CSR
12 240-40.030). Promulgation of these rules substantially increased gas utilities’
13 construction expenditures, especially for MGE and its predecessor, Western
14 Resources, Inc.

15

16 Given the extraordinary nature of the SLRP expenditures, the Commission has
17 consistently approved AAOs to allow MGE to defer certain SLRP costs between
18 rate cases. These costs consist of depreciation, property taxes, and carrying costs.

19

1 **Q. WOULD YOU PLEASE DISCUSS EACH OF THE PREVIOUS AAOs,**
2 **WHICH HAVE GIVEN RISE TO THE ACCUMULATED DEFERRALS**
3 **INCLUDED IN MGE'S RATE BASE AT JUNE 30, 2000?**

4 A. The first AAO (Case No. GO-92-185) allowed the deferral of carrying costs,
5 depreciation and property taxes on safety related plant investments for the period
6 July 1, 1991 through October 15, 1993.

7
8 The second AAO (Case No. GO-94-133) covered the period from October 15,
9 1993 through February 1, 1994.

10
11 The third AAO (Case No. GO-94-234) allowed MGE to defer depreciation
12 expense, property taxes and compute carrying costs at a rate of 10.54% for the
13 period from February 1, 1994 through October 31, 1996.

14
15 The fourth AAO (Case No. GO-97-301) allowed MGE to defer depreciation,
16 property taxes and carrying costs from February 1, 1997 through May 31, 1998 or
17 the date at which the true-up ended and also seek rate recovery in GR-98-140 of
18 those regulatory assets recorded from November 1, 1996 through January 31,
19 1997.

20
21 The fifth and final AAO to date was granted in the report and order issued in GR-
22 98-140 and allowed MGE to begin deferring costs on September 3, 1998 and

1 allows them to continue until the end of the test year, updated test year or the true-
2 up period (if one is granted) in this case.

3

4 **Q. PREVIOUS TO THE COMMISSION'S ORDER IN GR-98-140, WAS MGE**
5 **ALLOWED TO INCLUDE THE UNAMORTIZED PORTION OF SLRP**
6 **DEFERRALS IN RATE BASE AND ALSO INCLUDE AS A RATE BASE**
7 **OFFSET THE DEFERRED TAXES ASSOCIATED WITH THE SLRP**
8 **DEFERRALS?**

9 A. Yes. In Case No. GR-96-285 the Commission included in rate base the
10 unamortized portion of the SLRP deferred balances as well as the rate base
11 reduction associated with the SLRP deferred taxes.

12

13 In the report and order in GR-98-140, the Commission found credence in the
14 OPC's argument that guaranteeing the Company a "return of" and "return on" the
15 SLRP deferred balance is not a fair allocation of regulatory lag resulting from the
16 Company's ongoing construction projects. OPC argued that the Company should
17 be able to choose to implement processes and procedures which would limit the
18 Company's exposure to regulatory lag and the resulting effect on its finances and
19 not be protected by the Commission with "guaranteed earnings" or the total effect
20 of regulatory lag.

21

22 In the case of SLRP the Company does not enjoy the ability to choose to
23 implement a construction plan, which will mitigate the Company's exposure to

1 regulatory lag. The Company must instead continue replacing the service lines as
2 mandated by 4 CSR 240-40.030 Safety Standards – Transportation of Gas by
3 Pipeline and do so within the time required by Commission order. The
4 unamortized balance of these SLRP deferrals should be allowed in rate base with
5 a corresponding reduction of rate base for the accumulated deferred income taxes
6 associated the these deferrals. If the Company did in fact attempt to schedule its
7 SLRP construction around rate filings in order to mitigate regulatory lag, MGE
8 would no longer be in compliance with the safety plan filed with the Commission.

9
10 **Q. WHAT AMOUNT OF SLRP DEFERRALS HAVE YOU INCLUDED IN**
11 **RATE BASE AT JUNE 30, 2000?**

12 A. Schedule B-1 details the total unamortized SLRP deferrals of \$21,019,546 and
13 associated deferred taxes of \$6,178,486 at June 30, 2000.

14
15 **Q. PLEASE EXPLAIN THE OTHER COMPONENTS INCLUDED IN RATE**
16 **BASE?**

17 A. Generally there are three types of costs and related approaches considered in
18 developing rate base. The first type of cost and approach relates to amounts
19 which are included in rate base in compliance with Commission Orders. The
20 Commission had included the SLRP Accounting Authority Orders (AAOs), which
21 I described above, in rate base in cases prior to Case No. GR-98-140.
22 Additionally, a deferred credit is included in rate base in accordance with the
23 order in Case No. GM-94-40. Under that order, MGE amortizes the total deferred

1 credit over 10 years. MGE is amortizing \$30 million over 120 months for
2 ratemaking purposes. It is, therefore, appropriate to calculate the credit based on
3 the unamortized amount at the end of any test period or true-up period utilized.
4 At June 30, 2000 the unamortized balance is \$12,000,000.

5
6 The second type of cost and approach relates to amounts that fluctuate monthly
7 due to many variables. Adjusting any one of these costs at a date specific would
8 not provide a reasonable basis for determining an appropriate level of on-going
9 cost of service. Specifically, a thirteen-month average has been utilized to more
10 accurately reflect the on-going nature of these fluctuating balances.

11
12 The third type of cost and approach relates to actual test period amounts which are
13 adjusted for known and measurable changes that have occurred or will take place
14 prior to rates being placed into effect. These adjustments minimize the effects of
15 regulatory lag. The objective is to establish rates prospectively, synchronizing the
16 cost of service with the revenue stream so that MGE in fact has a reasonable
17 opportunity to earn its authorized rate of return.

18
19 **Q. PLEASE DESCRIBE COSTS, WHICH ARE AFFORDED A THIRTEEN-**
20 **MONTH AVERAGE.**

21 A. The rate base items afforded a thirteen month average are material and supplies
22 inventory, prepayments, and natural gas inventory, as well as other rate base
23 deductions of customer deposits and customer advances. Schedules B-2 and B-3

1 show the monthly amounts related to customer deposits and customer advances,
2 respectively. Schedule E provides a summary of all working capital components
3 with the monthly amounts for Materials and Supplies and Prepayments being
4 shown on Schedules E-1 and E-2.

5
6 **Q. DOES GAS INVENTORY REPRESENT A THIRTEEN-MONTH**
7 **AVERAGE SIMILAR TO MATERIALS AND SUPPLIES INVENTORY?**

8 A. No. Because of the volatility being experienced currently in the price of gas and
9 because the prices are not expected to come down any time soon, I have used a
10 thirteen month average of volumes in storage and priced that storage based upon
11 the NYMEX July 2000 futures price of \$4.369 per Mcf. This method more
12 accurately represents the average dollar balance of gas inventory, which needs to
13 be included in the rate base at June 30, 2000.

14
15 **Q. HAVE YOU ALSO COMPUTED A CASH WORKING CAPITAL**
16 **COMPONENT OF RATE BASE AT JUNE 30, 2000?**

17 A. Yes I have. I have included in rate base an amount for cash working capital in the
18 amount of \$6,700,102. For this adjustment, I have used the bulk of the
19 methodology used in Case Nos. GR-96-285 and GR-98-140. Two changes have
20 been made however to the lead/lag days, one subtle and one substantial. The
21 subtle change involves the natural gas purchase expense where each invoice was
22 analyzed and the lead/lag days were recomputed based upon the test year
23 purchases. The substantial change involved the revenue lead/lag days.

1 **Q. PLEASE EXPLAIN YOUR COMPUTATION OF LEAD/LAG DAYS FOR**
2 **REVENUES.**

3 A. The revenue lag days computation consists of four separate lags. The first is
4 usage lag, which is the midpoint of average time elapsed from the beginning of
5 the service period through the last day of the service period. The second lag is
6 billing lag, or the time between when the meter is read and when the bills are
7 mailed. The respective lag days are 15.21 days and 5.69 days.

8
9 Third is the collection lag, which represents the average time necessary to collect
10 revenue from the time a bill is rendered until the company receives the funds. I
11 compute a collection lag of 29.05 days by averaging accounts receivable and
12 daily revenues over 366 day periods.

13
14 Fourth is the funds clearing lag, which represents the time necessary to deposit
15 cash receipts in the bank, and the lag in availability to use those funds. I have
16 assumed a 1-day lag for this component of revenue lag.

17
18 The total revenue lag days I have computed are 50.95 days.

19
20 **Q. HAVE YOU INCLUDED ANY OTHER WORKING CAPITAL**
21 **COMPONENTS IN YOUR RATE BASE?**

22 A. Schedule E-5 includes the net prepaid pension asset in the working capital
23 component of rate base.

1 **Q. WHY IS IT APPROPRIATE TO INCLUDE THE PREPAID PENSION**
2 **ASSET IN RATE BASE?**

3 A. Over the last few years the FAS 87 calculations have produced a significant gain
4 in the pension plan assets. Customers will benefit from the inclusion of the
5 negative pension expense in rates as a result of these gains. These gains result in
6 the prepaid pension asset, but do not provide MGE with any additional cash
7 flows. Rather, those gains relate to assets held under a pension trust arrangement
8 and cannot be withdrawn for any other use. The net effect of the inclusion of this
9 negative pension expense in cost of service is to lower MGE's revenue
10 requirement and the resulting cash flow. Because the investment in this prepaid
11 pension asset has not been made with customer provided funds, a return should be
12 provided on this asset. This treatment is similar to the Commission's traditional
13 treatment of deferred taxes in rate base.

14

15 **Q. PLEASE EXPLAIN YOUR SCHEDULE OF PLANT IN SERVICE.**

16 A. Schedule C, page 1 of 2 summarizes the various categories of plant investment
17 including the direct plant MGE accounts for on its books; completed construction
18 not classified; joint and common plant accounted for on Southern Union
19 Company's books which is allocated to MGE; and total adjustments. The only
20 adjustment included in the June 30, 2000 plant in service eliminates from rate
21 base the investment in inactive services. This adjustment, while not having a
22 direct effect on rate base since the retirement decreases both plant and

1 accumulated depreciation by the same amount, does decrease depreciation
2 expense for the test year.

3
4 **Q. PLEASE DESCRIBE THE ADJUSTMENTS TO OPERATING INCOME,**
5 **WHICH YOU ARE SPONSORING, ON SCHEDULE H.**

6 A. Schedule H, consisting of 25 schedules, details all of the adjustments made to cost
7 of service. The first two pages of schedule H detail the operating income
8 statement summarized by the uniform system of accounts. It shows the test year
9 balances per books at June 30, 2000, a summary of the proforma adjustments to
10 each account and finally the adjusted balance at June 30, 2000. The next six
11 pages detail each adjustment individually by account number.

12
13 Schedules H-1 and H-2 are the revenue adjustments and are being sponsored by
14 MGE witness Cummings.

15
16 Schedule H-3 removes purchased gas costs and gross receipts tax expense from
17 the operating income statement. These expenses should not be included in the
18 determination of the cost of service. Purchased gas costs are recovered through
19 the PGA mechanism, while the gross receipts tax expense is recovered through a
20 separate tax adjustment on the bills.

1 **Q. PLEASE EXPLAIN THE PAYROLL RELATED ADJUSTMENTS.**

2 A. Proforma payroll and the related payroll adjustment is detailed by account number
3 on schedule H-4. The adjustment takes into consideration the employee levels at
4 June 30, 2000 and the level of wage at that time. The proforma level also includes
5 overtime, which was based on actual overtime hours worked during the test year.
6 Dividing total proforma payroll charged to operating expenses by total proforma
7 payroll developed a payroll expense ratio. This payroll expense ratio was
8 subsequently applied to the proforma levels of employee benefits, payroll taxes
9 and injuries and damages.

10

11 A separate adjustment has been proposed on Schedule H-22 which normalizes
12 MGE compensation and bonuses based on the three year period 1998 through
13 2000.

14

15 Payroll taxes on schedule H-6 are adjusted for the payroll annualization and the
16 change in FICA wage limits as of January 1, 2000.

17

18 **Q. WHAT IS INCLUDED IN YOUR ADJUSTMENT TO EMPLOYEE**
19 **BENEFITS?**

20 A. The adjustment to employee benefits on Schedule H-5 normalizes all expenses
21 representing employee benefits paid on behalf of employees. Included in these
22 benefits are the FAS 87 pension expense, which at June 30, 2000 was a credit

1 amount of \$1,802,978 and represents current costs plus five-year amortization of
2 the five year average net gain or loss.

3
4 Other benefits expense costs include insurance, FAS 106 post retirement benefit
5 costs, 401K costs, COLI amortization costs and other miscellaneous employee
6 benefit costs charged to account 926. These proforma costs were then multiplied
7 by the payroll expense ratio to arrive at the adjustment to operating expenses.

8
9 **Q. PLEASE EXPLAIN THE COLI (COMPANY OWNED LIFE INSURANCE)**
10 **EXPENSE OF \$315,768.**

11 A. The Commission ruled in Case No. GR-96-285 that the final COLI loss incurred
12 by MGE of \$613,545 should be amortized over a five-year period. This was also
13 included in Case No. GR-98-140. The unamortized balance at June 30, 2000 is
14 \$194,289. On October 26, 2000 a tentative settlement was reached with the IRS
15 whereby 20% of the COLI interest expense previously deducted on the tax returns
16 was allowed as a deduction and 80% was disallowed resulting in additional taxes
17 due of \$1,384,552. I have combined this tax liability with the previously
18 mentioned unamortized balance at June 30, 2000 and amortized the total over a
19 new five-year period resulting in annual expense of \$315,768.

1 **Q. WHAT ADJUSTMENT HAVE YOU MADE TO PROPERTY INSURANCE**
2 **AND INJURIES AND DAMAGES?**

3 A. Schedule H-7 normalizes the property insurance and injuries and damages by
4 taking a three-year average of workmen's compensation claims paid and auto and
5 general liability claims paid and adding that average to the insurance premiums
6 paid during the test year. The test year payroll expense to capital ratio is then
7 applied to the normalized injuries and damages cost in order to compute the
8 normalized test year operating expense.

9

10 **Q. PLEASE EXPLAIN SCHEDULE H-8.**

11 A. Schedule H-8 increases administrative and general expenses to properly assign or
12 allocate joint and common corporate functions to MGE. These functions support
13 the ongoing operations of MGE and include accounting, gas supply, taxes,
14 regulatory, shareholder relations, and treasury, human resources, legal and
15 information technology.

16

17 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO UNCOLLECTIBLE**
18 **EXPENSE?**

19 A. Schedule H-9 normalizes uncollectibles expense by averaging the past three years
20 of charge-offs.

21

1 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO REGULATORY**
2 **COMMISSION EXPENSE.**

3 A. This adjustment on Schedule H-10 is a two-part adjustment, which first
4 normalizes rate case expense over a two-year period, and the depreciation study
5 over a five-year period and secondly annualizes the NARUC and MPSC
6 assessments based on invoices received in June 2000.

7

8 **Q. WHAT IS THE PURPOSE OF SCHEDULE H-11?**

9 A. Schedule H-11 computes interest on the average thirteen-month balance of
10 residential customer deposits at an interest rate of 9.50% and on the average
11 thirteen-month balance of commercial customer deposits at an interest rate of
12 3.50%.

13

14 **Q. HAVE YOU PROPOSED AN ADJUSTMENT TO DEPRECIATION**
15 **EXPENSE?**

16 A. Schedule H-12 details the adjustment to depreciation expense based upon the
17 level of plant investment at June 30, 2000. The adjustment being proposed on
18 schedule H-12 is a two part adjustment with the first part of the adjustment being
19 made to annualize depreciation expense based on the year end levels of plant
20 using the depreciation rates approved by the Commission and applied in Case No.
21 GR-98-140. The second part of the adjustment uses new proposed depreciation
22 rates.

23

1 **Q. HOW WERE THE NEW DEPRECIATION RATES DEVELOPED?**

2 A. Black & Veatch prepared a depreciation study on MGE's behalf which MGE
3 submitted to the Commission's depreciation department in June 2000 pursuant to
4 the Commission directive to review depreciation rates every five years. The last
5 study was prepared in 1995 but the rates were not implemented at that time
6 because the retirement history was not sufficient to complete a study based on
7 survivor curve analysis and other sources of data were inadequate to conduct a
8 complete simulated plant balance analysis for each of the accounts.

9

10 The current study recommends that management consider changing depreciation
11 rates at this time. After careful review of the study it was decided to implement
12 one-half of the shift in depreciation rates in this filing and wait until the time of
13 the next study in five years when even better and more complete data will be
14 available. If at that time on the basis of more complete information, the study
15 reflects rates similar to the current study, the Company would consider completing
16 the shift to those new rates.

17

18 **Q. WHY DIDN'T YOU MAKE THE COMPLETE SHIFT TO NEW RATES**
19 **AT THIS TIME?**

20 A. After careful review of the study, it appears that there are still considerable gaps in
21 the historical plant data, which limits the types of analysis, which can be used to
22 develop the new rates. MGE's continuing property records only contain
23 retirement data back to 1994. Per Black & Veatch that is not enough data to

1 produce reliable results using survivor curve analysis. As a result, alternative
2 methods were used to calculate average service lives. Management decided to
3 take a conservative approach to changing depreciation rates by implementing one-
4 half of the increase or decrease in individual rates at this time.

5
6 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO AMORTIZATION**
7 **EXPENSE.**

8 A. Schedule H-13 details the proforma amortization expense. The adjustment
9 consists of two parts. The first part annualizes the amortization of all leasehold
10 improvements and miscellaneous intangible plant at June 30, 2000. The second
11 part of the adjustment computes SLRP amortization based upon the ten-year
12 amortization period, which the Commission granted in Case No. GR-98-140.

13
14 **Q. PLEASE EXPLAIN SCHEDULES H-14, H-15, AND H-16 RELATING TO**
15 **THE VARIOUS CLEARING ACCOUNTS.**

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

18 **Q. PLEASE EXPLAIN THE FUNCTION OF CLEARING ACCOUNTS.**

19 A. Clearing accounts are specific accounts required by the uniform system of
20 accounts. They serve as a clearinghouse for various costs that are incurred for a
21 similar function. For example, the TWE account accumulates various costs
22 relating to vehicles and major work equipment including payroll, benefits, taxes,
23 and insurance as well as the cost of tires, oil, and repairs and depreciation and/or

1 vehicle lease expense. Similarly, the stores load account accumulates costs
2 relating to managing the inventory and purchasing function, and the paid time off
3 account accumulates the payroll and related costs of vacations, sick leave, etc. By
4 accumulating varied but related costs into one account these costs can more easily
5 and consistently be charged back to other expense and capital accounts. On
6 average and over time, the total amounts charged into a clearing account should
7 be equal to the amount charged out to the other accounts.

8
9 **Q. WHY IS IT NECESSARY TO REFLECT ADJUSTMENTS RELATING TO**
10 **THESE ITEMS IN A RATE CASE?**

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

1 out of clearing accounts. These adjustments enable test year clearing to be
2 adjusted consistently with the remainder of the case.

3
4 **Q. PLEASE EXPLAIN SCHEDULE H-17.**

5 A. Schedule H-17 adjusts Missouri State Franchise Tax to the actual level of tax on
6 the filed franchise tax return.

7
8 **Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PROPERTY TAXES.**

9 A. Schedule H-18 synchronizes ad valorem taxes with plant in service excluding
10 intangible plant and corporate allocated plant at June 30, 2000.

11
12 **Q. HAS THE COMPANY INCLUDED AN ADJUSTMENT TO ACCOUNT
13 FOR ANY INCURRED Y2K COSTS?**

14 A. Schedule H-19 amortizes MGE's deferred Y2K costs and Corporate's Y2K costs
15 over a 10-year period in accordance with the AAO granted in Docket No. GO-99-
16 258.

17
18 **Q. PLEASE EXPLAIN THE REMAINDER OF YOUR SCHEDULES.**

19 A. Schedule H-20 annualizes rent expense and MGE's share of operating expenses,
20 taxes and maintenance at the headquarters building and annualizes rent only at the
21 39th and Main public business office.

22

1 Schedule H-21 removes an extra payment made to the Kansas City Chamber of
2 Commerce and all Country Club dues from the test year ending June 30, 2000.

3
4 Schedule H-22 normalizes MGE incentive compensation and bonuses paid based
5 on a three-year period 1998 through 2000. The payroll expense ratio is then
6 applied to the normalized level in order to calculate the amount, which should be
7 charged to expense.

8
9 Schedule H-23 normalizes the customer collection costs during the test period.

10
11 Schedule H-24 makes an adjustment to recognize a non-refundable payment bond
12 required by energy supplier in lieu of a letter of credit.

13
14 Finally, Schedule H-25 removes from utility operations expenditures deemed to
15 be non-utility related in nature.

16
17 **Q. ARE THERE ANY OTHER TARIFF ISSUES, WHICH NEED TO BE**
18 **ADDRESSED AT THIS TIME?**

19 A. Yes. Sheet Nos. R-50 and R-88 have been revised to reflect a returned payment
20 (check) charge of \$15. These "clean-up" changes simply reflect the Company's
21 practices.

1 Sheet No. 24.7 has been revised to include a reference to Sheet No. 24.32, which
2 is the "Fixed Commodity Price PGA" summary statement. This, too, is a "clean-
3 up" made necessary due to the fact that references are made at numerous places in
4 the tariff to the "Summary Statement on Sheet No. 24.7". Due to the approval of
5 the fixed commodity price PGA, the summary statement is now found on Sheet
6 No. 24.32.

7
8 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A.** Yes it does.

10

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's)	
Tariff Sheets Designed to Increase Rates)	Case No. GR-2001-292
for Gas Service in the Company's Missouri)	
Service Area.)	

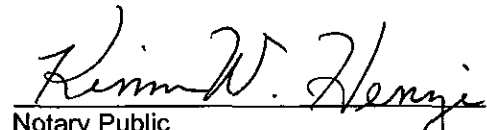
AFFIDAVIT OF MICHAEL R. NOACK

STATE OF MISSOURI)
)
 COUNTY OF JACKSON) ss.

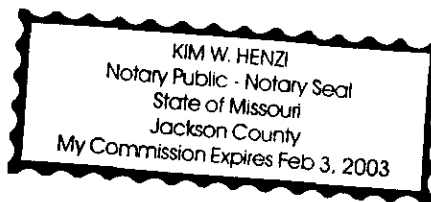
Michael R. Noack, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

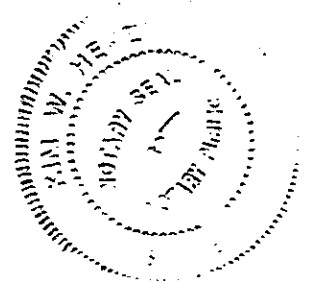

 MICHAEL R. NOACK

Subscribed and sworn to before me this 6th day of November 2000.


 Notary Public

My Commission Expires: _____





MISSOURI GAS ENERGY
A Division of Southern Union Company

Index of Schedules

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MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

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	\$496,614,732			
2	Rate of Return	F	<u>10.651%</u>			
3	Required Return		<u>\$52,894,435</u>	\$52,894,435		
4	Adjusted Test Year Net Operating Income	A-1		<u>29,171,419</u>		
5	Earnings Deficiency			<u>\$23,723,016</u>	\$23,723,016	
6	Multiply by Income Tax Gross-up Factor				<u>1.646904</u>	
7	Revenue Deficiency - Gross of Tax				\$39,069,530	
8	Multiply by Uncollectibles Gross-up Factor				<u>1.01030600</u>	
9	Revenue Deficiency before Late Pay Fee Gross Down				<u>\$39,472,181</u>	\$39,472,181
10	Multiply by Late Pay Fee Gross-down Factor					<u>0.997761</u>
11	Net Revenue Deficiency					<u><u>\$39,383,803</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

**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	\$350,222,122	(\$223,167,434)	\$127,054,688
2	Other Utility Revenues	13,118,268	(4,223,482)	8,894,786
3	Total Operating Revenues	<u>\$363,340,390</u>	<u>(\$227,390,916)</u>	<u>\$135,949,474</u>
<u>OPERATING EXPENSES</u>				
4	Distribution Expense	\$236,889,185	(\$215,063,724)	\$21,825,461
5	Customer Accounts Expense	11,184,968	2,727,976	13,912,944
6	Customer Service and Information Expense	382,764	(414)	382,350
7	Sales Expense	1,324,262	(343,734)	980,528
8	Administrative and General Expense	17,198,686	11,036,967	28,235,653
9	Total Operating and Maintenance Expenses	<u>\$266,979,865</u>	<u>(\$201,642,929)</u>	<u>\$65,336,936</u>
10	Depreciation & Amortization Expense	\$22,438,736	\$3,541,035	\$25,979,771
11	Interest on Customer Deposits	798,690	(89,330)	709,360
12	Taxes Other Than Income	31,099,187	(22,413,124)	8,686,063
13	Total Operating Expenses	<u>\$321,316,478</u>	<u>(\$220,604,348)</u>	<u>\$100,712,130</u>
14	Operating Income Before Income Tax	\$42,023,912	(\$6,786,568)	\$35,237,344
15	Less: Income Tax Expense	8,731,689	(2,665,764)	6,065,925
16	Net Operating Income	<u>\$33,292,223</u>	<u>(\$4,120,804)</u>	<u>\$29,171,419</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Income Tax

Line No.	Description (a)	Reference (b)	Per Books (c)	As Adjusted (d)
1	Total Operating Revenues	A-1	\$363,340,390	\$135,949,474
2	Total Operating Expenses	A-1	<u>(321,316,478)</u>	<u>(100,712,130)</u>
3	Net Operating Income	A-1	<u>\$42,023,912</u>	<u>\$35,237,344</u>
4	Equity Portion of SLRP Deferrals		\$1,258,638	\$1,258,638
5	COLI Amortization		315,768	315,768
6	Less: Interest on Long Term Debt		<u>(20,614,478)</u>	<u>(20,614,478)</u>
7	Total Tax Adjustments		<u>(\$19,040,072)</u>	<u>(\$19,040,072)</u>
8	Net Taxable Income		<u>\$22,983,840</u>	<u>\$16,197,272</u>
9	Income Tax		\$9,028,052	\$6,362,288
10	Less: Income Tax Reduction per Case No. GM-94-40		<u>(296,363)</u>	<u>(296,363)</u>
11	Net Income Tax		<u>\$8,731,689</u>	<u>\$6,065,925</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Calculation of Rate Base

Line No.	Description (a)	Reference (b)	Amount (c)
1	Intangible Plant	C	\$10,471,991
2	Distribution Plant	C	612,080,484
3	General Plant	C	60,672,139
4	Gross Plant In Service		<u>\$683,224,615</u>
5	Accumulated Depreciation & Amortization	D	<u>(197,147,744)</u>
6	Net Plant in Service		\$486,076,871
7	SLRP Deferrals	B-1	\$21,019,546
8	Working Capital	E	57,336,794
9	Customer Deposits	B-2	(6,224,661)
10	Customer Advances	B-3	(10,197,236)
11	Unamortized Deferred Credit per Case No. GM-94-40		(12,000,000)
12	Deferred Income Taxes - SLRP	B-1	(6,178,486)
13	Deferred Income Taxes - Other	B-4	<u>(33,218,095)</u>
14	Total Rate Base		<u><u>\$496,614,732</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

SLRP Deferrals and Deferred Taxes

Line No.	Description (a)	Gross Deferral (b)	Accumulated Amortization (c)	Amount (d)
<u>SLRP Deferrals</u>				
1	Order GO-92-185 (Deferred Balance @ 5/31/98)	\$5,776,280	\$1,152,814	\$4,623,466
2	Order GO-94-234 (Deferred Balance @ 5/31/98)	12,399,117	2,439,231	9,959,886
3	Order GO-97-301 (Deferred Balance @ 5/31/98)	3,060,876	561,161	2,499,715
4	Order GR-98-140	3,936,479	0	3,936,479
5	Total SLRP Deferrals	<u>\$25,172,752</u>	<u>\$4,153,206</u>	<u>\$21,019,546</u>
 <u>SLRP Deferred Taxes</u>				
6	Order GO-92-185			1,259,709
7	Order GO-94-234			2,713,670
8	Order GO-97-301			681,072
9	Order GR-98-140			1,524,035
10	Total SLRP Deferred Taxes			<u>\$6,178,486</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2000

Customer Deposits

Line No.	Month	Commercial &		Total Amount
		Residential Amount	Industrial Amount	
	(a)	(b)	(c)	(d)
1	Jun-99	(\$3,695,422)	(\$2,971,801)	(\$6,667,223)
2	Jul-99	(3,627,592)	(2,903,182)	(6,530,774)
3	Aug-99	(3,589,304)	(2,859,205)	(6,448,509)
4	Sep-99	(3,583,433)	(2,818,668)	(6,402,101)
5	Oct-99	(3,607,005)	(2,776,730)	(6,383,735)
6	Nov-99	(3,628,677)	(2,749,996)	(6,378,673)
7	Dec-99	(3,648,523)	(2,661,180)	(6,309,703)
8	Jan-00	(3,642,495)	(2,644,313)	(6,286,808)
9	Feb-00	(3,540,070)	(2,644,313)	(6,184,383)
10	Mar-00	(3,570,003)	(2,515,638)	(6,085,641)
11	Apr-00	(3,462,224)	(2,469,214)	(5,931,438)
12	May-00	(3,326,599)	(2,427,857)	(5,754,456)
13	Jun-00	<u>(3,169,669)</u>	<u>(2,387,478)</u>	<u>(5,557,147)</u>
14	13 Month Total	<u>(\$46,091,016)</u>	<u>(\$34,829,575)</u>	<u>(\$80,920,591)</u>
15	13 Month Average	<u>(\$3,545,463)</u>	<u>(\$2,679,198)</u>	<u>(\$6,224,661)</u>

SCHEDULE B-3

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2000

Customer Advances

Line No.	Month (a)	Amount (b)
1	Jun-99	(\$9,419,430)
2	Jul-99	(9,705,659)
3	Aug-99	(9,859,030)
4	Sep-99	(9,712,615)
5	Oct-99	(9,764,085)
6	Nov-99	(9,960,702)
7	Dec-99	(10,067,227)
8	Jan-00	(10,743,283)
9	Feb-00	(10,660,560)
10	Mar-00	(10,499,534)
11	Apr-00	(10,718,307)
12	May-00	(10,772,060)
13	Jun-00	<u>(10,681,577)</u>
14	13 Month Total	<u><u>(\$132,564,069)</u></u>
15	13 Month Average	<u><u>(\$10,197,236)</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Deferred Taxes (Other than SLRP)

Line No.	Description (a)	Amount (b)
1	Deferred Taxes, MGE Direct Plant as of 6/30/00	(\$31,148,263)
2	Deferred Taxes, Corporate Plant	<u>(2,069,832)</u>
3	Total Accumulated Deferred Income Taxes (Other than SLRP)	<u>(\$33,218,095)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Plant in Service

Line No.	Description	Direct	Completed Not Classified	Total Direct & Completed	Corporate Allocated	Total Adjustments	Total As Adjusted
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
INTANGIBLE PLANT							
1	(301) Organization	\$15,600	\$0	\$15,600	\$0	\$0	\$15,600
2	(302) Franchises	51,046	0	51,046	0	0	51,046
3	(303) Miscellaneous Intangible	10,359,626	0	10,359,626	45,719	0	10,405,345
4	Total Intangible Plant	<u>\$10,426,272</u>	<u>\$0</u>	<u>\$10,426,272</u>	<u>\$45,719</u>	<u>\$0</u>	<u>\$10,471,991</u>
DISTRIBUTION PLANT							
5	(374.1) Land	\$240,448	\$0	\$240,448	\$0	\$0	\$240,448
6	(374.2) Land Rights	991,634	0	991,634	0	0	991,634
7	(375.1) Structures	5,987,064	0	5,987,064	0	0	5,987,064
8	(375.2) Leasehold Improvements	13,965	0	13,965	0	0	13,965
9	(376) Mains	263,977,010	1,362,158	265,339,168	0	0	265,339,168
10	(378) Meas. & Reg. Station - General	10,224,777	35,980	10,260,757	0	0	10,260,757
11	(379) Meas. & Reg. Station - City Gate	2,754,562	20,510	2,775,072	0	0	2,775,072
12	(380) Services	243,057,772	(22,247)	243,035,525	0	(1,569,089)	241,466,436
13	(381) Meters	27,559,456	48,822	27,608,278	0	0	27,608,278
14	(382) Meter Installations	47,944,381	(51,552)	47,892,829	0	0	47,892,829
15	(383) House Regulators	9,253,471	1,027	9,254,498	0	0	9,254,498
16	(385) Electronic Gas Measuring	293,923	(43,588)	250,335	0	0	250,335
17	(387) Other Equipment	0	0	0	0	0	0
18	Total Distribution Plant	<u>\$612,298,463</u>	<u>\$1,351,110</u>	<u>\$613,649,573</u>	<u>\$0</u>	<u>(\$1,569,089)</u>	<u>\$612,080,484</u>
GENERAL PLANT							
19	(389) Land	\$615,659	\$0	\$615,659	\$0	\$0	\$615,659
20	(390.1) Structures	419,125	0	419,125	44,055	0	463,180
21	(390.2) Leasehold Improvements	1,283,068	3,731	1,286,799	0	0	1,286,799
22	(391) Furniture & Fixtures	2,999,386	13,139	3,012,525	11,024,415	0	14,036,940
23	(392) Transportation Equipment	4,470,517	0	4,470,517	14,454	0	4,484,971
24	(393) Stores Equipment	499,757	0	499,757	0	0	499,757
25	(394) Tools	4,436,919	4,729	4,441,648	0	0	4,441,648
26	(395) Laboratory Equipment	0	0	0	0	0	0
27	(396) Power Operated Equipment	586,189	0	586,189	0	0	586,189
28	(397.1) Communication Equipment - AMR	32,608,707	(1,150)	32,607,557	0	0	32,607,557
29	(397.0) Communication Equipment	1,478,273	0	1,478,273	4,432	0	1,482,705
30	(398) Miscellaneous Equipment	164,059	0	164,059	2,675	0	166,734
31	Total General Plant	<u>\$49,561,659</u>	<u>\$20,449</u>	<u>\$49,582,108</u>	<u>\$11,090,031</u>	<u>\$0</u>	<u>\$60,672,139</u>
32	Total Original Cost Plant in Service	\$672,286,394	\$1,371,559	\$673,657,953	\$11,135,751	(\$1,569,089)	\$683,224,615
33	Accumulated Depreciation and Amortization	(194,863,609)	0	(194,863,609)	(3,889,156)	1,605,021	(197,147,744)
34	Net Plant In Service	<u>\$477,422,785</u>	<u>\$1,371,559</u>	<u>\$478,794,344</u>	<u>\$7,246,595</u>	<u>\$35,932</u>	<u>\$486,076,871</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Plant in Service

Line No.	Description (a)	Retire Inactive Meters No. 1 (b)	Total Adjustments (c)
<u>INTANGIBLE PLANT</u>			
1	(301) Organization	\$0	\$0
2	(302) Franchises	0	0
3	(303) Miscellaneous Intangible	0	0
4	Total Intangible Plant	<u>\$0</u>	<u>\$0</u>
<u>DISTRIBUTION PLANT</u>			
5	(374.1) Land	\$0	\$0
6	(374.2) Land Rights	0	0
7	(375.1) Structures	0	0
8	(375.2) Leasehold Improvements	0	0
9	(376) Mains & Mains - Cast Iron	0	0
10	(378) Meas. & Reg. Station - General	0	0
11	(379) Meas. & Reg. Station - City Gate	0	0
12	(380) Services	(1,569,089)	(1,569,089)
13	(381) Meters	0	0
14	(382) Meter Installations	0	0
15	(383) House Regulators	0	0
16	(385) Electronic Gas Metering	0	0
17	(387) Other Equipment	0	0
18	Total Distribution Plant	<u>(\$1,569,089)</u>	<u>(\$1,569,089)</u>
<u>GENERAL PLANT</u>			
19	(389) Land	\$0	\$0
20	(390.1) Structures	0	0
21	(390.2) Leasehold Improvements	0	0
22	(391) Furniture & Fixtures	0	0
23	(392) Transportation Equipment	0	0
24	(393) Stores Equipment	0	0
25	(394) Tools	0	0
26	(395) Laboratory Equipment	0	0
27	(396) Power Operated Equipment	0	0
28	(397) Communication Equipment - AMR	0	0
29	(397) Communication Equipment	0	0
30	(398) Miscellaneous Equipment	0	0
31	Total General Plant	<u>\$0</u>	<u>\$0</u>
32	Total Original Cost Plant In Service	<u>(\$1,569,089)</u>	<u>(\$1,569,089)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Accumulated Reserves for Depreciation and Amortization

Line No.	Description (a)	Test Year Direct (b)	Corporate (c)	Proforma Adjustments (d)	Test Year As Adjusted (e)
1	Intangible Plant Reserve	(\$5,822,205)	\$0	\$0	(\$5,822,205)
2	Distribution Reserve	(189,041,404)	0	1,605,021	(187,436,383)
3	Corporate Allocated Reserve	0	(3,889,156)	0	(3,889,156)
4	Total Accumulated Reserves	<u>(\$194,863,609)</u>	<u>(\$3,889,156)</u>	<u>\$1,605,021</u>	<u>(\$197,147,744)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Accumulated Reserves for Depreciation and Amortization

Line No.	Description	Adjustments to Plant in Service	Deprec. Rates	Adj. to Reserve for Add'l Depr. (see note) No. 1	Retire Inactive Meters No. 2	Total Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)
<u>DISTRIBUTION PLANT</u>						
1	(374.1) Land	\$0	0.00%	\$0	\$0	\$0
2	(374.2) Land Rights	0	Amort.	0	0	0
3	(375.1) Structures	0	2.01%	0	0	0
4	(375.2) Leasehold Improvements	0	Amort.	0	0	0
5	(376) Mains & Mains - Cast Iron	0	2.10%	0	0	0
6	(378) Meas. & Reg. Station - General	0	3.19%	0	0	0
7	(379) Meas. & Reg. Station - City Gate	0	2.56%	0	0	0
8	(380) Services	(1,569,089)	4.58%	35,932	1,569,089	1,605,021
9	(381) Meters	0	2.46%	0	0	0
10	(382) Meter Installations	0	2.47%	0	0	0
11	(383) House Regulators	0	2.27%	0	0	0
12	(385) Electronic Gas Metering	0	5.00%	0	0	0
13	(387) Other Equipment	0	4.60%	0	0	0
14	Total Distribution Plant	<u>(\$1,569,089)</u>		<u>\$35,932</u>	<u>\$1,569,089</u>	<u>\$1,605,021</u>
<u>GENERAL PLANT</u>						
15	(389) Land	\$0	0.00%	\$0	\$0	\$0
16	(390.1) Structures	0	2.52%	0	0	0
17	(390.2) Leasehold Improvements	0	Amort.	0	0	0
18	(391) Furniture & Fixtures	0	6.67%	0	0	0
19	(392) Transportation Equipment	0	10.69%	0	0	0
20	(393) Stores Equipment	0	4.17%	0	0	0
21	(394) Tools	0	7.00%	0	0	0
22	(395) Laboratory Equipment	0	6.00%	0	0	0
23	(396) Power Operated Equipment	0	6.46%	0	0	0
24	(397) Communication Equipment - AMR	0	5.00%	0	0	0
25	(397) Communication Equipment	0	5.59%	0	0	0
26	(398) Miscellaneous Equipment	0	5.63%	0	0	0
27	Total General Plant	<u>\$0</u>		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
28	Total Adjustment	<u>(\$1,569,089)</u>		<u>\$35,932</u>	<u>\$1,569,089</u>	<u>\$1,605,021</u>

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

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Working Capital

Line No.	Description (a)	Reference (b)	Amounts (c)
1	Materials and Supplies Inventory	E-1	\$2,155,943
2	Prepayments	E-2	420,953
3	Gas Inventory	E-3	41,329,818
4	Cash Working Capital	E-4	6,700,102
5	Prepaid Pension	E-5	<u>6,729,978</u>
6	Total Working Capital		<u><u>\$57,336,794</u></u>

SCHEDULE E-1

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2000

Materials & Supplies

Line No.	Month <u>(a)</u>	Amount <u>(b)</u>
1	Jun-99	\$2,334,965
2	Jul-99	2,164,639
3	Aug-99	2,267,867
4	Sep-99	2,223,368
5	Oct-99	2,154,358
6	Nov-99	2,167,640
7	Dec-99	2,198,929
8	Jan-00	2,096,629
9	Feb-00	2,087,509
10	Mar-00	2,068,101
11	Apr-00	2,047,869
12	May-00	2,097,372
13	Jun-00	<u>2,118,013</u>
14	13 Month Total	<u><u>\$28,027,259</u></u>
15	13 Month Average	<u><u>\$2,155,943</u></u>

SCHEDULE E-2

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2000

Prepayments

Line No.	Month (a)	Amount (b)
1	Jun-99	\$45,301
2	Jul-99	826,193
3	Aug-99	765,911
4	Sep-99	701,513
5	Oct-99	641,489
6	Nov-99	460,784
7	Dec-99	464,118
8	Jan-00	377,467
9	Feb-00	346,985
10	Mar-00	323,642
11	Apr-00	245,482
12	May-00	240,953
13	Jun-00	<u>32,552</u>
14	13 Month Total	<u><u>\$5,472,390</u></u>
15	13 Month Average	<u><u>\$420,953</u></u>

SCHEDULE E-3

MISSOURI GAS ENERGY
A Division of Southern Union Company
Thirteen Months Ending June 30, 2000

Gas Inventory

Line No.	Month (a)	Volumes (b)
1	Jun-99	6,780,986
2	Jul-99	10,428,866
3	Aug-99	13,036,804
4	Sep-99	14,656,660
5	Oct-99	15,710,534
6	Nov-99	16,899,929
7	Dec-99	15,807,564
8	Jan-00	10,050,227
9	Feb-00	6,237,796
10	Mar-00	4,574,627
11	Apr-00	664,507
12	May-00	2,295,712
13	Jun-00	<u>5,833,048</u>
14	13 Month Average	9,459,789
15	July 2000 Futures Price	<u>\$4.369</u>
16	Inventory Value	<u><u>\$41,329,818</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Cash Working Capital

Line No.	Description	Test Year Expenses	Revenue Lag	Expense Lead	Net Lag (C-D)	Factor (E/365)	CWC Requirement (B*F)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
<u>Operation & Maintenance Expense</u>							
1	Cash Vouchers	\$33,836,415	50.9500	23.1000	27.8500	0.0763	\$2,581,765
2	Bad Debt Expense	4,702,847	50.9500	50.9500	-	-	\$0
3	Net Payroll Expense	16,034,424	50.9500	12.5000	38.4500	0.1053	\$1,689,106
4	Fica Withheld	1,739,636	50.9500	9.6000	41.3500	0.1133	\$197,079
5	Federal Income Tax Withheld	3,139,594	50.9500	15.5900	35.3600	0.0969	\$304,154
6	State Income Tax Withheld	851,915	50.9500	48.7600	2.1900	0.0060	\$5,111
7	City Tax Withheld	127,075	50.9500	20.2200	30.7300	0.0842	\$10,699
8	Resident State Tax Withheld	13,492	50.9500	30.7271	20.2229	0.0554	\$748
9	Vacation Expense - Nonunion	311,374	50.9500	182.5000	(131.5500)	(0.3604)	(\$112,223)
10	Vacation Expense - Union	825,393	50.9500	388.1500	(337.2000)	(0.9238)	(\$762,527)
11	Sick Leave	551,324	50.9500	68.6400	(17.6900)	(0.0485)	(\$26,720)
12	Pensions	(1,802,978)	50.9500	50.9500	-	-	\$0
13	Medical Expense	4,653,115	50.9500	-	50.9500	0.1396	\$649,524
14	Purchased Gas	215,644,856	50.9500	38.7600	12.1900	0.0334	\$7,201,947
15	Building Rents and Leases	353,310	50.9500	(14.6500)	65.6000	0.1797	\$63,499
16	Total Operation & Maintenance Expense	<u>280,981,792</u>					<u>11,802,161</u>
<u>Taxes</u>							
17	Property Taxes	6,616,626	50.9500	182.0000	(131.0500)	(0.3590)	(2,375,641)
18	Franchise Taxes	307,129	50.9500	59.4100	(8.4600)	(0.0232)	(7,119)
19	Gross Receipts Taxes	22,561,932	50.9500	59.4100	(8.4600)	(0.0232)	(522,942)
20	Employer Portion of FICA	1,739,636	50.9500	9.6000	41.3500	0.1133	197,079
21	Federal and State Unemployment	41,448	50.9500	87.8200	(36.8700)	(0.1010)	(4,187)
22	Use Taxes	23,530	50.9500	76.1200	(25.1700)	(0.0690)	(1,623)
23	Sales Taxes	5,168,896	50.9500	24.9700	25.9800	0.0712	367,912
24	Total Taxes	<u>36,459,197</u>					<u>(2,346,520)</u>
25	Total Cash Working Capital Requirement						<u>9,455,641</u>
26	Estimated Interest Expense Offset	20,620,000	50.9500	91.3000	(40.3500)	(0.1105)	(2,279,499)
27	Estimated Income Tax Offset	5,900,000	50.9500	80.4000	(29.4500)	(0.0807)	(476,041)
28	Net Cash Working Capital						<u>\$6,700,102</u>

SCHEDULE E-5

MISSOURI GAS ENERGY
A Division of Southern Union Company
Balances Ending June 30

Deferred Pension

Line No.	Year Ended (a)	Balance (b)
1	June 30, 2000	<u>6,729,978</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Summary of Cost of Capital

Line No.	Description (a)	Reference (b)	Ratio (c)	Cost Rate (d)	Weighted Composite Rate (e)
1	Long-Term Debt	F-1	50.00%	8.301%	4.151%
2	Common Equity	F-2	<u>50.00%</u>	12.50%	<u>6.250%</u>
3	Total		<u>100.00%</u>		10.401%
4	Rate of Return Incentive Adjustment				<u>0.250%</u>
5	Requested Rate of Return				<u>10.651%</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Long Term Debt

Line No.	Description (a)	Outstanding Debt (b)	Annual Interest Rate (c)	Annualized Cost (d)
1	7.6% Senior Notes	\$364,515,000	7.600%	\$27,703,140
2	Capital Lease - AMR	25,104,000	5.790%	1,453,522
3	8.25% Senio Notes	300,000,000	8.250%	24,750,000
4	8.375% Mortgage Bonds	30,000,000	8.375%	2,512,500
5	9.34% Mortgage Bonds	15,000,000	9.340%	1,401,000
6	Total Long-Term Debt	<u>\$734,619,000</u>		<u>\$57,820,162</u>
7	Unamortized Debt Costs - 181	(10,556,000)		596,000
8	AMR Debt Costs	(67,000)		21,000
9	Unamortized Costs/Loss/Gain on Reacquired Debt - 189 & 257	(12,935,000)		585,000
10	Net Long Term Debt	<u>\$711,061,000</u>		<u>\$59,022,162</u>
11	Cost of Debt			8.301%
12	Debt as Proportion of Total Capitalization (Line 7, Column B divided by Line 3, Column B, Schedule F)			<u>0.5000</u>
13	Composite Debt Cost Rate			<u><u>4.151%</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Equity Capital

Line No.	Description (a)	Cost Rate (b)	Ratio (c)	Composite Cost Rate (d)
	Common Equity			
1	Common Equity			
2	Required Return on Common Equity	12.500%		
3	Common Equity as Proportion of Total Capitalization (Line 10, Column B divided by Line 3, Column B, Schedule F)		<u>50.0%</u>	
4	Composite Common Cost Rate			<u>6.250%</u>
5	Total Equity Capital			<u><u>6.250%</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Distribution of Revenue and Expense Adjustments by Account No.

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	\$246,006,046	(\$154,703,237)	\$91,302,809
2	481.1	Commercial	98,899,374	(68,690,306)	30,209,068
3	481.2	Industrial	3,163,610	(1,729,229)	1,434,381
4	483	Sales for Resale	4,912	0	4,912
5	487	Late Payment Charges	928,108	(47,210)	880,898
6	488	Miscellaneous Service Revenue	1,220,072	2,002,548	3,222,620
7	489	Transport	13,055,177	(4,223,482)	8,831,695
8	493	Rent From Property	0	0	0
9	495	Other Gas Revenue	63,091	0	63,091
10		Total Operating Revenue	<u>\$363,340,390</u>	<u>(\$227,390,916)</u>	<u>\$135,949,474</u>
OPERATING & MAINTENANCE EXPENSE					
Operation Expense					
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856	(\$215,458,856)	\$186,000
12	859	Other Joint Expense	0	0	0
13	870	Operation, Supervision and Engineering	855,109	3,606	858,715
14	871	Distribution and Load Dispatching	16,344	(123)	16,221
15	872	Compressor Station Labor and Expense	376	(30)	346
16	874	Mains and Service Expenses	2,651,679	13,809	2,665,488
17	875	Distributing Regulating Station Expenses	629,628	15,143	644,771
18	876	Measuring and Regulating - Station Expenses	764	(439)	325
19	877	Measuring and Regulating - Station Expenses	2,306	(738)	1,568
20	878	Meter and House Regulator Expenses	4,395,001	118,161	4,513,162
21	879	Customer Installation Expenses	2,384,749	65,187	2,449,936
22	880	Other Expenses	1,189,435	(21,674)	1,167,761
23	881	Rents	116,118	0	116,118
24		Total Operation Expense	<u>\$227,886,365</u>	<u>(\$215,265,955)</u>	<u>\$12,620,410</u>
Maintenance Expense					
25	885	Maintenance Supervision and Engineering	\$531,468	\$3,915	\$535,383
26	886	Maintenance of Structures and Improvements	197,444	4,217	201,661
27	887	Maintenance of Mains	6,452,974	154,264	6,607,238
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856	3,830	226,686
29	890	Maint. of Measuring and Regulating Equipment	153,559	5,661	159,220
30	891	Maint. of Measuring and Regulating Equipment	16,608	(112)	16,496
31	892	Maintenance of Services	224,456	7,143	231,599
32	893	Maintenance of Meters and House Regulators	904,544	21,061	925,605
33	894	Maintenance of Other Equipment	298,911	2,253	301,164
34		Total Maintenance Expenses	<u>\$9,002,820</u>	<u>\$202,231</u>	<u>\$9,205,051</u>
35		Total Distribution Expense	<u>\$236,889,185</u>	<u>(\$215,063,724)</u>	<u>\$21,825,461</u>
Customer Accounts Expense					
36	901	Supervision	\$596,268	(\$744)	\$595,524
37	902	Meter Reading Expense	617,203	15,469	632,672
38	903	Customer Records and Collection Expense	8,015,702	(292,911)	7,722,791
39	904	Uncollectible Accounts	1,696,606	3,006,241	4,702,847
40	905	Miscellaneous Customer Accounts Expense	259,189	(79)	259,110
41		Total Customer Accounts Expenses	<u>\$11,184,968</u>	<u>\$2,727,976</u>	<u>\$13,912,944</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Distribution of Revenue and Expense Adjustments by Account No.

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					
42	907	Supervision	\$0	\$0	\$0
43	908	Customer Assistance	323,325	(414)	322,911
44	909	Informational and Instructional Advertising Exp.	49,965	0	49,965
45	910	Miscellaneous Customer Accounts Expense	9,474	0	9,474
46		Total Cust. Service and Information Exp.	<u>\$382,764</u>	<u>(\$414)</u>	<u>\$382,350</u>
Sales and Advertising Expense					
47	911	Supervision	\$153,885	(\$425)	\$153,460
48	912	Demonstrating and Selling Expenses	1,164,206	(343,309)	820,897
49	913	Advertising Expenses	0	0	0
50	916	Miscellaneous Sales Expenses	6,171	0	6,171
51		Total Sales and Advertising Expenses	<u>\$1,324,262</u>	<u>(\$343,734)</u>	<u>\$980,528</u>
Administrative and General Expense					
52	920	Administrative and General Salaries	\$2,712,673	(\$45,995)	\$2,666,678
53	921	Office Supplies and Expenses	2,826,274	112,114	2,938,388
54	922	Administrative Expenses Transferred	(429,182)	0	(429,182)
55	923	Outside Services Employed	2,120,507	9,721,466	11,841,973
56	924	Property Insurance	77,688	0	77,688
57	925	Injuries and Damages	1,755,123	(21,311)	1,733,812
58	926	Employee Pensions and Benefits	5,915,019	1,166,450	7,081,469
59	927	Franchise Requirements	0	0	0
60	928	Regulatory Commission Expense	1,476,997	112,889	1,589,886
61	930	Miscellaneous General Expenses	242,750	(24,580)	218,170
62	931	Rents	339,354	13,956	353,310
63	932	Maintenance of General Plant	161,483	1,978	163,461
64		Total Administration and General Expense	<u>\$17,198,686</u>	<u>\$11,036,967</u>	<u>\$28,235,653</u>
65		Total O & M Expense	<u>\$266,979,865</u>	<u>(\$201,642,929)</u>	<u>\$65,336,936</u>
66	403	Depreciation	21,521,313	1,119,032	22,640,345
67	404, 405	Amortization	917,423	2,422,003	3,339,426
68	431	Interest on Customer Deposits	798,690	(89,330)	709,360
69	408	Payroll Taxes	\$1,598,286	\$164,022	\$1,762,308
70	408	Property Taxes	6,378,956	237,670	6,616,626
71	408	Gross Receipts Tax	22,831,899	(22,831,899)	0
72	408	Other Taxes	290,046	17,083	307,129
73	408	Taxes Other Than Income	<u>\$31,099,187</u>	<u>(\$22,413,124)</u>	<u>\$8,686,063</u>
74		TOTAL EXPENSES	<u>\$321,316,478</u>	<u>(\$220,604,348)</u>	<u>\$100,712,130</u>
75		OPERATING INCOME BEFORE INCOME TAX	<u>\$42,023,912</u>	<u>(\$6,786,568)</u>	<u>\$35,237,344</u>
76	409,410	Income Taxes	\$8,731,689	(\$2,665,764)	\$6,065,925
77		NET OPERATING INCOME	<u>\$33,292,223</u>	<u>(\$4,120,804)</u>	<u>\$29,171,419</u>

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books (c)	Adj. GL Rev to Test Year Margin (d)	Normalize & Adj. Test Year Margin (e)	Remove Purch. Gas Cost and GRT (f)	Payroll Expense (g)	Employee Benefits (h)	Payroll Taxes (i)	Insurance (j)	Joint and Common Costs (k)	Uncollectible Expense (l)	Regulatory Commission Expense (m)	Interest on Customer Deposits (n)
OPERATING REVENUE														
1	480	Residential	\$246,006,046	(\$160,991,483)	\$6,288,246									
2	481.1	Commercial	98,899,374	(71,410,982)	2,720,676									
3	481.2	Industrial	3,163,610	(1,753,916)	24,687									
4	483	Sales for Resale	4,912	0	0									
5	487	Late Payment Charges	928,108	(47,210)	0									
6	488	Miscellaneous Service Revenue	1,220,072	(70,143)	2,072,691									
7	489	Transport	13,055,177	(4,531,157)	307,675									
8	493	Rent From Property	0											
9	495	Other Gas Revenue	63,091											
10		Total Operating Revenue	\$363,340,390	(\$238,804,891)	\$11,413,975	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE														
Operation Expense														
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856			(\$215,644,856)								
12	859	Other Joint Expense	0											
13	870	Operation, Supervision and Engineering	855,109				(6,492)							
14	871	Distribution and Load Dispatching	16,344				(378)							
15	872	Compressor Station Labor and Expense	376				(33)							
16	874	Mains and Service Expenses	2,651,679				5,035							
17	875	Distributing Regulating Station Expenses	629,828				4,908							
18	876	Measuring and Regulating - Station Expenses	764				(450)							
19	877	Measuring and Regulating - Station Expenses	2,306				(760)							
20	878	Meter and House Regulator Expenses	4,395,001				36,839							
21	879	Customer Installation Expenses	2,384,749				20,750							
22	880	Other Expenses	1,189,435				(28,188)							
23	881	Rents	116,118											
24		Total Operation Expense	\$227,886,365	\$0	\$0	(\$215,644,856)	\$31,231	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Maintenance Expense														
25	885	Maintenance Supervision and Engineering	\$531,468				(\$3,090)							
26	886	Maintenance of Structures and Improvements	197,444				846							
27	887	Maintenance of Mains	6,452,974				45,671							
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856				1,050							
29	890	Maint. of Measuring and Regulating Equipment	153,559				2,377							
30	891	Maint. of Measuring and Regulating Equipment	16,608				(458)							
31	892	Maintenance of Services	224,456				2,247							
32	893	Maintenance of Meters and House Regulators	904,544				8,059							
33	894	Maintenance of Other Equipment	298,911				(873)							
34		Total Maintenance Expenses	\$9,002,820	\$0	\$0	\$0	\$55,829	\$0	\$0	\$0	\$0	\$0	\$0	\$0
35		Total Distribution Expense	\$236,889,185	\$0	\$0	(\$215,644,856)	\$87,060	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Customer Accounts Expense														
36	901	Supervision	\$596,268				(\$4,108)							
37	902	Meter Reading Expense	617,203				3,027							
38	903	Customer Records and Collection Expense	8,015,702				(312,576)							
39	904	Uncollectible Accounts	1,696,606								3,006,241			
40	905	Miscellaneous Customer Accounts Expense	259,189				(76)							
41		Total Customer Accounts Expenses	\$11,184,968	\$0	\$0	\$0	(\$313,733)	\$0	\$0	\$0	\$3,006,241	\$0	\$0	\$0

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	Adj. GL Rev to Year Margin	H-1	H-2	H-3	H-4	H-5	H-6	H-7	H-8	H-9	H-10	H-11
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)	(m)	(n)		
Customer Service and Informational Expense															
42	907	Supervision	\$0												
43	908	Customer Assistance	323,325				(826)								
44	909	Informational and Instructional Advertising Exp.	49,965												
45	910	Miscellaneous Customer Accounts Expense	9,474												
46		Total Cust. Service and Information Exp.	\$382,764	\$0	\$0	\$0	(\$826)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Sales and Advertising Expense															
47	911	Supervision	\$153,885				(\$1,292)								
48	912	Demonstrating and Selling Expenses	1,164,206				(347,791)								
49	913	Advertising Expenses	0												
50	916	Miscellaneous Sales Expenses	6,171												
51		Total Sales and Advertising Expenses	\$1,324,262	\$0	\$0	\$0	(\$349,083)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Administrative and General Expense															
52	920	Administrative and General Salaries	\$2,712,673				(\$61,268)								
53	921	Office Supplies and Expenses	2,826,274				1,146								
54	922	Administrative Expenses Transferred	(429,182)												
55	923	Outside Services Employed	2,120,507									9,735,082			
56	924	Property Insurance	77,688								0				
57	925	Injuries and Damages	1,755,123				(308)				(20,981)				
58	926	Employee Pensions and Benefits	5,915,019					1,166,450							
59	927	Franchise Requirements	0												
60	928	Regulatory Commission Expense	1,476,997											112,889	
61	930	Miscellaneous General Expenses	242,750												
62	931	Rents	339,354												
63	932	Maintenance of General Plant	161,483				2								
64		Total Administration and General Expense	\$17,196,686	\$0	\$0	\$0	(\$60,428)	\$1,166,450	\$0	(\$20,981)	\$9,735,082	\$0	\$112,889	\$0	
65		Total O & M Expense	\$266,679,865	\$0	\$0	(\$215,644,856)	(\$637,010)	\$1,166,450	\$0	(\$20,981)	\$9,735,082	\$3,006,241	\$112,889	\$0	
66	403	Depreciation	\$21,521,313												
67	404, 405	Amortization	917,423												
68	431	Interest on Customer Deposits	798,690												(89,330)
69	408	Payroll Taxes (1****)	1,598,266							164,022					
70	408	Property Taxes (2****)	6,378,956												
71	408	Gross Receipts Tax (3300 + 4000)	22,831,899				(22,831,899)								
72	408	Other Taxes (41**)	290,046												
73	408	Taxes Other Than Income	\$31,099,187	0	0	(22,831,899)	0	0	164,022	0	0	0	0	0	0
74		TOTAL EXPENSES	\$321,316,478	\$0	\$0	(\$238,476,755)	(\$637,010)	\$1,166,450	\$164,022	(\$20,981)	\$9,735,082	\$3,006,241	\$112,889	(\$89,330)	
75		OPERATING INCOME BEFORE INCOME TAX	\$42,023,912	(\$238,804,891)	\$11,413,975	\$238,476,755	\$637,010	(\$1,166,450)	(\$164,022)	\$20,981	(\$9,735,082)	(\$3,006,241)	(\$112,889)	\$89,330	
76	409,410	Income Taxes	8,731,689												
77		NET OPERATING INCOME	33,292,223	(\$238,804,891)	\$11,413,975	\$238,476,755	\$637,010	(\$1,166,450)	(\$164,022)	\$20,981	(\$9,735,082)	(\$3,006,241)	(\$112,889)	\$89,330	

Note: per book & adjusted income tax computed on A-2

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct	Description	Test Year Per Books	Depreciation Expense	Amortization Expense	TWE Clearing	Stores Load Clearing	Paid Time Off Clearing	State Franchise Tax	Property Tax	Y2K Amortization	Office Lease Expense	Dues Expense	Incentive Compensation & Bonuses	Collection Costs
OPERATING REVENUE															
1	480	Residential	\$246,006,046												
2	481.1	Commercial	98,899,374												
3	481.2	Industrial	3,163,610												
4	483	Sales for Resale	4,912												
5	487	Late Payment Charges	928,108												
6	488	Miscellaneous Service Revenue	1,220,072												
7	489	Transport	13,055,177												
8	493	Rent From Property	0												
9	495	Other Gas Revenue	63,091												
10		Total Operating Revenue	\$363,340,390	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
OPERATING & MAINTENANCE EXPENSE															
Operation Expense															
11	804-808	Natural Gas Purchases and Expenses	\$215,644,858												
12	859	Other Joint Expense	0												
13	870	Operation, Supervision and Engineering	855,109			5,411		330						4,357	
14	871	Distribution and Load Dispatching	16,344			192		12						51	
15	872	Compressor Station Labor and Expense	376			1		0						2	
16	874	Mains and Service Expenses	2,651,679			6,669	(150)	396						1,859	
17	875	Distributing Regulating Station Expenses	629,628			7,567	(319)	465						2,522	
18	876	Measuring and Regulating - Station Expenses	764			10	0	1						0	
19	877	Measuring and Regulating - Station Expenses	2,306			23	(3)	1						1	
20	878	Meter and House Regulator Expenses	4,395,001			59,032	(739)	3,842						19,187	
21	879	Customer Installation Expenses	2,384,749			31,590	(51)	1,977						10,921	
22	880	Other Expenses	1,189,435			2,890	(118)	179						3,563	
23	881	Rents	118,118												
24		Total Operation Expense	\$227,886,365	\$0	\$0	\$113,385	(\$1,380)	\$7,203	\$0	\$0	\$0	\$0	\$0	\$42,462	\$0
Maintenance Expense															
25	885	Maintenance Supervision and Engineering	\$531,468			\$4,101	\$0	\$254						\$2,650	
26	886	Maintenance of Structures and Improvements	197,444			2,579	(50)	151						691	
27	887	Maintenance of Mains	6,452,974			80,512	(2,616)	4,935						25,762	
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856			1,860	(118)	108						930	
29	890	Maint. of Measuring and Regulating Equipment	153,559			2,468	(3)	145						674	
30	891	Maint. of Measuring and Regulating Equipment	16,608			261		16						69	
31	892	Maintenance of Services	224,466			3,738	(223)	217						1,164	
32	893	Maintenance of Meters and House Regulators	904,544			8,734	(341)	748						3,861	
33	894	Maintenance of Other Equipment	298,911			2,380	(353)	151						948	
34		Total Maintenance Expenses	\$9,002,820	\$0	\$0	\$106,633	(\$3,704)	\$6,725	\$0	\$0	\$0	\$0	\$0	\$36,748	\$0
35		Total Distribution Expense	\$236,889,185	\$0	\$0	\$220,018	(\$5,084)	\$13,928	\$0	\$0	\$0	\$0	\$0	\$79,210	\$0
Customer Accounts Expense															
36	901	Supervision	\$596,268											\$3,364	
37	902	Meter Reading Expense	617,203			9,186	0	643						2,713	
38	903	Customer Records and Collection Expense	8,015,702			15,390	(2)	932						26,159	(22,814)
39	904	Uncollectible Accounts	1,696,606												
40	905	Miscellaneous Customer Accounts Expense	259,189				(3)								
41		Total Customer Accounts Expenses	\$11,184,968	\$0	\$0	\$24,576	(\$5)	\$1,475	\$0	\$0	\$0	\$0	\$0	\$32,236	(\$22,814)

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per Books	Depreciation Expense	Amortization Expense	TWE Cleaning	Stores Load Clearing	Paid Time Off Clearing	State Franchise Tax	Property Tax	Y2K Amortization	Office Lease Expense	Dues Expense	Incentive Compensation & Bonuses	Collection Costs
Customer Service and Informational Expense															
42	907	Supervision	\$0												
43	908	Customer Assistance	323,325											412	
44	909	Informational and Instructional Advertising Exp.	49,965												
45	910	Miscellaneous Customer Accounts Expense	9,474												
46		Total Cust. Service and Information Exp.	\$382,764	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$412	\$0
Sales and Advertising Expense															
47	911	Supervision	\$153,885											\$867	
48	912	Demonstrating and Selling Expenses	1,164,206			351								4,131	
49	913	Advertising Expenses	0												
50	916	Miscellaneous Sales Expenses	6,171												
51		Total Sales and Advertising Expenses	\$1,324,262	\$0	\$0	\$351	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$4,998	\$0
Administrative and General Expense															
52	920	Administrative and General Salaries	\$2,712,673											\$15,273	
53	921	Office Supplies and Expenses	2,826,274			3,851	(76)				92,213	14,959		21	
54	922	Administrative Expenses Transferred	(429,182)												
55	923	Outside Services Employed	2,120,507												
56	924	Property Insurance	77,688												
57	925	Injuries and Damages	1,765,123				(22)							0	
58	926	Employee Pensions and Benefits	5,915,019												
59	927	Franchise Requirements	0												
60	928	Regulatory Commission Expense	1,476,997												
61	930	Miscellaneous General Expenses	242,750											(24,580)	
62	931	Rents	339,354									13,956			
63	932	Maintenance of General Plant	161,483								1,974			2	
64		Total Administration and General Expense	\$17,198,686	\$0	\$0	\$3,851	(\$98)	\$0	\$0	\$0	\$92,213	\$30,889	(\$24,580)	\$15,296	\$0
65		Total O & M Expense	\$266,979,865	\$0	\$0	\$248,796	(\$5,187)	\$15,403	\$0	\$0	\$92,213	\$30,889	(\$24,580)	\$132,152	(\$22,814)
66	403	Depreciation	\$21,521,313	\$1,119,032											
67	404, 405	Amortization	917,423		2,465,365								(43,362)		
68	431	Interest on Customer Deposits	798,690												
69	408	Payroll Taxes (1****)	1,598,286												
70	408	Property Taxes (2****)	6,378,956							237,670					
71	408	Gross Receipts Tax (3300 + 4000)	22,831,899												
72	408	Other Taxes (41**)	290,046						17,083						
73	408	Taxes Other Than Income	\$31,099,187	0	0	0	0	0	17,083	237,670	0	0	0	0	0
74		TOTAL EXPENSES	\$321,316,478	\$1,119,032	\$2,465,365	\$248,796	(\$5,187)	\$15,403	\$17,083	\$237,670	\$48,851	\$30,889	(\$24,580)	\$132,152	(\$22,814)
75		OPERATING INCOME BEFORE INCOME TAX	\$42,023,912	(\$1,119,032)	(\$2,465,365)	(\$248,796)	\$5,187	(\$15,403)	(\$17,083)	(\$237,670)	(\$48,851)	(\$30,889)	\$24,580	(\$132,152)	\$22,814
76	409,410	Income Taxes	8,731,689												
77		NET OPERATING INCOME	33,292,223	(\$1,119,032)	(\$2,465,365)	(\$248,796)	\$5,187	(\$15,403)	(\$17,083)	(\$237,670)	(\$48,851)	(\$30,889)	\$24,580	(\$132,152)	\$22,814

Note: per book & adjusted income tax computed on A-2

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct.	Description	Test Year Per	Record Non-	Remove Non-	Income Tax	Total	Test Year As
			Books	refundable Payment Bond	utility Activities	Adjustment	Adjustments	Adjusted
(a)	(b)	(c)	(aa)	(ab)	(ac)	(ad)	(ae)	
OPERATING REVENUE								
1	480	Residential	\$246,006,046				(\$154,703,237)	\$91,302,809
2	481.1	Commercial	98,899,374				(68,690,306)	30,209,068
3	481.2	Industrial	3,163,610				(1,729,229)	1,434,381
4	483	Sales for Resale	4,912				0	4,912
5	487	Late Payment Charges	928,108				(47,210)	880,898
6	488	Miscellaneous Service Revenue	1,220,072				2,002,548	3,222,620
7	489	Transport	13,055,177				(4,223,482)	8,831,695
8	493	Rent From Property	0				0	0
9	495	Other Gas Revenue	63,091				0	63,091
10		Total Operating Revenue	\$363,340,390	\$0	\$0	\$0	(\$227,390,916)	\$135,949,474
OPERATING & MAINTENANCE EXPENSE								
Operation Expense								
11	804-808	Natural Gas Purchases and Expenses	\$215,644,856	\$186,000			(\$215,458,856)	\$186,000
12	859	Other Joint Expense	0				0	0
13	870	Operation, Supervision and Engineering	855,109				3,606	858,715
14	871	Distribution and Load Dispatching	16,344				(123)	16,221
15	872	Compressor Station Labor and Expense	376				(30)	346
16	874	Mains and Service Expenses	2,651,679				13,809	2,665,488
17	875	Distributing Regulating Station Expenses	629,628				15,143	644,771
18	876	Measuring and Regulating - Station Expenses	764				(439)	325
19	877	Measuring and Regulating - Station Expenses	2,306				(738)	1,568
20	878	Meter and House Regulator Expenses	4,395,001				118,161	4,513,162
21	879	Customer Installation Expenses	2,384,749				65,187	2,449,936
22	880	Other Expenses	1,189,435				(21,674)	1,167,761
23	881	Rents	116,118				0	116,118
24		Total Operation Expense	\$227,886,365	\$186,000	\$0	\$0	(\$215,265,955)	\$12,620,410
Maintenance Expense								
25	885	Maintenance Supervision and Engineering	\$531,468				\$3,915	\$535,383
26	886	Maintenance of Structures and Improvements	197,444				4,217	201,661
27	887	Maintenance of Mains	6,452,974				154,264	6,607,238
28	889	Maint. of Measuring and Reg. Stat Equip - General	222,856				3,830	226,686
29	890	Maint. of Measuring and Regulating Equipment	153,559				5,661	159,220
30	891	Maint. of Measuring and Regulating Equipment	16,608				(112)	16,496
31	892	Maintenance of Services	224,456				7,143	231,599
32	893	Maintenance of Meters and House Regulators	904,544				21,061	925,605
33	894	Maintenance of Other Equipment	298,911				2,253	301,164
34		Total Maintenance Expenses	\$9,002,820	\$0	\$0	\$0	\$202,231	\$9,205,051
35		Total Distribution Expense	\$236,889,185	\$186,000	\$0	\$0	(\$215,063,724)	\$21,825,461
Customer Accounts Expense								
36	901	Supervision	\$596,268				(\$744)	\$595,524
37	902	Meter Reading Expense	617,203				15,469	632,672
38	903	Customer Records and Collection Expense	8,015,702				(292,911)	7,722,791
39	904	Uncollectible Accounts	1,696,606				3,006,241	4,702,847
40	905	Miscellaneous Customer Accounts Expense	259,189				(79)	259,110
41		Total Customer Accounts Expenses	\$11,184,968	\$0	\$0	\$0	\$2,727,976	\$13,912,944

Distribution of Revenue and Expense Adjustments by Account No.

Line No.	Main Acct	Description	H-24		H-25		Total Adjustments	Test Year As Adjusted
			Test Year Per Books	Record Non-refundable Payment Bond	Remove Non-utility Activities	Income Tax Adjustment		
(a)	(b)	(c)	(aa)	(ab)	(ac)	(ad)	(ae)	
Customer Service and Informational Expense								
42	907	Supervision	\$0			\$0	\$0	
43	908	Customer Assistance	323,325			(414)	322,911	
44	909	Informational and Instructional Advertising Exp.	49,965			0	49,965	
45	910	Miscellaneous Customer Accounts Expense	9,474			0	9,474	
46		Total Cust. Service and Information Exp.	<u>\$382,764</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$414)</u>	<u>\$382,350</u>
Sales and Advertising Expense								
47	911	Supervision	\$153,885			(\$425)	\$153,460	
48	912	Demonstrating and Selling Expenses	1,164,206			(343,309)	820,897	
49	913	Advertising Expenses	0			0	0	
50	916	Miscellaneous Sales Expenses	6,171			0	6,171	
51		Total Sales and Advertising Expenses	<u>\$1,324,262</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>(\$343,734)</u>	<u>\$980,528</u>
Administrative and General Expense								
52	920	Administrative and General Salaries	\$2,712,673			(\$45,995)	\$2,666,678	
53	921	Office Supplies and Expenses	2,826,274			112,114	2,938,388	
54	922	Administrative Expenses Transferred	(429,182)			0	(429,182)	
55	923	Outside Services Employed	2,120,507		(13,616)	9,721,466	11,841,973	
56	924	Property Insurance	77,688			0	77,688	
57	925	Injuries and Damages	1,755,123			(21,311)	1,733,812	
58	926	Employee Pensions and Benefits	5,815,019			1,166,450	7,081,469	
59	927	Franchise Requirements	0			0	0	
60	928	Regulatory Commission Expense	1,476,997			112,889	1,589,886	
61	930	Miscellaneous General Expenses	242,750			(24,580)	218,170	
62	931	Rents	339,354			13,956	353,310	
63	932	Maintenance of General Plant	161,483			1,978	163,461	
64		Total Administration and General Expense	<u>\$17,198,686</u>	<u>\$0</u>	<u>(\$13,616)</u>	<u>\$0</u>	<u>\$11,036,967</u>	<u>\$28,235,653</u>
65		Total O & M Expense	<u>\$266,979,865</u>	<u>\$186,000</u>	<u>(\$13,616)</u>	<u>\$0</u>	<u>(\$201,642,929)</u>	<u>\$65,336,936</u>
66	403	Depreciation	\$21,521,313			\$1,119,032	\$22,640,345	
67	404, 405	Amortization	917,423			2,422,003	3,339,426	
68	431	Interest on Customer Deposits	798,690			(89,330)	709,360	
69	408	Payroll Taxes (1***)	1,598,286			164,022	1,762,308	
70	408	Property Taxes (2***)	6,378,956			237,670	6,616,626	
71	408	Gross Receipts Tax (3300 + 4000)	22,831,899			(22,831,899)	0	
72	408	Other Taxes (41**)	290,046			17,083	307,129	
73	408	Taxes Other Than Income	\$31,099,187	0	0	0	(22,413,124)	8,686,063
74		TOTAL EXPENSES	<u>\$321,316,478</u>	<u>\$186,000</u>	<u>(\$13,616)</u>	<u>\$0</u>	<u>(\$220,604,348)</u>	<u>\$100,712,130</u>
75		OPERATING INCOME BEFORE INCOME TAX	<u>\$42,023,912</u>	<u>(\$186,000)</u>	<u>\$13,616</u>	<u>\$0</u>	<u>(\$6,786,568)</u>	<u>\$35,237,344</u>
76	409,410	Income Taxes	8,731,689			(2,665,764)	6,065,925	
Note: per book & adjusted income tax computed on A-2								
77		NET OPERATING INCOME	<u>33,292,223</u>	<u>(\$186,000)</u>	<u>\$13,616</u>	<u>\$2,665,764</u>	<u>(\$4,120,804)</u>	<u>\$29,171,419</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Adjust Test Year Revenue per Book to Test Year Margin

Line No.	Description (a)	Main Account/Revenue Class					Total (g)
		480 21 (b)	481.1 22 & 23 (c)	481.2 25 (d)	483, 489 28, 38 (e)	487, 488, 493, 495 (f)	
1	Total Revenue per Book	\$246,006,046	\$98,899,374	\$3,163,610	\$13,060,089	\$2,211,271	\$363,340,390
2	Less: GRT Revenue, Unbilled Revenue, PGA Revenue, and Miscellaneous Adjustments	(160,991,483)	(71,410,982)	(1,753,916)	(4,531,157)	(117,353)	(238,804,891)
3	Test Year Margin	<u>\$85,014,563</u>	<u>\$27,488,392</u>	<u>\$1,409,694</u>	<u>\$8,528,932</u>	<u>\$2,093,918</u>	<u>\$124,535,499</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Test Year Margin Adjustments

Line No.	Description	Main Account/Revenue Class					Total
		Residential Gas Sales	Commercial Gas Sales	Industrial Gas Sales	Transportation Revenues	Service Charges and Other	
		480 21	481.1 22 & 23	481.2 25	489, 483 38, 28	487, 488, 493, 495	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Test Year Margin	\$85,014,563	\$27,488,393	\$1,409,694	\$8,528,932	\$2,093,918	\$124,535,500
2	Weather Normalize	5,870,178	2,543,910	24,687	243,422		8,682,197
3	Customer Growth Annualization	418,068	240,849				658,917
4	Rate Switching GS to LVS (1)		(41,571)		32,412		(9,159)
5	LVS Customer Deletions		(20,056)		(17,442)		(37,498)
6	Annualize Flex Credits		(2,456)		59,404		56,948
7	Economic Development Discounts				(10,121)		(10,121)
7	Proposed Reconnect Fee Increase					2,072,691	2,072,691
8	Total Adjustments	6,288,246	2,720,676	24,687	307,675	2,072,691	11,413,975
9	As Adjusted Test Year Margin	<u>\$91,302,809</u>	<u>\$30,209,069</u>	<u>\$1,434,381</u>	<u>\$8,836,607</u>	<u>\$4,166,609</u>	<u>\$135,949,475</u>

(1) LVS customer charges are recorded in 481.1 and 481.2. The (\$41,571) adjustment is the sum of (\$87,822) in general service revenue reductions and \$46,251 added LVS customer charges. The total LVS revenue effect is \$78,663, or \$46,251 plus \$32,412.

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Remove Purchase Gas Costs and Gross Receipts Tax

Line No.	Description (a)	Amount (b)
1	Purchase Gas Costs (Accts. 804-808)	(\$215,644,856)
2	Gross Receipts Tax (Acct. 4081)	(22,831,899)
3	Total Adjustment	<u>(\$238,476,755)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Payroll Expense

Line No.	Main Acct.	Proforma Payroll Expense	Payroll Expense Per Book	Adjustment to Test Year
	(a)	(b)	(c)	(d)
1	870	\$766,856	\$773,348	(\$6,492)
2	871	8,976	9,354	(378)
3	872	299	332	(33)
4	874	327,210	322,175	5,035
5	875	443,923	439,015	4,908
6	876	0	450	(450)
7	877	149	909	(760)
8	878	3,377,343	3,340,504	36,839
9	879	1,922,301	1,901,551	20,750
10	880	612,457	640,645	(28,188)
11	885	466,384	469,474	(3,090)
12	886	121,690	120,844	846
13	887	4,534,640	4,488,969	45,671
14	889	163,628	162,578	1,050
15	890	118,626	116,249	2,377
16	891	12,089	12,547	(458)
17	892	204,916	202,669	2,247
18	893	679,532	671,473	8,059
19	894	166,892	167,765	(873)
20	901	592,160	596,268	(4,108)
21	902	477,533	474,506	3,027
22	903	4,369,382	4,681,958	(312,576)
23	905	0	76	(76)
24	908	72,499	73,325	(826)
25	911	152,593	153,885	(1,292)
26	912	727,215	1,075,006	(347,791)
27	920	2,651,404	2,712,672	(61,268)
28	921	3,619	2,473	1,146
29	925	0	308	(308)
30	932	428	426	2
31	Total	<u>\$22,974,744</u>	<u>\$23,611,754</u>	<u>(\$637,010)</u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
Twelve Months Ending June 30, 2000

Employee Benefits

Line No.	Description (a)	Amount (b)	Amount (c)
1	Pension	(\$1,802,978)	
2	Retirement Power	520,458	
3	Life & AD&D Insurance	153,095	
4	Long Term Disability Insurance	108,493	
5	Medical / Dental Benefit	4,569,846	
6	FAS 106 - Accrual	1,419,357	
7	FAS 106 - Amortization of	2,664,792	
8	401K	1,360,992	
9	COLI Amortization	315,768	
10	Supplemental Retirement	231,491	
11	Other Benefits	88,280	
12	Total Proforma Benefits	<u>\$9,629,595</u>	
13	Payroll Expense Ratio	0.735386	
14	Proforma Benefits Expense	<u>\$7,081,469</u>	\$7,081,469
15	Less Test Year Benefits Expense	(\$5,915,019)	
16	Add back payroll charged to Acct. 9260 (already deducted from proforma amounts on payroll adjustment)	0	
17	Net Test Year Benefits Expense (not deducted elsewhere)	<u>(\$5,915,019)</u>	<u>(5,915,019)</u>
18	Adjustment to Test Year Expense - Acct. 926		<u><u>\$1,166,450</u></u>

MISSOURI GAS ENERGY
A Division of Southern Union Company
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Payroll Taxes

Line No.	Description (a)	Amount (b)
1	Total Proforma Payroll Taxes	\$2,380,000
2	Payroll Taxes on Incentive Compensation Adjustment	\$13,827
3	Payroll Taxes on step/pay grade increases	<u>\$2,613</u>
4	Total Proforma Payroll Taxes	\$2,396,440
5	Payroll Expense Ratio	0.735386
6	Proforma Payroll Tax Expense	<u>\$1,762,308</u>
7	Less Test Year Payroll Tax Expense	<u>(1,598,286)</u>
8	Adjustment to Test Year Expense - Acct. 4081	<u><u>\$164,022</u></u>

MISSOURI GAS ENERGY
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Insurance - Account 924 & Account 925

Line								
No.	Description	1998	1999	2000	3 Year Avg.	925 Amount	924 Amount	Total Amount
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	MGE Claims:							
1	Workers Compensation claims paid	\$515,824	\$582,292	\$256,693	\$451,603			
2	Auto & General Liability	428,802	688,130	1,543,600	886,844			
3	Total Proforma Claims	<u>\$944,626</u>	<u>\$1,270,422</u>	<u>\$1,800,293</u>	<u>\$1,338,447</u>	\$1,338,447		\$1,338,447
4	Insurance Premiums - 924						77,688	77,688
5	Insurance Premiums - 925					1,019,692		1,019,692
6	Total Proforma Insurance Cost					\$2,358,139	\$77,688	\$2,435,827
7	Test Year Payroll Expense Ratio					0.735386	1.000000	
8	Proforma Insurance Expense					\$1,734,142	\$77,688	\$1,811,830
9	Less Test Year Insurance Expense					(1,755,123)	(77,688)	(1,832,811)
10	Adjustment to Test Year - Accts. 924 and 925					<u>(\$20,981)</u>	<u>\$0</u>	<u>(\$20,981)</u>

MISSOURI GAS ENERGY
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Joint and Common Costs

Line No.	Description (a)	Amount (b)
1	Proforma Joint and Common Costs	\$12,472,346
2	Expense Capital Ratio	<u>78.0533%</u>
3	Proforma Joint and Common Expense	<u>\$9,735,082</u>
4	Less Test Year Expense Recorded on MGE's Books	<u>0</u>
5	Adjustment to Test Year - Acct. 923	<u><u>\$9,735,082</u></u>

MISSOURI GAS ENERGY
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Uncollectible Expense

Line No.	Description (a)	Amount (b)	Amount (c)
1	Fiscal Year 1998 Charge Offs	\$6,570,665	
2	Fiscal Year 1999 Charge Offs	4,156,362	
3	Fiscal Year 2000 Charge Offs	<u>3,381,514</u>	
4	Three Year Average		\$4,702,847
5	Less Test Year Uncollectible Expense		(1,696,606)
6	Adjustment to Test Year - Acct. 904		<u><u>\$3,006,241</u></u>

MISSOURI GAS ENERGY
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Regulatory Commission Expense

Line No.	Description	Amount (b)	Amount (c)
	(a)		
1	Proforma, Current Rate Case	\$600,000	
2	Normalization Period (years)	<u>2</u>	
3	Normalization - Current Case		\$300,000
4	Normalized level of expense for depreciation study (Note 1)		\$7,006
5	Proforma NARUC Assessment - fiscal 7/1/00-6/30/01		6,198
6	Proforma MPSC Assessment - fiscal 7/1/00-6/30/01		<u>1,276,682</u>
7	Total Proforma Regulatory Commission Expense		\$1,589,886
8	Less Test Year Regulatory Commission Expense		(1,476,997)
9	Adjustment to Test Year - Acct. 928		<u><u>\$112,889</u></u>
 Note 1:			
10	Total charges from Black & Veatch for the depreciation study	\$35,030	
11	Amortization period (years)	<u>5</u>	
12	Annual amortization	<u><u>\$7,006</u></u>	

MISSOURI GAS ENERGY
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Interest on Customer Deposits

Line No.	Description (a)	Reference (b)	Residential (c)	Commercial & Industrial (d)	Amount (e)
1	Customer Deposits	B-2	\$3,545,463	\$2,679,198	\$6,224,661
2	Interest Rate		9.50%	3.50%	6.92%
3	Proforma Interest on Customer Deposits		<u>\$336,819</u>	<u>\$93,772</u>	<u>\$430,591</u>
4	Less Test Year Interest on Customer Deposits				<u>(519,921)</u>
5	Adjustment to Test Year - Acct. 431				<u><u>(\$89,330)</u></u>

MISSOURI GAS ENERGY
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Depreciation Expense								
Line No.	Description	Amount	Approved Rate	Annualized Depreciation	Proposed Rate	Proforma Total Depreciation	Less Depr. Booked to Clearing Accts.	Proforma Depreciation Expense
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
INTANGIBLE PLANT								
1	(301) Organization	\$15,600	0.00%	\$0	0.00%	\$0	\$0	\$0
2	(302) Franchises	51,046	0.00%	0	0.00%	0	0	0
3	(303) Miscellaneous Intangible	10,359,626	(see adj. H-13)	0	(see adj. H-13)	0	0	0
4	Total Intangible Plant	<u>\$10,426,272</u>		<u>\$0</u>		<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
DISTRIBUTION PLANT								
5	(374.1) Land	\$240,448	0.00%	\$0	0.00%	\$0	\$0	\$0
6	(374.2) Land Rights	991,634	2.17%	21,518	2.09%	20,725	0	20,725
7	(375.1) Structures	5,987,064	2.28%	136,505	2.01%	120,340	0	120,340
8	(375.2) Leasehold Improvements	13,965	(see adj. H-13)	0	(see adj. H-13)	0	0	0
9	(376) Mains & Mains - Cast Iron	265,339,168	1.88%	4,988,376	2.10%	5,572,123	0	5,572,123
10	(378) Meas. & Reg. Station - General	10,260,757	3.00%	307,823	3.19%	327,318	0	327,318
11	(379) Meas. & Reg. Station - City Gate	2,775,072	2.66%	73,817	2.56%	71,042	0	71,042
12	(380) Services	241,466,436	5.50%	13,280,654	4.58%	11,059,163	0	11,059,163
13	(381) Meters	27,608,278	2.05%	565,970	2.46%	679,164	0	679,164
14	(382) Meter Installations	47,892,829	2.05%	981,803	2.47%	1,182,953	0	1,182,953
15	(383) House Regulators	9,254,498	2.05%	189,717	2.27%	210,077	0	210,077
16	(385) Electronic Gas Metering	250,335	5.00%	12,517	5.00%	12,517	0	12,517
17	(387) Other Equipment	0	6.33%	0	4.60%	0	0	0
18	Total Distribution Plant	<u>\$612,080,484</u>		<u>\$20,558,700</u>		<u>\$19,255,422</u>	<u>\$0</u>	<u>\$19,255,422</u>
GENERAL PLANT - DIRECT								
19	(389) Land	\$615,659	0.00%	\$0	0.00%	\$0	\$0	\$0
20	(390.1) Structures	419,125	3.33%	13,957	2.52%	10,562	0	10,562
21	(390.2) Leasehold Impr.	1,286,799	(see adj. H-13)	0	(see adj. H-13)	0	0	0
22	(391) Furniture & Fixtures	3,012,526	3.06%	92,183	6.67%	200,935	0	200,935
23	(392) Transportation Equipment	4,470,517	10.13%	452,863	10.69%	477,898	(477,898)	0
24	(393) Stores Equipment	499,757	3.33%	16,642	4.17%	20,840	0	20,840
25	(394) Tools	4,441,648	4.00%	177,666	7.00%	310,915	0	310,915
26	(395) Laboratory Equipment	0	4.00%	0	6.00%	0	0	0
27	(396) Power Operated Equipment	586,189	6.25%	36,537	6.46%	37,868	(37,868)	0
28	(397.1) Communication Equipment - AMR	32,607,557	5.00%	1,630,378	5.00%	1,630,378	0	1,630,378
29	(397.0) Communication Equipment - Other	1,478,273	4.50%	66,522	5.59%	82,635	0	82,635
30	(398) Miscellaneous Equipment	164,059	6.25%	10,254	5.63%	9,237	0	9,237
31	Total Direct General Plant	<u>\$49,582,108</u>		<u>\$2,497,102</u>		<u>\$2,781,268</u>	<u>(\$516,766)</u>	<u>\$2,265,502</u>
GENERAL PLANT - CORPORATE								
32	(390) Structures	\$44,055	2.83%	\$1,247	2.79%	\$1,229	\$0	\$1,229
33	(390) Leasehold Impr.	0	(amortized)	0	(amortized)	0	0	0
34	(391) Furniture & Fixtures	11,024,415	10.00%	1,102,441	10.14%	1,117,876	0	1,117,876
35	(392) Transportation Equipment	14,454	12.50%	1,807	11.55%	1,669	(1,669)	0
36	(397) Communication Equipment	4,432	2.83%	125	4.75%	211	0	211
37	(398) Miscellaneous Equipment	2,675	2.83%	76	3.92%	105	0	105
38	Total Corporate General Plant	<u>\$11,090,031</u>		<u>\$1,105,696</u>		<u>\$1,121,090</u>	<u>(\$1,669)</u>	<u>\$1,119,421</u>
39	Total Proforma Plant & Depreciation	<u>\$683,178,895</u>		<u>\$24,161,498</u>		<u>\$23,157,780</u>	<u>(\$517,435)</u>	<u>\$22,640,345</u>
40	Less Depreciation Charged to Clearing A/Cs			(489,500)		(517,435)		
41	Less Test Year Depreciation Expense			(\$21,521,313)		(\$23,671,998)		(\$21,521,313)
42	Adjustment to Test Year - Acct. 403			<u>\$2,150,685</u>		<u>(\$1,031,653)</u>		<u>\$1,119,032</u>

MISSOURI GAS ENERGY
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Amortization Expense

Line No.	Description (a)	Original Cost Plant (b)	Monthly Test Year Amortization Expense (c)	Proforma Amortization Expense (d)
<u>MGE Direct Non-SLRP Amortization:</u>				
1	(375.2) Leasehold Improvements	\$13,965	\$423	\$5,078
2	(390.2) Leasehold Improvements	1,286,799	4,992	59,907
3	Sub Total	<u>\$1,300,764</u>	<u>\$5,415</u>	<u>\$64,985</u>
4	(303) Misc. Intangible - Corrosion Control Mgmt. System (4000)	\$1,117,800	\$9,555	\$114,665
5	(303) Misc. Intangible - Landbase Digitized Mapping (4500)	1,393,602	12,454	149,445
6	(303) Misc. Intangible - Premise Data System (5000)	985,196	0	0
7	(303) Misc. Intangible - AMR - Beta Phase (5500)	415,236	2,307	27,682
8	(303) Misc. Intangible - Facility Priority Index (6000)	894,795	7,465	89,583
9	(303) Misc. Intangible - Geographic Information System (6500)	1,006,719	7,191	86,296
10	(303) Misc. Intangible - Customer Service System (7000)	3,786,000	21,035	252,426
11	(303) Misc. Intangible - Licensing Office Pro2000 (7500)	54,012	450	5,401
12	(303) Misc. Intangible - Stoner Low Pressure/Intermediate Model (8000)	154,584	1,104	13,251
13	(303) Misc. Intangible - BASIC (8500)	294,516	3,005	36,063
14	(303) Misc. Intangible - TCS System (9000)	177,872	1,482	17,787
15	(303) Misc. Intangible - Geo Tax Software (9500)	79,294	661	7,929
16	Sub Total - Acct. 303	<u>\$10,359,626</u>	<u>\$66,711</u>	<u>\$800,528</u>
<u>SLRP Amortization:</u>			<u>Amort. Period</u>	
17	SLRP Deferrals Subject to Amortization	<u>\$25,172,752</u>	<u>10</u>	<u>\$2,517,275</u>
18	Pro-Forma Amortization Expense			\$3,382,788
19	Less Test Year Amortization Expense			<u>(917,423)</u>
20	Adjustment to Test Year - Accts. 404 and 405			<u>\$2,465,365</u>

MISSOURI GAS ENERGY
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Transportation and Work Equipment Clearing

Line No.	Description (a)	Proforma (b)	Test Year (c)	Adjustment (d)	Amount (e)
1	Test Year Charges into TWE Clearing Account 1841		\$4,194,652		
2	Less Test Year Amounts Cleared Out of Account 1841		<u>(4,196,471)</u>		
3	Test Year Amount Under/(Over) Cleared		<u>(\$1,819)</u>		(\$1,819)
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1841:				
		Proforma	Test Year	Adjustment	
5	Depreciation	\$517,435	\$454,338	\$63,097	
6	Lease Costs	2,076,720	1,782,037	294,683	
7	Other	1,958,277	1,958,277	0	
8	Total	<u>\$4,552,432</u>	<u>\$4,194,652</u>	<u>\$357,780</u>	357,780
9	Total Adjusted Amount Under/(Over) Cleared				<u>\$355,961</u>

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

Line No.	Main Acct.	Amount	Percentage	Amount
10	870	\$61,918	0.015200	\$5,411
11	871	2,196	0.000539	192
12	872	12	0.000003	1
13	874	76,312	0.018734	6,669
14	875	86,588	0.021257	7,567
15	876	120	0.000029	10
16	877	268	0.000066	23
17	878	675,529	0.165837	59,032
18	879	361,498	0.088745	31,590
19	880	33,067	0.008118	2,890
20	885	46,933	0.011522	4,101
21	886	29,510	0.007244	2,579
22	887	921,343	0.226182	80,512
23	889	21,287	0.005226	1,860
24	890	28,238	0.006932	2,468
25	891	2,991	0.000734	261
26	892	42,772	0.010500	3,738
27	893	99,952	0.024537	8,734
28	894	27,236	0.006686	2,380
29	902	105,118	0.025806	9,186
30	903	176,112	0.043234	15,390
31	912	4,011	0.000985	351
32	921	44,073	0.010820	3,851
33	Total Adjustment to Test Year Expense	\$2,847,084	0.698936	\$248,796
34	Balance Sheet Accounts	1,226,371	0.301064	107,167
35	Total Test Year Clearing	<u>\$4,073,455</u>	<u>1</u>	<u>\$355,963</u>

MISSOURI GAS ENERGY
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Stores Clearing

Line No.	Description	Proforma	Test Year	Adjustment	Amount
	(a)	(b)	(c)	(d)	(e)
1	Test Year Charges into Stores Account 1630		\$2,183,178		
2	Less Test Year Amounts Cleared Out of Account 1630		<u>(2,234,375)</u>		
3	Test Year Amount Under/(Over) Cleared		<u>(\$51,197)</u>		(\$51,197)
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1630:				
		Proforma	Test Year	Adjustment	
5	Other	2,183,178	2,183,178	0	
6	Total	<u>\$2,183,178</u>	<u>\$2,183,178</u>	\$0	0
7	Total Adjusted Amount Under/(Over) Cleared				<u>(\$51,197)</u>

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

	Main Acct.	Amount	Percentage	Amount
8	874	\$6,495	0.002930	(\$150)
9	875	13,797	0.006224	(319)
10	876	7	0.000003	0
11	877	144	0.000065	(3)
12	878	32,015	0.014443	(739)
13	879	2,224	0.001003	(51)
14	880	5,114	0.002307	(118)
15	885	1	0.000000	0
16	886	2,170	0.000979	(50)
17	887	113,254	0.051093	(2,616)
18	889	5,105	0.002303	(118)
19	890	125	0.000056	(3)
20	892	9,645	0.004351	(223)
21	893	14,756	0.006657	(341)
22	894	15,284	0.006895	(353)
23	902	10	0.000005	0
24	903	69	0.000031	(2)
25	905	114	0.000051	(3)
26	921	3,303	0.001490	(76)
27	925	946	0.000427	(22)
28	Total Adjustment to Test Year Expense	224,578	0.101313	(5,187)
29	Balance Sheet Accounts	1,992,030	0.898684	(46,010)
30	Total Test Year Clearing	<u>2,216,608</u>	1	<u>(51,197)</u>

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Paid Time Off Clearing

Line No.	Description (a)	Proforma (b)	Test Year (c)	Adjustment (d)	Amount (e)
1	Test Year Charges into Paid Time Off Account 1846		\$4,735,553		
2	Less Test Year Amounts Cleared Out of Account 1846		(4,713,574)		
3	Test Year Amount Under/(Over) Cleared		<u>\$21,979</u>		\$21,979
4	Plus/Minus Adjustments to Test Year Amounts Charged into Acct. 1846:				
		Proforma	Test Year	Adjustment	
5	Other	4,735,553	4,735,553	0	
6	Total	<u>\$4,735,553</u>	<u>\$4,735,553</u>	<u>\$0</u>	0
7	Total Adjusted Amount Under/(Over) Cleared				<u>\$21,979</u>

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

	Main Acct.	Amount	Percentage	Amount
8	870	\$70,643	0.015000	\$330
9	871	2,512	0.000533	12
10	872	32	0.000007	0
11	874	84,869	0.018020	396
12	875	99,660	0.021161	465
13	876	163	0.000035	1
14	877	155	0.000033	1
15	878	823,243	0.174798	3,842
16	879	423,700	0.089964	1,977
17	880	38,372	0.008147	179
18	885	54,320	0.011534	254
19	886	32,281	0.006854	151
20	887	1,057,451	0.224527	4,935
21	889	23,049	0.004894	108
22	890	31,096	0.006603	145
23	891	3,471	0.000737	16
24	892	46,556	0.009885	217
25	893	160,266	0.034029	748
26	894	32,307	0.006860	151
27	902	116,315	0.024697	543
28	903	199,693	0.042401	932
29	Total Adjustment to Test Year Expense	3,300,154	0.700719	15,403
30	Balance Sheet Accounts	1,409,530	0.299283	6,578
31	Total Test Year Clearing	<u>4,709,684</u>	<u>1</u>	<u>21,981</u>

MISSOURI GAS ENERGY
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Missouri State Franchise Tax

Line No.	Description (a)	Amount (b)
1	Proforma State Franchise Tax Expense	\$307,129
2	Less Test Year State Franchise Tax Expense	<u>(290,046)</u>
3	Adjustment to Test Year - Acct. 4081	<u><u>\$17,083</u></u>

MISSOURI GAS ENERGY
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Property Tax Expense

Line No.	Description (a)	Reference (b)	Amount (c)
1	Proforma Total Plant in Service excluding Corporate Allocated Plant	C	\$672,134,583
2	Less Intangible Plant	C	<u>(10,471,991)</u>
3	Proforma Plant, excluding Intangible Plant		\$661,662,592
4	Property tax rate		<u>1.000%</u>
5	Proforma Property Tax Expense		\$6,616,626
6	Less Test Year Property Tax Expense		<u>(6,378,956)</u>
7	Adjustment to Test Year - Acct. 4081		<u><u>\$237,670</u></u>

MISSOURI GAS ENERGY
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Y2K Amortization

Line No.	Description (a)	Amount (b)
1	Deferred Balance of MGE's Y2K Expenses	\$173,930
2	Number of Years to Amortize	<u>10</u>
3	Yearly Amortization	<u>\$17,393</u>
4	Deferred Balance of MGE's share of Corporate Y2K Expenses	\$804,200
5	Number of Years to Amortize	<u>10</u>
6	Yearly Amortization	<u>\$80,420</u>
7	Total Proforma Amortization	<u>\$97,813</u>
8	Reclassify Test Year Expense	
9	From Account 404.3	<u>(\$43,362)</u>
10	To Account 921.0	<u>\$43,362</u>
11	Less Test Year Amortization in Account 921.0	<u>(48,962)</u>
12	Adjustment to Test Year - Account 921.0	<u>\$48,851</u>

MISSOURI GAS ENERGY
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Office Lease Expense

Line No.	Description (a)	Amount (b)
1	Net Proforma Broadway and PBO Office Lease Expense	\$294,857
2	Less Test Year Broadway and PBO Office Lease Expense	<u>(280,901)</u>
3	Adjustment to Test Year - Acct. 931	<u>\$13,956</u>
4	Net Proforma Broadway Utilities, Outside Services & Supplies Expense	\$270,739
5	Less Test Year Broadway Utilities, Outside Services & Supplies Expense	<u>(255,780)</u>
6	Adjustment to Test Year - Acct. 921	<u>\$14,959</u>
7	Net Proforma Broadway Maintenance Expense	\$26,916
8	Less Test Year Broadway Maintenance Expense	<u>(24,942)</u>
9	Adjustment to Test Year - Acct. 932	<u>\$1,974</u>

MISSOURI GAS ENERGY
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Dues Expense

Line No.	Description (a)	Amount (b)
1	Remove Certain Expense from Acct. 930.2	<u>(24,580)</u>

MISSOURI GAS ENERGY
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Incentive Compensation and Bonuses

Line No.	Description (a)	Incentive Compensation (b)	Bonuses (c)	Total (d)
1	1998 Incentive and Bonus Payments	\$117,053	\$180,453	\$297,506
2	1999 Incentive and Bonus Payments	249,566	119,333	368,899
3	2000 Incentive and Bonus Payments	<u>0</u>	<u>64,406</u>	<u>64,406</u>
4	Three-Year Average	<u>\$122,206</u>	<u>\$121,397</u>	\$243,604
5	Test Year Incentive and Bonus Payments			<u>64,406</u>
6	Adjustment			179,198
7	Expense Ratio			<u>0.735386</u>
8	Amount Charged to Expense			<u>\$131,779</u>

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Customer Collection Costs

Line No.	Description (a)	Total (b)
1	Proforma Charges for Customer Collections	\$232,960
2	Less: Actual cost of collection	<u>\$255,774</u>
3	Adjustment	<u><u>(\$22,814)</u></u>

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Non-refundable Payment Bond

Line No.	Description (a)	Total (b)
1	Adjust for non-refundable payment bond to energy supplier	<u>\$186,000</u>

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Non-Utility Activity

Line No.	Description (a)	Total (b)
1	Remove non-utility activity from account 9230	<u>(\$13,616)</u>