



MISSOURI GAS ENERGY

3420 Broadway • Kansas City, MO • 64111-2404 • (816) 360-5755

ROBERT J. HACK

Vice President, Pricing & Regulatory Affairs

May 1, 2002

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
200 Madison Street, Suite 100
P.O. Box 360
Jefferson City, Missouri 65102-0360

RE: Case No. GO-2002-48, Missouri Gas Energy

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter, please find an original and eight (8) conformed copies of **Missouri Gas Energy's Response to Staff Recommendation and First Amended Application**.

A copy of this filing has been mailed or hand-delivered this date to counsel of record.

Thank you for bringing this matter to the attention of the Commission. Please call me if you have any questions regarding this matter.

Sincerely,

Robert J. Hack
by RWT

C: Thomas R. Schwarz, Jr.
Dennis L. Frey
Douglas E. Micheel
Douglas Field

Enclosures

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

In the matter of Missouri Gas Energy's)	
Application for determination of certain)	Case No. GO-2002-48
Matters pertaining to its Safety Line)	
Replacement program.)	

FIRST AMENDED APPLICATION¹

Comes now Missouri Gas Energy ("MGE"), a division of Southern Union Company, by and through counsel and for its first amended application for determination of certain matters pertaining to MGE's Safety Line Replacement Program, pursuant to 4 CSR 240-40.030(1)(J), respectfully states as follows:

I. General Matters

1. The name and address of Applicant are: Missouri Gas Energy, 3420 Broadway, Kansas City, Missouri, 64111.

2. MGE is an operating division of Southern Union Company which is duly incorporated under the laws of the State of Delaware, and conducts business in Missouri under the name of Missouri Gas Energy. The articles of incorporation of Southern Union Company have previously been provided to the Commission in Case No. GM-94-40.

3. MGE is a gas corporation and a public utility engaged in the distribution of natural gas at retail to approximately 491,000 customers in Andrew, Barry, Barton, Bates, Buchanan, Carroll, Cass, Cedar, Christian, Clay, Clinton, Cooper, Dade, Dekalb, Greene, Henry, Howard, Jackson, Jasper, Johnson, Lafayette, Lawrence, McDonald, Moniteau,

¹ Changes from the original Application are shown in red-line format with deletions struck-through and additions italicized and underscored.

Newton, Pettis, Platte, Ray, Saline, Stone and Vernon counties in Missouri, subject to the jurisdiction of the Missouri Public Service Commission ("Commission").

4. Although uncertain precisely what information the Commission seeks by 4 CSR 240-2.060(1)(K), MGE provides the following in an attempt to comply therewith. MGE is unaware of any pending action or final unsatisfied judgments or decision against MGE from any state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred since July 30, 1998. Nevertheless, since that time MGE has been involved in a number of judicial review proceedings, filed against the Commission, involving MGE's rates. The Commission itself should be aware of all such cases.

5. No annual report or assessment fees pertaining to MGE are overdue.

6. All correspondence, communications, notices, orders and decisions of the Commission with respect to this matter should be sent to:

Robert J. Hack
Vice President, Pricing
& Regulatory Affairs
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111
816/360-5755
816/360-5536
e-mail: rob.hack@southernunionco.com

II. Purpose of Filing

7. Since 1990 MGE (and its predecessor in interest) has been engaged in a substantial infrastructure replacement project know as the Safety Line Replacement Program ("SLRP"). MGE's SLRP has been undertaken pursuant to Commission rule (4 CSR 240-40.040), many of the details of which have been administered through orders in

various Commission cases (e.g., Case Nos. GO-91-277, GO-91-239, GO-91-295 and GO-99-302). MGE's SLRP has so far entailed the replacement of more than 230,000 service lines and nearly 300 miles of cast iron main lines. In the course of implementing the SLRP, MGE has made regular reports to the Commission's gas safety staff concerning the progress of the SLRP and has also, on occasion, had communications with the Commission's gas safety staff with respect to appropriate interpretation of the SLRP requirements. In virtually all such instances, MGE and the Commission's gas safety staff have been able to agree upon a course of action without the necessity of involving the Commission. Recently, however, two items have arisen with respect to SLRP implementation that MGE believes are most appropriately resolved with Commission involvement. These items are A) maintenance and replacement of farm tap service lines and B) maintenance and replacement of service lines and mains associated with master meter trailer parks. MGE will address each item in turn.

III. Specific Determinations Requested

A. Farm Tap Service Lines

8. Farm Tap Customers receive retail service directly off of the interstate pipeline system. They are typically in very rural locations and often have lengthy service lines. By and large, Farm Tap Customers were provided natural gas service as part of right-of-way agreements with the interstate pipeline company pursuant to which the pipeline company laid transmission mains on the property in question (with the service lines being installed at the customer's expense).

9. MGE provides service to approximately 600 Farm Tap Customers, primarily off of the Williams pipeline system. Apparently one or more of MGE's

predecessors in interest agreed to provide billing services for these customers at some point in the past. How, when and why is unclear to MGE at this time. MGE owns the meter, and odorant pot, the pipeline company owns the regulator, and the service or yard line is owned by the customer. In any event, MGE (as well as its predecessors in interest) has been rendering bills to these Farm Tap Customers, filling the odorant pots, reading meters, responding to service calls and leak surveying the service lines. To date, in those unusual circumstances where a leak has been found on a Farm Tap service line, MGE has typically repaired the leak and billed the customer for MGE's cost.

10. If the service lines of these Farm Tap Customers must be replaced under the SLRP, MGE estimates that it would cost approximately \$1.8 million to replace all of these service lines. According to Sheet Nos. R-33 and R-33.1 of MGE's tariff, the cost of such replacement in excess of \$450 is to be borne by the customer. In numerous instances, the customer contribution required for the replacement of these service lines would be many thousands of dollars. MGE is concerned about the impact this would have on Farm Tap Customers, particularly in light of the rural location of these facilities and the fact that the leak experience of such facilities has been good (e.g., few leaks).

11. In light of the above-described situation, MGE does not believe that the public interest, the interest of Farm Tap Customers, or the interest of the balance of MGE's customers require the replacement of all Farm Tap service lines under the SLRP. MGE also believes that clarification of retail service responsibilities for these Farm Tap Customers is in the public interest. Subject to certain conditions set forth below, including reaching an acceptable agreement with Williams and obtaining approval of the

Commission, MGE proposes the following as a reasonable way to handle the maintenance and replacement of the service lines of Farm Tap Customers:

- a. Williams Gas Pipelines-Central will provide MGE \$500,000 in exchange for which MGE will accept responsibility for providing retail service to these customers. MGE shall assume no responsibilities or obligations of any right-of-way agreements that may exist between these Farm Tap Customers and an interstate pipeline company. Nor shall MGE's acceptance of retail service responsibilities for these Farm Tap Customers impair any rights that may exist as a result of any right-of-way agreements between these Farm Tap Customers and an interstate pipeline company. ~~In the next MGE general rate proceeding initiated after MGE's receipt of this payment from Williams, MGE shall reduce rate base by recording the payment in Account 116-Other Gas Plant Adjustment which amount shall be amortized over a ten year period. No additional revenue requirement adjustment shall be made in any MGE general rate proceeding, either directly or indirectly, on account of MGE's acceptance of retail service responsibilities for these Farm Tap Customers or on account of the amount of money received from Williams therefore.~~ Consistent with past practice, MGE's provision of retail service to these Farm Tap Customers shall be treated as an "incidental" service for accounting and ratemaking purposes. MGE understands that inquiry may be made during future general rate proceedings as to whether these Farm Tap Customers are being subsidized by the balance of MGE's customer base. MGE further understands that adjustments to revenue requirement may be proposed as a result of such inquiry but does not hereby acquiesce to the reasonableness of any such future adjustment which will need to be assessed on the basis of the facts prevailing during such future proceeding.
- b. The service lines of the Farm Tap Customers need not be replaced under the SLRP. MGE will continue to leak survey these service lines annually. If a leak is found, MGE shall either replace the service line in its entirety or repair the leak on a permanent basis, at MGE's sole discretion. Such repair and replacement work need not be performed by MGE so long as it is done by a qualified individual in a manner up to MGE standards. In the event the service line is replaced in its entirety, MGE shall thereafter leak survey that service line as prescribed by 4 CSR 240-40.030.
- c. In the event that repair or replacement of a Farm Tap service line is necessary, the customer shall be responsible for the associated costs. If the customer does not agree to pay such costs or have the work done by a qualified individual in a manner up to MGE standards, MGE shall not be required to replace the Farm Tap service line and shall discontinue service. MGE will coordinate with the affected customer repair and replacement work performed on the customer-owned portion of Farm Tap Service Lines and this work will be up to MGE standards. Upon Commission approval of this First Amended Application, MGE will provide

written notice to Farm Tap Customers of the nature and resolution of this Application through the letter appended hereto as Attachment A.

B. Master Meter Trailer Parks

12. MGE and the Staff have identified approximately sixteen (16) trailer parks located within MGE's service territory where a master meter is on the property, and service is provided to individual premises through MGE-owned meters while the balance of the distribution system on the trailer park grounds (i.e., mains and services) is not owned by MGE. Some of these mains are located under trailers. MGE has been leak surveying the bulk of these distribution facilities and billing the property owner. Where hazardous leaks are found, MGE fixes the leak and bills the property owner; where non-hazardous leaks are found, MGE notifies the property owner who then contracts with a qualified entity to perform the necessary repairs. This is consistent with Sheet Nos. R-69 and R-70 of MGE's tariff.

13. In these sixteen trailer parks, MGE has identified approximately 34,000 feet of main and 646 services. It is unclear to MGE what the rules require as far as replacement of these services and mains. It is also unclear to MGE under the rules and MGE's tariff, who is required to replace these services and/or mains. MGE is unwilling to purchase these distribution systems. None of these trailer park owners have requested MGE to re-pipe their systems.

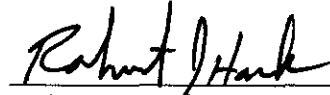
14. MGE believes the public interest would be served by clarifying the replacement requirements of services and mains in these Master Meter Trailer Park situations. Subject to certain conditions set forth below, including the approval of the Commission and an acceptable resolution of the Farm Tap issue as described above,

MGE is willing to replace the mains as well as the services in these Master Meter Trailer Park situations. It makes little sense to attach a new service to an old main; it also makes little sense for MGE to own the service and not the main to which it is attached. The terms and conditions of MGE's Master Meter Trailer Park proposal:

- a. All services and mains in the Master Meter applications would be replaced by MGE by June 30, 2006~~December 31, 2005~~. Any such replacements would be considered a part of the SLRP and the associated costs (e.g., depreciation expense, property taxes and carrying costs) would be subject to deferral pursuant to any Accounting Authority Order ("AAO") issued by the Commission for SLRP expenditures, including the AAO granted by the Commission in Case nO. GR-2001-292 in its order dated July 5, 2001. Commission approval of this paragraph 14.a. shall not be construed as requiring the commission to grant an AAO with respect to MGE's SLRP in the future or to require subsequent rate recovery of SLRP costs deferred through issuance of an AAO. All MGE capital expenditures for this work shall be included in rate base, subject to review of the reasonableness of the associated costs.
- b. Replacements will be prioritized with those distribution systems in the worst shape being replaced earlier than those distribution systems which are in better shape.
- c. Charges to the trailer park owner for the replacement of mains and services shall be in accordance with MGE's approved tariff provisions for main extensions and service replacements.
- d. MGE shall not be required to replace services or mains at a given trailer park unless the trailer park owner provides an easement satisfactory to MGE for the purpose of installing the facilities in question.
- e. In the event that the trailer park owner does not permit the replacement work to be done according to schedule (by refusing access to MGE, by refusing to pay the necessary charges or by refusing to provide satisfactory easement), MGE shall disconnect service to that trailer park. Prior to such disconnection, MGE shall provide notice, by hangtag or posting in a conspicuous place, to the trailer park owner and the residents of the trailer park. Upon Commission approval of this First Amended Application, MGE will provide written notice to affected Master Meter Trailer Park owners and residents of the nature and resolution of this Application through the letter appended hereto as Attachment B.
- f. Until the distribution system is replaced, the current method of leak surveying and leak repair would continue for the Master Meter Trailer Parks.

Wherefore, MGE respectfully request that the Commission issue its order approving the provisions of paragraphs 11 and 14 of this First Amended Application.

Respectfully submitted,



Robert J. Hack MBE #36496

3420 Broadway

Kansas City, MO 64111

(816)360-5755

FAX: (816)360-5536

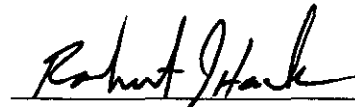
e-mail: rob.hack@southernunionco.com

ATTORNEY FOR MISSOURI
GAS ENERGY

VERIFICATION

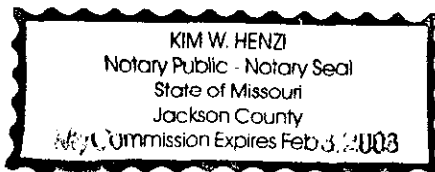
STATE OF MISSOURI)
) ss
COUNTY OF JACKSON)

I, Robert J. Hack, having been duly sworn upon my oath, state that I am Vice President, Pricing & Regulatory Affairs for Missouri Gas Energy, that I also serve as an attorney for Missouri Gas Energy, that I am duly authorized to make this verification on behalf of Missouri Gas Energy ("MGE") and that the matters set forth in the foregoing First Amended Application are true and correct to the best of my information, knowledge and belief.

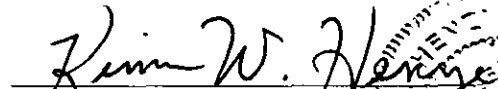


Robert J. Hack

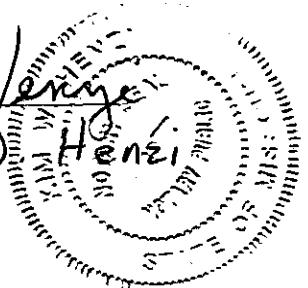
Subscribed and sworn before me this 1st day of MAY, 2002.



Feb. 3, 2003



Notary Public Kim W. Henzi



CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered
this 1st day of May, 2002, to:

Dennis L. Frey
Missouri Public Service Commission
P.O. Box 360
Jefferson City, MO 65102

Douglas E. Micheel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Douglas Field
Senior Counsel
Williams Gas Pipeline-Central
P.O. Box 20008
3800 Frederica St.
Owensboro, KY 42304
270/926-8686
270/683-5835



Dear Farm Tap Customer,

The Missouri Public Service Commission ("Commission") has recently approved Missouri Gas Energy's request for clarification of retail service responsibilities and applicability of Safety Line Replacement Program ("SLRP") requirements to Farm Tap Customers served from Williams Natural Gas Company's transmission pipeline. This clarification is not reflected in any change to your original agreement with Williams to provide you with a natural gas farm tap service. This clarification intends to formally recognize a service agreement between MGE and Williams. Simply put, you will probably notice no change to your current retail billing services. The conditions under which the approval for these matters was granted are as follows:

- a. MGE will accept responsibility for providing certain retail services to the Farm Tap Customers. MGE shall assume no responsibilities or obligations of any right-of-way agreements that may exist between these Farm Tap Customers and an interstate pipeline company. Nor shall MGE's acceptance of retail service responsibilities for these Farm Tap Customers impair any rights that may exist as a result of any right-of-way agreements between these Farm Tap Customers and an interstate pipeline company.
- b. The service lines of the Farm Tap Customers need not be replaced under the SLRP. MGE will continue to leak survey these service lines annually. If a leak is found, MGE shall either replace the service line in its entirety or repair the leak on a permanent basis, at MGE's sole discretion. Such repair and replacement work need not be performed by MGE so long as it is done by a qualified individual in a manner up to MGE standards. In the event the service line is replaced in its entirety, MGE shall thereafter leak survey that service line as prescribed by state law.
- c. In the event that repair or replacement of a Farm Tap service line is necessary, the customer shall be responsible for the associated costs. If the customer does not agree to pay such costs or have the work done by a qualified individual in a manner up to MGE standards, MGE shall not be required to replace the Farm Tap service line and shall discontinue service. Discontinuing service, in this situation, is for your safety. MGE will coordinate with the affected customer repair and replacement work performed on the customer-owned portion of Farm Tap Service Lines and this work will be up to MGE standards.

These clarifications, which should be mostly unnoticed by you, are being made to your benefit. If MGE were to be required to replace your service lines under the SLRP, MGE estimates that it would cost approximately \$1.8 million to replace all of these service lines, with \$1.5 million being paid directly by the farm tap customers. In numerous instances, the customer contribution required for the replacement of these service lines would be many thousands of dollars. MGE is concerned about the impact this would have on you, particularly in light of the rural location of your facilities and the fact that the leak experience of such facilities has been good (e.g., few leaks).

If you have any questions at all pertaining to this letter or how it affects you, please do not hesitate to call me at (816)-360-5560.

Sincerely,

Michael R. Noack
Manager of Pricing & Regulatory Affairs

ATTACHMENT A

Dear Master Meter Trailer Park Owner and/or Resident,

The Missouri Public Service Commission ("Commission") has recently approved Missouri Gas Energy's request for clarification of the replacement requirements of services and mains in master meter complexes such as yours. A master meter complex is typically a mobile home or apartment complex that originally had one gas meter that served the whole complex. Some of these now have additional meters at each residence but the services and mains (the pipelines in the ground) are still owned by the master meter complex owner. The Commission requires master meter systems to be operated in accordance with its pipeline safety regulations. MGE, therefore, is willing to replace the mains as well as the services in these master meter complexes. It makes little sense to attach a new service to an old main; it also makes little sense for MGE to own the service and not the main to which it is attached. After such replacements, MGE will operate and service these new pipeline facilities in accordance with applicable federal and state pipeline safety requirements. The terms and conditions approved by the Commission include the following:

- a. All services and mains in the master meter complex applications would be replaced by MGE by June 30, 2006.
- b. Replacements will be prioritized with those distribution systems in the worst shape being replaced earlier than those distribution systems which are in better shape.
- c. Charges to the master meter complex owner for the replacement of mains and services shall be in accordance with MGE's approved tariff provisions for main extensions and service replacements. MGE will be contacting each master meter complex owner in the near future with an estimate. Preliminary MGE estimates indicate that in many situations, there could be no cost to the owner.
- d. MGE shall not be required to replace services or mains at a given master meter complex unless the owner provides an easement satisfactory to MGE for the purpose of installing the facilities in question.
- e. In the event that the master meter complex owner does not permit the replacement work to be done according to schedule (by refusing access to MGE, by refusing to pay the necessary charges or by refusing to provide satisfactory easement), MGE shall disconnect service to that master meter complex in accordance with its approved tariffs. Prior to such disconnection, MGE shall provide notice, by hangtag or posting in a conspicuous place, to the master meter complex owner and the residents of the complex.
- f. Until the distribution system is replaced, the current method of leak surveying and leak repair will continue for the master meter complex.

These changes are being made for your benefit and the safety of the master meter complexes. If you have any questions at all pertaining to this letter or how it affects you, please do not hesitate to call me at (816)-360-5560.

Sincerely,

Michael R. Noack
Manager of Pricing & Regulatory Affairs

ATTACHMENT B