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September 27, 2000

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

RE: Case No. GR-2000-512

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF'S EXPLANATORY MEMORANDUM**.

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

Thank you for your attention to this matter.

Sincerely yours,

Cliff E. Snodgrass
Senior Counsel
(573) 751-3966
(573) 751-9285 (Fax)

CES:sw
Enclosure
cc: Counsel of Record

FILED³

SEP 27 2000

Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

SEP 27 2000

Missouri Public
Service Commission

In the Matter of Union Electric Company)
d/b/a AmerenUE for Authority to File)
Tariffs Increasing Rates for Gas Service)
Provided to Customers in the Company's)
Missouri Service Area.)

Case No. GR-2000-512

STAFF EXPLANATORY MEMORANDUM

COMES NOW the Staff of the Missouri Public Service Commission (Staff), by and through its attorneys, and for its Explanatory Memorandum outlining the Staff's rationale for entering into the Unanimous Stipulation and Agreement filed in this case, states as follows:

1. On September 19, 2000, the parties to this case, which included the Staff, the Office of Public Counsel (OPC), the Missouri Department of Natural Resources (DNR) and Union Electric Company d/b/a AmerenUE (Company) filed a Unanimous Stipulation and Agreement (Agreement) proposing to dispose of all the issues in this case.

2. The Staff is filing this Explanatory Memorandum pursuant to an Order of the Missouri Public Service Commission (Commission) entered on September 21, 2000. In that Order, the Commission cited a provision of the Agreement that requires the Staff to submit a memorandum to the Commission explaining the Staff's basis for entering into the Agreement.

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Introduction

In the discussions that follow, the Staff will summarize several major areas that form a part of the Agreement in this case. These summaries reflect *the Staff's viewpoint only* on the matters discussed.

Return on Equity

In this case, Staff proposed a range for the return on equity of 10.0 percent to 10.5 percent. Although the parties to this Agreement did not agree to a specific return on equity, the Staff views the dollar settlement of \$4.2 million to imply a return on equity within the range proposed by Staff. Therefore, Staff supports this Agreement with regard to the issue of return on equity.

Rate Design, Cost Shifts and Tariffs

All customer classes received similar increases in their marginal rates. Although there were minimal shifts in revenues between the classes, the rate increase for each class was within one (1) percent of the total increase of the Company's revenues recommended by the parties in the Agreement. The increase for a typical residential customer using 1200 ccfs per year is \$3.00 (three dollars) per month. In its original proposal, the Company calculated an increase of \$10.00 (ten dollars) per month for a typical residential customer. The recommendation in this Agreement is considerably less than the Company's originally filed position on these issues.

The Company's residential customer charge had remained constant for over ten years at \$6.10 per month until February of 1998. The customer charge increased in February of 1998 to \$8.00 per month. The parties have agreed to increase this charge from \$8.00 to \$9.00 per month in the context of this rate case. The \$9.00 proposed residential customer charge reflects extensive negotiations between the parties and is representative of the costs for this class. The

\$9.00 charge is considerably less than the \$14.00 to \$15.00 range originally requested by the Company. This proposed residential customer charge is in line with MGE's and is considerably less than Laclede Gas Company.

There are additional tariff changes primarily in the charges for electronic metering for transportation customers. These proposed changes to the transportation tariffs reflect the deletion of a one time \$4,800.00 charge and establishes a monthly fee of \$21.00 per month.

Gas Supply Incentive Plan

For settlement purposes, the Company adopted the Staff's position that the gas supply incentive plan (GSIP) be continued in its present form. The Company, in its pre-filed testimony, requested a changed GSIP plan that mirrored a historical GSIP that had been approved in connection with the Laclede Gas Company. As a result of the Company's concession on this issue, the Staff increased its previously recommended total revenue requirement. (The increase in revenue requirement will be discussed in another section of this Memorandum.)

Weatherization Program

The parties agreed to continue the weatherization program until the next rate case, and that the Company would annually fund \$125,000.00 for this program. The details of program administration will be determined by a collaborative process among the parties to this case. The program basically allows certain AmerenUE customers to receive no-cost weatherization services and energy audits.

Revenue Adjustment Explanations

Weather Normalization

Staff agreed to calculate normal weather based upon the most current 30 year period. This was a departure from the Staff's filed position indicating that the 30 year period should end in 1990. Staff felt that so long as a 30-year normalization period was utilized, no appreciable diminution of Staff's position occurred by adjusting the 30 year calculation forward. This revision increased the Staff's revenue requirement by \$204,000.

Customer Levels

Staff modified its revenue annualization to only include customers which the Company had previously served. This modification increased the Staff's revenue requirement by approximately \$90,000.

Customer Switching

The Staff, during the investigatory process, discovered that the load for a large customer served by the Company had not been recognized in Staff's calculations. This adjustment increased the Staff's revenue requirement by \$15,000.

Special Contract

The Staff agreed to change the rate applicable to a special contract customer. In exchange for this concession, the Company agreed to charge this rate for all future cases until the contract expires. The change in the rate increased the Staff's revenue requirement by approximately \$49,000.

Expense Adjustments

Incentive Compensation

The Staff discovered that it had "double counted" the incentive compensation adjustment. For purposes of settlement, the Staff agreed to split the remaining adjustment.

OPC Adjustment

The Company agreed to adopt the OPC's adjustment for Generation Strategy and Planning Projects. This modification decreases the Staff's revenue requirement by \$55,000.

Rate Case Expense

The Staff agreed to increase rate case expense to include the costs associated with the additional customer mailing for the rate case, recoverable over a three year period. This adjustment increased the Staff's revenue requirement by \$12,000.

Merger Cost Amortization

The Staff agreed to recognize the amortization for the merger costs of Union Electric and CIPS. This amortization increases the Staff's revenue requirement by \$148,000.

Deferred Income Taxes

The Staff agreed to update the deferred tax balance to April 30, 2000. This update was consistent with other aspects of the Staff's case, and it increased the Staff's revenue requirement by \$44,000.

Weatherization Program

Weatherization was discussed earlier in this Memorandum.

Adjusted Total Revenue Requirement

After the Staff filed its direct testimony and during the pre-hearing conference, the parties exchanged information and discussed several issues. As a result of these discussions, the Staff's recommended revenue requirement moved upwards from its filed position. Listed below are the areas the Staff believes were changed to show the amount reflected in the Agreement filed in this case. These areas were discussed previously in this Memorandum.


Staff Recommended revenue requirement at 10.50% rate of return	\$2,894,000
Revenue Adjustments	
Weather Normalization (30 year roll up)	204,000
Customer Levels (methodology modified)	90,000
Customers Switching (increase of customer load)	15,000
Special Contract (price range)	<u>49,000</u>
Total Revenue Adjustments	358,000
Expense Adjustments	
Incentive Compensation (Double counting and splitting remaining adjustment)	\$336,000
OPC Adjustment	<55,000>
Additional Rate Case Expense	12,000
Merger Costs Amortization	148,000
Deferred Income Taxes (update to April 30, 2000)	44,000
Weatherization Program	<u>125,000</u>
Total Expense	\$610,000
Adjusted Revenue Requirement	\$3,862,000
	<u>338,000</u>
	\$4,200,000

The additional revenue requirement of \$338,000 can be attributed to the concession the Company made regarding continuing the GSIP instead of adopting the Laclede Gas Company GSIP. The Staff believes this position benefits the ratepayers more than implementing a GSIP similar to the Laclede Gas Company GSIP. The settlement amount of \$4,200,000 in revenue requirement for this rate case represents a significant and considerable departure from the \$12,000,000 amount originally sought by the Company. Staff believes this Agreement represents a reasonable settlement for all the parties and is in the public interest.

WHEREFORE, the Staff respectfully requests that the Commission issue an Order approving the Stipulation and Agreement filed in this matter.

Respectfully submitted,

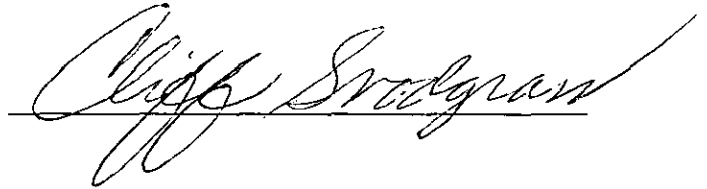
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 27th day of September, 2000.



**Service List for
Case No. GR-2000-512
Revised: September 27, 2000 (SW)**

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