BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

Case No. GO-85-264

In the matter of the investigation of developments in the transportation of natural gas and their relevance to the regulation of natural gas corporations in Missouri.

ERRATUM

The Commission's Report And Order in the above-captioned matter, issued on September 18, 1986, does not contain therein the date of issuance. The Commission therefore hereby corrects its Report And Order by adding, on page 16, below the record of the Commission vote on the matter, the following:

"Dated at Jefferson City, Missouri,
on this 18th day of September, 1986."

BY THE COMMISSION

Harvey G. Hubbs

Harvey G. Hubbs
Secretary

Dated at Jefferson City, Missouri,
on this 19th day of September, 1986.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

Case No. GO-85-264

In the matter of the investigation of developments in the transportation of natural gas and their relevance to the regulation of natural gas corporations in Missouri.

APPEARANCES: Michael C. Pendergast, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

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Richard S. Brownlee, III, Attorney at Law, Post Office Box 1069, Jefferson City, Missouri 65102, for Noranda Aluminum, Inc., and Northwest Central Pipeline Corporation.

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Stuart W. Conrad, Attorney at Law, and W.H. Bates, Attorney at Law, 2345 Grand Avenue, 2600 Mutual Benefit Life Building, Kansas City, Missouri 64108, for: National By-Products, Inc.; Midwest Gas Users Association; and Armco Inc.

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Gary W. Duffy, Attorney at Law, Post Office Box 456, Jefferson City, Missouri 65102, for: Arkla Energy Resources; Great River Gas Company; Rich Hill-Hume Gas Company, Inc.; St. Joseph Light and Power Company; Commercial Pipeline Company, Inc.; Missouri Valley Natural Gas Company (formerly Peoples Natural Gas Company); Associated Natural Gas Company; Bowking Green Gas Company; and Osage Natural Gas Company.

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and

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William L. Rowberry, Counsel, United States Department of Energy, 2000 East 95th Street, Post Office Box 202, Kansas City, Missouri 64101, for the United States Department of Energy.

Curtis G. Hanrahan, Assistant Public Counsel, Office of Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of Public Counsel and the public.

REPORT AND ORDER

The Commission established the instant docket by order dated June 13, 1985, for the purpose of investigating developments in the natural gas transportation industry and their relevance to the regulation of natural gas companies in Missouri. The Commission granted applications to intervene from various parties in orders issued September 4 and November 1, 1985. In its September 4, 1985, order, the Commission scheduled a December 2, 1985, conference for the purpose of providing interested parties with an opportunity to discuss and submit recommendations regarding pertinent issues and proposed avenues of proceedings within this docket. As a result of the conference and subsequent discussions, a Joint Recommendation by many of the intervening parties was submitted to and ultimately adopted by the Commission. The Joint Recommendation suggested the development of a task force to compile a report of developments and information relevant to the instant case. The task force report was submitted on May 5, 1986. Individual comments, legal memoranda and recommendations were filed by various parties June 9 through June 13, 1986. On July 23, 1986, various parties filed a Joint Recommendation on the gas transportation issue. On July 25, 1986, responsive comments to the previous filings were submitted.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

Since the Joint Recommendation adequately sets forth the procedural and factual matters in this case, it is hereinafter set forth in its entirety.

JOINT RECOMMENDATION

I. Procedural History

By Order dated June 13, 1985, the Commission established the above-captioned proceeding for the purpose of investigating developments in the natural gas transportation industry and their relevance to the regulation of natural gas companies in Missouri. Among the developments which prompted this investigation were the invalidation of the Federal Energy Regulatory Commission's (FERC's) Special Marketing Programs and blanket certificate program by the United States Court of Appeals for the District of Columbia Circuit, See Maryland People's Counsel v. Federal Energy Regulatory Commission, 761 F.2d 768 (1985), and the initiation by FERC of a rulemaking proceeding which proposed to establish a new regulatory framework under which natural gas transactions, including gas transportation arrangements, would be conducted at the federal level. See e.g. Regulation of Natural Gas Pipeline After Partial Wellhead Decontrol, Docket No. RM85-1-000 (Part A-D). The investigation was also prompted by the continuing emergence of various requests for Commission approval of voluntary and mandatory transportation service arrangements at the state level.

By Orders dated September 4, 1985 and November 1, 1985 the Commission granted the following parties leave to intervene in this proceeding: Midland Brick & Tile Co.; St. Joseph Light & Power Company; Union Electric Company; Peoples Natural Gas Company; Associated Natural Gas Company; Noranda Aluminum, Inc.; Laclede Gas Company; UtiliCorp United Inc., d/b/a Missouri Public Service; National By-Products, Inc.; The Kansas Power and Light Company; The Carnation Company; Archer-Daniels-Midland Company; Ford Motor Company; General Motors Corporation; McDonnell Douglas Corporation; Monsanto Company; Anheuser-Busch, Inc.; Northwest Central Pipeline Corporation; Midwest Gas Users Association; Armco Inc.; Arkla Energy Resources; Great River Gas Company; Ralston Purina Company; Mississippi River Transmission Corporation; Rich Hill-Hume Gas Company, Inc.; Commercial Pipeline Company, Inc.; American Cyanamid Company; ANR Pipeline Company; and the United States Department of Energy.

In its September 4, 1985 Order, the Commission also scheduled a December 2, 1985 conference for the purpose of providing interested parties with an opportunity to discuss and

submit recommendations regarding: 1) the specific scope of the proceedings, including a delineation of those issues and considerations which various parties believe should be addressed in the proceeding; 2) the various procedural avenues which should ultimately be used to address issues raised in the proceeding, including a consideration of which issues are best addressed through rulemaking procedures, generic hearings, or specific rate case hearings; and 3) an appropriate schedule of proceedings for addressing the issues raised by the parties.

As a result of this conference and subsequent discussions, a Joint Recommendation was submitted to the Commission on February 11, 1986 on behalf of the Staff of the Missouri Public Service Commission; Union Electric Company; Laclede Gas Company; The Kansas Power and Light Company; Office of the Public Counsel; U.S. Department of Energy; Midwest Gas Users Association; Armco, Inc.; Ford Motor Company; General Motors Corporation; McDonnell Douglas Corporation; Monsanto Company; and the Carnation Company. UtiliCorp United Inc. d/b/a Missouri Public Service also concurred in the Joint Recommendation by subsequent letter. In the Joint Recommendation, the parties proposed that the Commission authorize the establishment of a task force for the purpose of compiling a comprehensive, factual report of developments and information relevant to the matters under consideration in this proceeding. More specifically, the parties recommended that the task force report include: a survey of the actions undertaken by other jurisdictions as they pertain to gas transportation and other related issues; an assessment of the status of developments at the federal level which may alter the regulatory framework under which natural gas transactions are conducted, and a summary of the operational components and characteristics of Missouri local distribution companies. The Joint Recommendation also proposed filing dates for 1) the submission of the task force report; 2) the submission of legal memoranda on various issues; and 3) the filing of individual recommendations and proposals regarding the specific relief which the Commission should grant in this proceeding.

In addition to the Joint Recommendation, individual comments were also filed by Noranda Aluminum, Inc., and ANR Pipeline Company on February 4, 1986 and February 11, 1986, respectively.

On February 28, 1986, the Commission issued its Order Adopting Joint Recommendation, wherein the Commission approved the various proposals set forth in the February 11, 1986 Joint Recommendation.

On May 5, 1986, the Task Force Report was submitted to the Commission. Thereafter, on June 9 through June 13, 1986, individual comments, legal memoranda and recommendations were filed by various parties.

Since the filing of the Task Force Report, the active parties to this case have met on several occasions in order to explore the possibility of reaching agreement on the various issues raised in this proceeding. The most recent meetings in

this continuing endeavor were held on June 25, 1986 and July 16, 1986. All parties to this case were notified of these meetings and all of the active parties participated therein.

As a result of these meetings, certain agreements have been reached among and between all parties who have actively participated in the negotiation process. Accordingly, the undersigned parties submit the following agreements and recommendations to the Commission for its consideration and approval.

II. Agreements and Recommendations

1

Although the parties to this Joint Recommendation have differing positions regarding the rates, terms and conditions under which transportation services should be provided, the parties have attempted to devise mutually acceptable guidelines to govern the provision of transportation services in Missouri on an interim basis. The results of this effort are reflected in Appendix A to this Joint Recommendation which is incorporated by reference herein. The parties respectfully recommend that the Commission adopt the interim transportation guidelines set forth in Appendix A as a transitional framework under which transportation services should be provided by those local distribution companies subject to the Commission's jurisdiction.

2

Pursuant to the interim transportation guidelines recommended herein, Bowling Green Gas Company, Laclede Gas Company, UtiliCorp United Inc. d/b/a Missouri Public Service (for its Southern System), Missouri Valley Natural Gas Company, Osage Natural Gas Company, and Rich Hill-Hume Gas Company, Inc., shall be exempted from filing initial transportation tariffs at this time because they fall within one or more of the exceptions delineated on page one of Appendix A. Said exemptions shall be subject to the provisions of paragraph 4.

3

Pursuant to the interim transportation guidelines recommended herein, Great River Gas Company, the Kansas Power and Light Company, UtiliCorp United Inc. d/b/a Missouri Public Service (for its Northern System), St. Joseph Light & Power Company and Union Electric Company shall be exempted from filing new transportation tariffs at this time because they fall within one or more of the exceptions delineated on page one of Appendix A. Associated Natural Gas Company shall be exempted from filing new transportation tariffs only until the conclusion of its pending rate case proceeding, Case No. GR-86-86. Said exemptions shall be subject to the provisions of paragraph 4.

4

Within ten (10) days of the effective date of the Commission Order approving this Joint Recommendation, each of the local distribution companies referenced in paragraphs 2 and 3 shall file an original affidavit and two copies with the Commission specifying those facts and circumstances under which the local distribution company claims one or more of the exceptions delineated on page one of Appendix A. Copies of said affidavit shall be sent to all parties of record in this proceeding or their representatives. In addition, each of the local distribution companies referenced in paragraphs 2 and 3 expressly agrees to notify the Commission and the above-referenced parties in the event there are any changes in the facts or circumstances under which any exception is claimed. Such notification shall state whether the changed facts or circumstances eliminate or add to any of the claimed exceptions. Such notification shall be filed with the Commission within ten (10) days of the date the local distribution company becomes aware of the changed facts and circumstances. If the Staff, Office of Public Counsel or any customer or potential customer objects to the claim by the local distribution company of entitlement to any of the exceptions they shall, within fifteen (15) days, file a complaint with the Commission. The local distribution company shall not be required to file an answer to said complaint, and the affidavit(s) and the complaint shall frame the issues to be heard by the Commission. Such complaint proceeding shall be conducted on an expedited basis. In such proceeding the local distribution company shall bear the burden of proof that it is entitled to the claimed exception.

5

Each of the local distribution companies referenced in paragraphs 2 and 3 further agrees to file transportation tariffs with the Commission within thirty (30) days of the date the local distribution company notifies the Commission that all of the exceptions delineated on page one of Appendix A have been eliminated. Said tariffs shall be designed in a manner which is consistent with the general terms and conditions set forth in the interim transportation guidelines. For good cause shown, the local distribution company and other parties may propose reasonable additions to or modifications in the local distribution company's initial transportation offering so long as such additions or modifications are not inconsistent with the general principles underlying these interim transportation guidelines.

6

The interim transportation guidelines recommended herein shall remain in effect until modified by the Commission in a subsequent generic transportation proceeding; provided, however, that utility-specific deviations from the guidelines may be considered and approved by the Commission in individual rate case proceedings or permanent transportation service filings so long

as the resulting transportation arrangement is just and reasonable.

7

Nothing herein shall be construed as precluding the Staff, the Office of Public Counsel, or a customer or potential customer of a local distribution company from exercising the right to file a complaint regarding a local distribution company's compliance with the requirements set forth in this Joint Recommendation.

8

None of the parties to this Joint Recommendation shall be deemed to have approved or acquiesced in any question of Commission authority, ratemaking principle, value methodology, method of cost of service determination, rate design methodology, or cost allocation underlying any of the interim guidelines provided for in this Joint Recommendation.

9

The Staff shall have the right to submit to the Commission, in memorandum form, an explanation of its rationale for entering into the Joint Recommendation and to provide to the Commission whatever further explanation the Commission requests, and such memorandum shall not become a part of the record of this proceeding and shall not bind or prejudice the Staff in any future proceeding or in this proceeding in the event the Commission does not approve the Joint Recommendation. It is understood by the parties hereto that any rationale advanced by the Staff in such a memorandum are its own and are not acquiesced in or otherwise adopted by such other parties.

10

None of the parties to this Joint Recommendation shall be prejudiced, bound by, or in any way affected by, the terms of this Joint Recommendation in the event the Commission does not approve this Joint Recommendation in this proceeding.

11

In the event the Commission accepts the specific terms of this Joint Recommendation, the parties waive their respective rights to judicial review, pursuant to Section 386.510 RSMo 1978, with respect to all matters addressed in this Joint Recommendation. Said waiver applies only to judicial review of a Commission Order issued in this proceeding and does not apply to any matters raised in any subsequent Commission proceeding or to any matters not explicitly addressed by the Joint Recommendation.

Upon the Commission's approval of this Joint Recommendation and its resolution of the other matters raised in this proceeding, the Commission shall issue an Order closing this docket.

Respectfully submitted,

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APPENDIX A
TO JOINT RECOMMENDATION

INTERIM TRANSPORTATION GUIDELINES

I. Requirement To Provide Transportation Service

A. Exceptions

In the event the Commission determines that local distribution companies should be required to file tariffs authorizing the provision of natural gas transportation service, such a requirement should not be applied to any local distribution company which demonstrates the existence of one of the following conditions:

1. that the local distribution company cannot provide transportation service to its customers because its pipeline supplier(s) has refused or is without requisite authorization to make transportation service available to local distribution companies or other end users.

2. that the local distribution company has received no written request for transportation service from any customer not already served under an approved transportation tariff, who would be eligible to receive such service under the criteria and standards set forth in Section II.B of these guidelines. Customers served under a pre-existing transportation tariff may request that transportation service be provided under the criteria and standards set forth in these guidelines.

3. that it is not practically feasible to design and implement a transportation service arrangement which (a) conforms to the criteria and standards set forth in Section II of these guidelines or which (b) prevents any increases in gas or non-gas costs to non-transporting customers arising from the provision of such service.

B. Continuing Obligation to Inform

Any local distribution company which satisfies one or more of the above exceptions should have a continuing obligation to inform the Commission of any changed circumstances which would eliminate the claimed exceptions.

II. Criteria And Standards Governing Provision Of Transportation Service

Any transportation service arrangement, whether filed on a voluntary basis or pursuant to an order or rule of the Commission requiring the provision of such service, shall conform to the following criteria and standards.

A. Tariff Requirement

Whenever a local distribution company offers transportation service, it should be required to file a tariff which reflects the service offering and the broad terms and conditions under which the service will be made available.

B. Availability

1. The local distribution company should make transportation service available to all customers on a non-discriminatory basis to the extent such service is available and can be offered under its pipeline suppliers' federally authorized transportation arrangements and sales contracts, provided that the local distribution company may establish reasonable minimum volume eligibility requirements based on a consideration of the transaction and administrative costs associated with providing transportation service to customers with varying usage levels.

2. Transportation should be made available on both a firm and interruptible basis to the extent firm and interruptible services are offered on a sales basis and to the extent capacity limitations on the local distribution company's system justify the offering of different qualities of service.

3. Transportation service should be made available upon request when the local distribution company has sufficient distribution capacity. Where a customer seeks to convert existing sales volumes to transportation, the local distribution company should be presumed to have sufficient capacity to provide that transportation service. The local distribution company should separately determine the availability of capacity during on and off peak periods.

4. If a local distribution company determines that it does not have sufficient distribution capacity to provide the requested service it should, within 10 days of receiving a request for transportation, provide to the customer requesting transportation a written explanation of its capacity determination and at least a preliminary indication of changes to facilities, approximate cost and time required to provide the requested transportation.

C. Duration of Transportation Arrangement

1. The duration of any transportation arrangements should be subject to individual negotiations between the local distribution company and the customer requesting transportation service, provided that:

(a) the duration is sufficient in length to permit the local distribution company to reasonably factor the arrangement into its gas procurement plans;

(b) irrespective of the duration of any transportation arrangement, the transportation service contract specifies that the rates and charges associated with the transportation arrangement are subject to modification upon the filing and approval by the Commission of any tariff which supersedes the rates, charges and terms currently applicable to the transportation arrangement.

(c) the local distribution company may include reasonable duration requirements or limitations in its transportation tariffs.

2. In the event the local distribution company does not include duration requirements or limitations in its transportation tariffs and a dispute arises between the local distribution company and a customer regarding the appropriate duration for a particular transportation arrangement, such disputes shall be resolved by the Commission at the request of either party.

D. Rates and Charges

1. On an interim basis, the rates and charges for transportation service should be designed in a manner which:

(a) preserves existing cost recovery responsibilities among the local distribution companies' various customer classes;

(b) makes the local distribution company financially indifferent to whether it offers sales or transportation service to its customers.

2. The rates for transportation may reflect both a maximum and minimum charge. The maximum charge should include:

(a) an amount equivalent to any unavoidable pipeline charges incurred by the local distribution company to provide sales service to the transporting customer to the extent such charges have been recognized and allocated to the transporting customer or similarly classified customers in the local distribution company's most recent rate case, and to the extent such charges have not been extinguished or otherwise modified by the pipeline, and

(b) an amount equivalent to the local distribution company's full margin component for distribution services recognized and allocated to the transporting customer or similarly classified customers in the local distribution company's most recent rate case.

The minimum charge should include all of the charges specified in the preceding subsection (a) and that portion of the margin amount specified in subsection (b) which is equivalent to the local distribution company's applicable customer charge and its variable cost for providing distribution services.

E. Backup Service

An optional backup supply service should be offered to transportation customers for an assured continued delivery from general system supply in the event that transported supplies are interrupted or otherwise terminated. In order to reserve backup service, the customer should be required to pay a reservation charge which is equal to a reasonably allocated share of the local distribution company's cost for maintaining the gas supplies necessary to provide such service, provided that such costs are not already included in the transportation rates. Customers opting for backup service shall have the right at any time to recommence their status as gas sales customers.

F. Status of Transporting Customers Who Do Not Reserve Backup Service

Any customer switching to transportation service without reserving backup service should be required to assume the

risk that sales service will be unavailable to it for purposes of replacing the transportation volumes. Under such circumstances, the local distribution company should be relieved of its obligation to maintain or procure gas supplies on behalf of the transporting customer.

G. Load Balancing Service

All transportation service tariffs should include load balancing provisions to govern those instances where a transportation customer takes more or less gas from the local distribution company than those levels specified and delivered to the local distribution company under the customer's transportation arrangement. A charge should be assessed for said load balancing service which equals the reasonably allocated cost of providing such service to the extent that such costs are actually incurred and are not included in the base charge for transportation service.

H. Charge For Optional Transportation Related Services

The local distribution company should be permitted to negotiate with individual transportation customers charges for optional services rendered in connection with transportation to the extent such charges are not already recovered in the base transportation rate or the other charges specified under these guidelines. The local distribution company may also elect to include such optional services in its transportation tariff so long as the tariff specifies that such services are optional to the customers.

I. Limitations on Service Due to Capacity Constraints

Transportation customers should be considered to be within the same priority in the event of capacity limitations or constraints as they would be if they were sales customers.

J. Effect on Pre-Existing Transportation Arrangements

Any customer receiving transportation service under a previously approved transportation tariff should be permitted to continue the service until the expiration of the customer's individual transportation arrangement under existing contracts.

The Commission does not deem it necessary nor appropriate to address the issue of mandatory gas transportation at this time. The parties to the Joint Recommendation are recommending the immediate adoption of their proposal in spite of their differences on "the rates, terms and conditions" under which gas transportation should be provided. The Commission believes it is reasonable to adopt the Joint

Recommendation in its entirety. The Commission notes that several legal issues were also presented in this docket. Those issues will be addressed in a subsequent order.

Although Bowling Green Gas Company, Osage Natural Gas Company, American Can Company, Chrysler Corporation and Procter and Gamble Manufacturing Company signed the Joint Recommendation and participated in this case, none of those parties sought leave to intervene. The Commission shall construe their involvement as an application for participation without intervention pursuant to 4 CSR 240-2.110(15). That status is hereby granted.

Conclusions

The Missouri Public Service Commission has arrived at the following conclusions.

The Commission maintains jurisdiction over gas corporations pursuant to Chapters 386 and 393, R.S.Mo. 1978. The Commission may accept a joint recommendation in settlement of any contested matter within its jurisdiction submitted by the parties. The Commission concludes that the matters of agreement between the parties in this case are reasonable and proper and should be adopted.

It is, therefore,

ORDERED: 1. That the Joint Recommendation submitted by Missouri Public Service Commission Staff; Union Electric Company; UtiliCorp United Inc., d/b/a Missouri Public Service; Laclede Gas Company; The Kansas Power and Light Company; Associated Natural Gas Company; Bowling Green Gas Company; Great River Gas Company; Missouri Valley Natural Gas Company; Osage Natural Gas Company; Rich Hill-Hume Gas Company, Inc.; St. Joseph Light & Power Company; Noranda Aluminum, Inc.; United States Department of Energy; Midwest Gas Users Association; Armco Inc.; American Can Company; Chrysler Corporation; Ford Motor Company; General Motors Corporation; McDonnell Douglas Corporation; Monsanto Company; Procter and Gamble Manufacturing Company; The Carnation Company; Anheuser-Busch, Inc.; and the Office of Public Counsel, as set forth herein, is hereby accepted and adopted.

ORDERED; 2. That Bowling Green Gas Company, Osage Natural Gas Company, American Can Company, Chrysler Corporation and Procter and Gamble Manufacturing Company are formally granted leave to participate without intervention in Case No. GO-85-264.

ORDERED: 3. That this report and order shall become effective on the date hereof.

BY THE COMMISSION

Harvey G. Hubbs

Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Musgrave,
Mueller, Hendren and Fischer,
CC., Concur.