

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



In the Matter of )  
Summit Natural Gas of Missouri Inc.'s )  
Filing of Revised Tariffs to Increase Its )  
Annual Revenues for Natural Gas Service )

File No. GR-2014-0086  
Tracking No. YG-2014-0285

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**REPORT AND ORDER**

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**Issue Date: October 29, 2014**

**Effective Date: November 28, 2014**

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The Commission is rejecting the pending tariff sheets (“tariffs”)<sup>1</sup> of Summit Natural Gas of Missouri Inc. (“SNGMo”). The tariffs proposed a rate increase of \$7,472,131, or 26.5%, annually. The Commission is ordering SNGMo to file new tariffs in compliance with this report and order (“compliance tariffs”) providing:

capital structure	cost of debt	return on equity
43% debt / 57% equity	3.21%	10.8%

The Commission estimates that the compliance tariffs will authorize a \$7,082,407 revenue increase in average residential gas bills as follows.<sup>2</sup>

Service Territory	Percentage	Amount
Gallatin	24.87%	\$25.22
Warsaw	38.59%	\$41.18
Rogersville	27.39%	\$25.67
Rogersville Optional	19.22%	\$13.55
Branson	32.64%	\$34.84
Branson Optional	26.14%	\$13.71

The Commission reports its conclusions<sup>3</sup> and, where required by law,<sup>4</sup> separately states its findings of fact as follows.

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<sup>1</sup> As used in Commission practice, a tariff is a schedule governing rates and other terms of service. It may mean the whole set of such documents, or the subset for one service territory, or a single page.

<sup>2</sup> This number does not constitute a ruling, only an estimate of the overall impact of this report and order based on the *Additional Reconciliation* filed by the Commission’s staff, EFIS No. 265, filed on October 20, 2014; and EFIS No. 268, *Staff Response to Commission Order*, filed on October 22, 2014.

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<sup>3</sup> Section 386.420.2, RSMo Supp. 2013.

<sup>4</sup> Section 536.090.2, RSMo 2000.

## I. Preliminary Matters

Before setting forth its decision, the Commission will address how this decision comes about.

### A. Jurisdiction

The Commission has jurisdiction to determine SNGMo's tariffs because SNGMo sells natural gas ("gas") at retail for gain.<sup>5</sup> SNGMo also sells transportation of natural gas, purchased from suppliers other than SNGMo, for gain.<sup>6</sup> SNGMo has customers in 21 Missouri counties.<sup>7</sup> SNGMo's activities bring it within the definition of a gas corporation<sup>8</sup> and a public utility<sup>9</sup> ("utility"). SNGMo can charge only those amounts set forth in its tariffs.<sup>10</sup> The tariffs' content is subject to the Commission's determinations.<sup>11</sup>

### B. Filings

On January 2, 2014 SNGMo initiated this action by filing tariffs with a proposed effective date of February 1, 2014.<sup>12</sup> The Commission suspended the tariffs until December 1, 2014, the maximum time allowed by statute.<sup>13</sup> The Commission granted motions for intervention from the following.

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<sup>5</sup> Electronic Filing and Information System ("EFIS") No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 4.

<sup>6</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 54.

<sup>7</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 4.

<sup>8</sup> Section 386.020(18), RSMo Supp. 2013.

<sup>9</sup> Section 386.020(43), RSMo Supp. 2013.

<sup>10</sup> Section 393.130.1, RSMo 2000 RSMo Supp. 2013.

<sup>11</sup> Section 393.150, RSMo 2000. A tariff filed with the Commission may also take effect if the Commission makes no determination on it. Section 393.140(11), RSMo 2000.

<sup>12</sup> EFIS No. 2, *Tariff Tracking No. YG-2014-0285*, filed on January 2, 2014.

<sup>13</sup> EFIS No. 9, *Notice of Contested Case and Order Suspending Tariff and Delegating Authority*, issued on January 8, 2014.

- Missouri Propane Gas Association (“MPGA”) is a non-profit corporation representing sellers of propane gas, equipment, and appliances.<sup>14</sup>
- Missouri School Boards’ Association (“MSBA”) is a not-for-profit corporation which serves as a trade association for its member school districts. MSBA’s membership consists of approximately 400 public school districts with approximately 2,000 individual school locations.<sup>15</sup>
- Missouri Division of Energy (“MoDoE”) is an agency of the State of Missouri charged by statute with energy policy development.<sup>16</sup>

On June 17, 18, and 19, 2014, the Commission convened local public hearings in cities within SNGMo’s service territories.<sup>17</sup> On August 14, 2014, Staff filed a joint list of issues on behalf of all parties. On August 15, 2014, the parties filed position statements. On August 18 and 22, 2014, the parties filed partial settlements.<sup>18</sup> On August 19, 20, and 22, 2014, the Commission convened an evidentiary hearing. On September 16, 2014, the parties filed initial briefs. On September 26, 2014, the parties filed reply briefs. At the Commission’s direction, the Staff filed reconciliations and related documents, to which the Commission received two responses.<sup>19</sup>

### C. Procedure

At issue is the propriety of the tariffs, which means showing that the tariffs provide safe and adequate service at just and reasonable rates.<sup>20</sup> Toward that ultimate

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<sup>14</sup> EFIS No. 18, *Order Granting Intervention*, issued on February 3, 2014.

<sup>15</sup> EFIS No. 19, *Order Granting Intervention*, issued on February 4, 2014.

<sup>16</sup> EFIS No. 20, *Order Granting Intervention*, issued on February 7, 2014.

<sup>17</sup> EFIS No. 31, *Order Setting Local Public Hearings*, issued on March 12, 2014.

<sup>18</sup> EFIS No. 148, *Partial Stipulation and Agreement As To Dual Fuel and Conversion of Appliances*, filed on August 18, 2014; EFIS No. 149, *Partial Stipulation and Agreement*, filed on August 18, 2014; and EFIS No. 154, *Partial Stipulation and Agreement as to Energy Efficiency, Weatherization, and Other Matters*, filed on August 22, 2014.

<sup>19</sup> EFIS No. 270, *Response to Reconciliation Order Setting Date for Filing*, filed on October 23, 2014. EFIS No. 271, *Public Counsel's Reply Regarding Return on Equity*, filed on October 23, 2014.

<sup>20</sup> Section 393.150, RSMo 2000.

issue, the parties set forth their claims and defenses in an issues list and position statements, which function like pleadings to define the issues.<sup>21</sup> The Commission has made each determination on consideration of each party's allegations and arguments, and this report and order will not specifically discuss matters that are not dispositive.

#### D. Standards of Law and Policy

The Commission's determination on the tariffs generally applies two standards. The standard for service is that SNGMo must provide "service instrumentalities and facilities as shall be safe and adequate [.]"<sup>22</sup> The standard for rates is that SNGMo must charge rates that are "just and reasonable [.]"<sup>23</sup>

The standard for rates stands on constitutional provisions that protect the property interests of SNGMo.<sup>24</sup> The Commission will set rates that will pay enough to attract (the "cost of") capital in the forms of debt and equity ("capital components"). But the statutes also require that rates shall be as "just and reasonable" to consumers as they are to the utility.<sup>25</sup> The balance of interests of investor and consumer does not

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<sup>21</sup> In Commission practice, Staff coordinates the issues list with the other parties. A position statement sets forth the ruling that a party wants on an issue, with support in prepared testimony on file, which later comes into evidence. Most parties take a position on less than all issues. For example, most intervenors limit their participation to matters affecting their commercial or public policy purpose, and MoDoE settled every issue on which it took a position. The issues list and position statements appear late in the process because, in a tariff covering as much area as SNGMo serves, the parties cannot know any sooner which of the innumerable tariff provisions will be at issue.

<sup>22</sup> Section 393.130.1, RSMO RSMo Supp. 2013.

<sup>23</sup> Section 393.130.1, RSMO RSMo Supp. 2013; and Section 393.150.2, RSMo 2000.

<sup>24</sup> Bluefield Water Works & Improvement Co. v. Public Serv. Comm'n of the State of West Virginia, 262 U.S. 679, 690 (1923).

<sup>25</sup> Valley Sewage Co. v. Public Service Comm'n, 515 S.W.2d 845, 851 (Mo. App., K.C.D. 1974).

appear in any single judicial formula,<sup>26</sup> nor in any one statute, but in the pragmatic adjustments that are the Commission's means to a just and reasonable end.<sup>27</sup>

All expert witnesses employed a collection of financial, accounting, or economic analyses known as cost-of-service rate-making. The Commission is using the cost-of-service model in determining just and reasonable rates. The Commission is also considering the public interest in its decision. The Commission has also heard testimony on the hardship that a rate increase will cause ("rate shock"). To mitigate rate shock, MSBA asks the Commission to deny, or reduce the amount of, any rate increase for SNGMo. In support, MSBA cites the expiration of gas service incentives that have favored MSBA members. Similarly, OPC cites the evidence presented at local public hearings, which was that because the cost of necessities like food and medication is increasing, an increase in gas service harms the most vulnerable of Missouri citizens: the poor.

The facts that MSBA and OPC cite in support of mitigating rate shock are within the Commission's jurisdiction or authority in that they relate to the public interest. Further, SNGMo has an incentive to keep rates low because it must compete with alternative sources of heat or lose customers and the revenues they represent.<sup>28</sup> For those reasons, the Commission has considered rate shock and cost-of-service rate-making principles in each determination of compliance tariffs that will support safe and adequate service at just and reasonable rates.

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<sup>26</sup> *Hope Natural Gas Co.*, 320 U.S. at 586.

<sup>27</sup> *Bluefield*, 262 U.S. at 692; *State ex rel. Associated Natural Gas Co. v. Public Serv. Comm'n*, 706 S.W.2d 870, 873 (Mo. App., W.D. 1985) (citing *Hope Natural Gas Co.*, 320 U.S. at 602-03).

<sup>28</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 37-38.

## II. Matters Settled

Those standards of law and policy determined the Commission's rulings on the parties' joint proposals on the following matters. Because these matters were disposed of by stipulation, consent order, or agreed settlement, the Commission need not separately state its findings of fact.<sup>29</sup> The Commission incorporates them as follows and attaches them to this report and order.

The Commission established the periods of time from which to draw the costs most probative to the tariffs' propriety<sup>30</sup> as suggested by the parties. An historic test year of the 12 months ending on September 30, 2013, shows the amount that SNGMo spends to provide safe and adequate service at just and reasonable rates. Those amounts are subject to change over time, so an update period through December 31, 2013, shows the known and measurable changes to those amounts. Other items, which significantly affect rates but occurred after the test year within a "true-up" period through June 30, 2014, bring the amount as up to date as reasonably possible. Therefore, the Commission incorporates those rulings into this report and order, as if fully set forth.

Also, the Commission compared the substantial and competent evidence on the whole record with the substantive provisions of the partial settlements. The Commission independently found and concluded that the partial settlements' substantive provisions support safe and adequate service at just and reasonable rates.<sup>31</sup> Accordingly, the Commission ordered the deletion from the tariffs any provisions for free conversion. The

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<sup>29</sup> Section 536.090, RSMo 2000.

<sup>30</sup> EFIS No. 15, *Order Determining Test Year, Update, and True-up*, issued on January 23, 2014.

<sup>31</sup> EFIS No. 248, *Order Regarding Partial Stipulations and Agreements*, issued on September 3, 2014.



free conversion program consisted of SNGMo converting propane customers to gas service without charge to the converting customer. The Commission ordered SNGMo to file compliance tariffs that include a conversion program in which the customer receiving the conversion pays the actual cost of conversion. Therefore, the Commission incorporates those rulings on the partial settlements into this report and order, as if fully set forth.

### III. Matters for Determination

Those standards of law and policy also guide the Commission's determination of disputed matters, which include the valuation and accounting treatment of assets, the limitation of financial parameters, and the timing of rate increases.

Because this action is a contested case,<sup>32</sup> for any matter not disposed of by stipulation, consent order, or agreed settlement, the Commission must separately state the findings of fact<sup>33</sup> that guide the Commission's rulings.<sup>34</sup> Each finding of fact stands on the Commission's consideration of the whole record of substantial and competent evidence.

SNGMo has the burden of proving the propriety of the tariffs,<sup>35</sup> and the quantum of proof necessary is a preponderance of the evidence.<sup>36</sup> The preponderance is the weight of persuasive value.<sup>37</sup> SNGMo must show that the evidence, and reasonable

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<sup>32</sup> EFIS No. 9, *Notice of Contested Case and Order Suspending Tariff and Delegating Authority*, issued on January 8, 2014.

<sup>33</sup> Section 536.090, RSMo 2000.

<sup>34</sup> Section 536.090, RSMo 2000; *State ex rel. Aquila, Inc. v. Public Service Comm'n of State*, 326 S.W.3d 20, 28–29 (Mo. App., W.D. 2010).

<sup>35</sup> Section 393.150, RSMo 2000.

<sup>36</sup> *State Board of Nursing v. Berry*, 32 S.W.3d 638, 642 (Mo. App., W.D. 2000).

<sup>37</sup> *State v. Davis*, 422 S.W.3d 458, 464 (Mo. App., E.D. 2014).

inferences from the evidence,<sup>38</sup> weighs more in favor<sup>39</sup> of SNGMo's allegations than against SNGMo's allegations.<sup>40</sup>

All parties refer to past Commission decisions, which may set forth analyses that are persuasive on the facts of a later case. But OPC goes farther, arguing that rates set by a decision today that departs from past decisions "would be a violation of the [past Commission] orders cited above."<sup>41</sup> Past decisions do not bind the Commission because the Commission is not subject to *stare decisis*.<sup>42</sup> However, the Commission notes it is certainly preferable that it be consistent in its decisions; consistency provides certainty to entities that are subject to Commission jurisdiction and relying on Commission rulings.

As to competing proposals, the parties understandably struggle to articulate the burden of proof because case law from outside the compliance tariff context is not helpful in this regard. The parties' citations include case law discussing the standard on a motion for directed verdict,<sup>43</sup> the standard set by statute for judicial review of an

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<sup>38</sup> *Farnham v. Boone*, 431 S.W.2d 154 (Mo. 1968).

<sup>39</sup> *State Board of Nursing v. Berry*, 32 S.W.3d 638, 642 (Mo. App., W.D. 2000).

<sup>40</sup> *Hager v. Director of Revenue*, 284 S.W.3d 192, 197 (Mo. App., S.D. 2009).

<sup>41</sup> EFIS No. 255, *Initial Brief of The Office of the Public Counsel*, filed on September 16, 2014, page 9. In fact, OPC goes even farther than that, citing Staff's position in a past Commission action: Case No. GA-2007-0168, *In the Matter of the Application of Southern Missouri Gas Company, L.P., d/b/a Southern Missouri Natural Gas, for a Certificate of Public Convenience and Necessity Authorizing it to Construct, Install, Own, Operate, Control, Manage and Maintain a Natural Gas Distribution System to Provide Gas Service in Branson, Branson West, Reed's Spring and Hollister, Missouri*. That position did not find favor with the Commission, which may account for the change in philosophy that has made Staff's position in this action more persuasive to the Commission. Case No. GA-2007-0168, EFIS No. 88, *Report and Order*, issued on February 5, 2008, page 14-18.

<sup>42</sup> "[T]he PSC is not bound by *stare decisis* based on prior administrative decisions, so long as its current decision is not otherwise unreasonable or unlawful." *State ex rel. Aquila, Inc. v. Pub. Serv. Comm'n of State*, 326 S.W.3d 20, 32 (Mo. App. 2010).

<sup>43</sup> *McCloskey v. Kopljar*, 46 S.W.2d 557, 563 (Mo. Banc 1932)

administrative action for driving while intoxicated,<sup>44</sup> and the standard for challenging an order of the Commission in a complaint on a violation of law,<sup>45</sup> and shifting burdens of proof. None of those discussions applies in lieu of, or in addition to, the statute setting forth the burden of proof for this action: SNGMo must show the propriety of the tariffs.<sup>46</sup>

More than one proposal may support safe and adequate service at just and reasonable rates. When that happens, the Commission simply must determine which proposal supports safe and adequate service at just and reasonable rates better than another. The Commission makes that determination according to the standards of law and policy already set forth.

Where the evidence conflicts, the Commission determines which evidence is most credible. The Commission's determinations of credibility are implicit in the Commission's findings of fact.<sup>47</sup> No law requires the Commission to expound upon which portions of the record the Commission accepted or rejected.<sup>48</sup> Nevertheless, the Commission notes that none of the matters determined in this report and order stands on evidence weighing equally between prevailing parties and non-prevailing parties.

#### A. Background

The remaining disputes are almost entirely about balancing the social utility of expanding gas service while protecting current customers. SNGMo has a business plan that includes bringing gas service to areas never before served. All other parties ask the

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<sup>44</sup> *White v. Director of Revenue*, 321 S.W.3d 298, 304-05 (Mo. banc 2010);

<sup>45</sup> *In re Request for an Increase in Sewer Operating Revenues of Emerald Pointe Util. Co.*, 438 S.W.3d 482, 490 (Mo. App., W.D. 2014).

<sup>46</sup> Section 393.150, RSMo 2000.

<sup>47</sup> *Stone v. Missouri Dept. of Health & Senior Services*, 350 S.W.3d 14, 26 (Mo. banc 2011).

<sup>48</sup> *Stith v. Lakin*, 129 S.W.3d 912, 919 (Mo. App., S.D. 2004).

Commission to protect customers from that plan's alleged excesses. Discussion of these matters omits disclosure of details closed as required by statute and implemented by Commission regulation, but with citation to the record.

#### Findings of Fact

1. JP Morgan Asset Management advises Infrastructure Investments Fund,<sup>49</sup> a private equity investor in which only large institutional investors or very wealthy individuals may participate.<sup>50</sup> Infrastructure Investments Fund, sometimes acting through related entities, bought SNGMo and other Missouri gas companies and systems over the following periods.

2. SNGMo's core territory is the service areas Gallatin and Warsaw. From 2007 to 2010, Infrastructure Investments Fund bought Summit Utilities, Inc., which owned subsidiaries<sup>51</sup> including Missouri Gas Utility, Inc. Missouri Gas Utility, Inc. owned the former municipal gas distribution systems in Gallatin and Hamilton ("Gallatin").<sup>52</sup> Missouri Gas Utilities, Inc. also served Warsaw.<sup>53</sup> On November 17, 2011, Missouri Gas Utility, Inc. changed its name to SNGMo.<sup>54</sup>

3. SNGMo also provides service in the legacy territory of service areas Branson and Rogersville. From 2008 to 2011, Infrastructure Investments Fund bought the assets of Tartan Company, L.C., which served Branson and Rogersville with a

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<sup>49</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 14.

<sup>50</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 21.

<sup>51</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 4.

<sup>52</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 14.

<sup>53</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 4.

<sup>54</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 14.

system later known as Southern Missouri Natural Gas (“Southern Missouri”).<sup>55</sup> On January 3, 2012, Infrastructure Investments Fund sold its Southern Missouri system to its subsidiary SNGMo.<sup>56</sup>

4. Further, SNGMo’s newest territory is the service area Lake of the Ozarks. Effective July 27, 2012, the Commission also granted SNGMo a certificate of convenience and necessity to serve the Lake of the Ozarks service territory.<sup>57</sup>

5. Because SNGMo is solely owned by Summit Utilities, Inc., which is solely owned by Infrastructure Investments Fund, which is advised by JP Morgan Asset Management, those entities determine SNGMo’s business conduct as to each SNGMo service territory.

6. SNGMo sells gas at retail to some of its customers.<sup>58</sup> Other customers buy their gas from retailers other than SNGMo and pay SNGMo for transportation only.<sup>59</sup>

#### Discussion and Conclusions of Law

The Commission’s regulations describe this case as a general rate action.<sup>60</sup> But it is crucial to understanding the parties’ arguments that gas bills for only some of SNGMo’s service territories are the subject of the tariffs and that, in those territories subject to the tariffs, only part of the gas bill is at issue. The tariffs do not put the service area Lake of the Ozarks at issue. And, in the service areas Gallatin, Warsaw, Branson, and Rogersville, the price that SNGMo charges a customer for gas is not at issue.

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<sup>55</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 14.

<sup>56</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 14.

<sup>57</sup> Case No. GA-2012-0285, EFIS No. 24, *Order Granting Certificate of Convenience and Necessity*, issued on July 17, 2014.

<sup>58</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 55.

<sup>59</sup> EFIS No. 185, Exh. No. 104 *Staff Report Revenue Requirement Cost of Service*, page 54.

<sup>60</sup> 4 CSR 240-2.065(1).

Also, because the tariffs address only the fixed monthly, non-gas, charge, a percentage “rate increase,” as the parties use that term, is not a percentage increase of a customer’s entire gas bill. For example, if a party’s gas bill is 50 percent non-gas charge, a “25 percent rate increase” may mean only a 12.5 percent increase in that party’s gas bill (50% x 25% = 12.5%).

With that background set forth, the Commission will examine the issues remaining in dispute, which include SNGMo’s rate base, and the return to be allowed on that rate base, and the rate design by which SNGMo will collect its new rates.

### B. Expenses and Capital Assets

Cost-of-service rate-making determines SNGMo’s rates by calculating SNGMo’s revenue requirement.<sup>61</sup> The revenue requirement is how much it costs SNGMo, both capital items and expenses, to provide safe and adequate service plus returns sufficient to service debt and equity and continue attracting capital.<sup>62</sup> Revenue requirement includes operating expenses, and capital assets (“rate base”) and returns. The returns must be enough to continue attracting capital.<sup>63</sup>

To help define just and reasonable rates, the Commission has published regulations. Published regulations have the force of law.<sup>64</sup> The Commission’s regulations incorporate the federal Uniform System of Accounts (“USoA”):

Beginning January 1, 1994, every gas company subject to the commission’s jurisdiction **shall** keep all accounts in conformity with the **Uniform System of Accounts** Prescribed for Natural Gas Companies Subject to the

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<sup>61</sup> *Hope Natural Gas Co.*, 320 U.S. at 603 (1944).

<sup>62</sup> *Hope Natural Gas Co.*, 320 U.S. at 603 (1944).

<sup>63</sup> *Hope Natural Gas Co.*, 320 U.S. at 603 (1944).

<sup>64</sup> *State ex rel. Missouri Gas Energy v. Pub. Serv. Comm’n*, 210 S.W.3d 330, 337 (Mo. App., W.D. 2006).

Provisions of the Natural Gas Act, as prescribed by the Federal Energy Regulatory Commission (FERC) and published at 18 CFR part 201 [. <sup>65</sup>]

The parties dispute whether the tariffs shift the business risk of expansion from SNGMo's owners, who stand to gain from success, to customers who do not.

#### Findings of Fact

1. SNGMo is the smallest gas utility in Missouri. On September 30, 2013, SNGMo had 15,106 customers, which is one quarter of the size of the next largest Missouri gas company.<sup>66</sup> Six out of seven SNGMo customers are residential customers, and residential use is less reliable than commercial or industrial. SNGMo's customer base is therefore relatively weak for supporting its rate base.

2. SNGMo's business plan presents several risks to profitability, including competition, high construction costs, lower revenue, and delayed returns.<sup>67</sup> In furtherance of that plan, SNGMo invested capital in constructing mains, including in the service area Lake of the Ozarks and \$47 million in the service area Branson alone,<sup>68</sup> and paid no dividends to the direct and indirect investors and sole owners Summit Utilities Inc. and Infrastructure Investments Fund.<sup>69</sup>

3. Despite that investment and those incentives, SNGMo's customer base has not increased as expected, and SNGMo's earnings have been less than expected by half, so there are fewer customers to pay for the newly built infrastructure ("shortfall").<sup>70</sup>

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<sup>65</sup> 4 CSR 240-40.040(1) (emphasis added).

<sup>66</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 20.

<sup>67</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 5, line 1-20.

<sup>68</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 15.

<sup>69</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 15.

<sup>70</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 17.

## Discussion and Conclusions of Law

As to the items at issue, Staff, OPC, and MPGA ask the Commission to hold SNGMo's rates to SNGMo's cost of service, focusing on the costs of assets actually used in delivering service. The concern is that SNGMo, not having gained the customer base it sought, will pass the costs of capacity not actually used ("excess expansion") on to its customers through inflated rates.

MPGA also asks the Commission to hold SNGMo's rates to the true cost of service. MPGA is candid about its position as an economic competitor, and makes plain that rates artificially low will give SNGMo an advantage over MPGA's members in the marketplace that the Commission does not regulate. But MPGA also cites sound policy grounds for rates at cost of service. It argues that rates below cost mislead industry and residents as to the true costs of service, which will eventually reveal themselves in higher rates, leading to inefficient investment, especially in construction.

Sound policy offers more energy options to Missouri residents even though doing so, as SNGMo's business plan intends, presents risks. The Commission certified SNGMo to expand gas services into new territory. SNGMo's reward for venturing into new territory is the opportunity to take that business risk. SNGMo chose to pursue the business risk of expansion in the service area Lake of the Ozarks and other service territories.<sup>71</sup> That business risk is an option for shareholders, but not for existing customers, so customers should not be required to shield SNGMo from the

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<sup>71</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 18.



consequences of shortfall and excess capacity.<sup>72</sup> In other words, SNGMo would not share gains with its customers, so SNGMo should not shift losses to customers.

*i. Remedies for Excess Capacity: Denial, Imputation, or Account 105*

The Commission is ordering SNGMo to file compliance tariffs that remedy SNGMo's excess capacity by recording certain amounts to an account that does not count toward rate base, and that do not impute any volumes or customer counts in any service area.

Findings of Fact

1. Any utility attempting to expand its service faces uncertainty.<sup>73</sup> That uncertainty is only partly mitigated in feasibility studies. Feasibility studies project target amounts of sales or customer base.<sup>74</sup> Target amounts set in feasibility studies do not constitute the minimum amount of sales or customer base to make a gas system functional.<sup>75</sup> In other words, a shortfall does not per se make a gas company unworkable.

a. Rogersville

2. In 1994, the Commission first permitted SNGMo's predecessor Tartan Company, L.C. ("Tartan") to provide gas service in the service area Rogersville.<sup>76</sup> The Commission issued the certificate of convenience and necessity subject to conditions.

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<sup>72</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 18.

<sup>73</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>74</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5.

<sup>75</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5.

<sup>76</sup> Case No. GA-94-127, *In the Matter of the Application of Tartan Energy Company, L.C., d/b/a Southern Missouri Gas Company, for a Certificate of Convenience and Necessity Authorizing It to Construct, Install, Own, Operate, Control, Manage and Maintain Gas Facilities.*

The conditions included imputing 1,797,000 million cubic feet of gas (“Mcf”) for rate-making purposes:

That Tartan is required to file a rate case on or before the two-year anniversary of the commencement of service in West Plains. A normalized volume level of at least 1,797,000 Mcfs shall be imputed for purposes of determining revenues associated therewith in the second year anniversary rate case, all subsequent rate cases, and actual cost adjustment (ACA) cases for determining appropriate rates. In the event the normalized test year volume level for the service area is less than 1,797,000 Mcfs per year, Tartan may not defer any costs associated therewith to a future rate proceeding, but in the event the normalized test year volume level for the service area exceeds 1,797,000 Mcfs per year, this actual volume level shall be utilized for establishing rates instead. The provisions of this paragraph are deemed to apply to any of Tartan's successors or assigns [. <sup>77</sup> ]

3. The imputation assumed 197,626 Mcf of usage in cities where SNGMo has never built any system.<sup>78</sup> The feasibility study supporting the throughput condition assumed that an average residential customer would use 100 Mcf per year.<sup>79</sup> An average residential customer in service area Rogersville has never used 100 Mcf per year.<sup>80</sup> In 2014, probably due to conservation, the average residential customer used 55.82 Mcf per year.<sup>81</sup>

4. In calendar year 2013, SNGMo’s throughput for the service area Rogersville as originally certified was 1,869,737 Mcf.<sup>82</sup>

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<sup>77</sup> Case No. GA-94-127, EFIS No. 75, *Report and Order*, issued September 16, 1994, page 9, fourth full paragraph.

<sup>78</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 277, line 3, to page 280, line 15.

<sup>79</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 18-19

<sup>80</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 18-19

<sup>81</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 18-19

<sup>82</sup> EFIS No. 149, *Partial Stipulation and Agreement*, filed on August 18, 2014, Appendix E.

5. Service area Rogersville is economically viable as a separate system, and its customer base can bear the full cost of service.<sup>83</sup>

b. Gallatin

6. In 1995, the city of Gallatin and the city of Hamilton each built a municipal gas system.<sup>84</sup> Neither system attracted as much connection as projected.<sup>85</sup> By summer of 2004, each city had ceased to make payments on their system, and each system was subject to foreclosure.<sup>86</sup>

7. By September 2004, each system had gas enough only to last three months.<sup>87</sup> Summit Utilities, Inc. formed Missouri Gas Utilities, Inc., bought the Gallatin and Hamilton systems, secured gas supplies, even though SNGMo did not own the systems, and began operating the systems as service area Gallatin on January 1, 2005.<sup>88</sup> Because of those actions, the customers of the Gallatin and Hamilton systems did not lose heat during the winter of 2004 and 2005.<sup>89</sup>

8. SNGMo relieved the former city owners of the municipal debt that had financed the Gallatin and Hamilton systems. SNGMo purchased the Gallatin and Hamilton systems at a deep discount, and so recorded the Gallatin and Hamilton

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<sup>83</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

<sup>84</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>85</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>86</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>87</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>88</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>89</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

systems value at their purchase price instead of the capital investment it took to build them.<sup>90</sup> That recording results in a lower rate base than using the capital investment.<sup>91</sup>

9. SNGMo operated the distressed systems under existing rates without a determination of revenue requirement.<sup>92</sup> Therefore, any shortfall was at SNGMo's risk.<sup>93</sup>

10. Since 2005, SNGMo has expanded the service area Gallatin in territory and customer base<sup>94</sup> but the expansion is less than that projected in the 2005 feasibility studies that accompanied SNGMo's application.<sup>95</sup>

11. Service area Gallatin is economically viable as a separate system and its customer base can bear the full cost of service.<sup>96</sup>

#### c. Warsaw and Branson

12. SNGMo overbuilt significantly, creating excess capacity in service areas Branson and Warsaw.<sup>97</sup> On a peak day, customers use 21.44 percent of the system's main capacity in Branson and 43.29 percent of the system's main capacity in service area Warsaw.<sup>98</sup>

13. Customers will be paying for that excess capacity, even though they do not use it, if the cost of that excess capacity counts toward SNGMo's rate base. But if

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<sup>90</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8-9.

<sup>91</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

<sup>92</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

<sup>93</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

<sup>94</sup> EFIS No. 224, Exh. No. 203, *Meisenheimer Surrebuttal*, page 6.

<sup>95</sup> EFIS No. 224, Exh. No. 203, *Meisenheimer Surrebuttal*, page 6.

<sup>96</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

<sup>97</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

<sup>98</sup> EFIS No. 207, Exh. No. 126, *Surrebuttal Testimony of Lesa Jenkins*, page 8-9 .

SNGMo's rate base excludes the cost of the excess capacity, that cost will not go into rates. Whether that cost is part of rate base depends on the account to which SNGMo records it, so recording puts amounts into rate base or removes amounts from rate base.

14. Removing \$27.64 million from rate base in service area Branson will result in service area Branson becoming economically viable.<sup>99</sup>

15. Removing \$6.97 million from rate base in service area Warsaw will result in service area Warsaw becoming economically viable.<sup>100</sup>

#### Discussion and Conclusions of Law

The parties dispute how much of SNGMo's excess capacity is attributable to the ordinary growth pattern of new gas service, economic downturns, or over-aggressive business practices. But all parties agree that, despite SNGMo's expansion in territory and customer base for each service area, SNGMo has a shortfall and excess capacity in both service areas Gallatin and Hamilton. The proffered remedies are several: inflate demand to meet excess capacity, deflate rate base to meet shortfall, or simply deny any rate increase.

The last is the easiest to address. OPC and MSBA both suggest that the Commission should deny any rate increase in every service area based on a failure to carry the burden of proof. But no party alleges that the cost of service in every service area is the same as, or less than, when SNGMo started providing service; and analysis of the cost of service is fundamental to just and reasonable rates. Therefore, the record does not support a denial of any rate increase in every service territory.

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<sup>99</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

<sup>100</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

OPC also suggests inflating demand to meet excess capacity by imputing hypothetical sales volumes or customer counts to SNGMo (“imputation”). In support of imputation, OPC cites language related to financial responsibility in a long list of past Commission orders, which OPC characterizes as conditions unmet by SNGMo. OPC’s arguments fail for several reasons.

First, this action will not include any conclusion that SNGMo has violated any term of any Commission order, including any term of a stipulation and agreement incorporated into an order. Whether SNGMo has violated a Commission order is expressly subject to a complaint alleging violations as specified by statute.<sup>101</sup> That statute, Commission regulations, and case law govern a complaint alleging violations. They describe the pleading, allocate the burden of proof to OPC,<sup>102</sup> and mandate other procedures that the Commission must employ when determining whether SNGMo has violated a Commission order. Those procedures have not occurred because OPC has filed no complaint, so the Commission will not make the determination that OPC seeks.<sup>103</sup>

Also, in all the past Commission decisions cited, OPC cites only generalized directives, except one sentence governing ratemaking. Other language related to financial responsibility for the risks of expansion consists of projections of customers and sales from feasibility studies. OPC relies almost entirely on feasibility studies. OPC alleges, without citation, that feasibility studies persuaded the Commission to permit

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<sup>101</sup> Section 396.390, RSMo 2000.

<sup>102</sup> AG Processing, Inc. v. KCP & L Greater Missouri Operations Co., 385 S.W.3d 511, 516 (Mo. App., W.D. 2012).

<sup>103</sup> In re Request for an Increase in Sewer Operating Revenues of Emerald Pointe Util. Co., 438 S.W.3d 482, 490 (Mo. App., W.D. 2014).

SNGMo to expand its service areas. Feasibility studies constitute no standard of any kind.<sup>104</sup>

Further, as Staff notes, imputation constitutes a departure from the judicially-endorsed principles of cost-of-service rate-making. That departure from cost-of-service realities occurs on both sides of the equation: imputation uses both hypothetical demand and excess capacity. Such departures are unnecessary where, as here, imputation is not the exclusive route to financial responsibility, as shown by SNGMo and Staff.

SNGMo and Staff suggest reducing rate base to meet the shortfall, within cost-of-service rate-making techniques, which best balances all interests before the Commission.

#### a. Rogersville

Only in service area Rogersville did the Commission impose any rate-making condition, imputing 1,797,000 Mcfs, in setting rates. And the rates were not those of SNGMo, but of the predecessor Tartan. SNGMo's actual sales volume has exceeded that imputation. Moreover, the factual basis for the condition is obsolete. The feasibility study supporting the imputation assumed an average residential customer would use 100 Mcf per year, which has never occurred.<sup>105</sup> In 2014, the average residential customer used 60 percent less than what was assumed in 1994.<sup>106</sup> The Commission also assumed that customers would consume 197,626 Mcf of gas. The construction contemplated in the feasibility study never occurred so there has never been any actual

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<sup>104</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5.

<sup>105</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 18-19

<sup>106</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 18-19

infrastructure, usage, cost, or revenue to use for the purpose of cost-of-service rate-making.<sup>107</sup> SNGMo and Staff agree that the 20-year-old condition stands on no remaining relevant evidence and ask for the elimination of that condition.

In contrast to eliminating the condition, as SNGMo and Staff suggest, OPC advocates continuing and expanding the condition by increasing the imputation beyond the originally certified areas. In support of this proposal, OPC offers no evidence to support any new imputed amount. The record shows that eliminating the imputation supports safe and adequate service at just and reasonable rates better than ordering any imputation.

Therefore, the Commission will not order any remedy for any excess capacity in service area Rogersville, and will order SNGMo to file compliance tariffs that eliminate the imputation for service area Rogersville.

#### b. Gallatin

As to Gallatin, OPC bases its argument for imputation on an allegation that SNGMo has failed to achieve projections of conversion from, and competition with, propane:

The Company shall be responsible in future rate cases for any failure of this system to achieve forecasted conversion rates and/or its inability to successfully compete against propane. [<sup>108</sup>]

OPC has not offered any evidence on SNGMo's performance against propane in service area Gallatin. OPC argues that the Commission should infer that the absence of conversions is the cause of the shortfall, but the record shows nothing about the

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<sup>107</sup>EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 277, line 3, to page 280, line 15.

<sup>108</sup> Case No. GO-2005-0120, EFIS No. 38, *Order Approving Stipulation and Agreement*, filed on December 8, 2004.



shortfall in service area Gallatin that is different from other service areas to support that inference.

Also, SNGMo notes several facts that weigh against imputation. SNGMo took a substantial risk in rescuing two distressed municipal systems that were three months from running out of fuel in December 2004.<sup>109</sup> Because SNGMo recorded the systems at their discount purchase price, instead of the capital investment it took to build them,<sup>110</sup> the service area has a lower rate base than using the capital investment.<sup>111</sup> SNGMo operated the systems under existing rates without a determination of revenue requirement,<sup>112</sup> so SNGMo risked under-earning.<sup>113</sup> Service area Gallatin is now economically viable as a separate system, and its customer base can bear the full cost of service.<sup>114</sup>

Therefore, the Commission will not order any remedy for any excess capacity in service area Gallatin.

#### c. Warsaw and Branson

No party disputes that there is significant excess capacity in service areas Branson and Warsaw,.<sup>115</sup> Just and reasonable rates do not include infrastructure that does not serve customers. Therefore, customers must be protected from rates that do not support safe and adequate service.

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<sup>109</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 7-8.

<sup>110</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8-9.

<sup>111</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

<sup>112</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

<sup>113</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 8.

<sup>114</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

<sup>115</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

SNGMo and Staff proffer a remedy suggested by the law governing the characterization of assets. To help define just and reasonable rates, the Commission has published regulations. The Commission's regulations incorporate the federal Uniform System of Accounts ("USoA"):

Beginning January 1, 1994, every gas company subject to the commission's jurisdiction **shall** keep all accounts in conformity with the **Uniform System of Accounts** Prescribed for Natural Gas Companies Subject to the Provisions of the Natural Gas Act, as prescribed by the Federal Energy Regulatory Commission (FERC) and published at 18 CFR part 201 [<sup>116</sup>]

SNGMo and Staff suggest recording excess capacity in USoA Account 105, Gas Plant Held for Future Use ("Account 105"), which holds assets not counted in rate base.

Account 105 provides:

A. This account shall include the original cost of gas plant (except land and land rights) owned and held for future use in gas service under a definite plan for such use, to include: (1) Property acquired (except land and land rights) but never used by the utility in gas service, but held for such service in the future under a definite plan, and (2) property (except land and land rights) previously used by the utility in gas service, but retired from such service and held pending its reuse in the future, under a definite plan, in gas service. This includes production properties relating to leases acquired on or before October 7, 1969.

\* \* \*

E. The property included in this account shall be classified according to the detail accounts (301 to 399) prescribed for gas plant in service and the account shall be maintained in such detail as though the property were in service.

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<sup>116</sup> 4 CSR 240-40.040(1) (emphasis added).

The evidence shows, and no party disputes, that an item in Account 105 does not count in rate base, and thus in rates, until it comes into use (“repatriation”).<sup>117</sup>

In that regard, SNGMo and Staff offer the following specifics. Based on actual usage,<sup>118</sup> SNGMo and Staff agree that the main lines worth \$27.64 million in service area Branson, and \$6.97 million in service area Warsaw, represent the excess capacity to remove from rate base. For repatriation, SNGMo and Staff suggest:

(1) Annual determination based on December 31 (year-end) plant balances;

(2) Warsaw only - Calculate the amount of FERC Account 376 and FERC Account 378 that should be assigned to Lake of the Ozarks based on most recent winter peak usage/transportation percentages. The amount by which to multiply the percentages will be the sum of year end FERC Accounts 105-376 and 105-378 for plant and reserves, and the year end FERC Accounts 101-376, 101-378, 108-376, and 108-378 balances;

(3) Warsaw only - The applicable Warsaw plant amounts from the calculation in (2) will be subjected to the same calculation shown in Schedule TRJ-4 after subtracting the portion applicable to Lake of the Ozarks;

(4) Warsaw only - The [resulting unused] capacity investment will be compared to the plant balances in FERC Account 105, and an accounting adjustment made to transfer a portion of the year-end balance of FERC Account 105 to FERC Accounts 101-376, 101-378, 108-376 and, 108-378;

(5) Branson calculations will occur similar to Warsaw except without the need for the intermediate analytical step to split shared assets;

(6) Depreciation expense will not be calculated on FERC Account 105 gross plant balances; and,

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<sup>117</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 251, line 23, to page 252, line 20.

<sup>118</sup> EFIS No. 207, Exh. No. 126, *Surrebuttal Testimony of Lesa Jenkins*, page 8-9 .

(7) Depreciation expense on repatriated gross plant will begin on January 1 of the year that succeeds the year-end calculations.<sup>119</sup>

Recording to Account 105 on those terms has several advantages as follows.

Where imputation addresses the growth side of the equation that SNGMo was not successful in controlling, recording to Account 105 addresses the matter that was in SNGMo's control: capacity. Customers will pay for—and only for—what they use.<sup>120</sup> Such accounting will make service areas Branson and Warsaw economically viable,<sup>121</sup> match rates with the true cost of service as MPGA desires, and allocate the financial responsibility for excess capacity to SNGMo as OPC desires.

OPC again argues for imputations from long-ago projections that include cities that SNGMo is not currently serving. The Commission rejects that argument as less persuasive than SNGMo and Staff's proposed remedy. OPC argues that recording excess capacity to Account 105 will not address operating and management expenses associated with those assets. But OPC offers no evidence quantifying or otherwise supporting that allegation. OPC also argues against the terms related to depreciation. Again OPC offers no evidence or authority.

Therefore, SNGMo shall file compliance tariffs that record SNGMo's excess capacity in service areas Branson and Warsaw to Account 105 as described, and that do not impute any volumes or customer counts.

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<sup>119</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 21, line 13, to page 22, line 16.

<sup>120</sup> EFIS No. 166, Exh. No. 6, *Surrebuttal Testimony of Timothy R. Johnston*, page 6.

<sup>121</sup> EFIS No. 209, Exh. No. 128, *Surrebuttal Testimony of Amanda C. McMellen*, page 5-8.

*ii. Southern Missouri Assets: Net Original Cost*

The recording of assets under USoA is also at issue as to the assets formerly of Southern Missouri. The Commission is ordering SNGMo to book the former assets of Southern Missouri at net original cost (sometimes called “net book value” in the parties’ evidence and arguments) because that is the standard set by law. OPC has not shown that a variance from that standard will lead to safe and adequate service at just and reasonable rates.

Findings of Fact

1. In File No. GM-2011-0354, the Commission granted the application of SNGMo (then known as Missouri Gas Utilities, Inc.) to acquire the assets (variously called “operating system” or “plant”) of Southern Missouri.<sup>122</sup>

2. When SNGMo bought the assets of Southern Missouri, SNGMo acquired the physical structures through which Southern Missouri delivered gas for \$19,565,924<sup>123</sup> less than the original cost, less accumulated depreciation.

Discussion and Conclusions of Law

Determining rate base includes valuing the assets that SNGMo is devoting to gas service. Those assets include the assets formerly belonging to Southern Missouri. The Commission has the authority to assess the value of SNGMo’s property.<sup>124</sup>

OPC argues that SNGMo has a “burden of establishing” “an independent basis for concluding that a negative acquisition adjustment should benefit [SNGMo] at the

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<sup>122</sup> File No. GM-2011-0354, *In the Matter of the Joint Application of Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas and Missouri Gas Utility, Inc. for Approval of the Merger of Southern Missouri Natural Gas with Missouri Gas Utility, Inc., and for Certain Related Transactions, Order Approving Unanimous Stipulation and Agreement*, issued on September 28, 2011.

<sup>123</sup> EFIS No. 221, Exh. No. 200, *Roth Rebuttal*, page 5-6, SNGMo’s brief page 12.

<sup>124</sup> Section 393.230.1, RSMo 2000.

expense of ratepayers.”<sup>125</sup> OPC cites no authority in support of that assertion,. The authority defining the burden of proof is set forth in the statutes: the burden to show that the increased rate or proposed increased rate is just and reasonable shall be upon the gas corporation [. <sup>126</sup>]

The law also provides that SNGMo shall record the value of the assets at net original cost.

a. The Law Requires Net Original Cost

Published regulations have the force of law.<sup>127</sup> The Commission’s regulations specifically require SNGMo to follow USoA on valuation of plant:

Regarding plant acquired or placed in service after 1993, when implementing section (1), each gas corporation subject to the commission's jurisdiction **shall—**

(C) **Record** gas plant acquired as an operating unit or system, estimated if not known, except as otherwise provided by the text of the intangible plant accounts, when implementing the provisions of Part 201 **Gas Plant Instructions 2.A** [. <sup>128</sup>]

Gas Plant Instruction 2.A requires SNGMo to record all plant as follows:

All amounts included in the accounts for gas plant acquired as an operating unit or system, except as otherwise provided in the texts of the intangible plant accounts, **shall** be stated at **the cost** incurred by the **person who first devoted the property to utility service** [. <sup>129</sup>]

The emphasized language is USoA’s definition of original cost:

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<sup>125</sup> EFIS No. 258, *Reply Brief of the Office of the Public Counsel*, filed on September 26, 2014, page 15, last paragraph.

<sup>126</sup> Section 393.150.2, RSMo 2000.

<sup>127</sup> *State ex rel. Missouri Gas Energy v. Pub. Serv. Comm'n*, 210 S.W.3d 330, 337 (Mo. App., W.D. 2006).

<sup>128</sup> 4 CSR 240-40.040(3).

<sup>129</sup> 18 C.F.R. § 201, Gas Plant Instructions 2.A (emphasis added).

Original cost, as applied to gas plant, means the **cost** of such property to **the person first devoting it to public service.** [ <sup>130</sup>]

USoA repeats the point in describing the account for gas plant:

Gas plant in service.

A. This account shall include **the original cost of gas plant** [. <sup>131</sup>]

And specifically for gas plant purchased:

Gas plant purchased or sold.

\* \* \*

(1) **The original cost** of plant, estimated if not known, shall be credited to account 102, Gas Plant Purchased or Sold, and concurrently charged to the appropriate gas plant in service accounts and to account 104, Gas Plant Leased to Others, account 105, Gas Plant Held for Future Use, 105.1, Production Properties Held for Future Use, and account 107, Construction Work in Progress--Gas, as appropriate. [ <sup>132</sup>]

Those provisions of law define what SNGMo must prove as to the former Southern Missouri assets—original cost net depreciation—and SNGMo has carried that burden.

#### b. Capital Actually Expended

OPC argues that SNGMo's rates should not include the difference between the net original cost and the purchase price ("difference") because SNGMo did not pay the difference, but OPC's citations show otherwise. OPC relies on a statute that mentions a reasonable return on capital:

In determining the price to be charged for gas, electricity, or water the commission may consider all facts which in its judgment have any bearing upon a proper determination of

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<sup>130</sup> 18 C.F.R. § 201, Definition 26 (emphasis added).

<sup>131</sup> 18 C.F.R. § 201, Account 101 (emphasis added).

<sup>132</sup> 18 C.F.R. § 201, Instruction 5 (emphasis added).

the question although not set forth in the complaint and not within the allegations contained therein, with due regard, among other things, to a reasonable average return upon capital actually expended and to the necessity of making reservations out of income for surplus and contingencies. [<sup>133</sup>]

OPC's argument implies that the statute restricts the Commission to a reasonable average return upon capital that SNGMo actually expended. That is not the statute's language.

The statute's plain language, like the plain language of the regulations, does not require SNGMo to have expended anything. The statute and the regulations simply protect capital investment. Those provisions make no distinction as to where title to the capital asset happens to be when the Commission sets rates. The result is that customers of the capital asset's owner will, through rates, return the capital once and only once.

OPC's premise is that the statute restricts the Commission's authority to set rates, but the statute's plain language expands Commission authority, as the statute's context shows. That context is a rate-setting procedure not used in this action. This action is SNGMo's filing of tariffs. The statute addresses the procedure for a complaint on rates. The statutes provide:

1. Upon the complaint in writing of [specified persons] as to the . . . price of gas, . . . the commission shall investigate as to the cause of such complaint [. <sup>134</sup>]

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<sup>133</sup> Section 393.270.4, RSMo 2000.

<sup>134</sup> Section 393.260.1, RSMo 2000.



The next following statute provides for notice, investigation, and an opportunity to be heard. OPC's citation comes from directives expressly authorizing the Commission to decide issues beyond the scope of the complaint:

1. . . . An investigation may be instituted by the commission as to any matter of which **complaint** may be made as provided in sections 393.110 to 393.285, or to enable it to **ascertain the facts requisite to the exercise of any power conferred upon it.**

\* \* \*

4. In determining the price to be charged for gas, . . . the commission may consider **all facts** which in its judgment have any **bearing upon a proper determination** of the question although **not set forth in the complaint** and **not within the allegations** contained therein, with due regard, among other things, to a reasonable average return upon capital actually expended and to the necessity of making reservations out of income for surplus and contingencies [. <sup>135</sup>]

The Commission's reading has support in case law cited by OPC:

The statute (§ 393.270, Par. 4) says that the Commission may consider all facts which in its judgment 'have any bearing upon a proper determination of the question [of the prices to be charged for water], with due regard, among other things, to a reasonable average return upon capital actually expended', etc. 'Due regard' to one factor, 'among other things', simply requires consideration of that factor. It is not preclusive of other relevant factors. Indeed, the phrase 'among other things' clearly denotes that 'proper determination' of such charges is to be based upon *all* relevant factors. [ <sup>136</sup>]

The statute is thus expansive, not restrictive.

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<sup>135</sup> Section 393.270.4, RSMo 2000 (emphasis added).

<sup>136</sup> *State ex rel. Missouri Water Co. v. Pub. Serv. Comm'n*, 308 S.W.2d 704, 718-19 (Mo. banc 1957). And identical language related to sewer companies receives an identical treatment in another cases that OPC cites. *State ex rel. Martigney Creek Sewer Co. v. Pub. Serv. Comm'n*, 537 S.W.2d 388, 392 (Mo. 1976).

And more specifically, the statute that OPC cites for the Commission's evaluation authority similarly expands the Commission's consideration to all relevant factors determining such value:

The commission shall have the power to ascertain the value of the property of every gas corporation . . . in this state and **every fact which in its judgment may or does have any bearing on such value.** The commission shall have power to make revaluations from time to time and to ascertain all new construction, extensions and additions to the property of every gas corporation [<sup>137</sup>]

Therefore, the Commission concludes that the statutes do not restrict the Commission's rate-setting power to a reasonable average return upon capital that SNGMo actually expended. Returning to *State ex rel. Missouri Water Co. v. Pub. Serv. Comm'n*, "[W]e can think of no way to ascertain 'capital actually expended' except to find the cost of the utility plant at the time the properties were first devoted to public service."<sup>138</sup>

*State ex rel. Missouri Water Co. v. Pub. Serv. Comm'n* was not the first opinion to employ net original cost. In two other cases that OPC cites, a non-regulated entity transferred assets to a public utility. The transactions are called contribution in aid of construction. The person first devoting the asset to public service had no cost. The original cost, and hence the net original cost, was zero. When no regulated entity has expended capital, no return is due. That was the context of *State ex rel. Martigney Creek Sewer Co. v. Pub. Serv. Comm'n*,<sup>139</sup> in which the Missouri Supreme Court stated succinctly:

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<sup>137</sup> Section 393.230.1, RSMo 2000 (emphasis added).

<sup>138</sup> 308 S.W.2d at 712.

<sup>139</sup> 537 S.W.2d 388 (Mo. banc 1976).

[T]he antithesis of a just and reasonable rate is one that would permit a utility's stockholders to recover a return on money which they, in fact, never invested. [<sup>140</sup>]

The Court of Appeals explained that principle a quarter-century later:

[C]ourts have held that “contributions in aid of construction” may not be included in determining the “rate base” for ratemaking purposes. These cases do not help the plaintiffs. Both are authority only for the proposition that a utility may not have these contributed assets considered toward justifying a *rate* increase to customers. The courts hold to do so would result in two inherent inequities: first, to allow the utilities to include these “contributions” in the rate base is to ask the utility customers to pay twice for the same thing. Second, it allows the utility's shareholders to receive a return on money which they never invested. [<sup>141</sup>]

Neither of those cases involved the sale of one regulated entity's assets to another. OPC has not shown that those holdings apply because OPC has not shown that the net original cost was zero.

#### c. Variance and Affiliate Transactions

In the alternative, OPC cites the Commission regulation allowing for a variance from USoA.<sup>142</sup> OPC did not mention a variance in the issues list or in its position statement. OPC raises that procedure for the first time in its reply brief, and only at the prompt from SNGMo.<sup>143</sup> The Commission will not decide this issue because it was not timely raised. OPC also cites the Commission's affiliate transaction rule.<sup>144</sup> Likewise, the Commission will not determine in this action whether SNGMo has committed a

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<sup>140</sup> *State ex rel. Martigney Creek Sewer Co. v. Pub. Serv. Comm'n*, 537 S.W.2d 388, 392 (Mo. 1976).

<sup>141</sup> *Reinhold v. Fee Fee Trunk Sewer, Inc.*, 664 S.W.2d 599, 603 (Mo. App., E.D. 1984) (citations omitted).

<sup>142</sup> 4 CSR 240.40-040(5).

<sup>143</sup> EFIS No. 253, *SNGMo's Initial Brief*, filed on September 16, 2014. page 31, first full paragraph.

<sup>144</sup> 4 CSR 240-40.015.

violation of the affiliate transaction rule because whether SNGMo has violated the affiliate transaction rule is expressly subject to a complaint alleging violations of law as specified by statute.<sup>145</sup>

### c. Conclusion

Therefore, SNGMo shall file compliance tariffs that record the value of former Southern Missouri assets at net original cost.

### C. Rate of Return

Having determined the revenue requirement matters, the Commission next determines SNGMo's return. The values for capital structure, the cost of debt, and the cost of equity remain in dispute.

### Findings of Fact

1. SNGMo finances its capital assets with permanent financing.<sup>146</sup> Permanent financing means common equity, long-term debt, or preferred stock.<sup>147</sup> Preferred stock is absent from SNGMo's capital structure,<sup>148</sup> so SNGMo's capital components are common equity ("equity") and long-term debt ("debt").
2. Returns are a percentage of rate base ("rate of return").
3. Multiplying the cost of each capital component (debt and equity) by its respective proportion in the capital structure, and adding the two products together, yields a weighted cost of capital,<sup>149</sup> which equals the rate of return.

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<sup>145</sup> Section 396.390, RSMo 2000.

<sup>146</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

<sup>147</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

<sup>148</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

<sup>149</sup> EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 6.

4. Stated another way, cost-of-service rate-making considers SNGMo's rate of return to be its weighted cost of capital, which is as follows.

100% Capitalization	=	Debt %	x Return on Debt	= Cost of Debt	=	Weighted Cost of Capital (Rate of return)
		Equity %	x Return on Equity	= Cost of Equity		

Hence, SNGMo's returns depend on the Commission's rulings on values related to capital components.

#### Discussion and Conclusions of Law

The parties' arguments and the Commission's rulings on the rate of return and its components are as follows. As to the rate of return, using the parties' midpoint for return on equity:

Staff	<b>Commission</b>	SNGMo
7.34	<b>7.53</b>	8.22

As to the ratio of debt to equity:

	Staff	<b>Commission</b>	SNGMo
Debt	60	<b>43</b>	43
Equity	40	<b>57</b>	57

As to the cost of debt

Staff	<b>Commission</b>	SNGMo
5.37	<b>3.21</b>	3.21

As to the cost of equity:

Staff			<b>Commission</b>	SNGMo		
Low	Midpoint	High	<b>10.80</b>	Low	Midpoint	High
9.80	10.30	10.80		12.00	15.00	17.60

Therefore, SNGMo's rate of return shall be:

100% Capitalization	=	43 %	X 3.21	= 1.38	=	7.54
		57 %	x 10.80	= 6.16		

The support for each of those rulings is as follows.

*i. Capital Structure*

The Commission is setting SNGMo's capital structure at 43 percent debt and 57 percent equity as SNGMo asks, because that is how SNGMo actually provided service during the test year. Staff and OPC argue for 60 percent debt and 40 percent equity.

	Staff	<b>Commission</b>	SNGMo
Debt	60	<b>43</b>	43
Equity	40	<b>57</b>	57

The evidence and arguments of Staff and OPC are less persuasive.

Findings of Fact

1. In 2009, the debt-to-equity ratio of SNGMo, then known as Missouri Gas Utilities, Inc., peaked at 57% debt and 43% equity.

2. On October 3, 2011, SNGMo and Southern Missouri filed an application in File No. GO-2012-0102 ("the 2011 finance case").<sup>150</sup> That application sought authorization to issue debt secured by the assets of SNGMo and Southern Missouri.<sup>151</sup> The purpose of the new debt was to consolidate current debt.<sup>152</sup> The application included a projected capital structure for 2014.<sup>153</sup>

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<sup>150</sup> File No. GO-2012-0102, *In the Matter of the Application of Missouri Gas Utility, Inc. for Authority to Issue up to and Including \$88,000,000 of Long-Term Indebtedness in one or More Tranches after the Closing of the Merger Between Missouri Gas Utility and Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas, and to, Among Other Things, Encumber the Operating Assets of the Consolidated Entity.*

<sup>151</sup> File No. GO-2012-0102, EFIS No. 1, *Application and Motion for Expedited Treatment*, filed on October 3, 2011.

<sup>152</sup> File No. GO-2012-0102, EFIS No. 8, *Order Granting Application*, issued on December 21, 2011, page 2, first paragraph.

<sup>153</sup> File No. GO-2012-0102, EFIS No. 1, *Application and Motion for Expedited Treatment*, filed on October 3, 2011, appendix 7 (HC).

3. In the test year,<sup>154</sup> and at the end of 2013,<sup>155</sup> SNGMo had 43% debt and 57% equity. Debt and equity are the relationship of SNGMo to another entity in return for SNGMo's use of those other entity's resources. Debt is the resources lent to SNGMo in return for SNGMo's repayment with interest. Equity means resources invested in SNGMo in return for ownership of SNGMo and the possibility of dividends paid from SNGMo.

4. Equity is more expensive than debt,<sup>156</sup> and pays owners, so a capital structure with more equity favors owners over other persons. The owner of SNGMo, Summit Utilities, has never received any dividend from SNGMo.<sup>157</sup>

5. Summit Utilities also owns Colorado Natural Gas. Colorado Natural Gas has a capital structure of 57 percent debt to 43 percent equity.<sup>158</sup>

6. The approximate average capital structures for gas utilities, compared to the parties' proposals, are as follows.<sup>159</sup>

	<i>Debt</i>	<i>Equity</i>
Missouri	50	50
United States	48	52
SNGMo	43	57
Staff	60	40

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<sup>154</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

<sup>155</sup> EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 12.

<sup>156</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 37.

<sup>157</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 40.

<sup>158</sup> EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 13.

<sup>159</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 44.

7. SNGMo's owner Summit Utilities' capital structure was 39% long-term debt and 61% common equity. Like SNGMo, Summit Utilities has no outstanding preferred stock.<sup>160</sup> Summit Utilities does not provide gas service.

#### Discussion and Conclusions of Law

SNGMo asks the Commission to order the capital structure under which SNGMo actually operated in the test year as agreed by the parties and ordered by the Commission.<sup>161</sup> In support, SNGMo notes that SNGMo provided service to its customers under that capital structure during the test year, and no party disputes the safety and adequacy of that service. Staff argues, with OPC's support, that the Commission should depart from the test year capital structure in favor of a hypothetical capital structure. The arguments of Staff and OPC are less persuasive than SNGMo's argument.

Staff and OPC argue that using a hypothetical capital structure is necessary to protect customers from financing SNGMo's shortfall and excess capacity. To provide that protection, Staff proffers the projected capital structure from the 2011 finance case.<sup>162</sup> Staff argues that adjusting the projected capital structure into a hypothetical capital structure<sup>163</sup> shows how SNGMo would look if it had not expanded into service area Lake of the Ozarks.

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<sup>160</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 8.

<sup>161</sup> EFIS No. 15, *Order Determining Test Year, Update, and True-up*, issued on January 23, 2014.

<sup>162</sup> File No. GO-2012-0102, *In the Matter of the Application of Missouri Gas Utility, Inc. for Authority to Issue up to and Including \$88,000,000 of Long-Term Indebtedness in one or More Tranches after the Closing of the Merger Between Missouri Gas Utility and Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas, and to, Among Other Things, Encumber the Operating Assets of the Consolidated Entity.*

<sup>163</sup> EFIS No. 199, Exh. No. 118, *Rebuttal Testimony of David Murray*, page 11-12.



In support of a hypothetical capital structure, Staff cites State ex rel. Associated Natural Gas v. Public Service Commission.<sup>164</sup> In that opinion, the Court of Appeals described the permissible use of hypothetical capital structures as a furtherance of the public interest and gave two specific examples.

. . . . It appears to be an accepted regulatory practice to disregard the actual book capital structure of a utility when it is deemed to be in the public interest to do so. There are two circumstances in which a utility commission might disregard a utility's actual capital structure and adopt a hypothetical capital structure for ratemaking purposes.

The first occurs when the utility's actual debt-equity ratio is deemed inefficient and unreasonable because it contains too much equity and not enough debt, necessitating an inflated rate of return [.]

The second circumstance that justifies adopting a hypothetical construct occurs when the utility is part of a holding company system. In such situations, the utility's book capital structure and capital costs may not be a true reflection of the system's capital costs with respect to a particular operating company. [<sup>165</sup>]

Neither of those two specific situations have support in the evidence or argument of Staff and OPC. And SNGMo argues that Associated Natural Gas limits using a hypothetical capital structure on any facts other than the two specific examples. That argument requires no resolution because the Commission is not using a hypothetical capital structure in this case.

Staff incorrectly characterizes the 2011 financing case. Staff alleges that SNGMo's purpose in the 2011 finance case was to achieve a capital structure of 40 percent debt to 60 percent equity and to finance its risky expansion into service area

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<sup>164</sup> 706 S.W.2d 870 (Mo. App., W.D. 1985).

<sup>165</sup> State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n of Missouri, 706 S.W.2d 870, 878-79 (Mo. App., W.D. 1985) citations omitted.

Lake of the Ozarks. But, as SNGMo notes, the 2011 financing case's purpose was not to determine rates.

On the contrary, the Commission's decision expressly stated:

Nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding. [<sup>166</sup>]

That ordered paragraph stands on the application's allegation<sup>167</sup> and the Commission's finding,<sup>168</sup> that the 2011 financing case's purpose was to "replace the various forms of existing debt held separately by Missouri Gas Utilities, Inc. and Southern Missouri with a single, long-term form of permanent financing." Nothing in the 2011 financing case requires Staff's hypothetical capital structure.

Also, Staff's premise for their position is that SNGMo's decision to expand in the service area Lake of the Ozarks equals the difference between the 2011 finance case's projections and the test year of 2013. The record does not support that assumption. Staff's premise is, and its conclusion therefore must be, speculative.

Staff provides no evidence of any gas utility with the capital structure that it proposes for SNGMo.<sup>169</sup> Staff refers to the capital structure of Colorado Natural Gas, but nothing shows that Colorado Natural Gas resembles SNGMo specifically in anything

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<sup>166</sup> File No. GO-2012-0102, EFIS No. 8, *Order Granting Application*, issued on December 21, 2011, page 3, ordered paragraph 1.A.

<sup>167</sup> File No. GO-2012-0102, EFIS No. 1, *Application and Motion for Expedited Treatment*, filed on October 3, 2011, page 3, paragraph 8; page 6, paragraph 14.

<sup>168</sup> File No. GO-2012-0102, EFIS No. 8, *Order Granting Application*, issued on December 21, 2011, page 2, first paragraph.

<sup>169</sup> EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 172, line 2-20.

but common ownership. Nothing shows that common ownership is significant as to capital structure, or that Colorado Natural Gas is representative of gas service in general. On the contrary, the evidence shows that the average capitalization for Missouri natural gas utilities is approximately 50:50, and the industry average is only slightly less leveraged at 48:52 debt-to-equity.

Staff also refers to a hypothetical capital structure for SNGMo's parent Summit Utilities, developed by Infrastructure Investment Fund's auditor.<sup>170</sup> The auditor used that hypothetical capital structure to determine the fair value of Infrastructure Investment Fund's equity in Summit Utilities.<sup>171</sup> The purpose and context of that value do not appear in the record. In any event, Staff does not explain the relevance of a hypothetical capital structure for Summit Utilities to a hypothetical capital structure for SNGMo.

SNGMo has shown the capital structure under which it actually operated. The desire of Staff and OPC to protect customers from speculative projects is appropriately motivated. But a hypothetical capital structure as Staff and OPC propose is not the means to that end.

Just and reasonable rates protect customers from risky conduct, because that conduct is not within the customers' control, and customers do not profit if the risk is successful. Owners have control over that conduct and profit if the risk is successful. Therefore, owners should bear the loss if the risk is unsuccessful.

Therefore, SNGMo shall file compliance tariffs that set SNGMo's capital structure at 43 percent debt and 57 percent equity.

#### *ii. Cost of Debt*

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<sup>170</sup> EFIS No. 211, Exh. No. 130, *Surrebuttal Testimony of David Murray*, page 7-8.

<sup>171</sup> EFIS No. 211, Exh. No. 130, *Surrebuttal Testimony of David Murray*, page 7-8.

The Commission is setting SNGMo's cost of debt at SNGMo's proposed 3.21 percent per year, which is what SNGMo paid in the test year. Staff proposes a hypothetical cost of debt based in part on its hypothetical capital structure and in part on the cost of debt for Colorado Natural Gas.

Staff	Commission	SNGMo
5.37	<b>3.21</b>	3.21

Staff's argument is less persuasive than SNGMo's.

#### Findings of Fact

1. SNGMo has \$100 million of long-term debt outstanding, all of it due on December 31, 2015,<sup>172</sup> at a rate of 3.21 percent<sup>173</sup> variable<sup>174</sup> during the test year. That amount of debt is low for a utility, and very short-term.<sup>175</sup>

2. If SNGMo had a credit rating from Bloomberg Finance, L.P. ("Bloomberg"), SNGMo's credit rating would be 'B.'<sup>176</sup> Bloomberg's B-rated debt paid 7.60 percent in December 2013.<sup>177</sup> Bloomberg's BB-rated debt paid 7.35 percent.

3. Colorado Natural Gas cost of debt is 5.37 percent, variable. That interest rate was set more than two years ago. The terms of that debt allocate to Colorado Natural Gas certain extra risks that a lender ordinarily assumes. Those facts make Colorado Natural Gas cost of debt lower than it otherwise would be.

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<sup>172</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 38.

<sup>173</sup> EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 115, line 18-20.

<sup>174</sup> EFIS No. 184, Exh. No. 104, *Staff Report Cost of Service*, page 17.

<sup>175</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 38.

<sup>176</sup> EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 11.

<sup>177</sup> EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 11.

4. If SNGMo's capital structure were the same as Colorado Natural Gas, SNGMo's cost of 20-year debt would have to be from 6.5 percent to 7 percent.<sup>178</sup> That cost of debt would require a rate increase greater than a 3.21 cost of debt does.

5. Colorado Natural Gas also differs significantly from SNGMo in other ways. Compared to SNGMo, Colorado Natural Gas has 16 percent more customers, 40 percent less debt, and 47 percent higher earnings before interest, tax, depreciation, and amortization even counting earnings from the service area Lake of the Ozarks.<sup>179</sup>

#### Discussion and Conclusions of Law

SNGMo argues for the cost of debt under which SNGMo actually functioned in the test year: 3.21 percent annual rate. SNGMo's actual paid rate in the test year, where all other data comes from, is persuasive. The hypothetical cost of debt that Staff offers—5.0 percent annually—based on Staff's hypothetical capital structure is not persuasive.

Staff argues that determining SNGMo's cost of debt according to its current capital structure is inappropriate because that capital structure is temporary. But the Commission has already favored SNGMo's capital structure. Staff argues that SNGMo's test-year 3.21 percent annual rate is too low because it is a variable rate. But so is long-term debt of Colorado Natural Gas, Staff's chosen proxy.

Staff argues that Colorado Natural Gas constitutes a reasonable proxy for what SNGMo would look like if SNGMo had not expanded into the service area Lake of the Ozarks. The Commission concludes that Colorado Natural Gas is not a reasonable

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<sup>178</sup> EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 15-16.

<sup>179</sup> EFIS No. 162, Exh. No. 2, *Rebuttal Testimony of James M. Anderson*, page 4.

proxy for SNGMo because of the significant differences in customer base, earnings, debt, terms of debt, and capital structure.

On this record, the Commission concludes that the cost of SNGMo’s long-term debt should be 3.21 percent. Therefore, SNGMo shall file compliance tariffs that set SNGMo’s cost of long-term debt at 3.21% per year.

iii. Return on Equity

The parties offer a range of returns on equity, and the Commission’s determination is as follows.

Staff			Commission	SNGMo		
Low	Midpoint	High		Low	Midpoint	High
9.80	10.30	10.80	<b>10.80</b>	12.00	15.00	17.60

The recommendation of SNGMo’s expert is 15.00 percent,<sup>180</sup> but SNGMo confines its request to 12.00 percent.<sup>181</sup> Even so, SNGMo’s evidence is less persuasive than Staff’s as discussed below.

Findings of Fact

1. To calculate the appropriate return on equity for a regulated gas company, the ordinary method is to project returns on equity from other companies (“proxies”) by formulas in which the variables are economic and financial information.<sup>182</sup> Using several different formulas checks the reasonableness of the result.

a. The Proxy Group

2. Better documented information about a proxy, and closer resemblance between the proxy and the subject company, make for a better projection.

<sup>180</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 42-47.

<sup>181</sup> EFIS No. 164, Exh. No. 4, *Direct Testimony of Michelle A. Moorman*, page 14.

<sup>182</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

3. Standard qualifications for a regulated gas company's proxy include entities having:

- a. Stock publicly traded;
- b. At least 65 percent operating income from distribution;
- c. At least 65 percent of assets are distribution assets;
- d. Two analysts for long-term projected EPS growth available within the last 90 days;
- e. Positive historical 5-year compound annual growth rate in dividends per share; and
- f. At least investment grade credit rating.<sup>183</sup>

4. The following entities ("proxy group") have those qualifications.<sup>184</sup>

- a. AGL Resources
- b. Atmos Energy Corp.
- c. Laclede Group, Inc.
- d. New Jersey Resources
- e. Northwest Natural Gas
- f. Piedmont Natural Gas
- g. Southwest Gas Corp.
- h. WGL Holdings, Inc.

All entities in the proxy group have a credit rating of "A".<sup>185</sup> The difference between the bonds of the proxy group and the bonds of SNGMo is two percent.<sup>186</sup>

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<sup>183</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 22.

<sup>184</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 22.

5. The following entities (“non-proxy group”) do not have those qualifications.
- a. NiSource. During calendar year 2013, NiSource only derived 38.95 percent of its operating income from its gas distribution operations.<sup>187</sup>
  - b. UGI's gas distribution operations only contributed 23.64 percent to the total operating income, while its AmeriGas Propane operations contributed 47.46 percent to its total operating income.<sup>188</sup>
  - c. South Jersey Industries lacked at least two analyst reports for long-term projected EPS growth within the last 90 days.<sup>189</sup>

b. Constant Growth DCF

6. Experts use several methods for determining the return on equity for a regulated gas company. Constant Growth Discounted Cash Flow (“Constant Growth DCF”) is the best for a mature industry like gas service, and others are useful to check the result.

7. Constant Growth DCF determines return on equity by the following formula.

$$k = D/P_0 + g$$

where  $k$  is the cost of equity;  $D_1$  is the expected next 12 months dividend;  $P_0$  is the current price of the stock; and  $g$  is the dividend growth rate. The term  $D/P_0$ , the expected next 12 months dividend divided by current share price, is the dividend yield.

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<sup>185</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

<sup>186</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

<sup>187</sup> EFIS No. 199, Exh. No. 118, *Rebuttal Testimony of David Murray*, page 12.

<sup>188</sup> EFIS No. 199, Exh. No. 118, *Rebuttal Testimony of David Murray*, page 12.

<sup>189</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.



8. Historically, gas companies grow at approximately four percent, but more recent growth factors have reached five percent. Using those growth factors, and a projected average dividend yield of 3.80 percent, unadjusted for quarterly compounding, yields returns on equity of 7.8 to 8.8.

#### c. CAPM

9. The Capital Asset Pricing Method (“CAPM”) assumes that returns follow risk. The pure time value of money is a risk-free investment. The market as a whole has risk (“market risk”). Therefore, the reward for investing in the market is the difference between a risk-free investment and market risk. Market risk compared to the risk of a specific asset is  $\beta$ , the divergence of the asset from the market.

10. CAPM determines return on equity by the following formula:

$$k = R_f + \beta(R_m - R_f)$$

where  $k$  is the expected return on equity,  $R_f$  is a risk-free rate, and  $R_m$  is market risk.

11. The proxy group has a  $\beta$  of 0.80.<sup>190</sup> The difference in returns between stocks and bonds shows the market risk premium: calculated arithmetically, 4.64; calculated geometrically, 6.20.<sup>191</sup> Using those market risk premiums and a risk-free rate of 3.60<sup>192</sup> yields a return on equity of 7.31 to 8.55<sup>193</sup> for the proxy group.

#### d . Total Return

12. Total Return uses historical price with dividends reinvested over time. Employing the period December 31, 2007, through October 15, 2013, and a 4.4 percent

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<sup>190</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

<sup>191</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 32-33.

<sup>192</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 32.

<sup>193</sup> EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 33.

risk premium yields a return on equity of 12.5 percent for the proxy group and the entities and the non-proxy group.

#### Discussion and Conclusions of Law

When serving impoverished or remote areas of Missouri, financial risk and social value are inextricably bound together. OPC alleges that SNGMo is using its return on equity proposal to raise rates as a conduit to compensate for its shortfall and the Commission should not reward SNGMo for overbuilding. But the Commission has already addressed the issue of excess capacity in each service area.

SNGMo's evidence for return on equity is less credible than Staff's. The reasons include without limitation the following. SNGMo's witness for return on equity is not a shareholder,<sup>194</sup> but is also not an outside expert. SNGMo's expert has a long history of interests related to SNGMo and its owners, including the sale of securities among those entities,<sup>195</sup> and past seats on boards of directors, and current alternate status on boards of directors,<sup>196</sup> when SNGMo's projections led to the unfulfilled aspirations at the heart of this litigation.

Also, SNGMo bases its estimate for return on equity in part on the non-proxy group.<sup>197</sup> The growth factor employed is unrealistically high. Even if one disregards the increased rate shock, and disregards the possibility of risk-shifting, one cannot

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<sup>194</sup> EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 140, line 7.

<sup>195</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 6.

<sup>196</sup> EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 139, line 18, to page 140, line 5-7.

<sup>197</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 44.

disregard SNGMo's decision to distance itself from its own expert's range.<sup>198</sup> Altogether, the Commission accords that range less weight in constructing safe and adequate service at just and reasonable rates.

Staff's results are more convincing because Staff's standards for admittance into the proxy group are higher, and Staff's analyses are more thorough as to growth in Constant Growth DCF and market risk premium in CAPM. Therefore, the Commission will choose a value from Staff's range.

Staff's range includes a risk factor of 2 percent. The Commission concludes that a risk factor is due. Staff's risk factor stands on the difference between SNGMo's bond rating and the bond rating of the proxy group. SNGMo disputes Staff's bond analysis but Staff's risk analysis inspires more confidence than SNGMo's. SNGMo offers a set of risk factors, totaling 4.4 percent, without evidence that experts—or anyone other than SNGMo's expert—ordinarily uses them.<sup>199</sup> The Commission also considers SNGMo's place in the debt market, and the need to keep SNGMo a worthwhile investment for its sole shareholder. The Commission further considers the social value of bringing gas service to parts of Missouri where it has not before been available. Those considerations move the Commission's determination to the high end of Staff's range, which is 10.80 percent.

OPC cites a rule of reasonableness that checks the reasonableness of a decision by comparison with other decisions. But the other decisions that OPC cites are from

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<sup>198</sup> EFIS No. 164, Exh. No. 4, *Direct Testimony of Michelle A. Moorman*, page 14.

<sup>199</sup> EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 52.

other States.<sup>200</sup> Those citations are less persuasive than past Commission decisions because, not only has OPC shown nothing about the controlling facts in those decisions, OPC has shown nothing about the controlling law. OPC has not shown that the cited decisions are comparable.<sup>201</sup>

Therefore, the Commission will order SNGMo to file compliance tariffs setting the maximum allowable return on equity at 10.80 percent.

#### D. Rate Design: Phase-In

Rate design is the manner in which SNGMo collects its revenue requirement: how much, from whom, and when. The last is in dispute: whether tariffs should mitigate rate shock by gradually phasing in a rate increase. The Commission is not ordering a phase-in of rates because no party offers a proposal that will support safe and adequate service at just and reasonable rates.

#### Findings of Fact

1. Members of MSBA formerly served by Southern Missouri (“the schools”) are within SNGMo’s service area. The schools are special transportation customers—they do not buy gas at retail from SNGMo, but pay SNGMo to deliver the gas that the schools buy from other retail sellers, both under a statutorily authorized aggregation program.<sup>202</sup>

2. SNGMo’s transportation customers send SNGMo an order for the amount of gas it will use in a coming month (“nomination”). If the nomination is too high, SNGMo

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<sup>200</sup> EFIS No. 271, *Public Counsel's Reply Regarding Return on Equity*, filed on October 23, 2014, page 2-3.

<sup>201</sup> The decisions are not in the record and OPC offers no authority under which Commission can take notice of those decisions. Similarly, Staff’s initial brief cites documents outside of the record in support of its argument on cost-of-service rate-making theory. The Commission has not relied on those documents.

<sup>202</sup> EFIS No. 208, Exh. No. 127, *Surrebuttal Testimony of Phil Lock*, page 2

has overbought. If the nomination is too low, SNGMo must supply more gas. The schools retain a pool operator to manage their nominations.<sup>203</sup>

3. Until January 1, 2014, the schools received a 10.77 percent discount on transportation services (“flex rate”). The flex rate represented transportation below cost.<sup>204</sup>

4. For deviations from the monthly nomination, SNGMo currently bills the schools under a balancing charge, the price of unused gas or extra gas needed, which rolls over as a credit or debit to the next month. Under the tariffs, the balancing charge will change to a cash-out due each month without rollover. The cash-out will include an amount (“cash price determinant”) that increases with the inaccuracy of the nomination and will be as high as 20 percent if the schools’ nomination is off by 15 percent, but is zero if the nomination is within five percent.<sup>205</sup>

#### Discussion and Conclusions of Law

MSBA asks the Commission to reduce rate shock by phasing in all or some of the rate increase gradually, and OPC agrees. This is a matter of rate design because it determines when SNGMo collects its new rates. Those rates will stand on SNGMo’s cost of service with a return as constitutionally required so a delay in collecting those rates requires compensation.

As authority for a phase-in, MSBA cites a statute that addresses phasing in rates for electrical corporations:

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<sup>203</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 349, line 7-25.

<sup>204</sup> EFIS No. 208, Exh. No. 127, *Surrebuttal Testimony of Phil Lock*, page 2.

<sup>205</sup> EFIS No. 149, *Partial Stipulation and Agreement*, filed August 18, 2014, page 4-5, paragraph 5.b.ii.

If, after hearing, the commission determines that any **electrical corporation** should be allowed a total increase in revenue that is primarily due to an **unusually large increase in the corporation's rate base**, the commission, in its discretion, need not allow the full amount of such increase to take effect at one time, but may instead phase in such increase over a reasonable number of years.<sup>206</sup>

Assuming that such law supports a phase-in for any entity other than an electric company, MSBA does not allege an unusually large increase in rate base. In fact, as discussed above under Excess Capacity, the Commission is reducing rate base.

MSBA cites the cash-out, but those arguments are inaccurate or unpersuasive for several reasons. Foremost, MSBA asked for the cash-out. The cash-out is a matter settled<sup>207</sup> with express and detailed tariff language<sup>208</sup> agreed to by MSBA.<sup>209</sup> Also, MSBA alleges that the cash-out price determinant will cost the schools 20 percent per year more than the balancing charge carry-over does, but the supporting testimony of MSBA's expert witness on that point is speculative at best,<sup>210</sup> because it assumes that the cash determinant will be 20 percent every month.<sup>211</sup> On the contrary, the schools control their nominations through a pool operator<sup>212</sup> and, if the nomination is within five percent, it incurs a cash-out determinant of zero.<sup>213</sup>

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<sup>206</sup> Section 393.155.1, RSMo 2000 (emphasis added).

<sup>207</sup> EFIS No. 149, *Partial Stipulation and Agreement*, filed August 18, 2014.

<sup>208</sup> EFIS No. 149, *Partial Stipulation and Agreement*, filed August 18, 2014, page 4-5, paragraph 5.b.ii.

<sup>209</sup> EFIS No. 149, *Partial Stipulation and Agreement*, filed August 18, 2014, page 10, lower left signature block.

<sup>210</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 370, line 20 to page 376, line 2.

<sup>211</sup> EFIS No. 240, Exh. No. 404.

<sup>212</sup> EFIS No. 159, *Transcript, volume 12*, filed on August 29, 2014, page 349, line 7-25.

<sup>213</sup> EFIS No. 149, *Partial Stipulation and Agreement*, filed August 18, 2014, page 4-5, paragraph 5.b.ii.

MSBA cites increases in the schools' costs for retail gas and transportation that are outside the Commission's jurisdiction or authority. Specifically, the statutes allow the schools to aggregate their purchases for retail gas like large industrial or commercial basic transportation customers:<sup>214</sup> for gas at retail on the open market and interstate for transportation regulated by the United States Federal Energy Regulatory Commission.<sup>215</sup> SNGMo's price for transportation to the schools is all that the Commission regulates.<sup>216</sup> And that regulation is further restricted by statutory requirements that the tariffs must not have any negative financial impact on SNGMo, SNGMo's customers, or local taxing authorities.<sup>217</sup>

MSBA cites the loss of the flex rate. The end of the flex rate means only that the schools pay the cost of serving them. That result is in accord with cost-of-service rate making. MPGA urges rates at the cost of service. MSBA does not advocate any other result.<sup>218</sup>

Also related to the cost of service, MSBA offers no support on a crucial condition of the statute that MSBA cites:

Any such phase-in **shall allow** the electrical corporation to recover **the revenue which would have been allowed in the absence of a phase-in** and shall make **a just and reasonable adjustment thereto to reflect the fact that recovery of a part of such revenue is deferred to future years**. In order to implement the phase-in, the commission may, in its discretion, approve tariff schedules which will take

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<sup>214</sup> Section 393.310, RSMo Supp. 2013.

<sup>215</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 355, lines 3 to 15.

<sup>216</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 355, lines 3 to 15.

<sup>217</sup> Section 393.310.5 and 6, RSMo Supp. 2013.

<sup>218</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 352, line 25-page 353, line 6 .

effect from time to time after the phase-in is initially approved.<sup>219</sup>

The emphasized language expresses the General Assembly’s understanding that just and reasonable rates deferred are no longer just and reasonable. To bring those rates back within constitutional standards, the Commission must provide an “adjustment” for deferral. The adjustment typically takes the form of a carrying cost, an amount to compensate SNGMo for the added expense during the deferral.<sup>220</sup> An adjustment must address those factors and the “reasonable number of years” that it shall last.

On those elements, MSBA and OPC offer no evidence. The most detailed suggestion is OPC’s argument that a phase-in should occur somewhere between more than “a single year”<sup>221</sup> and “over a number of years.”<sup>222</sup> Moreover, even if the Commission were inclined to construct a phase-in program for MSBA and OPC, there is no evidence that a phase-in would lessen the real hardship. Thus, MSBA and OPC have not shown that phased-in rates alleviate rate shock—MSBA’s primary theme—because the adjustment for deferral is always at the customer’s expense.

Therefore, SNGMo shall file compliance tariffs that do not phase in any rate increase.

#### **IV. Rulings**

For those reasons, the Commission rules as follows.

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<sup>219</sup> Section 393.155.1, RSMo 2000 (emphasis added).

<sup>220</sup> EFIS No. 159, *Transcript, Volume 12*, filed on August 29, 2014, page 347, line 7-23.

<sup>221</sup> EFIS No. 255, *Initial Brief of the Office of the Public Counsel*, filed on September 16, 2014, page 30.

<sup>222</sup> EFIS No. 258, *Reply Brief of the Office of the Public Counsel*, filed on September 26, 2014, page 16.



**THE COMMISSION ORDERS THAT:**

1. The tariff sheets assigned Tracking No. YG-2014-0285 are rejected. The specific tariff sheets rejected are set forth in the Appendix.
2. Summit Natural Gas of Missouri, Inc., shall file new tariff sheets in compliance with this report and order.
3. This report and order shall be effective on November 28, 2014.

**BY THE COMMISSION**



*Morris L. Woodruff*

Morris L. Woodruff  
Secretary

R. Kenney, Chm., Stoll, W. Kenney, and Hall, and Rupp, CC., concur; and certify compliance with Section 536.080, RSMo 2000.

Dated at Jefferson City, Missouri, on this 29<sup>th</sup> day of October, 2014.

## Appendix: Tariff Sheets Rejected

The tariff sheets rejected are:

<b><u>P.S.C. MO. No. 3</u></b>		
Original Sheet No. 1	Cancelling	P.S.C. MO No. 1 6th revised Sheet No. 1
Original Sheet No. 2	Cancelling	P.S.C. MO No. 1 4th revised Sheet No. 2
Original Sheet No. 3	Cancelling	P.S.C. MO No. 1 4th revised Sheet No. 3
Original Sheet No. 3A	Cancelling	P.S.C. MO No. 1 5th revised Sheet No. 3A
Original Sheet No. 3B	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 3B
Original Sheet No. 3C	Cancelling	P.S.C. MO No. 2 2nd revised Sheet No. v
Original Sheet No. 3D	Cancelling	P.S.C. MO No. 2 Original Sheet No. v.1
Original Sheet No. 4	Cancelling	P.S.C. MO No. 1 5th revised Sheet No. 4
Original Sheet No. 4A	Cancelling	P.S.C. MO No. 1 6th revised Sheet 4A
Original Sheet No. 4B	Cancelling	P.S.C. MO No. 1 Original Sheet No. 4D
Original Sheet No. 4C	Cancelling	P.S.C. MO No. 1 Original Sheet No. 4E
Original Sheet No. 4D	Cancelling	P.S.C. MO No. 2 Original Sheet No. vi
Original Sheet No. 4E	Cancelling	P.S.C. MO No. 2 1st revised Sheet No. vii
Original Sheet No. 4F	Cancelling	P.S.C. MO No. 2 1st revised Sheet No. viii
Original Sheet No. 4G	Cancelling	P.S.C. MO No. 2 Original Sheet No. ix
Original Sheet No. 4H	Cancelling	P.S.C. MO No. 2 2nd revised Sheet No. x
Original Sheet No. 4I	Cancelling	P.S.C. MO No. 2 Original Sheet No. xiii
Original Sheet No. 4J	Cancelling	P.S.C. MO No. 2 Original Sheet No. xi
Original Sheet No. 4K	Cancelling	P.S.C. MO No. 2 Original Sheet No. xii
Original Sheet No. 5	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 5
Original Sheet No. 6	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 6
Original Sheet No. 7	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 7
Original Sheet No. 8	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 10
Original Sheet No. 9	Cancelling	P.S.C. MO No. 1 4th revised Sheet No. 11
Original Sheet No. 10	Cancelling	P.S.C. MO No. 1 Original Sheet No. 11A
Original Sheet No. 11	Cancelling	P.S.C. MO No. 2 2nd revised Sheet No. 1
Original Sheet No. 12		
Original Sheet No. 13	Cancelling	P.S.C. MO No. 2 3rd Revised Sheet No. 1.1
Original Sheet No. 14		
Original Sheet No. 15	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 13
Original Sheet No. 15A	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 14
Original Sheet No. 16	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 15
Original Sheet No. 16A	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 16
Original Sheet No. 17	Cancelling	P.S.C. MO No. 1 Original Sheet No. 15A
Original Sheet No. 17A	Cancelling	P.S.C. MO No. 1 Original Sheet No. 16A
Original Sheet No. 18	Cancelling	P.S.C. MO No. 2 2nd revised Sheet No. 1.2
Original Sheet No. 19		
Original Sheet No. 20	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 17
Original Sheet No. 20A	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 18
Original Sheet No. 21	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 19
Original Sheet No. 21A	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 20

Original Sheet No. 22	Cancelling	P.S.C. MO No. 1 Original Sheet No. 19A
Original Sheet No. 22A	Cancelling	P.S.C. MO No. 1 Original Sheet No. 20A
Original Sheet No. 23	Cancelling	P.S.C. MO No. 2 2nd revised Sheet No. 2
Original Sheet No. 23A	Cancelling	P.S.C. MO No. 2 Original Sheet No. 3
Original Sheet No. 24		
Original Sheet No. 24A		
Original Sheet No. 25	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 24
Original Sheet No. 26	Cancelling	P.S.C. MO No. 1 3rd revised Sheet No. 23
Original Sheet No. 27		
Original Sheet No. 28	Cancelling	P.S.C. MO No. 2 3rd revised Sheet No. 6
Original Sheet No. 29		
Original Sheet No. 30	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 25
Original Sheet No. 31	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 26
Original Sheet No. 32	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 27
Original Sheet No. 33	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 28
Original Sheet No. 34		
Original Sheet No. 35	Cancelling	P.S.C. MO No. 1 2 <sup>nd</sup> revised Sheet No. 29
Original Sheet No. 36	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 29A
Original Sheet No. 37	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 30
Original Sheet No. 38		
Original Sheet No. 39	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 33
Original Sheet No. 39A		
Original Sheet No. 40	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 34
Original Sheet No. 41	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 35
Original Sheet No. 42	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 36
Original Sheet No. 43	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 37
Original Sheet No. 43A	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 37A
Original Sheet No. 43B	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 37B
Original Sheet No. 43C	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 37C
Original Sheet No. 44	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 38
Original Sheet No. 45	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 39
Original Sheet No. 46	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 40
Original Sheet No. 47	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 41
Original Sheet No. 48	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 42
Original Sheet No. 49	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 43
Original Sheet No. 50	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 44
Original Sheet No. 51	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 45
Original Sheet No. 52	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 46
Original Sheet No. 53	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 47
Original Sheet No. 54	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 48
Original Sheet No. 55	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 49
Original Sheet No. 56	Cancelling	P.S.C. MO No. 1 13th revised Sheet No. 51
Original Sheet No. 57	Cancelling	P.S.C. MO No. 1 7th revised Sheet No. 52
Original Sheet No. 58	Cancelling	P.S.C. MO No. 2 Original Sheet No. 27
Original Sheet No. 59	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 54
Original Sheet No. 60	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 55

Original Sheet No. 61	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 57
Original Sheet No. 62	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 58
Original Sheet No. 63	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 59
Original Sheet No. 64	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 60
Original Sheet No. 65	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 61
Original Sheet No. 66	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 62
Original Sheet No. 67	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 63
Original Sheet No. 68	Cancelling	P.S.C. MO No. 1 1st revised Sheet No. 64
Original Sheet No. 69	Cancelling	P.S.C. MO No. 1 2nd revised Sheet No. 65
Original Sheet No. 70	Cancelling	P.S.C. MO No. 1 Original Sheet No. 65A
Original Sheet No. 71	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 66
Original Sheet No. 72	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 67
Original Sheet No. 73	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 68
Original Sheet No. 74	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 69
Original Sheet No. 75	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 70
Original Sheet No. 76	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 71
Original Sheet No. 77	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 72
Original Sheet No. 78	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 73
Original Sheet No. 79	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 74
Original Sheet No. 80	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 75
Original Sheet No. 81	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 76
Original Sheet No. 82	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 78
Original Sheet No. 83	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 79
Original Sheet No. 84	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 81
Original Sheet No. 85	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 83
Original Sheet No. 86	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 84
Original Sheet No. 87	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 85
Original Sheet No. 88	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 86
Original Sheet No. 89	Cancelling	P.S.C. MO No. 1 1st Revised Sheet No. 87

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