

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

In the matter of the Joint Application of Fidelity )  
Natural Gas, Inc. and Laclede Gas Company )  
for an order authorizing the sale and transfer )  
of certain assets of Fidelity Natural Gas, Inc. )  
located in Missouri to Laclede Gas Company )      Case No. GM-2006-0183  
and either authorizing the transfer of existing )  
Certificates of Public Convenience and )  
Necessity or granting a New Certificate of Public )  
Convenience and Necessity to Laclede Gas )  
Company in conjunction with same. )

**STAFF’S SUGGESTIONS IN SUPPORT OF UNANIMOUS STIPULATION AND  
AGREEMENT**

**COMES NOW** the Staff of the Missouri Public Service Commission and respectfully submits as follows:

**I.      PROCEDURAL HISTORY**

On October 21, 2005, Fidelity Natural Gas, Inc. (Fidelity) and Laclede Gas Company (Laclede)(collectively Joint Applicants) filed a Joint Application with the Missouri Public Service Commission (Commission) for an order authorizing the sale and transfer of certain assets of Fidelity to Laclede and granting a new certificate of public convenience and necessity to Laclede in conjunction with the sale. At the same time, the Joint Applicants filed with the Commission a Motion for Expedited Treatment requesting approval no later than January 1, 2006, if possible.

On October 25, 2005, the Commission issued its Order Directing Notice And Establishing Date For Intervention which established an intervention date of November 14, 2005. The Commission received no requests for intervention.

On December 16, 2005 Staff filed its Recommendation in this case. Staff recommended approval of the transaction subject to six conditions. These conditions dealt with Service Quality Conditions, Depreciation, ACA/PGA, Tariff, Acquisition Costs, Surveillance, and Financial Issues/Cost of Capital. Each of these conditions is covered in the Stipulation and Agreement.

On February 1, 2006, a public hearing was held in Sullivan, Missouri. On February 14, 2006, the Parties filed a Unanimous Stipulation and Agreement. Staff signed the Unanimous Stipulation and Agreement because Staff believes that approval of the transaction, subject to the conditions contained in the Unanimous Stipulation and Agreement, is not detrimental to the public interest.

Staff will not comment on each of the conditions in the Stipulation and Agreement. Instead, Staff will present information about several key conditions of approval and be available to present any further information desired by the Commission.

## **II. CONDITIONS OF APPROVAL**

### **PROVISION OF SERVICE**

Pursuant to this condition, Laclede agrees that it will operate the Fidelity system to provide gas service in the areas previously served by Fidelity in accordance with the existing rules, regulations, rates, and tariffs of Fidelity in effect on the effective date of the sale until a Commission Report and Order in Laclede's next general rate case. Laclede agreed to operate the Fidelity system separately from the Laclede system and will adopt the current Fidelity tariffs for that purpose.

Staff believes that it is essential that Fidelity be operated separately from the Laclede system until Laclede's next general rate case since all of the matters regarding rates are better determined in that context. This was part of Staff's recommendation. Staff had concerns about

setting rates outside of the context of a rate case. The issues of Laclede's rates in this new service area will be determined in Laclede's next general rate case, subject to Laclede's ability to apply for combined treatment as discussed below.

However, the Parties agreed that Laclede may file an application with the Commission to begin serving the former Fidelity customers under Laclede's rules, regulations, rates, tariffs, deposit and credit requirements but must show that the application of such rules, regulations, rates, depreciation treatment and tariffs at such time and on the terms proposed by Laclede is in the public interest including the interests of both Laclede's customers and the former Fidelity customers. Staff certainly has no objection to such an application by Laclede since the burden of proof and persuasion is on Laclede. This two step process was made necessary by the belief that purchased gas recoveries and expenses may affect the evaluation of customer bill impacts once further information is known about Fidelity's gas costs and recoveries this winter. The public interest is served and all entities are protected via this process.

#### **FINANCIAL ISSUES/COST OF CAPITAL**

It has become a hallmark of cases of this nature that the purchasing party, herein Laclede, will not seek an increase in Cost of Capital as a result of this transaction. Further safeguards are in place that put the burden on Laclede to prove any Cost of Capital increases are not a result of this transaction. This condition was also in the Staff Recommendation

#### **ACQUISITION COSTS/PLANT IN SERVICE**

The Parties agreed that there is no acquisition premium associated with Laclede's acquisition of the Fidelity assets. If Laclede seeks inclusion in rate base in future rate proceedings at a value in excess of the amount reflected in the purchase price for these properties, then Laclede must prove that it is reasonable and otherwise appropriate to include

such value in the rate base used to establish just and reasonable rates. The Parties specifically agreed that Laclede steps into the position of Fidelity for ratemaking purposes. Laclede must keep its books and records so that amounts invested in plant in service by Fidelity prior to the date of the closing of this transaction, and the net original cost values that Laclede asserts may be invested following the date of the closing of the transaction can be readily identified. This is crucial since it places the burden on Laclede for any attempt to value assets higher than the purchase price.

### **RATES**

Laclede shall provide natural gas and transportation service to the customers previously served by Fidelity at existing Fidelity rates. This insures that no rate increase occurs for Fidelity customers. These rates may only change subject to a finding that a change from Fidelity's existing rates to Laclede's rates is in the public interest of both Fidelity's and Laclede's customers.

### **ACTUAL COST ADJUSTMENT/PGA ISSUES**

One of Staff's paramount concerns was that some entity would be there to account for Staff audits of Fidelity's PGA/ACA. Laclede assumes that role. The Parties also agreed that Fidelity and Laclede's PGA/ACA filings shall be separate and distinct, unless there is a subsequent Laclede application and finding that such combination is in the public interest. This is another component of the rates that will stay separate. This was a part of Staff's recommendation in this case.

### **DEPRECIATION RATES**

Laclede, for purposes of accruing depreciation expense, will continue to book the depreciation rates of Fidelity Natural Gas, Inc. until the Commission orders otherwise. This was

part of Staff's Recommendation in this case. Staff also notes that there are a few Fidelity accounts that do not have Commission ordered depreciation rates. Laclede's depreciation rates will be booked for these accounts. This results when new, typically small, utility companies complete their build-out and encounter capital expenditures that were not anticipated at the time of their application for a certificate. Generally these amounts are small in comparison to total ratebase and smaller with respect to accrued depreciation. In this instance the amount is approximately \$1,276 of depreciation accrual.

### **SURVEILLANCE**

Upon approval of this transaction, Laclede will continue to provide surveillance reports to the Auditing Department of the Utility Services Division on the same basis as previously provided to the Staff prior to the closing of the transaction. This will provide Staff continued information regarding the combined operations of Laclede and Fidelity.

### **SERVICE QUALITY STANDARDS**

Laclede will continue its commitment to the customer service performance measures and customer service operating procedures previously agreed to by Laclede, Staff and the Office of Public Counsel in Case No. GR-2005-0284 and will provide written notice to the former Fidelity customers of the transaction and how to contact Laclede and the Commission.

### **ADHERENCE TO MISSOURI RULES**

Laclede merely reaffirmed its duties to comply with all Missouri Commission rules, reporting requirements and other practices, and its filed and approved tariffs.

### **NO DETRIMENTAL IMPACT**

Laclede agrees that this transaction will not have any detrimental effect on Laclede's Missouri utility customers, including, but not limited to: increased rates or any effect on quality

of service. Laclede further acknowledges that the Commission has the ability to act to protect such customers from any such detrimental effects.

### **COMMISSION AUTHORITY**

Laclede agrees that the Commission has, and will continue to have, the authority after the proposed acquisition to regulate through the lawful exercise of its statutory powers, and ensure the provision of service instrumentalities and facilities as shall be safe and adequate and in all respects just and reasonable and not jeopardize the ability of Laclede to meet its Missouri utility obligations. Staff uses this provision to be sure that there is no question that the Commission's authority is in no way limited by the Stipulation and Agreement.

### **RATEMAKING TREATMENT**

Nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, and that the Signatory Parties expressly agree and acknowledge that the Commission reserves the right to consider the ratemaking treatment to be afforded this transaction in any subsequent proceeding. Staff uses this provision to specify that no ratemaking determinations have been made in this case.

**WHEREFORE**, Staff respectfully requests that the Commission issue its order approving the Stipulation and Agreement.

Respectfully submitted,

**/s/ Robert V. Franson**

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**CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 17<sup>th</sup> day of February, 2006.

**/s/ Robert V. Franson**