

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY**

June 28, 2001

CASE NO: GR-99-315

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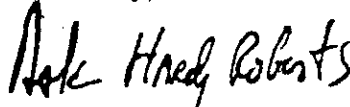
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Enclosed find certified copy of an ORDER in the above-numbered case(s).

Sincerely,



**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

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



In the Matter of Laclede Gas Company's Tariff)
to Revise Natural Gas Rate Schedules.)

Case No. GR-99-315

SECOND REPORT AND ORDER

Issue Date: June 28, 2001

Effective Date: July 8, 2001

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Laclede Gas Company's Tariff)
to Revise Natural Gas Rate Schedules.) **Case No. GR-99-315**

APPEARANCES

Gerald T. McNeive, Jr., Senior Vice President-Finance and General Counsel, **Michael C. Pendergast**, Associate General Counsel, **Thomas M. Byrne**, Associate Counsel, and **Ellen L. Theroff**, Assistant General Counsel, Laclede Gas Company, 720 Olive Street, St. Louis, Missouri 63101, for Laclede Gas Company.

Ronald K. Evans, Managing Associate General Counsel, and **Susan B. Knowles**, Attorney, Ameren Services Company, One Ameren Plaza, 1901 Chouteau Avenue, Post Office Box 66149 (MC1310), St. Louis, Missouri 63166, for Union Electric Company, d/b/a AmerenUE.

Diana M. Vuylsteke, Bryan Cave LLP, One Metropolitan Square, 211 North Broadway, Suite 3600, St. Louis, Missouri 63102, for Adam's Mark Hotels, Alcoa Foil Products (Alumax, Inc.), Anheuser-Busch Cos., Inc., The Boeing Company, Ford Motor Company, General Motors Corporation, Hussmann Refrigeration, MEMC Electronic Materials, Inc., Monsanto Company, Paulo Products Company, Procter & Gamble Manufacturing Company, and Ralston Purina Company (the "Missouri Industrial Energy Consumers").

Robert C. Johnson, Attorney at Law, 720 Olive Street, Suite 2400, St. Louis, Missouri 63102, for Barnes-Jewish Hospital, DaimlerChrysler Corporation, Emerson Electric Company, and SSM HealthCare (the "Missouri Energy Group").

John D. Landwehr, Cook, Vetter, Doerhoff & Landwehr, P.C., 231 Madison Street, Jefferson City, Missouri 65101, for MRT Energy Marketing Company.

Douglas E. Micheel, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Thomas R. Schwarz, Jr., Deputy General Counsel, **Marc D. Poston**, Senior Counsel, **Cliff E. Snodgrass**, Senior Counsel, **David J. Stueven**, Assistant General Counsel, and **Nathan Williams**, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: Nancy Dippell, Senior Regulatory Law Judge.

SECOND REPORT AND ORDER

A Report and Order in this case was issued on December 14, 1999. An Order of Clarification was issued on December 21, 1999, and the Order Approving Tariffs issued December 23, 1999. On December 1, 2000, an Order and Judgment from the Circuit Court of Cole County was issued which remanded the case to the Commission for "findings of fact sufficient to support resolution of the net salvage issue." The Commission sets out the following findings of fact and conclusions of law in compliance with the Order and Judgment.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position, or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision. The Commission adopts in its entirety its previous Report and Order, and in addition makes these additional findings of fact.

Depreciation -- Net Salvage Value

The method for calculating net salvage value with regard to depreciation rates is at issue in this case. The Staff of the Missouri Public Service Commission argued that to calculate the depreciation on the future cost of removal, the Commission should use the actual amounts the company is paying per year for the cost of removal. Laclede Gas Company argued that the calculation for depreciation should be made by estimating the future cost of removal and spreading that cost over the life of the asset.

Currently, Laclede is recovering more in depreciation for net salvage than it is spending. In addition, ratepayers will pay \$2.3 million more in depreciation annually under Laclede's method of calculation. Under Laclede's theory, it would be allowed to recover from its *current* customers the estimated cost of *future* expenditures. Laclede has no definite plans for the removal of the major assets involved in this net salvage calculation. Laclede is not currently spending funds on the removal or salvage of these assets. Laclede's arguments for spreading the costs of the removal of these assets among different generations of customers were not persuasive because of the uncertainty of how much cost will be incurred for removal, when the removal will occur, or if the removal will occur at all. Therefore, the Commission finds that Laclede has failed to meet its burden of showing that its depreciation calculation for net salvage is just and reasonable. Laclede has not shown why it is just and reasonable to recover from its current customers more than its current expenditures for net salvage.

The Commission finds that Staff's proposed calculation of net salvage cost is just and reasonable. Staff's proposed calculation will allow Laclede to collect from its current customers the amount Laclede is currently expending for final net salvage cost for mass

property accounts. Staff's calculation will also allow recovery of the amount Laclede is expending for interim cost of removal for life span property accounts. Thus, Staff's calculation will allow Laclede to recover the amounts it is currently spending for net salvage without overrecovering from its ratepayers, which is a just and reasonable result. This level of net salvage is adequate to allow Laclede to fully recover the net salvage of all plant.

The Commission finds, therefore, that the calculation of net salvage cost in this case shall be performed in accordance with Staff's recommendations. Thus, current depreciation rates should reflect a net salvage component of the depreciation rate that, when multiplied by the plant balance, gives an annual accrual consistent with the current net salvage amounts experienced by Laclede. Laclede's current depreciation rates reflect this computation, and therefore, should remain unchanged, with the exception of Account 362, Gas Holders.¹ This will result in an annual accrual of \$21,054,647.

The Commission further finds that Laclede's depreciation accrual balance represents an overrecovery of \$26,5755,903. Therefore, in accordance with Staff's recommendation, the current depreciation rates, with the exception of Account 362, Gas Holders, shall remain in effect to allow the Staff to observe if the accrual balances continue to overrecover, underrecover, or stay constant.

Laclede has historically submitted a general rate case to the Commission every few years. This process of rate adjustment is sufficient to compensate Laclede if the net salvage should increase in the future. If in the future Laclede's expenditures for net salvage exceed the amount it is collecting from its customers, Laclede can and should apply for new depreciation rates.

¹ The treatment of depreciation for Gas Holders was discussed previously in the Report and Order.

Conclusions of Law

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

Laclede Gas Company is a public utility engaged in the provision of natural gas service to the general public in the state of Missouri and, as such, is subject to the general jurisdiction of the Missouri Public Service Commission pursuant to Chapters 386 and 393, RSMo 2000. The Commission also has the authority to prohibit implementation of gas service rates that are unjust or unreasonable rates. Section 393.130, RSMo 2000. The burden of proof to show that a proposed tariff is just and reasonable is upon the utility. Section 393.150.2, RSMo 2000.

The orders of the Commission must be based on substantial and competent evidence, taken on the record as a whole, and must be reasonable and not arbitrary, capricious, or contrary to law. Section 536.140, RSMo 2000. Based upon its findings of fact, the Commission concludes that in order to set just and reasonable rates, Laclede Gas Company's depreciation calculation for net salvage value shall be made in accordance with the Staff's recommendations.

IT IS THEREFORE ORDERED:

1. That the Report and Order issued on December 14, 1999, is readopted by the Commission in its entirety with the additional findings of fact set out in this Second Report and Order.
2. That the calculation of net salvage value for the determination of depreciation rates shall be done in accordance with Staff's recommendations.

3. That any objection not ruled on is overruled, any motion not ruled on is denied, and any exhibit not admitted is excluded.

4. That this Second Report and Order shall become effective on July 8, 2001.

BY THE COMMISSION



**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

(S E A L)

Lumpe, Ch., Simmons and Gaw,
CC., concur;
Murray, C., dissents, with dissenting
opinion attached;
certify compliance with the
provisions of Section 536.080,
RSMo 2000.

Dated at Jefferson City, Missouri,
on this 28th day of June, 2001.

ALJ/Secretary:

Dynell Pence

Date Circulated

6-22

CASE NO.

GR-99-315

Laumpe, Chair

ds

~~Residing Vice Chair~~

Murray, Commissioner

NO

Dissent Attached

KS

Simmons, Commissioner

7/16

Gaw, Commissioner

6-28

Agenda Date

Action taken:

3-1 AS

Must Vote Not Later Than

STATE OF MISSOURI

OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and
I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 28th day of June 2001.

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

