

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of United Cities Gas Company for)
authority to file a tariff increasing rates for)
gas service to customers in the Missouri service)
area of the Company.)

9-91
CASE NO. GR-91-249

APPEARANCES: Gary W. Duffy, Attorney at Law, Brydon, Swearingen & England, P.C.,
P. O. Box 456, Jefferson City, Missouri 65102, for United Cities
Gas Company.

Lewis R. Mills, Jr., First Assistant Public Counsel, P. O. Box 7800,
Jefferson City, Missouri 65102, for the Office of the Public
Counsel and the Public.

William M. Shansey, Assistant General Counsel, P. O. Box 360,
Jefferson City, Missouri 65102, for the Staff of the Missouri
Public Service Commission.

HEARING

EXAMINER: Mark Grothoff

REPORT AND ORDER

On January 11, 1991, United Cities Gas Company (United Cities) submitted tariffs reflecting increased rates for gas service provided to customers in its Missouri service area. On February 8, 1991, the Commission suspended the tariffs until December 11, 1991, and established a procedural schedule for the filing of testimony and a hearing to be held August 26, 1991 through August 30, 1991.

A Stipulation and Agreement was filed by the parties for Commission consideration on August 23, 1991. A hearing was held as scheduled on August 26, 1991, in which the Stipulation and Agreement and the prefiled testimony was placed on the record. All of the parties waived cross-examination and reading of the transcript by the Commission.

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:

Prior to 1985, Great River Gas Company (Great River), Osage Natural Gas Company (Osage), and Bowling Green Gas Company (Bowling Green) were all independent natural gas companies in Missouri. Since 1985, each of them has been acquired by United Cities. Through this case, United Cities is attempting to consolidate the separate rate schedules and regulations of Great River, Osage, and Bowling Green into one complete set of tariffs applicable to all three service areas and has submitted tariffs designed to produce a revenue increase of \$1,940,000; an increase of approximately 19 percent.

On August 23, 1991, the parties filed a Stipulation and Agreement (Attachment A to this Report and Order and incorporated herein by reference) which proposed to settle all issues in this case. The Stipulation and Agreement provides for an increase in United Cities' annual gas revenues by \$1,300,000 above test year rate revenues, which is approximately a 14.36 percent increase in total revenues for United Cities.

This would be United Cities' first rate increase since 1985, and the first since the merger of United Cities with Great River, Osage, and Bowling Green. Those 1985 rates were based largely on a 1984 test period. In addition, approximately \$800,000 of the proposed revenue increase is attributable to an increased investment by United Cities in the former Great River, Osage, and Bowling Green service areas.

United Cities has realized an increase in its rate base of approximately \$3 million since its merger with Great River, Osage, and Bowling Green. Included in that figure is approximately \$5 million invested by United Cities in plant operations

(i.e. mains and services). The \$5 million figure represents a 50 percent increase in plant expenditures since 1984.

The Commission Staff (Staff) originally proposed a revenue increase of \$1,143,047. After considering the above-related issues, and the issues of rate of return and true-up additions, Staff agreed on the figure of \$1,300,000. The Commission finds this figure to be reasonable. The Commission has reviewed the tariffs stipulated by the parties and finds that they are reasonable. The Commission further finds that the Stipulation and Agreement is just and reasonable and should be approved.

The tariffs and the Stipulation and Agreement provide for some changes in United Cities' rate design. The rate design currently charges transportation customers a lower margin rate than comparable sales customers. United Cities has been forced to pass the costs avoided by transportation customers on to other ratepayers. United Cities seeks to close this loophole in its rate design by making the applicable sales and transportation rates equal. Even though such a change may have a significant effect on current transportation customers, the Commission finds that correcting the inequity in the transportation and sales rates in this manner is reasonable.

In addition, the proposed interruptible transportation service tariff requires customers to have an alternate fuel source. United Cities' current tariff does not contain the same requirement. Presently, only four of the 78 interruptible transportation service customers have an alternate fuel source. United Cities has reclassified the 74 customers who did not satisfy the requirement from interruptible customers to firm service customers. The firm service rate is higher than the interruptible service rate and such a reclassification will substantially increase rates for some customers currently receiving service on the interruptible rate. The Commission finds that customers taking service under the lower interruptible rate

should be truly interruptible and have an alternate source of fuel. It is reasonable to correct the tariffs to ensure only those with an alternate fuel source benefit from the lower interruptible rate.

The current interruptible service tariff also has a minimum usage requirement. All four interruptible transportation service customers who have an alternate fuel source satisfy the current minimum usage level. However, United Cities' proposed tariff increases the minimum usage requirement and three of the four interruptible transportation service customers do not satisfy the new minimum level. The Stipulation and Agreement provides that the parties will waive the minimum usage requirement for the three customers who do not reach the new minimum threshold to allow them to continue to be eligible for interruptible service with said waiver subject to review in United Cities' next rate case. The parties included this provision in the Stipulation and Agreement because the three customers have made substantial investments in alternate fuel facilities in reliance on the requirements in the current tariff.

The Commission, however, is of the opinion that the parties do not have the authority to waive any portion of a tariff. Nonetheless, the Commission is also of the opinion that this provision in the Stipulation and Agreement should be treated as a request by the parties that the Commission "grandfather" the three customers under the new tariff allowing them to remain eligible for interruptible service. Moreover, the Commission finds that, in consideration of the three customers' substantial investment in reliance on the previous tariff requirements, it is reasonable to allow them to remain eligible for interruptible service at this time. Therefore, the Commission will waive the minimum usage requirement for the three interruptible transportation customers who do not meet the new minimum threshold. The Commission further finds that the eligibility of the three customers for interruptible service should be reviewed as part of United Cities' next general rate case.

As proposed in the Stipulation and Agreement, the Purchase Gas Adjustment Clause (PGA) will apply uniformly to all three service areas (Great River, Osage and Bowling Green) under the proposed tariffs. However, separate PGA rates will still be calculated for each district. The PGA under the proposed tariffs also provides that transportation customers will now be charged a proportionate share of the costs related to "lost and unaccounted for" gas, a cost not previously charged to transportation customers. Also, seasonal price changes for fixed gas costs will be leveled through averaging; thereby raising the price in some months and lowering it in others. The Commission finds that the proposed changes in the PGA are reasonable. Bringing the three areas' tariffs into conformity will ease administrative costs and transportation customers should be held accountable for their share of lost and unaccounted for gas.

In addition, the rates charged for some services (i.e. reconnection, meter inspection, etc.) in the Great River, Osage and Bowling Green service areas under the current tariffs are substantially different. Under the Stipulation, the rates for some of these services will remain the same while the rates for other services are increased. The Commission has considered these increases and find they are reasonable. Bringing the rates for all areas to parity is reasonable and the new rates appear to be closer to costs.

Conclusions of Law

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

The Commission has jurisdiction over this matter pursuant to Sections 386 and 393, RSMo (1990). The standard for Commission approval of the Stipulation and Agreement is whether it is just and reasonable.

The Commission may approve a stipulation of the issues in this case if it finds that the stipulation is just and reasonable. The Commission has so found and

therefore concludes that the Stipulation and Agreement should be approved. The Commission also concludes that the tariffs filed in this case are reasonable and should be approved for service on and after September 15, 1991.

IT IS THEREFORE ORDERED:

1. That the minimum usage requirement in the interruptible service tariff be hereby waived for United Cities' three interruptible transportation customers which have an alternate fuel source but which do not meet the minimum usage requirement, with said customers' eligibility for interruptible service subject to review in United Cities' next general rate case.
2. That the Stipulation and Agreement filed in this case (Attachment A) be hereby approved and adopted.
3. That the tariffs filed in this case be hereby approved for service on and after September 15, 1991.
4. That this Report and Order shall become effective on September 15, 1991.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
McClure and Perkins, CC., Concur.

Dated at Jefferson City, Missouri,
on this 6th day of September, 1991.

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

In the matter of United Cities Gas)	
Company for authority to file a)	
tariff increasing rates for gas)	Case No. GR-91-249
service to customers in the)	
Missouri service area of the)	
Company.)	

STIPULATION AND AGREEMENT

As a result of discussions and negotiations during and following the prehearing conference convened in this matter on August 5, 1991, the undersigned parties stipulate and agree as follows:

1. United Cities Gas Company ("the Company") shall be authorized to file revised natural gas schedules designed to increase its Missouri jurisdictional annual gas revenues by \$1,300,000 above test year rate revenues, exclusive of license, occupation, franchise, gross receipts or other similar fees or taxes. This increase was allocated to the various rate schedules through adjustments to the various customer charges and commodity charges, with the exception of the Bowling Green district. Because of the consolidation of the previously separate rate schedules and regulations of the former Great River Gas Company, Bowling Green Gas Company, and Osage Natural Gas Company under United Cities Gas Company, all of the tariff sheets of United Cities Gas Company were under consideration in this proceeding.

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2. The rate schedules which are designed to and do in fact implement the revenue increase and other tariff provisions agreed to herein are attached hereto as Appendix A and made a part hereof for all purposes. The rate schedules, which bear an issue date of August 23, 1991 and an effective date of September 15, 1991, shall become effective for service rendered on and after September 15, 1991.

3. In addition, the parties stipulate and agree to the following matters:

A. The Company agrees to modify its books and records in the following respects:

1. For the purposes of performing a depreciation study, to aggregate property records for all districts and tabulate a depreciation data base of all additions by year of installation and retirements by year of installation and year retired beginning with the earliest year of available data;

2. Establish and maintain a property catalog which details specific accounting instructions to account for the various units of property and to distinguish between maintenance and capitalization;

3. Maintain the reserve for depreciation by primary plant account in all districts; and

4. Perform and file with the Commission a depreciation study for all of United Cities Gas Company's Missouri property.

B. The Company shall perform the tasks set out in A. prior to September 1, 1992 and shall also file quarterly reports, beginning on December 1, 1991, with the Commission as to the status of each of the items.

C. The Commission's order approving this Stipulation and Agreement shall contain a provision which determines the depreciation rates set out in Appendix B hereto are just and reasonable and are prescribed for United Cities Gas Company on and after September 15, 1991, until otherwise altered by the Commission. The Company shall utilize these depreciation rates for any rate case filed prior to the completion of the tasks set out in paragraph A above.

D. Although Company's engineering witnesses were not physically present at the prehearing, they did conduct telephone discussions with the Staff and as a result agreed that representatives of the Company and the Staff would meet on August 22, 1991, to discuss any differences between the parties relating to the Replacement Program under consideration in Case No. GO-91-276, and Company agrees to present a revised plan addressing Staff's concerns to Staff on or before August 28, 1991.

E. The parties agree that three of the Company's interruptible customers which have previously installed alternative fuel facilities (Dadant and Sons, Scotland County Nursing Home, and Scotland County Hospital), but have test

period usage which does not meet the threshold requirement for interruptible customers established in the tariff sheets in Appendix A, shall nevertheless be granted a waiver from those provisions and shall continue to be eligible for interruptible service under the new tariff sheets, with such waiver being subject to review in the next general rate case of the Company.

F. The parties agree that the PGA amounts reflected in the attached tariff sheets for the Bowling Green and Neelyville Districts reflect wholesale contract changes by the Company which, due to recent changes, have not been adequately reviewed by Staff; therefore, Staff reserves the right to review these contract changes in the context of the Actual Cost Adjustment audit pertaining to the Bowling Green and Neelyville Districts for the period ending May 31, 1992. Staff also reserves the right to review the rates filed in tariff sheet numbers 46, 47 and 48 pertaining to the PGA. This review is to be completed by August 28, 1991.

4. The prefiled testimony and schedules of the following witnesses, the minimum filing requirements submitted by the Company and the Staff accounting schedules shall be received into evidence without the necessity of their taking the stand:

A. The Company: Gene C. Koonce, Donald A. Murry, Richard K. Wrench, Ralph W. Johnson, Patricia D. Jackson, Gary W. Price, and Robert M. Elam.

B. The Staff: David Sommerer, Anne Ross, Roy M. Boltz, Jr., Jay W. Moore, Daren S. Gilbert, William A. Meyer, Jr., Melvin T. Love, James A. Gray, Angelin Shoemaker, Michael J. Wallis.

C. The Public Counsel: Philip B. Thompson, Ted Robertson, Ryan Kind.

5. Except as specifically provided above, this Stipulation and Agreement represents a negotiated dollar settlement for the sole purpose of disposing of this case, and none of the signatories to this Stipulation and Agreement shall be prejudiced or bound in any manner by the terms of the Stipulation and Agreement in any other proceeding, or in this proceeding should the Stipulation and Agreement not be accepted by the Commission in its entirety.

6. Except as otherwise specifically provided herein, the parties to this Stipulation and Agreement shall not be deemed to have approved or acquiesced to any ratemaking principle, valuation method, cost of service method, depreciation principle or method, or rate design proposal underlying or allegedly underlying this Stipulation and Agreement and the revised rate schedules attached as Appendix A.

7. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the parties waive their respective rights to cross examine witnesses, and present oral arguments or written briefs pursuant to Section 536.080.1 RSMo; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo; and their respective rights to judicial

review as regarding the disposition of this matter pursuant to Section 386.510 RSMo.


8. The agreements contained in this Stipulation and Agreement have resulted from extensive negotiations among the signatory parties and are interdependent. In the event that the Commission does not approve and adopt the terms of this Stipulation and Agreement or in the event the rate schedules and tariff provisions agreed to herein do not become effective in accordance with the provisions contained herein, this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

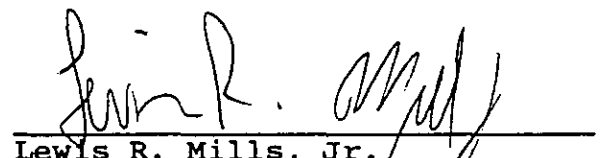
9. The Staff shall have the right to submit to the Commission, in memorandum form, an explanation of its rationale for entering into this Stipulation and Agreement, and to provide the Commission whatever further explanation the Commission requests. The Staff's memorandum shall not become a part of the record of this proceeding and shall not bind or prejudice the Staff in any future proceeding or in this proceeding in the event the Commission does not approve the Stipulation and Agreement. Any rationales advanced by Staff in such a memorandum are its own and not acquiesced in or otherwise adopted by the other parties.

WHEREFORE, the parties respectfully request from the Commission the following: (1) that the Commission approve this Stipulation and Agreement in its entirety; (2) that the Commission's Report and Order reflect that the tariff set out in

Appendix A is approved for service rendered on and after September 15, 1991, and (3) the depreciation rates set out in Appendix B are approved and authorized for the Company on and after September 15, 1991


Respectfully submitted,


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Dated: August 23, 1991

APPENDIX A

(87 pages)

APPENDIX B

United Cities Gas Company Case No. GR-91-249

<u>Account</u>	<u>Description</u>	<u>Depreciation Rate</u> (percent)
Intangible Plant		
301.000	Organization	0.00
302.000	Franchises & consents	4.00
303.000	Misc. intangible plant	20.00
Production Plant - Natural Gas		
311.000	Liquefied Petroleum Gas Equip.	10.00
Transmission Plant		
365.100	Land & land rights	0.00
365.200	Rights of way	0.00
367.000	Transmission mains	2.10
369.000	Measuring & regulating Sta. equip.	2.71
Distribution Plant		
374.000	Land & land rights	0.00
375.000	Structures and improvements	2.50
376.000	Mains	1.92
376.100	Mains - Neelyville	3.00
378.000	Meas. & Reg. Sta. Equip. - General	3.50
378.100	Meas. & Reg. Neelyville	2.71
379.000	Meas. & Reg. Sta. Equip. - City Gate	2.71
380.000	Services	3.93
380.100	Services - Neelyville	3.33
381.000	Meters	2.38
381.100	Meters - Neelyville	2.50
382.000	Meter Installations	3.94
382.100	Meter Inst. - Neelyville	2.86
383.000	House Regulators	4.00
383.100	Regulators - Neelyville	2.86
385.000	Industr. Meas. & Reg. Sta. Equip.	2.86
386.000	Other Property on Cust. Premises	2.50
387.000	Other Equipment	5.00
General Plant		
389.000	Land & Land Rights	0.00
390.000	Structures & Improvements	2.50
390.100	Leasehold Improvements	2.14
391.000	Office Furniture & Equipment	4.50
391.100	Office Furniture - Neelyville	10.00

APPENDIX B

United Cities Gas Company Case No. GR-91-249
(continued)

<u>Account</u>	<u>Description</u>	<u>Depreciation Rate</u> (percent)
General Plant (cont.)		
391.200	Owned Computer Equipment	6.00
393.000	Stores Equipment	8.33
394.000	Tools, Shop & Garage Equipment	5.00
394.100	Tools, Shop - Neelyville	6.33
395.000	Laboratory Equipment	5.00
396.000	Power Operated Equipment	12.50
397.000	Communication Equipment	6.70
398.000	Miscellaneous Equipment	10.00