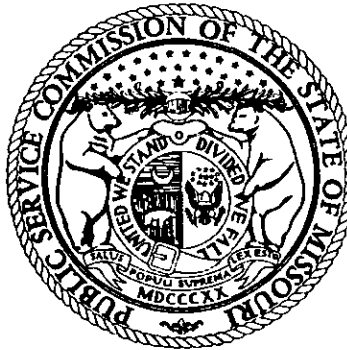


**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**



In the Matter of Associated Natural)
Gas Company's Tariff Revised Designed)
to Increase Rates for Gas Service to)
Customers in the Missouri Service)
Area of the Company.)

Case No. GR-97-272

REPORT AND ORDER

Issue Date: December 3, 1997

Effective Date: December 13, 1997

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APPEARANCES

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Cherlyn McGowan, Assistant General Counsel, and Thomas R. Schwarz, Jr., Deputy General Counsel, Post Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

**REGULATORY
LAW JUDGE:**

Gregory T. George.

REPORT AND ORDER

Procedural History

On January 14, 1997, Associated Natural Gas Company (ANG), a division of Arkansas Western Gas Company (Arkansas Western), filed tariff sheets with the Missouri Public Service Commission designed to produce an annual revenue increase for the Company in its Missouri service area in the amount of \$3,758,936 or 10.23 percent. The proposed tariff sheets bore an effective date of February 13, 1997.

On January 28 the Commission issued an order suspending the effective date of the proposed tariff sheets for a period of 120 days from February 13 plus an additional six months to December 13. The Commission's order directed that applications to intervene be filed on or before February 24 and that the parties file a recommended procedural schedule. Noranda Aluminum, Inc. (Noranda) and Westar Gas Marketing, Inc. (Westar) filed timely applications to intervene. ANG filed direct testimony and accounting schedules of five witnesses on February 28. Included in its filing, ANG requested to use a test year of the twelve months ending July 31, 1997, and noted that the Company would not object to the selection of a test year for the twelve months ending on December 31, 1996, if known and measurable changes through a period closer to the effective date of the tariffs were taken into consideration. On March 4 the Staff of the Commission (Staff) filed a proposed procedural schedule. On March 7 the Commission granted intervention to Noranda and Westar and adopted the procedural schedule recommended by Staff. On March 7 Staff and Public Counsel each filed recommendations that the Commission adopt the twelve-month period ending December 31, 1996, as the test year in this case. ANG filed its response to Staff's test year recommendation on March 17, 1997. By order issued on March 25, the Commission adopted the test year proposed

by Staff and Public Counsel. A prehearing conference was held on July 16-18.

On August 1 Missouri Gas Energy (MGE) and United Cities Gas Company (United Cities) filed a joint motion for leave to intervene out of time and a joint motion to strike testimony regarding affiliated transactions standards. On August 11 Staff and Public Counsel each filed responses in opposition to the joint motion. On August 19 Laclede Gas Company (Laclede) and St. Louis County Water Company (SLCW) filed a joint motion to defer consideration of affiliated transactions standards and an alternative application to intervene out of time. By order issued on August 20, the Commission denied the motions to intervene of MGE, United Cities, Laclede and SLCW and denied the motions to strike testimony and to defer consideration of affiliated transactions standards.

On August 26 the parties filed the hearing memorandum and case reconciliation. On September 5 Staff filed its proposed order of issues and witnesses. The parties filed their Unanimous Stipulation and Agreement on September 5. On September 15 the parties filed their First Amendment to Unanimous Stipulation and Agreement. The Commission held an evidentiary hearing that convened on September 15 and adjourned on September 17. All the parties, except for Westar, filed initial briefs on October 21 and reply briefs on October 31. Westar did not file briefs and did not state a position on any issues in the hearing memorandum. Westar participated in the hearing only insofar as the affiliated transactions issue, and Westar did not state a position on that issue at the hearing.

On November 5 the Commission issued a request for the parties to complete a Revenue Requirement Scenario. On November 12 the parties submitted the completed Revenue Requirement Scenario. On November 26 the Commission issued an order to Staff to identify its proposed tariff language from Schedule 1 of Staff witness Hubb's surrebuttal testimony

which applies to four issues. On December 1 Staff filed its response designated as late-filed Exhibit 97. On December 1 an objection to the admission of Exhibit 97 was filed by ANG. The completed Revenue Requirement Scenario will be received into the record as late-filed Exhibit 98. However, Exhibit 97 will not be admitted into the record.

Stipulation and Agreement

ANG, Staff, Public Counsel, Noranda, and Westar filed the Unanimous Stipulation and Agreement (Agreement) on September 5, 1997. The Agreement provides that ANG shall be authorized to file revised tariff sheets containing rate schedules for gas service designed to produce an increase in overall Missouri jurisdictional gross annual gas revenues, exclusive of applicable license, occupation, franchise, or gross receipts taxes, of one million five hundred thousand dollars (\$1,500,000) which resolves the following issues if approved by the Commission:

- III(A) (1) Allocation of Arkansas Western Gas Company General Office Building
- III(A) (2) FAS 106 Regulatory Asset
- III(A) (3) FAS 109 Regulatory Asset
- III(A) (4) Plant Acquisition Adjustment
- III(B) (1) (a) ANG Payroll
- III(B) (1) (b) AWG and Southwestern Energy Company (SWEN) Payroll Allocable to ANG through Intercompany Allocations
- III(B) (1) (c) Payroll Taxes
- III(B) (1) (d) Incentive Compensation (Bonuses)
- III(B) (1) (e) Administrative Expense Applicable to Appliance Program
- III(B) (1) (f) Elimination of Chairman/CEO's Salary
- III(B) (1) (g) Annualization of Employee Benefits-Medical, Life, and 401(K)
- III(B) (1) (h) Intercompany Allocations
- III(B) (1) (i) SWEN Depreciation and Return
- III(B) (1) (j) SWEN Property Tax
- III(B) (1) (k) ACA Legal Expense Elimination
- III(B) (1) (l) Amortization of Plant Acquisition Adjustment
- III(B) (1) (m) Airplane Expense
- III(B) (1) (o) FAS 106 External Funding
- III(B) (1) (p) AWG Building Depreciation Expense
- III(B) (1) (q) Amortization of FAS 106 Regulatory Asset
- III(B) (1) (r) Amortization of FAS 109 Regulatory Asset
- III(B) (1) (s) Jurisdictional Allocation of Budget Center 371 - Liquefied Natural Gas Plant

III(B)(1)(t) Jurisdictional Transmission Expense Allocation
Factor
III(C)(1) Return on Rate Base
III(C)(2) Capital Structure

The Agreement set forth the resolution of the following additional issues: depreciation issue of expanding computerized salvage history prior to 1989 in this case, depreciation rates for five accounts, proration of bills implementing rate increase in this case, customer service tariff language, main extension policy, housing authority tariff language, residential air conditioner rider, miscellaneous tariff modifications, reconnection charges, special meter reading charge, insufficient check charge, and residential and small general service customer charge. The Agreement set forth positions regarding the revenue requirement for interest on customer deposits and for Arkansas Western Gas Division (AWG) Gathering and Transmission Costs for services provided in Arkansas.

ANG, Staff, Public Counsel, Noranda, and Westar filed the First Amendment to Unanimous Stipulation and Agreement (First Amendment) on September 15, 1997. The First Amendment provides that, if approved by the Commission, the \$1,500,000 increase will be allocated among the ANG districts as follows:

SEMO	\$1,231,706
Kirksville	\$212,933
Butler	\$55,361

The Commission has reviewed the Agreement and the First Amendment and finds both are a reasonable resolution of the issues and should be approved. The Commission will order the approval of the Agreement and First Amendment thereto.

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.

I. Interest on Customer Deposits (Hearing Memorandum Issue III.B.1.n.)

Staff advocates an interest rate on customer deposits equal to 1 and 1/4 percentage points below the prime lending rate as reported in *The Wall Street Journal* on the last business day of the year as updated annually. The prime rate was reported at 8.25 percent effective December 31, 1996. Therefore, Staff's position suggests a seven percent interest rate on customer deposits for the remainder 1997 calendar year. ANG supports Staff's position on this issue. ANG currently pays nine percent interest on customer deposits.

Public Counsel maintains that the interest on customer deposits should be equal to the pre-tax effective rate of return in this case (12.73 percent) or, in the alternative, the prime lending rate of 8.5 percent as presented in the testimony of Public Counsel witness Kimberly Bolin (Tr. 145) plus one percent (9.5 percent). Public Counsel does not believe that the interest rate should be revised each year because if this expense item is changed, then the revenue, rate base, and expense relationship will be violated. According to Public Counsel, allowing the interest rate to be revised each year outside a general rate proceeding is improper and unlawful single-issue ratemaking in violation of Section 393.270(4), RSMo 1994. Noranda took no position on this issue.

The Commission finds that 9.5 percent is the appropriate interest rate for customer deposits and that this rate should not be revised each year in this case. This interest rate for customer deposits results in an

additional revenue impact of \$22,263 above the stipulated revenue impact of \$1.5 million. One percent above the prime lending rate is consistent with the Commission's decisions in other recent rate cases. See In re Missouri Public Service, Case No. ER-93-37 (Report and Order on Remand, April 4, 1997); and In re St. Louis Water Company, 3 Mo. P.S.C.3d 118, 121 (1994). The Commission does not determine that allowing interest rates to be revised each year will violate the prohibition against single-issue ratemaking because the service rates would not change with revised interest rates. Nevertheless, consistent with the Company's past practice and consistent with avoiding any violation of the revenue, rate base, and expense relationship, the Commission determines that the interest rate on customer deposits in this case will remain constant until the Commission orders a different interest rate in a future rate proceeding.

II. Gathering and Transmission Costs (Hearing Memorandum Issue III.D.1)

Currently ANG has tariffed rates to recover a portion of the costs for gathering and transmission (G & T) facilities of the Arkansas Western Gas Division of Arkansas Western Gas Company (Arkansas Western). These AWG facilities are located in Northwest Arkansas and are used for the delivery of gas to ANG's SEMo district. Staff recommends that ANG modify its transportation tariff and Purchase Gas Adjustment Clause (PGA) tariff to remove these rates. Staff believes ANG should be allowed to recover reasonable G & T costs which will be reviewed by the Commission under the Actual Cost Adjustment (ACA) process; however, Staff maintains that the Commission should not pre-approve these costs in ANG's tariffs. Staff argues that its proposal is consistent with the Federal Energy Regulatory Commission's (FERC's) Order 636 which restructured the natural gas industry and deregulated gathering costs so that the recovery of these costs is based on a competitive market.

ANG disagrees with Staff and requests that the Commission continue to establish the rate using cost of service principles applicable to G & T facilities and costs. ANG argues that the G & T facilities are no different from other Arkansas Western facilities located in Arkansas which the Commission routinely includes in ANG's base rates. ANG proposes to establish a crediting mechanism to return a portion of the revenue from transportation customers back to the system supply customers. ANG further proposes modification of language in the PGA to clarify that the G & T rate applies to volumes flowing through the NOARK Pipeline.

Public Counsel did not take a position on this issue. Noranda supports Staff's position.

The Commission will rule in favor of Staff and Noranda on this issue. The Commission will order ANG to modify its transportation tariff and PGA Clause tariff to remove references to the rates for recovery of G & T costs as recommended by Staff. The Commission finds that Staff's proposal will allow Missouri transportation customers to negotiate the best G & T rates available and will allow ANG to recover from sales customers all prudently incurred G & T costs which will be reviewed by the Commission under the ACA process.

III. Class Cost of Service Issues (Hearing Memorandum Issues III.E.1-8.)

A. Modification of Service Classifications (Hearing Memorandum Issue III.E.1.)

ANG currently divides customers into six classes: Residential, Commercial Firm, Commercial Interruptible, Industrial Firm, Industrial Small Interruptible, and Industrial Large Interruptible. Staff proposes to group ANG's customers into four classes: Residential, Small General Service (SGS), Large General Service (LGS) and Large Volume Service (LVS). Staff's basis for its proposal is that customer classes should be defined

by volume and usage characteristics, not by standard industrial classification codes. Staff also contends that customer classes should not be based on the possibility of interruption of service by ANG. Staff points out that ANG's customers were interrupted from approximately 15 to 72 hours on one occasion in the last five years which represents an interruption from .03 percent to .16 percent for a five-year period (Exhibit 91). Staff states that any interruptions are caused by interstate pipeline restrictions and not by restraints on ANG's distribution system.

ANG disagrees with Staff's inclusion into the LGS category the Industrial Firm, Commercial Interruptible, and Industrial Small Interruptible customers. ANG argues this grouping is not homogeneous because the Commercial Interruptible and Industrial Small Interruptible customers are interruptible by definition. According to ANG, the cost of service should recognize that interruptible customers receive a lesser quality of service because these customers may be interrupted by the Company to meet peak demands. ANG argues that it has always operated with interruption of those customers at peak conditions and that interruption occurred during the test period in this case. ANG argues that the computer simulation provided by in the rebuttal testimony of ANG witness Stevens (Exhibit 69, Schedule CVS-1, pp. 3-4) demonstrates that interruption is necessary for ANG to meet peak demands.

Public Counsel agrees with Staff's position on this issue. Public Counsel states that actual usage data does not support ANG's claim that LGS is not a homogeneous group. In response to the claim that interruptible customers differ in usage from firm industrial customers, Public Counsel notes that ANG's only curtailments in the last five years were caused from cutting interstate pipeline pressure to ANG's system and were not from capacity constraints behind ANG's city gate to customer premise systems. Noranda takes no position on this issue.

The Commission will rule in favor of Staff and Public Counsel on this issue. The Commission determines that ANG's customers should be grouped into Residential, Small General Service (SGS), Large General Service (LGS) and Large Volume Service (LVS) classes. The Commission finds that these four classes represent homogeneous groupings and that the LGS class should not be further divided on the basis of interruptible versus firm service. The Commission finds that the classifications proposed by Staff and Public Counsel are based on actual volume and consumption patterns.

B. Allocation of Transmission and Distribution Mains (Hearing Memorandum Issue III.E.2.); Allocation of Meters and Meter Installations (III.E.3.); Allocation of Regulators and Regulator Installations (III.E.4.); Allocation of Services (III.E.5.); Peak Day Demands (III.E.6.); Customer Billing Expense Allocation (III.E.7.); Customer Meter-Reading Expense Allocation (III.E.8.); Level of Revenue Shifts between Classes / Interclass Revenue Shifts (III.F.2.); Cost of Service Rates (III.F.6.)

Staff allocates ANG's transmission and distribution mains based on the capacity utilization method in order to recognize relative total use and relative peak use by Staff's four customer classes. ANG uses the "average and peak" method to allocate transmission mains and a two-part method to allocate distribution mains which recognizes a customer portion of mains based on current labor costs and the remaining portion based on each customer class' noncoincident demand. Public Counsel allocates distribution mains based on the modified Relative System Utilization Method (RSUM). Public Counsel's method allocates over 80 percent of the entire length of the Company's distribution mains (diameters of 2.5 inches or less) between the SGS and residential customers, two weather sensitive classes. Public Counsel allocates transmission mains strictly on the basis of its RSUM allocators for all the customer classes. Noranda supports in theory the method used by ANG; however, Noranda proposes cost allocations

which reflect that no distribution costs should be allocated to Noranda's class because Noranda is served by an eight inch transmission line.

Staff allocates meters, meter installation, regulators, and regulator installation with regression techniques and customer demands based on trended costs for meters and regulators. For meters and meter installation, ANG initially used current meter cost data to assign costs between districts and rate schedules. For regulators and regulator installation, ANG initially used its allocator for meters. ANG modified its position on meters, meter installation, regulators and regulator installation, to adopt Public Counsel's method with corrections for capacity assignments related to meter models. Public Counsel allocates meters and meter installation using replacement cost for types of meters actually used by each class of customers plus the average installation cost for meters. For regulators and regulator installation, Public Counsel's allocation uses the Company's reported proportion of meters to regulators. Public Counsel opposes the corrections suggested by ANG because Public Counsel assigns capacity ratings to each meter model according to capacity ratings supplied by ANG in response to data requests and because Public Counsel does not use meter capacity for its allocation of regulators and regulator installation. Noranda proposes allocation factors which allocate to Noranda only the costs incurred by Noranda.

Staff allocates services by using replacement cost data with regression techniques and customer demands to allocate costs for each customer class in each district. ANG allocates services based on new services installed for the years 1995 and 1996. Public Counsel supports Staff's position on this issue. Noranda proposes allocation factors which allocate to Noranda only the costs incurred by Noranda.

Staff calculates peak demands for residential and small general service classes based on a regression analysis of peak day heating degree days (HDD) based on National Oceanic Atmospheric Administration (NOAA) normals. For the large general service class, Staff multiplies the average daily use by a factor of 1.5 which is equal to a load factor of 66 percent to reflect the effect of week day versus weekend consumption. Staff states that no reduction to peak load of interruptible customers are appropriate because any constraints on interruptible customers are caused by interstate pipeline restrictions and not by restraints on ANG's distribution system. Public Counsel supports Staff's allocations.

For peak day demands, ANG uses arithmetic analysis and peak day HDD based on the coldest day in recent history. The Company calculated class coincident peak demands based on the February 2-3, 1996, system peak day which included interruptions. ANG calculated noncoincident peak demands based on a review of average daily usage and monthly peak demands by class to find a load factor which was then applied to each class peak month demand to arrive at the class non-coincident peak. ANG argues that Staff's approach fails to recognize that interruptible customers are interrupted during peak conditions. Noranda supports ANG's position because it reflects demands during the coldest day of the recent past when interruptible customers, including Noranda, were curtailed.

As to the customer billing expense allocation, the monthly charge of \$25.00 per EGM meter is addressed below in paragraph VIII.D of this Report and Order in connection with Hearing Memorandum issue III.F.7.d.

ANG states it supports Staff's allocation of the following customer billing expense accounts by number of customers: Account 902 (meter reading expenses), Account 903 (customer records and collections), Account 904 (uncollectible expenses), and Account 905 (customer

miscellaneous accounts). ANG allocates Account 901 (supervision) based on the allocation of Accounts 902 through 905.

Public Counsel uses the meters allocator it developed to allocate the customer billing expense. Public Counsel states this allocator reflects the additional per customer billing costs associated with large customers arising from work related to coordinating gas procurement details with transportation customers. Noranda supports ANG's allocation because Noranda believes Public Counsel's allocation is based upon an incorrect peak day demand allocation.

The customer meter-reading expense allocation issue was resolved because ANG and Public Counsel agreed with Staff's allocation. Noranda stated no position on this issue.

Concerning interclass revenue shifts and cost of service rates, Staff recommends that the Commission move each customer class to its cost of service as calculated in Staff's cost of service study. Staff notes this will produce a revenue neutral (before accounting for the revenue increase proposed for ANG in this case) increase for residential customers, including gas costs, of 5.53 percent in the Kirksville District, 5.39 percent in the SEMO District, and 2.15 percent in the Butler District.

ANG proposes that the rates for each class should be set at each class' cost of service as determined in the Company's class cost of service study. ANG illustrates that large customers are paying more than they should by comparing the proposed shifts in the SEMO District before spreading any of the \$1,500,000 stipulated revenue increase: ANG proposes to shift \$1,492,302 from the SEMO commercial and industrial classes to the residential class; Staff would shift \$807,498 to the SEMO residential class, Noranda would shift \$1,649,646 and Public Counsel would shift \$600,133.

Public Counsel requests that the Commission be mindful of the impact of significant increases in residential rates. Public Counsel therefore uses a two-step process. First, proposed revenue neutral shifts are halfway to those indicated by Public Counsel's revenue neutral class cost of service study. Second, Public Counsel's shifts are limited to ensure that no customer class receives an overall decrease in rates (from the combined effect of interclass revenue shifts and an increase in the overall revenue requirement) while other classes experience rate increases.

Noranda requests that the Commission set rates for each class using Noranda's cost of service study. Noranda opposes one customer class from subsidizing another class.

Public Counsel and Staff agree that more of the revenue burden should be shifted to the residential and small general service classes. ANG and Noranda agree that more of the revenue should be shifted to the residential and commercial firm classes. The Commission agrees that the revenue burden should be shifted to the residential and small general service classes.

The Commission has carefully reviewed each party's cost of service study. In doing so, the Commission has remained mindful that the cost of service is but one consideration in determining the reasonableness of rates. Shepherd v. Wentzville, 645 S.W.2d 130 (Mo. App. 1982). It is not just the methodology or theory behind any proposed rates but the impact of the rate order which counts in determining whether rates are just, reasonable, lawful, and nondiscriminating. State ex rel. Associated Natural Gas Co. v. Public Service Commission, 706 S.W.2d 870, 879 (Mo. App. 1985). The quintessence of a just and reasonable rate is that it is just and reasonable to both the utility and its customers. State ex rel. Val Sewage Co. v. Public Service Commission, 515 S.W.2d 845 (Mo. App. 1974).

The Commission will rule in favor of Public Counsel in this issue. Public Counsel's proposed level of revenue shifts are as follows:

	Res.	SGS	LGS	LV	Total
Butler	\$ 34,129	\$ 21,195	\$0	N/A	\$ 55,324
Kirksville	\$134,774	\$ 78,159	\$0	N/A	\$ 212,933
SEMO	\$858,662	\$373,044	\$0	\$0	\$1,232,706

However, the Commission notes that Public Counsel's proposal is slightly above the \$1.5 million stipulated revenue impact. Furthermore, the Commission's decision on interest rates for customer deposits results in an additional revenue impact of \$22,263. The Commission therefore finds that the proposed revenue request should be allocated as proposed by Public Counsel to the residential and small general service classes in no more than the total amount of \$1,522,263.

In this case, the Commission finds that Public Counsel sets appropriate limits for the revenue shifts to the residential ratepayers and the small general service ratepayers. The Commission finds that the Public Counsel's proposal represents a balanced movement towards cost of service consistent with the public policy considerations of rate affordability and rate impact. The Commission finds it would be poor public policy to force residential ratepayers and small general service ratepayers to fund more of ANG's revenue requirement than the shifts recommended by Public Counsel. Therefore, the Commission need not adopt a preferred allocation method or formula.

IV. Large Volume Customer Charge Level (III.F.1.)

Staff proposes to continue the \$12,500 per month customer charge for Noranda Aluminum, the only customer in ANG's Large Volume class. This charge resulted from the settlement of ANG's 1990 rate case, and

immediately prior to that case, Noranda's monthly customer charge was \$23,929.80. Staff recommends that the current charge provides ANG with a more reliable threshold of income stream in light of Noranda's ability to switch to an alternative fuel source and in light of ANG's large capital investment to serve its customers. Staff argues that by permitting a lower commodity charge, a high customer charge provides operating leeway for ANG with respect to alternative fuels and prevents the focus of competitive forces away from capital investment in facilities.

ANG agrees with Staff's proposal to retain the \$12,500 customer charge. ANG argues that because of Noranda's large size and ability to switch to an alternative fuel, ANG should have some level of protection to recover appropriate revenue from Noranda. ANG states that if the customer charge is decreased as proposed by Noranda, then, in order to recover the same revenues from this rate class, the commodity charge would have to be significantly increased. Public Counsel takes no position on this issue.

Noranda requests that the Commission reduce the customer charge to \$506.00 per month to reflect the cost of service as shown in the cost of service study performed by Noranda witness Mallinckrodt. Noranda points out that the cost studies of the other parties show that Noranda's class is paying more than it should. ANG's cost of service indicated a customer charge for Noranda in the amount of \$1,788 per month, and Staff's study showed \$2,612. Witness Mallinckrodt also reviewed ANG's cost study and reduced the calculation for the cost of mains to arrive at a charge of \$1,440 per month. ANG argues that the incremental transportation rate can be used to ensure sufficient revenues are generated to meet the revenue requirement.

The Commission will rule in favor of Staff and ANG. The Commission finds that the current \$12,500 monthly customer charge is reasonable and should continue for the Large Volume customer class. The

Commission finds that retaining the current customer charge will provide a means of protection for ANG to recover revenue from this class without significant increases in transportation rates. The Commission finds that retaining the current charge will provide long term stability for recovering costs of capital investments for the system by discouraging short term shifts to alternative fuel sources.

V. Unauthorized Use Charge Level for Interruptible Sales and Transportation Services (III.F.3.)

Staff requests that the Commission order ANG to incorporate into its tariff the unauthorized use charge as contained on Schedules 3-2 and 4-1 of Staff witness Hubbs' direct testimony (Exhibit 57) and on Schedules 1 and 3 of Hubbs' surrebuttal testimony (Exhibit 59). Staff's proposed unauthorized use charge will apply to interruptible transportation customers who take gas when they have been ordered to curtail usage and when they take gas in excess of what they had delivered to ANG's city gate receipt point. Staff argues that ANG has been charging its transportation customers a form of unauthorized use charge in violation of its tariff and in violation of Section 393.140, RSMo 1994. Staff's proposed unauthorized use charge is calculated as:

- (1) \$1.50 for each Ccf of unauthorized use, plus
- (2) 150 percent of the highest cost of gas purchased by the Company, for supplying the district in which the customer receives service, during the month of the unauthorized use charge period, plus
- (3) all intrastate and/or interstate pipeline penalties and other charges incurred by the Company which are attributable to a customer's unauthorized use.

Staff asserts these provisions, in conjunction with electronic gas metering (EGM), will assist in maintaining the reliability of ANG's distribution system. Staff intends to prevent affiliated and nonaffiliated

transportation customers from paying a lower rate for interruptible gas, but taking in essence firm service without appreciable penalty.

ANG opposes Staff's unauthorized use charge because ANG believes the proposed amounts are too severe. ANG argues that when combined with the proposed elimination of back-up sales and balancing tolerances, the unauthorized use charge will practically guarantee that transportation customers will constantly incur substantial penalties. ANG contends that the following language in Tariff sheets 7E, 11D and 15D, under Special Conditions, paragraph 4, permit certain items such as the current balancing provision and penalties in its contract: "Specific details relating to delivery points, load balancing, optional transportation services and charges and other matters shall be set forth in the Gas Transportation Service Contract." (Stevens rebuttal, Ex. 69, pp. 17-18). Public Counsel takes no position on this issue.

Noranda opposes Staff's proposal. Noranda states that the balancing provisions currently written into transportation customers' contracts allow a six percent variance from their nomination penalty fee. Thus, a variance of six to ten percent results in a penalty, and a variance more than ten percent results in a much stiffer penalty. Noranda argues that Staff's proposal will require perfect nominations which are impossible to obtain and will fail to take into account meter inaccuracies.

The Commission will rule in favor of Staff on this issue and will order ANG to incorporate into its tariff the unauthorized use charge provisions as contained on Schedules 3-2 and 4-1 of Staff witness Hubbs' direct testimony (Exhibit 57) and on Schedules 1 and 3 of Hubbs' surrebuttal testimony (Exhibit 59). The Commission finds that Staff's unauthorized use charge provisions, in conjunction with electronic gas metering (EGM), will assist in maintaining the reliability of ANG's distribution system. The Commission finds that Staff's unauthorized use

provisions will prevent transportation customers from paying a lower rate for interruptible gas, but receiving the benefits of firm service without appreciable penalty.

VI. Imputing 100 Percent Load Factor Rate for Allocation of Pipeline Transportation Demand Cost between Firm and Interruptible Classes of Service (III.F.4.)

Staff initially requested to impute a 100 percent load factor for interruptible rates to reflect the costs of the upstream pipeline capacity. Staff decided not to pursue this issue. This issue is resolved.

VII. Removal from PGA and Transportation Tariff the Existing Language Regarding the Gathering and Transmission Rate Related to the AWG Facilities Allocated to ANG (III.F.5.)

This issue is addressed above in paragraph II of this Report and Order. Currently ANG has tariffed rates to recover a portion of the costs for gathering and transmission (G & T) facilities of the Arkansas Western Gas Division of Arkansas Western Gas Company (Arkansas Western). These AWG facilities are located in Northwest Arkansas and are used for the delivery of gas to ANG's SEMO district. Staff recommends that ANG modify its transportation tariff and Purchase Gas Adjustment Clause (PGA) tariff to remove these rates. Staff believes ANG should be allowed to recover reasonable G & T costs which will be reviewed by the Commission under the Actual Cost Adjustment (ACA) process; however, Staff maintains that the Commission should not pre-approve these costs in ANG's tariffs. Staff argues that its proposal is consistent with the Federal Energy Regulatory Commission's (FERC's) Order 636 which restructured the natural gas industry and deregulated gathering costs so that the recovery of these costs is based on a competitive market.

ANG disagrees with Staff and requests that the Commission continue to establish the rate using cost of service principles applicable to G & T facilities and costs. ANG argues that the G & T facilities are no different from other Arkansas Western facilities located in Arkansas which the Commission routinely includes in ANG's base rates. ANG proposes to establish a crediting mechanism to return a portion of the revenue from transportation customers back to the system supply customers. ANG further proposes modification of language in the PGA to clarify that the G & T rate applies to volumes flowing through the NOARK Pipeline.

Public Counsel did not take a position on this issue. Noranda supports Staff's position.

The Commission will rule in favor of Staff and Noranda on this issue. The Commission will order ANG to modify its transportation tariff and PGA Clause tariff to remove references to the rates for recovery of G & T costs as recommended by Staff. The Commission finds that Staff's proposal will allow Missouri transportation customers to negotiate the best G & T rates available and will allow ANG to recover from sales customers all prudently incurred G & T costs which will be reviewed by the Commission under the ACA process.

VIII. Proposed Modifications to the Current Transportation Tariff

ANG presents in its initial brief three objections to Staff's service-related proposals for changing ANG's tariff which were filed in Staff's prepared testimony in this case: (1) Lack of effective notice to transportation customers; (2) Staff usurps the tariff filing role of the utility; and (3) Staff's proposals are effectively complaints which do not follow the statutory procedure and which must satisfy the statutory burden of proof of convincing the Commission by "clear and satisfactory evidence."

The Commission will overrule ANG's three objections to the proposed tariff changes. ANG's objections are untimely and without merit. First, these objections were not raised until after the hearing in ANG's initial brief. Second, the transportation customers were provided notice of this proceeding pursuant to the Commission's Suspension Order and Notice which was issued on January 28, 1997, and directed that notice of this case be sent to each newspaper located in ANG's Missouri service areas. Third, Staff's proposals do not constitute the filing of tariffs, do not usurp any role of the utility for tariff filing, and do not effectively constitute complaint actions. A heightened burden of proof does not apply to this proceeding as requested by ANG.

A. Proposed Elimination of Interruptible Transportation Services, except for Large Industrial Interruptible Class (Hearing Memorandum Issue III.F.7.a.)

Staff originally proposed that all transportation services offered by ANG be considered firm in nature. Staff decided not to pursue this modification, and Staff agreed that all transportation services be considered interruptible. Staff requests on page three of its initial brief that the Commission order ANG to modify its tariff as set out in Schedule 1 of Staff witness Hubbs' surrebuttal testimony (Exhibit 59). Schedule 1, page 5, states, "All transportation service is interruptible." The Commission will order ANG to modify its tariff as set out in Schedule 1, page 5, of Staff witness Hubbs' surrebuttal testimony (Exhibit 59).

B. Proposed Elimination of ANG Providing Sales Service to Transportation Customers (Hearing Memorandum Issue III.F.7.b.)

Staff proposes that the Commission should order ANG to eliminate sales service to its transportation customers. Although according to Staff the transportation customers should be responsible for the purchase and delivery of their natural gas requirements to ANG's city gate receipt point, ANG appears to act as marketer for its transportation customers. Staff argues that ANG provides these customers the functional equivalent of its standard sales service except that ANG can: (1) charge non-tariffed rates; (2) assign less capacity cost to these customers; and (3) avoid local taxes on the service. Staff argues this sales service operates to the detriment of nonaffiliated ratepayers and appears to involve affiliated bias on the part of ANG. Staff believes that more capacity release revenues might be obtained if ANG makes excess capacity on its upstream transportation contracts available to other marketers in a competitive environment. According to Staff, ANG could optimize its firm transportation contract on the NOARK pipeline system if NOARK would modify its tariff to allow capacity brokering and assignment. Staff requests that the Commission order ANG to modify its tariff by removing the provisions which allow ANG to provide marketing sales services to its transportation customer and adopt the language contained in Schedule 1 to Staff witness Hubbs' surrebuttal testimony (Exhibit 59).

ANG opposes Staff and argues that all customers, including transportation customers, benefit from allowing ANG to act as the agent of transportation customers in purchasing gas. According to ANG, the transportation customer first locates and arranges for a supply of gas. ANG then enters into a gas purchase contract with the supplier under the same terms and conditions that the customer has negotiated. ANG simultaneously enters into a contract with the customer to resell the same

gas to the customer at the customer's plant. ANG charges the actual cost of gas plus the cost of transporting the gas to ANG's system plus ANG's own Commission-approved transportation rate. According to ANG, its only profit is from the return built into its transportation rate. ANG argues that it is barred from selling gas to its transportation customers as suggested by Staff, then ANG will not be able to optimize the utilization of its firm transportation contract on the NOARK pipeline system, and this action will lead to increased costs for all customers. ANG states that no evidence shows ANG has ever refused to make excess capacity on upstream transportation contracts available to non-affiliates. Public Counsel did not take a position on this issue. Noranda opposes Staff on the grounds that allowing ANG to act as an agent in the purchase of gas will not harm remaining customers.

The Commission will rule in favor of Staff on this issue. The Commission determines that ANG should eliminate sales service to its transportation customers. The Commission finds that in order to avoid any affiliated bias and any resulting detriment to ANG's remaining ratepayers, transportation customers should be responsible for the purchase and delivery of their own natural gas requirements to ANG's city gate receipt point. The Commission will order ANG to modify its tariff by removing the provisions which allow ANG to provide marketing sales services to its transportation customer. The Commission will order ANG to adopt language in its tariff consistent with Schedule 1 to Staff witness Hubbs' surrebuttal testimony (Exhibit 59).

C. **Proposed Elimination of ANG Back-up Sales to Transportation Customers (Hearing Memorandum Issue III.F.7.c.)**

Staff proposes that ANG should not be allowed to provide back-up sales service to transportation customers. These customers, according to

Staff, pay an inappropriately low rate for this service because the rates are not premised on continuous sales service over a one-year period and therefore do not recover adequate demand-related costs for providing this service. Staff maintains that through back-up sales the transportation customers access ANG's system supply gas at the PGA rates which can be much less expensive than replacement gas costs, resulting in detrimental impact for PGA sales customers. Therefore, Staff requests that the Commission approve language reflecting this limitation in Schedule 1 to Staff witness Hubb's surrebuttal testimony (Exhibit 59).

ANG opposes Staff's proposal on the grounds that elimination of back-up sales will substantially increase costs for transportation customers. ANG believes transportation customers will be unduly penalized under Staff's proposed unauthorized use charge in the event that back-up sales are eliminated. ANG contends in its initial brief at page 13 that any perceived risk of adverse effect on ANG's sales customers can be eliminated by billing back-up sales at either ANG's actual cost of gas purchased to supply back-up service or at the highest incremental cost of gas purchased by ANG in the month in which back-up service is provided. ANG proposes in its reply brief at page 12 that this issue was rendered moot by an October 15, 1997, amendment to ANG's PGA tariff which provides that ANG will bill back-up sales at the highest price ANG pays for gas taken during the billing month.

Public Counsel did not take a position on this issue. Noranda opposes Staff on the grounds that allowing ANG to act as an agent in the purchase of gas will not harm remaining customers.

The Commission will rule in favor of Staff on this issue. The Commission determines that ANG should eliminate back-up sales service to its transportation customers in order to avoid detrimental impact on sales customers. The Commission approves the language reflecting this limitation

in Schedule 1 to Staff witness Hubb's surrebuttal testimony (Exhibit 59), and the Commission will order that ANG include language consistent with Exhibit 59 in its tariff.

D. Proposed Requirement that all Transportation Customers have Electronic Meters with Telecommunications Capability (EGM) (III.F.7.d.)

Staff proposes that all of ANG's transportation customers should be required to have electronic meters with telecommunications capability (EGM) and that the Commission should approve language reflecting this requirement contained in Schedule 1 to Staff witness Hubb's surrebuttal testimony (Exhibit 59). Staff believes EGM is necessary to provide reliability and accountability to ANG's system, to allocate upstream penalties and costs to transportation customers, and to identify transportation customers taking gas during periods of curtailment. Staff asserts that without EGM, interruptible customers could take gas during periods of curtailment without fear of penalty. In addition, Staff proposes a \$25.00 per month charge for transportation customers for recovery of the incremental work associated with tracking and billing transportation customer usages and necessary upstream pipeline coordination.

ANG opposes Staff on this issue. ANG argues that Staff failed to present satisfactory evidence of the need for installing EGM for all transportation customers and that Staff failed to provide details on what specific type of EGM equipment will be required. ANG further argued that Staff failed to present a cost study or other evidence to support the proposed charge of \$25.00 per month to cover operational costs and that Staff failed to provide notice to customers who may eventually be required to pay several thousand dollars for installation. ANG complains that if

it is required to pay the installation cost, then ANG will not recover any of these costs until the conclusion of its next rate case.

Noranda currently has EGM meters and opposes paying the \$25.00 monthly charge. Public Counsel takes no position on requiring EGM. Nevertheless, Public Counsel states that the \$25.00 monthly charge is consistent with Public Counsel's view of cost causation in the billing expense area.

The Commission will order that all of ANG's transportation customers should be required to have EGM. The Commission will approve the language reflecting this requirement consistent with Schedule 1 to Staff witness Hubb's surrebuttal testimony. The Commission will approve the \$25.00 per month charge for EGM. The Commission finds that EGM is necessary for tracking appropriate penalties and for identifying interruptible customers taking service during periods of curtailment. The Commission finds that the \$25.00 per month charge is reasonable and necessary for the recovery of incremental work associated with tracking and billing transportation customer use and for necessary upstream pipeline coordination. ANG may seek to recover the installation cost of the EGM from the appropriate customer class in its next rate proceeding.

E. Proposed Change in Balancing (Hearing Memorandum Issue III.F.7.e.)

Staff requests that the Commission order ANG to change its balancing provisions in its transportation tariff as proposed in Schedule 1 to the surrebuttal testimony of Staff witness Hubbs (Exhibit 59). Under this proposal, ANG would only accept at its city gate the level of actual deliveries for its transportation customers which includes volumes the customer metered into ANG's system plus the appropriate loss and unaccounted for gas amount. Amounts taken in excess of what the Company

receives for the customer's account is unauthorized use. Staff proposes to end the current free balancing service afforded to ANG's affiliates. Staff argues that its proposal would not require transportation customers to make flawless nominations and subsequent takes, but would make such customers responsible for ensuring their gas needs are delivered to ANG's city gate.

ANG opposes Staff on this issue and contends that the current balancing tolerances have served ANG and its customers well for several years. ANG argues that if these tolerances are eliminated, transportation customers will have to either perfectly match their nominations to actual use or incur severe and constant penalties under Staff's proposed unauthorized usage charge, or shut down their businesses when their requirements exceed their nominations. ANG states that it does not provide free balancing service to its affiliates and that it is physically impossible to prevent transportation customers from over delivering gas at the city gate.

Noranda opposes Staff on the grounds that a zero tolerance is unworkable. Public Counsel takes no position on this issue.

The Commission will order ANG to change its balancing provisions in its transportation tariff consistent with Schedule 1 to the surrebuttal testimony of Staff witness Hubbs (Exhibit 59). The Commission finds that ANG's current balancing service should be terminated so that Staff's proposed unauthorized use charge can be established. The Commission finds that transportation customers should be responsible for ensuring that their gas needs are delivered to ANG's city gate and that this requirement is not a mandate for flawless nominations and takes.

F. Proposed Unauthorized Use Charge for Transportation Customers
(III.F.7.f)

This issue is addressed above in paragraph V of this Report and Order. Staff requests that the Commission order ANG to incorporate into its tariff the unauthorized use charge as contained on Schedules 3-2 and 4-1 of Staff witness Hubbs' direct testimony (Exhibit 57) and on Schedules 1 and 3 of Hubbs' surrebuttal testimony (Exhibit 59). Staff's proposed unauthorized use charge will apply to interruptible transportation customers who take gas when they have been ordered to curtail usage and when they take gas in excess of what they had delivered to ANG's city gate receipt point. Staff argues that ANG has been charging its transportation customers a form of unauthorized use charge in violation of its tariff and in violation of Section 393.140, RSMo 1994. Staff's proposed unauthorized use charge is calculated as:

- (1) \$1.50 for each Ccf of unauthorized use, plus
- (2) 150 percent of the highest cost of gas purchased by the Company, for supplying the district in which the customer receives service, during the month of the unauthorized use charge period, plus
- (3) all intrastate and/or interstate pipeline penalties and other charges incurred by the Company which are attributable to a customer's unauthorized use.

Staff asserts these provisions, in conjunction with electronic gas metering (EGM), will assist in maintaining the reliability of ANG's distribution system. Staff intends to prevent affiliated and nonaffiliated transportation customers from paying a lower rate for interruptible gas, but taking in essence firm service without appreciable penalty.

ANG opposes Staff's unauthorized use charge because ANG believes the proposed amounts are too severe. ANG argues that when combined with the proposed elimination of back-up sales and balancing tolerances, the unauthorized use charge will practically guarantee that transportation customers will constantly incur substantial penalties. ANG contends that

the following language in Tariff sheets 7E, 11D and 15D, under Special Conditions, paragraph 4, permit certain items such as the current balancing provision and penalties in its contract: "Specific details relating to delivery points, load balancing, optional transportation services and charges and other matters shall be set forth in the Gas Transportation Service Contract." (Stevens rebuttal, Ex. 69, pp. 17-18). Public Counsel takes no position on this issue.

Noranda opposes Staff's proposal. Noranda states that the balancing provisions currently written into transportation customers' contracts allow a six percent variance from their nomination penalty fee. Thus, a variance of six to ten percent results in a penalty, and a variance more than ten percent results in a much stiffer penalty. Noranda argues that Staff's proposal will require perfect nominations which are impossible to obtain and will fail to take into account meter inaccuracies.

The Commission will rule in favor of Staff on this issue and will order ANG to incorporate into its tariff the unauthorized use charge provisions as contained on Schedules 3-2 and 4-1 of Staff witness Hubbs' direct testimony (Exhibit 57) and on Schedules 1 and 3 of Hubbs' surrebuttal testimony (Exhibit 59). The Commission finds that Staff's unauthorized use charge provisions, in conjunction with electronic gas metering (EGM), will assist in maintaining the reliability of ANG's distribution system. The Commission finds that Staff's unauthorized use provisions will prevent transportation customers from paying a lower rate for interruptible gas, but receiving the benefits of firm service without appreciable penalty.

G. Proposed Affiliated Transactions Rules in the Transportation Tariff
(III.F.7.g.)

Staff proposes that the Commission approve the gas marketing affiliated transaction language as set out in Staff witness Hubb's testimony to be incorporated into ANG's transportation tariff. Public Counsel agrees with Staff and supports the inclusion of additional language regarding an affiliate's use of the utility's brand recognition and the development of a cost allocation manual or similar documentation. ANG is opposed to the placement of affiliated transactions language in the tariff, and ANG is opposed to the additional language recommended by Public Counsel. ANG requests the Commission to defer action on affiliated transaction standards until its decision in the generic rulemaking case. Noranda is opposed to the positions of Staff and Public Counsel. Noranda states that industry-wide rules are the appropriate forum for this issue.

The Commission will rule in favor of ANG and Noranda on this issue. The Commission will not order ANG to include Staff's proposed language regarding affiliated transactions into its transportation tariff. The Commission will address the generally applicable standards for an affiliated transactions rule in Case No. OX-98-183.

H. Proposed Transportation Contract (Hearing Memorandum Issue
III.F.7.h.)

Staff proposes to add the form of the transportation contract to the tariff as provided in Schedule 2 to Staff Witness Hubbs' surrebuttal testimony (Exhibit 59). Staff argues that the form contract avoids encouraging affiliated bias because it does not include the balancing provisions and back-up sales provisions. ANG is opposed to placing the form contract in the transportation tariff because it fails to contain numerous provisions including liability and operational clauses and it does

not allow flexibility for proposing contract terms consistent with the tariffs. Noranda is opposed to Staff on the grounds that the form contract is unnecessary. Public Counsel takes no position on this issue.

The Commission finds that ANG and its customers should be allowed flexibility for negotiating contract terms as long as the terms are consistent with ANG's tariffs. The Commission will rule in favor of ANG and Noranda and will not require ANG to include the proposed contract form in its tariff.

I. Proposal to Require Refunding of Monies Collected through Balancing Provisions (Hearing Memorandum Issue III.F.7.i.)

Staff proposes that the Commission order ANG to credit all unauthorized use charges to ratepayers through the Actual Cost Adjustment provisions of its PGA Clause and thus not to retain these amounts as a windfall for the Company. Staff alleges that, through ANG's balancing provisions, the Company charges penalties which are not approved by the Commission in violation of Section 393.140(11), RSMo 1994. ANG opposes the refund of monies collected through the balancing provisions or through the proposed unauthorized use charge. ANG contends that the penalties are allowed under tariff sheets 7E, 11D and 15D, which specify under Special Conditions, paragraph 4, "Specific details relating to delivery points, load balancing, optional transportation services and charges and other matters shall be set forth in the Gas transportation Service Contract." (Stevens rebuttal, Ex. 69, pp. 17-18).

Noranda states it is opposed to unauthorized use charges; however, it takes no position on whether the company should refund current penalties to all customers. Public Counsel takes no position on this issue.

The Commission finds that ANG would receive a windfall if it retained all unauthorized use charges. Therefore, the Commission will

order ANG to credit all unauthorized use charges to ratepayers through the Actual Cost Adjustment provisions of its PGA Clause.

IX. Curtailment Policy (Hearing Memorandum Issue III.F.8.)

Staff proposes that the Commission order ANG to modify its curtailment policy as set forth in Schedule 3 to the surrebuttal testimony of Staff witness Hubbs (Exhibit 59). The proposed changes include notice requirements, enforcement of curtailments by billing unauthorized use charges, and curtailment classes receiving gas on a pro rata basis when partial requirements are available.

ANG initially recommended that Staff's changes be modified to include wording to provide that limiting curtailments to the system are requirements, to provide for minimum use of gas for plant protection, and to allow category 2 customers to receive notice of curtailment via mass media. After Staff modified its proposal in the prefiled surrebuttal testimony of Mr. Hubbs in response to ANG's concerns, ANG suggested only that the following language should be added, "If in the Company's opinion supplies and capacity are available, the Company may allow limited gas service for plant protection." (Tr. 194). Staff's position is that transportation customers should not be allowed plant protection gas because these customers are interruptible and should be required to contract for their needs. Staff believes that if such customers have needs for firm service, then they should contract for those needs.

Public Counsel and Noranda stated no position on this issue.

The Commission will rule in Staff's favor on this issue. The Commission finds that if interruptible transportation customers need plant protection gas, these customers should contract for their needs or purchase firm sales service. The Commission determines that ANG may allow limited gas service for plant protection except for transportation customers. The

Commission will order that ANG include in its tariff the curtailment language from Schedule 3 of the surrebuttal testimony of Staff witness Hubbs with the following additional language, "If in the Company's opinion supplies and capacity are available, the Company may allow limited gas service for plant protection, except for transportation customers."

Conclusions of Law

The Missouri Public Service Commission has arrived at the following Conclusions of Law.

Associated Natural Gas Company, a division of Arkansas Western Gas Company, is a gas corporation as defined under Section 386.020(18), RSMo Supp. 1996.

Associated Natural Gas Company, a division of Arkansas Western Gas Company, is an investor-owned public utility engaged in the provision of natural gas service in the State of Missouri and, therefore, subject to the jurisdiction of the Missouri Public Service Commission under Chapters 386 and 393, RSMo.

The Commission has the legal authority to accept a Stipulation and Agreement as offered by the parties as a resolution of issues raised in this case, pursuant to Section 536.060, RSMo Supp. 1996.

The cost of service is but one consideration in determining the reasonableness of rates. Shepherd v. Wentzville, 645 S.W.2d 130 (Mo. App. 1982). It is not just the methodology or theory behind any proposed rates but the impact of the rate order which counts in determining whether rates are just, reasonable, lawful, and nondiscriminating. State ex rel. Associated Natural Gas Co. v. Public Service Commission, 706 S.W.2d 870, 879 (Mo. App. 1985). The quintessence of a just and reasonable rate is that it is just and reasonable to both the utility and its customers. State ex

rel. Val Sewage Co. v. Public Service Commission, 515 S.W.2d 845 (Mo. App. 1974).

IT IS THEREFORE ORDERED:

1. That pursuant to the findings of fact and conclusions of law in this Report and Order, the proposed tariff sheets filed on January 14, 1997, by Associated Natural Gas Company, a division of Arkansas Western Gas Company, are rejected.

2. That Associated Natural Gas Company, a division of Arkansas Western Gas Company, is authorized to file, in lieu of the rejected tariff sheets, for approval of the Commission, tariff sheets in compliance with this order designed to increase gross revenues, exclusive of any applicable license, occupation, franchise, gross receipts taxes, or other similar fees or taxes, by the amount of \$1,522,263 for natural gas service rendered in its Missouri service area on an annual basis over its current revenues.

3. That the Staff of the Missouri Public Service Commission shall file a memorandum in this docket no later than ten days after the tariff has been filed, indicating whether the tariff sheets filed pursuant to ordered paragraph 2 are in compliance with this order.

4. That the Unanimous Stipulation and Agreement filed by Associated Natural Gas Company, a division of Arkansas Western Gas Company, Noranda Aluminum, Inc., Westar Gas Marketing, Inc., the Office of the Public Counsel, and the Commission's Staff on September 5, 1997, and the First Amendment thereto filed on September 15, 1997, are hereby approved (See Attachments A and B, respectively).

5. That the depreciation rates are approved as set forth in Exhibit 1 to the Unanimous Stipulation and Agreement (Attachment A) which was filed by Associated Natural Gas Company, a division of Arkansas Western

Gas Company, Noranda Aluminum, Inc., Westar Gas Marketing, Inc., the Office of the Public Counsel, and the Commission's Staff on September 5, 1997.

6. That the completed Revenue Requirement Scenario filed on November 12, 1997, is received into the record as Exhibit 98 (Attachment C).

7. That those motions and objections not specifically ruled on in this order are hereby denied or overruled.

8. That this Report and Order shall become effective on December 13, 1997.

BY THE COMMISSION

A handwritten signature in black ink, reading "Dale Hardy Roberts". The signature is written in a cursive, flowing style.

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

(S E A L)

Lumpe, Ch., Crumpton, Murray,
and Drainer, CC., concur.

Dated at Jefferson City, Missouri,
on this 3rd day of December, 1997.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

SEP 05 1997

MISSOURI
PUBLIC SERVICE COMMISSION

In the matter of Associated Natural Gas)
Company's tariff revision designed to)
increase rates for gas service to customers in)
the Missouri service area of the company.)

Case No. GR-97-272

UNANIMOUS STIPULATION AND AGREEMENT

On January 14, 1997, Associated Natural Gas Company (ANG or Company), submitted to the Commission proposed tariffs reflecting increased rates for gas service provided to customers in the Missouri service area of the Company. The proposed tariffs contained a requested effective date of February 13, 1997, and were designed to produce an annual increase of approximately 10.23% (\$3,758,936) in the Company's revenues exclusive of applicable taxes. On January 29, 1997, the Commission suspended the proposed tariffs for a period of 120 days plus an additional six months beyond the proposed effective date.

The Hearing Memorandum filed in this case indicates dates of intervention by various parties and the dates of the filing of testimony by the parties.

A prehearing conference was held July 16-18, 1997. ANG, the Staff of the Missouri Public Service Commission (Staff), The Office of the Public Counsel (OPC), Noranda Aluminum, Inc., (Noranda) and Westar Gas Marketing, Inc. (Westar), appeared and participated at the prehearing conference. As a result of the prehearing conference and subsequent negotiations, the undersigned parties (Parties) have reached the following stipulations and agreements.

1. ANG shall be authorized to file revised tariff sheets containing rate schedules for gas service designed to produce an increase in overall Missouri jurisdictional gross annual gas revenues,

ATTACHMENT A

exclusive of applicable license, occupation, franchise, or gross receipts taxes, of one million five hundred thousand dollars (\$1,500,000), subject to the provisions herein.

2. The stipulated \$1,500,000 rate increase settles the following issues:

III (A) (1) Allocation of Arkansas Western Gas Company (AWG) General Office Building

III (A) (2) FAS 106 Regulatory Asset

III (A) (3) FAS 109 Regulatory Asset

III (A) (4) Plant Acquisition Adjustment

III (B) (1) (a) ANG Payroll

III (B) (1) (b) AWG and Southwestern Energy Company (SWEN) Payroll Allocable to ANG Through Intercompany Allocations

III (B) (1) (c) Payroll Taxes

III (B) (1) (d) Incentive Compensation (Bonuses)

III (B) (1) (e) Administrative Expense Applicable to Appliance Program

III (B) (1) (f) Elimination of Chairman/CEO's Salary

III (B) (1) (g) Annualization of Employee Benefits-Medical, Life, and 401(K)

III (B) (1) (h) Intercompany Allocations

III (B) (1) (i) SWEN Depreciation and Return

III (B) (1) (j) SWEN Property Tax

III (B) (1) (k) ACA Legal Expense Elimination

III (B) (1) (l) Amortization of Plant Acquisition Adjustment

III (B) (1) (m) Airplane Expense

III (B) (1) (o) FAS 106 External Funding

III (B) (1) (p) AWG Building Depreciation Expense

III (B) (1) (q) Amortization of FAS 106 Regulatory Asset

III (B) (1) (r) Amortization of FAS 109 Regulatory Asset

III (B) (1) (s) Jurisdictional Allocation of Budget Center 371-LNG Plant

III (B) (1) (t) Jurisdictional Transmission Expense Allocation Factor

III (C) (1) Return on Rate Base

III (C) (2) Capital Structure

3. As set forth in the Hearing Memorandum, the following additional issues are also resolved as indicated:

A. Depreciation Issues.

The Staff agrees to not pursue the issue of expanding the available computerized salvage history prior to 1989 in this case. ANG agrees to Staff's depreciation rate changes for the five accounts (367, 376, 380, 381, 392) identified in Staff witness Jolie McKeel's direct testimony filed in this docket. The Commission's Order in this proceeding should modify these five depreciation rates. The depreciation rates for all accounts are attached hereto as Exhibit 1.

B. Rate Design Issue.

ANG agrees to prorate the bills implementing any rate increase resulting from this case.

C. Tariff Issues.

1) Customer Service Issue.

ANG agrees to adopt the additional tariff language describing the Preferred Payment Date Plan as proposed by Staff witness Randy Flowers in his direct testimony.

2) Main Extension Policy.

The Company's proposed Extension Policy proposes to limit main extension within incorporated limits to 200 feet. Staff agrees to ANG's proposed tariff language regarding the Extension Policy.

3) Residential Firm Service - Housing Authority.

ANG agrees to remove Housing Authority tariff language for the SEMO District as proposed by Staff witness Wendell R. Hubbs.

4) Residential Air Conditioning Rider.

ANG agrees to remove the Air Conditioning Rider for the Butler and SEMO Districts as proposed by Staff witness Wendell R. Hubbs.

5) Miscellaneous Tariff Modifications.

ANG agrees to make the following modifications to its tariff:

a) addition of language stating that "service may not be shared or resold" for Residential Firm Service (RFS), Commercial, Municipal and Interruptible Firm Service (CM&IFS), and Commercial and Industrial Interruptible Service (C&IIS) as proposed by Staff witness Wendell R. Hubbs.

b) removal of "Cost of Gas" from all base tariff sheets for RFS, CM&IFS, C&IIS and Large Industrial Interruptible Service (LIIS) as proposed by Staff witness Wendell R. Hubbs.

c) modify the "Seasonal Use" tariff language for RFS and modify the "Reconnect Charge" tariff language for CM&IFS and C&IIS as proposed by Staff witness Wendell R. Hubbs.

d) addition of language for C&IIS to limit switching from firm to interruptible rates for a period of at least one year per switch as proposed by Staff witness Wendell R. Hubbs.

e) addition of "Cost of Gas" tariff language to the Purchased Gas Adjustment (PGA) as proposed by Staff witness Wendell R. Hubbs.

f) adoption of the proposed tariff language contained in Schedules 1, 2 and 3 to Staff witness Wendell Hubbs' direct testimony except for those sections relating to Unauthorized Use Charges.

6) Reconnection Charges.

The Staff adopts ANG's proposed reconnection charges of \$37.50 per reconnection performed during regular working hours and an additional charge of \$40.00 per reconnection performed outside regular working hours.

7) Special Meter Reading Charge.

The Staff agrees with the Company's proposals to increase its regular working hour special meter reading charge from \$5.00 to \$10.00 and increase its non-standard hour meter reading charge from \$10.00 to \$20.00.

8) Insufficient Check Charge.

The Staff agrees that the Company should be allowed to increase its insufficient check charge from \$3.00 to \$15.00.

9) Residential and Small General Service (SGS) Customer Charge.

The Company and OPC agree to the residential customer charge of \$7.00 and the SGS customer charge of \$12.50 as proposed by Staff witness Anne Ross.

4. As listed above, issues listed in the Hearing Memorandum as having a revenue requirement associated with them have been settled with the exception of interest on customer deposits (Issue III.B.1.n. in the Hearing Memorandum) and AWG Gathering and Transmission Costs (Issue III.D.1. and F.5. in the Hearing Memorandum). The respective positions of the Parties on these issues are contained in the Hearing Memorandum.

A. Interest on Customer Deposits

1) Since the Parties did not agree on a specific rate of return as a part of the \$1,500,000 settlement amount, and the \$1,500,000 settlement amount reflects the Staff's and ANG's position on the interest on customer deposit issue, the Parties have agreed, solely for the purpose of facilitating the trial of the interest on customer deposit issue, and to provide a means of quantifying the issue, that the pre-tax effective rate of return for purposes of OPC's customer deposit interest position shall be Staff's mid-point rate of return, which is 12.73 percent. The Parties agree that the use of 12.73 percent for purposes of quantifying this issue is not an indication of a Commission-authorized rate of return for ANG and has no validity outside of the customer deposit interest issue.

2) If the Commission decides that the rate of interest on customer deposits should be at the pre-tax effective rate of return as advocated by OPC, the Parties agree that ANG is

entitled to an additional revenue increase of \$51,026 to be added to the \$1,500,000 amount above. If the Commission decides that the rate of interest on customer deposits should be at OPC's alternative position (prime plus one percent), the Parties agree that ANG is entitled to an additional revenue increase of \$22,263 to be added to the \$1,500,000 amount above. If the Commission decides that the rate of interest should be at Staff and Company's position (the prime rate at the end of the calendar year minus 1¼ percentage points, which currently equals 7 percent), there would be no change to the \$1,500,000 amount. If the Commission decides to use a rate which is not among these alternatives which have been quantified, and is greater than 7 percent, the Parties agree that ANG shall be entitled to an additional revenue increase commensurate with the rate selected, such amount to be added to the \$1,500,000 amount above.

B. AWG Gathering and Transmission Costs for services provided in Arkansas

1) Although "AWG Gathering and Transmission Costs" is listed in the Reconciliation by the Company as having a revenue requirement effect of \$412,682, if the Commission agrees with ANG's position on this issue:

a) ANG will be allowed to continue to maintain the gathering and transmission language in the Purchased Gas Adjustment (PGA) portion of its tariff, recover the gathering and transmission costs related to system supply volumes through the PGA at the Commission-approved rate (said rate is subject to review and possible challenge in annual Actual Cost Adjustment filings), maintain language in the transportation portion of its tariff providing for recovery of the gathering and transmission costs (applicable to only those volumes transported through AWG's gathering and transmission system) at the rate approved by the Commission and

establish the crediting mechanism to flow back to the system supply customers a portion of the gathering and transmission revenue ANG bills transportation customers; and

b) ANG will not be entitled to \$412,682 over the \$1,500,000 revenue requirement settlement amount but will be allowed the opportunity to recover the costs as described in 4.B.1)a). However, the Staff believes ANG will collect approximately \$111,326 related to double recovery of G & T fuel costs through the crediting mechanism, in addition to the \$1,500,000 revenue requirement settlement amount. ANG believes there is no potential for double recovery.

2) If the Commission agrees with the Staff's position on the issue: the Commission will not establish a specific rate applicable to the gathering and transmission costs; ANG will remove reference to a specific rate applicable to the gathering and transmission costs from the PGA portion of its tariff; and ANG will remove the language applicable to gathering and transmission costs from the transportation portion of its tariff. ANG will be entitled to recover from its system supply customers through the PGA whatever rate is charged by AWG and the prudence of the rate charged for the gathering and transmission costs will be reviewed in the applicable annual Actual Cost Adjustment proceedings. ANG will also have the opportunity to recover from its transportation customers who use the gathering and transmission facilities, whatever rate ANG is able to negotiate with the transport customer.

3) If the Commission does not accept Staff's position in 2) above, but decides to approve a rate, Staff recommends a flat rate instead of the crediting mechanism rates proposed by the Company.

4) If Staff's position in 2) or 3) is approved, it is Staff's opinion that there will be no change in the \$1,500,000 revenue requirement settlement amount. It is ANG's opinion

that if it is required to pass through the fuel costs related to transportation volumes, it will not recover the \$1,500,000 amount.

5. ANG agrees to fund its FAS 106 obligation in an external trust fund in accordance with § 386.315 RSMo.

6. All other issues contained in the Hearing Memorandum will be litigated at the hearing scheduled to commence on September 15, 1997. Since there will be a hearing on the remaining issues, including rate design, ANG is not requesting and is not entitled to an early implementation of the revenue increase which has been agreed to herein. However, the Parties respectfully request that the Commission give prompt consideration to this Unanimous Stipulation and Agreement so that if it is not approved, there will be sufficient opportunity in the time remaining before the operation of law date of December 13, 1997, for the parties to address such matters.

7. None of the Parties to this Unanimous Stipulation and Agreement shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of cost determination or cost allocation, or any service or payment standard, and none of the Parties shall be prejudiced or bound in any manner by the terms of this Unanimous Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

8. This Unanimous Stipulation and Agreement has resulted from extensive negotiations among the Parties. The terms of the Unanimous Stipulation and Agreement are interdependent. In the event the Commission does not approve this Unanimous Stipulation and Agreement, then this Unanimous Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions thereof.

9. To the extent the Commission approves and adopts the Unanimous Stipulation and Agreement, the Parties waive, with respect to the issues resolved: their respective rights pursuant to Section 536.080.1 (RSMo 1994) to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 (RSMo 1994); and their respective rights to judicial review pursuant to Section 386.510 (RSMo 1994).

10. The Parties agree that the following prefiled testimony and schedules submitted by ANG, Staff and OPC in this case shall be received into evidence without the necessity of their respective witnesses taking the stand.

Staff:

Sandhya Pandurangi, Direct
Warren Wood, Direct
Chuck Hyneman, Direct and Rebuttal
Bob Schallenberg, Direct
Roy Boltz, Direct and Rebuttal
Mike Wallis, Direct and Rebuttal
Bill Harris, Direct
Jolie McKeel, Direct
Randy Flowers, Direct
Larry Cox, Direct
Dennis Patterson, Direct and Rebuttal
Jim Gray, Direct and Rebuttal
Jay Moore, Direct
David Broadwater, Rebuttal
Staff Accounting Schedules filed June 26, 1997

OPC:

Mark Burdette, Direct

ANG:

Accounting Schedules filed February 28, 1997
Ricky Gunter, Direct (except for Rate Design) and Rebuttal (except for portions on Gathering and Transmission Rate, Interest on Customer Deposits, and Rate Design/Cost of Service issues)

Donna Campbell, Direct and Rebuttal (except for Cost of Service and Rate Design issues which are not settled)
Mark Kidd, Direct and Rebuttal
Stanley D. Green, Rebuttal (except for portion on Affiliated Transaction Rules)
Steve Allen, Rebuttal
Pauline Ahern, Direct and Rebuttal
Frank Hanley, Direct and Rebuttal
Bradley Sylvester, Rebuttal
Charles V. Stevens, Rebuttal (except for Rate Design issues)
Greg Kerley, Rebuttal
Dee Hency, Rebuttal
Michael Hays, Rebuttal
Bruce Smallwood, Rebuttal
Glenn Morgan, Rebuttal

11. The Staff will submit to the Commission a memorandum explaining its rationale for entering into the Unanimous Stipulation and Agreement. Each party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission, within five (5) days of receipt of Staff's memorandum, a responsive memorandum which shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all Parties, and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in any future proceeding or in this proceeding, whether or not the Commission approves this Unanimous Stipulation and Agreement. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Unanimous Stipulation and Agreement, whether or not the Commission approves and adopts this Unanimous Stipulation and Agreement.


The Staff shall also have the right to provide, at any agenda meeting at which this Unanimous Stipulation and Agreement is noticed to be considered by the Commission, whatever oral

explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, promptly provide other Parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from Staff. Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

To assist the Commission in its review of this Unanimous Stipulation and Agreement, the Parties also request that the Commission advise them of any additional information that the Commission may desire from the parties relating to the matters addressed in this Unanimous Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

WHEREFORE, for the foregoing reasons, the undersigned Parties respectfully request that the Commission issue its Order approving all the specific terms and conditions of this Unanimous Stipulation and Agreement.

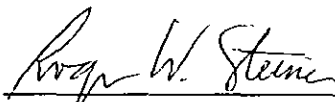
Respectfully submitted,



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**ATTORNEY FOR THE OFFICE
OF THE PUBLIC COUNSEL**

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 4th day of September, 1997.

Roger W. Felt

Service List for Case No. GR-97-272

Revised: September 5, 1997

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Gary W. Duffy
312 E. Capitol
P.O. Box 456
Jefferson City, MO 65101

Mr. Paul H. Gardner
131 E. High Street
Jefferson City, MO 65101

**Associated Natural Gas Company
Depreciation Rates
Case No. GR-97-272**

<u>Account Number</u>	<u>District</u>	<u>Description of Account</u>	<u>Rate</u>
366.3	SE Missouri	Structures & Imp.	3.24%
	Kirksville		3.24%
	Butler		3.24%
367		Transmission Mains	
	SE Missouri		1.53%
	Kirksville		1.53%
	Butler		1.53%
369	SE Missouri	Meas. & Reg.	3.60%
	Kirksville		3.60%
	Butler		3.60%
370	SE Missouri	Communication Equip.	4.36%
375	SE Missouri	Structures & Imp.	2.50%
	Butler		2.33%
	Kirksville		2.33%
376		Distribution Mains	
	SE Missouri		1.53%
	Kirksville		1.53%
	Butler		1.53%
378	SE Missouri	Meas. & Reg. Equip.	3.01%
	Kirksville	General	3.00%
	Butler		3.00%
379	SE Missouri	Meas. & Reg. Equip.	3.15%
	Kirksville	City Gate	3.21%
	Butler		3.21%
380		Services	
	SE Missouri		5.00%
	Kirksville		5.00%
	Butler		5.00%
381		Meters	
	SE Missouri		2.16%
	Kirksville		2.16%
	Butler		2.16%

The rates in accounts in bold were changed pursuant to Stipulation & Agreement

Exhibit 1

<u>Account Number</u>	<u>District</u>	<u>Description of Account</u>	<u>Rate</u>
382	SE Missouri	Meter Installations	2.96%
	Kirksville		3.00%
	Butler		3.00%
383	SE Missouri	House Regulators	4.19%
	Kirksville		4.55%
	Butler		4.55%
384	SE Missouri	House Regulator	3.33%
	Kirksville	Installations	3.33%
	Butler		3.33%
385	SE Missouri	Ind M&R Sta Equipment	3.60%
	Kirksville		3.60%
	Butler		3.60%
390	SE Missouri	Structures & Improv	5.00%
	Kirksville		5.00%
	Butler		5.00%
391	SE Missouri	Officed Furniture & Equip	4.75%
	Kirksville		4.75%
	Butler		4.75%
392		Transportation Equipment	
	SE Missouri		10.39%
	Kirksville		10.39%
	Butler		10.39%
393	SE Missouri	Stores Equipment	4.01%
	Kirksville		4.50%
	Butler		4.50%
394	SE Missouri	Tools, Shop & Gar Equip	4.33%
	Kirksville		4.50%
	Butler		4.50%
395	SE Missouri	Laboratory Equipment	3.69%
	Kirksville		4.00%
	Butler		4.00%
396	SE Missouri	Power Operated Equip	7.71%
	Kirksville		7.92%
	Butler		7.92%

The rates in accounts in bold were changed pursuant to Stipulation & Agreement

Exhibit 1

<u>Account Number</u>	<u>District</u>	<u>Description of Account</u>	<u>Rate</u>
397	SE Missouri	Communication Equip	4.36%
	Kirksville		4.55%
	Butler		4.54%
398	SE Missouri	Miscellaneous Equip	3.60%
	Kirksville		3.60%
	Butler		3.60%

The rates in accounts in bold were changed pursuant to Stipulation & Agreement

Exhibit 1

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

SEP 15 1997

MISSOURI
PUBLIC SERVICE COMMISSION

In the Matter of Associated Natural Gas)
Company's tariff revision designed to)
increase rates for gas service to customers in)
the Missouri service area of the company.)

Case No. GR-97-272

FIRST AMENDMENT TO UNANIMOUS STIPULATION AND AGREEMENT

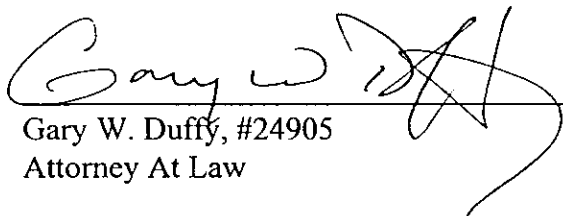
COME NOW the Staff of the Missouri Public Service Commission (Staff), Associated Natural Gas Company (ANG or Company), the Office of the Public Counsel (OPC), Noranda Aluminum, Inc. (Noranda), and Westar Gas Marketing, Inc. (Westar) and stipulate and agree as follows:

1. On September 5, 1997, all the parties to this proceeding filed a Unanimous Stipulation and Agreement (S&A) in this proceeding.
2. The S&A provided, among other things, a \$1,500,000 increase in overall Missouri jurisdictional gross annual gas revenues, exclusive of applicable license, occupation, franchise or gross receipts taxes.
3. The parties have continued to engage in settlement negotiations and have agreed that the \$1,500,000 increase will be allocated among the ANG districts as follows:

SEMO	\$1,231,706
Kirksville	212,933
Butler	55,361
4. The undersigned parties have agreed to this first amendment as of this 15th day of September, 1997, and agree that they shall take effect on the date hereof.
5. In all other respects, the S&A remains unchanged.

ATTACHMENT B


Respectfully submitted,



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**ATTORNEY FOR
WESTAR GAS MARKETING, INC.**

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 15th day of September, 1997.



Greg

Commissioners

SHEILA LUMPE
Chair

HAROLD CRUMPTON

CONNIE MURRAY

M. DIANNE DRAINER
Vice Chair

Missouri Public Service Commission

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November 12, 1997

CECIL I. WRIGHT
Executive Secretary

WESS A. HENDERSON
Director, Utility Operations

GORDON L. PERSINGER
Director, Advisory & Public Affairs

ROBERT SCHALLENBERG
Director, Utility Services

DONNA M. KOLILIS
Director, Administration

DALE HARDY ROBERTS
Chief Administrative Law Judge

DANA K. JOYCE
General Counsel

Mr. Cecil I. Wright
Executive Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GR-97-272 - Associated Natural Gas Company

Dear Mr. Wright:

Enclosed for filing in the above-captioned case is an original and fourteen (14) conformed copies of a **Revenue Requirement Scenario**. Public Counsel, Associated Natural Gas Company and Public Service Commission Staff contributed. Staff attempted, but was unable, to contact the intervenors.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,



Cherlyn D. McGowan
Assistant General Counsel
(573) 751-3966
(573) 751-9285 (Fax)

CDM:tmw

Enclosure

cc: Counsel of Record

ATTACHMENT C

FILED
NOV 12 1997
MISSOURI
PUBLIC SERVICE COMMISSION

FILED
NOV 12 1997
MISSOURI
PUBLIC SERVICE COMMISSION

Scenario
Case No. GR-97-272

<u>Issue</u>	<u>Decision</u>	<u>Revenue Requirement</u>
AWG Gathering and Transmission Costs	Staff	\$ 0.00
Interest on Customer Deposits	Public Counsel Alternative 9.5%	\$ 22,263.00
Total Revenue Requirement		\$1,522,263.00