BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Laclede Gas)
Company's PGA rate design)

Case No. GR-94-328

REPORT AND ORDER

Issue Date: August 22, 1995

Effective Date: September 1, 1995

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company's PGA rate design	))	Case No. GR-94-328

APPEARANCES:

Michael C. Pendergast, Assistant General Counsel, 720 Olive Street, Room 1530, St. Louis, MO 63101, for Laclede Gas Company.
Robert C. Johnson and **Diana M. Schmidt**, 720 Olive Street, 24th Floor, St. Louis, MO 63101, for Missouri Industrial Energy Consumers.
Ronald K. Evans, Associate General Counsel, P.O. Box 149 (MC 1310) St. Louis, MO 63166, for Union Electric Company.
Lewis R. Mills, Jr., Deputy Public Counsel, P.O. Box 7800, Jefferson City, MO 65102, for the Office of Public Counsel and the Public.
Jeffrey A. Keevil, Deputy General Counsel, P.O. Box 360, Jefferson City, MO 65102, for the Staff of the Missouri Public Service Commission

ADMINISTRATIVE LAW JUDGE: Joseph A. Derque, III

REPORT AND ORDER

Procedural History

This case originated as a result of a general rate case filed by Laclede Gas Company (LGC) in January, 1992, styled Case No. GR-92-165. That case was resolved by Stipulation and Agreement between the parties. As part of that agreement, the parties resolved to examine the allocation of purchase gas costs in an actual cost adjustment filing to be made by LGC in October, 1992. Subsequently, a joint recommendation was made in that ACA case, GR-92-89, in which the parties and intervenors, Missouri Industrial Energy Consumers and Union Electric Company, recommended that this docket, be opened for the purpose of considering PGA rate design and cost allocation methodology to be applied to LGC's non-commodity related gas costs. The Commission adopted the provisions of the joint recommendation in Case No. GR-92-89 in August, 1992, and this docket was opened. Finally, in conjunction with Laclede's most recent case, GR-94-220, a class cost of service study was filed by LGC. This docket and its attendant issues were partly the result of that study.

On August 26, 1994, the Commission approved a joint recommendation submitted by the parties as to the allocation and recovery of transition costs, thus eliminating that issue from consideration in this case. This matter was tried and finally submitted to the Commission on May 9-10, 1995.

Findings of Fact

The Missouri Public Service Commission, having considered all competent and substantial evidence, and on the record as a whole makes the following findings of fact.

At hearing, the active participants in the prosecution of this matter were Laclede Gas Company, the Staff of the Commission, the Office of Public Counsel (OPC), and intervenors Union Electric Company (UE) and the Missouri Industrial Energy Consumers (MIEC). The Staff of the Commission, UE, and MIEC all supported proposals to alter the rate structure and design currently being used by LGC in the area of recovery of fixed gas supply costs. While all three proposals agree on seasonal allocation of costs, the three proposals vary substantially in the allocation method used and the allocation of costs to the various rate classes.

LGC and the OPC agree that changes proposed in the rate structure currently used by LGC are unsound and unwise for various reasons, which will be set out in detail.

In addition to the above primary issue, an additional issue remains as to whether costs billed to LGC under a supply contract, referred to as the ESCO contract, should also be regarded, in whole or in part, as fixed gas supply costs, and allocated accordingly.

Allocation of Fixed Gas Supply Costs

The principal matter at issue in this case is the proper allocation of fixed gas supply costs (also called firm transmission capacity or fixed commodity costs), on an annual basis, to the seasonal periods and customer classes on the LGC distribution system. Fixed gas supply costs, simply put, are those costs incurred by LGC for reservation of capacity, storage, and supply, from both transmission pipelines and suppliers. The parties agree that these costs are fixed in nature.

The Staff supports the position that fixed gas supply costs, in total, are incurred as a direct result of the seasonal demands for gas as a source of space heating. The Staff maintains, and accurately so, that the annual load on the LGC distribution system has clearly discernable capacity utilization periods, including off-peak, shoulder, and on-peak periods. The Staff simplifies the three periods for purposes of development of its seasonal rate proposal by placing on-peak and shoulder periods, from November through April, in the winter rate category, and off-peak, from May through October, in the non-winter rate category.

Based on the above time-of-use methodology, the Staff supports a proposal to reallocate most, if not all, of the fixed gas supply cost portion of the total PGA commodity costs (approximately 5% of LGC's total annual revenue) to the winter period. This would include, according to Staff testimony, between 84% and 89% of the total cost of transmission capacity of LGC.

This portion of LGC's total capacity is used only during the peak and shoulder periods, thus logically causing the same percentage of the city gate transmission costs to be incurred during the winter period. Therefore, the Staff supports reallocation, principally to the winter period, of various upstream pipeline and storage costs. Finally, the Staff suggests the reallocation of costs associated with the use of non-winter storage capacity to the winter period.

Once the seasonal allocation of costs are achieved, the Staff proposes to further allocate the costs by applying its time-of-use cost-causation methodology to the various rate classes. The Staff, in the testimony of Dr. Michael Proctor, has calculated the resulting proposed class revenue requirements for all of the respective positions and methodologies of the parties for comparison. These are contained in Attachment A to this Report and Order. (It should be noted that, in Attachment A, a category is reflected in the comparative charts showing a "company" position (for LGC). From the record LGC apparently no longer supports any change in its current rate structure and, therefore, the "company" category should be ignored.)

As a result of the application of the Staff's allocation method, the revenue burden would be shifted from the summer months to the winter peak and shoulder periods, and to the residential and small commercial (general service) users and away from the large volume and transportation customers. This is also illustrated in Attachment A.

In conjunction with, and as a result of, the seasonal and class allocation proposals, the Staff has proposed rates to meet the revenue requirement engendered by the proposed cost reallocation. Again, as demonstrated by

Attachment A, higher rates are proposed for the winter period with attendant lower rates for the non-winter period than is currently the case.

The ultimate result of the application of the Staff's proposed allocation method is to shift the recovery of approximately 10% of the total annual gas costs of LGC from the non-winter period to the winter period. Currently, fully 80% of the total annual gas cost of LGC is collected during the winter period. Application of the Staff's proposal would raise the amount collected during the winter period to approximately 90%.

Union Electric, an intervenor and regulated gas and electric utility, is in agreement with the Staff position in that it advocates recovery of what UE calls "demand related purchase gas costs" through seasonally differentiated rates. UE, as well as the Staff, argues that capacity reservation charges, supply demand charges, and contract storage charges are incurred almost solely to meet peak season (winter) customer load requirements and that, therefore, the true costs of meeting this load should be fairly and equitably reflected in seasonal rates. UE supports the Staff's reasoning that seasonal rates send a price signal to customers regarding the actual cost to provide and appropriate times to conserve the resource.

UE's position differs from that of the Staff in the method used to allocate seasonal cost levels. UE proposes use of the "base and excess" method of cost allocation. Simply put, the base and excess method establishes a base usage line set at the highest non-winter usage (or volume). Usage below that line is considered base or year-around usage, and usage above that line is considered excess usage. UE has proposed charging all of the excess usage costs to the winter period. Application of this method to rates and rate classes is reflected in Attachment A, which shows that UE's proposed winter rates are higher than the

Staff's while non-winter rates are somewhat lower. Class costs are shifted to general service, special contract, interruptible, and seasonal (summer) air conditioning classes from, principally, the large volume and transportation customers.

MIEC suggests that the Commission must make a threshold determination as to whether the purchase gas adjustment mechanism is the appropriate and best "forum" for addressing gas cost allocations and rate design structure. MIEC supports the position that PGA proceedings are, in fact, an appropriate forum for addressing such issues. The Commission is, and has been since the inception of this case, well aware of that issue. The Commission will address that issue later in this Report and Order.

As to its substantive position, MIEC agrees with the Staff of the Commission in that class cost responsibility should reflect, "to the maximum extent possible," the principle of rates based upon costs incurred to provide the service. Testimony reveals that MIEC supports a separation of cost-causative factors between year-round and demand-related gas supply costs - a variation on the seasonal cost-allocation theory sponsored by the Staff. MIEC recommends cost allocation among the various customer classes for year-round costs based on cost contribution to the non-coincident peak, with lesser allocators being assigned to off-peak, interruptible, and "as-available" uses. Demand-related gas supply costs would be allocated to the classes based on a 50/50 combination of winter design demands and seasonal usage. MIEC maintains that interruptible and "as-available" service should have substantially lower cost responsibility throughout the year.

The upshot of the MIEC theory, as reflected generally in Attachment A, is to shift revenue responsibility to the largest extent of any of the parties away from the transportation, transportation sales, and large volume rate classes, and on to the general service, special contract and interruptible classes.

Finally, the OPC and LGC generally agree that the current LGC PGA tariff should remain unchanged and that no changes be made in the manner in which fixed gas supply costs are allocated. Various reasons are given for this position by both LGC and the OPC. The Commission adopts the position of LGC and the OPC and makes the following findings of fact in this case.

The Commission is aware that the operation of LGC has an inherent problem in the timely collection of revenue, much the same as any natural gas distribution company operating in a seasonal environment. While operating expenses are ongoing throughout the year, a substantial portion of the Company's annual revenue is collected during the six month winter heating season. LGC has shown that fully 80% of its gas costs are collected during the winter period, making up nearly all of its margin on the year. This creates an extreme imbalance between expense incurred and revenue collected. The Commission finds that it would be unwise to shift recovery of additional costs, as proposed by the Staff, UE and MIEC, from the non-winter period back to the winter period, exacerbating an already troublesome problem.

In addition, the Commission would note that a class cost of service study is designed to determine the cost of service incurred by each customer class. This is done by classifying costs as to the function of which they are a part, then classifying them as to the activity for which they are associated. Finally, the costs are allocated and distributed to the customer classes. A substantial number of assumptions regarding cost-causation must be made to complete such a study.

While the Commission supports the general proposition that a rate class should sponsor the costs uniquely incurred by that class, the evidence of record is not convincing as to whether the underlying assumptions and conclusions made regarding the assignment of cost causation, either seasonally or to the various rate classes, were reasonable. LGC is correct in maintaining that insufficient analysis has been made of the operational factors which actually drive and cause the various allocated costs. The OPC is correct in stating that the evidence is somewhat lacking in demonstrating that the proposed changes are accurately cost-based.

The Commission finds, after substantial study of the various proposals, that insufficient justification of cost causation and class assignment exists in the record for the Commission to adopt one of the proffered plans with the assurance that the resulting rates will be fair, reasonable, and in the public interest.

The Commission is sensitive to the proposal by the Staff and intervenors to raise rates, in the winter, for the general service class, which includes principally residential and small commercial ratepayers. Fully 80% of the commodity costs of LGC are already reflected in winter rates, and, as the general service class is the least elastic of all consumers, the Commission can find no justification for sending an additional price signal to that class.

LGC also has made a convincing argument that imposition of the suggested changes in rates would burden the less-able ratepayers with additional expense at a time of year when heating bills are already at their highest, resulting in higher bad debt, higher collection costs, and less revenue for the company. It is difficult to perceive any public benefit resulting from this scenario.

The ESCO Contract

A brief summary of the ESCO contract issue should suffice, as the outcome of this issue is, to a large extent, governed by the main issues in this case. LGC currently has a gas supply contract with supplier ESCO. Charges from this contract are billed to LGC on a bundled volumetric basis, and recovered from ratepayers on a volumetric basis. The Staff and MIEC have submitted proposals to divide out and allocate the fixed and commodity costs in this contract to various customer classes as part of the reallocation process.

The Commission finds that the proposals to allocate the costs of this contract suffer from many of the same deficiencies discussed in the first issue above. In addition, there is substantial question as to the wisdom and necessity of going behind the terms of a supply contract to artificially allocate to the ratepayer the various costs incurred by a supplier of the local distribution company. The Commission is not prepared to make that step in this case. For the above reasons, the proposals regarding the ESCO contract will not be adopted.

Conclusions of Law

Laclede Gas Company is a public utility subject to the jurisdiction of and regulated by the Public Service Commission pursuant to Chapters 386 and 393, RSMo 1994.

Section 393.150, RSMo. 1994, establishes in the Public Service Commission the authority to determine whether proposed rates are just and reasonable and to make an order in regard to such proposals.

In accordance with the above-stated section, the Commission finds the issues, proposals, rates and rate structures as put forth in this docket are not just and reasonable. The current rates and rate structure of Laclede Gas Company will remain in effect. This matter will be dismissed and this docket will be closed.

IT IS THEREFORE ORDERED:

1. That the proposals in this case, and each of them, regarding rates and rate structure, are not found to be just and reasonable and are dismissed.

2. That this docket is closed.

3. That the motion to strike, filed August 7, 1995, by Laclede Gas Company, is now moot, and therefore, dismissed.

4. That the effective date of this Report and Order shall be September 1, 1995.

BY THE COMMISSION

David L Rauch

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., Crumpton, and
Drainer, CC., Concur;
McClure and Kincheloe, CC., Dissent
in opinion to follow and
certify compliance with the provisions of
Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on this 22nd day of August, 1995.

PROPOSED CLASS REVENUE REQUIREMENTS

Class of Service	Current	Company	Staff	Union Electric	Industrials
General Service	$77,235,644	$78,746,265	$77,605,995	$77,793,971	$80,779,024
Large Volume	$3,132,245	$2,491,312	$2,818,621	$2,741,866	$2,019,817
Special Contract	$33,263	$32,931	$36,024	$36,773	$51,399
Trans Sales	$624,596	$254,702	$528,451	$504,517	$21,310
Seasonal AC	$0	$134,210	$70,965	$121,503	$54,210
Gas Lights	$12,636	$7,008	$10,133	$9,506	$1,159
Interruptible	$0	$259,817	$304,993	$235,218	$228,790
Firm Transportation	$4,205,188	$3,267,046	$3,868,391	$3,700,608	$2,067,405
Basic Sales	$0	$0	$0	$0	$20,458
Authorized Overrun	$0	$50,289	$0	$99,612	$0
Total	$85,243,573	$85,243,580	$85,243,572	$85,243,574	$85,243,572

DIFFERENCES FROM CURRENT FIXED GAS COST RATES

Class of Service	OPC	Company	Staff	Union Electric	Industrials
General Service	$0	$1,510,621	$370,350	$558,327	$3,543,379
Large Volume	$0	($640,933)	($313,624)	($390,379)	($1,112,428)
Special Contract	$0	($332)	$2,761	$3,510	$18,136
Trans Sales	$0	($369,894)	($96,146)	($120,079)	($603,286)
Seasonal AC	$0	$134,210	$70,965	$121,503	$54,210
Gas Lights	$0	($5,628)	($2,503)	($3,130)	($11,477)
Interruptible	$0	$259,817	$304,993	$235,218	$228,790
Firm Transportation	$0	($938,142)	($336,798)	($504,580)	($2,137,783)
Basic Sales	$0	$0	$0	$0	$20,458
Authorized Overrun	$0	$50,289	$0	$99,612	$0
Total	$0	$7	($1)	$1	($1)

Attachment A

TYPICAL BILL COMPARISONS

CURRENT RATE DESIGN			
MONTH	RATE	THERMS	BILL
OCT	$0.08977	42	$3.77
NOV	$0.08977	97	$8.71
DEC	$0.08977	179	$16.07
JAN	$0.08977	236	$21.19
FEB	$0.08977	217	$19.48
MAR	$0.08977	159	$14.27
APR	$0.08977	96	$8.62
MAY	$0.08977	53	$4.76
JUN	$0.08977	36	$3.23
JUL	$0.08977	28	$2.51
AUG	$0.08977	27	$2.42
SEP	$0.08977	30	$2.69
ANNUAL	$0.08977	1,200	$107.72
OCT-MAY	$0.08977	1,079	$96.86
NOV-APR	$0.08977	984	$88.33

STAFF RATE DESIGN			
MONTH	RATE	THERMS	BILL
OCT	$0.04692	42	$1.97
NOV	$0.09881	97	$9.58
DEC	$0.09881	179	$17.69
JAN	$0.09881	236	$23.32
FEB	$0.09881	217	$21.44
MAR	$0.09881	159	$15.71
APR	$0.09881	96	$9.49
MAY	$0.04692	53	$2.49
JUN	$0.04692	36	$1.69
JUL	$0.04692	28	$1.31
AUG	$0.04692	27	$1.27
SEP	$0.04692	30	$1.41
ANNUAL	$0.08947	1,200	$107.36
OCT-MAY	$0.09424	1,079	$101.68
NOV-APR	$0.09881	984	$97.23

COMPANY RATE DESIGN			
MONTH	RATE	THERMS	BILL
OCT	$0.09152	42	$3.84
NOV	$0.09152	97	$8.88
DEC	$0.09152	179	$16.38
JAN	$0.09152	236	$21.60
FEB	$0.09152	217	$19.86
MAR	$0.09152	159	$14.55
APR	$0.09152	96	$8.79
MAY	$0.09152	53	$4.85
JUN	$0.09152	36	$3.29
JUL	$0.09152	28	$2.56
AUG	$0.09152	27	$2.47
SEP	$0.09152	30	$2.75
ANNUAL	$0.09152	1,200	$109.82
OCT-MAY	$0.09152	1,079	$98.75
NOV-APR	$0.09152	984	$90.06

UE RATE DESIGN			
MONTH	RATE	THERMS	BILL
OCT	$0.03421	42	$1.44
NOV	$0.10166	97	$9.86
DEC	$0.10166	179	$18.20
JAN	$0.10166	236	$23.99
FEB	$0.10166	217	$22.06
MAR	$0.10166	159	$16.16
APR	$0.10166	96	$9.76
MAY	$0.03421	53	$1.81
JUN	$0.03421	36	$1.23
JUL	$0.03421	28	$0.96
AUG	$0.03421	27	$0.92
SEP	$0.03421	30	$1.03
ANNUAL	$0.08952	1,200	$107.42
OCT-MAY	$0.09572	1,079	$103.28
NOV-APR	$0.10166	984	$100.03

STAFF'S PROPOSED
CLASS OF SERVICE RATES

Volumes	Winter	Non-Winter	Annual
General Service	716,476,156	143,917,906	860,394,062
Large Volume	23,051,417	11,841,346	34,892,763
Special Contract	356,099	14,449	370,548
Trans Sales	3,982,609	2,975,306	6,957,915
Seasonal AC	0	3,666,306	3,666,306
Gas Lights	70,380	70,380	140,760
Interruptible	4,826,218	2,271,418	7,097,636
Firm Transportation	29,417,379	21,192,870	50,610,249
Total	778,180,258	185,949,981	964,130,239

Rates	Winter	Non-Winter	Annual
General Service	$0.09622	$0.04548	$0.08774
Large Volume	$0.09622	$0.04548	$0.07900
Special Contract	$0.09622	$0.04548	$0.09425
Trans Sales	$0.09622	$0.04548	$0.07452
Seasonal AC	$0.05108	$0.01968	$0.01968
Gas Lights	$0.09622	$0.04548	$0.07085
Interruptible	$0.05108	$0.01968	$0.04103
Firm Transportation	$0.09622	$0.04548	$0.07497
Total	$0.09594	$0.04466	$0.08605

Revenues	Winter	Non-Winter	Annual
General Service	$68,942,371	$6,545,250	$75,487,621
Large Volume	$2,218,105	$538,533	$2,756,638
Special Contract	$34,265	$657	$34,922
Trans Sales	$383,224	$135,314	$518,538
Seasonal AC	$0	$72,147	$72,147
Gas Lights	$6,772	$3,201	$9,973
Interruptible	$246,528	$44,698	$291,226
Firm Transportation	$2,830,665	$963,832	$3,794,496
Total	$74,661,930	$8,303,632	$82,965,562

Revenues	Proposed	Current	Difference
General Service	$75,487,621	$75,064,530	$423,092
Large Volume	$2,756,638	$3,044,197	($287,559)
Special Contract	$34,922	$32,328	$2,594
Trans Sales	$518,538	$607,039	($88,501)
Seasonal AC	$72,147	$0	$72,147
Gas Lights	$9,973	$12,281	($2,307)
Interruptible	$291,226	$0	$291,226
Firm Transportation	$3,794,496	$4,205,188	($410,692)
Total	$82,965,562	$82,965,562	($0)

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

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DISSENTING OPINION OF COMMISSIONERS
KENNETH MCCLURE AND DUNCAN E. KINCHELOE

We respectfully dissent from the order of the majority which maintains the current rates and rate structure of Laclede Gas Company. In this era of increasing competition in the energy field, the importance of sending accurate price signals by moving rates toward costs cannot be overstated. This is especially true in the natural gas industry, where, particularly since the effective date of FERC Order 636, there is a very real potential of local distribution companies losing large customers to competitors. We admit to being puzzled by Laclede's apparent intransigence in the face of what would appear to be significant bypass threats.

In our view, the Staff proposal would have sent an important message to customers through appropriate prices for natural gas. Balance and viability distinguished the Staff's proposal from those made by UE and MIEC, respectively. We would encourage the Staff to continue with its efforts in this vein; time and experience will likely assist in selling the "time-of-use" pricing concept in the future.

Finally, we do not consider this proceeding to be an inappropriate forum for addressing matters such as these. However, we would reiterate the points made in the Commission's order in Case No. GR-94-220 which was approved on August 22, 1994. At that time the Commission noted that "Laclede's operations and rates have not been the subject of a contested decision since 1978." (Report and Order, Case No. GR-94-220, page 6). It may well be time for an "all relevant factors" review of Laclede to aid in putting the issues in this case in proper perspective.

In any event, for the foregoing reasons, we dissent from the opinion of the majority.

Respectfully submitted,

Kenneth McClure
Commissioner

Duncan E. Kincheloe
Commissioner

(S E A L)

Dated at Jefferson City, Missouri,
on this 22nd day of August, 1995.