BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of United Cities Gas Company's tariff revisions designed to increase rates for gas service provided to the customers in the Missouri service area of the Company.	))))))	Case No. GR-95-160

REPORT AND ORDER

Issue Date: September 29, 1995

Effective Date: October 10, 1995

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of United Cities Gas Company's tariff revisions designed to increase rates for gas service provided to the customers in the Missouri service area of the Company.	)	Case No. GR-95-160

APPEARANCES:

Gary W. Duffy, and **Paul A. Boudreau**, Attorneys at Law, Brydon, Swearengen & England, P.C., P.O. Box 456, Jefferson City, MO 65102, for United Cities Gas Company.

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

Roger W. Steiner and **John M. Himmelberg, Jr.**, Assistants General Counsel, Missouri Public Service Commission, P.O. Box 360, Jefferson City, MO 65102, for Staff of the Missouri Public Service Commission.

ADMINISTRATIVE LAW JUDGE: Joseph A. Derque, III

REPORT AND ORDER

Procedural History

On November 10, 1994, United Cities Gas Company (United Cities) filed tariffs with the Commission reflecting a proposed increase in rates for gas service provided to customers in the Missouri service area of the Company. The proposed tariffs bear a requested effective date of December 10, 1994. The proposed tariffs are designed to produce an annual increase in revenue of approximately $1.1 million, or 8.7%. On November 15, 1994, the Commission suspended the proposed tariffs for the ten month statutory time period, until October 10, 1995.

No public hearings were requested, and no requests for intervention were made in this case. The Commission adopted the calendar year 1994 as the test year in this matter. The evidentiary hearing was held June 26-28, 1995, and this matter was finally submitted to the Commission for decision.

Settled Issues

The issues agreed to by the parties are contained in the Revised Statement of Settled Issues, entered as Exhibit No. 18 in the evidentiary hearing, as augmented by Exhibit No. 42, entitled "Settlement of Rate Design."

The parties agreed to the ten listed matters, as follows:

> "1. The parties agree to the adoption of numerous tariff content and structure issues raised primarily in the testimony of Wendell R. Hubbs in accordance with the text of the set of tariff provisions marked as Attachment 1 to the Hearing Memorandum and Stipulation and Agreement (hereinafter "Hearing Memorandum").
>
> 2. The parties agree that for the purpose of this case, the Staff has calculated Company's rates based upon a level of FAS 87 pension expense and FAS 106 OPEB expense calculated with five-year amortizations of deferred gains and losses.
>
> 3. United Cities agrees to continue through the conclusion of the next general Missouri rate case the present practice of the corporate office employees filling out biweekly time sheets, and to retain those sheets for examination by the Staff.
>
> 4. The parties agree that the Commission should adopt the depreciation rates set out in Attachment 2 to the Hearing Memorandum as a part of its Report and Order in this proceeding, and authorize United Cities to implement those rates as of the effective date of tariffs approved in this proceeding.
>
> 5. United Cities agrees that in its next general rate case filing in Missouri, it will provide to Staff and Public Counsel billing cycle volume and customer count data covering a period of time commencing with the first month of the Company's test year, and ending with the last month of the Staff's test year. The report will be produced simultaneously on a diskette and in hard copy. The Company will reconcile the billing cycle volumes and customer counts in the report to the booked

volumes and customer counts prior to provision to the Staff.

6. The parties agree that before any increase in margin revenues resulting from this case is added, for rate design purposes, the revenue requirement for the Residential class is $3,819,420 and the General Service class is $1,495,005, and the total margin revenues are $5,565,330.

7. The parties have agreed not to pursue in this case their pre-filed positions on the issues of Cost of Storage Gas and In and Out Storage Gas. These issues are reflected in the Hearing Memorandum as Issues 1 and 2.

8. The parties have agreed to settle all rate design issues according to the terms of Exhibit 42 in this case. These issues are reflected in the Hearing Memorandum as Issues 5 and 6.

9. The parties have agreed not to pursue in this case their pre-filed positions on the issue of the Hannibal hospital contract. The Company agrees to discontinue serving Hannibal hospital under the terms of the previously existing contract and agrees to provide service to the hospital pursuant to the Company's filed tariffs. This issue is reflected in the Hearing Memorandum as Issue 11.

10. Based upon the information which the parties currently possess, the parties agree that United Cities should receive an annual increase in revenues from this case of at least $865,000, which is the amount shown on the Reconciliation (Exhibit 36) as the mutual starting point for purposes of quantifying the issues to be litigated in this case."

In addition, in item 7, the agreed-upon $841,000 starting point was altered at the evidentiary hearing to $865,000. This was the result of the entry of Exhibit No. 42, set out below, which reflects additional agreements reached by the parties. Exhibit No. 42 is set out in full, as follows:

"Customer charges:

The residential customer charge for all districts (Hannibal/Canton, Bowling Green, and Neeleyville), except Palmyra will be $7.25 per month for all year.

The general service customer charge for all districts except Palmyra will be $15.00 for the billing months of November through April, and $12.00 for the billing months of May through October.

The large volume and interruptible customer charge for all districts will be $120.00 per month for all year.

Commodity Charges:

Whatever the per Ccf increase in the commodity charge is determined to be by rate schedule in this proceeding for the Hannibal/Canton and Neeleyville districts, the increase applied to the Bowling Green commodity charge will be no less than one times and no greater than one and one-half of that amount. In other words, if the commodity charge for Hannibal and the other districts is increased by 5 cents per Ccf in this proceeding, the commodity charge for Bowling Green would be increased by no less than 5 cents and no more than 7.5 cents. The resulting rates, of course, would be different between residential and general service.

Phase In:

The parties agree to phase in a revenue neutral approach to bring the commodity charge in the Bowling Green District to parity with the commodity charges in the Hannibal/Canton and Neeleyville Districts for over a one year period after the increase resulting from this proceeding. This phase in is to be accomplished in the following manner:

The Company will make a tariff filing 30 days prior to the next anniversary of the operation of law date of this case (October 10, 1996) which will increase only the commodity charges in Bowling Green and at the same time reduce the commodity charges for the other districts by the same amount of revenue in each customer class, spread volumetrically over the volumes determined in GR-95-160. This filing of tariffs will eliminate the differential in commodity charges between districts. The rates resulting from the equalization of commodity charges will be filed as an attachment to the Company's tariff filing to comply with the Commission's order in this case (GR-95-160).

> At the time of the Company's next general rate filing, the Company will provide the Staff with a competitive analysis in support of any proposed rate design."

After review of the agreed-upon matters, attachments, and exhibits, the Commission finds the stipulated issues and additional revenue starting point of $865,000 to be reasonable and in the public interest and will approve the various agreed-upon matters.

Findings of Fact

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

Six issues remain to be decided by the Commission. Three involve income related items. Exhibit No. 36, attached to this Report and Order as Attachment A, reflects those three items and the amounts in question for each. Those issues will be referred to as incentive compensation, year-end bonuses, and the Pet, Inc. contract. The remaining three, non-income related, items involve a request by United Cities for authority to obtain a pre-granted variance for the exercise of promotional practices, a proposed alteration in United Cities' service line extension tariff, and the requested approval of a new transportation service flex contract rate.

Revenue Issues

United Cities Gas Company is a natural gas distribution company, serving approximately 300,000 customers in the states of Missouri, Virginia, Tennessee, South Carolina, Georgia, Illinois, Iowa, and Kansas. United Cities is a regulated public utility under the jurisdiction of the Missouri Public Service Commission in regard to its operations in the State of Missouri. United Cities serves approximately 14,000 customers in 25 small towns in the northeast part of the state, divided, for regulatory purposes, into four districts, those being Neeleyville, Canton, Hannibal, and Bowling Green. United Cities has requested an increase in revenue of approximately $1.1 million, $865,000 of which has been agreed to and is not in issue. The original request constituted an increase in revenue of approximately 8.7%, providing an overall rate of return of 11.05% on an original cost rate base of $15,000,000, and a return on equity of 13.0%.

1. Incentive Compensation

Currently, United Cities provides for various executives and managers to participate in its annual incentive compensation plan. Award of the annual incentive compensation is based on performance, measured by performance measures selected for the individual participant. These measures reflect the overall objectives of United Cities as well as the participant's contribution toward achieving those objectives. As a basis for the award, United Cities specifies that no incentive awards will be granted unless United Cities' Company-wide annual return on shareholder equity exceeds a threshold established by the Board of Directors. That threshold is currently set at 9.75%.

The Staff maintains that a disallowance of $24,000 should be made from the incentive compensation portion of United Cities' Missouri expense. The Staff maintains that the probability exists that Missouri customers are being required to pay rates to recover incentive compensation paid for matters which have nothing to do with service to the Missouri ratepayers. The Staff maintains that the Commission has, in the past, allowed incentive compensation only when that compensation was based on Missouri-specific incentive standards. The Staff states that United Cities has not shown that the incentive plan produces any savings or benefit to Missouri ratepayers.

The Staff also points out that Missouri ratepayers could also be required to reward United Cities employees, even though Missouri service was inefficient, indifferent, or even inadequate, as a result of the threshold being set unrealistically low in conjunction with the individual performance standards being based on company-wide goals.

For its part, United Cities defends its plan by stating that its policy is to set salaries at below-market levels and then allow employees to earn the additional incentive compensation amounts to make up the difference. United Cities states that it would be very difficult to base such a plan on state-specific performance standards. United Cities maintains that its plan is reasonably calculated to cause improvement in operations in order for employees to "earn" the incentive.

The Commission is familiar with incentive programs of this type from past cases. These programs generally reflect a policy on the part of the Company to make a portion of its employees' compensation plan contingent on performance and improvement. Generally the guaranteed portion of the employee's salary is set below market average, as United Cities contends, with the remainder contingent on the successful achievement of performance goals. This seems to be the case with United Cities' incentive program.

It has been the Commission's policy to disallow incentive plans of multi-state companies if the performance standards for Missouri employees are not "state-specific," i.e., are not based on company performance within the state or do not result in any benefit to Missouri ratepayers. In addition, Missouri ratepayers should not be required to sponsor salary levels, incentive payments, or bonuses which can be shown to be unreasonable, unjustified, or do not result in their intended purpose. Generally, industry norms and market level pay studies are useful in making this determination. In this case the evidence, taken as a whole, does not sufficiently support the proposition that the Missouri employees of United Cities are being compensated in an excessive fashion or at a level substantially over the industry norms.

A question of fact remains in regard to the United Cities plan as to whether it is "state-specific" in its performance goals. Clearly the overall, company-wide return-on-equity threshold is simply to ensure sufficient earnings for stockholders before payment of employee bonuses. This is simply an overall triggering mechanism and has no bearing on the performance standards for individual employees.

In regard to the specific standards, evidence presented by United Cities seems to indicate that at least some of the standards are specific to the performance of the local unit, such as "expense-efficiency ratio," "net customer growth," and "merchandise inventory control." These measurement standards are couched in terms of a minimum and maximum range of possible bonus. There is also a "discretionary" standard, and as has been discussed, the corporate profit standard.

The Staff has proposed a $24,000 disallowance from the total incentive pay expense. This figure was apparently obtained by deducting the amount necessary to bring Missouri employees in the incentive plan up to market level salaries from the total amount actually paid annually to Missouri employees including incentives. Ultimately, it is the Staff's position that Missouri ratepayers should save the $24,000 adjustment if United Cities would simply pay its Missouri employees at market levels to begin with.

The Commission has no desire to usurp management's function. The Commission's concern is the legitimacy and reasonableness of expenditures. The Commission has no objection to these specific employee performance standards. The Commission can find no incentive standard in this case that cannot be applied in a "state specific" manner. The incentive plan appears to accomplish its intended purpose. Therefore, United Cities has maintained its burden of proof in this matter and the Commission rejects the proposed $24,000 disallowance by the Staff.

2. Year-End Bonuses

Typically, United Cities pays its employees an annual year-end bonus, also referred to as a "Christmas bonus." The amount received by each employee is equal to 1% of the base salary paid to the employee during the year. It is the position of the Staff that this bonus is a gift from the Company and should be treated the same as any other charitable contribution by a regulated utility in Missouri, that is, as a contribution from the stockholders, not the ratepayers. The Staff proposes an adjustment of $14,000 to expense be made.

United Cities maintains that the year-end bonus is part of its employee compensation payments and made in this fashion "simply because the Company chooses to make this payment separately during the Christmas season rather than throughout the year." United Cities takes the position that the year-end bonus should be included in rates.

The evidence shows that the year-end bonus is a part of the employee benefit package. The bonus is as United Cities states, designed to "spread Christmas cheer in the form of a seasonal payroll disbursement to its employees." Regardless, this is clearly taxable income and expected by employees as part of their compensation package.

The Commission rejects the Staff's proposed $14,000 disallowance from employee expense.

3. The Pet, Inc. Contract

On November 1, 1993, United Cities entered into a transportation contract with Pet, Inc., one of United Cities two largest industrial customers. While the exact terms and conditions of the agreement are highly confidential, evidence shows that the agreement is for a relatively long term and is renewable. Upon audit, the Staff proposed to adjust the revenue requirement of United Cities to reflect the fact that United Cities is transporting gas to Pet, Inc. at below the full transportation rate and, therefore, at less than the full profit margin for transportation customers. The Staff proposes an adjustment to revenue requirement of $20,000, reflecting the amount of revenue from full margin rate lost as a result of the contract, and reflecting the fact that the shareholders, not the remainder of the ratepayers, should bear this loss.

In its testimony and evidence the Staff reflects its calculation of the full margin rate, including take-or-pay and transition costs, for both interruptible and firm transportation, and concludes that United Cities has entered into a contract at a "negative margin," or, simply put, less than the full, cost-based transportation rate.

United Cities maintains that the purpose of the contract was to retain Pet, Inc. as a customer on the system. United Cities maintains, although there is no substantial evidence of this fact, that Pet, Inc. was, in November 1993, fully prepared to strike a bargain with Panhandle Eastern Pipeline and by-pass the system altogether. United Cities alleges that negotiating the agreement at the below-full-margin level was more beneficial to the interests of both the Company and the remainder of the ratepayers than if Pet, Inc. left the system entirely.

United Cities also maintains that the present contractual rate, although below the full tariffed rate, is not below margin, and that the remainder of the ratepayers are not subsidizing performance under the Pet contract. This is primarily because Pet, Inc. is actually receiving its service through a marketing affiliate of United Cities, under a "bundled" rate. United Cities alleges that it is difficult, if not impossible, to determine the exact costs being charged and paid by any of the parties under such an arrangement.

After examination of the Staff's testimony and other evidence, the Commission finds that the Staff has shown that United Cities has made a contract for rates which are below the full tariffed rate. The Staff has alleged that this, in and of itself, indicates that United Cities is not being reimbursed the appropriate cost of the service from Pet, Inc. United Cities has denied that this is the case, but has done so with generalities, not specifics, as to the cost to serve Pet, Inc. and how those costs are apportioned and accounted for within the agreed-upon transportation rate.

The Commission finds that the Staff has made a prima facie showing of imprudence and caused the burden of persuasion to shift to United Cities. The Commission would note, in making this finding, that it is aware of the post-636 realities of the marketplace. In this regard, the Commission states that special contracts containing rates which are flexed below the full tariffed rate, such as the Pet, Inc. contract, are not presumed by the Commission to be improper. The failure of United Cities in this case was a failure, not necessarily in making the Pet, Inc. contract, but in maintaining its burden of persuading the Commission of the prudence of the Pet, Inc. contract.

United Cities has not provided the Commission with substantial and competent evidence, when obligated to do so by the Staff's presentation, that its contractual arrangement with Pet, Inc. was necessitated by the imminent by-pass of Pet, Inc., was an appropriate arms-length transaction with its affiliated gas marketer, and recovered the appropriate amount of fixed and variable costs.

The Commission finds the Staff's $20,000 adjustment is reasonable and will be made.

4. Reconciliation

The Commission, as a result of its decisions in the above matters, sets out the following reconciliation, and approves an annual increase in revenue requirement for United Cities in the amount of $889,000.

	Agreed Upon Starting Point			$865,000
	Co.	Staff	Decision	
ISSUES-INCOME STATEMENT				
INCENTIVE COMPENSATION	$24,000	0	$24,000	$24,000
CHRISTMAS BONUSES	$14,000	0	$14,000	$14,000
FLEX RATE USE FOR PET, INC.	$20,000	0	0	0
REVENUE REQUIREMENT				$903,000

Non-Revenue Issues

1. Pre-granted Variance Authority

As a part of its tariff filing, United Cities has proposed that the Commission give United Cities pre-granted variance authority from the promotional practice restrictions in those areas in which customers are served by non-regulated electric suppliers and, potentially, non-regulated suppliers of propane. United Cities maintains that it is currently at a competitive disadvantage in those areas of its service territory where it is forced to compete with unregulated energy suppliers. Rather than seek a variance each time it wishes to engage in direct competition, United

Cities is seeking a general variance throughout most of its service area, for a trial period of two years, to allow it to spend a limited amount of money per customer for promotional practices which are currently prohibited by 4 CSR 240-14 of the Commission's Rules.

The Staff is opposed to United Cities' variance request. The Staff states that the proposed tariff does not define the class or classes to which the promotional practices will be offered and does not give any detail as to the uniformity of the contemplated promotional practices. In addition, Staff is assuming the promotional practices to be offered are prohibited under Chapter 14. Also, the Staff points out that the amount of incentive which may be offered as part of the intended promotional practices can vary from $1.00 to $400.00 per customer. The Staff considers this to create the potential that such incentives will be unduly preferential. In short, the Staff takes the position that the proposed tariff allowing a pre-granted variance is so broad as to be unacceptable.

The Commission finds that the Staff is correct in that it finds it unwise and unfair to the remainder of the ratepayers to grant such broad discretionary competitive authority to a regulated utility. The Commission has established an efficient procedure for the granting of variances to engage in promotional practices. This system has, so far, worked to the satisfaction of the parties involved. United Cities has shown no good reason to change the existing method of obtaining variances on a case-by-case basis. The Commission is also very reluctant to grant variance authority on such a broad scope. The current case-by-case procedure seems more suitable to insure fairness to all involved. The proposed tariff will be rejected by the Commission.

2. Main Extension Allowance

United Cities is proposing to alter its current policy regarding the provision of free main extensions to new residential customers. Currently, a new customer may have a main extension, at no cost, of up to 150 feet. United Cities is proposing to change its current rule to allow it to set the amount of free extension given to each customer on the potential amount of gas usage of that customer based on the square footage of the building being served and number of gas appliances.

The Staff is not in agreement that the proposed program is more equitable, efficient or effective than the current policy. The Commission finds that the basis for the proposed change, that being the square footage of the residence and number of gas appliances, will be difficult to administer and likely to result in inequities. In addition, the square footage of a residence does not necessarily relate to the potential amount of natural gas which may be used. There are any number of other factors which could substantially affect the use of gas service more profoundly than the amount of square footage of the residence.

The Commission finds no inequity in the current main extension policy of United Cities. It can, however, as set out in the Staff's evidence, find many potential inequities in the proposed extension policy. For the above reasons, the Commission rejects United Cities' proposal.

3. Transportation Service Flex Contract Rate

The Staff of the Commission has proposed language to limit the rate flex available for transportation service only contracts. The full proposed tariff, also referred to as Schedule 592, is set out in Attachment C of this Report and Order. The significant language limiting United Cities is as follows:

> "The Company shall not modify any other terms and conditions set forth in the rules and regulation tariff sheets without first obtaining a waiver for such from the Commission."

United Cities would prefer language allowing it to waive any term or condition of its tariff in a special transportation contract.

The current or anticipated practice for many natural gas utilities is to negotiate special contracts for gas transportation service to large consumers, at rates which are flexed downward from the full tariffed transportation rates, in an attempt to prevent the large consumer from by-passing the system. In this instance, United Cities supports the position that it should be allowed, without contemporaneous Commission review and approval, to flex (or lower) not only its tariffed rate for the volumetric service but also for various other charges, as set out in pages 2 and 3 of Attachment C, including any demand or reservation charges incurred by it.

The Staff takes the position that United Cities should be required to seek a waiver for a contract below the tariffed rates as required by the proposed Schedule 592 tariff. The Staff maintains that the proposed tariff would allow the Company some flexibility in the commodity rate, while retaining the Commission's authority to set just and reasonable rates and prevent detriment to the remainder of the ratepayers on the United Cities system as the result of an imprudent or below-cost contract.

The principle position of United Cities is best stated by quoting the rebuttal testimony of Catherine Meyer, witness for United Cities, at page 2, lines 17-22:

> "The Company feels that it is necessary to have the flexibility to modify terms and conditions without obtaining a waiver from the Commission. This would allow the Company to negotiate a contract with a customer before the customer decided to bypass the Company's distribution system. If the Company has to wait for the Commission to grant a waiver from the terms and conditions (of the proposed tariff-

emphasis added), the customer may decide to bypass while Commission approval is pending."

The Commission is fully aware of the obstacles faced by the natural gas utility industry in a post-636 competitive environment. In order to provide a reasonable opportunity to respond to competitive pressure, within the bounds of the regulatory structure, the Commission will reject the tariff proposal of the Staff and allow United Cities to file a substitute tariff in accordance with the following standards.

The Commission will allow United Cities to negotiate and perform transportation contracts with rate flex sufficient to retain economically worthwhile customers on the system, without causing subsidization by the remainder of the ratepayers.

United Cities may flex its tariffed transportation rate to meet competition, but must recover all variable costs plus a reasonable contribution to its fixed costs during the course of the contract. United Cities executes and performs under such contracts at its own risk. All transportation contracts will be thoroughly examined and reviewed in any subsequent rate case or PGA/ACA proceeding to determine whether the contract meets the above standard.

United Cities will be expected to show substantial and competent evidence of imminent by-pass by the transportation customer and will, in addition, be required to show that the contracted rate satisfies the requirement to collect no less than the variable costs attributable to the particular transportation customer plus reasonable contribution.

The Commission would emphasize that transactions involving non-regulated affiliates will be scrupulously reviewed for determination as to whether all parties acted at arms length, and rates were flexed down no further than required to meet the relevant competition. Comparison of the affiliates' contract terms with terms contemporaneously available in the market will be probative of the arms length nature of actions. The Commission's review will be conducted with the understanding that the Company bears the burden of proof with regard to the prudency of its actions and that inappropriate transactions will result in the imputation of revenue to United Cities.

The Commission would note that, upon prima facie showing by another party that a transportation contract was flexed down below the full tariffed rate, United Cities will be required to show by full, complete, substantial and competent evidence that the arrangement 1) was necessary to avoid imminent bypass, 2) recovers variable costs plus a reasonable contribution to fixed costs, and 3) in instances involving affiliates, was at arms length and flexes rates no lower than necessary to meet relevant competition.

United Cities is ordered, as part of its required tariff filing as a result of this case, as a part of ordered section #1, to file a transportation rate tariff, setting out the full transportation rate, and providing for the option by United Cities to flex down from that rate for appropriate customers, with the provisions as set out above.

Conclusions of Law

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

United Cities 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 general jurisdiction of the Missouri Public Service Commission pursuant to Chapters 386 and 393, RSMo. 1994.

The Commission has the authority, under Section 393.150 RSMo. 1994, to set just and reasonable rates for the provision of natural gas service in the State of Missouri.

Orders of the Commission must be based on substantial and competent evidence, taken on the record as a whole, and must be reasonable and not arbitrary, capricious, or contrary to law. In this regard, in setting rates which are just and reasonable, the Commission has considered all relevant evidence and determines, as set out in the findings of fact, that United Cities' annual revenue requirement will be raised in the amount of $903,000.

Pursuant to Section 536.060, RSMo. 1994, the Commission may approve a Stipulation and Agreement concluded between the parties on any issues in a contested case. The Commission, in accordance with its statutory power, has determined that the Stipulation and Agreement, as set out by the parties, is just, reasonable, and appropriate, and, therefore, will be approved in full.

IT IS THEREFORE ORDERED:

1. That the proposed tariffs, submitted by United Cities Gas Company on November 10, 1994, are hereby rejected and United Cities Gas Company is hereby authorized to file, in lieu thereof, revised tariffs in accordance with this Report and Order.

2. That the Revised Statement of Settled Issues, filed by the parties in this case and appended hereto as Attachment B, is hereby approved, and the parties are ordered to comply with the specifics contained therein.

3. That this Report and Order shall be effective on October 10, 1995.

BY THE COMMISSION

David L Rauch

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Kincheloe,
Crumpton, and Drainer, CC.,
Concur and certify compliance
with the provisions of
Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on this 29th day of September, 1995.

UNITED CITIES GAS COMPANY
CASE NO. GR-95-160
RECONCILIATION

	Company	Staff	Difference	Revenue Requirement
COMPANY'S TARIFFS AS FILED				1,098,000
AMOUNTS NOT IN CONTENTION AT THIS TIME				(175,000)
COMPANY'S REVISED POSITION*				923,000
ISSUES - INCOME STATEMENT				
INCENTIVE COMPENSATION	24,000	0	24,000	24,000
CHRISTMAS BONUSES	14,000	0	14,000	14,000
FLEX RATE USE FOR PET, INC.	20,000	0	20,000	20,000
STAFF RECOMMENDATION				865,000

(1) All issues have been valued using a 12.15% return on equity and the Staff's capital structure.

(2) By adopting this reconciliation, no party has waived any right to move to strike any testimony.

* This number simply reflects the difference between the amount produced by the filed tariffs and the amounts listed as issues above. UCG reserves the right, if necessary due to new issues, as provided in the last paragraph under I, to argue that it is entitled to receive up to the full amount of the tariffs as filed.

Attachment B

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

AUG - 4 1995

MISSOURI
PUBLIC SERVICE COMMISSION

In the matter of United Cities Gas Company's tariff revisions designed to increase rates for gas service provided to the customers in the Missouri service area of the Company.	)	Case No. GR-95-160

REVISED STATEMENT OF SETTLED ISSUES

COMES NOW the Office of the Public Counsel (Public Counsel), the Staff of the Public Service Commission (Staff), and United Cities Gas Company (Company), pursuant to the request of the Administrative Law Judge (Tr. 194-195), and provide the following Revised Statement of Settled Issues:

The undersigned parties stipulate and agree to the following resolution of the issues listed below solely for the purpose of resolution of these issues in this case. These items represent a negotiated settlement for the sole purpose of disposing of these issues, and none of the signatories shall be prejudiced or bound in any manner by the terms in any other proceeding unless specifically stated otherwise below. In reaching this stipulated resolution of these issues, none of the signatories shall be deemed to have approved or acquiesced in any ratemaking principle or any method of cost determination or cost allocation underlying or allegedly underlying the issues or the rates provided. In the event the Commission accepts the specific terms of these stipulated issues, the signatories waive any requirement for a hearing and their respective rights to cross-examine witnesses on the issues listed. The agreement on these issues has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve and adopt this stipulated resolution of these issues in total, or in the event the revised tariffs do not become effective in accordance with the provisions contained herein, the agreement regarding these issues shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

1. The parties agree to the adoption of numerous tariff content and structure issues raised primarily in the testimony of Wendell R. Hubbs in accordance with the text of the set of tariff provisions marked as Attachment 1 to the Hearing Memorandum and Stipulation and Agreement (hereinafter "Hearing Memorandum").

2. The parties agree that for the purpose of this case, the Staff has calculated Company's rates based upon a level of FAS 87 pension expense and FAS 106 OPEB expense calculated with five-year amortizations of deferred gains and losses.

3. UCG agrees to continue through the conclusion of the next general Missouri rate case the present practice of the corporate office employees filling out bi-weekly time sheets, and to retain those sheets for examination by the Staff.

4. The parties agree that the Commission should adopt the depreciation rates set out in Attachment 2 to the Hearing Memorandum as a part of its report and order in this proceeding, and authorize UCG to implement those rates as of the effective date of tariffs approved in this proceeding.

5. UCG agrees that in its next general rate case filing in Missouri, it will provide to Staff and Public Counsel billing cycle volume and customer count data covering a period of time commencing with the first month of the Company's test year, and ending with the last month of the Staff's test year. The report will be produced simultaneously on a diskette and in hard copy. The Company will reconcile the billing cycle volumes and customer counts in the report to the booked volumes and customer counts prior to provision to the Staff.

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7. The parties have agreed not to pursue in this case their pre-filed positions on the issues of Cost of Storage Gas and In and Out Storage Gas. These issues are reflected in the Hearing Memorandum as Issues 1 and 2.

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9. The parties have agreed not to pursue in this case their pre-filed positions on the issue of the Hannibal hospital contract. The Company agrees to discontinue serving Hannibal hospital under the terms of the previously existing contract and agrees to provide service to the hospital pursuant to the Company's filed tariffs. This issue is reflected in the Hearing Memorandum as Issue 11.

10. Based upon the information which the parties currently possess, the parties agree that UCG should receive an annual increase in revenues from this case of at least $865,000, which is the amount shown on the Reconciliation (Exhibit 36) as the mutual starting point for purposes of quantifying the issues litigated in this case.

Respectfully submitted,

Lewis R. Mills, Jr. (#35275)
Deputy Public Counsel
P. O. Box 7800
Jefferson City, MO 65102
Attorneys for the Office of the
Public Counsel

Gary W. Duffy by LRM

Gary W. Duffy
Brydon, Swearengen & England
P. O. Box 456
Jefferson City, MO 65102
Attorneys for United Cities
Gas Company

Roger W. Steiner by LRM

Roger W. Steiner
John M. Himmelberg, Jr.
Assistant General Counsels
P. O. Box 360
Jefferson City, MO 65102
Attorneys for the Staff of the
Missouri Public Service Commission

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing has been mailed or hand-delivered to the following on this 4th day of August, 1995:

Roger Steiner
Assistant General Counsel
Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

Gary Duffy
Brydon, Swearengen & England
P. O. Box 456
Jefferson City, MO 65102

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SETTLEMENT OF RATE DESIGN
GR-95-160
JUNE 27, 1995

Customer charges:

The residential customer charge for all districts (Hannibal/Canton, Bowling Green, and Neelyville), except Palmyra will be $7.25 per month for all year.

The general service customer charge for all districts except Palmyra will be $15.00 for the billing months of November through April, and $12.00 for the billing months of May through October.

The large volume and interruptible customer charge for all districts will be $120.00 per month for all year.

Commodity Charges:

Whatever the per Ccf increase in the commodity charge is determined to be by rate schedule in this proceeding for the Hannibal/Canton, and Neelyville districts, the increase applied to the Bowling Green commodity charge will be no less than one times and no greater than one and one-half of that amount. In other words, if the commodity charge for Hannibal and the other districts is increased by 5 cents per Ccf in this proceeding, the commodity charge for Bowling Green would be increased by no less than 5 cents and no more than 7.5 cents. The resulting rates, of course, would be different between residential and general service.

Phase In:

The parties agree to phase in a revenue neutral approach to bring the commodity charge in the Bowling Green District to parity with the commodity charges in the Hannibal/Canton and Neeleyville districts over a one year period after the increase resulting from this proceeding. This phase in is to be accomplished in the following manner:

The Company will make a tariff filing 30 days prior to the next anniversary of the operation of law date of this case (October 10, 1996) which will increase only the commodity charges in Bowling Green and at the same time reduce the commodity charges for the other districts by the same amount of revenue in each customer class, spread volumetrically over the volumes determined in GR-95-160. This filing of tariffs will eliminate the differential in commodity charges between districts. The rates resulting from the equalization of commodity charges will be filed as an attachment to the Company's tariff filing to comply with the Commission's order in this case (GR-95-160).

At the time of the Company's next general rate filing, the Company will provide the Staff with a competitive analysis in support of any proposed rate design.

Exhibit No. 15
Date ________ Case No. ________
Reporter ________

TRANSPORTATION SERVICE FLEX CONTRACT RATE

Schedule 592

For All Service Areas Except Palmyra

Applicability:

United Cities may, in instances where it faces the possibility of transportation bypass by a natural gas transporting pipeline, enter into a special transportation rate contract with customers who qualify to receive service under the Company's Transportation Service rate schedule (Schedule 590).

Transportation Service Flex Contract Rates:

The only portions of the "Transportation Service" rate schedule the Company may flex per contract pursuant to this schedule is item "3. Commodity Transportation Charges". No other rate, charge or cost will be modified pursuant to this schedule. The minimum monthly bill shall be that set on the "Transportation Service" rate schedules.

Ratemaking Treatment:

In each rate proceeding, the Company will file testimony and all documentation necessary to justify its decision to flex to a rate lower than the rate item "3. Commodity Transportation Charges" contained on the Company's Transportation Service rate schedule (Schedule 590). For ratemaking purposes the Company shall have the burden to prove that the rate level which they chose to flex to was prudent. Absent adequate proof, the maximum tariffed rates shall be used in setting rates in general rate proceedings.

Term Of Contract:

The Company may enter into a contract for service hereunder for a term of not less than one (1) year, nor more than five (5) years.

Nature Of Contract:

The Company shall not modify any other terms and conditions set forth in the Rules and Regulation tariff sheets without first obtaining a waiver for such from the Commission.

Transportation Rates:

The rates for transportation service shall consist of each of the following:

1. Customer charges per each meter; applicable regardless of usage:

   Commercial Customer charge .... $ (A) per month

   or Industrial Customer charge .... $ (A) per month

2. Monthly AMRD operation and maintenance charge per AMRD meter ..... $ 25.00 per month

3. Commodity Transportation Charges:

   For monthly metered consumption (plus a 2% loss factor) that is less than 8,250 Ccf, per meter.................. $ (A) per month

   For monthly metered consumption (plus a 2% loss factor) that is greater than 8,250 Ccf, ... $ (A) per Ccf

4. PGA Charges:
   The transportation PGA factor(s) shown on the current PGA Factor tariff sheet(s), applicable transportation customers.

5. In the event that this transportation service causes the Company to incur demand charges, reservation charges, standby charges, penalties or other charges from the Company's gas suppliers or transporters, which charges are in addition to charges for gas actually received by the Company for its sales customers, such charges shall be billed to the customer in addition to amounts for service hereunder rendered.

6. The amounts set out above do not include sales or use type taxes. All such taxes where applicable will be computed and separately identified on the customer's bill. Such taxes may include but are not limited to gross receipts taxes, franchise taxes, occupational taxes, license taxes, sales taxes and taxes of a similar nature imposed by a municipality or other governmental unit whether based upon receipts, revenue, income, or a

(A) insert rate or charge resulting from this rate case.

specified amount or percentage.

In the case of taxes in the nature of a franchise or occupational tax imposed upon the Company by a governmental unit in which the Company is providing service, the amount shall be billed only to customers located within the boundaries of the governmental unit. A pro rata portion of such tax shall be included as a separate item in the customer's bill and shall be calculated by applying a percentage factor sufficient to produce the amount of tax due.

A Minimum Bill will be billed each customer for each meter consist of the applicable customer charge, the Monthly ARMD operation and maintenance charge and the minimum Commodity Transportation Charge stated above plus applicable taxes.

The amount of gas delivered to the Company's city gate for delivery to the customer is the amount of gas metered plus two percent (2%). This city gate delivered amount will be that used for billing metered commodity consumption.

Payment:

Bills are delinquent if unpaid after the fourteenth (14th) day following rendition of the bill. Rendition occurs on the date of physical mailing or personal delivery, as the case may be, of the bill by the Company.

Late Payment:

The Company shall add to any delinquent unpaid bill a sum equal to one and one half percent (1 1/2%) of the outstanding balance. In calculating the outstanding balance for these purposes, the Company may not include any amounts due to deposit arrears and amounts agreed to be paid under deferred payment agreement. An unpaid bill shall be any undisputed amount that remains owing to the Company at the time of rendition of the next bill. Failure to pay the late payment charge is grounds for discontinuance of service.

Delivery Points:

The customer will provide for the delivery of volumes of natural gas to be transported to a mutually agreeable location on the Company's system which