

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of The Kansas Power and Light)
Company for authority to file tariffs)
increasing rates for gas service provided) CASE NO. GR-90-50
to customers in the Missouri service area of)
the Company.)

APPEARANCES: John K. Rosenberg, Attorney at Law, and Michael C. Pendergast,
Regulatory Affairs Attorney, 818 Kansas Avenue, Topeka, Kansas 66612,
for The Kansas Power and Light Company,

Stuart W. Conrad, Attorney at Law, Lathrop, Norquist & Miller,
2345 Grand Avenue, Kansas City, Missouri 64109, for Armco, Inc. and
Midwest Gas Users Association.

Paul W. Phillips, Deputy Assistant Counsel for Regulatory
Interventions, 1000 Independence Avenue, S.W., Washington, D.C. 20585,
and W. L. Rowberry, Attorney at Law, P. O. Box 202, Kansas City,
Missouri 64141, for United States Department of Energy and Federal
Executive Agencies.

Richard S. Brownlee, III, Attorney at Law, Hendren and Andrae, 235 East
High Street, Jefferson City, Missouri 65101, for Williams Natural Gas
Company.

Robert C. Johnson and Gary D. McConnell, Attorneys at Law, 720 Olive
Street, 24th Floor, St. Louis, Missouri 63101, for Ford Motor Company
and General Motors Corporation.

Gary W. Duffy, Attorney at Law, Hawkins, Brydon, Swearengen &
England, P.C., P. O. Box 456, Jefferson City, Missouri 65102, for
St. Joseph Light & Power Company.

Richard N. Ward, City Attorney, 2800 City Hall, 414 East 12th Street,
Kansas City, Missouri 64106, for City of Kansas City, Missouri.

John D. Boeh, City Attorney, Room 307, City Hall, 12th & Frederick,
St. Joseph, Missouri 64501, for City of St. Joseph, Missouri.

Mary Ann Young, General Counsel, William M. Shansey, Assistant General
Counsel, and Penny G. Baker, Assistant General Counsel, P. O. Box 360,
Jefferson City, Missouri 65102, for the Staff of the Missouri Public
Service Commission.

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

HEARING
EXAMINER: Michael F. Pfaff

REPORT AND ORDER

On August 29, 1989, The Kansas Power and Light Company (KPL) filed with the Missouri Public Service Commission (Commission) proposed tariffs designed to increase its annual gas service revenues by \$25,645,661. On September 27, 1989, the Commission suspended the proposed tariffs, scheduled an intervention deadline and provided dates for testimony, exhibits, hearings and notification of the pending rate increase to KPL's customers. Interventions were granted to Kansas City and St. Joseph, Missouri; Armco, Inc.; St. Joseph Light & Power Company; the United States Department of Energy; Williams Natural Gas Company; Midwest Gas Users Association; Ford Motor Company; General Motors Corporation and Reynolds Metals Company. Public hearings were held on March 14 and 15, 1990, in the Missouri communities of Joplin, Kansas City and Lee's Summit.

On March 26, 1990, all parties of record, save Kansas City and St. Joseph, met in prehearing conference at the Commission's offices. As a result thereof and following extensive negotiation, all parties have agreed to the Stipulation and Agreement described below.

Findings of Fact

Having considered all of the competent and substantial evidence upon the whole record, the Missouri Public Service Commission makes the following findings of fact:

The Kansas Power and Light Company is a public utility providing gas service to customers in the Missouri service area of the Company. In its initial tariff filing, KPL requested Commission approval of an annual increase in gas revenues in the amount of \$25,645,661. As a result of negotiation between the parties, and as provided by the ten-page signed Stipulation and Agreement received by the Commission on April 16, 1990, and attached hereto as Exhibit A, the parties

recommend that the Commission approve an annual increase in KPL's jurisdictional gross revenues by \$18,500,000, excluding franchise and gross receipts tax.

The parties also recommend that the Commission approve those tariffs and rate schedules appended as "Attachment 1" to the Stipulation and Agreement which, *inter alia*, contain: (1) a proposal for five major customer classifications; (2) a flexible rate adjustment mechanism and special contract procedure; (3) a revision of KPL's purchased gas adjustment clause; (4) the Company's agreement to submit new depreciation rate studies, (5) an agreement regarding the U.S. Department of Energy; (6) KPL's agreement to modify the definitional section of its tariff per staff testimony; and (7) a statement of KPL's policy and new reporting programs regarding gas safety and service line replacement.

On Monday, April 23, 1990, the hearing was held as scheduled, during which KPL, the Commission staff, Office of Public Counsel and Intervenors offered prefiled testimony and exhibits (Exhibits 2-34), as well as sponsoring the Stipulation and Agreement (Exhibit 1).

Following an explanation of key aspects of the proposed settlement by KPL, and expressions of support for the agreement by Commission staff, Public Counsel and Intervenors, the Commission asked several questions of Company personnel, Commission staff and the Office of Public Counsel. On consideration of the responses thereto, and after reviewing the proposed Stipulation and Agreement and the rates and charges attached thereto, the Commission finds that they are reasonable, in the public interest and should be adopted. By so doing, the Commission disposes of all matters in this case.

The Commission also finds that the reporting requirements for the Company's replacement program, at paragraph 8(b)(3) of the Stipulation and Agreement, should, for twelve months ending May 1, 1991, provide the following additional information regarding all replacement costs assessed or collected under Company tariffs R-32 and

R-33.1: (a) The amount, by customer, of such charge or assessment; and (b) the length of each line replaced thereunder.

Conclusions of Law

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

The Kansas Power and Light Company is a public utility subject to the Commission's jurisdiction pursuant to Chapters 386 and 393, RSMo 1986.

The tariffs which are the subject matter of this proceeding were suspended pursuant to Section 393.150, RSMo 1986. The burden of proof to show that the proposed increased rates are just and reasonable shall be upon the Company. The Commission, after notice and hearing, may order a change in any rate, charge or practice, including rate design, and it may determine and prescribe the lawful rate, charge or practice thereafter to be observed.

The Commission may consider all facts which, in its judgment, may have bearing upon the proper determination of the price to be charged, with due regard, among other things, to a reasonable average return upon the value of the property actually used in public service, and to the necessity of making reservations out of income for surplus and contingencies. In so doing, the Commission shall consider the fair value of the property in its proper relationship to all other facts that have a material bearing on the establishment of fair and just rates.

For ratemaking and rate design purposes, the Commission may accept a stipulation of settlement on any contested matters submitted by the parties. The Commission is of the opinion that when the matters of agreement between the parties appear to be reasonable and proper, they should be accepted.

The Commission concludes that the proposed rate increase provided for in the Stipulation and Agreement, attached hereto as Appendix A, is just and reasonable and should be adopted.

It is, therefore,

ORDERED: 1. That the Missouri Public Service Commission adopts the Stipulation and Agreement filed herein on April 16, 1990.

ORDERED: 2. That the tariffs filed August 29, 1989, and suspended herein are hereby disallowed, and The Kansas Power and Light Company is authorized to use in lieu thereof, the revised tariffs filed on April 16, 1990, designed to increase the Company's gross annual Missouri operating revenues by \$18,500,000, exclusive of gross receipts and franchises taxes.

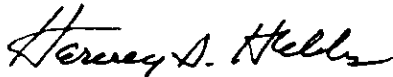
ORDERED: 3. That the revised tariffs shall contain the same provisions and rate design features as are presently set out in Attachment 1 to the Stipulation and Agreement adopted by this Report and Order.

ORDERED: 4. That the revised tariffs filed on April 16, 1990, shall be effective for service rendered on and after May 1, 1990.

ORDERED: 5. That Kansas Power and Light Company report to the Commission on assessments or payments made under tariffs R-32 and R-33.1 as stated above.

ORDERED: 6. That this Report and Order shall become effective on the 1st day of May, 1990.

BY THE COMMISSION



Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch, McClure
and Letsch-Roderique, CC., Concur.

Dated at Jefferson City, Missouri, on the
27th day of April, 1990.

EXHIBIT A

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED
APR 16 1990
PUBLIC SERVICE COMMISSION

In the matter of The Kansas Power and Light)
Company for authority to file tariffs in-)
creasing rates for gas service provided to) Case No. GR-90-50
customers in the Missouri service area of)
the Company.)

STIPULATION AND AGREEMENT

On August 29, 1989, The Kansas Power and Light Company (KPL or Company) submitted to this Commission 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 October 1, 1989 and were designed to produce an increase of approximately 6.82 percent (\$25,645,661) in charges for gas service.

By Order dated September 27, 1989, the Commission suspended the proposed tariffs and established a procedural schedule for interventions, the prefiling of testimony and exhibits, and hearings. On November 3, 1989, the Commission issued an Order granting the applications to intervene filed by Kansas City, Missouri, St. Joseph, Missouri, Armco, Inc., St. Joseph Light & Power Company, the United States Department of Energy, Williams Natural Gas Company, Midwest Gas Users Association, Ford Motor Company, General Motors Corporation and Reynolds Metals Company. In its Order, the Commission also established notice requirements and dates for local public hearings in Joplin, Kansas City and Lee's Summit, Missouri.

Local hearings were held in this proceeding on March 14 and 15, 1990. Pursuant to the procedural schedule established by the

Commission, a prehearing conference was convened on March 26, 1990. With the exception of Kansas City and St. Joseph, Missouri, all parties participated in the prehearing conference. As a result of the prehearing conference, the undersigned parties have reached the following stipulations and agreements:

1. The Company shall be authorized to file revised gas tariffs and rate schedules designed to produce an increase in overall Missouri jurisdictional gross annual revenues of \$18.5 million, exclusive of any applicable franchise and gross receipts taxes.

2. The tariffs and rate schedules reflecting this increase are set forth in Attachment 1 hereto and shall be effective for service rendered on and after May 1, 1990. The tariffs reflect the establishment of five major customer classifications as follows:

- (a) Residential Gas Service (RSm) applicable to all residential customers previously served under the General Service tariff.
- (b) Unmetered Gaslight Service (UGm) applicable to all unmetered gaslight service currently served under the Flat Rate tariff.
- (3) General Gas Service (GSm) applicable to nonresidential customers served under the current General Service tariff, small commercial and industrial customers currently served under the small commercial and/or industrial service (GLm) tariff and customers served under the Armed Forces Housing (AFm) tariff.

(4) Large Commercial Service (LCm) applicable to customers currently served under the Large Commercial tariff.

(5) Large Industrial Service (LIIm) applicable to customers currently served under the Large Industrial tariff.

The tariff schedules will continue to be subject to adjustment by action of the Company's Tax Adjustment Schedule and Purchased Gas Cost Adjustment Schedule. Service will also be subject to the Company's transportation provisions (TRPR) and to the General Terms and Conditions for Gas Service. The specific prices, terms, and conditions of service are shown on the tariff schedules.

3. In order to compete with alternative sources of energy, the Company shall be authorized to implement a flexible rate adjustment mechanism and special contract procedure. (See Attachment 1).

4. The Company's Purchased Gas Cost Adjustment (PGAm) clause, shall be revised as shown in Attachment 1.

5. The Company agrees to prepare and submit a new depreciation rate study in its next Missouri rate case proceeding. In performing the study, the Company will attempt, where practicable, to determine depreciation rates based on a consideration of the type of material (i.e., plastic, cast iron, coated and bare steel) used in the Company's facilities.

6. The Company and the United States Department of Energy (DOE) agree to meet within two months of the termination of this proceeding to discuss and seek resolution of the concerns raised by DOE regarding (1) the Company's charges for contract demand and

as available gas service; and (2) the transportation contract provisions related to diversion of transportation customer gas and indemnification of transportation customers. If DOE and the Company fail to resolve these concerns, nothing in this Stipulation and Agreement shall be interpreted as preventing either of these parties from seeking relief from this Commission either during the Company's next rate case or through some other proceeding.

7. The Company agrees to modify its General Terms and Conditions for Gas Service to conform with the definitional recommendations set forth in the prefiled direct testimony of Staff Witness Walter R. Ellis. (See General Terms and Conditions for Gas Service; Attachment 1)

8. The Company recognizes the operational and management concerns raised by Staff in this proceeding in conjunction with the Company's service line replacement program. In an effort to address those concerns in a constructive and effective manner, Company and Staff have reached the following agreements:

- (a) Within three months of the May 1, 1990 filing of the Company's replacement program report, and on a quarterly basis thereafter, Company and Staff will meet to discuss the strategic and operational goals and financial requirements of the Company's service line replacement program and the Company's progress in implementing the program. In addition to exchanging information regarding the status and direction of the replacement program, the purpose of these meetings will be to achieve an ongoing

understanding of each party's views and positions on the strategic and operational goals and financial requirements of the program, as well as the steps required to meet them.

- (b) In order to facilitate the goals of the replacement program and the process described above, the Company agrees to develop and implement a comprehensive, periodic reporting procedure. Under this procedure, the Company will compile, in a monthly and year-to-date format, and present to Staff in advance of each quarterly meeting a report detailing (1) the number, classification, and disposition of all leaks as reported on the Company's Leakage Repair and Leak Analysis Reports; (2) the number of service and yard lines replaced (a) by geographic location (state, district and/or division); (b) by entity performing the work (i.e., Company versus contractor), and (c) by method of replacement (i.e., block-by-block, modified block-by-block, and leak responsive); (3) the average cost per service line replacement under the various circumstances described above, and where feasible, explanations for any significant differences between the average costs reported; (4) for each of the circumstances described above, monthly budgeted and achieved replacement cost levels and, where feasible, explanations for any significant differences between the two; (5) a comparison of the average cost of replacements

versus the average cost of new installations, and, on a one-time basis, (6) a description of the procedures used by the Company to ensure consistent reporting of cost data throughout the Company; and (7) the number of service and yard lines replaced, and the total cost of such replacements as of December 31, 1989. During each quarterly meeting, Staff and Company will confer on potential modifications or additions to these periodic reports.

- (c) In addition to the quarterly reports described above, the Company also agrees to submit to Staff within six months of the termination of this proceeding and on a semi-annual basis thereafter a report detailing (1) the steps taken by the Company to achieve uniformity in its methods for prioritizing replacements and implementing various features of the replacement program; (2) the steps taken by the Company to ensure an appropriate allocation of replacement resources among the Company's various jurisdictions together with information regarding the number of areas/sectors and associated service lines and yard lines requiring replacement in other jurisdictions; (3) the progress made by the Company in developing a program and information base for prioritizing and performing replacements in a manner that appropriately recognizes both safety and efficiency goals including status of the CIMOS and PDS programs; (4) the measures

implemented by the Company to ensure adequate communication of policies and procedures; (5) the progress of the Company in establishing suitable job descriptions for program personnel and (6) the steps taken by the Company to ensure that the performance of Company and contract crews are consistently monitored and adequately documented.

The various procedures referenced in paragraph 8 of this Stipulation and Agreement shall continue until terminated, in whole or in part, by the mutual agreement of the Company and Staff.

9. The prefiled direct testimony, schedules, exhibits and minimum filing requirements submitted by the Company, Commission Staff, Office of Public Counsel, United States Department of Energy, St. Joseph Light and Power Company, Midwest Gas Users Association, Ford Motor Company, General Motors Corporation and Reynolds Metals Company shall be received into evidence without the necessity of their respective witnesses taking the stand.

10. This Stipulation and Agreement represents a negotiated dollar settlement for the sole purpose of disposing of this case, and none of the signatories to this Stipulation and Agreement shall be prejudiced or bound in any manner by the terms of the Stipulation and Agreement in any other proceeding, except as otherwise specified herein.

11. None of the signatories to this Stipulation and Agreement 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 this Stipulation and Agreement and the rates provided for herein.

12. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the signatories waive their respective rights to cross-examine witnesses, their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo 1986; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 1986; and their respective rights to judicial review pursuant to Section 386.510 RSMo 1986.

13. This Stipulation and Agreement 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 Stipulation and Agreement in total, or in the event the revised tariffs do not become effective in accordance with the provisions contained herein, the Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

14. The Staff shall have the right to file with the Commission a summary of the provisions of the Stipulation and Agreement and to provide to the Commission whatever further explanation the Commission requests. The summary shall not become a part of the record of this proceeding and shall not bind or prejudice the Staff in any future proceeding or in this proceeding in the event the Commission does not approve the Stipulation and Agreement. The contents of the summary provided by Staff are its

own and not acquiesced in or otherwise adopted by the other signatories to the Stipulation and Agreement.

Respectfully submitted,

STAFF OF THE MISSOURI
PUBLIC SERVICE COMMISSION

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