

**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION  
JEFFERSON CITY  
December 14, 1999**

**CASE NO: GR-99-315**

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**Enclosed find certified copy of a REPORT and ORDER in the above-numbered case(s).**

Sincerely,



**Dale Hardy Roberts**

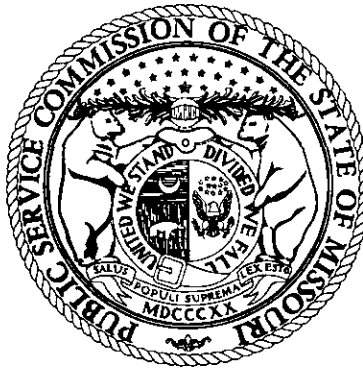
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**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**



In the Matter of Laclede Gas Company's Tariff  
to Revise Natural Gas Rate Schedules.

) **Case No. GR-99-315**  
) **(Tariff No. 9900536)**

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**REPORT AND ORDER**

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**Issue Date:** December 14, 1999

**Effective Date:** December 24, 1999

**OF THE STATE OF MISSOURI**

In the Matter of Laclede Gas Company's Tariff ) Case No. GR-99-315  
to Revise Natural Gas Rate Schedules. ) (Tariff No. 9900536)

## APPEARANCES

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Robert C. Johnson, Attorney at Law, 720 Olive Street, Suite 2400, St. Louis, Missouri 63102, for Barnes-Jewish Hospital, DaimlerChrysler Corporation, Emerson Electric Company, and SSM HealthCare (the "Missouri Energy Group").

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REGULATORY LAW JUDGE: Nancy Dippell, Senior Regulatory Law Judge.

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## REPORT AND ORDER

### Procedural History

Laclede Gas Company submitted revised tariff sheets reflecting increased rates for gas service provided to customers in its Missouri service area on January 26, 1999. The revised tariff sheets were assigned Tariff No. 9900536. The proposed effective date on the tariff sheets was February 26, 1999. The revised tariff sheets were designed to produce an annual increase of approximately 6.1 percent (\$30.5 million) in charges for gas service.

The Commission issued an order on February 9, 1999, suspending the proposed tariff sheets until December 26, 1999. In that order the Commission also established a deadline for interventions and established a procedural schedule. On April 29, 1999, the Commission issued an order granting the applications to intervene filed by Union Electric Company, d/b/a AmerenUE (AmerenUE), the Missouri Industrial Energy Consumers,<sup>1</sup> MRT Energy Marketing Company, the Oil, Chemical & Atomic Workers, Local 5-6, and the Missouri Energy Group.<sup>2</sup>

A recommendation was filed by Laclede on March 11, 1999, concerning the test year. Laclede also requested a true-up audit and

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<sup>1</sup> The Missouri Industrial Energy Consumers is comprised of the Adam's Mark Hotels, Alcoa Foil Products, Anheuser-Busch Companies, Inc., The Boeing Company, Ford Motor Company, General Motors Corporation, Hussmann Refrigeration, MEMC Electronic Materials, Inc., Monsanto Company, Paulo Products Company, Procter & Gamble Manufacturing Company, and Ralston Purina Company.

<sup>2</sup> The Missouri Energy Group consists of Barnes-Jewish Hospital, DaimlerChrysler Corporation, Emerson Electric Company, and SSM Healthcare.

hearing and filed its direct testimony. AmerenUE, Public Counsel and Staff all filed responses or recommendations regarding the test year.

On April 29, 1999, the Commission issued an Order which established the test year as the twelve months ending on December 31, 1998, updated for known and measurable changes through March 31, 1999.

A prehearing conference was held on July 9, 1999. The Commission solicited comments from the general public via public hearings in the City of St. Louis and St. Louis County, Missouri, on August 11, 1999. An evidentiary hearing was held beginning August 30, 1999. On September 1, 1999, a Partial Stipulation and Agreement was filed by Staff, Laclede, AmerenUE, MIEC, the Missouri Energy Group, and Public Counsel. On September 3, 1999, the same parties filed a First Amended Partial Stipulation and Agreement (Stipulation). On September 13, 1999, Laclede filed additional information as provided in paragraph 12 of the Stipulation.

An Order Establishing True-Up Audit and Hearing was issued on September 12, 1999, setting the true-up audit through August 31, 1999, and setting the hearing date. A True-Up Hearing was held on October 7, 1999. Initial Briefs were submitted on October 15, 1999, and Reply Briefs were submitted on November 1, 1999.

During deliberations, the Commission ordered that Staff, Public Counsel, and Laclede submit responses to six revenue requirement scenarios. The Commission also indicated that other parties would be allowed to file responses to the scenarios. Scenario responses were received from Staff

and Laclede Gas Company on December 10, 1999. In addition, Staff indicated that Public Counsel concurred with Staff's scenario calculations.

### **Pending Motions and Exhibits**

At the hearing, Exhibits 113 (Information on Residential Customer Usage), 114HC (Studies Regarding the Efficiency of Homes Customers are Moving Into), 115 (Values of Stock in the Last 12 to 24 Months), and 117 (Return on Equity of Other Missouri Gas Companies) were requested by the Commission and submitted by the various parties.

Exhibit 125HC was reserved at the hearing at the request of the parties for relevant portions of the record from the Commission's Case No. GT-99-303. That exhibit was received by the Regulatory Law Judge on September 17, 1999. A Notice of Briefing Schedule and Response Time was issued on September 15, 1999, which instructed the parties that responses to Exhibits 113, 114HC, 115, and 117, and objections of Staff to Exhibit 116, were to be filed no later than September 17, 1999. That notice also stated that responses to Exhibit 125HC were due by September 17, 1999. A later notice was issued allowing the parties until October 1, 1999, to file responses to Exhibit 125HC.

A response to Exhibit 117 was filed by Laclede. In its response, Laclede states that it does not object to the Exhibit 117 per se, but it does not believe the information to be factually or conceptually accurate. No other responses or objections were filed related to those exhibits.

Exhibit 116 (Deposition of David Broadwater) was received at the hearing subject to written objections to be made by the Staff. Objections were filed on September 1, 1999, and a response by Laclede was filed on

September 30, 1999. An Order Regarding Objections to Exhibit 116 was issued on October 12, 1999, which sustained some of Staff's objections and struck from the record portions of that exhibit. The order also overruled some of Staff's objections.

On November 12, 1999, Laclede filed a Motion to Strike and Request to Take Administrative Notice. Laclede moved to strike portions of Public Counsel's Reply Brief at pages 4 and 7 which referred to the Commission's Report and Order in Case No. GR-96-193 as published at Re: Laclede Gas Company, 172 P.U.R.4th 83, 88 (1996). Laclede objects to these portions of Public Counsel's Reply Brief because "the cited language . . . in Case No. GR-96-193 was rendered by the parties as part of a Stipulation and Agreement." Laclede argued that it is not consistent with the parties' agreement in GR-96-193 to make this argument. In the alternative, Laclede argued that the references support its position on the return on equity and short-term debt issues.

Laclede also stated in its motion that Staff and Public Counsel argued for the first time in their Reply Briefs "that Laclede's proposed off-system sales revenue amount of \$900,000 should be rejected because it is based on an estimate for the 1998-1999 timeframe." Laclede requested that the Commission take administrative notice of Laclede's November 4, 1999, GSIP Monitoring Report filed in its PGA case.

On November 18, 1999, Public Counsel filed a response to Laclede's motion and Staff filed Suggestions in Opposition of Laclede Gas Company's Motion to Strike and Request to Take Administrative Notice. Public Counsel argued that the citations to GR-96-193 in its Reply Brief should not be



stricken because they are properly used to rebut claims made by Laclede that Public Counsel's recommendations in this case are not consistent with past actions of the Commission. Public Counsel also argued that "[t]here is nothing inappropriate about pointing out" that Laclede's claims are an estimate. The Staff made similar arguments. The Commission agrees with Public Counsel and Staff that the \$900,000 is an estimate of the off-system sales revenue for the 1998-1999 period. Public Counsel's argument merely goes to the weight this fact should be given by the Commission in the evaluation of the evidence. Therefore, the Commission denies Laclede's motion to strike those portions of Public Counsel's Reply Brief.

Both Staff and Public Counsel also state that Laclede's request for the Commission to take administrative notice of the GSIP Monitoring Report is an attempt to supplement the record contrary to 4 CSR 240-2.110(10). The fact that the \$900,000 was an estimate has been established. The only purpose for the Commission to take notice of the GSIP Monitoring Report would be to use the facts in the report to make a decision in this case, which would clearly be inappropriate. Therefore, the Commission determines that Laclede's request to take administrative notice should be denied.

### **Stipulation and Agreements**

Staff, Laclede, Public Counsel, MIEC, AmerenUE, and the Missouri Energy Group filed the Stipulation on September 3, 1999, which superseded the Partial Stipulation and Agreement filed on September 1, 1999. In accordance with paragraph 12 of the Stipulation, Laclede filed additional information related to the rate design, class cost of service, and related

tariff issues. The Stipulation is attached to this Report and Order as Attachment A and the additional filing made on September 13, 1999, along with its cover letter is attached as Attachment B. No objections to the Stipulation or requests for hearing were filed and so the Commission will treat the Stipulation as unanimous pursuant to 4 CSR 240-2.115.

The Stipulation provides for the resolution of many issues. The signatories agreed to the following:

1. That the revenue requirement amounts reflected on Attachment 1 of the Stipulation accurately reflect the impact on Staff's case on the issues that have been resolved. These amounts assumed a return on equity of 9.5 percent and were exclusive of any applicable license, occupation, franchise, gross receipts taxes or other similar tax or taxes.
2. That depending on the Commission's decision, adjustments may need to be made to any revenue requirement amounts granted to Laclede in connection with: (a) Laclede prevailing on any of the remaining contested issues; (b) for any amount as a result of the true-up hearing in excess of the initial true-up allowance of \$7,341,000 as alleged in Staff's case; and (c) adjustments to the dollar values to reflect the Commission's resolution of any remaining issue affecting those values.
3. That Laclede shall continue to book, for financial purposes, expense levels associated with pensions and post-retirement benefits other than pensions (OPEB) in accordance with Financial Accounting Standards Board Statements (FAS) 87, 88, and 106, respectively. Laclede's accounting shall continue to reflect the: (a) actual market value of the pension fund assets rather than the market-related value previously used by Laclede; (b) amortization of any resulting unrecognized net gains and losses over a five-year period; (c) use of the prospective "smoothing" mechanism described in Attachment 3 to the Stipulation. The gains and losses shall be calculated, on the first dollar basis, for all pension lump sum settlements, to the extent permitted by FAS 88. The parties further agreed that the rates resulting from this Stipulation make provision for recovery of pension costs on a FAS 87 and 88 basis for all qualified pension plans and recovery of OPEB costs on a FAS 106 basis.
4. That the OPEB, SERP, Y2K, and MGP accounting authority orders (AAOs) granted by the Commission in Case No. GR-98-374 shall be terminated effective August 1, 1999, subject to certain conditions as listed in paragraph 4 of the Stipulation. These conditions include the

establishment of regulatory assets, the amortization of those assets, the agreement not to propose the exclusion of those balances during the amortization period, the agreement not to propose that the balances be included in rate base, and the capitalization of costs subsequent to March 1, 1998, for efforts to make its information systems and its computerized voice and data systems Y2K compliant.

5. That Laclede should get an AAO to continue to defer and book to Account 182.3 costs for its Safety Replacement Program (SRP) and the details of that AAO as outlined in paragraph 5 of the Stipulation.<sup>3</sup>
6. That the Stipulation does not preclude Laclede from filing an application requesting an AAO on any cost or revenue item.
7. That Laclede shall notify its customers at least twice a year of the availability of the Insulation Financing Program.
8. That Laclede shall, for book purposes, be authorized to continue to normalize certain income tax timing differences by recording and recognizing in any future rates deferred income tax expense for such differences, provided that the parties shall have the right to review and propose a different treatment of such timing differences in Laclede's next general rate case proceeding.
9. That Laclede will continue to maintain its books and records so that any costs that are related to Laclede's unregulated activities and affiliated companies may be tracked.
10. That Laclede and Staff will begin a "Project" for the purpose of investigating the cause and effect of changes in the air temperature readings observed at Lambert Field as outlined in paragraph 10 of the Stipulation.
11. That Laclede will provide Staff with actual customer billing data in a readable electronic format.
12. That the class cost of service, rate design, and related issues shall be resolved in accordance with the terms set forth in Attachment 2 of the Stipulation and the more detailed description of the tariff terms filed by Laclede on September 13, 1999.

At the True-Up Hearing, on October 7, 1999, counsel for Laclede reported that most of the true-up issues had been resolved as stated in

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<sup>3</sup> The issue of whether this AAO should be effective for longer than two years without the necessity of Laclede initiating a general rate case proceeding is a contested issue that was not resolved by the Stipulation.

Staff Witness Doyle Gibbs' testimony. The exceptions are the revenues for customer growth and capital structure related to short-term debt. The parties stated that they agreed that the true-up revenue requirement is \$5,139,000 with further adjustments needed for the resolution of the customer annualization and short-term debt calculations. Public Counsel also indicated at the true-up proceeding that it agreed with Mr. Gibbs' testimony regarding the computer maintenance and customer locates.

The Commission has reviewed the agreement as amended and the additional information related to the agreement. The Commission finds the agreement just and reasonable and will approve the First Amended Partial Stipulation and Agreement including its attachments and additional information filed on September 13, 1999.

### **Discussion of Contested Issues and Summary of the Evidence**

#### **Return on Equity**

Laclede recommended a return on equity of 12.75 percent. Laclede's witnesses presented testimony that its recommendation equals an effective market return of approximately 10 percent based on the market value of Laclede stock over the past several years. Laclede presented evidence that the company's actual growth for the 12-month period ending July 31, 1999, was less than 1 percent of its overall customer base of approximately 620,000 customers.

Staff Witness Broadwater confirmed that Laclede's service area was very stable and mature with a heating saturation level of about 94 percent.

Staff estimated annual sales growth of about 1 percent to 1.5 percent to be attributed to customer growth.

Laclede's witnesses also testified that the customer growth Laclede has been experiencing has brought added costs as customers migrate from the City of St. Louis to the suburban areas. Laclede contends that the incidence of "urban sprawl" requires it to make substantial investments in facilities to serve customers that are actually relocating and therefore not generating new revenues, and to continue to pay for the fixed costs of its older facilities. Laclede also presented testimony that these migrating customers are leaving less energy efficient housing in favor of newer housing with more energy efficient features and appliances creating a further reduction in usage. Exhibit 113 indicated that the average use per residential customer had decreased and that the number of residential customers had increased from 1990 to 1998.

Laclede Witness Olson testified that unregulated companies, such as those included in the S&P 500, have been averaging returns on equity for the last decade of approximately 18 to 20 percent. Mr. Olson also testified that compound market returns for these companies have been even greater. Laclede argued that this change in the capital markets supports its proposition that Laclede stock is less attractive to investors than investments in unregulated companies. Laclede also argued that changes in the stock market have resulted in an increase in the market-to-book ratio for Laclede stock. According to Laclede, this makes it difficult to obtain a reasonable return on equity result through the use of the traditional

method where a market-based return on equity is derived and then applied to book value.

Laclede presented evidence that the market value of its stock has climbed to a level approximately 1.5 to 1.8 times above its book value. As a result Laclede illustrates that an investor who requires a 10 percent return on his investment will receive an effective return of only 6.7 percent based on the market value. In the deposition of Staff Witness Broadwater, an example is provided showing that Staff's recommended 9.5 percent return on equity would yield a return on the market value of the stock of 6.3 percent.

Laclede's recommended return on equity of 12.75 percent was derived, according to Laclede Witness McShane, from an analysis of the returns being earned or required by other local distribution companies (LDCs) with adjustments for the differences in risks. Ms. McShane did a discounted cash flow (DCF) analysis of thirteen LDCs and arrived at an estimated return on equity of 10.5 percent. Ms. McShane then made an adjustment to this return for the market-to-book ratio, which resulted in her 12.75 percent return on equity recommendation.

Public Counsel Witness Burdette criticized Ms. McShane's analysis because she included a company with Missouri operations in her comparison. Public Counsel and Staff argued that Ms. McShane's analysis is circular because the comparison of returns is based on companies subject to the jurisdiction of this Commission, which sets their returns.

Staff criticized the market-to-book adjustment that Laclede made to its DCF analysis. Staff Witness Broadwater testified that Laclede's

DCF model produced a result before adjustments of 10.5 percent which is very close to Staff's DCF result of 10.24 percent. Staff also argued that the Commission has traditionally rejected such market-to-book adjustments and it is not consistent with the DCF model.

Staff's recommended return on equity was derived by a DCF analysis of Laclede. Staff presented evidence that a reasonable growth rate for Laclede should be from 3.25 to 4.00 percent. This was based on a review of Laclede's actual dividends per share, earnings per share, book values per share, and projected growth rates. Staff used this range of growth rates in calculating its DCF analysis. Staff's DCF analysis resulted in its recommendation of 9 to 10 percent return on equity.

Staff further presented evidence that it verified that its recommended return on equity would be reasonable for Laclede by conducting a risk premium analysis, a Capital Asset Pricing Model (CAPM) analysis, and a DCF analysis for seven comparable companies. The result of Staff's risk premium analysis showed the average of the risk premium analysis for comparable companies to be in the range of 9.84 to 11.45 with the average being 10.8 percent. Staff's risk premium analysis for Laclede resulted in an estimated return of 10.66 percent. Staff admitted this could also be considered a reasonable rate of return. The result of Staff's CAPM analysis showed that the return on equity for the seven comparable LDCs fell within the range of 9.66 to 10.23. The result of Staff's CAPM for Laclede was a return in the range of 9.08 to 9.65 percent.

In Staff's cost of equity analysis, it compared the results of its DCF analysis with the DCF of seven comparable LDCs. The result of that

analysis produced a DCF cost of equity ranging from 9.44 to 11.07 percent for the comparable companies, with the average being 10.24 percent. Staff Witness Broadwater testified that Laclede's DCF analysis of comparable companies before adjustments and its own DCF analysis of comparable companies result in very similar returns.

Staff also analyzed the reported return on equity and the market-to-book value of the seven comparable LDCs. Staff's witness testified that the average return on year-end common equity for the seven comparable companies was 10.81 percent and the return on year-end common equity reported for Laclede for 1998 was 10.8 percent.

Laclede Witness Fallert's testimony attempted to contradict Staff and Public Counsel's company-specific DCF analysis. Mr. Fallert's testimony was intended to demonstrate that the DCF analysis produced an absurdly low required return on equity when compared to returns that have been authorized or allowed for energy companies in Missouri and elsewhere. Laclede argued that the company-specific analysis relied upon by Staff and Public Counsel is not consistent with the legal standard requiring the Commission to examine the returns being earned by other companies with comparable risks.

### **Short-Term Debt**

With regard to Laclede's capital structure, the amount of short-term debt was at issue. The evidence showed that the average short-term debt over the 12-month period ending March 1999 was \$79 million<sup>4</sup>.

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<sup>4</sup> The actual number was \$79,429,667; however, for convenience in this Report and Order some numbers have been rounded.



However, Laclede presented evidence showing that it had issued \$24 million in bonds and \$25 million in equity in the spring and early summer of 1999. Laclede argued that the short-term debt calculation should reflect the annualized effect of these issuances.

Laclede presented testimony that the average monthly short-term debt balance for the months of June and July 1999 was \$35.2 million. Laclede presented testimony that the short-term debt amount should be based on a 12-month average with a downward adjustment to reflect the annualized effect of the two permanent financings issued. Laclede recommended that the Commission include \$29 million in short-term debt. Laclede also argued that if Staff and Public Counsel's recommendations are followed, the company will be in danger of losing its AA credit rating, because of a level of short-term debt over 10 percent of the total capital structure.

Staff's evidence included testimony that over the 42-month period from October 1995 to March 1999, Laclede's average daily short-term debt balances less construction work in progress is approximately \$58 million. Staff Witness Broadwater also testified that the balance over the last 24 months was approximately \$66 million and the balance over the last 12 months was approximately \$79 million. Staff argued that this shows a trend in the increase of short-term debt balances of Laclede.

Public Counsel also argued that the \$79 million level of short-term debt should be included. Public Counsel argued that the coincidental timing of the rate case with the bond and equity issuances should not be a reason to assume the amount of short-term debt will stay

at the lower level. Testimony from Public Counsel's witness indicated that the Commission should consider the 12-month average.

### **Revenue Collection Lag**

The number of days to be considered as Laclede's revenue collection lag is another issue pending before the Commission. According to Laclede Witness Buck's testimony, Laclede calculated the most significant portion of the revenue collection lag, the customer bills to sales customers, by

dividing average daily billings into the average receivable balance to yield the number of days of billing included in receivables. Receivables for the 12 months ending December 1998 were used. Revenues and other billing items are an average of the 12 months ending November, 1998 and December 1999.

This turnover ratio analysis in combination with the other portions of the lag calculation resulted in Laclede's argument that 34.8 days should be the revenue collection lag. Mr. Buck also testified that the Laclede's revenue lag time is based on actual customer billing and payment data for the test year.

Mr. Buck testified that 34.8 days is a reasonable revenue collection lag because not all customers pay within the time frames set out in Laclede's tariffs. Mr. Buck testified that approximately 5 percent of Laclede's customers are on special payment plans under the Cold Weather Rule, which significantly increases the revenue collection lag. Another factor that Mr. Buck indicated increases the revenue collection lag is uncollectible accounts which remain part of the accounts receivable balance for approximately seven months until they are "written off."

Staff argued that Laclede has not shown that its proposed revenue collection lag period is just and reasonable. Staff recommended that the Commission set the revenue collection lag at 25.4 days. Staff computed this revenue collection lag based on a sample of Laclede's accounts from the 12-month period ending February 1998 as used in Case No. GR-98-374. Staff excluded uncollectible accounts from its sample arguing that Laclede has an opportunity to recover for these bad debts as an expense. Staff also argued that no other utility regulated by the Missouri Public Service Commission has a revenue collection lag of more than 21 days.

Laclede argued that Staff did not show that its sample was statistically significant. Laclede also argued that Staff incorrectly excluded customers with less than 12 months of billing history from its sample.

### **Advertising Expense**

The arguments regarding the issue of advertising expenses basically revolved around two themes. Staff and Public Counsel presented testimony that the Commission should continue to categorize the advertisements of Laclede into five categories under the standards set out in the case Re: Kansas City Power and Light Company, 28 Mo. P.S.C. (N.S.) 228 (1986) (hereinafter referred to as KCPL). These categories are general, safety, promotional, institutional, and political. Staff and Public Counsel's witnesses testified as to which category each of Laclede's advertisements should fall, and as to the policy reasons for continuing to categorize advertisements in this manner.

Laclede argued that the KCPL standard should be abandoned for a method set out in its testimony. Laclede argued that the KCPL standard creates inconsistent treatment of similar advertisements, is unreasonable because not all advertisements fit in one of the categories, and creates an impossible standard to meet. Laclede Witness Hargraves testified that Laclede has developed an alternate approach. Laclede argued that its alternate approach would allow it to recover a reasonable amount for advertising expenses based on revenues.

Laclede proposed that a reasonable amount of advertising expense for the Commission to allow would be .5 percent of the utility's overall revenues during the test year or the previous five to ten years. In addition, Laclede suggested that the company would only be allowed to recover actual costs up to the .5 percent amount and would exclude political advertisements. The testimony indicated that currently the company spends about .2 percent of revenues on advertising.

In the alternative, Laclede argued that if the Commission continues to follow the KCPL standard, it should allow recovery of 100 percent of the test year expense for promotional advertising. Laclede presented testimony that 100 percent of the promotional advertising should be allowed because customers receive valuable information regarding natural gas and its relative costs and efficiencies. Laclede also stated that customers benefit through the spreading of fixed costs if Laclede maintains or expands its large customer base through promotional advertising. Laclede's witness admitted that there is no competition from any other natural gas company for Laclede's business. However, Laclede argued that

the promotional advertising expenses are necessary because Laclede must compete for customers with the providers of electricity, specifically AmerenUE, in its service area. Laclede's witness also admitted that natural gas and electric companies have been competing for customers for decades.

Laclede provided two pieces of evidence to support its argument that the benefit to the customers outweighed the cost with regard to its promotional advertising. The first of these items was the executive summary of a 1990 survey (Marketeam survey). The actual survey and its results were attached to Public Counsel Witness Bolin's testimony. The survey results included information from 103 of Laclede's customers. Of those 103 customers, four indicated that advertising was a source that led them to choose natural gas, whereas other methods, such as past experience with gas and friends/other homeowners, received much larger responses. Public Counsel and Staff argued that the Marketeam survey fails to provide a causal link between Laclede's promotional advertising and the choice of natural gas. Public Counsel and Staff also argued that there is no indication of validity of the results in terms of absence of bias or methods used in conducting the survey.

The second supporting document that Laclede provided was its own calculations of benefits attached as part of Mr. Hargraves' testimony. Public Counsel and Staff argued that this document is based wholly on self-serving and unsupported assumptions.

Staff argued that Laclede must prove a less vague and quantifiable relationship exists between the cost associated with promotional advertising and its benefits to ratepayers.

Public Counsel argued that the Commission has historically held that where a company is regulated under traditional rate base/rate of return regulation, it is the shareholders, not the ratepayers, who should bear the expense of promotional advertising which encourages the gas and electric companies to compete. Case No. GR-96-285, In the Matter of Missouri Natural Gas Energy's Tariff Sheets Designed to Increase Rates for Gas Service in the Company's Missouri Service Area.

### **Sunset Period for the SRP Accounting Authority Order**

The Commission in this Report and Order will approve the granting of an AAO to Laclede for the deferral of its costs of its Safety Replacement Program (SRP) as agreed by the parties in the Stipulation. However, the issue of when the AAO should expire was not addressed in the Stipulation. Staff and Public Counsel argued that the AAO should expire after a two-year period. Staff Witness Rackers stated that an AAO should be used as a means to "mitigate regulatory lag between rate cases, not as a substitute for or a means to avoid a rate case."

Laclede Witness Fallert proposed a slightly different approach to the AAO. Laclede proposed that the AAO for SRP costs be granted for three years subject to certain conditions. Laclede suggested that during this three-year period it would be required to submit reports to Staff and Public Counsel indicating the amounts being deferred. No less than six months before the three-year period expires, Laclede would then be

required to request that the Commission decide whether the AAO should be continued beyond the third year without a general rate case filing. Laclede proposes that other parties would have an opportunity to respond to the request and then the Commission could make a decision. If the Commission determined that a rate case was necessary, Laclede would be required to file a rate case within six months of the Commission's decision or the AAO would be terminated.

Staff and Public Counsel argued that Laclede's proposal would extend the period of the AAO from beginning to end to as much as five years while a rate case was pending. Staff and Public Counsel argued that this process would further complicate the regulatory process. Staff also argued that the traditional two-year expiration date provides clarity and certainty and requires minimal oversight while giving the company a sufficient period of time in which to defer costs. Staff and Public Counsel argued that, because an AAO should only be granted for extraordinary events, it should not be necessary to prolong the deferral beyond two years without a request for general rate relief being made.

### **Depreciation -- Net Salvage Value**

In determining depreciation rates, the parties did not agree as to the method for calculating net salvage value. Laclede Witness Kottemann testified that the Commission has traditionally used the straight-line amortization system to calculate Laclede's depreciation rates. In the traditional depreciation rate formula, net salvage equals gross salvage minus the cost of removing the property from service. Mr. Kottemann explained in his testimony that the net salvage percentage equals the net

salvage for a period of time divided by the original cost of the property retired during that same period of time. Mr. Kottemann testified that many natural gas assets have a negative net salvage value and corresponding percentage.

Staff Witness Adam proposed that the "[n]et salvage should recover the current actual net salvage amounts, not an average over the life of the current plant." Staff argued that Staff's depreciation calculation will charge "Laclede's customers annually for a net salvage amount, equal to, or nearly equal to, the amount Laclede is spending annually for net salvage." Staff argued that currently Laclede is recovering more in depreciation for net salvage than it is spending. Staff Witness Adam testified that ratepayers will pay \$2.3 million more in depreciation annually under Laclede's method of calculation.

Laclede argued that Staff's method of calculation is not consistent with Generally Accepted Accounting Principles (GAAP). Laclede stated that Mr. Adam's calculation "assumes that the average dollar amount of net salvage that Laclede has experienced in the past ten years will be the dollar amount of net salvage applicable to all future retirements."

Staff argued in its Initial Brief that its method of determining net salvage will "allow Laclede to collect from its current customers an amount that approximates what Laclede currently expends for cost of removal."



## Depreciation — Natural Gas Holders

The second depreciation item at issue between Staff and Laclede is the depreciation accruals for removal of some of Laclede's natural gas holders.

Staff recommended that Laclede not be allowed to recover any additional depreciation amounts for its natural gas holders until Laclede, via its Chief Executive Officer, makes an irrevocable commitment to remove the gas holders by a date certain. Staff Witness Adam testified that Laclede has over recovered its capital investments in the four gas holders by approximately \$65,000. Mr. Adam testified that there is no expected interim net salvage value and that the current customers should not pay for final removal of any of the four gas holders.

Laclede argued that the cost of removal should be depreciated over the next ten years. Laclede Witness Kottemann testified to the history of this issue between Staff and Laclede. Mr. Kottemann testified that in Case No. GR-94-220, Staff Witness Adam supported the continuation of the depreciation accrual for the gas holders, but Staff opposed an increase of the estimated cost of removal because the cost was not verifiable. Mr. Adam testified that in Laclede's next rate case, Case No. GR-96-193, he supported the inclusion of some of the removal costs based on an environmental engineering study conducted by Black & Veatch, but recommended that better information be obtained regarding the cost of remediating the sludge in the gas holders. Mr. Kottemann also testified that Laclede arranged with Creamer Environmental, Inc., to estimate the cost of remediating the sludge in the gas holders. Mr. Kottemann testified

that the estimate developed in conjunction with Creamer Environmental, Inc., was incorporated into the gas holder depreciation rate in this case.

### Off-System Sales Revenue

Staff Witness Imhoff proposed two tariff language changes to clarify Laclede's purchase gas adjustment (PGA) tariffs to define how off-system sales<sup>5</sup> will be treated and accounted for in the event the Commission does not renew Laclede's gas supply incentive plan (GSIP). The first change is to add a sentence at the end of Sheet No. 15, Paragraph (A), which reads, "The total Purchased Gas Costs shall be credited for all profits from off-system sales transactions." The second change would affect Sheet No. 21, Paragraph (5). The new Paragraph (5) would read:

The Deferred Purchased Gas Cost Account shall be credited for those revenues received by the Company for the release of pipeline transmission or leased storage capacity to another party. Such revenues will be allocated to firm sales, including Large Volume Transportation and Sales Service (LVTSS), and firm transportation customers, consistent with the allocation of capacity reservation charges set forth in Section A.2.b. of Laclede's tariff. The Deferred Purchased Gas Cost Account shall be credited for those revenues received by the Company for all off-system sales. For the purpose of allocating these revenues to the Deferred Purchased Gas Cost Accounts, 50% of the foregoing net revenues shall be deemed gas supply related and allocable to firm sales customers only and 50% shall be deemed transportation capacity related and allocable to both firm sales customers and firm transportation customers. This allocation is consistent with the allocation of capacity reservation charges set forth in Section A.2.b., unless the net revenues from off-system sales do not include the provision of transportation

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<sup>5</sup> Off-system sales are revenues received by the Company from its sale of natural gas to customers are not on the company's distribution system.

service, in which case 100% of such net revenues shall be allocable to firm sales customers.

Mr. Imhoff testified that Staff's proposed tariff language would insure that 100 percent of all off-system sales revenue would go to ratepayers. In the alternative, Staff recommended that the Commission impute the off-system sales revenues in the revenue requirement. Staff Witness Wallis testified that the amount to be imputed is approximately \$2.5 million. Mr. Wallis testified that this revenue amount is based on the three-year average of the off-system sales profits, which Laclede experienced in its three most recent actual cost adjustment (ACA) periods. As Staff stated in its Initial Brief, Mr. Wallis also testified that without the profits from the off-system sales transaction being included in Laclede's revenue requirement and without a GSIP in place, "Laclede will retain 100% of the profits from the off-system sales transactions, even though the transactions are funded by the ratepayers through the transportation reservation and gas supply demand charges which the customers pay through the PGA/ACA process."

Laclede states that on September 9, 1999, the Commission issued its Report in Order in Case No. GT-99-303, in which the Commission determined that the revenues received by Laclede from its off-system sales should be addressed in Laclede's rate case proceeding rather than as a continuing part of Laclede's GSIP. Laclede argued that the level of off-system sales revenues imputed in this case should be its most recent annual level of \$.9 million. Exhibit 125HC indicates that the \$.9 million is a projection for the 1998-1999 year. Laclede argued that the Commission should use the \$.9 million because of the downward trend in off-system

sales revenues as demonstrated by Exhibit 45 in Case No. GT-99-303, which was incorporated as part of Exhibit 125HC of this proceeding.

Public Counsel Witness Shaw testified that the Commission should consider historical off-system sales revenue in determining the amount to be imputed. Public Counsel recommended that \$2.4 million be imputed for off-system sales revenues. Public Counsel argued that this amount considers the downward trend by establishing a baseline that is below Laclede's three-year average of net off-system sales. Public Counsel used an average of actual numbers for a three-year period less \$100,000 to adjust for possible market changes.

Laclede argued that both Staff and Public Counsel's recommendations are in excess of off-system sales revenues that Laclede has earned in recent years under the GSIP and are not supported by the current trend in decreasing off-system sales revenues. Laclede also argued that the Commission has recognized the importance of trends. For instance, Laclede cites Re: Southwestern Bell Telephone Company, 2 Mo. P.S.C. 3d 479, 488 (1993), where the Commission adopted an annualized approach instead of an average because of a trend in revenues.

### **Service Area Description in Tariff**

Staff Witness Gray testified that Laclede's tariff needs a more accurate and understandable description of service area. Staff proposed that Laclede be required to list the county, township, range and section number in the tariff description of unincorporated areas. In his testimony, Mr. Gray listed five reasons this tariff change should be made; however, Staff conceded in its Reply Brief that three of those five points

were made in error. Staff's remaining arguments are that utilities can use the descriptions to help plan their future facilities and in planning for future growth.

Both Laclede and AmerenUE objected to this additional requirement and presented evidence that it would be burdensome for the company with little or no corresponding benefits for the ratepayer. AmerenUE Witness Difani also testified that the utilities would not find the expanded descriptions to be helpful.

### **Customer Annualization**

As part of the Stipulation the signatories agreed that Staff and Laclede would each use its own methodology with regard to determining the annualization of customers. The signatories also agreed that the average of the two amounts would be used to determine the adjustment to revenue requirement for customer growth. No party disputes this fact. The Commission by this Report and Order will find that the Stipulation, including this method of determining annualized customer growth, is in the public interest and should be approved. The issue remains, however, as to whether or not Staff used the same methodology for computing customer annualization at true-up as it had during its direct case.

Laclede argued that Staff used a different methodology to complete its true-up calculations of customer annualization than it did to calculate the customer annualization in its direct case. Laclede argued in its Initial Brief that according to Mr. Fallert's testimony, Staff updated "only one component of its methodology and did not adjust the Staff's current month's customer level based on a ten year average of how that

monthly customer level has compared to the annual average customer levels." Laclede further argued that this is a selective approach to true-up and that it could not have anticipated that Staff would have calculated its customer annualization at true-up in this manner.

Staff Witness Westerfield testified that Staff used the same methodology for calculating the annualized customer growth revenues at true-up as it used in calculating those revenues through March 1999 for its direct case. Ms. Westerfield testified that Staff had estimated its true-up customer annualization for the period from the end of March through July during the course of its direct case. Ms. Westerfield stated that this estimate was substantially different from the actual true-up numbers. Ms. Westerfield testified that the true-up required a substantial adjustment to the revenue requirement to the detriment of Laclede.

### **Findings of Fact**

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position, or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

## **Return on Equity**

The recommendations of Laclede, Staff, and Public Counsel for return on equity range from 9 to 12.75 percent. Staff conducted a CAPM, risk premium, and DCF analyses of seven comparable LDCs in order to determine that its recommended return on equity range of 9 to 10 percent was reasonable. The results of the return on equity analyses conducted by Staff of the comparable companies were return on equity results ranging from 9.11 to 11.45 percent. The Commission finds that it is reasonable to use the DCF analysis.

Laclede used a DCF analysis of thirteen comparable LDCs; however, Laclede made adjustments to its DCF analysis. Laclede's DCF analysis before its adjustments for market-to-book value resulted in a 10.5 percent return on equity. Staff argued that market-to-book adjustments have not traditionally been allowed by the Commission. Staff admitted that a return on equity of up to 10.66 would be a reasonable result. Therefore, the Commission finds that a return on equity of 10.5 percent is just and reasonable.

## **Short-Term Debt**

The Commission finds that the average short-term debt over the most recent 12-month period is approximately \$79 million. The Commission finds that Laclede issued \$24 million in bonds and \$25 million in equity in the spring and early summer of 1999. Laclede argued that these issuances should be reflected in the short-term debt calculation. According to Staff's testimony, the trend over the 42-month period from

October 1995 to March 1999 is an increase in the amount of Laclede's short-term debt with an average monthly balance during that period of \$58 million. Therefore, the Commission finds that Laclede's recommendation of a \$29 million short-term debt balance is not reasonable or consistent with evidence presented that the short-term debt balance is increasing. Instead, the Commission finds that the average daily short-term debt balance of \$58 million over the 42-month period is representative of the actual trend toward increased short-term debt experienced by Laclede. Therefore, the Commission finds that the amount of short-term debt to be considered in the capital structure of the company should be \$58 million.

### **Revenue Collection Lag**

The revenue collection lag issue is not as straightforward as the evidence presented to the Commission suggests. Laclede presented evidence that the revenue collection lag is 34.8 days and Staff presented evidence that the revenue collection lag is 25.4 days.

Staff did not include data for customers with less than 12 months of billing, which shortened the average number of days when compared to Laclede's data. On the other hand, Laclede included data from uncollectible accounts, which lengthens its average number of days. What is missing from the evidence is the specific effect that each of these factors has on the number of days. Thus, the Commission must decide if Laclede's revenue collection lag is supported by sufficient evidence and if it is just and reasonable.

The Commission finds that Laclede's actual customer data for the test year is more complete than the data used in Staff's calculations. The



Commission further finds that a revenue collection lag of 34.8 days is just and reasonable and should be used to determine Laclede's revenue requirement.

### **Advertising Expense**

The Commission finds that the proposal of a cap on advertising expenses set at .5 percent of total utility revenues of Laclede is not supported by competent and substantial evidence. The Commission could not fulfill its duties of determining if Laclede's expenses on advertising were prudent without some review of the advertising. The Commission will continue to follow the standards set out in the KCPL case.

Laclede argued that it should be allowed to recover 100 percent of its promotional advertising. Staff and Public Counsel presented testimony that the promotional advertising of Laclede was not a necessary expense. The current KCPL standard allows the cost of promotional advertising to be included in the cost of service if the company can prove that the benefits to the ratepayers of the advertisements exceed the costs. The Commission finds that neither the Marketeam survey nor Laclede's additional analysis is sufficient to support a finding that the benefits to ratepayers exceed the cost of promotional advertising. Therefore, the Commission finds that the categorization of advertisements as applied by Staff should be used in determining the advertising costs to be included in Laclede's cost of service.

unless the company has begun the ratemaking process at the beginning of the third year. There will be no opportunity to extend the AAO pending the outcome of a rate case. This will allow the company a full two-year deferral period and ensure that the AAO is not extended longer than three years without a rate case being established.

### **Depreciation — Net Salvage**

Staff and Laclede disagree about how to estimate net salvage value. Staff argued that the Commission should look at the actual amounts the company is paying per year for the cost of removal to determine what those costs will be in the future. Laclede argued that the future cost of removal should be estimated and spread over the life of the asset.

The Commission finds that Laclede has failed to meet its burden of showing that the depreciation calculation, with regard to net salvage as proposed by Laclede is just and reasonable. Staff's calculation will allow Laclede to recover the amounts it is currently spending for net salvage without overrecovering from its ratepayers, which is a just and reasonable result. Therefore, the Commission finds that the calculation of net salvage value for the determination of depreciation rates shall be done in accordance with Staff's recommendations.

### **Depreciation — Natural Gas Holders**

Staff argued that Laclede should cease all depreciation accruals with regard to its natural gas holders until its Chief Executive Officer makes a commitment to demolish the holders by a date certain. Laclede argued that it has done everything that Staff has asked up to this point

## Sunset Period for SRP Accounting Authority Order

The Commission in this Report and Order will approve the granting of an AAO to Laclede for the deferral of its costs of its SRP. The Commission must now decide when the AAO should expire. Staff and Public Counsel argued that an AAO should be used to mitigate regulatory lag, not to avoid a rate case. Staff and Public Counsel also argued that the traditional two-year period of an AAO provides for adequate deferral time for the company while maintaining clarity and simplicity. Finally, the Staff and Public Counsel argued that the two-year deferral provides for the least amount of regulatory oversight.

The Commission agrees with Staff and Public Counsel that the purpose of a AAO is to defer extraordinary costs. Therefore, the AAO should not be allowed to continue for lengthy periods without the company asking for rate relief. However, the Commission understands the argument of Laclede that given today's regulatory climate, a two-year deferral is a relatively short period of time. If the company needs rate relief it would have to ask for it no later than the end of the first year of the AAO period to be certain that the AAO will not expire before the new rates become effective. This puts the company in the position of having to come before the Commission more frequently than it might otherwise to ask for rate relief.

The Commission finds that a three-year expiration of the AAO with periodic reports of the deferred amounts to the Staff and Public Counsel is reasonable, provided that the company seeks rate relief after the second year of the AAO. That is, the AAO will expire at the end of the third year

with regard to estimating the cost of removing the gas holders and including the cost of remediating the sludge. The Commission finds that Laclede has recovered its capital investment in the four gas holders. The Commission finds that there is no expected interim net salvage value of the natural gas holders. Because Laclede has not committed to removing the gas holders, the Commission finds that it is not just and reasonable for current customers to pay for the expense of removal when the ratepayers may receive no benefit from those payments.

### **Off-System Sales Revenue**

The Commission finds that Staff's recommended tariff language is in the public interest should be included in Laclede's tariff. The Commission also finds that Laclede's most recent projection of \$.9 million in off-system sales revenues is supported by the current trend in decreasing off-system sales revenues. Therefore, the Commission finds that the amount of off-system sales revenue imputed in Laclede's revenue requirement should be \$.9 million.

### **Service Area Description in Tariff**

Staff has proposed that Laclede expand the service area descriptions in its tariff to include the county, as well as the township, section, and range numbers for unincorporated areas. Both Laclede and AmerenUE objected to this additional requirement and presented evidence that it would be burdensome for the company to expand its tariff in this manner with little or no corresponding benefits for the ratepayers. The

Commission finds that Staff's recommendation is not supported by competent and substantial evidence that it is in the public interest.

### **Customer Annualization**

The Commission by this Report and Order finds that the Stipulation, including its method of determining annualized customer growth is in the public interest and should be approved. However, at the True-Up Hearing an issue arose as to whether or not Staff had indeed used the same methodology for computing customer growth at true-up as it had during its direct case. Staff Witness Westerfield testified that Staff used the same method for calculating its true-up figures as it used in calculating those numbers through March 1999. The Commission finds that Ms. Westerfield's testimony was credible. The Commission finds that Staff used the same methodology for calculating its customer annualization at true-up as it used to calculate its customer annualization through March of 1999. Therefore, the Commission finds that the adjustment to revenue requirement for customer annualization should be in the amount as determined by Staff.

### **Conclusions of Law**

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

Laclede Gas Company is a public utility engaged in the provision of natural gas service to the general public in the state of Missouri and, as such, is subject to the general jurisdiction of the Missouri Public Service Commission pursuant to Chapters 386 and 393, RSMo 1994. The

Commission also has the authority to prohibit implementation of gas service rates that are unjust or unreasonable rates. Section 393.130, RSMo 1994.

The burden of proof to show that a proposed tariff is just and reasonable is upon the utility. Section 393.150.2, RSMo 1994.

The 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. Section 536.140, RSMo 1994.

Based upon its findings of fact, the Commission concludes that in order to set just and reasonable rates, Laclede Gas Company's revenue requirement will be increased in the amount of \$11,240,000 as set out in this Report and Order. For the same reason, the Commission concludes that the tariff language as submitted by Laclede on January 26, 1999, is not supported by competent and substantial evidence and shall be rejected.

The Commission may resolve a contested matter by adopting a stipulation and agreement of the parties. Section 536.060, RSMo Supp. 1998.

The proposed Stipulation and Agreement, with additional information filed by Laclede Gas Company on the September 13, 1999, is treated as unanimous by operation of rule 4 CSR 240-2.115, is in the public interest, and is approved.

Laclede Gas Company has a constitutional right to a fair and reasonable return on its investment. State ex rel. Missouri Public Service Company v. Fraas, 627 S.W.2d 882, 886 (Mo. App. 1981).

A public utility is entitled to such rates as will permit it to earn a return on the value of the property which it

employs for the convenience of the public equal to that generally being made at the same time and in the same general part of the country on investments and other business undertakings which are attended by corresponding risk and uncertainties; but it has no constitutional right to profits such as are realized or anticipated in highly profitable enterprises or speculative ventures. The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economic management to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.

Bluefield Waterworks and Improvement Co. v. Public Service Commission of the State of West Virginia, 262 U.S. 679 (1923).

[T]he return to the equity owner should be commensurate with returns on investment in other enterprises having corresponding risks. That return, moreover, should be sufficient to insure confidence in the financial integrity of the enterprise so as to maintain its credit and to attract capital.

Federal Power Commission v. Natural Gas Pipeline Co., 315 U.S. 575, 586; 62 S.Ct. 736, 743; 86 L.Ed. 1037.

All relevant factors must be considered in establishing rates for a public utility. State ex rel. Missouri Water Co. v. Public Service Commission, 308 S.W.2d 704, 718-719.

**IT IS THEREFORE ORDERED:**

1. That Exhibit 113 related to information on residential customer usage is admitted.
2. That Exhibit 114HC related to information on studies regarding the efficiency of homes of customers is admitted.

3. That Exhibit 115 related to Laclede Gas Company's stock value in the last 12 to 24 months is admitted.

4. That Exhibit 117 related to the return on equity of Missouri gas companies other than Laclede Gas Company is admitted.

5. That Exhibit 125HC consisting of the relevant portion of the official record from Case No. GT-99-303 is admitted.

6. That Laclede Gas Company's motion to strike portions of the Office of the Public Counsel's Reply Brief filed on November 12, 1999, is denied.

7. That Laclede Gas Company's request filed on November 12, 1999, to take administrative notice of its Gas Supply Incentive Plan Monitoring Report is denied.

8. That the Commission approves the First Amended Partial Stipulation and Agreement and the additional information filed by Laclede Gas Company on September 13, 1999, which are marked as Attachment A and Attachment B, respectively, and made a part of this Report and Order.

9. That Tariff No. 9900536 submitted on January 26, 1999, is rejected.

10. That Laclede Gas Company is hereby directed to file revised tariff sheets with a thirty-day effective date in accordance with the findings in this Report and Order, which should include the increase to its revenue requirement of \$11,240,000 and all other changes consistent with this order.



11. That Laclede Gas Company shall incorporate the changes to its tariff at Sheet No. 15, Paragraph (A), and Sheet No. 21, Paragraph (5), as recommended by Staff and as set out herein.

12. That the above ordered increase in revenue requirement will be applied as specified in the First Amended Partial Stipulation and Agreement.

13. That Laclede Gas Company's return on equity should be 10.5 percent.

14. That the amount of short-term debt balance to be considered in the total capital structure of Laclede Gas Company should be \$58 million.

15. That the revenue collection lag shall be 34.8 days.

16. That the categorization of advertisements as applied by the Staff of the Missouri Public Service Commission should be used in determining the advertising costs to be included in Laclede Gas Company's cost of service.

17. That the Accounting Authority Order for Laclede Gas Company's Safety Replacement Program cost deferrals shall expire three years from the effective date of this order unless extended as part of a general rate relief request by Laclede Gas Company made no later than two years after the effective date of this Report and Order.

18. That Laclede Gas Company shall submit quarterly reports to the Staff of the Missouri Public Service Commission and the Office of the Public Counsel stating the amounts being deferred by the Safety Replacement Program cost Accounting Authority Order.

19. That the calculation of net salvage value for the determination of depreciation rates shall be done in accordance with Staff's recommendations.

20. That Laclede Gas Company will not be allowed a depreciation accrual with regard to its natural gas holders in this rate case.

21. That the amount of off-system sales revenue imputed in Laclede's revenue requirement should be \$.9 million.

22. That the recommendation of the Staff of the Missouri Public Service Commission to require Laclede Gas Company to add a more detailed service area description is rejected.

23. That the adjustment to revenue requirement for customer annualization should be in the amount as determined by the Staff of the Missouri Public Service Commission.

24. That any objection not ruled on is overruled, any motion not ruled on is denied, and any exhibit not admitted is excluded.

25. That this Report and Order shall become effective on December 24, 1999.

**BY THE COMMISSION**

( S E A L )



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

Lumpe, Ch., Crumpton, Drainer,  
Murray, and Schemenauer, CC., concur  
and certify compliance with the  
provisions of Section 536.080,  
RSMo 1994.

Dated at Jefferson City, Missouri,  
on this 14th day of December, 1999.

FILED

SEP 3 1999

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

Missouri Public  
Service Commission

In the Matter of Laclede Gas Company's )  
Company's Tariff to Revise Natural Gas ) Case No. GR-99-315  
Rate Schedules. )

FIRST AMENDED PARTIAL STIPULATION AND AGREEMENT

On January 26, 1999, Laclede Gas Company ("Laclede" or "Company") submitted to the Missouri Public Service Commission ("Commission") revised tariff sheets reflecting increased rates for gas service provided to customers in its Missouri service area. The proposed tariff sheets contained a requested effective date of February 26, 1999 and were designed to produce an annual increase of approximately 6.1 percent (\$30.5 Million) in charges for gas service.

By Order dated February 9, 1999, the Commission suspended the proposed tariff sheets and established a procedural schedule for interventions, the prefiling of direct testimony and exhibits by Laclede and evidentiary hearings. Additional procedural dates were subsequently established by the Commission in its April 29, 1999, Order Granting Interventions, Setting Procedural Schedule and Establishing Test Year and its June 7, 1999 Order Modifying Procedural Schedule. In addition, the Commission also granted the Applications to Intervene filed by Union Electric Company d/b/a AmerenUE; Missouri Industrial Energy

Consumers (Adam's Mark Hotels, Alcoa Foil Products, Anheuser-Busch Companies Inc., The Boeing Company, Ford Motor Company, General Motors Corporation, Hussmann Refrigeration, MEMC Electronic Materials Inc., Monsanto Company, Paulo Products Company, Proctor & Gamble Manufacturing Company and Ralston Purina Company); MRT Energy Marketing Company, Oil, Chemical & Atomic Workers, Local 5-6, and Barnes-Jewish Hospital, DaimlerChrysler Corporation, Emerson Electric Company, and SSM Healthcare, (collectively the "Missouri Energy Group").

By Order dated May 11, 1999, the Commission scheduled local public hearings in the City of St. Louis and St. Louis County, Missouri. Local hearings were held in this proceeding on August 11, 1999.

Pursuant to the procedural schedule established by the Commission, a prehearing conference was convened on July 9, 1999. Other than the Oil, Chemical & Atomic Workers, Local 5-6, all of the above Parties appeared at the prehearing conference. As a result of the prehearing conference and further discussions, the undersigned parties ("Parties") have reached the following stipulations and agreements.<sup>1</sup>

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<sup>1</sup> The Missouri Energy Group supports paragraph 12 of this First Amended Partial Stipulation and Agreement and neither supports nor opposes any other provision of this First Amended Partial Stipulation and Agreement.

1. The Parties agree that the revenue requirement amounts reflected on Attachment 1 hereto, accurately reflect the impact on Staff's case of the issues that have been resolved to date among the parties. Such revenue requirement amount is \$6,313,000 exclusive of any applicable license, occupation, franchise, gross receipts taxes or other similar tax or taxes.

2. The Parties agree that any revenue requirement amounts granted the Company in connection with: (A) the Company prevailing on any of the remaining issues in this case that are not identified in Attachment 1 (B) the Company receiving an amount as a result of the true-up hearing in this case in excess of the initial true-up allowance of \$7,341,000 reflected in Staff's filed run, and/or (C) adjustments to the dollar values of the issues listed in Attachment 1 to reflect the Commission's resolution of any remaining issue that may affect those values, shall be added to the revenue requirement amount reflected in Attachment 1 to this First Amended Partial Stipulation and Agreement.

3. Laclede shall continue to book, for financial purposes, expense levels associated with pensions and post-retirement benefits other than pensions ("OPEBs") in accordance with Financial Accounting Standards Board Statements ("FAS") 87, 88, and 106, respectively. Laclede's accounting therefor shall continue to reflect the: (a)

actual Market Value of the pension fund assets rather than the Market-Related Value previously used by Laclede; (b) amortization of any resulting unrecognized net gains and losses over a five year period; and (c) use of the prospective "smoothing" mechanism described in Attachment 3 to the Stipulation and Agreement approved in Case No. GR-98-374. In addition, gains and losses shall be calculated, on a first dollar basis, for all pension lump-sum settlements, to the extent permitted by FAS 88. The Parties further agree that the rates resulting from this First Amended Partial Stipulation and Agreement make provision for recovery of pension costs on a FAS 87 and 88 basis for all qualified pension plans and recovery of OPEB costs on a FAS 106 basis.

4. The Parties agree that the OPEB, SERP, Y2K and MGP Accounting Authority Orders granted by the Commission in Case No. GR-98-374 shall be terminated effective August 1, 1999, subject to the following terms and conditions:

- (A) a regulatory asset shall be established with a balance of \$2,064,000. One tenth of this balance has been included in the cost of service recognized in this proceeding and one tenth of such balance shall continue to be amortized annually in cost of service for ratemaking consideration for the next subsequent nine years.

An additional regulatory asset shall be established with a balance of \$10,529,000. One fifteenth of this balance has been included in the cost of service recognized in this proceeding and one fifteenth of such balance shall continue to be amortized annually in cost of service for ratemaking consideration for the next subsequent fourteen years. The parties agree that they will not propose, in any manner, exclusion of such amortized amounts in Laclede's cost of service for ratemaking purposes during the aforementioned periods required to amortize such balances. The parties further agree that they will not propose to include such balances in the Company's rate base; and

- (B) the Company shall capitalize and charge to the appropriate gas plant accounts all costs incurred by the Company subsequent to March 1, 1998 to replace, enhance, and/or modify its information systems and computerized voice and data systems in connection with the Company's efforts to make such systems Y2K compliant.

5. Notwithstanding any other provision of this First Amended Partial Stipulation and Agreement to the contrary, the Parties agree that Laclede shall be granted accounting

authorization to continue to defer and book to Account 182.3 for consideration in Laclede's next rate case all costs incurred by Laclede between July 31, 1999, and the earlier of: a) the effective date of the rates established in Laclede's next general rate case proceeding; or b) the beginning of the deferral period of any subsequent accounting authority order granted by the Commission for such costs: (1) to replace Company service and yard lines and to move and reset and/or replace meters in connection therewith; (2) to replace cast iron mains and to transfer services from the old main to the new main in connection therewith; (3) to replace and/or cathodically protect unprotected steel mains and to transfer services from the old main to the new main in connection therewith; and (4) to survey and/or bar hole buried fuel and copper service lines for leaks; including, without limitation, property taxes, depreciation expenses, and all other expenses and carrying costs (at the overall rate of interest calculated pursuant to the Federal Energy Regulatory Commission formula for computing AFUDC as set out at 18 CFR Part 201, minus one percentage point). Further, the parties agree that \$157,000 will be deducted, on an annual basis, from revenue requirement for any general rate proceeding in which such rates will go into effect within fifteen years of the effective date of rates in this proceeding to reflect



imputed plant maintenance savings related to the gas safety program. During the period rates are in effect resulting from this case, the annual revenue requirement will be further reduced to reflect additional imputed maintenance savings of \$33,000, provided that nothing herein shall preclude any party from proposing that such imputation of savings be continued in future cases, independent of the continuance of this Safety Replacement Program accounting authorization. The regulatory asset balances and amortizations described in paragraph 4(A) of this First Amended Partial Stipulation and Agreement reflect the authorization granted to Laclede to defer and book all costs of any such survey and/or barhole of buried copper service lines which occurred in the spring and summer of 1999 to account 182.3. Laclede shall provide to the Financial Analysis Department of the Staff, and Public Counsel, as part of its Monthly Surveillance Report an ongoing quantification of the amounts deferred pursuant to this accounting authorization.<sup>2</sup>

6. Nothing in this First Amended Partial Stipulation and Agreement shall be construed as limiting, in any way, the Company's right to file an application with the Commission requesting an Accounting Authority Order on any

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<sup>2</sup> The issue of whether this accounting authority order should be effective for longer than two years without the necessity of the Company initiating a general rate case proceeding shall be subject to litigation and the Commission's determination in this proceeding.

cost or revenue item, or requesting that such authorization be granted effective from the date of such filing.

7. The Parties agree that Laclede shall notify its customers at least twice a year of the Insulation Financing Program's availability.

8. The Parties agree that Laclede shall, for book purposes, be authorized to continue to normalize the income tax timing differences inherent in: (a) the recognition of pension costs on a FAS 87 and 88 basis, and OPEB costs on a FAS 106 basis as authorized in Paragraph 3 of this First Amended Partial Stipulation and Agreement; (b) the prior adoption and continuation of the deferred accounting referenced in Paragraphs 4, 5 and 6 of this First Amended Partial Stipulation and Agreement; and (c) the transfer of all other services from old to new mains; by recording and recognizing in any future rates deferred income tax expense for such differences, provided that the Parties shall have the right to review and propose a different treatment of such timing differences in Laclede's next general rate case proceeding.

9. Laclede agrees to continue to maintain its books and records in a manner that will permit any costs that are related to Laclede's unregulated activities and affiliated companies to be tracked.

10. For the purpose of resolving the appropriate data, methodology, period or other criteria for establishment of weather normalized utility rates in the State of Missouri, the Company and Staff agree to cooperate in a joint undertaking ("Project"). The primary purpose of the Project is to investigate the cause and effect of changes in the air temperature readings observed at the St. Louis Lambert International Airport (Lambert Field) weather station for at least the period 1960 to the latest available data. In order to achieve this primary purpose, objectives of the Project include, but are not limited to: (1) the effect of changes in the sensor's location, in the sensor itself and in other environmental factors such as seasonality and urbanization effects; and (2) determination of the appropriate reference weather stations and the best data to be used from those stations for comparison to the Lambert Field weather station. The Company and Staff further agree: (1) to devote sufficient resources, each at its own expense, to the Project in a diligent and timely manner; (2) to work together in the Project's investigation by participation in regular meetings and communications regarding the Project's progress and status; and (3) to share Project data and other relevant information consistent with the Project's objectives. Participation in the Project shall be open to the Public Counsel, other Missouri utilities, and other

interested entities. Such participation by these other entities will be encouraged. The initial meeting for identifying and setting out details of the Project will be held not later than October 31, 1999 at the St. Louis offices of the Company. The Company contact person for the Project is Ms. Patricia Krieger. While a goal of the Project is to reach a resolution on technical issues regarding weather normalization of utility rates, the Company and Staff each reserve the right to express their differences on, and will not be bound by, findings, resolutions, courses of action to be taken, recommendations and/or results of the Project. The Parties will advise the Commission on a semi-annual basis of the status of the Project.

11. Laclede further agrees to provide Staff with actual customer billing data in a readable electronic format, such as computer tape or CD, containing customer billing data for all of its residential accounts, with the names and addresses of the customers masked. The data must include actual customer billing data for all of Laclede's residential accounts for the most recent twelve (12) months and/or test year. If requested in writing by Staff, Laclede will provide Staff with such customer billing data within a reasonable time from the date requested, not to exceed

thirty (30) calendar days. Such information shall be maintained on a confidential basis by the Staff.

12. The Parties agree that the class cost of service, rate design and related issues raised in this proceeding shall be resolved in accordance with the terms set forth in Attachment 2 to this First Amended Partial Stipulation and Agreement. The Parties further agree that they will submit within ten days of the filing of this First Amended Partial Stipulation and Agreement a more detailed description of the terms of the Parties' agreements set forth in Attachment 2.

13. None of the signatories to this First Amended Partial Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation, depreciation or revenue related methodology or any service or payment standard, and none of the signatories shall be prejudiced or bound in any manner by the terms of this First Amended Partial Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein. Nothing in this First Amended Partial Stipulation and Agreement shall preclude the Staff in future proceedings from providing recommendations as requested by the Commission.

14. This First Amended Partial 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 this First Amended Partial Stipulation and Agreement by the issuance date of its Report and Order in this case, or approves this First Amended Partial Stipulation and Agreement with modifications or conditions that a Party to this proceeding objects to prior to the effective date of the Order approving this First Amended Partial Stipulation and Agreement, then this First Amended Partial Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

15. In the event the Commission accepts the specific terms of this First Amended Partial Stipulation and Agreement, the Parties waive, with respect to the issues resolved herein: their respective rights pursuant to Section 536.080.1 (RSMo. 1994) to present testimony, to cross-examine witnesses, and to present oral argument and written briefs; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 (RSMo. 1994); and their respective rights to judicial review pursuant to Section 386.510 (RSMo. 1994).

16. The Parties agree that all of the prefiled testimony submitted by Laclede, Staff, Public Counsel, AmerenUE and MIEC relating exclusively to any issue resolved by this First Amended Partial Stipulation and Agreement

shall be received into evidence without the necessity of their respective witnesses taking the stand.


17. If requested by the Commission, the Staff shall have the right to submit to the Commission a memorandum explaining its rationale for entering into this First Amended Partial Stipulation and Agreement. Each Party of record shall be served with a copy of any memorandum and shall be entitled to submit to the Commission within five (5) business days of receipt of Staff's memorandum, a responsive memorandum that shall also be served on all Parties. All memoranda submitted by the Parties shall be considered privileged in the same manner as are settlement discussions under the Commission's rules, shall be maintained on a confidential basis by all Parties, and shall not become a part of the record of this proceeding or bind or prejudice the Party submitting such memorandum in this proceeding or any future proceeding, whether or not the Commission approves this First Amended Partial Stipulation and Agreement. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this First Amended Partial Stipulation and Agreement. The Staff shall also have the right to provide, at any agenda meeting at which this First Amended Partial Stipulation and Agreement is noticed to be considered by the Commission, whatever oral

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

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


Respectfully submitted,

DANA K. JOYCE  
General Counsel

  
\_\_\_\_\_  
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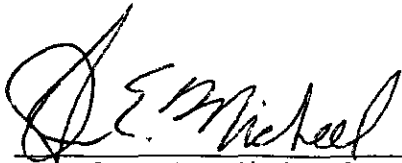
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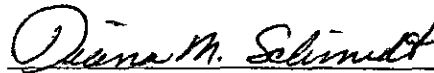
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DAIMLERCHRYSLER  
CORPORATION,  
EMERSON ELECTRIC COMPANY  
AND SSM HEALTHCARE

	Revenue Requirement (\$000)	Cumulative Revenue Requirement (\$000)
Staff Direct Filing - Midpoint	(1,837)	(1,837)
Weather Correction	(1,439)	(3,276)
Bad Debt Correction	428	(2,848)
Directors Pension (Split)	35	(2,813)
CWC Pension Contribution*	343	(2,470)
CWC - Revenue Lag Correction*	6	(2,464)
Payroll, 401k & PR/ Taxes Correction	20	(2,444)
Customer Growth (Split)	223	(2,221)
Incentive Compensation (Split)	397	(1,824)
MRT Storage*	38	(1,786)
Fas 88	604	(1,182)
Property Taxes	353	(829)
Capital Structure - STD - Average Daily Balance*	238	(591)
Y2K Deferred Tax Balance Correction	14	(577)
AAOs	302	(275)
Imputed Maintenance Savings	(33)	(308)
True-Up - Computer Maintenance **	528	220
Weather/HVAC Settlement	6,000	6,220
Bad Debt Factor*	93	6,313
Settled Position		<u>6,313</u>

\* The dollar value of the above settled issues is based on Staff Midpoint filing and Return at 9.5% and will change as Return, Capital Structure and other outstanding issues change.

\*\* This amount remains subject to re-examination during the True-up Hearing.

**Terms of Settlement Relating to  
Class Cost of Service and Rate Design/Tariff Issues**

**I. Rates:** The Parties agree that the rate schedules and tariff sheets authorized for the Company upon conclusion of this proceeding shall be revised as nearly as practicable in accordance with the following terms:

**A. General Service ("GS") Class:**

**1. Residential:**

- a) Reduce second block rates by \$236,000 in non-gas revenue before any rate increase.
- b) Allocate the first \$2,800,000, approximately, of the Residential portion of any rate increase to the first block of the Commodity charge, in order to produce a 1.0¢ increase in the differential between the first block and the second block rates. Any additional increase will be derived exclusively from increases in the commodity charges and will be applied to both the first and second blocks on an equal percentage basis.
- c) No change in the customer charge.
- d) Maintain existing seasonal differential in both the first and second blocks.

**2. Commercial and Industrial ("C&I"):**

- a) Increase rates by approximately \$600,000 in non-gas revenues before any rate increase.
- b) Increase Customer Charge to \$15.00. No further change to Customer Charge in this case.
- c) Increase first block therms to first 100 therms (from first 65 therms).
- d) In allocating an increase resulting from this case, link the second block rate to the Residential second block rate less 0.2¢, and solve for the first block rate.
- e) Maintain existing seasonal differential in both the first and second blocks.
- f) For its next general rate case, Company will gather cost and usage data useful for stratifying or dividing the C&I class into appropriate classes reflecting more homogeneous characteristics, provided that no party shall be deemed to have agreed to the appropriateness of dividing such class or making any particular division.

**B. Other Classes:**

1. **Large Volume Transportation and Sales Service rates ("LVTSS"):** Reduce all non-gas volumetric rates by \$.00175 per therm before any rate increase.
2. **Seasonal Air Conditioning Service ("AC"):** Non-gas rates will equal GS non-gas rates including customer charges after removal of gas costs per II.3, below.

**C. Allocation of rate increase to each class:** After making the revenue shifts set forth above, in A.1.a), A.2.a) and B.1., allocate any rate increase to all rate classes on an equal percentage of non-gas revenues basis. Adjust non-LVTSS rates for rate switching, if necessary. In addition, except as set forth in A.1., A.2. and B.2., apply increases within the classes to all non-gas charges on an equal percentage basis.

**II. Other Provisions:**

1. In the next rate proceeding, the Parties agree to include the following Cost of Service Classes in any study filed: 1) Residential, 2) C&I GS, 3) AC. This will not preclude any party from filing a study that would divide these groups into additional classes.
2. Period of excess receipts: The Parties agree that any period of excess receipts shall be limited to eight days within any rolling 30-day period, and that related tariff modifications shall be made. The Parties further agree that the price paid for any excess receipts period volumes purchased by the Company shall be increased to 75% of MRT West Leg index.
3. Gas Cost: The Parties agree that gas cost shall be removed from base rates on the tariff sheets using the system average firm/interruptible base rate shown on the Company's current tariff sheets. Without prejudice as to whether any such agreement is necessary, the Parties agree that no party shall be precluded from pursuing any reallocation of gas costs in the Company's next general rate case proceeding.
4. The Parties agree that the Reconnection Charge proposed by the Company in this proceeding should be implemented.
5. Mutually acceptable billing determinants (subject to true-up) shall be filed within 10 days of the filing of this attachment.

LACLEDE GAS COMPANY  
720 OLIVE STREET  
ST. LOUIS, MISSOURI 63101

AREA CODE 314  
342-0532

MICHAEL C. PENDERGAST  
ASSOCIATE GENERAL COUNSEL

September 13, 1999

Mr. Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge  
Missouri Public Service Commission  
Harry S Truman Building  
301 W. High Street, 5th Floor  
Jefferson City, MO 65101

Re: Case No. GR-99-315

Dear Mr. Roberts:

On September 3, 1999, Laclede Gas Company, the Staff of the Missouri Public Service Commission, the Office of the Public Counsel, the Missouri Industrial Energy Consumers, Union Electric Company d/b/a AmerenUE and the Missouri Energy Group (hereinafter the "Signatories") executed and filed in the above-referenced case a First Amended Partial Stipulation and Agreement ("Stipulation"). Paragraph 12 of that Stipulation provided for the filing of certain additional information by the parties relating to the rate design, class cost of service and related tariff issues addressed therein.

To that end, I have enclosed for filing on behalf of the Signatories the following information:

- a) Specimen tariff sheets implementing the Company's transportation tariff changes concerning excess receipts as set forth in Attachment 2, paragraph II.2. of the Stipulation, with revisions underlined.
- b) Exact calculations of the amount of any rate increase which will be allocated to the first block of the Residential General Service rate schedule, and the increase to be made to the rates of the Commercial and Industrial General Service rate schedule before any rate increase, which were approximated in Attachment 2, paragraphs I.A.1.b) and I.A.2.a), respectively;
- c) A specimen tariff sheet implementing the \$54.00

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Service Commission

reconnection charge set forth in Attachment 2,  
paragraph II.4., with revisions underlined; and

- d) Billing determinants in compliance with paragraph  
II.5. of Attachment 2 to the Stipulation.

Please note that these copies of a facsimile transmission  
are being filed pursuant to 4 CSR 240-2.080(3). In  
accordance with that rule, the original of this filing and  
letter are being sent to the Commission by next-day mail.

Thank you for your bringing these additional materials to  
the attention of the Commission.

Sincerely,

  
Michael C. Pendergast

MCP:jaa

LARGE VOLUME TRANSPORTATION AND SALES SERVICEA. AVAILABILITY:

1. Gas transportation service and supplementary gas sales service pursuant to this tariff is available to any customer contracting for separately metered gas service for a minimum term of one year with a Billing Demand equal to, or greater than, 1,500 therms and an annual usage equal to, or greater than, 300,000 therms, except as provided in paragraph A.2 below, and for whom gas can be transported to the Company pursuant to the State of Missouri or federally authorized transportation arrangements. Any Customer receiving transportation service under this tariff shall purchase its own gas for delivery to the Company at a Receipt Point acceptable to the Company. In addition, such Customer shall obtain and maintain a dedicated phone line or provide access for other suitable communication equipment to be made available by Company or Customer upon mutual agreement for connection to the telemetering equipment supplied by the Company.
2. For purposes of applying the monthly balancing provisions of Section D.4.3. below and the charge for gas used in excess of the Customer's Daily Scheduled Quantities ("DSQ") as described in Section B.1. below, any end-user, which owns or controls the facilities where separately metered gas service is or will be provided under this tariff for the same class of transportation service as such class is defined in Section B below, may aggregate the receipts and deliveries related to such facilities, provided that at least one facility meets the eligibility requirements set forth in Paragraph 1 above and each other facility is covered by a separate transportation contract with a Billing Demand equal to, or greater than, 1,000 therms and an annual usage equal to, or greater than, 200,000 therms. Transportation service shall only be provided to facilities with a Billing Demand between 1,000 and 1,500 therms and an annual usage between 200,000 and 300,000 therms when the receipts and deliveries of such facilities are aggregated with the receipts and deliveries of other facilities as provided by this paragraph.
3. Transportation service under this tariff will be made available to eligible customers upon request when the Company has sufficient distribution system capacity. If the Company determines that it does not have sufficient distribution system capacity to provide the requested service, it will provide to the customer requesting transportation service a written explanation of its distribution system capacity determination and a preliminary indication of the necessary changes to facilities, the approximate cost and the time required to provide such requested transportation service.

B. CHARACTER OF SERVICE (Continued)

5. Authorized Overrun Provision - When requested by the Customer, and authorized by the Company in its sole discretion, the Customer's DSQ on any day may be increased to a level not to exceed 110% of the currently effective billing demand, without causing an increase in such billing demand.
6. Period of Excess Receipts - Effective at the beginning of any day, as such term is defined in Paragraph 1.1 of Section D hereof, and with the same notice requirements as in B.1. above, any Customer may be ordered to limit its DSQ to 115% of the deliveries made to such Customer. However, any such limitation shall not exceed a total of eight days in any thirty-day rolling period. When such limitation order is in effect, the Company will purchase from such Customer any excess receipts at 75% of the lesser of the first of the month index or the daily index published in the Gas Daily for MRT west leg deliveries. Such purchases by the Company shall be used to satisfy the Company's system supply requirements. When possible, prior to the notification described above, the Company shall provide advance notice to Customers on a best-efforts basis of an imminent Period of Excess Receipts that may be under consideration by the Company.

C. RATES

The monthly charge per each separately metered location shall consist of the charges set forth below:

Customer Charge - per month .....	
Reservation Charge - per billing demand therm .....	
Transportation Charge - per therm transported *	
For the first 36,000 therms transported per month.....	
For all therms transported in excess of 36,000 therms.....	
Commodity Charge - per therm sold *	
For the first 36,000 therms sold per month.....	
For all therms sold in excess of 36,000 therms.....	
Storage Charge - per therm for any full or partial month.....	
Authorized Overrun Charge - per therm transported.....	

2. RULES AND REGULATIONS

Transportation service shall be furnished under this tariff and unless stated otherwise in this tariff, such service shall be subject to the Company's Tariff Rules and Regulations.

3. BILLING

3.1 The Company will render bills monthly for the transportation and sales service furnished during the previous monthly period, and such billing shall become due 15 days after the date of the invoice. Should the Customer fail to pay the amount of any such billing by the due date, an additional charge of 2% of such bill shall be owed. If such failure shall continue for fifteen (15) days after such payment is due, then the Company, in addition to any other remedy it may have, may suspend further receipt and/or delivery of gas to such Customer until all overdue billing amounts are paid.

3.2 The Customer agrees to reimburse the Company for all taxes and other fees levied in connection with the transportation service which the Company is obligated to pay to any governmental, municipal or taxing authority.

4. CONDITIONS OF RECEIPT AND DELIVERY

4.1 The Customer will provide for the delivery of quantities of gas to be transported to a Receipt Point on the Company's system selected by the Company and the Company shall deliver to the Customer at the appropriate Delivery Point like quantities of gas. Gas transported hereunder shall be delivered to the Company in the State of Missouri, shall be used exclusively by the Customer in the State of Missouri and shall not be resold by the Customer.

4.2 The Customer and the Company shall establish by mutual agreement the date on which the receipt and delivery of gas hereunder shall commence.



4.3 Monthly Balancing. Monthly transportation gas receipts and deliveries shall be maintained in balance by the Customer to the maximum extent practicable. Despite the best efforts of the Customer to keep such receipts and deliveries in balance, any imbalance which does occur shall be subject to the terms and conditions of this Section.

- (a) Monthly Balancing of Over-Delivery to Customer: During any month when the quantity of gas delivered to the Customer is greater than the quantity of gas received by the Company on behalf of the Customer, the Company will sell to the Customer the quantity of gas required so that any such over-delivery imbalance at the end of the month is not greater than five (5) percent of the actual quantity of gas received by the Company during such month on behalf of the Customer.
- (b) Monthly Balancing of Under-Delivery to Customer: During any month when the quantity of gas delivered to the Customer is less than the quantity of gas received by the Company on behalf of the Customer, the storage charge, as set forth above, shall be applicable to any such under-delivery imbalance which is in excess of five (5) percent of the actual quantity of gas received by the Company during such month.
- (c) Excessive Over-Delivery and Under-Delivery: Notwithstanding the foregoing, whenever, in the sole judgement of the Company, the quantity of gas received by the Company on behalf of the Customer has resulted in excessive over-delivery or under-delivery of gas, the Company will notify the Customer, by telephone, facsimile or electronic messaging, of such excessive over-delivery or under-delivery. Upon receipt of such notice, the Customer will immediately take whatever steps are necessary to eliminate such excessive over-delivery or under-delivery. If the Customer fails to eliminate such excessive over-delivery or under-delivery, the Company may, at its sole option: (1) modify such Customer's DSQ to an appropriate level to eliminate excessive imbalances; or (2) terminate the Contract. The Company reserves the right to reject increased DSQs by an affiliate or marketer representing the Customer, which increase in the Company's judgment is intended to offset the reduced DSQ. Notwithstanding the foregoing reduction, such reduction shall remain in effect until a DSQ change is submitted by the Customer and accepted by the Company.

- (d) Final Balancing: If an over-delivery imbalance exists at the expiration or termination of a contract, the Company will sell to the Customer the quantity of gas necessary to eliminate such imbalance. Any final under-delivery imbalance shall be resolved by the mutual agreement of the Company and the Customer.

4.4 Sequence of Deliveries. Unless agreed otherwise between the Company and the Customer, gas delivered to the Customer by the Company shall be deemed to be delivered or accounted for to the Customer in the following sequence:

- (a) Any gas which is used to eliminate or reduce any imbalance incurred by the Customer.
- (b) All current DSQ;
- (c) Gas sold by the Company to the customer in the current billing period.

4.5 Before the Customer commences, or causes to be commenced, the delivery of any gas to the Company for transport, such Customer shall furnish to the Company adequate information which demonstrates to the Company's satisfaction that the gas supplies the Customer will purchase, and the third party transportation to be provided such supplies, will conform to the delivery specifications of the Company and of the Transporter's tariff, and that such supplies are reasonably reliable for the purpose of meeting the Customer's DSQ requirements.

4.6 The determination of system capacity limitations shall be in the sole discretion of the Company, which discretion will be exercised reasonably. If capacity limitations restrict the quantities of gas which the Customer desires to be transported, the Customer may request the Company to make reasonable enlargements and/or modifications in its existing facilities, which request(s) the Company shall not unreasonably refuse, provided that the actual cost (including indirect costs) of such system enlargements and/or modifications are paid by the Customer. Title to such enlarged and/or modified facilities shall be, and remain, in the Company free and clear of any lien or equity interest by the Customer, or any other person or party. Nothing herein contained shall be construed as obligating the Company to construct any extensions or modify its facilities.

5. SCHEDULING

5.1 Schedules of the Customer's DSQ must be received by the Company by the times provided herein, and may be changed prospectively pursuant to this tariff. All such schedules and changes thereto shall specify gas quantities by Receipt and Delivery Point(s). The Company may refuse to receive or deliver any gas not timely and properly scheduled, and the Customer indemnifies and holds the Company harmless from any liability whatsoever to the Company for or related to such refusal.

5.2 By at least 10:00 a.m. on the second work day prior to the first day of each month, the Customer or its designee shall furnish to the Company a schedule, showing the DSQ of gas the customer desires the Company to receive and transport for each day during such month. Any change in the Customer's DSQ schedule shall only pertain to the remaining days in the then current month, and the Customer shall notify the Company by 10:00 a.m. on the day preceding the effective day of any such DSQ schedule change, or at a later time if agreed to by the Company, provided that any such notice shall be subject to modification by the Company in the event such modification is required by operational considerations. During a Period of Excess Receipts, as defined in Section B.6. of this rate schedule, such notice may be made by the Customer on a weekend or holiday provided that the DSQ change is a decrease and can be confirmed by the Company with the appropriate intra-state or interstate pipelines subsequent to such weekend or holiday. All DSQ changes shall be kept to a minimum, as permitted by operating conditions, and the Customer and the Company shall cooperate diligently to this end. The Company and the Customer shall inform each other of any other changes of receipts or deliveries immediately. Telephonic notice is acceptable for such DSQ scheduling changes; provided, such notices are followed within twenty-four (24) hours by written notice, except for notices made on weekends or holidays as provided above, in which case, the written notice made subsequent to the telephonic notice must be received by the Company by 10:00 a.m. on the first work day following such weekend or holiday.

**Terms of Settlement Relating to  
Class Cost of Service and Rate Design/Tariff Issues**

**Paragraph I.A.1.b)**

Allocate the first \$2,777,000 of the Residential portion of any rate increase to the first block of the Commodity charge, in order to produce a 1.0¢ increase in the differential between the first block and the second block rates. Any additional increase will be derived exclusively from increases in the commodity charges and will be applied to both the first and second blocks on an equal percentage basis.

**Paragraph I.A.2.a)**

Increase rates by \$587,000 in non-gas revenues before any rate increase.

RECONNECTION CHARGES

Charges for reconnection of service as described in Rule No. 15 of this tariff, shall be as follows:

- (A) Residential customer. . . . . \$54.00
- (B) Commercial or industrial customer, the greater of:
  - (1) The applicable charge set out in (A) above; or
  - (2) A charge that is equal to the actual labor and material costs that are incurred to complete the disconnection and the reconnection of service.
- (C) Residential, commercial, or industrial customer whose service pipe was disconnected and/or whose meter was removed by reason of fraudulent use or tampering, the greater of:
  - (1) The applicable charge set out in (A) or (B) above; or
  - (2) A charge that is equal to the actual labor and material costs that are incurred in the removal of the meter or disconnection of the service pipe and the reinstallation of the meter or the reconnection of the service pipe.

METER READING NON-ACCESS CHARGE

The charge for non-access as described in Rule No. 22 of this tariff, shall be as follows:

Charge For Non-Access. . . . . \$10.00

BILLING DETERMINANTS  
WITHOUT TRUE-UP

	No. of Bills	Demand Thms	1st Blk Thms	2nd Blk Thms	Total Therms
<u>General Service</u>					
Residential - Nov-Apr	3,530,377		213,694,757	264,462,850	478,157,607
Residential - May-Oct	3,499,428		90,303,323	7,920,534	98,223,857
C & I - Nov-Apr	234,450		19,934,923	160,298,396	180,233,319
C & I - May-Oct	230,441		8,507,203	32,011,568	40,518,771
S/T	7,494,696		332,440,206	464,693,348	797,133,554
<u>Air Conditioning</u>					
Residential - Nov-Apr	2,677		166,838	272,429	439,267
Residential - May-Oct	2,622		121,059	181,274	302,333
C & I - Nov-Apr	314		28,272	1,497,370	1,525,642
C & I - May-Oct	320		26,475	2,104,899	2,131,374
S/T	5,933		342,644	4,055,972	4,398,616
<u>Large Volume</u>					
C & I	1,588	2,559,672	27,991,438	3,962,781	31,954,219
S/T	1,588	2,559,672	27,991,438	3,962,781	31,954,219
<u>Interruptible</u>					
C & I	169		5,512,715	674,499	6,187,214
S/T	169		5,512,715	674,499	6,187,214
<u>General LP Gas</u>					
Residential	2,438				130,766
C & I	12				450
S/T	2,449				131,216
<u>Unmetered Gas Light</u>					
	1,425		128,432	5,812	134,244
<u>Vehicular Fuel</u>					
	58			563,087	563,087
<u>Transportation</u>					
<u>Firm</u>					
C & I	732	4,649,560	21,360,530	49,365,563	70,726,092
S/T	732	4,649,560	21,360,530	49,365,563	70,726,092
<u>Basic</u>					
C & I	1,104	7,042,760	35,015,516	88,691,093	123,706,609
S/T	1,104	7,042,760	35,015,516	88,691,094	123,706,609
<u>Therms Sold</u>					
C & I - Firm			723,519	1,454,839	2,178,358
C & I - Basic			174,533	3,006,488	3,181,021
S/T			898,053	4,461,327	5,359,380
<u>Authorized Overruns</u>					
<u>Firm</u>					
C & I					415,110
<u>Basic</u>					
C & I					502,000
S/T					917,110
<u>Unauthorized Use-Basic</u>					
C & I					
S/T					
<u>Transportation Total</u>					
	1,836	11,692,320	57,274,098	142,517,984	200,709,191
<u>Total All</u>					
	7,508,154	14,251,992	423,689,533	616,473,483	1,041,211,340

AL/Sec'y:

Dyquell Pope

12-14  
Date Circulated

GR-99-315  
CASE NO.

[Signature]  
Eunice Chair

[Signature]  
Crumpton, Commissioner

[Signature]  
Murray, Commissioner

[Signature]  
Schenenauer, Commissioner

[Signature]  
Drauner, Vice-Chair

12-14  
Agenda Date

Action taken: 5-0AA

Must Vote Not Later Than \_\_\_\_\_

STATE OF MISSOURI  
OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and

I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson  
City, Missouri, this 14<sup>th</sup> day of December 1999.

[Signature: Dale Hardy Roberts]  
Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge