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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a Session of the Public Service  
Commission held at its office  
in Jefferson City on the 11th  
day of June, 1998.

In the Matter of Missouri Gas Energy's )  
Tariff Sheets Designed to Increase Rates ) Case No. GR-98-140  
for Gas Service in the Company's Missouri )  
Service Area. )

In the Matter of Missouri Gas Energy's )  
Proposed Modifications to its Facilities ) Case No. GT-98-237  
Extension Policy. )

ORDER ESTABLISHING TRUE-UP AUDIT AND HEARING

Missouri Gas Energy (MGE) filed a Motion for a True-Up Audit and Hearing on November 26, 1997. MGE requested that the Commission order a true-up audit and hearing to recognize in rates plant investment and related expenses associated with MGE's safety line replacement program (SLRP) to comply with gas safety rule 4 CSR 240-40.030, as well as MGE's implementation of automated meter reading (AMR) equipment. MGE requested rate recognition of these expenses for plant which has become used and useful between the end of the test year as updated and June 30, 1998. MGE stated that its books for June will close on July 15, 1998, and suggested that a true-up audit could take place on July 20 through July 22. MGE further suggested that a true-up hearing could be scheduled for July 29. In addition, MGE proposed a list of items which should be considered in the true-up audit and hearing to maintain an appropriate synchronization of revenues, expense, and rate base.

The Staff of the Commission (Staff) filed a response to MGE's true-up motion on December 8. Staff stated that it was not opposed in principle

to the idea of a true-up, but indicated that it could not determine the necessity or appropriateness of such a request until after it had audited MGE's books and records. Staff requested that the Commission refrain from making a determination on the need for a true-up until such time as Staff had completed its audit and filed its direct testimony. Staff suggested that it could make a true-up recommendation at that time. The Office of the Public Counsel (OPC) filed a response on December 9, which also maintained that the true-up request was premature. On December 11, Midwest Gas Users' Association filed a pleading which concurred in the response submitted by Staff.

On December 16, the Missouri Public Service Commission (Commission) issued an Order Establishing Test Year. As part of its order, the Commission found MGE's true-up proposal premature, and declined to adopt it. MGE filed a motion for reconsideration on December 23. MGE did not object to the Commission's ruling, but suggested that the Commission order any party interested in making a true-up recommendation to do so concurrently with the filing of its direct testimony. The Commission issued its Order Granting Motion for Reconsideration on January 14, 1998, which ordered that any party wishing to make a true-up recommendation do so concurrently with the filing of direct testimony no later than March 13. Subsequently both Staff and OPC filed testimony on the true-up issue as part of their direct testimony.

On April 10, MGE, Staff, and OPC filed a Stipulation and Agreement Regarding True-up Audit and Hearing. The Stipulation provided that a true-up audit would be conducted through May 31, and listed the items of rate base, revenue, and expenses to be addressed in the true-up audit. The Stipulation also recommended that true-up testimony and schedules be filed on July 13, and that a true-up hearing be scheduled for July 16 or 17. On

April 17, intervenors Midwest Gas Users' Association and Jackson County, et al. (objecting intervenors) filed a Joint Objection to Non-Unanimous Stipulation and Agreement Pursuant to 4 CSR 240-2.115(3). The Commission issued an Order Scheduling Hearing on April 20, which set a hearing date of April 28. The hearing was subsequently rescheduled to April 29, and on that date the Commission convened a hearing to consider the objections to the Stipulation.

The objecting intervenors contend that the true-up mechanism has been pushed so far into the future as to move beyond the concept of a test year. Objecting intervenors also note that the items included in the true-up will constitute the major portion of the rate case, and express concern about whether all relevant factors will be considered in the ratemaking decision. Further, objecting intervenors note that the company controls the timing of a rate case, and MGE could have deferred filing its rate case until large dollar items could be included in the test year. Objecting intervenors also claim that the Stipulation is lacking in specificity, and that they will be denied the ability to effectively challenge the results of the true-up audit.

MGE indicates that the true-up is necessary to capture two large dollar items -- the SLRP and AMR costs. MGE contends that the true-up is consistent with past Commission practice, and will maintain an appropriate matching of rate base/revenues/expenses. MGE claims that without the true-up, there will be a certainty that the rates set will not reflect the rate base, expenses, and revenues that MGE will experience during the time the rates are in effect.

Staff observes that the objecting intervenors did not file a true-up recommendation in response to the Commission's order of January 14, which directed any party wishing to make a true-up recommendation to do so by the

deadline for the filing of direct testimony, nor did they file rebuttal testimony in opposition to the other parties' true-up proposals. Staff thus submits that the objecting intervenors should be bound by their prior inaction. Nor did the objecting intervenors state in their motion exactly what they were objecting to, nor how the stipulated list of items to be included in the true-up audit could lead to a mismatch of the relevant factors. Conversely, Staff claims that the proposed true-up will maintain the appropriate match of rate base/revenues/expenses. In addition, Staff points out that each party will use the same methodology that the party used in its supporting case, so that the updated values will not affect the positions of the parties.

OPC states that there is nothing different or odd about this proposed true-up audit from others it has been involved with in the past, and maintains that the line has been drawn appropriately in this true-up proposal. OPC also points out that opposing intervenors provided no witnesses and made no independent recommendations regarding the true-up proposal, and that no other intervenors objected to the Stipulation.

MGE, Staff, and OPC all provided evidence at the hearing in support of the Stipulation. The objecting intervenors did not provide a witness to testify about the true-up issue, but did cross-examine the witnesses of the signatory parties. The Commission has reviewed all of the evidence on the true-up issue, and finds that the Stipulation represents a just and reasonable resolution of the issues surrounding MGE's true-up request. The evidence at the hearing indicates that there is a need for a true-up in this case. All of the witnesses agreed that the rate base/revenues/expense relationship will be maintained, and at best the cross-examination merely suggests that the Stipulation might have been more artfully drafted.

The general purpose and procedure for true-ups, as well as the functions of a true-up audit and true-up hearing are described in the direct testimony of OPC witness Russell Trippensee. As is pointed out in that testimony, the true-up procedure should be used only to update the value of an issue in the case, and should not be used to present new valuation methods or additional evidence to bolster positions presented in the evidentiary hearing. Thus the objecting intervenors' suggestion that the Stipulation is ambiguous regarding the methodologies to be used is unpersuasive.

The Commission further finds that the cutoff date for the true-up audit originally proposed by MGE, June 30, would not allow adequate time for the parties or the Commission to perform their respective functions. The Commission also notes that OPC's original cutoff recommendation was April 30, but OPC still supported the inclusion as an isolated adjustment of a payroll increase based on a union contract that was scheduled to take effect on May 9. The Commission finds that Staff's proposed cutoff date of May 31, which was adopted by the signatory parties in the Stipulation, is reasonable. The Commission further finds that the dates suggested in the Stipulation for the filing of true-up testimony and schedules and a true-up hearing are appropriate. The Commission will therefore order that true-up testimony and schedules be filed no later than July 13, and that a true-up hearing be scheduled for July 16.

Finally, the Commission finds that the objecting intervenors were required to file rebuttal testimony if they objected to the true-up proposals filed by MGE, Staff, or OPC in their respective direct testimony. In the absence of a stipulation, the objecting intervenors would have been bound by their inaction and would not have been permitted to present a

witness to testify about this issue. As it was, they had an opportunity to bring a witness to the hearing on April 29, and chose not to do so.

**IT IS THEREFORE ORDERED:**

1. That the Stipulation and Agreement Regarding True-Up Audit and Hearing filed by Missouri Gas Energy, the Staff of the Public Service Commission, and the Office of the Public Counsel on April 10, 1998 is adopted.

2. That a true-up audit shall be conducted through May 31, 1998, and shall address the items contained in the Stipulation adopted in Ordered Paragraph No. 1.

3. That true-up testimony and schedules shall be filed no later than July 13, 1998.

4. That a true-up hearing is scheduled for July 16, 1998, at 9:00 a.m. The hearing will be held in the Commission's hearing room on the fifth floor of the Harry S Truman State Office Building, 301 West High Street, Jefferson City, Missouri.

5. That anyone wishing to attend the true-up hearing who has special needs as addressed by the Americans with Disabilities Act should contact the Missouri Public Service Commission as soon as possible at: Consumer Services Hotline -- 1-800-392-4211, or TDD Hotline -- 1-800-829-7541.

6. That this order shall become effective on June 23, 1998.

**BY THE COMMISSION**



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

(S E A L)

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

Bensavage, Regulatory Law Judge