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Secretary/Chief Regulatory Law Judge

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May 20, 1998

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GR-98-140 - Missouri Gas Energy

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **STIPULATION AND AGREEMENT**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Roger W. Steiner
Assistant General Counsel
(573) 751-7434
(573) 751-9285 (Fax)

RWS/wf

Enclosure

cc: Counsel of Record

FILED

MAY 20 1998

**MISSOURI
PUBLIC SERVICE COMMISSION**

39.

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

FILED
MAY 20 1998
MISSOURI
PUBLIC SERVICE COMMISSION

In the matter of Missouri Gas Energy's)
tariff sheets designed to increase rates for)
gas service in the Company's Missouri)
service area.)

Case No. GR-98-140

In the matter of Missouri Gas Energy's)
proposed modifications to its facilities)
extension policy.)

Case No. GT-98-237

STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel") and Missouri Gas Energy ("MGE") and stipulate and agree as follows:

1. As a result of discussions held during the prehearing conference of April 6-10, 1998, as well as communications that occurred thereafter, the Staff, Public Counsel and MGE have resolved various revenue requirement issues as among themselves. The revenue requirement issues resolved are:

Rate Base

- a. Automated meter reading ("AMR"), except: 1) the issue between MGE and the Staff of adding back meter readers consistent with the level of AMR investment in rate base prior to true-up; 2) the issue of the appropriate level of encoder-receiver-transmitters ("ERTs") to be held in inventory; and 3) the issue of the appropriate depreciation rate to be applied to ERTs;
- b. Gas inventory;
- c. Unamortized deferred credit per Case No. GM-94-40;

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- d. Customer advances;
- e. Customer deposits;
- f. Materials & supplies, except for the level of ERTs to be held in inventory;
- g. Cash working capital; and
- h. Prepayments.

Income Statement

- a. Revenues and billing determinants;
- b. Payroll, payroll taxes, benefits, insurance/injuries & damages;
- c. Joint and common costs;
- d. Uncollectibles;
- e. Public Service Commission assessment;
- f. Interest on customer deposits;
- g. Clearing account issues;
- h. State franchise and property tax issues;
- i. Call center/telecommunications equipment upgrades;
- j. Weatherization program expense;
- k. 39th & Main public business office and Broadway building lease;
- l. Dues and donations;
- m. Controller's contingency;
- n. Depreciation rate on corporate computer equipment;
- o. Miscellaneous lease expense;

- p. Legal, lobbying and other outside services expenses;
- q. Advertising;
- r. Federal income taxes, including but not limited to the rate base item of deferred taxes; and
- s. Gross-up of revenue deficiency related to uncollectibles expense and gross-down of revenue deficiency related to late payment charge revenues.

Return

- a. Capital structure/cost of debt/cost of preferred stock.

2. The resolution of these revenue requirement issues as between the Staff, Public Counsel and MGE produces the following revenue requirements (prior to true-up): the Staff--approximately \$11.7 million at its mid-point rate of return of 9.47%; Public Counsel--approximately \$9.1 million at a rate of return of 9.38%; and MGE--\$19,811,314 at a rate of return of 9.97%. These revenue requirements represent the "starting point" of the Staff, Public Counsel and MGE, respectively, from which adjustments will need to be made to account for the Commission's resolution of issues that remain to be litigated. These "starting point" revenue requirements will be reflected, respectively, in the revised accounting schedules of the Staff, the revised accounting schedules of Public Counsel and the revised revenue deficiency summary of MGE. The revised revenue deficiency summary of MGE was filed with the Commission on May 15, 1998. The revised accounting schedules of the Staff and the revised accounting schedules of Public Counsel shall be filed with the Commission no later than May 20, 1998. MGE has provided its revised revenue deficiency summary to all parties by next business day mail transmitted on May 1, 1998. The Staff and Public Counsel will transmit their respective revised accounting schedules to all parties no later than May 20, 1998.

The resolution of these issues as among the Staff, Public Counsel and MGE for overall revenue requirements purposes does not purport, and is not intended, to control the distribution of such issues for purposes of determining class revenue responsibility. In particular, the Staff, Public Counsel and MGE understand that the Midwest Gas Users' Association ("MGUA") and Jackson County, Central Missouri State University and University of Missouri-Kansas City ("Jackson County, et al.") may desire to inquire into the distribution of costs to the various customer classes, as opposed to the overall level of costs, associated with the following issues: 1) gas storage inventory; 2) AMR; 3) customer advances; 4) customer deposits; 5) uncollectibles; and 6) flex rates, economic development rates and the number of billable large volume service meters (which are components of the revenues and billing determinants issue).

The MGE witness on class revenue responsibility and rate design matters, F. Jay Cummings, is scheduled to be available for cross-examination with respect to those matters on Monday, June 1, 1998. At that time he will also be available for inquiry regarding item 6) above (flex rates, economic development rates and the number of billable large volume meters). MGE witness Langston will be available for inquiry regarding item 1) above (gas storage inventory) on Monday, June 1, 1998, at the time scheduled for cross-examination on Large Volume tariff issues. MGE witness Dively will be available for inquiry regarding item 2) above (AMR) on Friday, May 29, 1998, at the time scheduled for cross-examination on Miscellaneous AMR-related issues. MGE witness Hernandez will be available for inquiry regarding items 3) and 4) above (customer advances and customer deposits) on Thursday, May 28, 1998, at the time scheduled for cross-examination on Rate Case Expense. MGE witness Harbour will be available for inquiry regarding item 5) above

(uncollectibles) on Wednesday, May 27, 1998, at the time scheduled for cross-examination on the Billing Process Improvements issue.

The Staff witness on flex rates, Tom Imhoff, will be available on Monday, June 1, 1998 for cross-examination at the time scheduled for Class Revenue and Rate Design. The Staff witnesses on gas storage, Anne Allee and Jim Busch, will be available for cross-examination on June 1, 1998 at the time scheduled for Large Volume tariff issues. The Staff witness on AMR, Chuck Hyneman, will be available for cross-examination on Friday, May 29, 1998, at the time scheduled for cross examination on Miscellaneous AMR-related issues. The Staff witness on uncollectibles, Tom Shaw, will be available for cross-examination on Wednesday, May 27, 1998, at the time scheduled for the Billing Process Improvements issue. The Staff witness on customer deposits and customer advances, Lisa Canady, will be available for cross-examination on Thursday, May 28, 1998, at the time scheduled for Rate Case Expense.

Public Counsel will make witnesses Robertson, Hall and Kind available for cross-examination at the time they take the stand. Public Counsel will make witness Carver available on either June 1, 1998 or June 2, 1998.

3. The Staff, Public Counsel and MGE agree that, commencing during the fiscal year which begins July 1, 1998, and continuing at least through the effective date of the new rates resulting from MGE's next general rate proceeding, MGE will use a five-year average (when five years of information is available; prior to that time the average of the number of years of available information will be used) for determining the unrecognized net gain/loss to be amortized over five years in calculating MGE's direct FAS 87 and FAS 106 costs for financial reporting purposes. This paragraph concerns costs associated with post-retirement benefits, including pension and non-

pension benefits (FAS 87 and FAS 106), and reflects MGE's willingness to agree to the recommendation made by Staff witness Williams at page 28, line 17 through page 29, line 4 of his direct testimony regarding the financial reporting of unrecognized net gains/losses. The Staff, Public Counsel and MGE also agree that in the event that in any given year the amount of the amortization of the unrecognized net gain/loss determined under the agreed-to methodology described above is less than the minimum amortization required under FAS 87 or FAS 106, then the amortization for such year shall be the minimum amortization required under FAS 87 and/or FAS 106.

4. The Staff, Public Counsel and MGE also agree to the following miscellaneous tariff changes:

- reduce the late payment charge to 1.5% consistent with the recommendation of Staff witness Solt made at page 7 of his direct testimony and referenced by MGE witness Cummings at page 2 of his rebuttal testimony;
- increase the reconnect fee currently set at \$15 in MGE's tariff to \$29;
- change the rate at which MGE pays interest on customer deposits to the prime rate plus one percentage point as recommended in the direct testimony of Public Counsel witness Robertson at page 17, which rate is to be adjusted only in the context of future general rate proceedings.

5. The Staff, Public Counsel and MGE further agree that none of them, as a result of entering into this document, shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of cost determination or cost allocation, or any service or payment standard, and none of the signatories shall be prejudiced or bound in any manner

by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified in paragraphs 3 and 4 herein upon the Commission's approval of this Stipulation and Agreement.

6. The Staff, Public Counsel and MGE further agree that this Stipulation and Agreement has resulted from extensive negotiations. The terms of this Stipulation and Agreement are interdependent. In the event the Commission does not approve and adopt the entirety of this Stipulation and Agreement, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

7. This Stipulation and Agreement does not resolve all of the issues in this general rate proceeding; it does, however, resolve numerous issues as among the Staff, Public Counsel and MGE. The Staff, Public Counsel and MGE therefore agree that certain testimony may be received into the record by the Commission without the necessity of the following sponsoring witnesses taking the stand: the direct testimony of Staff witnesses, Gray, Patterson, and Warren; and the direct testimony of Public Counsel witnesses Brosch and Trippensee. In the event the Commission approves this Stipulation and Agreement, the Staff, Public Counsel and MGE waive cross-examination of the foregoing witnesses with respect to settled issues.

8. The Staff, Public Counsel and MGE have reached the agreements above, in part, to avoid the time and expense of litigating the issues. The signatories respectfully request the Commission to issue an order adopting this Stipulation and Agreement in total as soon as possible so the parties and the Commission have the certainty of knowing that the issues have been finally resolved. The Commission may, of course, defer a ruling on the Stipulation and Agreement; however, if the Commission does not accept the terms of this Stipulation and Agreement in total, the signatories

expressly reserve the right to litigate these issues and therefore request that they be informed of such action by the Commission sufficiently in advance for the issues to be litigated during the scheduled hearings in this case, or at such later dates in this proceeding as the Commission may schedule. The Staff, Public Counsel and MGE estimate that it would take at least five (5) days of hearings to litigate the issues settled by this document.

9. This Stipulation and Agreement does not replace or modify the Stipulation and Agreement Regarding True-up Audit & Hearing previously filed by the Staff, Public Counsel and MGE.

10. The Staff, Public Counsel and MGE may submit to the Commission testimony explaining each party's rationale for entering into this Stipulation and Agreement. Each party of record shall be served with any such testimony and shall be entitled to submit to the Commission, within five (5) days of receipt of such testimony, responsive testimony which shall also be served on all parties. Such testimony regarding the Stipulation and Agreement shall not bind or prejudice the party submitting such testimony, or any other party, in this or any future proceeding, whether or not the Commission approves this Stipulation and Agreement.

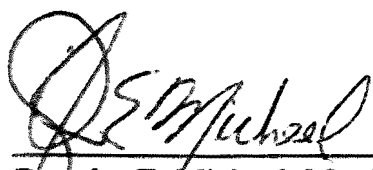
11. The Staff, Public Counsel and MGE also agree that the Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent 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 the Staff. The Staff's oral explanation shall be subject to public disclosure pursuant to the Protective Order issued in this case.

12. To assist the Commission in its review of this Stipulation and Agreement, the Staff, Public Counsel and MGE also request that the Commission advise them of any additional information that the Commission may desire from them relating to matters addressed in the Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

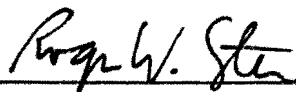
WHEREFORE, the Staff, Public Counsel and MGE respectfully request that the Commission issue an order approving this Stipulation and Agreement at its earliest opportunity.

Respectfully submitted,



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ATTORNEYS FOR
MISSOURI GAS ENERGY

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 20th day of May, 1998.

Gary W. Duffy

Service List for Case No. GR-98-140

Revised: May 20, 1998

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