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Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Gas Energy of Kansas City, Missouri requested authority to file a tariff reflecting a change in rates for its Missouri customers	)	**Case No. GR-2001-292**

MIDWEST GAS USERS' ASSOCIATION
JACKSON COUNTY AND CITY OF RIVERSIDE
ADDITIONAL STATEMENT OF ISSUES AND POSITIONS THEREON
PURSUANT TO ORDER OF JUNE 19, 2001

Pursuant to the Commission's Order of June 19, 2001, Midwest Gas Users' Association, Jackson County and City of Riverside submit this Additional Statement of Issues. This Statement of Issues is assembled based upon the statement of issues that was submitted by Staff and Public Counsel on or about May 30, 2001, supplemented by Midwest's May 30, 2001 Supplemental Statement of Issues on Class Cost of Service.

I.

1. Capital Structure/Rate of Return

   A. What capital structure is appropriate for MGE?

   B. What return on common equity is appropriate for MGE?

   C. What overall rate of return is appropriate for MGE?

These parties believe that the Staff's original recommended position with respect to rate of return, capital structure and overall rate of return is appropriate for MGE.

2. Depreciation

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A. What are the appropriate average service lives for MGE's plant?

B. What is the appropriate net salvage methodology for MGE's plant?

These parties believe that the Staff's original recommended position regarding the appropriate average service lives for MGE's plant and net salvage methodology should be approved for MGE.

3. Gas Storage Inventory

A. Should the Commission adopt the Staff's 12-month average of volumes or MGE's 13-month average of volumes for purposes of valuing MGE's gas storage inventory?

B. Should the Commission adopt the Staff's three-year historical average (April-October of 1998-2000) or MGE's current market price for purposes of valuing MGE's gas storage inventory?

These parties believe that the costs associated with gas storage inventory should not be assigned in any portion to transportation (LVS) customers. With respect to sales customers, our position is that Staff's original recommended treatment of a 12-month average is appropriate for MGE. Our position is also that the three-year historical average is more representative of appropriate natural gas costs for MGE than is the current extraordinarily high market price and is therefore appropriate to use for valuation of the gas storage inventory that is held for sales customers.

4. Joint & Common Costs

A. Should the Commission adopt the Staff's recommendation to replace the Chairman and Vice Chairman's salaries and overheads with outside director's fees and disallow all remaining costs of the New York office?

B. Should the Commission adopt the Staff's recommendation to disallow:

i) 100% of the salary and overheads of Southern Union Company's Senior Vice President-Legal and Secretary;

ii) 75% of the salary and overheads of the salary and overheads of Southern Union Company's President and Chief Operating Officer; and

iii) 50% of the salary and overheads of Southern Union Company's Executive Vice President-Chief Financial Officer?

These parties believe that the Staff's original recommendation to disallow these non-utility expenses should be accepted.

C. Should the Commission adopt Public Counsel's and Staff's recommendation to disallow 100% of the manufactured gas plant-related expenditures incurred during the test year?

These parties believe that the Public Counsel's original position and Staff's original recommendation should be approved. There is no reason that MGE sales or transportation customers should bear any part of these expenditures.

4. Off-System Sales and Capacity Release Revenues

   A. Should the Commission adopt either the Staff or Public Counsel's proposal to impute off-system sales revenues in setting distribution rates in this case?

   B. Should the Commission adopt Public Counsel's proposal to recognize capacity release revenues in setting distribution rates in this case?

   Off-system sales and capacity release revenues, to the extent that they result from transactions that have been facilitated by expenditures that are supported by the sales customers through the PGA should be treated as offsets to purchased gas expense for the benefit of the sales customers. In that sense they are not properly part of the *distribution rates* in this case.

   Capacity release revenues result from the short-term "sublease" of firm transportation capacity held by MGE to provide reliable service to sales customers, the cost of which is included in the PGA. Accordingly, revenue that results should be offset to the PGA costs and should benefit sales customers.

5. SLRP Deferrals

   A. Should the Commission treat the June 1 to September 2, 1998 gap period as part of the AAO deferrals?

B. Should the Commission adopt the Staff and Public Counsel recommendations to exclude from rate base the unamortized balance of SLRP deferrals?

C. Should the Commission reduce rate base to reflect the associated deferred income taxes related to the unamortized balance of SLRP deferrals?

It is argued that AAO's have been used as a means to preserve what would otherwise be "out of period" expenditures for future rate case recovery. Given that, these parties do not agree with the AAO process and believe that it has been used to create "single issue ratemaking" in Missouri and distort the concept of a representative test year. The utility should be and is free to employ such accounting treatment for such expenses as it chooses, but should be required to seek recovery of these expenditures in connection with a rate case subject to a full review of prudence at that time. Accordingly, in a proper view, AAO's are not needed and should not be approved.

6. Should the Commission adopt Public Counsel's proposal to credit all revenues associated with MGE's land based digitized mapping system as a reduction to the digitized mapping system plant or MGE's proposal to share such revenues equally between shareholders and customers?

These parties agree that the original recommendation of Public Counsel associates properly these revenues with related rate base costs and should be accepted.

7. Class Cost-of-Service/Class Revenue Allocations.

A. Class Cost of Service Studies

a. In view of the MGE proposal to spread the revenue increase on existing rate class revenue levels, what weight, if any, should be given to class cost of service?

These parties believe that substantial weight should be given to class cost of service and that it is the only reliable indicator of whether or not a utility is providing service on a non-discriminatory cost-causal basis.

b. Is one of the three class cost of service studies presented in this case more accurate than the others?

These parties believe that the class cost of service study that has been submitted by Charles D. Laderoute is far more detailed, accurate and is superior to the other studies that have been provided in reflecting cost causation.

c. In consideration specifically to the issues addressed in the Rebuttal Testimony of Midwest's witness, can specific differences in cost assignment and allocation methods account for the difference between the results of two or more cost of service studies?

These parties believe that Mr. Laderoute has accounted for roughly 85% of the differences between the respective class cost of service studies. The major difference is not in mains allocation, but rather is in the continuing assignment and allocation of sales related costs to transportation customers.

d. Is it legal to not use cost of service results?

Given that public utility rates must be shown to be just, reasonable and non-discriminatory, Midwest believes it is not only unlawful but is poor public policy not to use class cost of service studies to evaluate inter-class revenue relationships.

e. Is there a legal basis for the Commission to accept one of the cost of service studies and then choose to not use the results of that study in any way to establish the rate class revenue requirements?

These parties believe that the purpose of having class cost of service studies is to evaluate the class rate relationships and to identify and, as much as possible, eradicate subsidies. Given this, if the Commission adopts a class cost of service study, it should use its results in the development of rates in the rate case. Inasmuch as these parties believe that rates should be based on class cost of service, we do not believe that it is appropriate to adopt a class cost of service study, then fail or refuse to implement its findings.

f. Are there differences between the cost of service study results presented in this case pertaining to costs other than joint or common costs?

Yes, there are substantial differences, as discussed in Mr. Laderoute's testimony. These differences account for roughly 85% of the differences between the MGUA and Staff class cost of service studies. Comparing the MGUA class cost of service with the OPC class cost of service the difference is also approximately 85% and of the difference 72% is associated with costs other than Mains.

g. If cost of service is given a small amount of weight or no weight in the final setting of rate class revenue levels, what is the benefit of expending the resources to perform cost of service studies?

If the results of the studies are not to be used, there is little such benefit. However, since these parties believe that such studies are the only means of identifying class subsidies that amount to unjust and unreasonable discrimination, such studies should be done.

h. Can a cost of service study be used for reasons other than specifically to set rate class revenue levels - i.e. to assist in setting monthly Customer or Service charge levels?

Yes. A class cost of service study may be used for several purposes including evaluation of non-regulated activities by the utility, whether there are hidden areas of excessive costs and the like.

B. Establishing Class Revenue Levels

a. Should rate class revenue levels be based on class cost of service?

(1) If so, how much weight should be given?

(2) If not, what legal or regulatory guidelines should be used in setting class revenue levels?

(3) Aside from historical precedent, are there other reasons that a class cost of service study should not be used as the primary factor in setting rate levels?

(4) What weight should be given to factors other than cost in setting class rate levels?

Midwest believes that class rate revenue levels must be based on class cost of service, otherwise the regulator is in a never-never land and all decisions are arbitrary. These parties believe that substantial weight should be given to such studies, but that once subsidies are identified, the Commission must make a decision regarding gradualism and appropriate shift within the particular rate case involved. It is at this level that factors other than cost should be considered at all and only to that limited extent.

b. Is there a legal basis for not setting class revenue levels on the basis of costs?

These parties do not believe that there is.

c. In the general body of knowledge pertaining to gas local distribution company rate regulation, are rate class revenue levels set at or near the amounts included in a cost of service study?

These parties believe that history shows that the failure to recognizes the principle of cost causer/cost payer results not only in undue and unjust discrimination, but also results in poor pricing signals to customers, the inability of customers to properly evaluate conservation decisions, and the important principle of rate stability. These parties believe that one reason that this utility has been frequently before the Commission in its short period of business in Missouri is because its rates are seriously out of balance and that the class of customers that is growing and requiring additional investment is not paying its cost of service to the utility. As a result, each new residential customer that is added requires not only subsidization by other classes of customers, but also by older residential customers whose rates must be higher than would be the case if these new customers were paying their way.

C. Specific Items of Costs to be Allocated

a. Joint and Common Cost Items

(1) What method should be used to allocate mains among customer classes?

Mr. Laderoute's method, as indicated in his class cost of service study, should be used as it properly recognizes not only the importance of contribution to the

size of the system and its capacity but the use of the system during the test year.

(2) What method should be used to allocate meters and services among customer classes?

The method that is proposed by Mr. Laderoute assigns proper class cost responsibility for these items.

b. Major Cost Items Other than Mains to Be Allocated or Assigned

(1) If cost causality is to be observed, to what class of customers should ***AMR related costs including General Plant, Intangible Plant, associated Depreciation, and other related costs*** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

As a result of agreements in 1993 that adopted burner-tip balancing for transportation customers on this system, transportation customers agreed to pay for the installation of their own electronic gas measurement equipment at costs up to $5,000 per installation. They also agreed to bear the costs of a telephone line and other electric and electronic installations to permit the utility to "poll" these devices at its pleasure to identify usage levels. Other customers and customer classes were not asked to pay for this equipment. Accordingly, as AMR equipment is installed on sales' customers' meters, transportation customers should not be asked to bear any portion of these costs.

(2) If cost causality is to be observed, to what class of customers should the value of ***Storage Gas Inventory in Working Capital*** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

Storage gas inventories are provided to assure reliable service to system supply customers and also to enable the utility to take advantage of spot market opportunities to purchase lower-cost gas for the benefit of these customers. The costs associated with storage gas inventory in working capital should be assigned to the sales customers and not to transporters who purchase their own gas supplies and may in some cases hold their

own storage inventories, either directly or through brokers or marketers. This utility has no storage of its own and leases the storage that it has from Williams or other interstate pipelines just the same as other transportation customers.

Transportation customers pay transportation rates that compensate Williams or other interstate pipelines for balancing services. These storage costs to not provide service to transportation customers.

(3) If cost causality is to be observed, to what class of customers should the value of ***Working Cash for Purchased Gas in Working Capital*** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

See the above statement.

(4) If cost causality is to be observed, what use should be made and what weight should be given to specific investment information for assignment of ***Meters, Services and Regulators***? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

It is always preferable to directly assign specific items of plant in service where information exists to support that assignment. It is plainly wrong to allocate these cost items when they can be directly assigned and it is plainly wrong to assign them to customers other than those responsible for causing their costs.

(5) If cost causality is to be observed, to what class of customers should the ***Other Operating Revenues*** be allocated or assigned. If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

Other Operating Revenues should be properly allocated to the transportation customers along with other customer classes. It is wrong to exclude transportation customers from this revenue allocation.

(6) If cost causality is to be observed, to what class of customers should **Gas Sup-**

ply related costs included in A&G Expenses be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

All gas supply related costs that are included in A&G Expenses should be broken out and assigned to the system supply customers. Transportation customers incur these costs on their own, either as direct payments to producers, brokers or marketers, or as indirect payments where brokers or marketers perform gas acquisition services for the transportation customers.

(7) If cost causality is to be observed, to what class of customers should the value of the ***Gas component of Uncollectibles Expense*** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

The gas commodity portion of Uncollectible Expense represents the value of the gas that was delivered to customers and used by them but for which these customers did not pay. It is plainly wrong to charge any portion of these costs to transportation customers who do not purchase their gas supplies from the utility.

(8) If cost causality is to be observed, to what class of customers should the costs of ***Sales Expenses*** be allocated or assigned? If cost causality is not to be observed, what lawful principle should be used to allocate these costs?

Sales and sales-related expenses should be charged to system supply customers. Since transportation customers purchase and provide their own gas supplies and look to the gas distribution utility only for the transportation service, they should not have to bear costs that are caused by the utility's activities in trying to sell additional gas to additional system supply customers.

8. Weatherization Program.

A. Should the Commission adopt the Staff's proposal to expand MGE's low-income weatherization program?

These parties agree that weatherization is desirable, but question whether it is appropriate to use ratepay-

er-provided funds for this purpose. In any event, the costs of the program should be charged only to those classes of customers that are being provided services by it and this excludes charges to commercial and industrial customers and transportation customers. The suggestion is made that these programs should be expanded by charging them to ratepayers generally and this is incorrect. This is not a cost of utility operations doing business.

9. Low-income Credit Tariff Rate

   A. Should the Commission adopt Public Counsel's proposed low-income fixed credit tariff rate?

   These parties believe that public utility rates should be classified on the basis of the cost of providing service to customers that have been reasonably grouped by load and usage characteristics. Thus the determining factor in rate classification should be the economics of providing the utility service, not the economics of those that are served.

10. Customer Service Effectiveness/Gas Safety Incentive Plan

    A. Should the Commission adopt MGE's proposed Customer Service Effectiveness/Gas Safety Incentive Plan?

    A public utility in Missouri carries on its business as a public trustee and should be fully accountable for its relations with its customers (since few have any other choice). Regulation should presume this high quality of customer service. A high quality of service should be normative and it should not be necessary to establish incentives to motivate a public utility to fulfill its service obligation to its customers of all classes. If the public utility fails in this obligation it should be subject to penalty and ultimate loss of its service territory monopoly if it is unable to fulfill the public utility obligation that is part and parcel of its compact with the public.

II.

Certain other issues have been identified as to which certain parties appear to have abandoned or changed their positions since the original testimony was submitted. These parties have unresolved issues in connection with these additional matters and set them forth here:

A. Rate Base - Cash Working Capital

Cash working capital appears to include the costs of natural gas storage inventory. This portion of the costs should not be charged to transportation customers. In addition, the value placed on these reserves should be in accordance with Staff's original position on that aspect of the issue.

B. Uncollectibles.

The amount of uncollectible accounts includes the costs of natural gas that was sold and delivered to various sales customers, but for which those customers did not pay. While an appropriate level of uncollectible accounts is a reasonable cost of doing business, the amount of these accounts that is being charged to transportation customers should *not* include the costs of natural gas. To do otherwise charges transportation customers with the costs of natural gas that they did not purchase, did not request be purchased, was not delivered to them and was not used by them. Transportation customers purchase and financially support the purchase of their own supplies of natural gas and should have no part of these costs.

With respect to the sales customers, the level of natural gas costs that is included in uncollectibles should be normalized to a three-year average as originally proposed by Staff on other issues so that other customers are not charged at excessive levels for MGE's uncollectible accounts.

C. Revenues and Billing Determinants.

There are several discrepancies in the number of customers and the number of meters, particularly in the LVS class, that have been difficult to resolve and may result from information being selectively provided to certain parties interested in these issues but not to others. The number of customers and number of meters during the test year should be capable of resolution; other issues regarding the selective dissemination of information should be explored during the hearing.

These parties support the unopposed MGE position that the existing arrangements for multi-meter customers should be preserved.

D. Dues and Donations.

These parties believe that the costs of charitable activities are a corporate responsibility an a cost of doing business in a community. However, public utilities, as public trustees, should not be permitted to fund these activities from ratepayer funds, otherwise ratepayers are forced to contribute to endeavors with which they may not agree or might not choose to support. The rates of a public utility should recover the cost to provide utility service alone.

E. Legal Fees, lobbying and other outside services expenses.

There are certain legitimate costs of doing a utility business that the public utility should be permitted to recover. These would certainly include the costs of defense of actions brought against the utility and consulting costs that can demonstrate a reasonable ratepayer benefit. Other costs, and even these costs when they are excessive, should be disallowed.

Costs of involvement in federal proceedings concerning the serving pipelines need to be similarly examined. It should be recognized that MGE appears in these forums as a transportation customer that is (or should be) interested in keeping transportation rates for its sales customers low. As a result, sales customers may derive benefit from these expenditures (provided that they are not excessive), but these costs should be identified and not charged to transportation customers. Transportation customers pay their own costs to be involved in these proceedings and defend their own transportation rates. They should not be charged a share of other transporters' costs.

Insofar as lobbying costs are concerned, no portion of these costs should be included in public utility rates that are charged to any ratepayer.

F. Public Affairs.

Costs associated with the "public affairs" department are most typically connected with back door lobbying on behalf of the utility and should be presumptively excluded from rate recovery. If it can be clearly established that particular costs are in fact for the

benefit of ratepayers, those costs may be included, but the failure to provide sufficient documentation to identify the activities should result in exclusion of all such costs.

In this case Staff testimony indicates that, despite repeated warnings from the Commission, MGE continues in its failure to document these activities. The clear presumption that should be employed is that, because MGE has the sole ability to identify and document these activities, its failure to do so should result in the exclusion of 100% of these costs. Staff incorrectly recommends inclusion at 50% which is (a) arbitrary and (b) unsupported by any record evidence.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that I have this day served the foregoing pleading by electronic, hand or facsimile to all parties by their attorneys of record as disclosed by the pleadings and orders herein.

Stuart W. Conrad

Dated: June 22, 2001