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June 28, 2001

FILED[2]
JUN 28 2001
Missouri Public Service Commission

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-2001-292

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of **STAFF SUGGESTIONS IN SUPPORT OF SECOND REVISED 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,

Lera L. Shemwell

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FILED[2]
JUN 2 8 2001
Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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-2001-292

STAFF SUGGESTIONS IN SUPPORT OF SECOND REVISED STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and in support of the Second Revised Stipulation and Agreement, (Agreement), filed on June 26, 2001, which is either agreed to or not opposed by all of the Parties to the case, files its Suggestions in Support. In the discussions that follow, the Staff will summarize several areas that are the basis for Staff's support of the Agreement in this case. These summaries represent the Staff's viewpoint only on the matters discussed and do not reflect the opinions of any other party.

I. Revenue Increase

The Staff agrees with the Office of the Public Counsel (Public Counsel), Missouri Gas Energy (MGE or Company), Midwest Gas Users Association (MGUA) and Jackson County/City of Riverside (JACOMO/Riverside)(collectively the Parties) that $9,892,228 is a reasonable revenue increase. Some of the adjustments that Staff made to its filed position are discussed in Attachment A. Kansas City Power & Light Company and the City of Kansas City do not oppose the Agreement but are not signatories and are not included in any reference to the Parties.

II. Revenue Increases by Class

An equal percentage of revenue increase was applied to all classes and then, as stated in paragraph 2 of the Agreement, the class revenue increases propose a shift of $450,000 between

91

classes. This revenue shift was proposed so that revenues from the various classes moves slightly closer to the actual class cost of service. Specifically, there is an increase to both Residential and Small General Service of $350,000 and $100,000, respectively and a decrease to both Large General Service and Large Volume Service of $50,000 and $400,000 respectively.

Staff has four primary reasons for agreeing to the proposed revenue shifts of $450,000 between classes. First, this shift is relatively small when compared to the proposed incremental increase of $9.9 million, the total margin revenues, and the Company's total annual revenue. Specifically, the shifts are less than 5% of the incremental revenue increase, less than 0.5% of margin revenues and less than 0.1% of total annual revenues. In addition, this shift averages $1 per customer per year. Second, all of the cost-of-service (C-O-S) studies filed in this case show that the Large General Service (LGS) Class needs rate relief, so that the revenue shift from the LGS class addresses a decrease in the allocation to the one class that all of the C-O-S studies show should have a decrease. Although this relief for the LGS Class is only a small movement toward C-O-S, Staff believes that the opportunity to move toward C-O-S, while not impacting other customers significantly, is reasonable in this case. Third, the relief for the Large Volume Service (LVS) class should limit the amount of loss in rate revenue to flex rate customers. All customers, not just LVS customers, share the flex rate revenue loss. Fourth, this rate design proposal was combined with the disposition of Case No. GR-96-285 which Staff believes has value to ratepayers and shareholders alike.

III. Miscellaneous tariff changes

The changes agreed to for miscellaneous tariff charges, including new connections, reconnections and transfer charges reflect movement towards the actual cost MGE incurs for these services. The individual customers causing MGE to incur these costs should generally be responsible for those associated costs.

IV.. Return on Equity and Rate of Return

There is no specific return on equity stated in the Agreement. Staff proposed a ROE range from 9.4 to 10.50, and the 10.50 ROE implied by the settlement of the revenue requirement is within the range recommended as reasonable by Staff witness David Murray.

Staff recommended that the actual capital structure of Southern Union Company, as the parent of MGE, be used in determining a rate of return recommendation in this case. The actual capital structure has been used and was updated through April 30, 2001.

V. Customer charge

The residential customer charge proposed by the Agreement is consistent with customer charges of most of the gas utilities in Missouri. Staff has four primary reasons for agreeing to the proposed increase in the Residential customer charge from $9.05 to $10.05. (It should be noted that a second charge of $0.08 per customer for two years is associated with the experimental low-income rate which is explained later in this document.) First, by increasing both the customer charge and margin commodity charges, interclass shifts are limited. Said another way, if all of the margin revenues, both the customer and the commodity charges, are increased at the same time, then each residential customer is impacted equally. Since the margin revenue increases in last two rate cases were only applied to commodity charges, the increase in the customer charge in this case avoids further impacting portions of the Residential Class. Second, Staff's customer charge analysis filed in the Direct testimony of Staff witness Daniel I. Beck did not include the $9.9 million-dollar increase or the cost of automated meter reading equipment (AMR). These two factors would significantly increase Staff's residential customer charge calculation. In future cases, Staff plans to include AMR costs in the calculation of customer charges. Third, if revenues are collected in the customer charge that is a flat fee collected year-round, then revenues collected during peak winter months would be lower than a percentage fee based on usage, and the fluctuation in monthly bills should be somewhat diminished. Fourth, the majority of the other regulated gas residential customers in Missouri (73%) pay more than $10.05 for their customer charge so, considering this factor with the three factors above, the increase to $10.05 is reasonable for both customers and the Company.

Staff has computed the total estimated bill impact for a residential customer (assuming annual usage of 1200 Ccfs) and has attached this analysis. See Attachment B. The PGA rate used for this analysis was the current rate of $0.76129 per Ccf. Staff believes that this PGA rate is a reasonable, and possibly a conservative, estimate of gas prices for the upcoming year given the recent reductions in the market price of gas. The annual increase for a typical residential customer would be $19.46 a year or approximately 1.69%. In addition, the increase during the winter months of November through March would be 1.25%, which is slightly lower than the annual rate of 1.69%, due to rate design changes.

VI. Depreciation

This change was made to correct a logic problem in the Staff's EMS run filed with its April 2001 direct filing. An adjustment to reflect net salvage was posted correctly but was not picked up in the adjusted totals on the income statement. Staff reentered the adjustment on a different line in the EMS run to correct the problem.

A change was made to correct the allocation of depreciation expense on transportation equipment between maintenance and construction activity. In addition, a change was made to be consistent with the Commission's Order in AmerenUE Case No. GR-2000-512.

VII. Weatherization

The current MGE Experimental Weatherization Program has been successful in the Kansas City area. Since June of 1997, MGE has contributed $250,000 annually to the Kansas City Housing and Community Development Department to weatherize the homes of MGE low-income customers. MGE was allowed to include this amount in its revenue requirement to be recovered through its rates. This program was independently evaluated and found to have benefits for the MGE customers receiving weatherization, the Company, and all other MGE ratepayers. This Stipulation and Agreement includes the $250,000 annually for the Kansas City area weatherization program and an additional $90,000 annually for weatherization in the other counties served by MGE . This will extend the benefits of the program to low-income customers in all areas of Missouri served by MGE. The $340,000 total is to be recovered through rates.

VIII. AAO

An Accounting Authority Order ("AAO") is appropriate for MGE's Service Line Replacement Program ("SLRP"). This new AAO will allow MGE to continue to defer carrying costs, depreciation expense and property taxes in regard to its Service Line Replacement Program. The Commission has previously granted AAOs to MGE for the Service Line Replacement Program.

IX. Experimental Low Income Rate

This agreement is in paragraph 15 of the Agreement. When the delivered price of natural gas increases, as it did over the last heating season, rate design for residential customers becomes a more complex issue. Mr. Colton, a consultant for the Office of Public Counsel, sponsored testimony in favor of a rate design that would qualify certain low-income residential customers as a separate subsidized service rate class.

In order for the Commission to properly evaluate the merits of complex rate design changes, the Commission needs more specific information on how the use of natural gas varies among residential customers according to their particular economic and demographic characteristics. In recent years the experimental low-income weatherization programs implemented by MGE and AmerenUE provide a good model for evaluating complex rate design proposals. The weatherization programs of MGE and AmerenUE were implemented on a limited basis and evaluated for effectiveness. This experimental procedure provided useful information to determine if and how the weatherization programs should be fully implemented.

The implementation and evaluation of the Experimental Low-Income Rate (ELIR) in a group of about 1000 customers in MGE's Joplin District for two years, as proposed in this Stipulation and Agreement, will provide valuable and useful information needed to determine some of the economic and demographic characteristics of low-income gas customers. How these customers respond to the ELIR will provide a basis for determining the effectiveness of the ELIR. For this reason, Staff suggests that a limited experiment would be a valuable tool to evaluate the effectiveness of a program such as ELIR.

The program is specifically designed so that MGE neither profits from nor incurs losses from the program. MGE will gather participant information particularly available to MGE such as data on usage, arrears, payment and other relevant factors. This data will be combined with the data provided by the selected social service agency to assess the ELIR at the end of the program. The ELIR is funded by a $.08 increment to the residential customer charge. Any excess funds from this program are donated to the Mid America Assistance Coalition. Other details of the program design and implementation will be determined by input from Staff, OPC, MGE and other interested parties working with the selected social service agency. Staff suggests that these are reasonable objectives for the program.

Respectfully submitted,

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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 28th day of June, 2001.

Attachment A

EXPLANATION FOR CHANGES IN STAFF'S CASE

The following contains Staff's explanation for material changes in the Staff's case concerning revenue requirements for Missouri Gas Energy from the Staff's April 19, 2001 Direct testimony filing date to the filing of the Second Amended Stipulation and Agreement on June 26, 2001.

Staff recommended revenue increase filed on April 19, 2001	$	0
(1) Change in return on equity recommendation from 9.85 % to 10.05 %	$	476,000
(2) Minor changes in actual capital structure components.	$	(50,000)
(3) Change in Rate Base offset in Case No. GR 94-140 and other minor Rate Base items.	$	518,000
(4) Settlement of Customer Growth adjustment.	$	855,000
(5) Settlement of Weather Normalization adjustment.	$	722,000
(6) Settlement of recommended revenue increase for bad checks and reconnection charges.	$	619,000
(7) Settlement of Flex Rate adjustment and reflection of revenue loss from the closing of General Steel Company (GST)	$	746,000
(8) Elimination of adjustment to reflect estimated known and measurable changes.	$	(1,848,000)
(9) Settlement of other minor revenue issues.	$	(41,000)
(10) Correction of Severance Cost disallowance adjustment	$	163,000
(11) Settlement of Bad Debt expense adjustment.	$	867,000
(12) Correction of error in EMS run for disallowance of outside legal cost adjustment.	$	(330,000)
(13) Settlement of Incentive Compensation adjustment	$	97,000
(14) Settlement of State Franchise Tax adjustment	$	130,000
(15) Settlement of Office Lease expense adjustment	$	(70,000)
(16) Settlement of Outside Collection cost adjustment	$	76,000
(17) Settlement of Property Tax expense adjustment	$	261,000
(18) Correction of Depreciation expense adjustments in EMS run	$	714,000
(19) Settlement of Effective Tax Rate for Income Tax	$	89,000
(20) Correction of Depreciation Clearing Account adjustments.	$	148,000
(21) Other miscellaneous changes and/or corrections	$	(9,000)
Staff updated Revenue Increase recommendation filed on May 31,2001	$	4,133,000

Changes in Position occurring after May 31, 2001

(22) Change in Depreciation Rate for Account 376 – Mains	$	2,400,000
(23) Adoption of Staff's high ROE for settlement.	$	1,100,000
(24) Increase Gas Inventory valuation from $ 3.20 to $ 4.12 per MCF	$	1,200,000
(25) Update Actual Capital Structure through April 30,2001	$	300,000
(26) Reflect Property Tax Expense on Gas Inventory	$	400,000
(27) Expand Low Income Weatherization Plan	$	90,000

(28) Litigation Risk for remaining $ 29 million in issues	$ 277,000
Stipulated Revenue Increase for Missouri Gas Energy	$ 9,900,000

COMMENTS REGARDING ATTACHMENT A

The following comments support the Explanation for Changes in Staff's Position.

(1). Return on Equity

This change was made because of a reference error in Staff's Direct testimony.

(3). Rate Base Offset

A change in Rate Base offset was agreed to in Case No. GR 94-140. As part of the stipulation and agreement in Case No. GR 94-140, MGE agreed to a Rate Base offset to recognize the Accumulated Deferred Tax Reserve on the books of Western Resources Missouri gas property prior to acquisition by Southern Union Company, MGE's parent company. This Rate Base offset is being amortized over 20 years and therefore represents a declining balance over the life of the amortization. Staff had initially used the balance at December 31, 2000 in its April 2001 direct filing. The balance was updated during pre-hearing to reflect the balance at June 30, 2001, the date for the planned true up audit for MGE. Updating this balance increased Staff's revenue requirement by approximately $ 500,000. Item (3) also includes approximately $ 18,000 in minor changes to other Rate Base components.

(4). Customer Growth

During the pre-hearing conference, the Company pointed out an assumption error in the Staff's customer growth adjustment. Final bills (customers leaving the system) were assumed in every instance to have full months of usage prior to discontinuing service. This assumption resulted in overstated usage and resulting revenue because, in reality, customers leave the system at varying times throughout the month. Staff corrected its calculation to eliminate this assumption error.

(5). Weather Normalization

Staff's initial adjustment to revenue for normal weather was based on the 30-year period as specified by the U. S. National Oceanic and Atmospheric Administration (NOAA), currently 1961-1990. Normal weather was calculated for the Kansas City International Airport and the Springfield-Branson Regional Airport. In its order in Case No. GR-96-285 the Commission specified the NOAA normal period for adjustments to revenue for normal weather. For the purpose of settlement, the adjustment to revenue was recalculated using normals for the stations calculated on an updated 30-year period, 1971-2000.

(6). Reconnection Charges

The changes agreed to for miscellaneous tariff charges, including new connections, reconnections and transfer charges reflect movement towards the actual cost MGE incurs for these services. The individual customers causing MGE to incur these costs should generally be responsible for those associated costs.

(7). Flex Rate Adjustment

The flex rate changes Staff made from its position in the Direct testimony of Staff witness Thomas Imhoff related to a 50% split between the full transportation commodity revenues and the amount of revenues generated by using the current flex rates for each flex customer. The biggest change reflects the closing of the largest flex customer, GS Technologies Operating Company d/b/a GST Steel. GST filed for Chapter 11 bankruptcy and are no longer receiving any gas under the LVS tariffed flex rate from MGE.

(8) Estimated Known and Measurable changes

This adjustment was made in the Staff's direct filing to eliminate revenue excess in the Staff's EMS run. Without this adjustment, the Staff's direct filing would have reflected an excess revenue position for MGE of $ 1,848,000. The Staff was already aware that there were some data problems in the customer growth adjustment that were not resolved at the time of its April direct filing which would likely have a material impact on the revenue requirement recommendation for MGE. This adjustment was made in order to avoid giving the Commission and the public the false impression that the Staff was recommending a rate reduction for MGE. This adjustment was subsequently eliminated in the pre-hearing conference after data problems and the assumption error described in (4) were resolved.

(10). Severance Cost

This adjustment was corrected during pre-hearing to eliminate duplication in removing some of the severance payments during the test year. The Staff's payroll annualization had already eliminated $ 163,000 in test year severance payments.

(11). Bad Debt expense

The bad debt expense adjustment was based on an analysis of MGE's actual experience for three years prior to 2001. The analysis did not consider the significant impact expected for the recent 2001 colder than normal winter and high gas costs experienced during this winter period. Due to the agreement to update MGE's cost of service through June 30, 2001, the Staff increased its recommended level for bad debt expense to reflect the planned true up of this cost through June 30, 2001.

(12). Outside Legal Cost– Correction of EMS error

This change was made only to correct the posting of this adjustment in the EMS run filed in the Staff's April 2001 direct filing. The Staff's position on this issue was subsequently accepted by MGE to settle this issue.

(13). Incentive Compensation.

In its direct filing, the Staff did not include any cost for MGE's incentive compensation plan for the plan year ending June 30, 2001, because of the need to review outstanding information. After the review of additional information, the Staff agreed to include incentive compensation tied directly to reaching improvement in customer service, employee safety and expense control, all of which are considered beneficial to ratepayer interests.

(14). State Franchise tax

In its direct filing, the Staff did not include any cost for MGE's incentive compensation plan for the plan year ending June 30, 2001 because of the need to review outstanding information. After the review of additional information, the Staff agreed to include incentive compensation tied directly to reaching improvement in customer service, employee safety and expense control, all of which are considered beneficial to ratepayer interests.

(15). Office Lease

This adjustment was left out of the Staff's EMS run in error in its April 2001 direct filing.

(17). Property tax

This change was made to correct an assumption error made by the Staff regarding property tax related to MGE's existing deferral of costs for its Service Line Replacement Program (SLRP).

(18). Depreciation

This change was made to correct a logic problem in the Staff's EMS run filed with its April 2001 direct filing. An adjustment to reflect net salvage was posted correctly but was not picked up in the adjusted totals on the income statement. Staff reentered the adjustment on a different line in the EMS run to correct the problem.

(20). Depreciation clearing Account Adjustments

This change was made to correct the allocation of depreciation expense on transportation equipment between maintenance and construction activity.

(22). Change in depreciation rate for mains

The change on depreciation for mains to an assumption of 44 years from 71 years was made for a number of reasons including the fact that there is insufficient data on plastic mains for a reliable and accurate estimate to be made and, in addition, the change was made to be consistent with the Commission's Order in the AmerenUE case No. GR-2000-512.

(23). Retrun on Equity

The 10.50 return on equity recommendation is within the range recommended as reasonable by Staff witness David Murray.

(24). Increase Gas Inventory valuation

The Staff adopted the price of $4.12 per MCF to address current market conditions and the concern that the price of gas will remain significantly higher for the foreseeable future than it has been in recent years.

(25). Update Actual Capital Structure as of April 30, 2001

Staff recommended that the actual capital structure of Southern Union Company, as the parent of MGE, be used in determining a rate of return recommendation in this case. The actual capital structure has been used and was updated through April 30, 2001.

(27). Expanded Low Income Weatherization

The current MGE Experimental Weatherization Program has been successful in the Kansas City area. This Stipulation and Agreement includes the $250,000 annually for the Kansas City area weatherization program and an additional $90,000 annually for weatherization in the other counties served by MGE . This will extend the benefits of the program to low-income customers in all areas of Missouri served by MGE.

TYPICAL BILL IMPACT
Approximate Billing Impact Of 1200 Ccf per Annual Season
Missouri Gas Energy
Residential Heating Customer

	One Year's Bills at Current Rates (Months)	Ccf Usage	Total Fuel Bill ($)
+	August 2001	27	32.56
+	September	30	35.18
+	October	42	45.63
+	November	97	93.52
+	December	179	164.93
+	January 2002	236	214.57
+	February	217	198.02
+	March	159	147.52
+	April	96	92.65
+	May	53	55.21
+	June	36	40.40
+	July	28	33.43
	12 Month Total	1200	**$1,153.62**

	One Year's Bills at Proposed Rates (Months)	Ccf Usage	Total Fuel Bill ($)
*	August 2001	27	33.79
*	September	30	36.42
*	October	42	46.93
*	November	97	95.13
*	December	179	166.98
*	January 2002	236	216.93
*	February	217	200.28
*	March	159	149.45
*	April	96	94.25
*	May	53	56.57
*	June	36	41.68
*	July	28	34.67
	12 Month Total	1200	**$1,173.08**

REMARKS

For a typical residential customer using approximately 1200 Ccf's during the year, natural gas rates will increase by $19.46 a year or approximately 1.69% when comparing the annual fuel bills with current and proposed rates. The PGA rate is assumed to be the current $0.76129 per Ccf for both annual bills. The current PGA rate is a reasonable (and possibly a conservative) estimate of annual fuel costs given the recent lower market prices.

Notes:

(1) Total fuel bill does not include gross receipts or local sales taxes.
(2) Tariff Sheet No. 24.32: PGA Charge = $0.76129 per Ccf for both annual periods
+ (3) Tariff Sheet No. 25: Customer Charge = $9.05; Delivery Charge = $.10956 per Ccf
* (4) Proposed: Customer Charge = $10.13 ($10.05 + $0.08); Delivery Charge = $.11496 per Ccf

Missouri Public Service Commission
June 2001

Attachment B

Service List for
Case No. GR-2001-292
Revised: June 28, 2001 (ccl)

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