Exhibit No.:
Issue(s): Mains Allocation/ Rate Design
Witness/Type of Exhibit: Meisenheimer/Direct
Sponsoring Party: Public Counsel
Case No.: GR-2004-0072

DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

Submitted on Behalf of the Office of the Public Counsel

AQUILA, INC.
D/B/A AQUILA NETWORKS—MPS
AND AQUILA NETWORKS—L&P

CASE NO. GR-2004-0072

** Denotes Highly Confidential **

January 13, 2004

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the Application by Aquila, Inc. d/b/a Aquila Networks – MPS and Aquila Networks L&P, Natural Gas General Rate Increase.	)))	Case No. GR-2004-0072

AFFIDAVIT OF BARBARA A. MEISENHEIMER

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Barbara A. Meisenheimer, of lawful age and being first duly sworn, deposes and states:

1. My name is Barbara A. Meisenheimer. I am Chief Utility Economist for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 11 and Attachments 1 and 2.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Barbara A. Meisenheimer

Subscribed and sworn to me this 13th day of January, 2004.

KATHLEEN HARRISON
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan. 31, 2006

Kathleen Harrison
Notary Public

My Commission expires January 31, 2006.

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DIRECT TESTIMONY

OF

BARBARA A. MEISENHEIMER

AQUILA INC. D/B/AAQUILA NETWORKSS - MPS AND AQUILA NETWORKS - MPS

CASE NO. GR-2004-0072

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Barbara A. Meisenheimer, Chief Utility Economist, Office of the Public Counsel (OPC or Public Counsel), P. O. Box 2230, Jefferson City, Missouri 65102. I am also employed as an adjunct Economics Instructor for William Woods University.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I hold a Bachelor of Science degree in Mathematics from the University of Missouri-Columbia (UMC) and have completed the comprehensive exams for a Ph.D. in Economics from the same institution. My two fields of study were Quantitative Economics and Industrial Organization. My outside field of study was Statistics. I have taught Economics courses for the following institutions: University of Missouri-Columbia, William Woods University, and Lincoln University. I have taught courses at both the undergraduate and graduate levels.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?

A. Yes, I have testified on numerous issues before the Missouri Public Service Commission. (PSC or Commission)

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my direct testimony is to discuss the economic basis for Public Counsel's method of developing allocation factors for transmission and distribution mains that is used in the class cost of service study prepared by Public Counsel witness James Busch. I will also present Public Counsel's rate design recommendation.

I. ALLOCATION OF MAINS COST

Q. WHAT ARE THE CHARACTERISTICS OF MAINS COST?

A. Mains are "shared" in the sense that they are facilities generally available and used to provide service to multiple customers and customer classes. Therefore, from an economic perspective, they should bee treated as a shared cost recovered from all customers and classes that benefit from the facilities availability. Local distribution companies (LDCs) are generally believed to be natural monopolies. For natural monopolies, operation of fewer producers tends to result in the most cost effective market structure for providing service. One such cost reducing characteristic typical to natural monopolies such as LDCs is called "economies of scope". The term "economies of scope" refers to the ability to achieve cost savings by utilizing the same equipment, facilities and/or expertise to provide multiple products at lower cost than if the products were produced on a stand-alone basis. In this case, the Company's investment in transmission and distribution mains provides the Company with the means to deliver natural gas to the locations of all customer classes in response to its customers' year-round demands for natural gas or have it available as a back-up fuel sources.

Another such cost reducing characteristic typical to natural monopolies such as LDCs is the presence of "economies of scale." The term "economies of scale" describes the phenomenon where larger scale production can achieve cost savings. In this case, the average cost of producing good or services declines as the output level increases. According to various flow formulas, with other factors held constant, a 4" pipe has a flow capacity of about 6 times of that of a 2" pipe while, the per foot cost to install the 4" pipe may be less than 2 times the cost to install the 2" pipe. This means that the cost of the incremental capacity needed to serve during higher demand periods (peak periods) is less expensive than the average cost of capacity. Taking advantage of economies of scale benefits the utility by increasing use of facilities and in turn increasing revenues. It benefits those who do not use the system as much in peak periods because any revenue generated above incremental cost helps offset costs that would otherwise have to be recovered during normal use periods. It can also benefit the peak period user if some of the cost savings are reflected as per unit rate reductions. The cost study OPC has prepared and submitted includes an adjustment to allocating mains cost to reflect the economies of scale inherent in providing service during peak periods.

Since all customers benefit from the existence of the system, all customers should contribute to the recovery of the cost of the system. Economic theory suggests that if each customer or class of customers is responsible for at least the incremental cost that this customer brings to the system, and that if no customer or class of customers is responsible for more than the stand alone cost that would be needed to serve this customer individually, then there is no cross-subsidy and the allocation of cost can be acceptable. However, both the incremental cost and the stand-alone cost of each customer class are hard to measure or determine. To accurately pinpoint the cost responsibility of each specific customer class is inherently impossible.

Q. HOW SHOULD ECONOMIES OF SCOPE RELATED TO THE COST OF MAINS BE REFLECTED IN THE ALLOCATION OF MAINS?

A. When economies of scope are present, the total cost of the transmission and distribution system for delivering gas to the residential, commercial and industrial classes would be less than the sum of the stand-alone costs of the separate distribution systems for delivering gas to each of the customer classes. Generally, when allocating the shared cost of joint production, the general principle is that no cross subsidization should be present. The term cross subsidization, in this context, describes a situation where the revenue earned on part of the total output of the industry is more than the stand-alone production cost of that part. This general principle attempts to ensure that no group of customers should pay more than they would have paid if they were to provide their own products and services using the best available production technique. Similarly, for utilities that are "one-way" in nature, the revenue requirement for any customer class should be at least as large as the incremental cost to provide services to this class because otherwise somebody else will be forced to pay for more than its stand-alone cost.

The implication of this characteristic is that a just and reasonable cost allocation to a customer class ranges from the incremental cost to the stand-alone cost of providing services to that class. A judgement call is required to determine which point along this range is the most appropriate cost allocation. In fact, different viewpoints about whether the stand alone cost, the incremental cost, or a cost that is somewhere in the middle should be allocated to a product or a customer is one of the main reasons why different parties have different cost of service study results and different rate designs to recover the costs. However, absent other policy considerations, a just and reasonable solution should ask each customer class to pay for more than their respective incremental cost. The total cost will not be covered if each class only pays for its incremental cost.

Q. HOW SHOULD ECONOMIES OF SCALE RELATED TO THE COST OF MAINS BE REFLECTED IN THE ALLOCATION OF MAINS?

A: When economies of scale are present, there is not a one-to-one relationship between the incremental cost burden that the system peak load imposes upon the transmission and distribution system and that imposed by the average load. Therefore, we should not allocate cost corresponding to demand as if there is a direct one to one relationship between costs and the level of demand. Instead, we need to develop an allocation of mains costs that reflects an appropriate non-linear relationship. For example, if the peak demand is twice the average demand, simply allocating half of the total cost of mains to customers who use natural gas at the peak period and half to customers who use at the base period does not reasonably apportion the per unit savings associated with production levels that achieve economies of scale. A better method would be to estimate the cost that are incurred to satisfy the increment of peak demand over average demand and allocate that portion of cost to those customers who use natural gas in the peak period. In this manner they receive an offsetting cost benefit associated with driving the system to higher use where economies of scale are achieved.

Barry Hall, an engineer that worked for our office during the 1990s, initially developed the basis for OPC's non-linear allocator. Based on actual data for a Missouri LDC, and mathematical and engineering relationships, he identified a nonlinear relationship between capacities and cost that Mr. Busch has used in developing his allocation factors.

II. RATE DESIGN

- ***General Rate Design Principles***

Q. WHAT IS THE RELATIVE IMPORTANCE OF CCOS STUDY RESULTS IN RATE DESIGN?

A. A CCOS study provides the Commission with a general guide as to the just and reasonable rate for the provision of service that corresponds to costs. In addition, other factors are also relevant considerations when determining the appropriate rate for a service including the value of a service, affordability, rate impact, and rate continuity, etc. The determination as to the manner in which the results of a cost of service study and all the other factors are balanced in setting rates can only be determined on a case-by-case basis.

Q. HOW DOES PUBLIC COUNSEL ACCOMMODATE OTHER FACTORS SUCH AS AFFORDABILITY, RATE IMPACT, AND RATE CONTINUITY IN THE RATE DESIGN RECOMMENDATIONS THAT IT MAKES TO THE COMMISSION?

A. Generally, Public Counsel has recommended that the Commission adopt a rate design that balances movement toward cost of service with rate impact and affordability considerations. To reach this balance, Public Counsel believes that in cases where the existing revenue structure within a district departures greatly from the class cost of service, the Commission should impose, at a maximum, class revenue shifts within the district equal to one half of the revenue neutral shifts indicated by Public Counsel's class cost of service study. In addition, if the Commission determines that an increase in district revenue requirement is necessary, then no customer class within the district should receive a net decrease as the combined result of: (1) the revenue neutral shift that is applied to that class, and (2) the share of the total revenue increase that is applied to that class. If the Commission determines that a decrease in district revenue requirement is necessary, then no customer class within the district should receive a net increase as the combined result of: (1) the revenue neutral shift that is applied to that class, and (2) the share of the total revenue decrease that is applied to that class.

- ***Consideration Specific To This Case***

Q. WHAT DO YOU BELIEVE ARE SOME OF THE PRIMARY ISSUES THAT THE COMMISSION SHOULD CONSIDER IN ESTABLISHING CLASS REVENUES AND RATES FOR THE MPS?

A. The Eastern System of MPS is not profitable. Given that the service offerings on the Eastern systems were competitive ventures initiated by the Company coupled with past Commission decisions regarding the appropriate burden of risk, the Company's MPS-NS customers should not be forced to subsidize the failed venture. Furthermore, the MPS-E rates should not set in a manner that shields shareholders from the normal risk associated with uneconomic business decisions.

Q. PLEASE EXPLAIN.

A. Prior to 1994, the Company served the Missouri Public Service (MPS) territory, which at that time was comprised of a northern and southern system (MPS-NS). In 1994, 1995 and 1996, the Company sought certificates to serve the areas of Rolla, Salem and Owensville respectively. Collectively these territories comprise the Eastern System of MPS (MPS-E). The revenue requirement and rates for MPS-NS were established in the context of a past rate case. However, the revenue requirement and rates for MPS-E were not determined in the context of a rate case. Instead at the time the Company sought certification for the three areas that comprise MPS-E, the Commission approved rates based on the existing rates for MPS-NS.

In each of the three certificate cases the Company developed a feasibility study in which it projected that district revenues would cover cost within a few years. Likewise, in each of the three cases Staff with the supported of Public Counsel challenged the assumptions of the feasibility studies arguing that they were unrealistic and that serving the particular area would be uneconomical, especially given competition from existing propane offerings in the affected areas. Staff and Public Counsel also warned the Commission that at a later date, the Company might seek to increase rates to MPS-NS customers in order to support the economically unfeasible service offerings. The Commission granted each certificate but in each instance clearly stated in the Ordering paragraphs that it made no findings as to the prudence or ratemaking treatment to be given any cost or expense incurred as a result of the order except those specified in the order. The Commission further reserved the right to make any disposition of the remainder of costs and expenses it deems reasonable in a future proceeding.[1] In the two most recent of the three orders the Commission clarified the Ordering paragraph to specifically state that making any disposition of the remainder of costs and expenses could include charging them to stockholders.[2] In fact, in the Report and Order in Case No. GA-95-216, the Commission definitively stated that the shareholders would solely bear the risk. If the project fail or for any reason prove to be economically inefficient or unsound, the Commission would likely assess project costs and operational losses against Utilicorp and its shareholders.[3]

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[1] See Attachment 1-Report and Order GA-95-216, page 10; Report and Order GA-97-132, page 16; and Report and Order GA-94-325, page 16.

[2] See Attachment 1-Report and Order GA-95-216, page 10; Report and Order GA-97-132, page 16.

[3] See Attachment 1-Report and Order GA-95-216, page 6.

Q. IS THERE EVIDENCE THAT THE COMPANY MADE AN UNWISE DECISION TO ENTER THESE MARKETS AND THAT THE OFFERINGS HAVE PROVEN UNECONOMICAL?

A. Yes. In response to Staff Data Request 0093, the Company provided a draft of a 2001 Strategic Plan for the Eastern System in which it states ** ____________________ ____________________ ** Another section of the same document demonstrates that actual saturation rates have ranged from **____________________ ____________________ ** Finally, in the draft the company has apparently recognized that ** ____________________ ____________________ ____________________ **

Q. FROM AN ECONOMIC PERSPECTIVE, WHAT RATE LEVELS FOR MPS-E CUSTOMERS WOULD SHIELD THE COMPANY FROM COMPETITIVE RISK?

A. Allowing the company to charge customers rates higher than the competitive market would provide, works toward sheltering the Company and its shareholders from risk. This is especially true in case where customers lack sufficient knowledge or resources to convert to competitive alternatives such as propane.

Q. FROM AN ECONOMIC PERSPECTIVE WOULD IT BE REASONABLE FOR THE COMMISSION TO SET MPS-E RATES IN A MANNER THAT PRODUCES AN APPROXIMATE 3% INCREASE OVER CURRENT RATES?

A. Yes. I believe it would. ** ____________________ ____________________ ____________________

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Q. HOW WOULD A 3% TO CUSTOMERS COMPARE TO THE REVENUE REQUIREMENT ASSOCIATED WITH ALLOWING THE COMPANY TO RECOVER THE WRITTEN-DOWN VALUE COSTS?

A. If the Company is allowed to pass the uneconomic cost to consumers, it would produce a 75% district average increase.

Q. HOW WOULD YOU PROPOSE RECOVERING THE 3% INCREASE?

A. I would recommend recovering the increase through an equal percent increase on the commodity charge.

Q. HAVE YOU DEVELOPED CLASS REVENUE REQUIREMENTS FOR THE MPS-NS AND L&P SYSTEMS BASED ON OPC'S USUAL RATE DESIGN METHODOLOGY AND CCOS RESULTS?

A. Yes, I have. The impacts are illustrated in the table below. In addition, I have included Attachment 2 containing Schedule BAM Direct MPS through Schedule BAM Direct LP which provide examples of OPC's rate design applied to various cost scenarios.

Table 1. Percentage Change At OPC Class Revenue Requirement

	TOTAL	Residential	General Service Rate	Sm Transport	Lg Transport
MPS-NS	9.32%	0.00%	6.16%	52.85%	76.38%
	TOTAL	Residential	General Service	Interruptible	Lg Volume
PL	21.02%	16.28%	25.46%	218.14%	0.00%

Q. DO YOU BELIEVE IT WOULD BE REASONABLE TO IMPLEMENT A PHASE-IN OF THE INTERMEDIATE REVENUE NEUTRAL SHIFTS AND ANY INCREASES TO DISTRICT REVENUE REQUIREMENT?

A. Yes.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

ATTACHMENT 1

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri Pipeline Company for Waiver of and Variance From Section 3.1 and 3.2 of the Interruptible Provisional Transportation Services Rate Schedule Found on P.S.C. Mo. No. 3, Sheets No. 16 and 17.	)	<u>Case No. GO-97-285</u>
In the Matter of the Application of UtiliCorp United Inc., d/b/a Missouri Public Service, for Permission, Approval, and a Certificate of Public Convenience and Necessity Authorizing It to Construct, Install, Own, Operate, Control, Manage and Maintain a Gas Distribution System for the Public in the City of Owensville, Missouri, and Certain Other Unincorporated Areas Located in Gasconade County and Crawford County, Missouri.	)	<u>Case No. GA-97-132</u>
In the Matter of the Application of Missouri Gas Company for Permission, approval, and a Certificate of Public Convenience and Necessity Authorizing It to Construct, Own, Operate, Control, Manage and Maintain a Natural Gas Transmission Pipeline and Related Facilities and to Transport Natural Gas in Portions of Crawford and Gasconade Counties, Missouri.	)	<u>Case No. GA-97-133</u>

REPORT AND ORDER

Issue Date: May 15, 1997

Effective Date: May 28, 1997

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of Missouri Pipeline Company for Waiver of and Variance From Section 3.1 and 3.2 of the Interruptible Provisional Transportation Services Rate Schedule Found on P.S.C. Mo. No. 3, Sheets No. 16 and 17.	) Case No. GO-97-285
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In the Matter of the Application of Missouri Gas Company for Permission, approval, and a Certificate of Public Convenience and Necessity Authorizing It to Construct, Own, Operate, Control, Manage and Maintain a Natural Gas Transmission Pipeline and Related Facilities and to Transport Natural Gas in Portions of Crawford and Gasconade Counties, Missouri.	) Case No. GA-97-133

APPEARANCES

James C. Swearengen and Dean L. Cooper, Brydon, Swearengen & England, P.C., 312 East Capitol Avenue, Post Office Box 456, Jefferson City, Missouri 65102-0456, for: Missouri Gas Company, Missouri Pipeline Company, and UtiliCorp United Inc., d/b/a Missouri Public Service.

Richard S. Brownlee, III, and Donald C. Otto, Hendren and Andrae, 221 Bolivar Street, Post Office Box 1069, Jefferson City, Missouri 65102, for Williams Natural Gas Company.

James M. Fischer, Attorney at Law, 101 West McCarty Street, Suite 215, Jefferson City, Missouri 65101, for Fidelity Natural Gas, Inc.

Douglas E. Micheel, Senior Public Counsel, Office of the Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the public.

Cherlyn D. McGowan, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

ADMINISTRATIVE
LAW JUDGE: Joseph A. Derque, III.

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REPORT AND ORDER

Procedural History

On September 27, 1996, UtiliCorp United Inc. (UtiliCorp), d/b/a Missouri Public Service (MoPub), filed an application with the Missouri Public Service Commission (Commission) seeking the issuance of a certificate of convenience and necessity authorizing UtiliCorp to construct and operate a gas distribution system for the public in the City of Owensville, Missouri, and in certain other unincorporated areas of Gasconade and Crawford Counties, Missouri.

On the same date, Missouri Gas Company (MoGas) filed its application requesting issuance of a certificate of convenience and necessity to construct and operate a natural gas transportation pipeline from a point on its currently operating pipeline near Cuba, Missouri, to the proposed local distribution area of UtiliCorp at Owensville. MoGas also requested the Commission authorize MoGas to waive a portion of its transportation tariff, allowing MoGas to serve the proposed local distribution company at Owensville at a discounted rate.

Finally, on January 23, 1997, Missouri Pipeline Company (MoPipe) filed an application seeking Commission authorization to waive a portion of its transportation tariff relating to affiliated transactions to allow MoPipe to serve MoGas at a discounted rate.

All three companies, MoGas, MoPipe and MoPub, are subsidiaries or operating divisions of UtiliCorp, and are therefore affiliated. UtiliCorp is a Delaware corporation with various utility holdings throughout the United States and abroad, and is investor-owned. Within the state of Missouri, MoPub provides natural gas service to approximately 42,000 customers in 28 communities.

After consolidation on February 13, 1997, interventions were granted to Fidelity Natural Gas, Inc. (FNG), a local distribution company and transportation customer of MoPipe, and Williams Natural Gas Company (WNG), an interstate pipeline company. WNG was not an active participant in the evidentiary hearing of this matter, which was held on March 25, 1997. After briefing, this case was finally submitted to the Commission for decision on April 22.

Uncontested Issues

In the Hearing Memorandum, entered into evidence as Exhibit No. 1, the parties stipulate and agree to five uncontested issues. The parties agree to the following matters:

(1) MoPub and MoGas are financially and technically qualified to provide the services they propose;

(2) There is a public need for the service proposed by the applications of MoPub and MoGas;

(3) If certificates are granted to MoPub and MoGas, the Commission should grant MoPub's motion for a variance from the provisions of 4 CSR 240-14.020 to offer no-cost house piping and appliance conversions during the primary construction plans of the project;

(4) MoGas is requesting a "line certificate" in accordance with Section 393.170, RSMo, and 4 CSR 240-2.060(2)(G); and,

(5) If certificates are granted to MoPub and MoGas, and MoGas and MoPipe are granted waivers/variances from Condition "C" of the Report And Order On Rehearing in Case No. GM-94-252 and the resulting tariffs, MoPub shall keep separate records for the Owensville service area.

The Commission agrees that UtiliCorp is financially and technically qualified to provide the proposed services through the three operating companies involved in this matter. The Commission also finds, as evidenced by a public vote in the City of Owensville, that there is a public need for natural gas service in that area. The Commission will accept the stipulation on uncontested issues (1) and (2) as being reasonable and in the public interest.

In regard to the other three uncontested issues, the Commission will deal with those issues later in this Report And Order.

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 Commission has reviewed and considered all of the evidence and argument presented by the various parties contesting this matter. Some evidence and positions taken by the parties may not be addressed by the Commission in this Report And Order. The failure of the Commission to mention a piece of evidence or the position of a party indicates that, while the evidence or position was considered, it was not found to be relevant or necessary to the resolution of the case.

UtiliCorp, through its operating divisions, seeks to obtain a certificate of convenience and necessity to provide natural gas service to the City of Owensville and surrounding areas. UtiliCorp currently owns an intrastate transportation pipeline beginning at a point north of St. Louis County, where it connects to the Panhandle Eastern Pipe Line Company's (PEPL's) interstate pipeline. The intrastate transportation pipeline then proceeds south around St. Louis County and down Interstate 44 to a point just southwest of Sullivan, where the pipe narrows. This portion of the intrastate pipeline is operated by MoPipe. MoGas operates the pipeline at the point where it narrows. The line proceeds down Interstate 44, referred to as the "I-44 corridor," to its terminus in Pulaski County, at Fort Leonard Wood, Missouri.

Through the operation of this pipeline, UtiliCorp provides natural gas to various local distribution companies (LDCs), including those operating in St. Louis City and County, Jefferson County, Franklin County, and the cities of Sullivan, Cuba, Rolla, Salem and St. Robert. UtiliCorp, through MoGas, also provides service to Fort Leonard Wood in Pulaski County, at the terminus of the pipeline.

In the instant application, UtiliCorp states that it intends to construct an approximately 20-mile pipeline spur from the MoGas portion of the line at Cuba, north to the City of Owensville, to serve a proposed LDC operated by MoPub at that location. MoGas would be served by MoPipe, which would, in turn, be served by PEPL.

Testimony of the applicants reveals that in order to allow the project to be economically feasible, various conditions must be approved by the Commission. Several conditions are identical to those approved by the Commission in previous certificate cases, most notably involving the cities of Rolla and Salem. The applicants request a waiver of Commission rule 4 CSR 240-14.020 to authorize MoPub to offer customers no-cost house piping and appliance conversion during the primary construction phase of the project. This issue is uncontested.

It has also been specified that the certificate requested by MoGas to serve MoPub will be a "line certificate," as opposed to an area certificate, in accordance with pertinent rules and statutes. This issue is also uncontested.

Finally, both MoPipe and MoGas are requesting waivers from requirement "C," also called Condition "C," of their respective transportation tariffs in order to serve the proposed LDC at a discount rate. This issue is one of the five which are contested.

The contested issues, in the order in which the Commission will decide those issues, are as follows:

1. Waiver of Condition "C";
2. Determination of the Size of the Service area;
3. Setting a Rate of Return for the Owensville Area;
4. The Filing of Gas Contracts; and,
5. Establishing a Threshold for a PGA Filing.

1. <u>Waiver of Condition "C"</u>

Both MoPipe and MoGas are currently operating with tariffed transportation rates originally ordered filed and approved by the Commission in Case No. GM-94-252. ***See In re Joint Application of Missouri Gas Co., Missouri Pipeline Co. and UtiliCorp United Inc.***, 3 Mo. P.S.C. 3d 236, 240-41 (1994). The transportation tariffs originally used by both pipelines are referred to as "flex-rate" tariffs, and are designed to allow minimum and maximum charges for both the reservation of capacity on the pipeline and the delivery of the commodity itself. The flex-rate tariffs allowed the pipelines to negotiate rates with customers based on various market factors, including length of contract, amount of firm volume, and other matters. In the above-cited case, the Commission approved the sale of MoPipe and MoGas to UtiliCorp. However, in order to avoid rate discrimination and unlawful affiliate transactions between the pipelines and LDCs also owned by UtiliCorp, the Commission provided the following language contained in Condition C of Ordered Paragraph 1 of the Report And Order On Rehearing:

> "C. For all transportation agreements entered into with any affiliate after the effective date of the tariff sheets referred to above in those instances in which the term of the agreement is greater than three months:
>
> "i. The lowest transportation rate charged to an affiliate shall be the maximum rate that can be charged to non-affiliates."

Id. 15 240.

In addition, in Ordered Paragraph 2 of the same Report And Order On Rehearing, the Commission provided for UtiliCorp to obtain a waiver of Condition C as follows:

> "2. . . . UtiliCorp United, Inc. may petition the Commission for a waiver of these conditions in any specific instance should it believe that good cause exists to do so . . . ."

Id. at 241.

UtiliCorp maintains that it cannot economically serve the proposed area without the requested waiver allowing it to provide discounted transportation rates through MoPipe and MoGas to its LDC in Owensville. UtiliCorp states in its testimony that the waiver would be in the public interest as it would allow provision of an alternative fuel source to Owensville. UtiliCorp also reaffirms its position that it will be unable to continue with the proposed project without the requested waiver as the project is not economically feasible under current Condition C.

The Staff of the Commission (Staff) is opposed to granting the requested waiver for several reasons. The Staff states that it is not convinced from the evidence provided by UtiliCorp that the project would, in fact, be infeasible without the waiver of Condition C. The Staff points out that the evidence is also lacking in detail as to UtiliCorp's inability to compete with propane on a long-term basis without discounted transportation rates.

Further, the Staff is opposed to allowing UtiliCorp to give discounted rates only to its own affiliates. This having been said, the Staff states that it is not opposed to allowing the UtiliCorp pipelines the ability to offer flex rates on an equal basis to affiliates and nonaffiliates alike.

The Office of the Public Counsel (OPC) supports the Staff position on this issue. FNG, a transportation customer of MoPipe, is not opposed to the Commission granting the requested waiver if FNG has the same opportunity to obtain a discounted rate upon renegotiation of its contract in the near future.

The Commission will grant the waiver of Condition C provided that the opportunity to obtain flex or discount transportation rates is available to affiliates and nonaffiliates alike. The language of Condition C, in light of the continuing deregulation of the natural gas industry, could be applied in a fashion which would maintain artificially high natural gas transportation rates, resulting in higher consumer prices. This is particularly true in light of the fact that customers such as FNG can now obtain their gas supplies and transportation service on the open market. In short, the language of Condition C may act as an artificial price support, which could have a potentially adverse impact on both UtiliCorp affiliated and nonaffiliated LDCs.

The Commission will, therefore, grant the requested waiver of Condition C as applied to all customers of both MoPipe and MoGas. In addition, in order to monitor transportation rates to ensure fairness between affiliates and nonaffiliates of UtiliCorp, the Commission will order all final contracts between MoPipe or MoGas and transportation customers submitted to the Commission Staff. The Commission will also order the Staff to make those contracts available to the Office of the Public Counsel.

2. The Size of the Service Area

In its application in Case No. GA-97-132, UtiliCorp has asked to be certified to serve an area substantially larger than the City of Owensville itself. This area is reflected in Attachment A, appended to this Report And Order. The proposed area, from Rosebud to Bland, is approximately 17 miles long. In testimony, it was clear to the Commission that UtiliCorp has no present plans or intention to provide service to those areas outside the City of Owensville and several adjacent areas. Testimony revealed that UtiliCorp found the area to be one of potential growth and wishes to serve the Bland and Rosebud areas in the future, when such growth makes those areas economical to serve.

The Staff objected to the issuance of the certificate to those areas which UtiliCorp has no present plan to serve. The Staff maintains that issuance of the certificate as requested would lock out other competitors while not necessarily providing gas service to the public.

The Commission agrees with the Staff that it would not be in the public interest to grant a certificate of convenience to a utility for an area that the utility does not presently intend to serve. It is a fundamental concept of utility regulation that the monopoly provider will actually provide safe, efficient and economical service. It is clear from UtiliCorp's own witnesses that no plans or present intention exists to provide service to any area designated in Attachment A, save the City of Owensville itself and several immediately adjacent areas.

Therefore, the Commission finds that the certificate of convenience and necessity will be limited to the city limits of Owensville and only those areas immediately adjacent to the city limits which are now included in the construction plans for this proposed project.

3. Setting a Rate of Return for the Owensville Area

The parties presented evidence that UtiliCorp wishes to apply a different capital structure to the Owensville area than that preferred by the Staff. Apparently UtiliCorp would prefer to use the capital structure established in a previous rate case, ER-93-37, while the Staff seeks to use the capital structure established in a later proceeding, Case No. GR-93-172.

The Commission would first note that use of the correct capital structure seems important to the parties in determining the feasibility of the proposed project. While this may be an important issue, the Commission will reaffirm its current policy regarding certificates of this type and require the UtiliCorp stockholders to bear the financial risk associated with the proposed project.

Second, UtiliCorp states in the Hearing Memorandum that it is willing to use the presently authorized and approved rate of return for MoPub's natural gas distribution service. Even though MoPub currently has three districts, the rate of return and return on equity for MoPub is applied statewide.

The Commission finds that the appropriate rate of return and return on equity to be applied in this case is the one currently in effect. This rate of return and return on equity, as well as underlying capital structure, were established in MoPub's most recent natural gas rate case. This is the rate which should be used. The Commission also notes that it would be inappropriate to establish a rate of return or return on equity outside a general rate proceeding.

4. The Filing of Gas Supply Contracts

In this application UtiliCorp has, according to the Staff, failed to file contracts or other agreements providing for the additional gas supply necessary to serve the proposed area. It is unclear whether this includes contracts for both the commodity itself and the transportation of the additional gas supply or not. Regardless, the Staff seeks a provision from the Commission that UtiliCorp, if granted the certificate, be required to file contracts, letters of intent, or other valid agreements providing for gas supply to Owensville before the effective date of the certificate.

For its part, UtiliCorp states in testimony that it made contact with various natural gas suppliers and with Panhandle Eastern Pipe Line Co., and determined that "supplies were available."

The Commission, as previously stated, will place the financial risk for the proposed project on the stockholders of UtiliCorp. Should UtiliCorp fail to supply the necessary gas to provide service, the penalty will be borne by those stockholders.

However, to facilitate future review of this project, the Commission will order UtiliCorp to submit to the Staff all contracts and other agreements pertaining to the transportation and supply of the commodity to the Owensville area, prior to commencing service.

5. Threshold for PGA Filing

The Staff maintains that UtiliCorp should file, as part of its ongoing tariffs for gas service, tariff sheets requiring MoPub to file for a change in the Purchased Gas Adjustment (PGA) rate when gas costs change by 10 percent or more.

The Staff points out that it is common in this state for gas LDCs to have thresholds built into their PGA tariffs requiring the filing of a PGA adjustment at some threshold level of increased commodity cost. It was also noted in testimony that UtiliCorp currently has no such threshold levels in any of its three districts.

UtiliCorp maintains that a threshold requirement for the Owensville area would result in only one out of three of its districts having a threshold filing requirement. UtiliCorp states that this would cause uneven rates, rate increases, and rate reductions between the districts. In addition, UtiliCorp presents the general argument that application of the threshold levels in a relatively volatile gas commodity market can cause dramatic shifts in short-term rates. UtiliCorp prefers to maintain level rates and avoid sharp seasonal price swings by not using a PGA threshold.

The Commission has considered the argument of the Staff but declines to impose a threshold filing requirement on UtiliCorp's Eastern District alone. While the Commission agrees that the matter requires further study, perhaps in a general rate proceeding or the Commission's special docket on frequency and proration of PGA filings, it is not appropriate to place this requirement on only one of UtiliCorp's three districts in light of the fact that UtiliCorp's rates are uniform among its districts.

Conclusions of Law

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

The Commission has the authority under Sections 393.130 and 393.150[1] to set just and reasonable rates for the provision of natural gas service in the state of Missouri.

[1] All statutory references are to the Revised Statutes of Missouri 1994 or 1996 Supplement.

UtiliCorp United Inc., d/b/a Missouri Public Service, is a public utility engaged in the provision of natural gas and electric service in the state of Missouri and, therefore, subject to the general jurisdiction of the Commission pursuant to Chapters 386 and 393.

The Commission has authority under Section 393.170.3 to grant permission and approval to construct and operate a franchised service area, should the Commission find, after hearing, that the "franchise is necessary or convenient for the public service."

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. In this regard, the Commission has considered all substantial, competent and relevant evidence in this matter and determines that the granting of the application of Missouri Public Service, as modified herein, is necessary and convenient for the public service and is in the best interest of the public.

Missouri Gas Company is a public utility engaged in the transportation of natural gas in the State of Missouri and, therefore, subject to the general jurisdiction of the Commission pursuant to Chapters 386 and 393.

The Commission has authority under Section 393.170.3 to grant permission and approval to construct and operate a franchised service area, should the Commission find, after hearing, that "the franchise is necessary or convenient for the public service."

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. In this regard, the Commission has considered all substantial, competent, and relevant evidence in this matter, and determines that the granting of a line certificate to Missouri Gas Company, as set out herein, is necessary and convenient for the public service and is in the best interest of the public.

IT IS THEREFORE ORDERED:

1. That the application of UtiliCorp United Inc., d/b/a Missouri Public Service, for a certificate of convenience and necessity to construct, install, own, operate, control and manage a gas distribution system is hereby granted to the extent that the certificate is limited to the corporate limits of the City of Owensville and those areas immediately adjacent to the city limits of Owensville which UtiliCorp United Inc., d/b/a Missouri Public Service, has present plans and intentions of serving as part of the Owensville construction project.

2. That the application of Missouri Gas Company for a certificate of convenience and necessity to construct, install, own, operate, control and manage a gas transmission pipeline is hereby granted to the extent that this certificate is a line certificate only and for transmission only from a point at or around Cuba, Missouri, to a point of delivery at or around Owensville, Missouri.

3. That Missouri Pipeline Company and Missouri Gas Company are hereby granted a waiver of "Condition C" of their respective tariffs, as originally approved in Case No. GM-94-252, as applied to both affiliated and nonaffiliated customers alike, on an ongoing basis.

4. That Missouri Gas Company and Missouri Pipeline Company are hereby ordered to submit all future transportation contracts by and between the pipelines and both affiliated and nonaffiliated customers to the Commission Staff upon execution.

5. That prior to commencing service, UtiliCorp United Inc. will obtain all appropriate gas commodity and supply contracts pertaining to the Owensville service area and file those with the Staff of the Commission. The Staff will make those contracts available to the Office of the Public Counsel upon request.

6. That the Commission makes no finding as to the prudence or ratemaking treatment to be given any costs or expenses incurred as the result of the granting of this certificate, and reserves the right to make any disposition of the remainder of those costs and expenses it deems reasonable, including charging those costs and expenses to the stockholders of UtiliCorp United Inc., d/b/a Missouri Public Service, in any future ratemaking proceeding.

7. That this Report And Order shall become effective on May 28, 1997.

BY THE COMMISSION

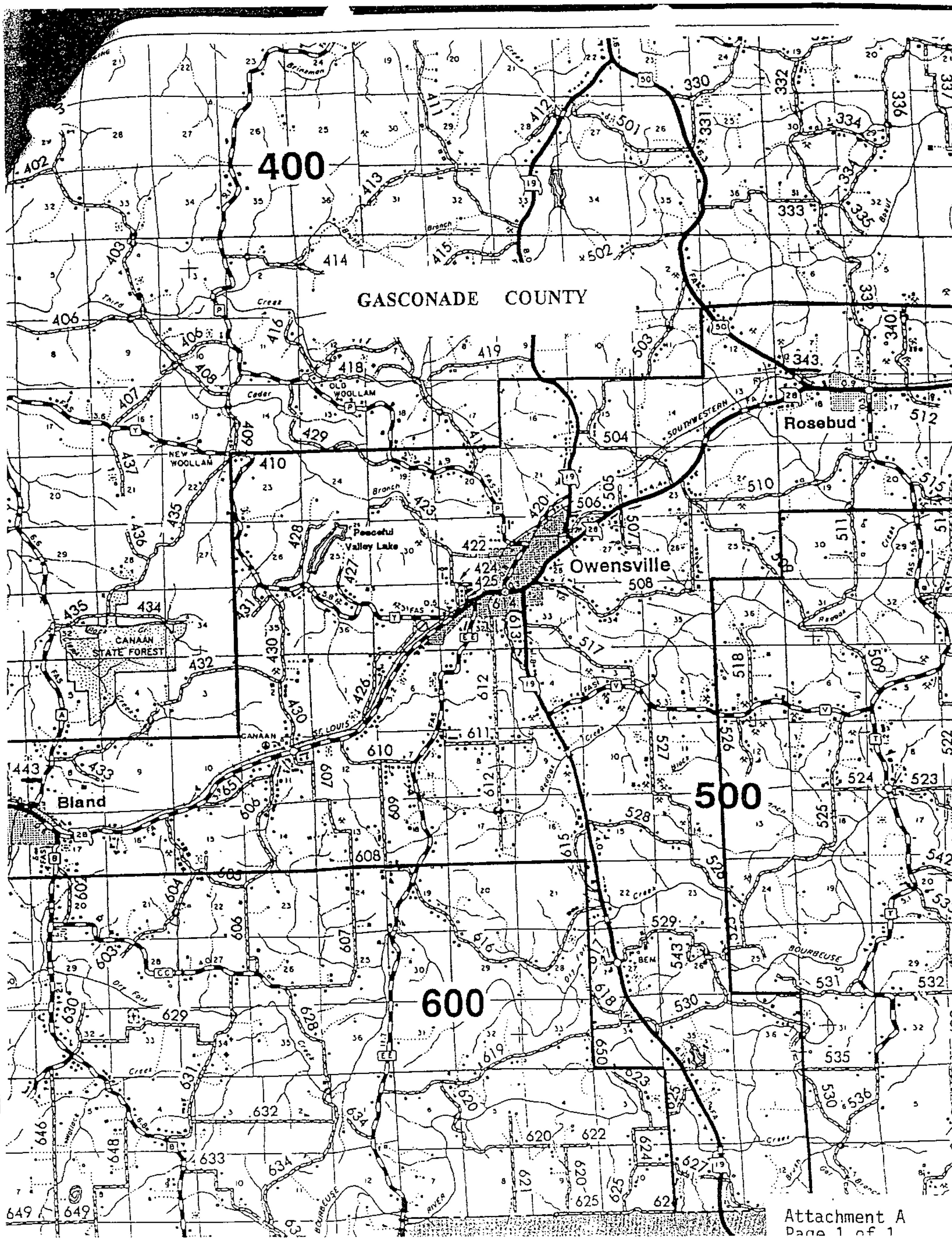
Cecil I. Wright

Cecil I. Wright
Executive Secretary

(S E A L)

Zobrist, Chm., Crumpton and
Drainer, CC., concur and certify
compliance with the provisions
of Section 536.080, RSMo 1994.

Dated at Jefferson City, Missouri,
on this 15th day of May, 1997.


GASCONADE COUNTY
400
500
600
Owensville
Rosebud
Bland
CANAAN STATE FOREST
OLD WOOLLAM
NEW WOOLLAM
Peaceful Valley Lake
CANAAN
BEM
SOUTHWESTERN
ST. LOUIS
BOURBEUSE RIVER

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of UtiliCorp United, Inc., d/b/a Missouri Public Service, for permission, approval, and a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain a gas distribution system for the public in the City of Rolla, Missouri and the surrounding unincorporated area located in Phelps County, Missouri.	Case No. GA-94-325

APPEARANCES: James C. Swearengen and Dean Cooper, Brydon, Swearengen & England, PC, P.O. Box 456, 312 East Capitol, Jefferson City, MO 65102, for UtiliCorp United Inc., d/b/a Missouri Public Service.
John C. Landwehr, Cook, Vetter, Doerhoff & Landwehr, 231 Madison Street, Jefferson City, MO 65101, for Conoco Inc.
Susan A. Anderson, Assistant Public Counsel, Office of Public Counsel, P.O. Box 7800, Jefferson City, MO 65102 for Office of Public Counsel and the public.
Cherlyn D. McGowan and William M. Shansey, Assistants General Counsel, P.O. Box 360, Jefferson City, MO 65102, for Staff of the Missouri Public Service Commission.

HEARING EXAMINER: Joseph A. Derque, III.

REPORT AND ORDER

PROCEDURAL HISTORY

On April 15, 1994, UtiliCorp United, Inc. (UtiliCorp) filed an application with the Commission for a certificate of convenience and necessity authorizing it to construct, install, own and operate a gas distribution system for the public in the City of Rolla, Missouri, and the surrounding unincorporated area, generally located in Phelps County, Missouri.

Together with that application, UtiliCorp filed a metes and bounds description and plat map of the proposed service area. In addition, a copy of the franchise ordinance from the City of Rolla authorizing Missouri Public Service (MPS), UtiliCorp's operating company, to serve the city of Rolla and a feasibility study containing plans, specifications and estimated costs of the facilities to be constructed were also filed.

Participation without intervention was granted to Conoco, Inc. There were no other requests for intervention in this matter. At the request of UtiliCorp, this matter was placed on an expedited schedule. The matter was heard on August 11, 1994 and, after oral argument, was fully and finally submitted to the Commission for Decision.

FINDINGS OF FACT

The Missouri Public Service Commission, having considered all competent and substantial evidence, on the whole record, makes the following findings of fact.

The Commission states that it has reviewed and considered all of the evidence and argument presented by the various parties in this case. Due to the extreme time constraints in this matter and the volume of evidence submitted, some evidence and positions on certain matters may not be addressed by the Commission. The failure of the Commission to mention a piece of evidence or the position of a party indicates that, while the evidence or position was considered, it was not found to be relevant or necessary to the resolution of the issue involved.

UtiliCorp is a Delaware corporation, with various utility holdings throughout the United States and abroad, including its Missouri operating company, Missouri Public Service. UtiliCorp is investor owned and has assets of approximately one billion dollars. Within the State of Missouri, UtiliCorp, through its operating company, MPS, provides natural gas service to approximately 42,000 customers in 28 communities.

In its application and testimony, MPS proposes to supply natural gas service to the City of Rolla, Missouri, and the surrounding unincorporated area of Phelps County, Missouri. Testimony indicates that the City of Rolla had a population of approximately 14,000 in 1990, with a total population in Phelps County of 35,000. This total translates into roughly 5200 households in Rolla itself. The city corporate limits cover approximately 8 square miles and the city is considering annexations on all sides. There are an additional approximate 2000 persons living within one mile of the current city limits.

Rolla currently has energy choices between electricity and propane. It is the official position, taken apparently after popular vote, that the City of Rolla is fully supportive of the application of UtiliCorp. It is the position of the city that the availability of natural gas would serve to help the current industry and promote commercial and industrial expansion in the area. The Rolla area currently has eight major employers, the largest category being governmental and educational agencies.

MPS states that the corridor extending from St. Louis southwest across the state, referred to as the I-44 corridor, has great potential for economic development. MPS agrees with the city in that they are of the opinion that development is hampered by the lack of a regulated natural gas supply. It is pointed out that the propane industry is unregulated. It was also noted that propane prices, as they are unregulated, may be unrealistically high.

MPS states that the construction of the system is scheduled to begin August 15, 1994, pending Commission approval. The system will be funded using internally-generated funds and will be completed over a period of three years. MPS estimates that the cost of the construction will be approximately $7.3 million, $500,000 of that being the steel main connecting the system with the transportation pipeline.

The application of UtiliCorp, d/b/a MPS, is filed pursuant to Section 393.170, RSMo. 1986, and 4 CSR 240-2.060(2). The standards contained in the above-quoted statute state that the application may be granted when it is determined that such a franchise is "necessary or convenient for the public service." Inherently, the statute indicates that the proposed service should be an improvement justifying its cost. In addition, safety, adequacy of facilities, reliability and experience of the provider, and prevention of inefficient duplication of service should be considered. (*State ex rel. Intercon Gas v. PSC*, 848 S.W.2d 593, (Mo. App. WD 1993).

In light of the above, the central issue raised in this matter in regard to the issuance of the certificate itself is one involving the economic feasibility of the proposed project. This issue has been raised and pursued assiduously by the Staff of the Commission and the OPC.

In its testimony, the Staff presents evidence that the feasibility studies submitted by MPS are misstated in regard to the ability of natural gas to compete with propane as an energy source, the potential anticipated load, the potential anticipated number of customers who will convert from propane, and the consideration of the expense necessary to complete and operate the proposed project.

MPS filed a feasibility study and later refiled an amended study. In its feasibility study, MPS reflects the use of information regarding construction costs, operational and maintenance expense, and assumptions regarding the cost of debt and return on equity, all for the purpose of determining the level of revenue required to cover all capital and operating costs of the project.

MPS admits that the critical assumptions used in making this determination involved estimates of construction costs and projected sales. MPS concludes that the proposed system should generate enough revenue based upon the rates it proposes to charge to cover operating and capital costs by the end of the conversion period (which MPS states as being three years).

In its testimony, the Staff maintains that the conversion rate of 70 to 90% as estimated by MPS is unrealistic. Staff also finds from evidence and experience with various other systems that the delivered cost of gas is underestimated by MPS, together with an overestimation of the price per gallon of propane. Taken together, the Staff states that the project as proposed by UtiliCorp is not economically feasible.

The Staff expresses concern that, to support this system with a lower conversion percentage than anticipated and stiff competition from the propane industry, subsidization will occur or rates will be raised to the point that the service is no longer in the public interest. This is also referred to by the Staff and the OPC as "bait-and-switch" ratemaking, as rates will be artificially low initially, only to become more realistic later to support the system.

The Commission has fully considered the evidence presented by the Staff and is fully aware of the import of that evidence, should the Staff's predictions prove accurate. Bearing the Staff's evidence in mind, the Commission will grant the requested certificate for the reasons set out hereafter and with the conditions set out later in this Report and Order, including a provision for customer-side-of-the-meter conversion in order to assist in facilitating a more rapid and higher percentage conversion rate.

UtiliCorp itself, an approximate billion dollar company, has operated as a regulated utility successfully in Missouri and other regulated venues, since the 1940s. In regard to its desire to serve the Rolla area and its attending feasibility estimates for doing so, some weight must be given to the size and experience of UtiliCorp and MPS. In addition, should the Staff's position prove to be more accurate and MPS be mistaken in its analysis of the economic viability of this project, the financial stability of UtiliCorp's operation in Missouri will not be jeopardized by the mistake. Both Staff and Company's positions on the feasibility of the project are based upon estimates. The Commission finds that Company's estimates are as reasonable as Staff's and, since MPS bears most of the risk if it has underestimated the economic feasibility of the project, the public benefit outweighs the potential for underestimating these costs.

It is clear that the citizens of the Rolla area want the availability of natural gas in their area. It appears to the Commission that this is not only for the purpose of serving the individual residential consumer, but also to serve various existing commercial, governmental, educational, and industrial concerns and for future development. The end benefit to the citizens of the Rolla area clearly appears to be resulting economic growth and employment opportunities. When supported by the record, the Commission has in past decisions, and would now, endorse natural gas service as an incentive to help promote this desired economic growth.

Finally, OPC states in the hearing memorandum that it is of the opinion that natural gas in this area would not be feasible if the annual cost of providing it is more than the annual cost of providing propane unless "it can be shown that customers will prefer natural gas over propane, even if natural gas costs more." It is the Commission's opinion that the primary benefit from the provision of service to the Rolla area may be in terms of economic development. It is clear that the citizens of Rolla support such a concept.

The size and the financial strength of its parent company, when taken together with the anticipated benefits of providing natural gas to the I-44 corridor, outweigh the concerns of Staff in regard to feasibility. The Commission, therefore, finds that the proposed certificate of convenience and necessity to serve the Rolla franchise is necessary and convenient for the public service and will be granted with the conditions as set out hereafter in this Report and Order, and for the area as set out by legal description and plat, contained as a part of MPS's application in this case, incorporated herein by reference as if fully set out, and marked as Attachment A.

In regard to various conditions presented to the Commission and which may be imposed on MPS in the exercise of this certificate, the central issue surrounds the level of rates to be charged to the Rolla service area.

The Staff proposes that the Commission adopt rates specifically based on, and reflective of the cost to serve the Rolla area. The Staff refers to these as "cost-based" rates.

Further, the Staff has some objection to the potential surcharge proposed by MPS to support the system in Rolla should conversion rates fall short of UtiliCorp's estimates. The concern of the Staff is largely centered on the fact that levy of the surcharge would unduly accelerate excess plant recovery.

Finally, the Staff believes that UtiliCorp stockholders should bear the risk of under-recovery of excess costs associated with the project.

In its testimony, MPS states that it recommends the use of existing filed and approved gas rates for the Rolla service area. MPS unequivocally states that it believes these existing rates will support the system and yield an adequate long-term return. As a fail-safe mechanism, MPS also proposed a potential surcharge be allowed should conversion not proceed at projected levels. MPS has since stated on the record that this surcharge provision is not essential to the success of the project.

Finally, OPC restates its concern that the existing rates will be found to be too low once the actual costs involved in the operation of the system are determined, thus causing a substantial raise in rates somewhere in the future.

As part of this issue, the Commission will also deal with the issue involving the potential for subsidization of the proposed Rolla system by the remainder of the ratepayers in the MPS service territory. This issue was presented by the Staff and supported by the OPC. It is argued that no detriment to the remainder of the MPS operating system should result should the Rolla system be unable to support itself or should feasibility estimates by MPS be grossly in error.

The Commission considers the size and diversity associated with UtiliCorp and MPS to be of substantial advantage in providing service to an area such as Rolla. It is clear that smaller, financially marginal companies would not propose nor would be necessarily given the opportunity to engage in a project such as this. To force MPS to create a separate set of cost-based rates on the Rolla service area alone would be forfeiting the advantage MPS has in terms of economies of both scale and scope. The Commission sees no advantage in setting rates specific to the Rolla area prior to completion of construction and will, therefore, authorize for service in the Rolla area the existing filed and approved gas rates for the northern and southern district of MPS, until such time as a general rate case is requested or a complaint filed.

Further, no surcharge will be authorized in this case. The Commission is of the opinion that, should a financial problem arise that would provoke the levy of such a surcharge, such a financial problem would more appropriately be dealt with in a general rate proceeding.

In regard to the potential subsidization, or cross subsidization, between the various areas in the state in which MPS operates, the Commission is aware of the concerns of the Staff. The Commission does not find it appropriate at this time to place various artificial constraints on MPS, as any advantage derived from economies of scope and scale would potentially be lost. The Commission will, however, order MPS to keep separate accounting records for the Rolla service area, to be examined at the time of the next general rate case, to determine if any detriment to the remainder of the system has or will occur.

UtiliCorp states that, at the time of its next general rate case, it will provide some evidence that no subsidization has occurred. In addition, should it become necessary, MPS states that rates based on its cost-of-service to Rolla may also be filed.

The Commission has determined, in conjunction with the approval of existing rates, that no general rate case will be required of MPS. MPS will be given the same option it now has of initiating a rate proceeding at its discretion. The Commission can see no real benefit to the ratepayers by requiring a rate filing within three years. Should MPS be suspected of overearning, procedures now exist for investigation and the filing of a complaint by the Staff. This should be sufficient to ensure that no gross overearning or other prohibited activity takes place.

MPS has requested a variance from the provisions of the Commission's promotional practice rules specifically for the purpose of providing free installation and recalibration of existing customer equipment to facilitate and promote the conversion of the Rolla area from propane to natural gas. Testimony by MPS indicates an average of $300.00 per customer, on the customer's side of the meter, for this conversion will be necessary to complete the system.

The Staff is opposed to this variance request for reason that it believes the cost of the prohibited practice should not be placed in the rate base. The OPC concurs in this position, stating that the costs of the prohibited practice should be borne by the shareholders. In addition, the OPC adds that MPS has not shown good cause why the variance should be granted. OPC points out that apparently no other plan was considered by MPS in determining how conversion cost to the consumer could be reduced. Finally, OPC recommends a limit be placed on the duration of any conversion incentive program.

The Commission has thoroughly considered all aspects of this most important issue. The Commission appreciates the candor of MPS in stressing the "make-it-or-break-it" nature of the treatment of the proposed conversion costs. In addition, the Commission clearly understands the reluctance expressed by the Staff and OPC in granting any type of variance allowing prohibited promotional costs to be placed in the rate base.

The Commission considers it an important part of its regulatory function to stand in the stead of competition in dealing with utility proposals such as this one. Because conversion rates are so vital to the success of this project, and because of the apparent competition from the unregulated propane industry faced by MPS, the Commission will grant a variance from the proposed prohibited promotional practice in these specifics: MPS will be allowed to provide a maximum of $300.00 free conversion, installation and recalibration, per customer, on the customer's side of the meter only. Any remaining customer conversion costs paid by the Company should be appropriately borne by the shareholders, and will be accounted for below the line.

This variance will be limited to a period of three years from the effective date of this order. As MPS proposes to complete the project in three years' time, this should be sufficient to ensure the necessary number of conversions. The Commission stresses that this variance is only for the proposed Rolla service area and will not be extended to any other UtiliCorp service area in Missouri.

CONCLUSIONS OF LAW

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

UtiliCorp United, Inc., d/b/a Missouri Public Service, is a public utility engaged in the provision of natural gas and electric service in the State of Missouri and, therefore, subject to the general jurisdiction of the Commission pursuant to Chapters 386 and 393, RSMo. (Cum. Supp. 1992).

The Commission has authority under Section 393.170, RSMo. (Cum. Supp. 1994) to grant permission and approval to construct and operate a franchised service area, should the Commission find, after hearing, that the franchise is necessary or convenient for the public service.

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. In this regard, the Commission has considered all substantial, competent and relevant evidence in this matter and determines that the granting of the application, with the conditions as set out herein, is necessary and convenient for the public service and in the best interest of the public.

IT IS THEREFORE ORDERED:

1. That the application of UtiliCorp United Inc., d/b/a Missouri Public Service, for approval and a certificate of convenience and necessity to construct, install, own, operate, control, and manage a gas distribution system in the City of Rolla, Missouri and parts of unincorporated Phelps County, Missouri adjacent thereto, as set out in Attachment A to this order and incorporated herein as if fully set out, is hereby granted.

2. That, in the operation of the above-stated Rolla service area, UtiliCorp United Inc., d/b/a Missouri Public Service, will use those rates currently approved by this Commission and in use in the remainder of UtiliCorp's operating area in the State of Missouri.

3. That UtiliCorp's motion for a variance from the promotional practice rules of this Commission is hereby granted to the extent and limits as set out in this Report and Order.

4. That UtiliCorp, through its operating company, is authorized to account for the above-stated $300.00 maximum per customer conversion costs above the line, and include those costs in rate base.

5. The Commission makes no finding as to the prudence or ratemaking treatment to be given any costs or expenses incurred as the result of the granting of this certificate to operate in the above-described service area, except those costs and expenses dealt with specifically in the body of this Report and Order, and reserves the right to make any disposition of the remainder of those costs and expenses in any future ratemaking proceeding which it deems reasonable.

6. That UtiliCorp Inc., d/b/a Missouri Public Service, will keep a separate and complete accounting of the Rolla service area and will provide that separate accounting to the Staff upon proper request in any future rate or complaint proceeding.

7. That UtiliCorp, by its operating division, MPS, will file tariffs in accordance with this Report and Order and to incorporate the service area herein approved, for service on or after September 1, 1994.

8. That this order shall become effective on September 1, 1994.

BY THE COMMISSION

David L Rauch

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Kincheloe and Crumpton, CC., concur and certify compliance with the provisions of Section 536.080, RSMo 1986.
Perkins, C., Absent.

Dated at Jefferson City, Missouri, on this 22nd day of August, 1994.

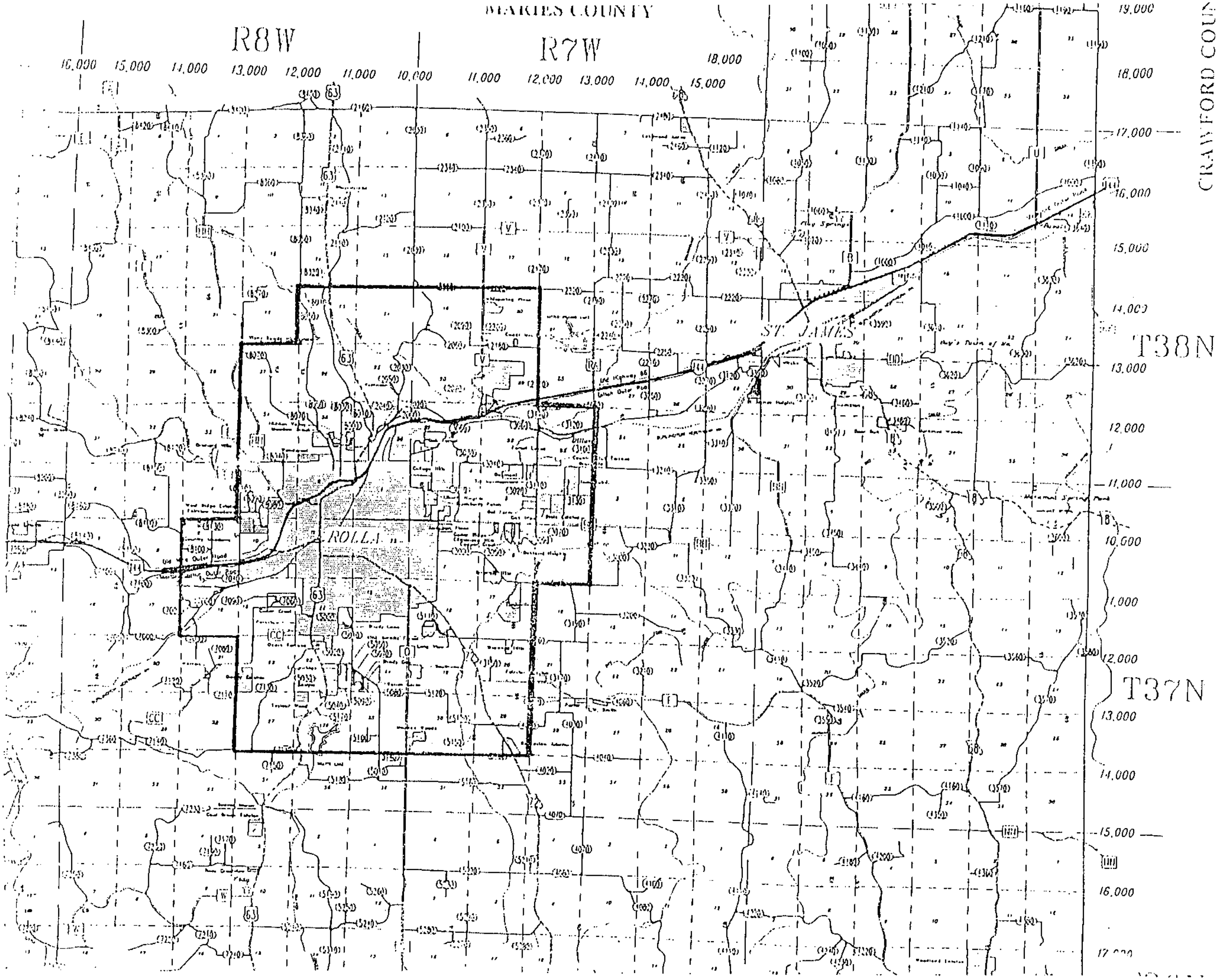
Description of the Proposed Area to be Certified:

Sections 23, 24, 25, 26, 27, 34, 35, and 36 of Township 38N; Range 8W, all in Phelps County, Missouri.

Sections 1, 2, 3, 9, 10, 11, 12, 13, 14, 15, 16, 22, 23, 24, 25, 26, and 27, of Township 37N; Range 8W, all in Phelps County, Missouri.

Sections 19, 20, 29, 30, 31, 32, and 33, of Township 38N; Range 7W, all in Phelps County, Missouri.

Sections 4, 5, 6, 7, 8, 9, 17, 18, 19, 20, 29, and 30 of Township 37N; Range 7W, all in Phelps County, Missouri.


MARIES COUNTY
R8W
R7W
T38N
T37N
CRAWFORD COUN
ROLLA
ST. JAMES
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Schedule 3

MPS-197
Revised 1/91
(P.S.C. Form No. 13) P.S.C. MO. No. 5 (Original) ~~(Revised)~~ SHEET No. 1.2

Cancelling P.S.C. MO. No. ______ (Original) (Revised) SHEET No. ______

MISSOURI PUBLIC SERVICE
(Name of Issuing Corporation)

For All Communities and Rural Areas Receiving Natural Gas Service
(Community, Town, or City)

DESCRIPTION OF AUTHORIZED GAS SERVICE TERRITORY

PHELPS COUNTY

TOWNSHIP	RANGE	SECTIONS
37 North	7 West	4, 5, 6, 7, 8, 9, 17, 18, 19, 20, 29, 30
37 North	8 West	1, 2, 3, 9, 10, 11, 12, 13, 14, 15, 16, 22, 23, 24, 25, 26, 27
38 North	7 West	19, 20, 29, 30, 31, 32, 33
38 North	8 West	23, 24, 25, 26, 27, 34, 35, 36

DATE OF ISSUE August 26, 1994 (month day year)

DATE EFFECTIVE September 1, 1994 (month day year)

ISSUED BY Maurice L. Arnall (name of officer) Manager-Marketing Services (title) Kansas City, MO 64138 (address)

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of UtiliCorp United, Inc., d/b/a Missouri Public Service, for permission, approval and a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain a gas distribution system for the public in the City of Rolla, Missouri and the surrounding unincorporated area located in Phelps County, Missouri.)	Case No. GA-94-325

ORDER APPROVING TARIFFS

On August 22, 1994, the Commission issued its Order and Notice in this matter granting a certificate of convenience and necessity to the applicant, UtiliCorp, authorizing it to operate a gas distribution service in and about Rolla, Missouri. In addition, the Commission ordered the applicant to file tariffs in accordance with the Report and Order, for service on or after September 1, 1994.

On August 26, 1994, the applicant, by its operating company, Missouri Public Service, filed tariffs with an effective date of September 1, 1994. Three revised tariff sheets were filed on August 31, 1994, correcting various errors.

The Staff filed its recommendation on August 31, 1994. In that recommendation, it stated that the tariff sheets were in substantial compliance with the Commission's Report and Order of August 22, 1994, and recommended the tariffs be approved.

The Commission has reviewed the tariffs and the Staff recommendation. The Commission finds the tariffs to be reasonable and in compliance with the Commission's Report and Order of August 22, 1994, and will approve the tariffs for service on or after September 1, 1994.

IT IS THEREFORE ORDERED:

1. That the following tariff sheets, filed August 26, 1994, and Nos. 35, 42, and 50, as filed August 31, 1994, are hereby approved for service on or after September 1, 1994:

P.S.C. Mo. No. 5

3rd Revised Sheet No. 1 Cancelling 2nd Revised Sheet No. 1
2nd Revised Sheet No. 2 Cancelling 1st Revised Sheet No. 2
2nd Revised Sheet No. 4 Cancelling 1st Revised Sheet No. 4
2nd Revised Sheet No. 10 Cancelling 1st Revised Sheet No. 10
2nd Revised Sheet No. 16 Cancelling 1st Revised Sheet No. 16
2nd Revised Sheet No. 33 Cancelling 1st Revised Sheet No. 33
2nd Revised Sheet No. 34 Cancelling 1st Revised Sheet No. 34
2nd Revised Sheet No. 35 Cancelling 1st Revised Sheet No. 35
2nd Revised Sheet No. 36 Cancelling 1st Revised Sheet No. 36
2nd Revised Sheet No. 37 Cancelling 1st Revised Sheet No. 37
2nd Revised Sheet No. 39 Cancelling 1st Revised Sheet No. 39
2nd Revised Sheet No. 41 Cancelling 1st Revised Sheet No. 41
2nd Revised Sheet No. 42 Cancelling 1st Revised Sheet No. 42
Original Sheet No. 44.1
3rd Revised Sheet No. 50 Cancelling 2nd Revised Sheet No. 50

2. That this order shall become effective on September 1, 1994.

BY THE COMMISSION

David L Rauch

David L. Rauch
Executive Secretary

(S E A L)

Joseph A. Derque, III, by delegation of authority under Commission Directive of August 16, 1994, pursuant to Section 386.240, RSMo. 1986.

Dated at Jefferson City, Missouri, on this 31st of August, 1994.

RECEIVED

SEP 01 1994

BRYDON, SWEARENGEN & ENGLAND P.C.

M E M O R A N D U M

TO: Missouri Public Service Commission Official Case File, **Case No. GA-94-325, Missouri Public Service**

FROM: Craig A. Jones, Energy Department - Rates

SUBJECT: Staff Recommendation On MoPub's Tariffs filed to Comply With the Commission's Report and Order dated August 22, 1994 (File # 9500102)

DATE: August 31, 1994

Reviewed By: for SFC 8/31/94 Utility Operations Division/Date 8/31/94 General Counsel's Office/Date

On August 26, 1994, Missouri Public Service (MoPub or Company) submitted tariff sheets to comply with the Commission's REPORT AND ORDER (Order) issued August 22, 1994. The filed tariff sheets are designed to offer natural gas service to the city of Rolla, Missouri, under a new MoPub service territory referred to as the Eastern System. The filing includes changes to the Index sheet, rate tariff sheets, Purchased Gas Adjustment (PGA) Clause and the Promotional Practices provisions.

On August 30, and August 31, 1994, Company submitted substitute tariff sheets to reflect wording changes that, in the Commission Staff's opinion, were necessary to bring the tariff sheets in compliance with the Commission's Order and current Rules. Tariff Sheet No. 42 was submitted August 31, 1994, to reflect a minor change necessary to reflect the addition of a third system. Company also indicated in its August 31, 1994, cover letter that at some future date, Sheet No. 22 may need to be revised to reflect the addition of the third system. At this time, not all factors have been completely resolved, therefore the tariff sheet may be changed at a later date. Such change, if necessary, will be made prior to service in the Eastern System being initiated.

On August 30, 1994, the Office of the Public Counsel filed a MOTION TO REJECT SUBMITTED TARIFF SHEET (PC's Motion). Additionally, Staff filed a MOTION FOR CLARIFICATION (Staff's Motion) to better understand the Commission's interpretation of how the conversion policy was intended to operate. If the Commission grants Staff's Motion, Staff recommends that Sheet No. 50 be revised to reflect the language included in Staff's Motion. Staff recommends the other tariff sheets listed below are in compliance with the Commission's Order and should be approved to become effective with service rendered on and after September 1, 1994.

If the Commission denies Staff's Motion, it is Staff's opinion that the language changes incorporated on the tariff sheets substituted on August 31, 1994, address the concerns raised in PC's Motion. Further, it is Staff's opinion that the following tariff sheets, as substituted, comply with the Commission's Order and therefore should be approved to become effective for service rendered on and after September 1, 1994:

P.S.C. MO. No. 5

3rd Revised SHEET No. 1 Cancelling 2nd Revised SHEET No. 1
2nd Revised SHEET No. 2 Cancelling 1st Revised SHEET No. 2
2nd Revised SHEET No. 4 Cancelling 1st Revised SHEET No. 4
2nd Revised SHEET No. 10 Cancelling 1st Revised SHEET No. 10
2nd Revised SHEET No. 16 Cancelling 1st Revised SHEET No. 16
2nd Revised SHEET No. 33 Cancelling 1st Revised SHEET No. 33
2nd Revised SHEET No. 34 Cancelling 1st Revised SHEET No. 34
2nd Revised SHEET No. 35 Cancelling 1st Revised SHEET No. 35
2nd Revised SHEET No. 36 Cancelling 1st Revised SHEET No. 36
2nd Revised SHEET No. 37 Cancelling 1st Revised SHEET No. 37
2nd Revised SHEET No. 39 Cancelling 1st Revised SHEET No. 39
2nd Revised SHEET No. 41 Cancelling 1st Revised SHEET No. 41
2nd Revised SHEET No. 42 Cancelling 1st Revised SHEET No. 42
Original SHEET No. 44.1
3rd Revised SHEET No. 50 Cancelling 2nd Revised SHEET No. 50

copies: Director - Utility Operations Division
Director - Utility Services Division
Director - Policy & Planning Division
Manager - Financial Analysis Department
Manager - Accounting Department
Manager - Energy Department
Office of the Public Counsel
Jim Swearengen
Gary Denny

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of UtiliCorp United, Inc., d/b/a Missouri Public Service, for permission, approval, and a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain a gas distribution system for the public in the City of Rolla, Missouri and the surrounding unincorporated area located in Phelps County, Missouri.	)	Case No. GA-94-325

RECEIVED

AUG 31 1994

BRYDON, SWEARENGEN & ENGLAND P.C.

MOTION FOR CLARIFICATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its Motion For Clarification respectfully states:

1. On August 22, 1994, the Public Service Commission (Commission) issued its Report and Order (Order), effective September 1, 1994, in the above captioned case involving UtiliCorp United, Inc., d/b/a Missouri Public Service (MPS).

2. The Order grants MPS a variance from the promotional practice rules relating to customer conversion, installation and recalibration costs subject to the following conditions:

> MPS will be allowed to provide a **maximum of $300.00** free conversion, installation and recalibration, **per customer**, on the customer's side of the meter only. Any **remaining** customer conversion costs paid by the Company should be appropriately **born by the shareholders**, and will be accounted for below the line. Order, at 10. (emphasis added)

3. The Commission summarized MPS' position on and request for

a variance of the promotional practice rules, stating:

> Testimony by MPS indicates **an average of $300.00 per customer**, on the customer's side of the meter, for this conversion will be necessary to complete the system. Id. at 10.

4. The Order leaves uncertainty as to the Commission's interpretation of the phrase "per customer" in the conditions placed upon the variance.

5. Staff interprets the phrase "per customer" in the condition section of the Order to reflect each customer on an individual basis. Accordingly, the Staff interprets the condition placed upon the variance as allowing MPS to include up to $300.00 in rate base for each individual customer. The amount included for any single customer would not be higher than the actual cost of conversion for that customer. Under Staff's interpretation, more expensive conversions would not be subsidized through the allowances left over from less expensive conversions to reach an average conversion cost of $300.00.

6. Clarification of this phrase is essential, in that: (a) MPS must be notified of the need to keep the appropriate records of actual conversion costs for each individual customer; (b) it will provide guidance in MPS' next rate case; and (c) it will provide guidance in drafting appropriate tariff language concerning the promotional practice, as required under 4 CSR 240.14.040(1).

7. Based upon its interpretation of "per customer" in the condition section of the Order, Staff recommends the following language be used to clarify the condition:

> MPS will be allowed to include in rate base actual conversion, installation and recalibration costs of each

> individual customer not to exceed $300.00 for any individual customer. Any individual customer's conversion costs in excess of $300.00 paid by the Company should be appropriately borne by the shareholders, and will be accounted for below the line.

Under this language, if conversion of customer A's home costs $100.00 and conversion of customer B's home costs $500.00, MPS would be able to include $400.00 in rate base. This $400.00 results from the $100.00 actual cost of customer A's conversion plus the $300.00 allowance for customer B's conversion.

8. Staff believes its interpretation of "per customer" as contained in the condition section of the Order to be reasonable, but requests the Commission clarify this matter and provide further guidance as to how to interpret "per customer".

WHEREFORE, the Staff prays that the Commission clarify its ? as requested in this motion.

Respectfully submitted,

Cherlyn D. McGowan
Assistant General Counsel
Missouri Bar No. 42044

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102
(314) 751-3166

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 31st day of August, 1994.

"- Saale

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 2nd day of September, 1994.

In the matter of the application of UtiliCorp United Inc., d/b/a Missouri Public Service, for permission, approval, and a certificate of convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain a gas distribution system for the public in the City of Rolla, Missouri and the surrounding unincorporated area located in Phelps County, Missouri.	)	Case No. GA-94-325

ORDER REGARDING MOTION TO CLARIFY AND MOTION TO REJECT A SUBMITTED TARIFF SHEET

On August 22, 1994, the Commission issued its Report and Order specifying, among other things, that UtiliCorp, by its operating company, Missouri Public Service (MPS), should file tariffs in compliance with that order within ten (10) days, and specifying that MPS may book conversion cost up to a maximum of $300.00 per customer above the line pursuant to the granting of a variance from a prohibited promotional practice.

On August 30, 1994, the OPC filed a motion to reject the tariff submitted pursuant to the variance, that being Sheet No. 50. In addition, on August 31, 1994, the Staff of the Commission filed a request for clarification of the instant Report and Order in regard to the $300.00 conversion costs.

In its motion, the OPC stated that Tariff Sheet No. 50, submitted to comply with the conversion cost variance, failed to meet the Commission's rules in regard to promotional practice variances. On August 31, MPS submitted a revised Sheet No. 50 which, according to the Staff recommendation, met the requirements objected to by OPC. On August 31, 1994, after full review and examination of the instant tariff sheet, and in accordance with the Staff recommendation, the Commission approved this tariff for service on or after September 1, 1994. The Commission was of the opinion that the tariff did, in fact, fully comply with the Commission's Report and Order and its applicable variance rules. The OPC motion is therefore denied as the result of this Commission action.

The Staff, in its motion for clarification, states that the Commission's order regarding the $300.00 conversion costs allowed to MPS is unclear as to whether the $300.00 maximum cost to be allowed per customer should be accounted for as an average or as a customer-specific limit. The Staff makes a substantial argument in favor of the later interpretation.

The Commission would augment the Report and Order of August 22, 1994, by emphasizing that the position of MPS on the issue of conversion costs was affirmed in that the Commission adopted a maximum of $300.00, on the average, per customer, to be allowed for customer conversion costs.

IT IS THEREFORE ORDERED:

1. That the motion to reject a tariff sheet, filed by the Office of Public Counsel, is denied for the above-stated reasons.

2. That the motion, by the Staff of the Commission, for clarification is denied for the above-stated reasons.

3. That the Commission's Report and Order of August 22, 1994, in this case is clarified as set out above.

4. That this order shall become effective on the date hereof.

BY THE COMMISSION

David L Rauch

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Perkins
and Kincheloe, CC., Concur.
Crumpton, C., Absent.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of UtiliCorp United Inc., d/b/a Missouri Public Service, for permission, approval, and a certificate of public convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain a gas distribution system for the public in the City of Salem, Missouri and certain other unincorporated areas located in Phelps County and Dent County, Missouri.	)	Case No. GA-95-216

REPORT AND ORDER

Issue Date: August 8, 1995

Effective Date: August 18, 1995

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of UtiliCorp United Inc., d/b/a Missouri Public Service, for permission, approval, and a certificate of public convenience and necessity authorizing it to construct, install, own, operate, control, manage and maintain a gas distribution system for the public in the City of Salem, Missouri and certain other unincorporated areas located in Phelps County and Dent County, Missouri.	Case No. GA-95-216

APPEARANCES:

James C. Swearengen, Attorney at Law, Brydon, Swearengen & England, P.C., 312 East Capitol Avenue, Jefferson City, MO 65101, for UtiliCorp United, Inc., d/b/a Missouri Public Service.

Lewis R. Mills, Jr., Deputy Public Counsel, P.O. Box 7800, Jefferson City, MO 65102, for Office of the Public Counsel and the Public.

Aisha Ginwalla, Assistant General Counsel, P.O. Box 360, Jefferson City, MO 65102, for Staff of the Missouri Public Service Commission.

ADMINISTRATIVE LAW JUDGE: Joseph A. Derque, III

REPORT AND ORDER

Procedural History

On January 23, 1995, UtiliCorp United, Inc. (UtiliCorp) filed an application with the Commission for a certificate of convenience and necessity authorizing it to construct, install, own, and operate a natural gas distribution system for the public in the City of Salem, Missouri, and the surrounding unincorporated area, generally located in Phelps and Dent Counties.

Together with that application, there is also on file with the Commission a map of the proposed service area and a franchise ordinance from the City of Salem, which resulted from a public ballot of the residents of the City of Salem. A feasibility study containing plans, specifications, and estimated costs of the facilities to be constructed were also filed.

There were no requests for intervention in this matter. The evidentiary hearing was held on June 30, 1995, and, after briefing, this case was finally submitted to the Commission for decision.

Findings of Fact

The Missouri Public Service Commission, having considered all competent and substantial evidence, on the record taken as a whole, makes the following findings of fact.

The Commission states that it has reviewed and considered all of the evidence and argument presented by the various parties contesting this matter. Some evidence and positions taken by the parties may not be addressed by the Commission in this Report and Order. The failure of the Commission to mention a piece of evidence or the position of a party indicates that, while the evidence or position was considered, it was not found to be relevant or necessary to the resolution of the case.

UtiliCorp is a Delaware corporation, with various utility holdings throughout the United States and abroad, including its Missouri operating company, Missouri Public Service. (The Commission may refer to either UtiliCorp or MPS in this decision interchangeably.) UtiliCorp is an investor-owned utility and has assets of approximately one billion dollars, and a capital structure in Missouri of approximately 55% debt and 45%

equity. Within the state, MPS provides natural gas service to approximately 42,000 customers in 28 communities.

In its application and testimony, UtiliCorp proposes to supply natural gas service to the City of Salem and surrounding area. The proposed service area extends, generally, from the current Rolla service area, southeasterly along the proposed route of the transportation pipeline to the corporate limits of the City of Salem, and includes the surrounding area in Dent and a portion of Phelps Counties. Testimony indicates that the Salem proposal includes an anticipated converted customer base of approximately 1200 conversions in the City of Salem, with 3500 persons located outside the city limits who can be considered potential customers, at an estimated capital investment of approximately $2.8 million of UtiliCorp's internally generated funds.

The Salem area currently has energy choices between electricity and propane gas. It is the position of the City of Salem, taken after popular vote, that the public is fully supportive of the application of UtiliCorp.

The application of UtiliCorp is filed pursuant to Section 393.170, RSMo. 1994, and 4 CSR 240-2.060(2). The standards contained in the above-quoted statute state that the application may be granted when it is determined that such a franchise is necessary and convenient for the public service. Inherently, the statute indicates that the proposed service should be an improvement justifying its cost. In addition, safety, adequacy of facilities, reliability and experience of the provider, and prevention of inefficient duplication of service should be considered. *State ex rel. Intercon Gas v. PSC*, 848 S.W.2d 593 (Mo. App. W.D. 1993).

No substantial challenge exists on the record regarding the financial and operational capability of UtiliCorp to provide safe and adequate service to the Salem area, that the need for such service exists, or that the general public is desirous of such service. No question is raised challenging the ability of UtiliCorp to bear the financial risk of expansion into the Salem area without placing the remainder of UtiliCorp's ratepayers or the Missouri portion of the Company in jeopardy.

Evidence presented by UtiliCorp reflects feasibility projections, including information and assumptions regarding construction costs, operation and maintenance expense, and conversion rates, all for the purpose of determining the level of revenue required to cover all capital outlay and operating costs of the project. UtiliCorp maintains that the project is economically feasible as proposed, assuming the Commission grants a waiver of provisions of Chapter 14 of 4 CSR 240, permitting UtiliCorp to provide free conversion expense to customers.

The central, and for all intents and purposes, the only issue raised in this case, and pursued assiduously by the Staff and the OPC, is one challenging the economic feasibility of the proposed project. The Staff has stated various reasons why the project is not economically sound, and why the project will work to the detriment of the public interest. However, these sub-issues are more appropriately characterized as reasons why the proposal is not an economically sound one.

The Staff's central contention is that the proposed service to the Salem area is not economically feasible for two interconnected reasons. The Staff states that, should cost-based rates be set for the Salem area as a discrete entity, the cost of providing gas service will not be competitive with propane, its direct competitor. The Staff-calculated costs assume, initially, that the cost for providing service to Salem should be borne exclusively by the Salem consumers and should not become a part of the embedded costs for the remainder of the UtiliCorp service area. If this is the case, the Staff maintains that the UtiliCorp feasibility study is grossly understated as to the actual cost per unit of gas supplied to the Salem consumer.

The Staff states that, in addition to grossly undervaluing the cost per unit of gas, UtiliCorp overestimates the number of customer conversions that will take place once the service is offered. The Staff assumes in its estimate that no customer conversion waiver will be granted. In this case, UtiliCorp has also filed a request asking that the Commission grant it authority to provide free conversions to potential customers in the Salem area. Under the current Commission rules, contained in Chapter 14 of 4 CSR 240, providing such free service would be considered a prohibited promotional practice. The Staff is also opposed to granting the requested waiver.

The Staff maintains, in support of its position on feasibility, that the UtiliCorp feasibility study excludes administrative and general costs which should be allocated to the proposed Salem project. The Staff expresses the concern that the remainder of the MPS system will support, and therefore subsidize, the administration and operation of the proposed Salem system.

Finally, the Staff alleges that the anticipated cost of gas delivered to Salem (the transportation rate) is understated because it does not reflect the cost of the proposed Missouri Gas Company pipeline spur from Rolla to Salem and because the transportation rate agreed to by MGC is largely the result of an inappropriate affiliate transaction.

Although the Office of Public Counsel states it does not have the resources to independently evaluate the question of feasibility raised by the Staff, OPC states that it supports the Staff position. The OPC states that, if the full cost of all facilities including the cost of the pipeline spur are reflected in the cost of service for the Salem proposal, and those costs are assessed to the Salem area customers only, the resultant rates will not be competitive with propane. It is the principle concern of the OPC that the ratepayers in the Salem area will be required to absorb some potential operating loss at a later date, after conversion from propane to the UtiliCorp system. The OPC does not feel that this is, therefore, ultimately in the public interest.

The Commission has fully considered the evidence presented in this case by the parties. The Commission finds no significant challenge to the ability of UtiliCorp to operate a safe and efficient gas distribution service. It is equally clear that the provision of natural gas service to the Salem area will be in the public benefit, not only as a service to residential customers, but also as an incentive to help promote the economic growth of the community.

In determining the economic feasibility of the proposal, the Commission would first note the size and financial condition of UtiliCorp. There is little question that UtiliCorp can suffer a complete loss on this project without appreciable damage to its Missouri operation or harm to its ratepayers.

In this case, the Commission finds the expansion into the Salem area will be allowed, but solely at the risk of the shareholders of UtiliCorp. Should the proposed project fail or, for any reason, prove to be economically inefficient or unsound, the Commission will likely assess project costs and operational losses against UtiliCorp and its shareholders.

The Staff's arguments that the project is not economically feasible are based largely on cost allocation and ratemaking assumptions. The Staff's objection to the project hinges on the premise that Salem will be treated as a separate distribution area for purposes of cost allocation and rates. The Commission does not think it appropriate to engage in cost-allocation and rate design issues in a certification case. While the financial integrity of the applicant may be thoroughly examined in concert with the economic feasibility of the proposed project, the Commission finds revenue requirement and rate design issues are best left to general rate proceedings. The Commission sees no advantage in the balkanization of costs, and therefore rates, in an increasingly competitive environment. To do so would also be to force UtiliCorp to forfeit any benefits it may have to offer in terms of economies of scale.

Therefore, the Commission finds that the proposed project to provide natural gas service to the Salem area is necessary and convenient for the public service and is in the public interest. The Commission will issue the applicant a certificate of convenience and necessity to construct, install, own, operate, control, manage, and maintain a natural gas distribution facility, and to render natural gas distribution service in a certificated area as set out in Attachment A to this order and in the UtiliCorp application, incorporated herein by reference. The Commission will grant the above certificate subject to the conditions, as discussed below.

The Commission, as stated above, sees no advantage in setting rates specific to the Salem area at this time, and will, therefore, authorize the existing filed and approved gas rates for the northern and southern districts of MPS for service in the Salem area, until such time as a general rate case is requested or a complaint filed.

In addition, the Commission will order MPS to keep separate accounting records for the Salem service area, to be examined at the time of the next general rate case. The Commission also points out to

UtiliCorp that it makes no finding or determination as to the prudence or ratemaking treatment to be given to this project and its associated costs.

The Staff has requested a separate docket be opened for the purpose of investigation of inappropriate affiliate transactions by UtiliCorp among its operating divisions. This is largely the result of Staff's concern over the transportation contract between Missouri Gas Energy and MPS for the proposed Salem area. UtiliCorp states that it has no objection to the Staff proposal.

The Commission is of the opinion that the establishment of such a docket is not warranted.

Finally, UtiliCorp has filed a requested variance from the provisions of the Commission's promotional practice rules specifically for the purpose of providing free installation and recalibration of existing customer equipment to facilitate and promote the conversion of the Salem area from propane to natural gas. UtiliCorp requests an average of $300.00 per customer, on the customer's side of the meter.

The Commission would note the discussion of an identical variance request in the application of UtiliCorp to serve the Rolla area, Case No. GA-94-325. The Commission finds the requested activity to be a prohibited promotional practice requiring a variance. The Commission will grant a one-time variance in this case, identical to that granted in the above-cited Rolla case, with identical conditions, and for the same reasons.

The Commission will grant a one-time variance from the provisions of Chapter 14 of 4 CSR 240 to UtiliCorp to provide a maximum of $300.00 per customer, (not on an average) for conversion, installation, and recalibration, on the customer's side of the meter only, in the Salem service area as set out in Attachment A hereto. This variance will be limited to a period of three years from the effective date of this order. Any remaining customer conversion costs will be borne by the shareholders, and will be accounted for below the line.

Conclusions of Law

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

UtiliCorp United, Inc., d/b/a Missouri Public Service, is a public utility engaged in the provision of natural gas and electric service in the State of Missouri and, therefore, subject to the general jurisdiction of the Commission pursuant to Chapters 386 and 393, RSMo. 1994.

The Commission has authority under Section 393.170, RSMo. 1994 to grant permission and approval to construct and operate a franchised service area, should the Commission find, after hearing, that the franchise is necessary or convenient for the public service.

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. In this regard, the Commission has considered all substantial, competent and relevant evidence in this matter and determines that the granting of the application, with the conditions as set out herein, is necessary and convenient for the public service and in the best interest of the public.

IT IS THEREFORE ORDERED:

1. That the application of UtiliCorp United, Inc., d/b/a Missouri Public Service, for approval and a certificate of convenience and necessity to construct, install, own, operate, control, and manage a gas distribution system in the City of Salem, Missouri, and other parts of Phelps and Dent

Counties, Missouri, as set out in Attachment A hereto and UtiliCorp's application, is hereby granted.

2. That, in the operation of the above-stated Salem service area, UtiliCorp United, Inc. will use those rates currently approved by this Commission and in use in the remainder of the UtiliCorp operating area in the State of Missouri.

3. That the UtiliCorp United, Inc. motion for a variance from the promotional practice rules of the Commission is hereby granted to the extent and limits as set out in this Report and Order.

4. That UtiliCorp United, through its operating division, Missouri Public Service, is authorized to account for the above-stated $300.00 maximum expenditure per customer (not on the average) above the line, and include those costs in rate base.

5. That the Commission makes no finding as to the prudence or ratemaking treatment to be given any costs or expenses incurred as the result of the granting of this certificate, except those costs and expenses dealt with specifically in this Report and Order, and reserves the right to make any disposition of the remainder of those costs and expenses it deems reasonable, including charging those costs and expenses to the stockholders of UtiliCorp United, Inc., in any future ratemaking proceeding.

6. That UtiliCorp United, Inc., by its operating division, Missouri Public Service, will keep a separate and complete accounting of the Salem service area and will provide that separate accounting to the Staff upon proper request in any future rate or complaint proceeding.

7. That UtiliCorp United, Inc., by its operating company, Missouri Public Service, will file tariffs in accordance with this Report and Order,

prior to commencing construction or operations in the approved service area.

8. That this Report and Order shall be effective August 18, 1995.

BY THE COMMISSION

David L. Rauch

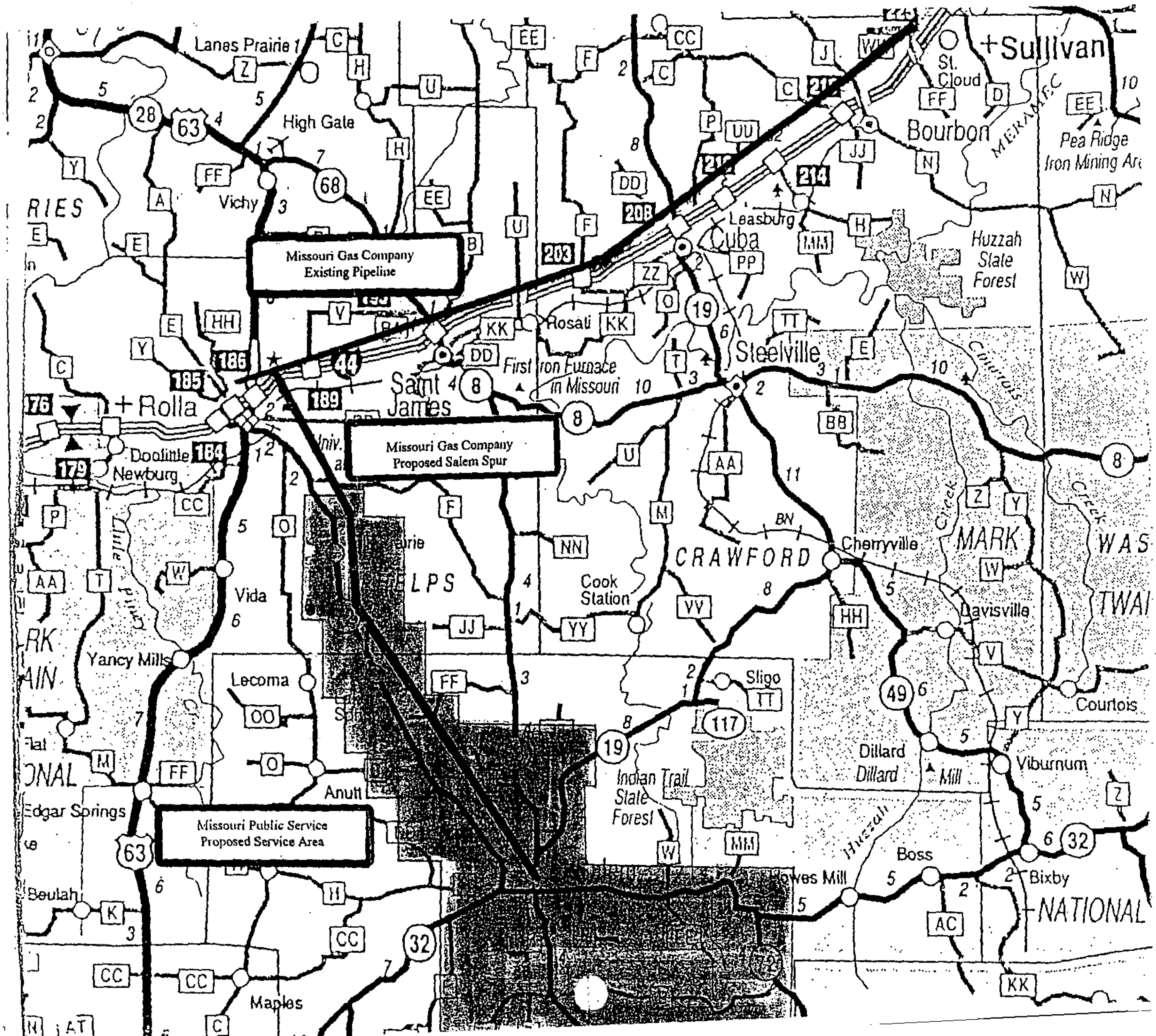
David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, Kincheloe, and Crumpton, CC., Concur and certify compliance with the provisions of Section 536.080, RSMo. 1994.
Drainer, C., Not Participating.

Dated at Jefferson City, Missouri, this 8th day of August, 1995.

Attachment A



ATTACHMENT 2

	TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service	Interruptible	Lg Volume
1	O & M Expenses		1,407,151	788,592	441,818	125,504	51,237
2	Depreciation Expenses		276,126	151,545	84,292	28,154	12,135
3	Taxes		145,482	79,677	44,260	15,019	6,525
4							
5	TOTAL - Expenses and Taxes		1,828,759	1,019,814	570,371	168,677	69,898
6							
7	Current Revenue (non-gas)						
8	Rate Revenue (non-gas)		1,952,526	1,138,259	537,436	37,988	238,843
10	Other Revenue	20	30,752	16,877	9,388	3,135	1,351
11							
12	TOTAL - Current Revenues		1,983,278	1,155,136	546,824	41,123	240,194
13	Current Revenue Percentage		100.00%	58.24%	27.57%	2.07%	12.11%
14							
15	OPERATING INCOME		154,519	135,323	(23,547)	(127,553)	170,297
16							
17	TOTAL RATE BASE		5,747,224	3,079,266	1,686,730	669,561	311,666
18							
19	Implicit Rate of Return (ROR)		2.69%	4.39%	-1.40%	-19.05%	54.64%
20							
21	PSC Recommended Rate of Return		8.180%	8.180%	8.180%	8.180%	8.180%
22							
23	Recommended Operating Income With						
24	Equalized (OPC) Rates of Return		470,123	251,884	137,975	54,770	25,494
25							
26	Additional Current Income Tax	20	101,335	55,615	30,934	10,332	4,453
27	Class COS at OPC's Recommended Rate of Return		2,400,217	1,327,313	739,279	233,779	99,846
28	Revenue Percentage		100.00%	55.30%	30.80%	9.74%	4.16%
29							
30	Allocation of Difference Between Current						
31	Revenue and Recommended Revenue	20	**416,939**	**228,826**	**127,278**	**42,511**	**18,324**
32							
33	Margin Revenue Required to Equalize						
34	Class ROR - Revenue Neutral		1,983,278	1,098,486	612,001	191,268	81,522
35	Revenue Percentage		100.00%	55.39%	30.86%	9.64%	4.11%
36			1,983,278				
37	Rev. Neutral Shift to Equalize Class ROR		-	(56,650)	65,178	150,145	(158,673)
38	Rev. Neutral Shift Percentage to Equalize Class ROR			-4.98%	12.13%	395.24%	-66.43%
39							
40	Recommended Revenue *Neutral Shift = 1/2 indicated shift*			(28,325)	32,589	75,072	(79,336)
41	OPC Recommended Revenue Neutral Shift Percentage			-2.49%	6.06%	197.62%	-33.22%
42	Class Revenue Percentages After Rec. Rev. Neutral Shift			56.82%	29.21%	5.86%	8.11%

	Rate Design Analysis	TOTAL	Residential	General Service	Interruptible	Lg Volume
1	Revenue Neutral Shifts (RNS) to Equalize Class					
2	Rates of Return (ROR)	$0	($56,650)	$65,178	$150,145	($158,673)
3						
4	Percentage Revenue Change to Equalize Class ROR	0.00%	-4.98%	12.13%	395.24%	-66.43%
5						
6	Current Class Revenue Percentages	100.00%	58.24%	27.57%	2.07%	12.11%
7						
8	COS Indicated Class Revenue Percentages	100.00%	55.39%	30.86%	9.64%	4.11%
9						
10	**OPC's Recommended Revenue Neutral Shifts**	$ -	$ (28,325)	$ 32,589	$ 75,072	$ (79,336)
11						
12	OPC's Recommended Revenue Percentages	0.00%	56.82%	29.21%	5.86%	8.11%
13						
14	**Spread of Proposed Revenue Requirement Increases**					
15	OPC Recommended Revenue Requirement Increase	416,939	236,886	121,808	24,428	33,817
16	$.6Million Revenue Requirement Increase	600,000	340,894	175,289	35,153	48,664
17	$.8 Million Revenue Requirement Increase	800,000	454,525	233,719	46,870	64,886
18						
19	**Combined Impact of Revenue Increase and OPC's RNS**					
20	OPC Recommended Revenue Requirement Increase	416,939	208,561	154,397	99,500	(45,520)
21	$.6Million Revenue Requirement Increase	600,000	312,569	207,878	110,225	(30,672)
22	$.8 Million Revenue Requirement Increase	800,000	426,200	266,308	121,943	(14,451)
23						
24	**Adjust to eliminate negative increase**					
25	OPC Recommended Revenue Requirement Increase	416,939	188,033	139,200	89,706	
26	$.6Million Revenue Requirement Increase	600,000	297,367	197,768	104,864	
27	$.8 Million Revenue Requirement Increase	800,000	418,638	261,583	119,779	
28						
29	**Percentage of Net Revenue Increase**					
30	OPC Recommended Revenue Requirement Increase	21.02%	16.28%	25.46%	218.14%	0.00%
31	$.6Million Revenue Requirement Increase	30.25%	25.74%	36.17%	255.00%	0.00%
32	$.8 Million Revenue Requirement Increase	40.34%	36.24%	47.84%	291.27%	0.00%
33						
34	**Class Revenue**					
35	OPC Recommended Revenue Requirement Increase	2400217	1343169	686023	130830	240194
36	$.6Million Revenue Requirement Increase	2583278	1452504	744592	145988	240194
37	$.8 Million Revenue Requirement Increase	2783278	1573774	808407	160903	240194
38						
39	**Percentage of Class Revernue**					
40	OPC Recommended Revenue Requirement Increase	100.00%	55.96%	28.58%	5.45%	10.01%
41	$.6Million Revenue Requirement Increase	100.00%	56.23%	28.82%	5.65%	9.30%
42	$.8 Million Revenue Requirement Increase	100.00%	56.54%	29.05%	5.78%	8.63%
43						
44	**Percentage Change in Class Rate Revenue**					
45	OPC Recommended Revenue Requirement Increase	21.02%	16.28%	25.46%	218.14%	0.00%
46	$.6Million Revenue Requirement Increase	30.25%	25.74%	36.17%	255.00%	0.00%
47	$.8 Million Revenue Requirement Increase	40.34%	36.24%	47.84%	291.27%	0.00%

TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service	Interruptible	Lg Volume
1 O & M Expenses		1,407,151	800,009	444,986	113,070	49,086
2 Depreciation Expenses		276,126	154,154	85,016	25,312	11,644
3 Taxes		145,482	81,071	44,647	13,501	6,263
4						
5 TOTAL - Expenses and Taxes		1,828,759	1,035,235	574,649	151,883	66,992
6						
7 Current Revenue (non-gas)						
8 Rate Revenue (non-gas)		1,952,526	1,138,259	537,436	37,988	238,843
10 Other Revenue	20	30,752	17,168	9,468	2,819	1,297
11						
12 TOTAL - Current Revenues		1,983,278	1,155,427	546,904	40,807	240,140
13 Current Revenue Percentage		100.00%	58.26%	27.58%	2.06%	12.11%
14						
15 OPERATING INCOME		154,519	120,192	(27,745)	(111,076)	173,148
16						
17 TOTAL RATE BASE		5,747,224	3,142,261	1,704,208	600,960	299,796
18						
19 Implicit Rate of Return (ROR)		2.69%	3.83%	-1.63%	-18.48%	57.76%
20						
21 PSC Recommended Rate of Return		8.180%	8.180%	8.180%	8.180%	8.180%
22						
23 Recommended Operating Income With						
24 Equalized (OPC) Rates of Return		470,123	257,037	139,404	49,159	24,523
25						
26 Additional Current Income Tax	20	101,335	56,573	31,200	9,289	4,273
27 Class COS at OPC's Recommended Rate of Return		2,400,217	1,348,844	745,253	210,331	95,788
28 Revenue Percentage		100.00%	56.20%	31.05%	8.76%	3.99%
29						
30 Allocation of Difference Between Current						
31 Revenue and Recommended Revenue	20	**416,939**	**232,766**	**128,371**	**38,220**	**17,581**
32						
33 Margin Revenue Required to Equalize						
34 Class ROR - Revenue Neutral		1,983,278	1,116,078	616,882	172,111	78,207
35 Revenue Percentage		100.00%	56.27%	31.10%	8.68%	3.94%
36		1,983,278				
37 Rev. Neutral Shift to Equalize Class ROR		(0)	(39,349)	69,978	131,304	(161,933)
38 Rev. Neutral Shift Percentage to Equalize Class ROR			-3.46%	13.02%	345.65%	-67.80%
39						
40 Recommended Revenue Neutral Shift = 1/2 indicated shift			(19,674)	34,989	65,652	(80,966)
41 OPC Recommended Revenue Neutral Shift Percentage			-1.73%	6.51%	172.82%	-33.90%
42 Class Revenue Percentages After Rec. Rev. Neutral Shift			57.27%	29.34%	5.37%	8.03%

Rate Design Analysis	TOTAL	Residential	General Service	Interruptible	Lg Volume
1 Revenue Neutral Shifts (RNS) to Equalize Class					
2 Rates of Return (ROR)	($0)	($39,349)	$69,978	$131,304	($161,933)
3					
4 Percentage Revenue Change to Equalize Class ROR	0.00%	-3.46%	13.02%	345.65%	-67.80%
5					
6 Current Class Revenue Percentages	100.00%	58.26%	27.58%	2.06%	12.11%
7					
8 COS Indicated Class Revenue Percentages	100.00%	56.27%	31.10%	8.68%	3.94%
9					
10 **OPC's Recommended Revenue Neutral Shifts**	$ -	$ (19,674)	$ 34,989	$ 65,652	$ (80,966)
11					
12 OPC's Recommended Revenue Percentages	0.00%	57.27%	29.34%	5.37%	8.03%
13					
14 **Spread of Proposed Revenue Requirement Increases**					
15 OPC Recommended Revenue Requirement Increase	416,939	238,766	122,330	22,381	33,463
16 $.6Million Revenue Requirement Increase	600,000	343,599	176,040	32,207	48,155
17 $.8 Million Revenue Requirement Increase	800,000	458,131	234,720	42,943	64,206
18					
19 **Combined Impact of Revenue Increase and OPC's RNS**					
20 OPC Recommended Revenue Requirement Increase	416,939	219,092	157,319	88,033	(47,504)
21 $.6Million Revenue Requirement Increase	600,000	323,924	211,029	97,859	(32,812)
22 $.8 Million Revenue Requirement Increase	800,000	438,457	269,709	108,595	(16,760)
23					
24 **Adjust to eliminate negative increase**					
25 OPC Recommended Revenue Requirement Increase	416,939	196,683	141,228	79,028	
26 $.6Million Revenue Requirement Increase	600,000	307,128	200,087	92,785	
27 $.8 Million Revenue Requirement Increase	800,000	429,460	264,174	106,366	
28					
29 **Percentage of Net Revenue Increase**					
30 OPC Recommended Revenue Requirement Increase	21.02%	17.02%	25.82%	193.66%	0.00%
31 $.6Million Revenue Requirement Increase	30.25%	26.58%	36.59%	227.37%	0.00%
32 $.8 Million Revenue Requirement Increase	40.34%	37.17%	48.30%	260.66%	0.00%
33					
34 **Class Revenue**					
35 OPC Recommended Revenue Requirement Increase	2400217	1352110	688132	119835	240140
36 $.6Million Revenue Requirement Increase	2583278	1462555	746991	133592	240140
37 $.8 Million Revenue Requirement Increase	2783278	1584887	811078	147173	240140
38					
39 **Percentage of Class Reverrnue**					
40 OPC Recommended Revenue Requirement Increase	100.00%	56.33%	28.67%	4.99%	10.00%
41 $.6Million Revenue Requirement Increase	100.00%	56.62%	28.92%	5.17%	9.30%
42 $.8 Million Revenue Requirement Increase	100.00%	56.94%	29.14%	5.29%	8.63%
43					
44 **Percentage Change in Class Rate Revenue**					
45 OPC Recommended Revenue Requirement Increase	21.02%	17.02%	25.82%	193.66%	0.00%
46 $.6Million Revenue Requirement Increase	30.25%	26.58%	36.59%	227.37%	0.00%
47 $.8 Million Revenue Requirement Increase	40.34%	37.17%	48.30%	260.66%	0.00%

TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service Rate	Sm Transport	Lg Transport
1 O & M Expenses		10,596,377	5,787,476	2,635,928	11,234	2,161,739
2 Depreciation Expenses		2,648,404	1,373,002	628,612	3,374	643,417
3 Taxes		1,762,414	890,232	410,329	2,410	459,444
4						
5 TOTAL - Expenses and Taxes		15,007,195	8,050,710	3,674,868	17,017	3,264,599
6						
7 *Current Revenue (non-gas)*						
8 Rate Revenue (non-gas)		17,531,566	11,368,134	4,459,461	10,457	1,693,514
10 Other Revenue	20	322,113	166,992	76,455	410	78,256
11						
12 TOTAL - Current Revenues		17,853,679	11,535,126	4,535,916	10,867	1,771,770
13 Current Revenue Percentage		100.00%	64.61%	25.41%	0.06%	9.92%
14						
15 OPERATING INCOME		2,846,484	3,484,416	861,048	(6,150)	(1,492,830)
16						
17 TOTAL RATE BASE		58,973,028	28,357,607	13,231,224	92,077	17,292,119
18						
19 Implicit Rate of Return (ROR)		4.83%	12.29%	6.51%	-6.68%	-8.63%
20						
21 PSC Rate of Return		8.180%	8.180%	8.180%	8.180%	8.180%
22						
23 CCOS Operating Income With						
24 Equalized (OPC) Rates of Return		4,823,994	2,319,652	1,082,314	7,532	1,414,495
25						
26 Additional Current Income Tax	20	582,720	302,097	138,312	742	141,569
27 Class COS at OPC's CCOS Rate of Return		20,413,909	10,672,459	4,895,494	25,291	4,820,664
28 Revenue Percentage		100.00%	52.28%	23.98%	0.12%	23.61%
29						
30 Allocation of Difference Between Current						
31 Revenue and Recommended Revenue	20	**2,560,230**	**1,327,290**	**607,683**	**3,261**	**621,995**
32						
33 Margin Revenue Required to Equalize						
34 Class ROR - Revenue Neutral		17,853,679	9,345,169	4,287,811	22,030	4,198,669
35 Revenue Percentage		100.00%	52.34%	24.02%	0.12%	23.52%
36		17,853,679				
37 Rev. Neutral Shift to Equalize Class ROR		-	(2,189,956)	(248,105)	11,163	2,426,899
38 Rev. Neutral Shift Percentage to Equalize Class ROR			-19.26%	-5.56%	106.75%	143.31%
39						
40 CCOS Revenue Neutral Shift = 1/2 indicated shift			(1,094,978)	(124,053)	5,581	1,213,450
41 OPC CCOS Revenue Neutral Shift Percentage			-9.63%	-2.78%	53.38%	71.65%
42 Class Revenue Percentages After Rec. Rev. Neutral Shift			58.48%	24.71%	0.09%	16.72%

Rate Design Analysis

		TOTAL	Residential	General Service Rate	Transportation	INTER-RUPTIBLE
1	Revenue Neutral Shifts (RNS) to Equalize Class					
2	Rates of Return (ROR)	$0	($2,189,956)	($248,105)	$11,163	$2,426,899
3						
4	Percentage Revenue Change to Equalize Class ROR	0.00%	-19.26%	-5.56%	106.75%	143.31%
5						
6	Current Class Revenue Percentages	100.00%	64.61%	25.41%	0.06%	9.92%
7						
8	COS Indicated Class Revenue Percentages	100.00%	52.34%	24.02%	0.12%	23.52%
9						
10	**OPC's CCOS Revenue Neutral Shifts**	$ -	$ (1,094,978)	$ (124,053)	$ 5,581	$ 1,213,450
11						
12	OPC's CCOS Revenue Percentages	0.00%	58.48%	24.71%	0.09%	16.72%
13						
14	**Spread of Proposed Revenue Requirement Increases**					
15	OPC CCOS Revenue Requirement Increase	2,560,230	1,497,124	632,664	2,359	428,082
16	$4 Million Revenue Requirement Increase	4,000,000	2,339,047	988,449	3,685	668,819
17	$5.6 Million Revenue Requirement Increase	5,600,000	3,274,665	1,383,829	5,159	936,346
18						
19	**Combined Impact of Revenue Increase and OPC's RNS**					
20	OPC CCOS Revenue Requirement Increase	2,560,230	402,146	508,611	7,940	1,641,532
21	$4 Million Revenue Requirement Increase	4,000,000	1,244,069	864,396	9,267	1,882,268
22	$5.6 Million Revenue Requirement Increase	5,600,000	2,179,687	1,259,776	10,741	2,149,796
23						
24	**Adjust to eliminate negative increase**					
25	OPC CCOS Revenue Requirement Increase	2,560,230	402,146	508,611	7,940	1,641,532
26	$4 Million Revenue Requirement Increase	4,000,000	1,244,069	864,396	9,267	1,882,268
27	$5.6 Million Revenue Requirement Increase	5,600,000	2,179,687	1,259,776	10,741	2,149,796
28						
29	**Percentage of Net Revenue Increase**					
30	OPC CCOS Revenue Requirement Increase	14.34%	3.49%	11.21%	73.06%	92.65%
31	$4 Million Revenue Requirement Increase	22.40%	10.79%	19.06%	85.27%	106.24%
32	$5.6 Million Revenue Requirement Increase	31.37%	18.90%	27.77%	98.84%	121.34%
33						
34	**Class Revenue**					
35	OPC CCOS Revenue Requirement Increase	20413909	11937272	5044528	18807	3413302
36	$4 Million Revenue Requirement Increase	21853679	12779194	5400313	20134	3654038
37	$5.6 Million Revenue Requirement Increase	23453679	13714813	5795692	21608	3921566
38						
39	**Percentage of Class Revenue**					
40	OPC CCOS Revenue Requirement Increase	100.00%	58.48%	24.71%	0.09%	16.72%
41	$4 Million Revenue Requirement Increase	100.00%	58.48%	24.71%	0.09%	16.72%
42	$5.6 Million Revenue Requirement Increase	100.00%	58.48%	24.71%	0.09%	16.72%
43						
44	**Percentage Change in Class Rate Revenue**					
45	OPC CCOS Revenue Requirement Increase	14.34%	3.49%	11.21%	73.06%	92.65%
46	$4 Million Revenue Requirement Increase	22.40%	10.79%	19.06%	85.27%	106.24%
47	$5.6 Million Revenue Requirement Increase	31.37%	18.90%	27.77%	98.84%	121.34%

TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service Rate	Transportation	INTER-RUPTIBLE
1 O & M Expenses		10,596,377	5,978,468	2,714,233	10,743	1,892,933
2 Depreciation Expenses		2,648,404	1,430,909	652,353	3,225	561,917
3 Taxes		1,762,414	931,898	427,411	2,303	400,802
4						
5 TOTAL - Expenses and Taxes		15,007,195	8,341,276	3,793,997	16,271	2,855,651
6						
7 Current Revenue (non-gas)						
8 Rate Revenue (non-gas)		17,531,566	11,368,134	4,459,461	10,457	1,693,514
10 Other Revenue	20	322,113	174,035	79,343	392	68,343
11						
12 TOTAL - Current Revenues		17,853,679	11,542,169	4,538,804	10,849	1,761,857
13 Current Revenue Percentage		100.00%	64.65%	25.42%	0.06%	9.87%
14						
15 OPERATING INCOME		2,846,484	3,200,893	744,806	(5,422)	(1,093,794)
16						
17 TOTAL RATE BASE		58,973,028	29,936,248	13,878,449	88,023	15,070,308
18						
19 Implicit Rate of Return (ROR)		4.83%	10.69%	5.37%	-6.16%	-7.26%
20						
21 PSC Rate of Return		8.180%	8.180%	8.180%	8.180%	8.180%
22						
23 CCOS Operating Income With						
24 Equalized (OPC) Rates of Return		4,823,994	2,448,785	1,135,257	7,200	1,232,751
25						
26 Additional Current Income Tax	20	582,720	314,838	143,535	710	123,637
27 Class COS at OPC's CCOS Rate of Return		20,413,909	11,104,899	5,072,790	24,181	4,212,039
28 Revenue Percentage		100.00%	54.40%	24.85%	0.12%	20.63%
29						
30 Allocation of Difference Between Current						
31 Revenue and Recommended Revenue	20	**2,560,230**	**1,383,269**	**630,634**	**3,117**	**543,208**
32						
33 Margin Revenue Required to Equalize						
34 Class ROR - Revenue Neutral		17,853,679	9,721,630	4,442,155	21,063	3,668,830
35 Revenue Percentage		100.00%	54.45%	24.88%	0.12%	20.55%
36		17,853,679				
37 Rev. Neutral Shift to Equalize Class ROR		-	(1,820,539)	(96,648)	10,214	1,906,973
38 Rev. Neutral Shift Percentage to Equalize Class ROR			-16.01%	-2.17%	97.68%	112.60%
39						
40 CCOS Revenue Neutral Shift = 1/2 indicated shift			(910,269)	(48,324)	5,107	953,487
41 *OPC CCOS Revenue Neutral Shift Percentage*			*-8.01%*	*-1.08%*	*48.84%*	*56.30%*
42 Class Revenue Percentages After Rec. Rev. Neutral Shift			59.55%	25.15%	0.09%	15.21%

Rate Design Analysis	TOTAL	Residential	General Service Rate	Transportation	INTER-RUPTIBLE
1 Revenue Neutral Shifts (RNS) to Equalize Class					
2 Rates of Return (ROR)	$0	($1,820,539)	($96,648)	$10,214	$1,906,973
3					
4 Percentage Revenue Change to Equalize Class ROR	0.00%	-16.01%	-2.17%	97.68%	112.60%
5					
6 Current Class Revenue Percentages	100.00%	64.65%	25.42%	0.06%	9.87%
7					
8 COS Indicated Class Revenue Percentages	100.00%	54.45%	24.88%	0.12%	20.55%
9					
10 **OPC's CCOS Revenue Neutral Shifts**	$ -	$ (910,269)	$ (48,324)	$ 5,107	$ 953,487
11					
12 OPC's CCOS Revenue Percentages	0.00%	59.55%	25.15%	0.09%	15.21%
13					
14 **Spread of Proposed Revenue Requirement Increases**					
15 OPC CCOS Revenue Requirement Increase	2,560,230	1,524,622	643,938	2,288	389,382
16 $4 Million Revenue Requirement Increase	4,000,000	2,382,008	1,006,063	3,575	608,355
17 $5.6 Million Revenue Requirement Increase	5,600,000	3,334,811	1,408,488	5,005	851,697
18					
19 **Combined Impact of Revenue Increase and OPC's RNS**					
20 OPC CCOS Revenue Requirement Increase	2,560,230	614,352	595,614	7,395	1,342,869
21 $4 Million Revenue Requirement Increase	4,000,000	1,471,738	957,738	8,682	1,561,842
22 $5.6 Million Revenue Requirement Increase	5,600,000	2,424,541	1,360,163	10,112	1,805,184
23					
24 **Adjust to eliminate negative increase**					
25 OPC CCOS Revenue Requirement Increase	2,560,230	614,352	595,614	7,395	1,342,869
26 $4 Million Revenue Requirement Increase	4,000,000	1,471,738	957,738	8,682	1,561,842
27 $5.6 Million Revenue Requirement Increase	5,600,000	2,424,541	1,360,163	10,112	1,805,184
28					
29 **Percentage of Net Revenue Increase**					
30 OPC CCOS Revenue Requirement Increase	14.34%	5.32%	13.12%	68.16%	76.22%
31 $4 Million Revenue Requirement Increase	22.40%	12.75%	21.10%	80.02%	88.65%
32 $5.6 Million Revenue Requirement Increase	31.37%	21.01%	29.97%	93.20%	102.46%
33					
34 **Class Revenue**					
35 OPC CCOS Revenue Requirement Increase	20413909	12156521	5134417	18244	3104726
36 $4 Million Revenue Requirement Increase	21853679	13013907	5496542	19531	3323699
37 $5.6 Million Revenue Requirement Increase	23453679	13966710	5898967	20961	3567041
38					
39 **Percentage of Class Revenue**					
40 OPC CCOS Revenue Requirement Increase	100.00%	59.55%	25.15%	0.09%	15.21%
41 $4 Million Revenue Requirement Increase	100.00%	59.55%	25.15%	0.09%	15.21%
42 $5.6 Million Revenue Requirement Increase	100.00%	59.55%	25.15%	0.09%	15.21%
43					
44 **Percentage Change in Class Rate Revenue**					
45 OPC CCOS Revenue Requirement Increase	14.34%	5.32%	13.12%	68.16%	76.22%
46 $4 Million Revenue Requirement Increase	22.40%	12.75%	21.10%	80.02%	88.65%
47 $5.6 Million Revenue Requirement Increase	31.37%	21.01%	29.97%	93.20%	102.46%

	TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service Rate	Sm Transport	Lg Transport
1	O & M Expenses		9,170,231	4,998,164	2,274,626	9,776	1,887,665
2	Depreciation Expenses		2,406,392	1,247,537	571,169	3,065	584,621
3	Taxes		1,443,042	731,679	336,915	1,954	372,494
4							
5	TOTAL - Expenses and Taxes		13,019,665	6,977,380	3,182,710	14,795	2,844,780
6							
7	Current Revenue (non-gas)						
8	Rate Revenue (non-gas)		16,173,925	10,491,889	4,079,731	10,457	1,591,848
10	Other Revenue	20	322,113	166,992	76,455	410	78,256
11							
12	TOTAL - Current Revenues		16,496,038	10,658,881	4,156,186	10,867	1,670,104
13	Current Revenue Percentage		100.00%	64.61%	25.20%	0.07%	10.12%
14							
15	OPERATING INCOME		3,476,373	3,681,501	973,476	(3,928)	(1,174,676)
16							
17	TOTAL RATE BASE		54,171,947	26,120,966	12,189,118	82,805	15,779,058
18							
19	Implicit Rate of Return (ROR)		6.42%	14.09%	7.99%	-4.74%	-7.44%
20							
21	PSC Recommended Rate of Return		8.180%	8.180%	8.180%	8.180%	8.180%
22							
23	Recommended Operating Income With						
24	Equalized (OPC) Rates of Return		4,431,265	2,136,695	997,070	6,773	1,290,727
25							
26	Additional Current Income Tax	20	582,720	302,097	138,312	742	141,569
27	Class COS at OPC's Recommended Rate of Return		18,033,650	9,416,172	4,318,092	22,311	4,277,076
28	Revenue Percentage		100.00%	52.21%	23.94%	0.12%	23.72%
29							
30	Allocation of Difference Between Current						
31	Revenue and Recommended Revenue	20	**1,537,612**	**797,138**	**364,960**	**1,959**	**373,555**
32							
33	Margin Revenue Required to Equalize						
34	Class ROR - Revenue Neutral		16,496,038	8,619,034	3,953,132	20,352	3,903,521
35	Revenue Percentage		100.00%	52.25%	23.96%	0.12%	23.66%
36			16,496,038				
37	Rev. Neutral Shift to Equalize Class ROR		-	(2,039,847)	(203,054)	9,485	2,233,417
38	Rev. Neutral Shift Percentage to Equalize Class ROR			-19.44%	-4.98%	90.70%	140.30%
39							
40	Recommended Revenue Neutral Shift = 1/2 indicated shift			(1,019,924)	(101,527)	4,742	1,116,708
41	OPC Recommended Revenue Neutral Shift Percentage			-9.72%	-2.49%	45.35%	70.15%
42	Class Revenue Percentages After Rec. Rev. Neutral Shift			58.43%	24.58%	0.09%	16.89%

Rate Design Analysis

	TOTAL	Residential	General Service Rate	Sm Transport	Lg Transport
1 Revenue Neutral Shifts (RNS) to Equalize Class					
2 Rates of Return (ROR)	$0	($2,039,847)	($203,054)	$9,485	$2,233,417
3					
4 Percentage Revenue Change to Equalize Class ROR	0.00%	-19.44%	-4.98%	90.70%	140.30%
5					
6 Current Class Revenue Percentages	100.00%	64.61%	25.20%	0.07%	10.12%
7					
8 COS Indicated Class Revenue Percentages	100.00%	52.25%	23.96%	0.12%	23.66%
9					
10 **OPC's Recommended Revenue Neutral Shifts**	$ -	$ (1,019,924)	$ (101,527)	$ 4,742	$ 1,116,708
11					
12 OPC's Recommended Revenue Percentages	0.00%	58.43%	24.58%	0.09%	16.89%
13					
14 **Spread of Proposed Revenue Requirement Increases**					
15 OPC Recommended Revenue Requirement Increase	1,537,612	898,457	377,939	1,455	259,762
16 $2 Million Revenue Requirement Increase	2,000,000	1,168,639	491,592	1,893	337,877
17 $2.5 Million Revenue Requirement Increase	2,500,000	1,460,799	614,490	2,366	422,346
18					
19 **Combined Impact of Revenue Increase and OPC's RNS**					
20 OPC Recommended Revenue Requirement Increase	1,537,612	(121,467)	276,412	6,197	1,376,470
21 $2 Million Revenue Requirement Increase	2,000,000	148,715	390,065	6,635	1,454,585
22 $2.5 Million Revenue Requirement Increase	2,500,000	440,875	512,963	7,108	1,539,054
23					
24 **Adjust to eliminate negative increase**					
25 OPC Recommended Revenue Requirement Increase	1,537,612		256,175	5,744	1,275,694
26 $2 Million Revenue Requirement Increase	2,000,000	148,715	390,065	6,635	1,454,585
27 $2.5 Million Revenue Requirement Increase	2,500,000	440,875	512,963	7,108	1,539,054
28					
29 **Percentage of Net Revenue Increase**					
30 OPC Recommended Revenue Requirement Increase	9.32%	0.00%	6.16%	52.85%	76.38%
31 $2 Million Revenue Requirement Increase	12.12%	1.40%	9.39%	61.05%	87.10%
32 $2.5 Million Revenue Requirement Increase	15.16%	4.14%	12.34%	65.41%	92.15%
33					
34 **Class Revenue**					
35 OPC Recommended Revenue Requirement Increase	18033650	10658881	4412361	16611	2945798
36 $2 Million Revenue Requirement Increase	18496038	10807596	4546251	17502	3124689
37 $2.5 Million Revenue Requirement Increase	18996038	11099756	4669149	17975	3209158
38					
39 **Percentage of Class Revenue**					
40 OPC Recommended Revenue Requirement Increase	100.00%	59.11%	24.47%	0.09%	16.34%
41 $2 Million Revenue Requirement Increase	100.00%	58.43%	24.58%	0.09%	16.89%
42 $2.5 Million Revenue Requirement Increase	100.00%	58.43%	24.58%	0.09%	16.89%
43					
44 **Percentage Change in Class Rate Revenue**					
45 OPC Recommended Revenue Requirement Increase	9.32%	0.00%	6.16%	52.85%	76.38%
46 $2 Million Revenue Requirement Increase	12.12%	1.40%	9.39%	61.05%	87.10%
47 $2.5 Million Revenue Requirement Increase	15.16%	4.14%	12.34%	65.41%	92.15%

	TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service Rate	Sm Transport	Lg Transport
1	O & M Expenses		9,170,231	5,165,128	2,343,080	9,347	1,652,676
2	Depreciation Expenses		2,406,392	1,300,152	592,741	2,930	510,568
3	Taxes		1,443,042	765,425	350,750	1,867	324,999
4							
5	TOTAL - Expenses and Taxes		13,019,665	7,230,706	3,286,571	14,144	2,488,244
6							
7	Current Revenue (non-gas)						
8	Rate Revenue (non-gas)		16,173,925	10,491,889	4,079,731	10,457	1,591,848
10	Other Revenue	20	322,113	174,035	79,343	392	68,343
11							
12	TOTAL - Current Revenues		16,496,038	10,665,924	4,159,074	10,849	1,660,191
13	Current Revenue Percentage		100.00%	64.66%	25.21%	0.07%	10.06%
14							
15	OPERATING INCOME		3,476,373	3,435,218	872,502	(3,295)	(828,053)
16							
17	TOTAL RATE BASE		54,171,947	27,567,575	12,782,212	79,090	13,743,071
18							
19	Implicit Rate of Return (ROR)		6.42%	12.46%	6.83%	-4.17%	-6.03%
20							
21	PSC Recommended Rate of Return		8.180%	8.180%	8.180%	8.180%	8.180%
22							
23	Recommended Operating Income With						
24	Equalized (OPC) Rates of Return		4,431,265	2,255,028	1,045,585	6,470	1,124,183
25							
26	Additional Current Income Tax	20	582,720	314,838	143,535	710	123,637
27	Class COS at OPC's Recommended Rate of Return		18,033,650	9,800,572	4,475,691	21,323	3,736,064
28	Revenue Percentage		100.00%	54.35%	24.82%	0.12%	20.72%
29							
30	Allocation of Difference Between Current						
31	Revenue and Recommended Revenue	20	**1,537,612**	**830,758**	**378,744**	**1,872**	**326,238**
32							
33	Margin Revenue Required to Equalize						
34	Class ROR - Revenue Neutral		16,496,038	8,969,813	4,096,948	19,451	3,409,826
35	Revenue Percentage		100.00%	54.38%	24.84%	0.12%	20.67%
36			16,496,038				
37	Rev. Neutral Shift to Equalize Class ROR		-	(1,696,110)	(62,126)	8,602	1,749,635
38	Rev. Neutral Shift Percentage to Equalize Class ROR			-16.17%	-1.52%	82.26%	109.91%
39							
40	Recommended Revenue Neutral Shift = 1/2 indicated shift			(848,055)	(31,063)	4,301	874,817
41	OPC Recommended Revenue Neutral Shift Percentage			-8.08%	-0.76%	41.13%	54.96%
42	Class Revenue Percentages After Rec. Rev. Neutral Shift			59.52%	25.02%	0.09%	15.37%

Rate Design Analysis

		TOTAL	Residential	General Service Rate	Sm Transport	Lg Transport
1	Revenue Neutral Shifts (RNS) to Equalize Class					
2	Rates of Return (ROR)	$0	($1,696,110)	($62,126)	$8,602	$1,749,635
3						
4	Percentage Revenue Change to Equalize Class ROR	0.00%	-16.17%	-1.52%	82.26%	109.91%
5						
6	Current Class Revenue Percentages	100.00%	64.66%	25.21%	0.07%	10.06%
7						
8	COS Indicated Class Revenue Percentages	100.00%	54.38%	24.84%	0.12%	20.67%
9						
10	**OPC's Recommended Revenue Neutral Shifts**	$ -	$ (848,055)	$ (31,063)	$ 4,301	$ 874,817
11						
12	OPC's Recommended Revenue Percentages	0.00%	59.52%	25.02%	0.09%	15.37%
13						
14	**Spread of Proposed Revenue Requirement Increases**					
15	OPC Recommended Revenue Requirement Increase	1,537,612	915,133	384,776	1,412	236,291
16	$2 Million Revenue Requirement Increase	2,000,000	1,190,331	500,485	1,837	307,348
17	$2.5 Million Revenue Requirement Increase	2,500,000	1,487,913	625,606	2,296	384,184
18						
19	**Combined Impact of Revenue Increase and OPC's RNS**					
20	OPC Recommended Revenue Requirement Increase	1,537,612	67,078	353,713	5,713	1,111,108
21	$2 Million Revenue Requirement Increase	2,000,000	342,275	469,422	6,138	1,182,165
22	$2.5 Million Revenue Requirement Increase	2,500,000	639,858	594,543	6,597	1,259,002
23						
24	**Adjust to eliminate negative increase**					
25	OPC Recommended Revenue Requirement Increase	1,537,612	67,078	353,713	5,713	1,111,108
26	$2 Million Revenue Requirement Increase	2,000,000	342,275	469,422	6,138	1,182,165
27	$2.5 Million Revenue Requirement Increase	2,500,000	639,858	594,543	6,597	1,259,002
28						
29	**Percentage of Net Revenue Increase**					
30	OPC Recommended Revenue Requirement Increase	9.32%	0.63%	8.50%	52.66%	66.93%
31	$2 Million Revenue Requirement Increase	12.12%	3.21%	11.29%	56.57%	71.21%
32	$2.5 Million Revenue Requirement Increase	15.16%	6.00%	14.30%	60.81%	75.83%
33						
34	**Class Revenue**					
35	OPC Recommended Revenue Requirement Increase	18033650	10733002	4512787	16562	2771299
36	$2 Million Revenue Requirement Increase	18496038	11008199	4628496	16987	2842356
37	$2.5 Million Revenue Requirement Increase	18996038	11305782	4753617	17446	2919193
38						
39	**Percentage of Class Revenue**					
40	OPC Recommended Revenue Requirement Increase	100.00%	59.52%	25.02%	0.09%	15.37%
41	$2 Million Revenue Requirement Increase	100.00%	59.52%	25.02%	0.09%	15.37%
42	$2.5 Million Revenue Requirement Increase	100.00%	59.52%	25.02%	0.09%	15.37%
43						
44	**Percentage Change in Class Rate Revenue**					
45	OPC Recommended Revenue Requirement Increase	9.32%	0.63%	8.50%	52.66%	66.93%
46	$2 Million Revenue Requirement Increase	12.12%	3.21%	11.29%	56.57%	71.21%
47	$2.5 Million Revenue Requirement Increase	15.16%	6.00%	14.30%	60.81%	75.83%

	TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service Rate	Lg Volume
1	O & M Expenses		1,426,146	767,730	381,967	276,449
2	Depreciation Expenses		242,012	121,906	61,303	58,803
3	Taxes		319,372	151,176	76,991	91,205
4						
5	TOTAL - Expenses and Taxes		1,987,530	1,040,812	520,261	426,457
6						
7	Current Revenue (non-gas)					
8	Rate Revenue (non-gas)		1,357,641	876,245	379,730	101,666
10	Other Revenue	20	-	-	-	-
11						
12	TOTAL - Current Revenues		1,357,641	876,245	379,730	101,666
13	Current Revenue Percentage		100.00%	64.54%	27.97%	7.49%
14						
15	OPERATING INCOME		(629,889)	(164,567)	(140,531)	(324,791)
16						
17	TOTAL RATE BASE		4,801,081	2,177,974	1,119,250	1,503,857
18						
19	Implicit Rate of Return (ROR)		-13.12%	-7.56%	-12.56%	-21.60%
20						
21	PSC Rate of Return		8.180%	8.180%	8.180%	8.180%
22						
23	CCOS Operating Income With					
24	Equalized (OPC) Rates of Return		392,728	178,158	91,555	123,016
25						
26	Additional Current Income Tax	20	-	-	-	-
27	Class COS at OPC's CCOS Rate of Return		2,380,258	1,218,970	611,816	549,473
28	Revenue Percentage		100.00%	51.21%	25.70%	23.08%
29						
30	Allocation of Difference Between Current					
31	Revenue and CCOS Revenue	20	**1,022,617**	**515,110**	**259,035**	**248,472**
32						
33	Margin Revenue Required to Equalize					
34	Class ROR - Revenue Neutral		1,357,641	703,860	352,780	301,000
35	Revenue Percentage		100.00%	51.84%	25.98%	22.17%
36			1,357,641			
37	Rev. Neutral Shift to Equalize Class ROR		0	(172,385)	(26,950)	199,334
38	Rev. Neutral Shift Percentage to Equalize Class ROR			-19.67%	-7.10%	196.07%
39						
40	CCOS Revenue Neutral Shift = 1/2 indicated shift			(86,192)	(13,475)	99,667
41	OPC CCOS Revenue Neutral Shift Percentage			-9.84%	-3.55%	98.03%
42	Class Revenue Percentages After Rec. Rev. Neutral Shift			58.19%	26.98%	14.83%

Rate Design Analysis

		TOTAL	Residential	General Service Rate	Lg Volume
1	Revenue Neutral Shifts (RNS) to Equalize Class				
2	Rates of Return (ROR)	$0	($172,385)	($26,950)	$199,334
3					
4	Percentage Revenue Change to Equalize Class ROR	0.00%	-19.67%	-7.10%	196.07%
5					
6	Current Class Revenue Percentages	100.00%	64.54%	27.97%	7.49%
7					
8	COS Indicated Class Revenue Percentages	100.00%	51.84%	25.98%	22.17%
9					
10	**OPC's CCOS Revenue Neutral Shifts**	$ -	$ (86,192)	$ (13,475)	$ 99,667
11					
12	OPC's CCOS Revenue Percentages	0.00%	58.19%	26.98%	14.83%
13					
14	**Spread of CCOS Revenue Requirement Increases**				
15	OPC CCOS Revenue Requirement Increase	1,022,617	595,092	275,875	151,650
16	$1.25 Million Revenue Requirement Increase	1,250,000	727,413	337,217	185,370
17	$1.5 Million Revenue Requirement Increase	1,500,000	872,896	404,660	222,445
18					
19	**Combined Impact of Revenue Increase and OPC's RNS**				
20	OPC CCOS Revenue Requirement Increase	1,022,617	508,900	262,400	251,318
21	$1.25 Million Revenue Requirement Increase	1,250,000	641,221	323,742	285,038
22	$1.5 Million Revenue Requirement Increase	1,500,000	786,703	391,185	322,112
23					
24	**Adjust to eliminate negative increase**				
25	OPC CCOS Revenue Requirement Increase	1,022,617	508,900	262,400	251,318
26	*$1.25 Million Revenue Requirement Increase*	1,250,000	641,221	323,742	285,038
27	$1.5 Million Revenue Requirement Increase	1,500,000	786,703	391,185	322,112
28					
29	**Percentage of Net Revenue Increase**				
30	OPC CCOS Revenue Requirement Increase	75.32%	58.08%	69.10%	247.20%
31	$1.25 Million Revenue Requirement Increase	92.07%	73.18%	85.26%	280.37%
32	$1.5 Million Revenue Requirement Increase	110.49%	89.78%	103.02%	316.83%
33					
34	**Class Revenue**				
35	OPC CCOS Revenue Requirement Increase	2380258	1385145	642130	352984
36	$1.25 Million Revenue Requirement Increase	2607641	1517466	703472	386704
37	$1.5 Million Revenue Requirement Increase	2857641	1662948	770915	423778
38					
39	**Percentage of Class Revenue**				
40	OPC CCOS Revenue Requirement Increase	100.00%	58.19%	26.98%	14.83%
41	$1.25 Million Revenue Requirement Increase	100.00%	58.19%	26.98%	14.83%
42	$1.5 Million Revenue Requirement Increase	100.00%	58.19%	26.98%	14.83%
43					
44	**Percentage Change in Class Rate Revenue**				
45	OPC CCOS Revenue Requirement Increase	75.32%	58.08%	69.10%	247.20%
46	*$1.25 Million Revenue Requirement Increase*	92.07%	73.18%	85.26%	280.37%
47	$1.5 Million Revenue Requirement Increase	110.49%	89.78%	103.02%	316.83%

	TOTAL COST OF SERVICE SUMMARY		TOTAL	Residential	General Service Rate	Lg Volume
1	O & M Expenses		1,426,146	790,176	391,599	244,372
2	Depreciation Expenses		242,012	126,778	63,394	51,840
3	Taxes		319,372	158,815	80,269	80,289
4						
5	TOTAL - Expenses and Taxes		1,987,530	1,075,769	535,261	376,500
6						
7	Current Revenue (non-gas)					
8	Rate Revenue (non-gas)		1,357,641	876,245	379,730	101,666
10	Other Revenue	20	-	-	-	-
11						
12	TOTAL - Current Revenues		1,357,641	876,245	379,730	101,666
13	Current Revenue Percentage		100.00%	64.54%	27.97%	7.49%
14						
15	OPERATING INCOME		(629,889)	(199,524)	(155,531)	(274,834)
16						
17	TOTAL RATE BASE		4,801,081	2,304,595	1,173,585	1,322,901
18						
19	Implicit Rate of Return (ROR)		-13.12%	-8.66%	-13.25%	-20.78%
20						
21	PSC Rate of Return		8.180%	8.180%	8.180%	8.180%
22						
23	CCOS Operating Income With					
24	Equalized (OPC) Rates of Return		392,728	188,516	95,999	108,213
25						
26	Additional Current Income Tax	20	-	-	-	-
27	Class COS at OPC's CCOS Rate of Return		2,380,258	1,264,284	631,260	484,713
28	Revenue Percentage		100.00%	53.12%	26.52%	20.36%
29						
30	Allocation of Difference Between Current					
31	Revenue and CCOS Revenue	20	**1,022,617**	**535,698**	**267,870**	**219,049**
32						
33	Margin Revenue Required to Equalize					
34	Class ROR - Revenue Neutral		1,357,641	728,586	363,391	265,664
35	Revenue Percentage		100.00%	53.67%	26.77%	19.57%
36			1,357,641			
37	Rev. Neutral Shift to Equalize Class ROR		0	(147,659)	(16,339)	163,998
38	Rev. Neutral Shift Percentage to Equalize Class ROR			-16.85%	-4.30%	161.31%
39						
40	CCOS Revenue Neutral Shift = 1/2 indicated shift			(73,829)	(8,170)	81,999
41	OPC CCOS Revenue Neutral Shift Percentage			-8.43%	-2.15%	80.66%
42	Class Revenue Percentages After Rec. Rev. Neutral Shift			59.10%	27.37%	13.53%

Rate Design Analysis

	TOTAL		Residential		General Service Rate		Lg Volume
1 Revenue Neutral Shifts (RNS) to Equalize Class							
2 Rates of Return (ROR)	$0		($147,659)		($16,339)		$163,998
3							
4 Percentage Revenue Change to Equalize Class ROR	0.00%		-16.85%		-4.30%		161.31%
5							
6 Current Class Revenue Percentages	100.00%		64.54%		27.97%		7.49%
7							
8 COS Indicated Class Revenue Percentages	100.00%		53.67%		26.77%		19.57%
9							
10 **OPC's CCOS Revenue Neutral Shifts**	$ -	$	(73,829)	$	(8,170)	$	81,999
11							
12 OPC's CCOS Revenue Percentages	0.00%		59.10%		27.37%		13.53%
13							
14 **<u>Spread of CCOS Revenue Requirement Increases</u>**							
15 OPC CCOS Revenue Requirement Increase	1,022,617		604,404		279,871		138,342
16 $1.25 Million Revenue Requirement Increase	1,250,000		738,796		342,101		169,103
17 $1.5 Million Revenue Requirement Increase	1,500,000		886,555		410,521		202,924
18							
19 **<u>Combined Impact of Revenue Increase and OPC's RNS</u>**							
20 OPC CCOS Revenue Requirement Increase	1,022,617		530,575		271,701		220,342
21 $1.25 Million Revenue Requirement Increase	1,250,000		664,966		333,931		251,102
22 $1.5 Million Revenue Requirement Increase	1,500,000		812,725		402,351		284,923
23							
24 **<u>Adjust to eliminate negative increase</u>**							
25 OPC CCOS Revenue Requirement Increase	1,022,617		530,575		271,701		220,342
26 $1.25 Million Revenue Requirement Increase	1,250,000		664,966		333,931		251,102
27 $1.5 Million Revenue Requirement Increase	1,500,000		812,725		402,351		284,923
28							
29 **<u>Percentage of Net Revenue Increase</u>**							
30 OPC CCOS Revenue Requirement Increase	75.32%		60.55%		71.55%		216.73%
31 $1.25 Million Revenue Requirement Increase	92.07%		75.89%		87.94%		246.99%
32 $1.5 Million Revenue Requirement Increase	110.49%		92.75%		105.96%		280.25%
33							
34 **<u>Class Revenue</u>**							
35 OPC CCOS Revenue Requirement Increase	2380258		1406820		651431		322008
36 $1.25 Million Revenue Requirement Increase	2607641		1541211		713661		352768
37 $1.5 Million Revenue Requirement Increase	2857641		1688970		782081		386589
38							
39 **<u>Percentage of Class Revenue</u>**							
40 OPC CCOS Revenue Requirement Increase	100.00%		59.10%		27.37%		13.53%
41 $1.25 Million Revenue Requirement Increase	100.00%		59.10%		27.37%		13.53%
42 $1.5 Million Revenue Requirement Increase	100.00%		59.10%		27.37%		13.53%
43							
44 **<u>Percentage Change in Class Rate Revenue</u>**							
45 OPC CCOS Revenue Requirement Increase	75.32%		60.55%		71.55%		216.73%
46 $1.25 Million Revenue Requirement Increase	92.07%		75.89%		87.94%		246.99%
47 $1.5 Million Revenue Requirement Increase	110.49%		92.75%		105.96%		280.25%