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BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the Matter of Summit Natural Gas of Missouri Inc.'s Filing of Revised Tariffs to Increase Its Annual Revenues for Natural Gas Service	))))	File No. GR-2014-0086 Tracking No. YG-2014-0285

REPORT AND ORDER

Issue Date: October 29, 2014

Effective Date: November 28, 2014

violation of the affiliate transaction rule because whether SNGMo has violated the affiliate transaction rule is expressly subject to a complaint alleging violations of law as specified by statute.[145]

c. Conclusion

Therefore, SNGMo shall file compliance tariffs that record the value of former Southern Missouri assets at net original cost.

C. Rate of Return

Having determined the revenue requirement matters, the Commission next determines SNGMo's return. The values for capital structure, the cost of debt, and the cost of equity remain in dispute.

Findings of Fact

1. SNGMo finances its capital assets with permanent financing.[146] Permanent financing means common equity, long-term debt, or preferred stock.[147] Preferred stock is absent from SNGMo's capital structure,[148] so SNGMo's capital components are common equity ("equity") and long-term debt ("debt").

2. Returns are a percentage of rate base ("rate of return").

3. Multiplying the cost of each capital component (debt and equity) by its respective proportion in the capital structure, and adding the two products together, yields a weighted cost of capital,[149] which equals the rate of return.

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[145] Section 396.390, RSMo 2000.

[146] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

[147] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

[148] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

[149] EFIS No. 184, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 6.

4. Stated another way, cost-of-service rate-making considers SNGMo's rate of return to be its weighted cost of capital, which is as follows.

100% Capitalization	=	Debt %	x Return on Debt	= Cost of Debt	=	Weighted Cost of Capital (Rate of return)
		Equity %	x Return on Equity	= Cost of Equity		

Hence, SNGMo's returns depend on the Commission's rulings on values related to capital components.

Discussion and Conclusions of Law

The parties' arguments and the Commission's rulings on the rate of return and its components are as follows. As to the rate of return, using the parties' midpoint for return on equity:

Staff	**Commission**	SNGMo
7.34	**7.53**	8.22

As to the ratio of debt to equity:

	Staff	**Commission**	SNGMo
Debt	60	**43**	43
Equity	40	**57**	57

As to the cost of debt

Staff	**Commission**	SNGMo
5.37	**3.21**	3.21

As to the cost of equity:

Staff			**Commission**	SNGMo		
Low	Midpoint	High		Low	Midpoint	High
9.80	10.30	10.80	**10.80**	12.00	15.00	17.60

Therefore, SNGMo's rate of return shall be:

100% Capitalization	=	43 %	X 3.21	= 1.38	=	7.54
		57 %	x 10.80	= 6.16		

The support for each of those rulings is as follows.

i. Capital Structure

The Commission is setting SNGMo's capital structure at 43 percent debt and 57 percent equity as SNGMo asks, because that is how SNGMo actually provided service during the test year. Staff and OPC argue for 60 percent debt and 40 percent equity.

	Staff	**Commission**	SNGMo
Debt	60	**43**	43
Equity	40	**57**	57

The evidence and arguments of Staff and OPC are less persuasive.

Findings of Fact

1. In 2009, the debt-to-equity ratio of SNGMo, then known as Missouri Gas Utilities, Inc., peaked at 57% debt and 43% equity.

2. On October 3, 2011, SNGMo and Southern Missouri filed an application in File No. GO-2012-0102 ("the 2011 finance case").[150] That application sought authorization to issue debt secured by the assets of SNGMo and Southern Missouri.[151] The purpose of the new debt was to consolidate current debt.[152] The application included a projected capital structure for 2014.[153]

[150] File No. GO-2012-0102, *In the Matter of the Application of Missouri Gas Utility, Inc. for Authority to Issue up to and Including $88,000,000 of Long-Term Indebtedness in one or More Tranches after the Closing of the Merger Between Missouri Gas Utility and Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas, and to, Among Other Things, Encumber the Operating Assets of the Consolidated Entity*.

[151] File No. GO-2012-0102, EFIS No. 1, *Application and Motion for Expedited Treatment*, filed on October 3, 2011.

[152] File No. GO-2012-0102, EFIS No. 8, *Order Granting Application*, issued on December 21, 2011, page 2, first paragraph.

[153] File No. GO-2012-0102, EFIS No. 1, *Application and Motion for Expedited Treatment*, filed on October 3, 2011, appendix 7 (HC).

3. In the test year,[154] and at the end of 2013,[155] SNGMo had 43% debt and 57% equity. Debt and equity are the relationship of SNGMo to another entity in return for SNGMo's use of those other entity's resources. Debt is the resources lent to SNGMo in return for SNGMo's repayment with interest. Equity means resources invested in SNGMo in return for ownership of SNGMo and the possibility of dividends paid from SNGMo.

4. Equity is more expensive than debt,[156] and pays owners, so a capital structure with more equity favors owners over other persons. The owner of SNGMo, Summit Utilities, has never received any dividend from SNGMo.[157]

5. Summit Utilities also owns Colorado Natural Gas. Colorado Natural Gas has a capital structure of 57 percent debt to 43 percent equity.[158]

6. The approximate average capital structures for gas utilities, compared to the parties' proposals, are as follows.[159]

	Debt	*Equity*
Missouri	50	50
United States	48	52
SNGMo	43	57
Staff	60	40

[154] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 7.

[155] EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 12.

[156] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 37.

[157] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 40.

[158] EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 13.

[159] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 44.

7. SNGMo's owner Summit Utilities' capital structure was 39% long-term debt and 61% common equity. Like SNGMo, Summit Utilities has no outstanding preferred stock.[160] Summit Utilities does not provide gas service.

Discussion and Conclusions of Law

SNGMo asks the Commission to order the capital structure under which SNGMo actually operated in the test year as agreed by the parties and ordered by the Commission.[161] In support, SNGMo notes that SNGMo provided service to its customers under that capital structure during the test year, and no party disputes the safety and adequacy of that service. Staff argues, with OPC's support, that the Commission should depart from the test year capital structure in favor of a hypothetical capital structure. The arguments of Staff and OPC are less persuasive than SNGMo's argument.

Staff and OPC argue that using a hypothetical capital structure is necessary to protect customers from financing SNGMo's shortfall and excess capacity. To provide that protection, Staff proffers the projected capital structure from the 2011 finance case.[162] Staff argues that adjusting the projected capital structure into a hypothetical capital structure [163] shows how SNGMo would look if it had not expanded into service area Lake of the Ozarks.

[160] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 8.

[161] EFIS No. 15, *Order Determining Test Year, Update, and True-up*, issued on January 23, 2014.

[162] File No. GO-2012-0102, *In the Matter of the Application of Missouri Gas Utility, Inc. for Authority to Issue up to and Including $88,000,000 of Long-Term Indebtedness in one or More Tranches after the Closing of the Merger Between Missouri Gas Utility and Southern Missouri Gas Company, L.P. d/b/a Southern Missouri Natural Gas, and to, Among Other Things, Encumber the Operating Assets of the Consolidated Entity*.

[163] EFIS No. 199, Exh. No. 118, *Rebuttal Testimony of David Murray*, page 11-12.

In support of a hypothetical capital structure, Staff cites State ex rel. Associated Natural Gas v. Public Service Commission.[164] In that opinion, the Court of Appeals described the permissible use of hypothetical capital structures as a furtherance of the public interest and gave two specific examples.

> . . . . It appears to be an accepted regulatory practice to disregard the actual book capital structure of a utility when it is deemed to be in the public interest to do so. There are two circumstances in which a utility commission might disregard a utility's actual capital structure and adopt a hypothetical capital structure for ratemaking purposes.
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> The first occurs when the utility's actual debt-equity ratio is deemed inefficient and unreasonable because it contains too much equity and not enough debt, necessitating an inflated rate of return *[.]*
>
> The second circumstance that justifies adopting a hypothetical construct occurs when the utility is part of a holding company system. In such situations, the utility's book capital structure and capital costs may not be a true reflection of the system's capital costs with respect to a particular operating company. [[165]]

Neither of those two specific situations have support in the evidence or argument of Staff and OPC. And SNGMo argues that Associated Natural Gas limits using a hypothetical capital structure on any facts other than the two specific examples. That argument requires no resolution because the Commission is not using a hypothetical capital structure in this case.

Staff incorrectly characterizes the 2011 financing case. Staff alleges that SNGMo's purpose in the 2011 finance case was to achieve a capital structure of 40 percent debt to 60 percent equity and to finance its risky expansion into service area

[164] 706 S.W.2d 870 (Mo. App., W.D. 1985).

[165] State ex rel. Associated Natural Gas Co. v. Pub. Serv. Comm'n of Missouri, 706 S.W.2d 870, 878-79 (Mo. App., W.D. 1985) citations omitted.

Lake of the Ozarks. But, as SNGMo notes, the 2011 financing case's purpose was not to determine rates.

On the contrary, the Commission's decision expressly stated:

> Nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for ratemaking purposes, which includes, but is not limited to the capital structure, and that the Commission reserves the right to consider the ratemaking treatment to be afforded these financing transactions and their results in cost of capital, in any later proceeding. [[166]]

That ordered paragraph stands on the application's allegation[167] and the Commission's finding,[168] that the 2011 financing case's purpose was to "replace the various forms of existing debt held separately by Missouri Gas Utilities, Inc. and Southern Missouri with a single, long-term form of permanent financing." Nothing in the 2011 financing case requires Staff's hypothetical capital structure.

Also, Staff's premise for their position is that SNGMo's decision to expand in the service area Lake of the Ozarks equals the difference between the 2011 finance case's projections and the test year of 2013. The record does not support that assumption. Staff's premise is, and its conclusion therefore must be, speculative.

Staff provides no evidence of any gas utility with the capital structure that it proposes for SNGMo. [169] Staff refers to the capital structure of Colorado Natural Gas, but nothing shows that Colorado Natural Gas resembles SNGMo specifically in anything

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[166] File No. GO-2012-0102, EFIS No. 8, *Order Granting Application*, issued on December 21, 2011, page 3, ordered paragraph1.A.

[167] File No. GO-2012-0102, EFIS No. 1, *Application and Motion for Expedited Treatment*, filed on October 3, 2011, page 3, paragraph 8; page 6, paragraph 14.

[168] File No. GO-2012-0102, EFIS No. 8, *Order Granting Application*, issued on December 21, 2011, page 2, first paragraph.

[169] EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 172, line 2-20.

but common ownership. Nothing shows that common ownership is significant as to capital structure, or that Colorado Natural Gas is representative of gas service in general. On the contrary, the evidence shows that the average capitalization for Missouri natural gas utilities is approximately 50:50, and the industry average is only slightly less leveraged at 48:52 debt-to-equity.

Staff also refers to a hypothetical capital structure for SNGMo's parent Summit Utilities, developed by Infrastructure Investment Fund's auditor.[170] The auditor used that hypothetical capital structure to determine the fair value of Infrastructure Investment Fund's equity in Summit Utilities.[171] The purpose and context of that value do not appear in the record. In any event, Staff does not explain the relevance of a hypothetical capital structure for Summit Utilities to a hypothetical capital structure for SNGMo.

SNGMo has shown the capital structure under which it actually operated. The desire of Staff and OPC to protect customers from speculative projects is appropriately motivated. But a hypothetical capital structure as Staff and OPC propose is not the means to that end.

Just and reasonable rates protect customers from risky conduct, because that conduct is not within the customers' control, and customers do not profit if the risk is successful. Owners have control over that conduct and profit if the risk is successful. Therefore, owners should bear the loss if the risk is unsuccessful.

Therefore, SNGMo shall file compliance tariffs that set SNGMo's capital structure at 43 percent debt and 57 percent equity.

ii. Cost of Debt

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[170] EFIS No. 211, Exh. No. 130, *Surrebuttal Testimony of David Murray*, page 7-8.

[171] EFIS No. 211, Exh. No. 130, *Surrebuttal Testimony of David Murray*, page 7-8.

The Commission is setting SNGMo's cost of debt at SNGMo's proposed 3.21 percent per year, which is what SNGMo paid in the test year. Staff proposes a hypothetical cost of debt based in part on its hypothetical capital structure and in part on the cost of debt for Colorado Natural Gas.

Staff	**Commission**	SNGMo
5.37	**3.21**	3.21

Staff's argument is less persuasive than SNGMo's.

Findings of Fact

1. SNGMo has $100 million of long-term debt outstanding, all of it due on December 31, 2015,[172] at a rate of 3.21 percent[173] variable[174] during the test year. That amount of debt is low for a utility, and very short-term.[175]

2. If SNGMo had a credit rating from Bloomberg Finance, L.P. ("Bloomberg"), SNGMo's credit rating would be 'B.' [176] Bloomberg's B-rated debt paid 7.60 percent in December 2013.[177] Bloomberg's BB-rated debt paid 7.35 percent.

3. Colorado Natural Gas cost of debt is 5.37 percent, variable. That interest rate was set more than two years ago. The terms of that debt allocate to Colorado Natural Gas certain extra risks that a lender ordinarily assumes. Those facts make Colorado Natural Gas cost of debt lower than it otherwise would be.

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[172] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 38.

[173] EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 115, line 18-20.

[174] EFIS No. 184, Exh. No. 104, *Staff Report Cost of Service*, page 17.

[175] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 38.

[176] EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 11.

[177] EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 11.

4. If SNGMo's capital structure were the same as Colorado Natural Gas, SNGMo's cost of 20-year debt would have to be from 6.5 percent to 7 percent.[178] That cost of debt would require a rate increase greater than a 3.21 cost of debt does.

5. Colorado Natural Gas also differs significantly from SNGMo in other ways. Compared to SNGMo, Colorado Natural Gas has 16 percent more customers, 40 percent less debt, and 47 percent higher earnings before interest, tax, depreciation, and amortization even counting earnings from the service area Lake of the Ozarks.[179]

Discussion and Conclusions of Law

SNGMo argues for the cost of debt under which SNGMo actually functioned in the test year: 3.21 percent annual rate. SNGMo's actual paid rate in the test year, where all other data comes from, is persuasive. The hypothetical cost of debt that Staff offers—5.0 percent annually—based on Staff's hypothetical capital structure is not persuasive.

Staff argues that determining SNGMo's cost of debt according to its current capital structure is inappropriate because that capital structure is temporary. But the Commission has already favored SNGMo's capital structure. Staff argues that SNGMo's test-year 3.21 percent annual rate is too low because it is a variable rate. But so is long-term debt of Colorado Natural Gas, Staff's chosen proxy.

Staff argues that Colorado Natural Gas constitutes a reasonable proxy for what SNGMo would look like if SNGMo had not expanded into the service area Lake of the Ozarks. The Commission concludes that Colorado Natural Gas is not a reasonable

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[178] EFIS No. 163, Exh. No. 3NP/3HC, *Surrebuttal Testimony of James M. Anderson* (NP and HC), page 15-16.

[179] EFIS No. 162, Exh. No. 2, *Rebuttal Testimony of James M. Anderson*, page 4.

proxy for SNGMo because of the significant differences in customer base, earnings, debt, terms of debt, and capital structure.

On this record, the Commission concludes that the cost of SNGMo's long-term debt should be 3.21 percent. Therefore, SNGMo shall file compliance tariffs that set SNGMo's cost of long-term debt at 3.21% per year.

iii. Return on Equity

The parties offer a range of returns on equity, and the Commission's determination is as follows.

Staff			**Commission**	SNGMo		
Low	Midpoint	High		Low	Midpoint	High
9.80	10.30	10.80	**10.80**	12.00	15.00	17.60

The recommendation of SNGMo's expert is 15.00 percent,[180] but SNGMo confines its request to 12.00 percent.[181] Even so, SNGMo's evidence is less persuasive than Staff's as discussed below.

Findings of Fact

1. To calculate the appropriate return on equity for a regulated gas company, the ordinary method is to project returns on equity from other companies ("proxies") by formulas in which the variables are economic and financial information.[182] Using several different formulas checks the reasonableness of the result.

a. The Proxy Group

2. Better documented information about a proxy, and closer resemblance between the proxy and the subject company, make for a better projection.

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[180] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 42-47.

[181] EFIS No. 164, Exh. No. 4, *Direct Testimony of Michelle A. Moorman*, page 14.

[182] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

3. Standard qualifications for a regulated gas company's proxy include entities having:

a. Stock publicly traded;
b. At least 65 percent operating income from distribution;
c. At least 65 percent of assets are distribution assets;
d. Two analysts for long-term projected EPS growth available within the last 90 days;
e. Positive historical 5-year compound annual growth rate in dividends per share; and
f. At least investment grade credit rating.[183]

4. The following entities ("proxy group") have those qualifications.[184]

a. AGL Resources
b. Atmos Energy Corp.
c. Laclede Group, Inc.
d. New Jersey Resources
e. Northwest Natural Gas
f. Piedmont Natural Gas
g. Southwest Gas Corp.
h. WGL Holdings, Inc.

All entities in the proxy group have a credit rating of "A".[185] The difference between the bonds of the proxy group and the bonds of SNGMo is two percent.[186]

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[183] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 22.

[184] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 22.

5. The following entities ("non-proxy group") do not have those qualifications.

   a. NiSource. During calendar year 2013, NiSource only derived 38.95 percent of its operating income from its gas distribution operations.[187]

   b. UGI's gas distribution operations only contributed 23.64 percent to the total operating income, while its AmeriGas Propane operations contributed 47.46 percent to its total operating income.[188]

   c. South Jersey Industries lacked at least two analyst reports for long-term projected EPS growth within the last 90 days.[189]

b. Constant Growth DCF

6. Experts use several methods for determining the return on equity for a regulated gas company. Constant Growth Discounted Cash Flow ("Constant Growth DCF") is the best for a mature industry like gas service, and others are useful to check the result.

7. Constant Growth DCF determines return on equity by the following formula.

$$k=D/P_0+g$$

where k is the cost of equity; D_1 is the expected next 12 months dividend; Po is the current price of the stock; and g is the dividend growth rate. The term DdPo, the expected next l2 months dividend divided by current share price, is the dividend yield.

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[185] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

[186] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

[187] EFIS No. 199, Exh. No. 118, *Rebuttal Testimony of David Murray*, page 12.

[188] EFIS No. 199, Exh. No. 118, *Rebuttal Testimony of David Murray*, page 12.

[189] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

8. Historically, gas companies grow at approximately four percent, but more recent growth factors have reached five percent. Using those growth factors, and a projected average dividend yield of 3.80 percent, unadjusted for quarterly compounding, yields returns on equity of 7.8 to 8.8.

c. CAPM

9. The Capital Asset Pricing Method ("CAPM") assumes that returns follow risk. The pure time value of money is a risk-free investment. The market as a whole has risk ("market risk"). Therefore, the reward for investing in the market is the difference between a risk-free investment and market risk. Market risk compared to the risk of a specific asset is β, the divergence of the asset from the market.

10. CAPM determines return on equity by the following formula:

$$k = Rf+\beta(Rm - Rf)$$

where k is the expected return on equity, Rf is a risk-free rate, and Rm is market risk.

11. The proxy group has a β of 0.80.[190] The difference in returns between stocks and bonds shows the market risk premium: calculated arithmetically, 4.64; calculated geometrically, 6.20.[191] Using those market risk premiums and a risk-free rate of 3.60[192] yields a return on equity of 7.31 to 8.55 [193] for the proxy group.

d . Total Return

12. Total Return uses historical price with dividends reinvested over time. Employing the period December 31, 2007, through October 15, 2013, and a 4.4 percent

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[190] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 36.

[191] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 32-33.

[192] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 32.

[193] EFIS No. 185, Exh. No. 104, *Staff Report Revenue Requirement Cost of Service*, page 33.

risk premium yields a return on equity of 12.5 percent for the proxy group and the entities and the non-proxy group.

Discussion and Conclusions of Law

When serving impoverished or remote areas of Missouri, financial risk and social value are inextricably bound together. OPC alleges that SNGMo is using its return on equity proposal to raise rates as a conduit to compensate for its shortfall and the Commission should not reward SNGMo for overbuilding. But the Commission has already addressed the issue of excess capacity in each service area.

SNGMo's evidence for return on equity is less credible than Staff's. The reasons include without limitation the following. SNGMo's witness for return on equity is not a shareholder, [194] but is also not an outside expert. SNGMo's expert has a long history of interests related to SNGMo and its owners, including the sale of securities among those entities, [195] and past seats on boards of directors, and current alternate status on boards of directors, [196] when SNGMo's projections led to the unfulfilled aspirations at the heart of this litigation.

Also, SNGMo bases its estimate for return on equity in part on the non-proxy group. [197] The growth factor employed is unrealistically high. Even if one disregards the increased rate shock, and disregards the possibility of risk-shifting, one cannot

[194] EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 140, line 7.

[195] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 6.

[196] EFIS No. 158, *Transcript, Volume 10*, filed on August 29, 2014, page 139, line 18, to page 140, line 5-7.

[197] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 44.

disregard SNGMo's decision to distance itself from its own expert's range.[198] Altogether, the Commission accords that range less weight in constructing safe and adequate service at just and reasonable rates.

Staff's results are more convincing because Staff's standards for admittance into the proxy group are higher, and Staff's analyses are more thorough as to growth in Constant Growth DCF and market risk premium in CAPM. Therefore, the Commission will choose a value from Staff's range.

Staff's range includes a risk factor of 2 percent. The Commission concludes that a risk factor is due. Staff's risk factor stands on the difference between SNGMo's bond rating and the bond rating of the proxy group. SNGMo disputes Staff's bond analysis but Staff's risk analysis inspires more confidence than SNGMo's. SNGMo offers a set of risk factors, totaling 4.4 percent, without evidence that experts—or anyone other than SNGMo's expert—ordinarily uses them.[199] The Commission also considers SNGMo's place in the debt market, and the need to keep SNGMo a worthwhile investment for its sole shareholder. The Commission further considers the social value of bringing gas service to parts of Missouri where it has not before been available. Those considerations move the Commission's determination to the high end of Staff's range, which is 10.80 percent.

OPC cites a rule of reasonableness that checks the reasonableness of a decision by comparison with other decisions. But the other decisions that OPC cites are from

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[198] EFIS No. 164, Exh. No. 4, *Direct Testimony of Michelle A. Moorman*, page 14.

[199] EFIS No. 161, Exh. No. 1, *Direct Testimony of James M. Anderson*, page 52.

other States.[200] Those citations are less persuasive than past Commission decisions because, not only has OPC shown nothing about the controlling facts in those decisions, OPC has shown nothing about the controlling law. OPC has not shown that the cited decisions are comparable.[201]

Therefore, the Commission will order SNGMo to file compliance tariffs setting the maximum allowable return on equity at 10.80 percent.

D. Rate Design: Phase-In

Rate design is the manner in which SNGMo collects its revenue requirement: how much, from whom, and when. The last is in dispute: whether tariffs should mitigate rate shock by gradually phasing in a rate increase. The Commission is not ordering a phase-in of rates because no party offers a proposal that will support safe and adequate service at just and reasonable rates.

Findings of Fact

1. Members of MSBA formerly served by Southern Missouri ("the schools") are within SNGMo's service area. The schools are special transportation customers—they do not buy gas at retail from SNGMo, but pay SNGMo to deliver the gas that the schools buy from other retail sellers, both under a statutorily authorized aggregation program.[202]

2. SNGMo's transportation customers send SNGMo an order for the amount of gas it will use in a coming month ("nomination"). If the nomination is too high, SNGMo

[200] EFIS No. 271, *Public Counsel's Reply Regarding Return on Equity*, filed on October 23, 2014, page 2-3.

[201] The decisions are not in the record and OPC offers no authority under which Commission can take notice of those decisions. Similarly, Staff's initial brief cites documents outside of the record in support of its argument on cost-of-service rate-making theory. The Commission has not relied on those documents.

[202] EFIS No. 208, Exh. No. 127, *Surrebuttal Testimony of Phil Lock*, page 2