STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

TRANSCRIPT OF PROCEEDINGS
On-the-Record Presentation
April 22, 2014
Jefferson City, Missouri
Volume 10
HEARING

In the Matter of the General)
Rate Increase Tariffs for)
Missouri Gas Energy, a Division) File No.
Of Laclede Gas Company) GR-2014-0007

KENNARD L. JONES, Presiding,
SENIOR REGULATORY LAW JUDGE.

ROBERT S. KENNEY, Chairman
STEPHEN M. STOLL,
WILLIAM KENNEY,
DANIEL Y. HALL,
SCOTT RUPP,
COMMISSIONERS.

REPORTED BY:
KELLENE K. FEDDERSEN, CSR, RPR, CCR NO. 838
MIDWEST LITIGATION SERVICES

APPEARANCES:

MICHAEL C. PENDERGAST, Attorney at Law
RICK ZUCKER, Attorney at Law
Laclede Gas Company
720 Olive Street
St. Louis, MO 63101
(314)342-0532

FOR: Laclede Gas Company.

JOHN COFFMAN, Attorney at Law
871 Tuxedo Boulevard
St. Louis, MO 63119
(573)424-6779
FOR: AARP.
Consumers Council of Missouri.

STUART CONRAD, Attorney at Law
Finnegan, Conrad & Peterson
3100 Broadway
1209 Penntower Officer Center
Kansas City, MO 64111
(816)753-1122
stucon@fcplaw.com

FOR: Midwest Gas Users Association.

MARC D. POSTON, Senior Public Counsel
Office of the Public Counsel
P.O. Box 2230
200 Madison Street, Suite 650
Jefferson City, MO 65102-2230
(573)751-4857
FOR: Office of the Public Counsel
and the Public.

JOHN BORGMEYER, Deputy Counsel/Gas
Missouri Public Service Commission
P.O. Box 360
200 Madison Street
Jefferson City, MO 65102
(573)751-3234
FOR: Staff of the Missouri Public
Service Commission.

P R O C E E D I N G S

(WHEREUPON, the on-the-record presentation began at 2:00 p.m.)

JUDGE JONES: Let's go ahead and go on the record. It's 2 p.m. My name is Kennard Jones. I'm the Regulatory Law Judge presiding over this matter. This is Case No. GR-2014-0007, in the matter of Missouri Gas Energy's filing of revised tariffs to increase its annual revenue for natural gas service.

At this moment let's take entries of appearances, beginning with Laclede Gas.

MR. ZUCKER: Rick Zucker, 720 Olive Street, St. Louis, Missouri 63101, appearing for Laclede Gas and Missouri Gas Energy.

JUDGE JONES: And the Office of the Public Counsel.

MR. POSTON: Thank you, Judge. Marc Poston appearing for the Office of the Public Counsel.

JUDGE JONES: Staff of the Commission.

MR. BORGMEYER: Yes. Thank you, your Honor. Appearing on behalf of the Staff of the Missouri Public Service Commission, my name is John

Borgmeyer, P.O. Box 360, Jefferson City, Missouri 65101.

JUDGE JONES: Missouri Department of Economic Development, Division of Energy.

MR. KNEE: On behalf of the Division of Energy, Jeremy Knee, P.O. Box 1157, Jefferson City, Missouri 65102.

JUDGE JONES: Thank you. Midwest Gas Users Association and US Gypsum.

MR. CONRAD: Your Honor, let the record show, please, the appearance of Stuart W. Conrad, law firm of Finnegan, Conrad & Peterson, 3100 Broadway, K.C., Missouri 64111. I have not yet but I will provide that same information to the court reporter.

JUDGE JONES: Thank you, Mr. Conrad. Consumers Council of Missouri and AARP.

MR. COFFMAN: Good afternoon. My name is John B. Coffman. I'm appearing on behalf of the Consumers Council of Missouri, also on behalf of AARP, 871 Tuxedo Boulevard, St. Louis, Missouri 63119.

JUDGE JONES: And the City of Kansas City? And is there any other -- I don't note anyone here for the City of Kansas City, but is there anyone who has -- who's a party who I did not call?

(No response.)

JUDGE JONES: Okay. Did any Commissioner want to make any statements before we continue?

CHAIRMAN KENNEY: Well, and questions simultaneously?

JUDGE JONES: Well, I'm going to have MGE do an opening.

CHAIRMAN KENNEY: I'll wait until after that.

JUDGE JONES: And Missouri Gas Energy, you have a presentation you'd like to make?

MR. ZUCKER: Yes, your Honor.

JUDGE JONES: Please proceed with that. Thank you.

MR. ZUCKER: May it please the Commission? My name is Rick Zucker. I'm Associate General Counsel for Missouri Gas Energy, and we're here today with a Stipulation & Agreement that's been reached by all parties in the case or not opposed by parties in the case.

Let me start by introducing my colleagues who are here to help answer any questions you may have. In no particular order, but first of course is our Senior Vice President and General Counsel and Chief Compliance Officer Mr. Mark Darrell. Mark's in the gold and black Mizzou tie.

Second is Mike Pendergast. Mike is a former member of the Commission Staff, a lawyer, former lawyer with OPC, and for more than 20 years has represented Laclede Gas in both a legal and regulatory capacity. Mike was our chief negotiator in this case, and I feel safe in saying that we wouldn't be standing here before you today with a settlement if not for Mike's efforts in satisfying the varying interests and needs of the diverse parties to this case.

Also here today is Mike Noack in the blue shirt and tie. Mike is Director of Pricing and Regulatory Affairs for MGE. Mike is a jack of many trades and a master of all of them. And I like to say, if you go to MGE's offices and open a door, the odds are pretty good you'll find Mike Noack behind it.

Next is Glen Buck in the white shirt there. Glen is our Director of Regulatory and Finance. He is a longtime member of the finance department at Laclede, but he has such a great aptitude and interest in regulatory affairs that we plucked him out of finance and he is now -- now serves full-time in the regulatory group where he brings both his finance and regulatory talents.

We also have -- is Larry Pleus here? Nope. Larry's not in the room at the moment, but he's our Director of Government and Legislative Affairs. He may not be as qualified to answer rate case questions as these other fellows that I've introduced, but if you have a UtiliCare funding question, I think he can help. He has spent a lot of time at the Legislature getting UtiliCare funding for our more vulnerable customer group.

Finally, I would like to mention that Todd Jacobs, who couldn't be here today, is Associate General Counsel for MGE, and we are losing Todd next month to Kansas. He will be running the Black Hills Corporation Kansas gas utility. Todd has been a great asset for MGE over the past several years and for Laclede over the past several months, and we congratulate him on his new position and wish him well in all of his future endeavors.

Okay. Let me get to the headline for

this settlement, and that is that, if you approve it, MGE's customer rates next month will be roughly the same as they are today. So as the company's ISRS rates are reset to zero, the increased revenue requirement of 7.8 million will effectively replace those ISRS revenues. So, in effect, we're keeping rates flat to where they are today.

And if you look back to four years ago when MGE last had a rate case, they came out of a rate case in early 2010, the increase of 7.8 million represents a 4 percent increase from the last rate case. So 4 percent over four years, that's easy math to do. It comes to 1 percent per year.

Now, gas utilities have been an inclining cost industry for many years, and in their last three rate cases MGE has been granted increases of 22 million, 27 million and 16 million. Given this history, we are pleased to be able to deliver this result in this Stipulation & Agreement for our MGE customers.

Let's talk about the Stipulation & Agreement briefly. It has been signed by MGE, Staff, Office of Public Counsel, the Division of Energy and the Midwest Gas Users Association. The remaining parties, AARP, Consumers Council of Missouri and the City of Kansas City, have agreed not to oppose it.

In addition to the base rate increase we just discussed, the stipulation has several other noteworthy terms, and I'd like to highlight a few of them.

First, rate design. Today MGE's residential customers and small commercial customers pay their delivery charges to MGE entirely through a fixed customer charge. There is no usage charge. If approved, on May 1st that charge will be $27.87 per month for residential customers and $40.74 for commercial customers.

On October 1st, we will reduce these fixed monthly charges for both these customer groups by about 17 percent. That 17 percent will be replaced by a usage charge, and we will -- and MGE charges that per hundred cubic feet of gas or CCF.

The reduced fixed charge was a compromise among the parties to reach an agreement on how customers are to be charged. But in determining optimal rate designs for the future, the parties felt like some data gathering was in order. And so the stipulation provides that over the next 18 months we're going to look at how rate designs affect different demographic groups, for example, low-income customers, and we're going to produce a report based on that -- on that data.

The second thing I'd like to talk about is the Kansas storage gas property tax. The State of Kansas has tried to pass legislation to tax gas in storage in their state for at least the past 15 years. MGE has fought this legislation at every turn and has challenged it in the courts and on appeal and won twice in a row.

Each victory by MGE and their consortium was followed by another change in the law as the Kansas legislature tried to write a law that would stick. The latest attempt by the Kansas legislature was in 2009, and MGE has also challenged that, and that has gone up on appeal.

However, this time, in December of 2013, the Kansas Supreme Court upheld the tax as against utilities like MGE. Rather than surrender, MGE has hired topnotch attorneys to take one last shot at it by appealing to the United States Supreme Court. And we have filed our request for certiorari to that court, and we're awaiting the

U.S. Supreme Court's response.

Meanwhile, since 2009 this tax has grown to an uncomfortably large amount, and the parties thought that this was a good time to begin collection of the tax and so that an amount to collect both the back taxes from 2009 and a current amount going forward is in rates.

Now, if MGE loses their appeal to the United States Supreme Court, the customers will already be paying the tax, and so all it will need to do -- all we'll need to do is true it up to actual payment.

If MGE wins on appeal, however, we have agreed and will be glad to refund that money, and we -- that we -- that we would have collected from ratepayers, and we've even agreed to file a special tariff at that time that will allow us to refund the money faster than we otherwise would. In other words, instead of waiting for the next rate case, we'll file a tariff asking the Commission's permission to give that money back right away.

So hopefully we will win on that appeal at the United States Supreme Court and be able to bring good news to our customers.

Next I would like to talk about energy efficiency programs. We've made a number of changes to MGE's energy efficiency platform in this case. First, we are going to continue to fund low-income weatherization at $750,000.

Second, we are going to blend the Laclede and MGE energy efficiency programs together for administrative purposes. In other words, we'll hold meetings at the same time and we'll do reports in the same way, and that is to gain administrative efficiencies.

Third, we are adding Laclede's commercial and industrial measures, rebate measures to MGE's energy efficiency programs. So MGE will have -- once that's done, MGE will have its own residential program that it has today, and it will be adopting Laclede's commercial and industrial energy efficiency programs, and we think that will help MGE reach its target goal for energy efficiency spending, that goal being a half percent of MGE's gross revenues, which comes to $2.65 million. We think with these new programs, MGE will be able to meet that target.

The final change to the energy efficiency program is we are adding the Midwest Gas

Users Association as a member of MGE's energy efficiency collaborative. And I see Stu Conrad nodding back there, so I know I got that one right.

Next matter, low-income programs. In addition to low-income weatherization, we have two other programs to address to help our low-income customers. First we have a one-time, temporary low-income energy affordability program which will address the problems caused by the unusually harsh weather this past winter.

This program -- this program will help customers reduce large balances they may have incurred over the winter and get back on track with a payment plan that they could follow during the summer and into the early fall.

Between this program and -- which we're going to fund up to $400,000, and the UtiliCare funding which the Laclede/MGE team has worked very hard to obtain and is still working on, between those two we hope that many low-income customers can get back on solid footing heading into next winter.

The second low-income program I'd like to talk about is one we call a Red Tag Program. This is meant to apply usually in the fall and early winter, and it is for again income-eligible customers who have managed to get either a Cold Weather Rule initial payment made or have their balance paid down or otherwise have qualified for service, but when we come out to turn on the service, their furnace is not working right, their piping isn't holding pressure or for some other reason we have to -- we're not able to turn on the service that they've gone to a lot of trouble to scrape up the money to qualify for, and so normally we would have to leave a red tag and leave the service off and they wouldn't be able to get heat to their homes.

This Red Tag Program provides up to $450 for the customer to hire a qualified HVAC contractor to repair the appliance so they can get the service that they have paid to get turned on.

Finally -- well, not quite finally, but next I would like to talk about the MGE call center, which is an issue that was addressed in the Stipulation & Agreement. You may have heard on the news that the future of the call center is at issue. That matter along with other labor issues are being negotiated between the union and MGE as we speak. The union is the IBEW.

I don't want to discuss matters that are currently the subject of collective bargaining, but I will note that the point of the paragraphs in the stipulation are so that Staff can receive notice of outsourcing of call center and billing functions, can receive data, get reports, hold meetings and make sure that if MGE does outsource that function, the quality of service is maintained.

Okay. One last thing I would like to report that is not stipulation-based is about the PGA, the gas cost part. Let's see. Ameren has raised -- has had to raise their PGA gas rate, as has Laclede, and that's because of higher gas costs that have taken place this past winter.

Laclede raised their PGA in March, and that broke a six-year winning streak that we had in reducing PGA rates. We reduced them six years in a row on our ACA filings in October and November. But in March Laclede had to raise rates and that's because of, again, higher gas prices.

MGE has also experienced those higher gas prices. And in addition, their main pipeline supplier, Southern Star, has just -- is in the process of winding up a rate case in which they're getting a healthy increase, and that's a rate case in which the Missouri Commission participated in. And Southern Star's getting much less of an increase than they asked for but, as I said, still a pretty healthy increase. And in addition to higher gas prices, that's causing MGE's gas cost to go up.

So sometime here in the near future MGE's going to have to file for a PGA rate increase, and I just wanted to address that so it didn't come as a surprise later.

In summary, Laclede didn't want to bring this rate case two weeks after we became the owners of MGE. We would have much preferred that Southern Union took care of that business and set a baseline before we took over ownership, but that wasn't the case. It didn't happen that way, and so given the fact that we had to file a rate case because of the ISRS laws, we're glad that it came out in a way that's easier on the pocketbooks of our customers.

So in conclusion, we ask that you approve the Stipulation & Agreement effective May 1st, 2014. Thank you very much.

JUDGE JONES: Thank you, Mr. Zucker.

Is there any other party who would like to make a presentation before we go on to questions from the Commissioners?

MR. BORGMEYER: I'll just say just a few words, if that's okay.

JUDGE JONES: Go right ahead.

MR. BORGMEYER: All right. Thank you, Judge. I just wanted to take a few minutes to describe what Staff did in this case.

The company filed its case on September 16th, and the Commission ordered a test year consisting of the 12 months ended September 30th, 2013. So that test year was the basis for Staff's audit of the company.

Staff conducted a full audit of the company's entire regulated operations. I just wanted to give a little credit. There's a number of Staff people here. Mr. Cary Featherstone and Ms. Kim Cox were the case coordinators, and conducting a full audit of the company's operations on that kind of rate case time schedule is a pretty huge undertaking, and there's a lot of hours that Staff put in to make that happen. So it's a valuable service that they perform, and I just wanted to give them some credit for the hard work that they did on this case.

So the results of that audit were filed as Staff's cost of service report on January 29th, and then Staff conducted a true-up audit through December 31st, 2013 to reflect the latest information available. In that true-up Staff updated its case to reflect updated information for items like gas storage inventory, cash working capital, pension expense, deferred taxes, payroll and other items.

And I wanted to point out that Staff's case includes all the company's ISRS revenue and all of their plant in service additions up to December 31st. So you'll see a provision in the Stipulation & Agreement where the next ISRS will pick up on December 31st, and so there's a continuity of recovery there for those infrastructure replacements.

And as a result of that true-up, Staff's latest testimony recommended a gross revenue requirement increase of about $3.7 million, and the 7.8 million increase agreed to in this case reflects negotiations by all the parties, and I think in Staff's view it represents a just and reasonable result for the company and its customers. Thank you.

JUDGE JONES: Thank you, Mr. Borgmeyer.

Okay. Let's start with questions. Chairman Kenney.

CHAIRMAN KENNEY: Good afternoon, everybody. Let me just thank Staff and the Company and Office of the Public Counsel and all the intervenors for their, I think as Mr. Borgmeyer correctly pointed out, their huge task. It's a Herculean undertaking for our Staff and for all of the other participants.

And so thank you for the effort that you've put in to arriving at this conclusion and the result that you've ultimately reached that is supported by all the parties or not opposed by any of the parties. I think that that in and of itself is to be commended and acknowledged.

So, with that, I'm going to ask my questions to all the parties, and whomever among you thinks is the most appropriate to respond can.

My first question, though, is about the rate design, and I was looking back at the Report and Order from the 2010 rate case, and we spent a lot of time talking about the straight fixed variable rate design. And this is different from that, and it's different, I think, than what the company initially proposed in its initial filing.

So my first question is, with respect to the fixed charge, what percentage of the company's non-gas fixed costs are being recovered through that fixed charge, if you're able to say?

MR. ZUCKER: Well, Commissioner, right now 100 percent.

CHAIRMAN KENNEY: Under the current rate design?

MR. ZUCKER: Under the current rate design.

CHAIRMAN KENNEY: Right. But under this new proposed rate design?

MR. ZUCKER: You know, from the residential and small commercial class, the fixed amount is being reduced 17 percent. So that means that 83 percent is still being recovered from that class. However, there are other classes, the large general service and the large volume class, and they may have a different percentage.

So I'm not exactly sure what the whole answer is, but from the standpoint of the residential and small commercial, which is the bulk of the customers, about 83 percent of distribution charges are being collected through the fixed charge.

CHAIRMAN KENNEY: And the SGS class, is that the same as well, about 83 percent?

MR. ZUCKER: Yes. The small commercial -- SGS stands for small general service, which is small commercial customers, and they're also at 83.

CHAIRMAN KENNEY: And we talked a lot in the last Report and Order about the relationship between rate design and the incentive to promote energy efficiency. Can you comment on how and to what extent this will or will not continue to incentivize the promotion of energy efficiency programs?

MR. PENDERGAST: Chairman, if I could, we thought that making what we considered to be a moderate but not insignificant reduction in the customer charge or the fixed monthly charge was one we could do without sacrificing our incentive to actively promote energy efficiency. In fact, we've actually expanded that effort in this case.

I think that what I'm most excited

about, if you look at the history of straight fixed variable rate design, for one reason or another we've managed to go ahead and come to an agreeable rate design on the eastern side of the state over the last ten years, one that has a volumetric component and other features that provide some level of protection from weather variations.

And really one of the goals here was to see if we could move the MGE a bit closer to the Laclede rate design, which by having a variable component it now is.

But I think the most exciting thing about it, and Mr. Zucker referenced this in this comments, the parties have agreed to sit down out of the heat and tension of a rate case and work on preparing a report that will examine a lot of demographic issues, data collection and so forth and so on, so that hopefully in the next rate case we'll be in a position to come forward with perhaps a joint proposal on how to handle these rate design issues in the future.

From the company's perspective, it is partially about being able to have some protection from the variability of weather. And I'm optimistic that we'll be able to go ahead and find common ground on that.

CHAIRMAN KENNEY: That actually -- that's a good segue into my next question. The 18 months of data gathering, will that be the combined service territories of Laclede or just the MGE?

MR. PENDERGAST: Well, I think the idea was to go ahead and do it for MGE, but we're certainly open, since we're looking for a common solution, to doing it in both places. I think we already have some additional data that MGE didn't because we've been operating under that kind of rate design. So I think -- I think having that effort apply to both makes sense.

CHAIRMAN KENNEY: I have some questions, some specific questions about some of the provisions in the Stipulation & Agreement. So I'm just going to go through them as I've tabbed them.

So page 5, the tariff modifications, 4B that discusses the Red Tag Program under which the company can make minimal repairs for customer piping or equipment, and I know, Mr. Zucker, you talked a little bit about that in your opening remarks. What's contemplated by minimal repairs?

Is it a dollar amount or is it the, you know, the complexity of the repair that needs to be made?

MR. ZUCKER: Yeah. It's both a dollar amount, which is we would spend no more than $20, and a time element, which is we would spend no more than 15 minutes.

And the goal of it is, if our guy's already out there, our service technician's already on the premise and can fix something very easily and quickly, that makes more sense -- and leave the customer on, leave the customer's gas on, that makes more sense than us having to red tag it, leave, have somebody come out and -- an HVAC contractor come out for almost nothing and then have to call us back.

CHAIRMAN KENNEY: So if it can be done there relatively quickly, relatively cheaply, then it's going to be done --

MR. ZUCKER: Yes.

CHAIRMAN KENNEY: -- on the spot?

Just out of curiosity, why not quantify that in terms of the stipulation, or would that be set forth in the tariff, $20?

MR. ZUCKER: It is in the tariff. It is quantified in the tariff.

CHAIRMAN KENNEY: So flipping over to page 9, and this is in the section dealing with pensions and OPEB benefits, paragraph 7 talks About -- well, there's other things that it talks about up front, but I'm assuming there the goal is to eventually get to one combined balance for the entire company. Is that the goal, or no?

MR. ZUCKER: Well, this is just addressing pension issues, and we had a lot of -- in reaching this settlement and processing the case, we had a lot of disagreement and confusion over, you know, which tier was which and what balance was what. And so what that paragraph just says is maybe it will be simpler to have one pension balance that we can follow more easily, and the parties will consider doing that in the next case.

CHAIRMAN KENNEY: You just weren't able to get there in this right now?

MR. ZUCKER: Well, we got everything done by -- everything agreed to by all the different tiers this time around, and so next time we hopefully can get to just one balance.

CHAIRMAN KENNEY: All right. So now I want to talk a little bit more about the conservation and energy efficiency programs, and you touched upon this a little bit. So the low-income weatherization will continue to be funded at the $750,000 annually. How much has been spent annually between like the last rate case and this current one?

MR. ZUCKER: 750.

CHAIRMAN KENNEY: So the full amount is being expended.

MR. NOACK: We have -- since the last rate case, we have approximately, I want to say $600,000 carrying forward into 2014 to be spent in all the areas. Kansas City is one area, and then we have three other agencies that take care of the other parts of the service territory

At the end of 2013 Kansas City informed us they would no longer be undertaking our low-income weatherization program, and we have switched those funds over to United Services and they will be doing the low-income weatherization in the future.

CHAIRMAN KENNEY: So I guess what I'm asking, so the budget is a maximum of 750,000; is that right?

MR. ZUCKER: The 750 is committed to

be spent, and to the extent it's not spent --

CHAIRMAN KENNEY: It just carries over?

MR. ZUCKER: -- it rolls over, right, under the tariff.

CHAIRMAN KENNEY: And so on average I guess since 2010 how much has been spent per year, if you know, or if you could provide an estimate?

MR. NOACK: Probably 5- to 600,000.

CHAIRMAN KENNEY: Per year?

MR. NOACK: Per year. There was a period of time when there was some ERA funds that -- stimulus money that kept some of these funds from being spent first. So that's why we accumulated a balance.

CHAIRMAN KENNEY: And then is it primarily, are you primarily seeing the money going to single family homes or multifamily homes, homes that are owned or homes that are rented?

MR. NOACK: Single-family homes.

CHAIRMAN KENNEY: Is it limited to single-family homes? Are multifamily dwellings eligible to receive funding?

MR. NOACK: I'm not positive.

CHAIRMAN KENNEY: Anybody? I know

sometimes there's barriers to -- somebody thought they might have the answer to that?

JUDGE JONES: I thought I saw Mr. Warren standing up.

MR. KNEE: Commissioner, or Mr. Chairman, to answer your question, I think I'm told by the wise man in back that it's single-family homes.

CHAIRMAN KENNEY: Exclusively?

MR. WARREN: You've got -- I'm Henry Warren, staff economist with the Staff. And I was talking to John Buchanan who's here representing the Division of Energy. The rules under which the utility funds from MGE are administered and applied by the agencies are the same rules that apply to all funds such as Federal funds coming in to the weatherization program.

And so those funds are available to be used on multifamily homes and on rental property, but there are -- my understanding is that to be applied to rental property, it requires an agreement from the owner of the property, of course. In other words, the family living there has to be eligible for the weatherization, and the -- I think the owner has to meet some provisions as well to have that property weatherized.

CHAIRMAN KENNEY: Has that acted as a barrier?

MR. WARNER: My understanding is that probably proportionally less rental property is weatherized than owner-occupied property.

CHAIRMAN KENNEY: So as a part of the energy efficiency collaborative, is there measurement of, you know, who the funds are going to and what the penetration is so that you know, you know, where you should be targeting the efforts where the efforts should be targeted, single-family homes versus multifamily homes? Is that type of data gathered and shared with the collaborative?

MR. WARNER: Well, I don't know that we -- we normally get quarterly reports, and I actually just in the last couple of days got the annual report for 2013 on low-income weatherization that was furnished by Mr. Noack. And normally we don't get down to that granularity.

In other words, we get a report on how many homes have been weatherized and the amount of money that's been spent on the homes, but as far as whether it was rental property or homeowner property or multifamily property, we normally don't get that in the annual reports.

We have in past years had evaluations conducted of the weatherization programs, and It's -- I was trying to think of the last time we had them evaluated. It's probably been a few years when we've gotten, you know, feed-- and those give us more feedback on the detail of the homes that are weatherized and the actual savings and then the various -- the category of ownership.

CHAIRMAN KENNEY: That was actually my next question, then. So there is a mechanism by which you keep track of the home that has been weatherized to determine what type of savings are being realized?

MR. WARNER: Well, that -- I don't know that that's done on a -- the collaborative does not necessarily -- the collaborative has not been requiring that, but the -- we do get reports from the -- from the Division of Energy on, you know, on the weatherization. And once again, I don't know -- John, would you like to speak to that? I'll ask for some input from Mr. Buchanan.

MR. BUCHANAN: Good afternoon. If it pleases the Commission, my name is John Buchanan. I'm employed by the Missouri Department of Economic

Development's Division of Energy.

And I'll ask you to repeat the question again so I can provide you with a response.

CHAIRMAN KENNEY: Is there a mechanism by which the homes that are weatherized are tracked so that the savings that are realized by virtue of that weatherization are quantified and kept track of?

MR. BUCHANAN: At the outset of the low-income weatherization service provided at that home, an audit is conducted of that household. It produces what's called a saving to investment ratio. Those figures are, in fact, retained and drives the measures which are adopted in that house.

Insofar as a post-implementation evaluation, a specific post audit of the savings, no, I'm not aware of one that goes to that granularity.

CHAIRMAN KENNEY: And so what you just described, the audit that's done before the weatherization measures are instituted, is that something that the company does or something the Division of Energy does?

MR. BUCHANAN: That's conducted by each of the individual community action agencies --

CHAIRMAN KENNEY: Got you.

MR. BUCHANAN: -- that receives the grants from either the Division of Energy through our federal grant program or, in this case, where they receive funding directly from the utility.

CHAIRMAN KENNEY: And then where's that data kept?

MR. BUCHANAN: Usually I understand it's kept with the community action agency, with the auditing point.

CHAIRMAN KENNEY: All right. That's helpful. All right. My next question is a legal question. It's on page 20. Thank you very much, Mr. Buchanan.

MR. BUCHANAN: Thank you.

CHAIRMAN KENNEY: Again, dealing with conservation and energy efficiency. On page 20, at the end of paragraph D, looks like the second to last sentence says that no party has raised an issue in this case through prefiled testimony regarding the prudence of the costs of the conservation and energy efficiency regulatory asset balance. Any incremental expenditures have not been reviewed. However, Staff and OPC may raise prudence concerns in the future.

My question is, is that sentence attempting to limit Staff's ability to raise prudence concerns about the money that's been spent as of December 31st, 2013?

MR. PENDERGAST: If I could, this is a compromised set of sentences and, therefore, probably not as clear as they might otherwise be. I think from our perspective, you know, you're supposed to go ahead and have an opportunity to evaluate the prudence of these expenditures in a rate case. And since we ultimately weren't seeking to go ahead and recover those dollars in this rate case, I think other parties felt uncomfortable giving an ironclad guarantee that they wouldn't raise prudence issues in the future. However, we wanted it noted that none of those prudence issues were raised in this case.

And I think that the energy efficiency expenditures given the collaborative process where you do have all parties that are typically involved in the rate case and now one more in the form of MGUA, they do look at what those expenditures are, what they're going for.

They reach agreement that these are worthwhile expenditures to make. So I think the prospect of there being prudence disallowances other than maybe for implementation prudence, we all agree that this was a worthwhile group of programs to have, that somebody went crazy and didn't do it the right way, that we don't think there is a high likelihood that there would be prudence reviews in the future.

Just wanted to note for the official record that nobody had raised them in this case and people can make of that what they want in a future case.

CHAIRMAN KENNEY: You guys are comfortable with that language?

MR. POSTON: If I can respond. Yeah. I know we had had input into this language because we wanted to be able to raise prudence issues in the future. And so that's how we interpret the language, that that last sentence allows us to raise any concerns, prudence concerns in the future, and I --

CHAIRMAN KENNEY: About any time period before or after December 31st?

MR. POSTON: Yes. That's right.

CHAIRMAN KENNEY: And you agree with

that, Mr. Pendergast?

MR. PENDERGAST: I agree that no prudence issues were raised in this case.

CHAIRMAN KENNEY: Mr. Borgmeyer, do you want to add anything?

MR. BORGMEYER: Yeah. I think Mr. Poston said it accurately, what Staff's interpretation is.

CHAIRMAN KENNEY: Okay. You-all are going to be litigating that sentence five years from now, I bet.

MR. COFFMAN: I would add this Public Service Commission has revisited decisions where it has found a matter prudent and revisited matters where it's found something to be imprudent. I think each Commission reserves the right to review all relevant factors in a rate case.

CHAIRMAN KENNEY: Of course. My reading of it is that one sentence that begins no party has raised, that's an FYI to let us know that that that, in fact, is what happened, but nobody's precluded from doing whatever they need to do in the future. That's my reading. That's my interpretation of it, for what it's worth.

Can somebody tell me the energy

efficiency collaborative and its charter members, there's language in here that acknowledges the transfer of the Division of Energy from DNR to Economic Development and MGUA is treated as a charter member for purposes of joining the collaborative. So that's commendable.

How often has the energy efficiency collaborative met? How often will it continue to meet? What are the reporting requirements to this Commission? Can you just provide just a little bit more context and detail about the collaborative, whomever would like to?

MR. ZUCKER: Chairman, they meet -- I believe the collaborative meets quarterly and can meet on a -- at any time upon notice to the other parties. So as far as I can tell from the Laclede collaborative and the MGE collaborative, there's a lot of good work coordinated by the parties, and they -- they take their responsibilities seriously and they do an earnest job.

CHAIRMAN KENNEY: Are there reporting requirements? Is there a docket that's maintained where those reports are filed so that we can look at them, so that other folks can see them?

MR. ZUCKER: Well, I can answer on

the -- from the Laclede Gas side maybe better than from the MGE side, but we have an obligation to file, I believe it's semiannual reports twice a year, and we file those under -- on EFIS under non-rate case.

MR. NOACK: From the MGE side, we are not required to file reports in EFIS. We are required to file quarterly reports with the members of the collaborative within 45 days of the end of the quarter. So each of the members of the collaborative get a full report four times a year.

MR. ZUCKER: And Laclede does that also.

MR. PENDERGAST: Chairman, I'd also indicate that one of the things we've agreed to is to have administrative procedures that are similar for both the MGE collaborative and also for the Laclede collaborative. So hopefully we'll be doing these reporting responsibilities on kind of a more consistent basis in the future.

CHAIRMAN KENNEY: Excellent. I don't have any other questions, and again, thank you to the parties for putting in the significant amount of time and effort that it took to arrive at this Stipulation & Agreement. Thank you for being here today to answer our questions.

JUDGE JONES: Okay. Questions from Commissioner Stoll.

COMMISSIONER STOLL: I just have a couple questions. First of all, echo the sentiments of the Chairman. We really do appreciate the hard work that all of you put in to reach this agreement. And I believe that the ratepayers that we heard from at the local public hearings will be as pleased as ratepayers can be in a situation like this. Wasn't quite sure how to say that, but anyway.

On page -- on page 15 regarding the call center, and maybe I'll address this question to Office of Public Counsel or -- then to anybody else who wants to take it, but do you feel that the language is strong enough that it will promote or protect the public interest down the line, especially when we think about service, billing, connection, disconnection, if things are outsourced what will happen, and how do you feel about the language protecting the public interest?

MR. POSTON: I think -- I think there is protections in here for the public interest because it gives us access to information. If they were to outsource the call center, they've committed to provide us information from the entity that's doing that work so that we can ensure that customer service is not being degraded by outsourcing. So we believe that those protections are in here.

MR. BORGMEYER: Yeah. Just wanted to echo that from Public Counsel. The call center provisions are primarily reporting requirements, and so that's what's going to allow Staff and the Office of Public Counsel to monitor the performance.

And if Staff feels like that data is showing a degradation of customer service, then, you know, we have a number of things we can do to address that that would be outside the rate case process or within the next rate case or however.

But what these requirements do is keep us informed as to how the customer service is performing, and so hopefully that will -- you know, hopefully we won't need to do anything, the reports will come in and we'll be satisfied, but this allows us to see exactly what's going on.

COMMISSIONER STOLL: But you do feel like you have some tools outside of the rate case to work with the company to correct any deficiencies that may be found?

MR. BORGMEYER: Absolutely, yeah. There's a number of procedures we could take. Hopefully negotiation and discussion would be all that would be required, but we do have a number of other procedures that we can go through if we're not able to work it out.

COMMISSIONER STOLL: Okay. I don't know if anybody else wants to comment.

The other question I have is on page 14, paragraph 19. Just maybe the -- somebody from Laclede, from the company could just kind of explain how this works. It would be beneficial to me.

It says, all parties agree that the rate base offset agreed to by the parties in and ordered and so on and so forth shall be changed to 18 million plus the rest. The balance of this rate base offset as of December 31st is...and this amount shall be amortized over the remainder of the previously authorized ten-year amortization period. I would like you to explain just how this works and why the offset and maybe even what the offset is.

MR. PENDERGAST: Sure. I think I

briefly addressed this in the acquisition proceeding, and really it's just a function of the fact that when you buy a company, there are certain benefits that go away that were previously on the utility's books.

In order to meet the no detriment standard in Missouri, the traditional practice has been to recreate those benefits. They've traditionally been recreated by an offset to rate base, meaning that your rate base is going to go ahead and be lower than -- or is going to be about the same level that it would have been if the acquisition hadn't occurred.

And in kind of estimating what those impacts from the acquisition would be, they were overestimated, and you have to give credit to the other parties for correcting that and reflecting a more accurate reduction to rate base that will put customers in the same position they would have been had the acquisition not occurred to make sure it meets the no detriment standard in Missouri.

COMMISSIONER STOLL: Okay. So there was just a calculation that needed to be -- that was changed in order to come to this amount and --

MR. PENDERGAST: Sort of trued up,

exactly.

COMMISSIONER STOLL: Okay. I do remember that somewhat. Okay. Thank you. And I have no more questions, Judge.

JUDGE JONES: Okay. Questions from Commissioner William Kenney.

COMMISSIONER W. KENNEY: Thank you, Judge. I'll echo the comments of the other Commissioners and say yadda yadda yadda, you're all great. No. But seriously, I would like to thank Staff. I know the time they put into these cases are long and tiresome, and all the parties, I appreciate your work that you brought before us.

I have -- a couple of my questions have already been answered. I do have a few more just trying to explain some things to me so I understand this process.

Mr. Zucker, you mentioned that the company could provide lower flat rates, no rate increase, and that the $7.8 million of additional revenue was from offsetting or zeroing out the ISRS?

MR. ZUCKER: Well, the two actually don't have anything to do with each other, but when you come in for a rate case, the ISRS's that you've been charging since the last rate case are reset to zero.

COMMISSIONER W. KENNEY: Correct.

MR. ZUCKER: At the same time, our case showed the -- that we were entitled to an increase in revenues of 7.8 million. Since those two numbers happened to be about the same, and since our customers are already paying our old rates plus the ISRS, they're in effect in the future going to see basically no change to their rates.

COMMISSIONER W. KENNEY: So you're saying it's revenue neutral?

MR. ZUCKER: It's basically neutral. As far as the customer's concerned, it's going to be roughly neutral.

COMMISSIONER W. KENNEY: Now, reading through this, trying to understand, in 2006 and 2009 you went to the straight fixed variable rate design. Now, does this go back to the volumetric?

MR. ZUCKER: Effective October 1st -- at first, no. It's going to stay between now and October 1st the straight fixed variable rate design. Effective October 1st, we're going to reduce the fixed charge about 17 percent and bring in a volumetric charge. So it will no longer be what could be considered purely straight fixed variable. It's going -- there's going to be a variable component.

COMMISSIONER W. KENNEY: Is it variable across the board or is it only variable on some of the larger?

MR. ZUCKER: Only variable on the residential customer class and the small commercial customer class, which are most of the customers, overwhelming majority.

COMMISSIONER W. KENNEY: I know Staff had preferred to have the -- keep it the way we were going, and OPC had suggested going to the, I think the current way we're at now, correct?

MR. ZUCKER: OPC suggested an even lower customer -- fixed customer charge. And so what you're seeing in front of you there is a compromise, and -- and so that's the way we're going to charge it pending some more study. That's --

COMMISSIONER W. KENNEY: I know contractual or any contract is always going to have a lot of give and take. So I understand that. No one usually -- I've always found that when no one's super happy, things probably got worked out pretty good.

I do have another question that Commissioner Stoll raised on dealing with that same page 14, paragraph 19 regarding the change in that little less than 4 million. I know that was part -- so maybe you can explain this to me how this happens. That was part of a previous agreement from 2010, and not all the parties are involved that were involved in that one are involved in this Stipulation & Agreement.

So I guess what authority gives you the right to change one Stipulation & Agreement without all parties agreeing to it?

MR. ZUCKER: Actually, this -- the previous agreement is the merger case we had last year.

COMMISSIONER W. KENNEY: 2013.

MR. ZUCKER: 2013.

COMMISSIONER W. KENNEY: That's what I meant. I apologize.

MR. ZUCKER: And all of the parties to this case are here except for the union, and we got their agreement to go ahead and --

COMMISSIONER W. KENNEY: And MDNR,

they agreed to the Stipulation & Agreement that --

MR. ZUCKER: Yes. I mean, they were a party to that case and they're a party to this case.

COMMISSIONER W. KENNEY: I didn't know they were a party to this. Okay.

MR. ZUCKER: Well, the Division of Energy is what they're called now.

COMMISSIONER W. KENNEY: Okay. I'll let that one -- that one passed me by a little bit. I understand.

Okay. The next question I have is again just fairly technical. On page 18, dealing with the red tag, you get -- you get to defer and recover in future rates an amount up to 100,000. And then on page 20, paragraph D, you take expenditures that will be reflected in MGE's rate base to the next general rate base.

I just -- both those comments sound like they're preapproval to me for a future rate case. And so explain to me how that's not a preapproval.

MR. ZUCKER: Okay. On the first one on paragraph 23 --

COMMISSIONER W. KENNEY: Right, the

100,000.

MR. ZUCKER: Well, I guess, you know, there's implementation prudence that could be raised, but we are approving a program in which we could spend up to $100,000 and defer that for recovery in the next rate case.

COMMISSIONER W. KENNEY: Okay. And then on page 20, paragraph D, when it says that, okay, expenditures for energy efficiency programs that are not funded through rates shall be accumulated in a regulatory asset account at the time such expenditures are made and subject to the review of any party.

Does that mean anybody can -- you'll open your books to anybody that's a party to this and show them that?

MR. ZUCKER: Yes. The -- when we come in for the next rate case, if we want to start collecting that money, then another party can say, you know, I object to that. You shouldn't collect it. There's something imprudent about what you did.

COMMISSIONER W. KENNEY: It goes on to say, the expenditures will then be reflected in MGE's rate base at its next general rate case. Do

you think that could be -- that's not --
MR. ZUCKER: Will then be reflected means if there isn't an objection or if the objection is not well taken.
COMMISSIONER W. KENNEY: All right. I appreciate all the work you guys have done. I have no other questions. I'm a happy MGE individual, and I've had lots of meters set because I used to build a lot of homes. I won't even complain about the lack of service today because after the recession.
JUDGE JONES: Questions from Commissioner Hall.
COMMISSIONER HALL: Thank you. Just a few. Most of my questions have already been asked, and I'll do my best to not duplicate those lines of inquiry.
To start with, though, looking through the stipulation, there isn't an indication what the ROE is going to be. And I assume you could go back and look through the tariffs and extrapolate that, but was that a subject of discussion and, if so, what is it?
MR. PENDERGAST: Commissioner, if I could answer that. For purposes of the overall

revenue requirement settlement, there is no identification of a specific ROE underlying that. You know, like most settlements, it involves a compromise of a variety of revenue requirement issues, and people can have their own opinions on what sort of ROE they think underlies the overall revenue requirement.

The only thing that's really specifically required is to have some statement in the ISRS schedule for purposes of calculating ISRS filings in the future, and that is a 9.75 pretax overall return that the parties were able to agree to.

COMMISSIONER HALL: Won't you be required to report an ROE -- you are a publicly traded company, aren't you?

MR. PENDERGAST: Right.

COMMISSIONER HALL: Won't you be required to report that at some --

MR. PENDERGAST: Laclede certainly is the overall company, and then the Laclede Group will make SEC filings basically going into great detail on its financial results. And there I think, you know, the emphasis will be on what the actual earned returns are as opposed to what particular ROE was underlying a settlement agreement. I think Wall Street will be interested in looking at the overall revenue requirement amount more than what an implicit ROE might have been.

COMMISSIONER HALL: Okay. So when you filed for the rate case, you sought a $17 million increase; is that correct?

MR. PENDERGAST: Yes. 17 plus the ISRS amounts that we were already collecting.

COMMISSIONER HALL: And what was the driver for that request for 17 million increase plus the ISRS?

MR. PENDERGAST: Well, I think generally the driver was what our payroll experience was at the time, and when we first filed we were looking at a test year ending April of last year, and there have obviously been some changes in your payroll since that time.

We were looking at a, you know, ROE that was probably somewhat higher than ultimately what somebody could say is embedded in the Stipulation & Agreement. We had rate base additions at that time that have since been trued up and reconciled, and in some instances some of those rates base amounts went down. We had storage inventories which are affected by the price of gas, and those changed from the time that we made our filing until the time we reached a settlement agreement.

So there were a variety of items that drove the $17 million request and, you know, it is not unusual when all is said and done and a settlement is reached that all of those drivers don't continue to be reflected in the overall settlement.

COMMISSIONER HALL: So is the ISRS balance right now 7.8 million? Is that what I heard you say?

MR. PENDERGAST: Actually, I think the ISRS amount right now is a little bit north of 8 million, maybe 8,050,000 or so. So this amount is a little bit lower than the 8,050,000, but from the standpoint of ratemaking and the kind of dollars you're talking about, it's roughly the same.

COMMISSIONER HALL: You could recover that outside of a rate case, correct?

MR. PENDERGAST: Well, and we were.

COMMISSIONER HALL: Right. And you

could have collected that 7.8 or that 8 without -- without filing a rate case?

MR. PENDERGAST: Actually, we were under an obligation if we were to file a rate case to do it by September 18th.

COMMISSIONER HALL: Right. I understand that.

MR. PENDERGAST: And September 18th was kind of a magic date because I think under how this Commission has construed the ISRS's and whether you still have the right to continue to collect it and continue to get it approved, if we hadn't filed by September 8th, I think the ISRS would have gone away. You needed to go ahead and have a rate case on file and in effect in order to continue to collect that ISRS. So we really didn't have a lot of choice in filing the case when we did.

COMMISSIONER HALL: I see Staff nodding. Is that, in fact, true?

MR. BORGMEYER: Yes. The ISRS statute has provisions in there requiring the company to file a rate case in order so that all the parties can look at the company's total cost of service and you don't just keep piling the ISRS on top of an undetermined cost of service.

COMMISSIONER HALL: But the ISRS is a one-time $8 million balance. This 7.8 going forward is annual, is it not, or is --

MR. ZUCKER: They're both annual.

MR. PENDERGAST: It's an annual amount, and it's permanent until changed by the Commission. And most of the ISRS was also, you know, an annual amount that would continue to reoccur, with the exception there was small under-recovery in the ISRS, I think, of about 5- or $600,000 which will need to be reconciled in the future.

COMMISSIONER HALL: Moving on to the rate design. I'm curious why the company wanted to move away from the -- from the straight fixed variable rate.

MR. PENDERGAST: Well, and I wouldn't characterize it as wanting to move away. You know, it wasn't quite dragged kicking and screaming, but, you know, we had had a history with Public Counsel and with the Staff of being able to come up with rate designs while they weren't, as Commissioner Kenney has indicated before, entirely acceptable to everybody, you know, they were ones that largely met our needs and largely met, I think, the needs of other parties, particularly given its more moderate impact on low-use customers.

And so we made no secret of it, I think, in the acquisition proceeding that if that did go through, we would be open to considering changes on the other side of the state. And I want to commend the Staff and I want to commend the Commission for having implemented that straight fixed variable rate design. And we did not move away from it and work towards the Laclede rate design lightly.

As I said, I'm very hopeful that in the next 18 months as we get together and we talk and we gather data and we see what the impact of various rate designs are on various customer groups, that we will be able to come up with one that is acceptable to everybody.

There are other models out there, you know, where you have a special rate for low-use customers and then the rest is straight fixed variable, where you can go ahead and have mechanisms for providing protection in between rate cases. And I'm sure OPC and I'm sure Staff may have some other ideas as well.

But I think we've got a fairly long history of having been able to sit down and talk about things and come up with solutions that people were agreeable to, and I'm hopeful we can do that again.

COMMISSIONER HALL: I'm curious from OPC what -- what your thoughts are on this change in rate design.

MR. POSTON: We had -- we had asked for a 16.50 customer charge. I think the company originally filed wanting something closer to a $40 charge in the winter and I think a 22 in the summer. And so we kind of look at this as kind of a middle ground.

One of the problems with the rate design is we really couldn't agree on impacts, like which demographic of customer was impacted by what type of rate design. And so we came up with the solution to have that proceeding to really kind of dig up those facts so that once we sit down again, hopefully we're all on the same page as far as who's impacted by what type of rate design.

COMMISSIONER HALL: And so the two other classes, the large general and the large volume, are they volumetric today and they would continue to be volumetric? So the change is just to these -- to these two classes, the residential and SGS?

MR. POSTON: That's correct.

COMMISSIONER HALL: I'm seeing heads nodding, so is that yes?

MR. POSTON: Yes.

CHAIRMAN KENNEY: Mr. Coffman, did you want to say something? You can jump in.

MR. COFFMAN: Could I just add a comment about the rate design?

COMMISSIONER HALL: Sure.

MR. COFFMAN: I thought this might be a point to chime in and speak about the position of AARP and the Consumers Council.

There are a variety of issues that they like and don't like about this stipulated resolution. They did not sign this stipulation, but the -- and I would say by far the issue that they focused on the most and had the most concern and care about was the customer charge issue.

And we have spirited debates between -- between the utility and the Staff on one side who do see -- who have a policy preference for straight fixed variable or a flat fee for the non-gas portion of bills and the Office of Public Counsel and my clients who would prefer more volumetric.

So there's a hundred different ways you can slice it up and look at it, but there's just often this tension between what I see within the residential class between the high-usage customer and the low-usage customer. And I'm not clear exactly the income distribution or the geographic distribution and so forth.

But my clients have a concern about the low-use customer. They're concerned that someone living in an apartment is paying the same rate as someone with a very large house with many rooms and may not conserve. We have a concern that the rates be fair to those who, you know, say one or two person household where they scrimp and really try to conserve and that they're getting a fair rate compared to other customers.

So we fight for, you know, including some volumetric component, and from our perspective, and Missouri Gas Energy had already gone all the way to what we see as the extreme end, the straight fixed variable. We would like to see something at least like Laclede, which now has a

$19.50 volumetric -- or customer charge with the rest of it being volumetric.

And we certainly commend Missouri Gas Energy here for agreeing to kind of come back from that and turn the ship around and include at least some volumetric component. It wasn't enough for us to say endorse it with our signature, but it's -- we're pleased to see it. We're glad that there would be at least some mitigation there and that ultimately in October it will go down to $23.

It's just our strong belief that the better policy is to at least have some component of the non-gas delivery portion of rate that is based on usage so that low -- low usage customers are not -- are treated a little more fairly and they get the benefit of their conservation and so forth.

So that's -- I hope that's helpful. We appreciate the Office of Public Counsel and what they've done to I think arrive at a stipulation that is better in our opinion.

COMMISSIONER HALL: So you didn't join the stipulation because it didn't go far enough, but you still applaud the movement that it made?

MR. COFFMAN: Yes. That is correct.

COMMISSIONER HALL: Turning to page 13, paragraph 17, and this concerns the explosion at JJ's Restaurant. It appears that we're setting up essentially an AAO for costs related to that event. Is that -- is that so?

MR. BORGMEYER: Yes, basically. I don't think the stipulation uses those -- that phrase, but essentially those costs will be tracked and considered in the next rate case.

COMMISSIONER HALL: And that was because the event occurred during the test year?

MR. BORGMEYER: Well, that and also because of the extensive litigation that was going on. Basically, at this time I think we just -- we thought it would be better to pull those costs out, wait until the dust settles from all of the litigation before taking a look at them in a rate case.

COMMISSIONER HALL: Then it would be -- it would be up to the Commission in the next rate case whether or not to include those?

MR. BORGMEYER: Yes.

COMMISSIONER HALL: Is there some precedent for handling events like that like this?

MR. BORGMEYER: Well, certainly

mechanisms like this, you know, the AAO is reserved for extraordinary incidents. So I think arguably this is that sort of thing. So I would say yes, there is precedence for.

COMMISSIONER HALL: I mean, I know if there's a nonrecurring extraordinary event, that's what an AAO is for, but what about for a gas explosion, a particular gas explosion, has there ever been a mechanism like this set up for that?

MR. BORGMEYER: I don't know the answer to that.

MR. PENDERGAST: Commissioner, I think probably the closest thing, I'm not sure if one's been set up, a deferral mechanism like this for a particular explosion. I think the idea was that there's a lot going on with it. There's litigation. There's a complaint that's been filed with the Commission. And the sensible thing to do was just remove those costs from the rate case so nobody would be making any judgments on them now until all the facts are in.

But I do know this kind of structure has been used in the past for environmental expenses where you have, you know, a remediation site or something else where there's legal exposure and liability of cleanup costs and that type of thing, but there's also a variety of other parties that you may have recourse to. And the idea is rather than piecemeal it and try and provide some kind of allowance that you might go ahead and get recovery for from somebody else at some point in the future, just throw it all into the same pot, see how things go, what kind of recoveries you have, whether they be against third parties, whether they be insurance recoveries, and then once you have a fuller picture, go ahead and determine what you want to do with the resulting costs, or theoretically it could be a resulting positive balance to return to customers depending on what your recoveries were.

So I think you do have that precedent for this kind of -- this kind of treatment.

COMMISSIONER HALL: My last question, and I'll be perfectly honest, it may not be something you can answer. But on the call center, when are we going to know if that's going to be outsourced or not?

MR. PENDERGAST: I think you'll know pretty shortly. The contract expires at the end of this month. I know that our labor relations people have been working very hard with the IBEW to come up with an agreement that both sides can sign on to. And while that hasn't happened yet, the effort is being made and is being made in a very diligent fashion. So I think you'll know something relatively soon.

And I want to make sure nobody gets the wrong impression. There's a lot involved in that collective bargaining process. Part of that collective bargaining process is to come up with work rules and other accommodations so we can do on the western side of the state what we've done on the eastern side of the state, and that's accelerate our safety main replacement programs.

I think on the western side of the -- or the eastern side of the state we've added about 150 jobs over the last three or four years to do that. And we made a commitment in the acquisition proceeding that that's what we intended to do on the western side of the state.

So usually you only hear about things that are a little sensitive and not necessarily all the good news, but both of those are part and parcel of what we're trying to accomplish right now. And within the week or two we should have an answer.

COMMISSIONER HALL: So it's the company's hope to main-- to not have to outsource the call center?

MR. PENDERGAST: Well, I think it would be our hope that we could go ahead and reach a path that is going to be acceptable to the employees that are there, maybe perhaps a longer transitional period than we were originally contemplating.

And I don't want to mislead you and say that outsourcing is not going to be a component of that because, you know, in all likelihood it probably will be. But we're trying to go ahead and do it in an as employee friendly way as we can, and that's what we're negotiating right now.

COMMISSIONER HALL: Did Staff or OPC or any of the intervenors try to require or prohibit an outsourcing of the call center in the course of these negotiations?

MR. BORGMEYER: I'll say no, Staff didn't. We don't really try to dictate what the company's business decisions are in those regards. Certainly we expressed concerns about what effects it might have on customer service, and that's why you see these reporting provisions in the Stipulation & Agreement.

But speaking for Staff, I would say we didn't try to tell the company what to do about that.

MR. POSTON: Same goes for OPC. We didn't push to keep the call center, but we want to be able to monitor it and make sure customer service doesn't go down.

COMMISSIONER HALL: I have no further questions. Thank you.

JUDGE JONES: Mr. Conrad, you wanted to comment?

MR. CONRAD: Yeah, very quickly. Just, Commissioner Hall, there are lots of analogies that could be drawn, but I think your question about the gas explosion and an AAO or an approach like that, you might -- I think this occurred before you came on the Commission. Unfortunately, it did not occur before I started practice.

But I think there was an explosion at the Hawthorn plant some years ago involving at that time Kansas City Power & Light that took that plant offline for a number of months, and there was some dealing with that.

Now, there the analogy breaks down. The Hawthorn plant insofar as I'm aware did not involve vintage wine.

Now, the other comment that I wanted to add, you had asked a question about the LV rates, which -- and several of the Commissioners and indeed the parties have used the term straight fixed variable. Please understand that the FERC approach to straight fixed variable differs from the approach that is used here by the Staff.

You know, it's been a while since they got into that, but unfortunately the terminology that's been chosen to use is the same, but the approach is slightly different. I think at FERC, for example, return is included in the volumetric component. The emphasis there is to try to get the interstate pipelines to move gas through their systems and to encourage them, incentivize them to do that.

But I did want to point out that there is a slight increase. I've been told by Mr. Noack that it's -- the net of it is about $225,000 to the LV class, and that is expressed in two functions: A slight increase in the customer monthly charge and a slight increase in the volumetric charge.

That having been said, please also be aware that the LV customers, at least most of those if not all that I represent, purchase their natural gas at the wellhead or through brokers or marketers near the wellhead, and they pay -- in this case most of them pay Southern Star to transport that gas from the point of purchase to a citygate for Missouri Gas Energy and now Laclede's division.

And so the only thing that that rate represents is just the charge, Commissioner Hall, to haul the gas from that citygate to the point of consumption.

COMMISSIONER HALL: Thank you.

JUDGE JONES: Commissioner Rupp, did you have any comments?

COMMISSIONER RUPP: No. The good thing about going last is, and being new, is that everybody has already asked the questions I'd written down. So good job, Commissioners.

JUDGE JONES: I just have one, maybe two questions. The parties want these -- well, these are proposed tariffs that you-all have filed, exemplary tariffs. I say that because they don't have an issue date. So the Stipulation & Agreement if approved, the parties would then file tariffs consistent with the agreement to be effective May 1st, which is in less than 30 days. What's the good cause for approving the tariffs on less than 30 days notice as required by statute?

MR. PENDERGAST: I think the good cause is expressed in a couple points. First of all, this is something that obviously everybody has agreed upon and has recommended to you as something that's just and reasonable and should be approved by the Commission.

The tariffs that will be filed will be identical to the ones that I think the Commission has had for a little bit more than a week now, and there will be no change made to those tariffs. It's just basically, as you noted, putting an issue date on them and filing them as is.

So from the standpoint of, you know, the parties agreeing to it and there really being nothing changed, the parties even outside the rate case have had an opportunity if they follow things at the Commission to look at for a fairly significant period of time. We, I think, had a good cause for doing it.

And the only other thing I'd mention, we do have some programs that are a little time sensitive on this. We do have that $400,000 that we'd like to go ahead and try and combine with whatever LIHEAP money is appropriated and start getting that out to customers sooner rather than later. I think both Laclede and MGE have agreed to extend the Cold Weather Rule past its normal expiration date.

But I think having the resources to help customers before we're too far down the road is another element of good cause for approving this on the basis that the parties have recommended.

JUDGE JONES: Any other party like to comment on that? What harm will enure if it's not approved by May 1st, other than not being able to return money to customers with the LIHEAP program?

MR. PENDERGAST: Well, you know, obviously, as we've said, these rates are slightly lower than what's currently being collected from customers right now. And, you know, not that $25,000 I think a month is going to make a material difference to most customers. It is something that is a benefit to customers, albeit a moderate one.

And I think those two elements alone, you know, justify moving it forward, you know, unless for some reason the Commission does not believe it can do that. And the only other thing is, I think we'd have to confer with the parties, and since we did propose May 1st, if the Commission wanted longer, another ten days or whatever, just make sure all the parties are okay with that.

JUDGE JONES: It sounds like you're saying the May 1st date somehow affects aspects of the agreement; is that true?

MR. POSTON: If I could jump in. Looking at the language right now, on page 2 it states that the signatories recommend that the Commission approve an effective date of May 1. I would not interpret that as any -- you know if the Commission did something different, that it busts the agreement. It's we've just made that as a recommendation.

MR. BORGMEYER: I would just point out that, from Staff's point of view, even though we have the specimen tariffs, the company says there wouldn't be any change, Staff still looks at every single new tariff that's approved before it actually goes into effect. So we would need adequate time between the Commission's approval date and the effective date of the tariffs in order to just make sure that the tariffs are all accurate and reflect the specimen tariffs.

So I guess that would create a problem if say the Commission approved the tariffs on April 30th, if they were set to go into effect on May 1st, that would require us to have a long night. So that's -- just wanted to let you know that Staff's, I think, duty is to review all those tariffs before they take effect after they've been approved.

MR. PENDERGAST: And I know Staff takes that very seriously, and I think if we can work it out, we'd be fine with just running out the tariffs that have been attached to the Stipulation & Agreement, get a little issue date stamp and stamp each one so that Staff is certain that these are the same tariffs that were filed in EFIS and it's not a case of sending you a whole new batch and having to compare and contrast.

So I think we have ways to maybe hopefully address that on an expedited basis.

JUDGE JONES: So Staff will want to file a recommendation as to approval of any tariffs that are filed?

MR. BORGMEYER: Yeah. I don't know whether we'd actually file a recommendation or not, but we would definitely look at all the tariffs and, I mean, if there was a problem then we would file something. Yeah, we would file a recommendation, I think, just saying that they're all consistent with the Stipulation & Agreement.

JUDGE JONES: Any other questions from the Commission?

CHAIRMAN KENNEY: Thank you.

JUDGE JONES: Thank you all for coming out. With that, we'll go off the record.

(WHEREUPON, the on-the-record presentation concluded at 3:29 p.m.)

C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Kellene K. Feddersen, Certified Shorthand Reporter with the firm of Midwest Litigation Services, do hereby certify that I was personally present at the proceedings had in the above-entitled cause at the time and place set forth in the caption sheet thereof; that I then and there took down in Stenotype the proceedings had; and that the foregoing is a full, true and correct transcript of such Stenotype notes so made at such time and place.

Given at my office in the City of Jefferson, County of Cole, State of Missouri.

____

Kellene K. Feddersen, RPR, CSR, CCR

S