

FISCHER & DORITY
PROFESSIONAL CORPORATION

FILE COPY

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March 22, 2001

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

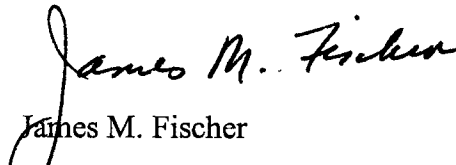
RE: *In the Matter of the Application of United Cities Gas Company, a division of Atmos Energy Corporation, for an Accounting Authority Order Related to Investigation and Response Actions Associated with Its Former Manufactured Gas Plant Site in Hannibal, Missouri, Case No. GA-98-464.*

Dear Mr. Roberts:

Enclosed for filing in the above-referenced matter are the original and eight (8) copies of Suggestions In Support Of Motion For Modification Of Accounting Authority Order filed on behalf of United Cities Gas Company, a division of Atmos Energy Corporation. A copy of the foregoing Suggestions has been hand-delivered or mailed this date to parties of record.

Thank you for your attention to this matter.

Sincerely,


James M. Fischer

/jr
Enclosures

cc: Office of the Public Counsel ✓
General Counsel

MAR 22 2001

**BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI**

FILE COPY

In the Matter of the Application of United Cities Gas)	
Company, a division of Atmos Energy Corporation,)	
for an Accounting Authority Order Related to)	Case No. GA-98-464
Investigation and Response Actions Associated with)	
Its Former Manufactured Gas Plant Site in Hannibal,)	
Missouri.)	

**SUGGESTIONS IN SUPPORT OF MOTION
FOR MODIFICATION OF ACCOUNTING AUTHORITY ORDER**

COMES NOW United Cities Gas Company, a division of Atmos Energy Corporation (hereinafter "United Cities") and, pursuant to 4 CSR 240-2.080, for its Suggestions In Support Of Its Motion For Modification of Accounting Authority Order ("AAO") issued on February 25, 1999, states to the Missouri Public Service Commission ("Commission"):

PROCEDURAL HISTORY

1. On February 25, 1999, the Commission granted United Cities' Application For Accounting Authority Order in this proceeding. The effective date of the AAO was March 9, 1999. The Commission ordered that "the accounting authority order will apply to costs incurred or payments received between March 31, 1998, and the effective date of the rates established in United Cities' next general rate case or the beginning of any subsequent accounting authority order granted for the same costs, whichever is earlier." (Accounting Authority Order, p. 3) The Commission also indicated that the AAO would become "null and void in the event that United Cities does not file tariff sheets proposing a general increase in rates within twenty-four (24) months from the effective date of this order." (*Id.* at 4).

MAR 22 2001

2. On February 5, 2001, (32 days before the expiration date of the AAO), United Cities filed its Motion For Modification of AAO in which it requested that the Commission issue an Order Modifying the Accounting Authority Order issued on February 25, 1999, by extending the date that the AAO would become null and void from March 9, 2001 to March 9, 2002, unless a general rate case is filed, or in the alternative, issue a subsequent accounting authority order to authorize United Cities to defer in Account 182.3 all costs incurred in connection with the investigation, assessment and environmental response actions at the Hannibal MGP.

3. On February 6, 2001, the Office of the Public Counsel filed its Response In Opposition to United Cities' Motion For Modification of Accounting Authority Order in which it opposed United Cities' motion. United Cities filed its Reply to the Public Counsel on February 8, 2001. On February 13, 2001, Public Counsel filed a Response to United Cities' Reply.

4. On March 2, 2001, the Staff filed its "Staff Suggestions" in which it suggested that the Commission deny United Cities' request to extend by one year the AAO issued in this case. The Staff's pleading was filed twenty-five (25) days after United Cities' filed its initial Motion For Modification Of Accounting Authority Order, substantially beyond the ten (10) day period mandated by 4 CSR 240-2.080(16). On March 6, 2001, United Cities filed its Reply to Staff Suggestions.

5. On March 6, 2001, the Commission, by delegation of authority, issued its Order Setting Prehearing Conference And Directing Filing Of Procedural Schedule, in which it directed the parties to attend a prehearing conference on March 15, 2001, and directed that the parties file a proposed procedural schedule no later than March 22, 2001. The Order did not address the merits of United Cities' Motion which remains pending before the Commission. The Order noted that "the prehearing conference should be scheduled to afford the parties the opportunity to discuss, define and possibly resolve the issues presented in this case, or at least to agree on a procedural schedule."

(Order Setting Prehearing Conference And Directing Filing Of Procedural Schedule, p. 2)

6. On March 15, 2001, a prehearing conference was held and attended by legal representatives of the Company, Staff and Public Counsel. At the conclusion of the on-the-record portion of the prehearing conference, Judge Ruth requested that the parties file briefs or legal memoranda on the question of whether the Commission has jurisdiction to grant the relief requested by United Cities. On March 21, 2001, Judge Ruth also issued a Notice Regarding Procedural Schedule And Regarding Memoranda directing the parties to file, no later than March 22, 2001, pleadings or other memoranda addressing whether the Commission has jurisdiction to grant the relief requested by United Cities. These Suggestions are intended to comply with Judge Ruth's request.

ARGUMENT

I. The Commission Has The Jurisdiction and Discretion To Issue An AAO Under Terms And Conditions It Finds In The Public Interest, And It Has the Discretion To Modify Those Terms And Conditions, Including Extending The Period Covered By The AAO.

The issuance of an AAO rests within the jurisdiction and sound discretion of the Commission. The Commission, by authority pursuant to Section 393.140(4), RSMo. promulgated rule 4 CSR 240-40.040, which prescribes the use of the Uniform System of Accounts ("USOA") adopted by the Federal Energy Regulatory Commission (FERC), for use by gas utilities subject to its jurisdiction. This is the statutory authority for the Commission to issue AAOs for public utilities under its jurisdiction.

As stated in the Commission rule, the USOA contains definitions, general instructions, gas plant instructions, operating expense instructions and accounts that comprise the balance sheet, gas plant, income, operating revenues, and operation and maintenance expenses. The USOA provides

for the treatment of extraordinary items in Account 182.3 (formerly 186). This account was created to include "all debits not elsewhere provided for, such as miscellaneous work in progress, and unusual or extraordinary expenses, not included in other accounts, which are in process of amortization and items the proper final disposition of which is uncertain." Report and Order, *Re Missouri Public Service*, 129 P.U.R.4th 381, 1991 WL 501955 (Mo.P.S.C.).

In the past, the Commission has exercised its discretion to issue AAOs when extraordinary and nonrecurring costs related to environmental remediation were incurred by gas companies. See Accounting Authority Order, *Re: Laclede Gas Company*, 172 PUR4th 83 (1996); Accounting Authority Order, *Re United Cities Gas Company*, Case No. GA-98-464 (February 25, 1999). In this case, the Commission held that it was reasonable to allow the Company to defer certain costs associated with the extraordinary and nonrecurring environmental remediation of the Hannibal Manufactured Gas Plant. In its AAO issued on February 25, 1999, the Commission authorized United Cities to defer in Account 182.3 (formerly Account 186) all costs incurred in connection with:

- a. the investigation, assessment, removal, disposal, storage, remediation or other clean-up of residues, substances, materials and/or property associated with the Hannibal manufactured gas plant;
- b. the dismantling and/or removal of facilities formerly utilized in manufactured gas plant operations;
- c. efforts to recover such costs from potentially responsible third parties and insurance companies; and
- d. payments received by United Cities as a result of such efforts.

The AAO issued in this proceeding is within the jurisdiction of the Commission, and is a creation of the Commission and, as such, can be modified or extended as necessary to promote the public policy that recovery of environmental remediation costs incurred pursuant to an agreement with another state agency is in the public interest. The Commission's discretion is not restricted by a statutory operation of law date or other statutory provision. The AAO is also consistent with a Commission-approved policy of allowing public utilities to capture and defer to Account 182.3 certain extraordinary and non-recurring costs that would be reviewed in a future rate case. The Commission clearly has the statutory authority to issue AAOs, and retains jurisdiction of the subject matter of the AAO in this proceeding for the purpose of entering into such further orders as it may deem necessary or proper.

In this case, the Commission unequivocally indicated its desire to take this matter under advisement and review this matter further when it issued its Order Setting Prehearing Conference And Directing Filing Of Procedural Schedule on March 6, 2001. As noted in paragraph 5, the Commission stated in its Order that one of the purposes of the prehearing conference was to give the parties an opportunity to discuss and resolve the issues in this case. In addition, the Order noted that a procedural schedule was necessary "to ensure that this case progresses in a timely manner." These statements clearly indicate that it was not the Commission's intent for the AAO to become null and void on March 9, 2001, and that the issues raised by United Cities' February 5, 2001, Motion still need to be resolved.

Moreover, the Commission presumably would not have performed a meaningless act by scheduling a prehearing conference and requesting a procedural schedule, if the AAO was null and void and no further relief was possible after March 9, 2001. In addition, United Cities does not believe that the Commission would have knowingly set up a scenario by which it rendered a decision

on the merits of the motion by its own non-action on the request. United Cities believes that the Commission may, after further consideration of the pleadings in this matter, extend the AAO by one-year, as requested, since the Commission has clearly exercised its jurisdiction to take this matter under advisement, prior to the March 9, 2001, deadline.

This current situation is analogous to the common situation that occurs when the Commission grants a motion for reconsideration or rehearing after the expiration of the effective date of a Report and Order. The Commission in its sound discretion may grant reconsideration or rehearing and modify the original Report and Order if sufficient reason is found to do so, provided that the motion for reconsideration and rehearing is filed prior to the effective date of the Report and Order. The fact that the Report and Order is already effective, does not change the fact that the Commission may reconsider or rehear its original decision and render whatever relief is lawful and reasonable under the circumstances of the case. *See e.g., Re Missouri Gas Energy*, Case No. GR-98-140, 1998 WL 1013473 (Mo.P.S.C.); *Re Missouri Gas Energy*, Case No. GR-96-285, 1997 WL 280099 (Mo.P.S.C.); *Re Union Electric Company*, Case No. EO-95-400, 1996 WL 523931 (Mo.P.S.C.).

In the case at hand, United Cities filed its motion requesting that the Commission exercise its jurisdiction to modify the AAO weeks before it was scheduled to expire. Prior to March 9, 2001, the Commission scheduled a prehearing conference to discuss the issues among the parties and propose a procedural schedule. Although March 9, 2001, has now passed, the Commission clearly retains its jurisdiction to modify the AAO since it has taken the matter under advisement.

Other states routinely issue AAOs to defer similar environmental costs that are not conditioned upon the filing of a rate case by any specified date. *See Order, Re United Cities Gas Company For the Deferral Of Accounts Incurred In Connection With Environmental Control Requirements*, Tenn.Pub.Serv.Comm'n, Docket No. 94-02529 (October 4, 1994); Order Approving

Stipulation & Agreement, *Re United Cities Gas Company Requesting Issuance of Certain Accounting Orders Relating to Its Natural Gas Operations and Seeking Approval to Recover Its Actual Cost to Investigate and Perform Possible Response Action to Approximately 720 Meter Sites Where Mercury Meters May Have Been Used*, Kansas Corp. Comm., Docket No. 191,339-U (Jan. 12, 1996); Order Approving Settlement and Compliance Tariffs, *Re United Cities Gas Company*, Iowa Utilities Bd., Docket No. RPU-95-14 (May 17, 1996)(attached) There is nothing that would necessarily require that an AAO be conditioned upon the filing of a general rate case by a specific date, if the Commission determined that such an order would promote the public interest.

In conclusion, the Commission has jurisdiction to grant the relief requested by United Cities. United Cities would therefore respectfully request that the Commission exercise its jurisdiction by extending the existing AAO by one-year as requested in its original Motion For Modification Of Accounting Authority Order filed on February 5, 2001.

II. If The Commission Finds That the Existing AAO Has Expired, Then The Commission Nevertheless Retains Jurisdiction To Issue A Subsequent AAO Covering the Same Costs of Environmental Remediation At The Hannibal Manufactured Gas Plant.

If the Commission finds, however, that the original AAO expired on March 9, 2001, then the Commission would nevertheless retain the jurisdiction to issue a subsequent AAO covering the same costs of the environmental remediation at the Hannibal Manufactured Gas Plant including costs incurred through March 9, 2002, or some other period deemed to be appropriate by the Commission.

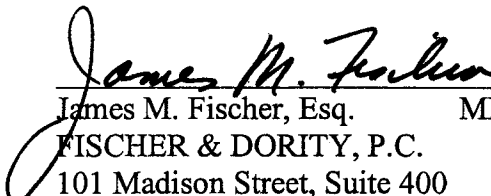
The Commission's original AAO clearly contemplated the possibility that there would be a "subsequent accounting authority order granted for the same costs. . ." (AAO, p. 3) when it stated:

2. That the accounting authority order will apply to costs incurred or payments received between March 31, 1998, and the effective date of the rates established in United Cities' next general rate case **or the beginning of the deferral period of any subsequent accounting authority order granted for the same costs**, whichever is earlier. (emphasis added)

As discussed in the Company's previous pleadings, the issuance of the AAO that extended through March 9, 2002, would recognize that the environmental remediation efforts related to the Hannibal Manufactured Gas Plant are extraordinary and non-recurring costs that must, by virtue of the complex nature of environmental remediation, be expended over several years. It would also recognize that these costs are being incurred, pursuant to a mandate of the Missouri Department of Natural Resources. United Cities should not be required to write-off these extraordinary, non-recurring costs merely because it has not filed a general rate case by March 9, 2001, especially when gas rates are at record levels already. The issuance of a new AAO covering the same costs, as contemplated in the original AAO, would clearly be within the discretion of the Commission.

WHEREFORE, having responded to the Commission's request to provide additional suggestions in support of its Motion, United Cities respectfully renews its request that the Commission issue an Order Modifying the Accounting Authority Order issued on February 25, 1999, by extending the date that the AAO would become null and void from March 9, 2001 to March 9, 2002, unless a general rate case is filed, or in the alternative, issue a subsequent AAO to authorize United Cities to defer in Account 182.3 all costs incurred in connection with the investigation, assessment and environmental response actions at the Hannibal Manufactured Gas Plant, for the period between March 31, 1998 and the effective date of the rates established in United Cities' next general rate case, unless the Company does not file a general rate case by March 9, 2002.

Respectfully submitted,


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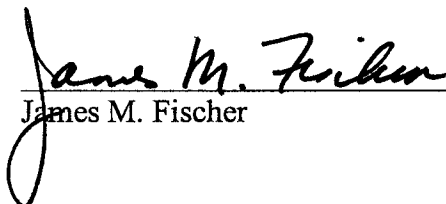
ATTORNEYS FOR
UNITED CITIES GAS COMPANY,
a division of ATMOS ENERGY CORPORATION

CERTIFICATE OF SERVICE

I do hereby certify that a true and correct copy of the foregoing document has been hand-delivered or mailed, postage prepaid, this 22nd day of March, 2001, to:

General Counsel
Missouri Public Service Commission
P.O. Box 360
Jefferson City, Missouri 65102

Office of the Public Counsel
P.O. Box 7800
Jefferson City, Missouri 65102


James M. Fischer

BEFORE THE TENNESSEE PUBLIC SERVICE COMMISSION

Nashville, Tennessee
October 4, 1994

IN RE: APPLICATION OF UNITED CITIES GAS COMPANY FOR
THE DEFERRAL OF ACCOUNTS INCURRED IN CONNECTION
WITH ENVIRONMENTAL CONTROL REQUIREMENTS

DOCKET NO. 94-02529

ORDER

This matter is before the Commission upon the Application of United Cities Gas Company (United Cities or Company) for approval of the deferral of accounts incurred in connection with state and federally mandated environmental control requirements.

United Cities states that various federal and state agencies have imposed environmental control requirements which require local natural gas distribution companies, such as United Cities, to meet applicable standards relative to the clean-up of underground storage tanks (UST's) and manufactured gas plant sites (MGP's). United Cities must meet these regulations and has identified certain current and former operation sites in Tennessee which require environmental cleanups.

United Cities has identified five (5) underground storage tank sites in Tennessee, including Franklin, Kingsport, Bristol and Johnson City, which has two. Work began in August in Franklin. United Cities is required to take action on all five

UST's in Tennessee by December 31, 1994. The Company has estimated a range of costs associated with compliance for these UST's, the lower end of which is \$70,000 for all five tanks, and the upper end of which is \$4,250,000. The lower figure would apply if the tanks are removed and no soil contamination is present, while the upper end of the range is based upon actual UST cleanups in Tennessee. It is also possible that the Company may encounter other contamination from an abandoned MGP which would increase this upper end estimate.

United Cities Gas Company is requesting authorization to defer in Account 186 all costs incurred in connection with the assessment and cleanups required under the environmental guidelines cited above. United Cities is not requesting approval of any ratemaking treatment of these costs at this time. The review and appropriate disposition of these costs would be reserved for and determined in the Company's next application for adjustment of its rates and charges. United Cities states that any refunds or reimbursement received from state funds, insurance companies or other third parties will be credited to Account 186. Similar action has previously been granted to Piedmont Natural Gas Company (Nashville Gas Company) on December 21, 1992 in Docket No. 92-16160.

By Order entered September 23, 1994, the Consumer Advocate Division was permitted to intervene in this docket. On September 27, 1994, the Consumer Advocate Division filed a Memorandum with the Commission which stated, *inter alia*, as follows:

"The Consumer Advocate does not object to the approval of United Cities' request to defer the costs, provided that the approval is not perceived to indicate that any of the costs are to be included in the rates or otherwise billed to the ratepayers. If and when the Company proposes to require ratepayers to pay for these clean-up cost, we will request a hearing on that issue."

As stated above, United Cities has not requested any rate treatment or the approval of any other disposition of the costs which it proposes to defer. It states that this issue will be reserved for determination in its next rate case, at which time a hearing may be had.

The Commission considered this matter at the Commission Conference held on October 4, 1994. It was concluded after careful consideration of the entire record that the request by United Cities, which is not opposed by the Consumer Advocate Division, is reasonable and appropriate, and that the same should be approved.

IT IS, THEREFORE, ORDERED:

1. That the Application of United Cities Gas Company for approval of the deferral of accounts incurred in connection with state and federally mandated environmental control requirements be and the same is hereby approved.

2. Said deferral and any applicable credits shall be made to Account 186 as set forth in United Cities' Application.

3. Nothing herein shall be interpreted to indicate that any of the costs are to be included in rates or otherwise billed to

5. Any party aggrieved with the Commission's decision in this matter has the right of judicial review by filing a Petition for Review in the Tennessee Court of Appeals, Middle Section, within sixty (60) days from and after the date of this Order.

Chairman

Commissioner

Commissioner

Executive Director

BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

Before Commissioners: Susan M. Seltsam, Chair
F.S. Jack Alexander
Timothy E. McKee

In the Matter of the Application of United Cities Gas)
Company Requesting Issuance of Certain) Docket No. 191,339-U
Accounting Orders Relating to Its Natural Gas) 95-UNCG-111-ACT
Operations and Seeking Approval to Recover Its)
Actual Costs to Investigate and Perform Possible)
Response Action to Approximately 720 Meter Sites)
Where Mercury Meters May Have Been Used.)

ORDER APPROVING STIPULATION & AGREEMENT

NOW, the above-captioned matter comes on for consideration and determination before the State Corporation Commission of the State of Kansas [Commission].
Appearances are: for United Cities Gas Company ["United Cities" or "Applicant"],
Mr. James G. Flaherty and for Commission Staff [Staff], Mr. Larry Cowger. Having
examined the files and records in this docket, the Commission finds and concludes:

1. On September 12, 1994, United Cities filed an application with the Commission seeking the issuance of an accounting order relating to the recovery of its actual costs to assess and perform possible response action to approximately 720 meter sites where mercury meters may have been used.

2. On December 15, 1995, Applicant and Staff submitted to the Commission and requested approval of the attached Stipulation and Agreement [Agreement] and, in accordance with the Agreement, approve the application of Applicant as modified and clarified pursuant to the terms of the Agreement.

3. The parties to the Agreement state they are bound to the Agreement only if it is approved in its entirety and that with the modifications and clarifications herein agreed upon, the application and accompanying documents are in the public interest. The parties urge the Commission to approve the Agreement in its entirety.

THE COMMISSION FINDS AND ORDERS:

1. The Commission finds that the approval of the Application is in the public interest and that the Stipulation and Agreement entered into by the parties is just and reasonable. The Commission finds that the Stipulation and Agreement is supported by the record in this docket and is accepted.

2. The Commission finds that the Stipulation and Agreement should be approved and the application, as modified and clarified by the terms of the Stipulation and Agreement, is approved.

3. Acceptance of the parties and the Agreement and the issuance of this Order does not settle any ratemaking principle or legal issue other than for the purposes of settlement in this matter.

4. The Commission retains jurisdiction of the subject matter and the parties for the purpose of entering into such further order or orders as it may be necessary or proper.

5. The parties have fifteen (15) days from the date of this Order, plus an additional three (3) days, if service of this Order is by mail, to file for reconsideration regarding the decision herein.

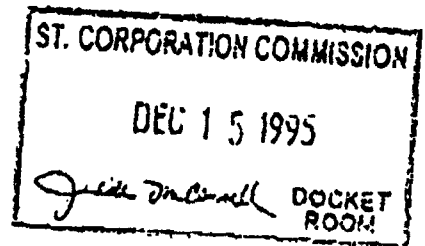
BY THE COMMISSION IT IS SO ORDERED.

Seltsam, Chr.; Alexander, Com.; McKee, Com.

Dated: JAN 12 1996

ORDER MAILED
JAN 17 1996
Judith McConnell Executive Director
JUDITH McCONNELL
EXECUTIVE DIRECTOR

LMC/Smd



BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

In the Matter of the Application of United Cities Gas Company)
Requesting Issuance of Certain Accounting Orders Relating to)
its Natural Gas Operations and Seeking Approval to Recover)
its Actual Costs to Investigate and Perform Possible Response)
Action to Approximately 720 Meter Sites Where Mercury)
Meters May Have Been Used.)

Docket No. 191,339-U

STIPULATION AND AGREEMENT

United Cities Gas Company (United Cities) and the Kansas Corporation Commission Staff (Staff) have reached the following Stipulation and Agreement. This Stipulation and Agreement is submitted to the Commission by the above mentioned parties for approval pursuant to the terms set forth herein.

I. DESCRIPTION OF THE APPLICATION FILED BY UNITED CITIES

1. United Cities is a Kansas public utility as defined by K.S.A. 66-104 and as such is subject to Commission jurisdiction.

2. On September 12, 1994, United Cities filed an application seeking the issuance of an accounting order relating to the recovery of its actual costs to assess and perform possible response action to approximately 720 meter sites where mercury meters may have been used.

3. During the operations of the natural gas distribution system now owned by United Cities in Kansas, small amounts of mercury may have from time to time been released to the environment from gas flow measuring equipment using mercury at metering and regulating (M&R) stations. Potential releases may have resulted in concentrations of mercury in soils at these M&R stations that

may now exceed federal and state standards or may otherwise now be present in concentrations that in the judgment of the Kansas Department of Health and Environment (KDHE) warrant assessment.

4. United Cities is currently working with KDHE to finalize a Consent Order which will require United Cities to assess all known M&R locations. Under the proposed Consent Order, United Cities will identify those locations in Kansas which have mercury contaminations. Each year for five years, United Cities will be required to perform assessments of twenty percent (20%) of the known M&R locations. Under the proposed Consent Order, United Cities has agreed to complete the necessary response action regarding assessed sites within one year after the assessment on the site has been completed.

5. United Cities is seeking authority to accumulate in account 186.882, so it can seek recovery in future rate cases, the prudent costs and expenses it incurs to assess and perform possible response action to the approximately 720 meter sites where mercury may have been used pursuant to the proposed Consent Order to be issued by KDHE.

6. United Cities and Staff have reached the following Stipulation and Agreement regarding United Cities' request for an accounting order.

II. TERMS OF THE STIPULATION AND AGREEMENT

7. Subject to the following terms and conditions, the Staff agrees that United Cities should be allowed to accumulate in account 186.882, and to seek recovery in future rate cases, the reasonable and prudent costs and expenses to assess and perform possible response action relating to the M&R locations as provided for by the Consent Order issued by KDHE.

8. Subject to United Cities maintaining proper documentation, as defined below in paragraph 9, and subject to verification of said costs and expenses by the Staff on a periodic basis as described

below in paragraph 10, United Cities and Staff agree that United Cities shall be allowed to accumulate in account 186.882, and to seek recovery in future rate cases, the following cost categories involved in assessing and performing possible response action as provided by the Consent Order issued by KDHE:

- a. Outside Services - Engineering, Testing, Disposal and Field Work
- b. Temporary Employee - Project Management
- c. Outside Services - Legal
- d. Temporary Employee - Inspection
- e. Kansas Department of Health and Environment Oversight and Inspection Cost
- f. Incremental Vehicle and Construction Equipment
- g. Extra Liability Insurance
- h. Kansas Corporation Commission Cost, Other than Rate Case Costs
- i. Other Directly Associated Costs

United Cities agrees that any cost and expense related to any labor, labor associated overhead, vehicle, construction equipment or any other cost and expense, included in the above mentioned categories, which is attributable to any employee, vehicle construction equipment or any other item included in United Cities' cost of service, shall be adjusted so that there is no double recovery of said cost and expense by United Cities. United Cities agrees not to include any interest and carrying costs in the amounts accumulated in account 186.882. United Cities agrees not to seek rate recovery of any interest or carrying costs associated with the assessment and response action relating to the sites.

9. United Cities and Staff agree that United Cities shall not be allowed to recover any cost and expense relating to the above mentioned categories unless United Cities maintains the following

documentation in regards to each cost category:

a. Outside Services - Engineering, Testing, Disposal, Field Work and Legal.

United Cities shall maintain a copy of the invoice for service. The invoice for service must describe the work performed by the Outside Services. If the work is done on an hourly basis, then the invoice shall set forth the hourly rate and the number of hours spent performing the services. If the invoice is on an unit cost basis, the invoice shall show the unit cost and the number of units. The invoice should also detail all out of pocket expenses reimbursed by United Cities. United Cities shall maintain documentation showing payment of all invoices.

b. Temporary Employees - Project Management and Inspection. United Cities shall maintain a copy of the invoice for service. The invoice must set forth the same information as required by Outside Services. United Cities shall maintain documentation showing payment of all invoices.

c. KDHE Costs / KCC Costs. United Cities shall maintain a copy of all invoices from the KDHE and KCC. United Cities shall maintain documentation of showing payment of all invoices.

d. Incremental Vehicle and Construction Equipment. United Cities shall maintain all invoices relating to the rental and use of incremental vehicle and construction equipment. United Cities shall maintain documentation showing payment of all invoices.

e. Extra Liability Insurance. United Cities shall maintain a copy of the insurance policy relating to any incremental cost of coverage and all invoices from the insurance company providing coverage. United Cities shall maintain documentation showing payment of all invoices.

f. Other Directly Associated Costs. United Cities shall maintain all invoices relating

to other directly associated costs. United Cities shall provide a description of the "other directly associated costs" and an explanation as to how such costs are directly related to investigating and performing possible response action relating to the M&R locations.

10. United Cities agrees to provide to the Staff an annual report, due March 15 of the following calendar year which includes the documentation required to be maintained by United Cities for the previous calendar year period (January 1 - December 31); a summary of costs and expenses incurred during that period; and a summary of costs and expenses incurred to date by United Cities.

11. United Cities and Staff agree to meet at least once a year to discuss the contents of the report provided by United Cities. The purpose of the meeting will be to address any questions or concerns that the Staff has regarding the contents of the annual report filed for the previous year. Staff agrees to provide United Cities a summary within 60 days after the meeting of all questions or concerns which have not been adequately addressed by United Cities.

12. In order to seek collection of the costs and expenses accumulated in account 186.882 in its rates, United Cities shall be required to file in Section 14 or 15 of its rate case application a summary of all costs and expenses by category which United Cities seeks to recover in rates. United Cities agrees to maintain all records, reports, and Staff summaries so that such can be reviewed by the Staff as part of its rate case audit.

13. United Cities and Staff understand that the assessment and possible response action at the M&R locations may take at least six years or longer to complete. United Cities and Staff, therefore, agree that United Cities may seek recovery of the costs and expenses in more than one rate case application and prior to the completion of the assessment and possible response action at all M&R locations, provided, however, United Cities must have actually paid for said costs and

expenses prior to seeking recovery in a rate case.

14. Collection in rates by United Cities of the costs and expenses accumulated in account 186.882, is conditioned upon United Cities first obtaining an order from the Commission approving the collection in rates of said costs and expenses.

15. All costs and expenses accumulated in account 186.882 which are approved by the Commission shall be amortized and collected by United Cities over a five year period. The five year period shall begin from the date of the order from the Commission approving the collection in rates of said costs and expenses. United Cities shall not be allowed to collect interest or carrying costs on any of the unamortized amount. Any unamortized amount which has not been collected at the time the Commission may approve in subsequent rate cases other costs and expenses accumulated in account 186.882, shall be collected within the original five year amortization period and shall not be added to the subsequently approved amortized amount. Costs and expenses accumulated in Account 186.882 which are approved by the Commission in subsequent rate cases shall also be amortized over a five year period which shall begin from the date of the order from the Commission approving the collection in rates of said additional costs and expenses. United Cities agrees to maintain proper accounting records of the amortized amounts, the amount collected and the amortized amount which has not been collected and provide said records to the KCC on an annual basis. The approved unamortized amount shall be reduced by all insurance proceeds received by United Cities relating to this matter at the time said proceeds are received by United Cities. If United Cities receives any insurance proceeds after the approved amortized amount has already been collected, then United Cities agrees to refund said insurance proceeds to its customers.

16. United Cities and the Staff agree that the actual total reasonable costs to investigate and perform possible response action to approximately 720 meter sites where mercury meters may have

been used is unknown at the present time. United Cities estimates that expenditures could be as high as \$4,380,000. However, for purposes of this Stipulation and Agreement, United Cities and the Staff agree to an original cap of \$1,500,000 in costs and expenses to be accumulated in Account 186.882 by United Cities. United Cities and the Staff recognize and agree that the actual total reasonable costs incurred by United Cities may exceed the \$1,500,000 cap (hereinafter referred to as the "original cap") which has been included in this Stipulation and Agreement (S&A). United Cities and Staff further recognize and agree that the purpose of including the original cap in the S&A is not to limit or prohibit United Cities from recovering the actual total reasonable costs incurred by United Cities. United Cities and the Staff agree that if United Cities complies with paragraphs 8 through 12 of the S&A concerning the actual reasonable costs which exceed the original cap, the original cap agreed to and approved herein shall be increased to include the actual reasonable costs incurred by United Cities which exceed the original cap.

III. RESERVATIONS

17. Except as specifically provided above, this Stipulation and Agreement represents a Settlement for the sole purpose of disposing of this case, and none of the signatories to this Stipulation and Agreement shall be prejudiced or bound in any manner by the terms of the Stipulation and Agreement should the Stipulation and Agreement not be accepted by the Commission in its entirety.

18. United Cities denies any and all legal or equitable liability or obligations under any federal or state statute, regulation or ordinance or common law pertaining to the M&R locations. The entering into this Stipulation and Agreement and the KDHE Consent Order by United Cities shall not be considered as an admission on the part of United Cities regarding any legal or equitable

liability or obligations to assess or perform response action at the M&R locations.

19. Except as otherwise specifically provided herein, the parties to this Stipulation and Agreement shall not be deemed to have approved or acquiesced to any ratemaking principle underlying this Stipulation and Agreement.

20. In the event the Commission accepts the specific terms of this Stipulation and Agreement, the parties waive their respective rights to cross examine witnesses, and present oral arguments or written briefs to the Commission. The parties also waive their right to request reconsideration of the Commission order approving this Stipulation and Agreement and waive their rights to seek judicial review of said order.

21. The terms set forth in the Stipulation and Agreement are the results of extensive negotiations among the signatory parties. Because the terms are interdependent, if the Commission does not approve and adopt all of the terms of this Stipulation and Agreement, this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

22. This Stipulation and Agreement shall be considered null and void if United Cities and KDHE fail to execute a Consent Order.


23. The Staff shall have the right to submit to the Commission, in memorandum form, an explanation of its rationale for entering into this Stipulation and Agreement, and to provide the Commission whatever further explanation the Commission requests. The Staff's memorandum shall not become a part of the record of this proceeding in the event the Commission does not approve the Stipulation and Agreement. Any rationales advanced by the Staff in such a memorandum are its own and not acquiesced in or otherwise adopted by other parties.

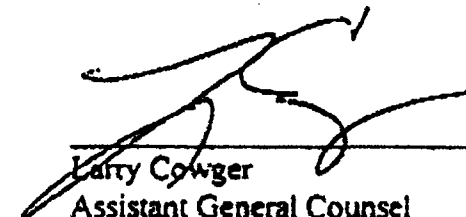
24. This agreement may be executed in several counterparts and all so executed shall

constitute but one and the same instrument binding all parties thereto, notwithstanding that all parties are not signatory to the same counterpart, each of which shall be fully effective as an original.

WHEREFORE, on behalf of their respective clients, the undersigned attorneys respectfully request that the Commission approve this Stipulation and Agreement in its entirety.

Dated this 15th day of December, 1995.


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STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE:

UNITED CITIES GAS COMPANY

DOCKET NO. RPU-95-14

ORDER APPROVING SETTLEMENT AND COMPLIANCE TARIFFS

(Issued May 17 , 1996)

On December 8, 1995, United Cities Gas Company (United Cities) filed with the Utilities Board (Board) a request for a general increase in gas rates. In its application, United Cities requested to increase its Iowa jurisdictional gas operating revenues by approximately \$750,000, or a 14.1 percent average increase. On January 5, 1996, the Board issued an order docketing the application and setting a procedural schedule. On February 29, 1996, United Cities and the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed a motion requesting the Board suspend the procedural schedule and stating the parties expected to file a settlement agreement within a few weeks. The Board issued an order suspending the procedural schedule on March 5, 1996, and on March 18, 1996, the parties filed a unanimous proposed settlement agreement with the Board.

The unanimous settlement would allow a revenue increase of \$419,704; an 8.2 percent overall increase or a 15.2 percent increase of non-gas rates. The proposed settlement also contains an amortization of former manufactured gas plant

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remediation costs over a ten-year period, commencing with the effective date of the Board's order in this proceeding. The parties agreed to a return on equity of 11 percent.

After reviewing the record, the Board finds the settlement is reasonable in light of the whole record, consistent with law and Board precedent, and in the public interest. IOWA CODE § 17.12(5); IOWA ADMIN. CODE 199-7.2(11) (1996). The settlement will be approved as the final resolution of Docket No. RPU-95-14.

The parties agreed United Cities would recover the lesser of its actual reasonable rate case expense or its estimated rate case expense amortized over five years. On April 25, 1996, United Cities filed its actual rate case expense with the Board. Since this amount is less than the estimated rate case expense, it will be included in the revenue requirement for final rates. The attached Schedules A through D reflect the approved revenue requirement.

United Cities filed revised tariff sheets at the time of filing the proposed settlement. On April 24, 1996, United Cities filed a clarification of the tariff sheets. The Board has reviewed these tariff sheets and finds they comply with the proposed settlement. Therefore, the compliance tariffs will also be approved.

FINDINGS OF FACT

1. The settlement filed on March 18, 1996, is reasonable in light of the complete record in this proceeding.

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2. The settlement filed on March 18, 1996, is consistent with law.
3. The settlement filed on March 18, 1996, is in the public interest.

CONCLUSIONS OF LAW

1. The Utilities Board has jurisdiction over the parties and subject matter of this proceeding, pursuant to IOWA CODE §§ 476.1 and 476.6 (1995).
2. Pursuant to IOWA ADMIN. CODE 199-7.2(11) (1996), this order constitutes the final decision of the Utilities Board in Docket No. RPU-95-14.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The proposed tariff filed by United Cities Gas Company on December 8, 1995, identified as TF-95-483, is declared to be unjust, unreasonable, and unlawful.
2. The joint motion to approve the settlement agreement filed on March 18, 1996, is granted.
3. The tariffs attached to the settlement filed by the parties on March 18, 1996, and revised by the filings on April 24, 1996, and April 25, 1996, are approved commencing with usage on or after the date of this order.
4. Motions and objections not previously granted or sustained are denied or overruled.

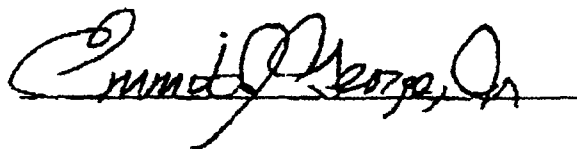
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5. This order constitutes the final decision of the Utilities Board in Docket
No. RPU-95-14.

UTILITIES BOARD



ATTEST:


Executive Secretary

Dated at Des Moines, Iowa, this 17th day of May, 1996.