

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED

DEC 08 1997

MISSOURI
PUBLIC SERVICE COMMISSION

In the matter of Missouri Gas Energy's tariff)
sheets designed to increase rates for gas)
service in the company's Missouri service)
area.)

Case No. GR-98-140

STAFF'S RESPONSE TO MOTION FOR TRUE-UP AUDIT
AND STAFF'S TEST YEAR RECOMMENDATION

I. MGE's request for a true-up is premature, because the Commission does not normally order a true-up until after the filing of Staff's direct case.

1. On November 26, 1997, MGE filed a motion for a true-up audit and hearing. The motion requested a true-up audit and hearing for the recognition in rates various plant and expense items to cover the time period between the end of the test year and June 30, 1998.

2. The Staff is not opposed in principle to the idea of a true-up in this case. However, the Staff has no idea if MGE's requested true-up is necessary or appropriate because it has not audited the books and records of the Company. Only after an audit can the Staff determine the advisability and scope of a true-up.

3. The Commission has recognized Staff's need to conduct an audit before recommending a true-up since it usually orders the Staff to make a true-up recommendation at the time of direct testimony. See the "Suspension Order and Notice" in ER-97-394 (Missouri Public Service, April 4, 1997); GR-97-272 (Associated Natural Gas Company, January 28, 1997); GR-96-285 (Missouri Gas Energy, March 13, 1995). The relevant material is usually contained in ordered paragraph 8.

4. Thus, there is no need for the Commission to make its decision on a true-up at this time. The Commission has plenty of time to make a decision on the the need for a true-up after Staff's direct testimony and true-up recommendation is filed (which will occur in mid-March).

II. MGE's true-up proposal does not allow Staff enough time to conduct a true-up audit.

1. In its proposal, MGE asks for a June 30, 1997 true-up. MGE notes that its June books are not scheduled to be closed until July 15, 1997. MGE's proposal gives the Staff three days (July 20-22) to audit the June books, and sets a true-up hearing on July 29, 1998.

2. Three days is not enough time to conduct an effective audit. In addition, the Staff has concerns about the quality of the information that will be provided to Staff, since the books will only be closed five days before the Staff is given access. Moreover, MGE's fiscal year ends June 30, 1998. It is not unusual for problems to arise with recently closed information, especially when the fiscal year has ended. MGE's severely abbreviated schedule for review and hearing does not allow enough time to resolve any problems. MGE's abbreviated schedule increases the likelihood of a true-up hearing.

III. MGE's proposal significantly decreases the Commission's deliberation time.

1. The Commission must issue an order in this proceeding on or about August 21, 1998. The time provided in recent Commission orders for consideration of true-up results (see St. Louis County Water, Case No. WR-96-263 and Missouri Gas Energy, Case No. GR-96-285) provided approximately 90 days between the cut-off date of the true-up period and the operation of law date.

2. MGE's proposal reduces this 90 day period to less than 60 days. In addition, there is less than a month between MGE's proposed true-up hearing (July 29, 1998) and the date the Commission needs to issue its order.

IV. True-ups are not a substitute for the proper timing of a rate case.

1. The true-up process is utilized on an exception basis only. The determination to utilize a true-up is made on a case-by-case basis under certain circumstances. The Staff does not know if those circumstances exist in this case because it has not conducted its audit.

2. If there are significant items, such as the Automatic Meter Reading Program, occurring in 1998 that MGE wants to include in this case, the Company should time the filing of the rate case so that these items would be included in the test year. Since a utility controls when it will file for a rate increase, the true-up procedure should not be used to correct rate case timing miscalculations.

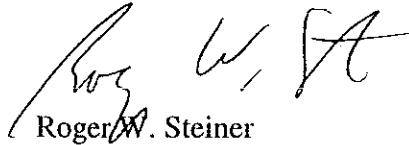
V. Staff's test year recommendation.

1. The Commission's Suspension Order required the Staff to file its test year and updated test year recommendation by December 8, 1997.

2. The Staff recommends a test year of the 12 months ending September 30, 1997 with an update for known and measurable changes through December 31, 1997.

WHEREFORE, the Staff requests that (1) the Commission make a determination on the need for and conduct of a true-up audit after the Staff has examined the books and records of the Company and filed its true-up recommendation, and (2) the Commission adopt a test year of the 12 months ending September 30, 1997, with an update for known and reasonable changes through December 31, 1997.

Respectfully submitted,

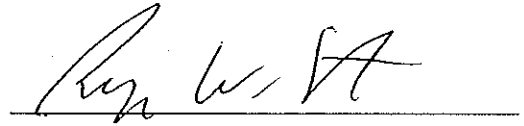


Roger W. Steiner
Assistant General Counsel
Missouri Bar No. 39586

Attorney for the Staff of the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
573-751-7434
573-751-9285 (Fax)

CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 8th day of December, 1997.



Service List for Case No. GR-98-140

Revised: December 8, 1997

Douglas E. Micheel
Office of the Public Counsel
P.O. Box 7800
Jefferson City, MO 65102

Jeremiah D. Finnegan
1209 Penntower Office Building
3100 Broadway
Kansas City, MO 64111

Gary Duffy
Brydon, Swearengen & England
P.O. Box 456
Jefferson City, MO 65102

Jeffrey A. Keevil
Stewart & Keevil Law Offices
1001 Cherry Street, Suite 302
Columbia, MO 65201

Robert J. Hack
Missouri Gas Energy
3420 Broadway
Kansas City, MO 64111

Richard Brownlee
P.O. Box 1069, 221 Bolivar
Jefferson City, MO 65102

Stuart W. Conrad
Finnegan, Conrad & Peterson
1209 Penntower Office Center
3100 Broadway
Kansas City, MO 64111

Mark W. Comley
Newman, Comley & Ruth
P.O. Box 537, 205 E. Capitol
Jefferson City, MO 65102

William D. Geary
Assistant City Attorney
City of Kansas City, Missouri
2700 City Hall, 414 E. 12th
Kansas City, MO 64106

Victor S. Scott
P.O. Box 1438
391 E. McCarty
Jefferson City, MO 65102

Lisa M. Robertson
City Attorney
City of St. Joseph, Missouri
307 City Hall, 11th & Frederick
St. Joseph, MO 64501