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BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

CASE NO. GM-87-65

In the matter of the application of Great River Gas Company of Keokuk, Iowa, to lease certain assets to Tri-Energy Pipeline Company.

APPEARANCES: Gary W. Duffy, Attorney at Law, Hawkins, Brydon, Swearengen & England, P.C., P.O. Box 456, Jefferson City, Missouri 65102, for Great River Gas Company.

Michael J. Zimmer, Attorney at Law, Wickwire, Gavin & Gibbs, P.C., 1133 21st Street, N.W., Suite 500, Washington, D.C. 20036,

and

Michael Madsen, Attorney at Law, Carson, Coil, Riley, McMillin, Levine and Veit, P.C., P.O. Box 235, Jefferson City, Missouri 65102, for Tri-Energy Pipeline Company.

Douglas C. Walther, Assistant General Counsel, Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

HEARING EXAMINER: Melody C. Schroer

REPORT AND ORDER

On December 2, 1986, Great River Gas Company (Great River) filed its application with the Commission. Great River proposes to lease to Tri-Energy Pipeline Company (Tri-Energy) a portion of its system in Missouri which Great River utilizes in the provision of natural gas service to the public.

On December 24, 1986, the Commission issued its Order And Notice directing that notice of the application be made. Tri-Energy filed its Application To Intervene on January 30, 1987, in support of Great River's application. On February 3, 1987, the Commission's Staff (Staff) filed its Motion To Schedule Proceedings. The Commission issued an Order on February 11, 1987, granting Tri-Energy's Application To Intervene and Staff's Motion To Schedule Proceedings, as amended.

After a series of continuances, the matter was heard on May 5, 1988. Briefs were filed by Great River, Tri-Energy, and Staff. The reading of the transcript was waived by all parties pursuant to Section 536.080, RSMo 1986.

Findings of Fact

Having considered all of the competent and substantial evidence upon the whole record, the Missouri Public Service Commission makes the following findings of fact:

Great River is an Illinois corporation, duly authorized to conduct business in the state of Missouri. Great River is a public utility within the meaning of Section 393.106, RSMo 1986, and is engaged in the business of providing natural gas service within its certificated areas in Missouri and Iowa. Currently, Great River is served by two interstate pipelines; ANR Pipeline Company (ANR) serves Great River's Iowa distribution system and Panhandle Eastern Pipeline Company (Panhandle) serves Great River's Missouri distribution system. No physical connection between the Iowa and Missouri systems exist, although the facilities are within 2.7 miles of each other.

Tri-Energy has intervened in support of Great River's application. Tri-Energy is a Delaware corporation which is presently seeking approval of the Federal Energy Regulatory Commission (FERC) for a certificate of public convenience and necessity to become an interstate pipeline capable of transporting natural gas between the Missouri and Iowa service territories of Great River.

Great River proposes in its application to lease to Tri-Energy a portion of its Missouri system which Great River utilizes in the provision of natural gas service to the public. These facilities extend from Panhandle's Taylor M&R tap located in Marion County, Missouri, where Great River's facilities interconnect with Panhandle's, to the Gregory Landing tap located in Clark County, Missouri, near the northern terminus of Great River's Missouri facilities. Tri-Energy also intends to lease certain of Great River's existing facilities in Iowa. Tri-Energy then proposes to construct its own facilities to provide a direct link between ANR and Panhandle by stalling new six and four-inch high pressure transmission facilities from the Gregory Landing tap to the Wirtz Lane tap in Lee County, Iowa. Upon FERC approval, Tri-Energy would then become an interstate pipeline not subject to the jurisdiction of this Commission. The proposed lease is for a term of twenty years, with an option to Tri-Energy to extend the term for an additional twenty years. The proposed lease also provides for the sale, at fair market value, of the facilities at the option of Tri-Energy upon the termination of the second twenty year term.

The premise set forth by Great River for the interconnection of the two systems is that access to two interstate pipelines will enhance the supply options available, make greater use of Great River's facilities, and force the interstate pipelines to compete for Great River's combined load, thus driving prices to consumers down. By taking advantage of the price and service differences between the pipelines, and by forcing competition between them, Great River believes that it can lower its cost of service. Great River argues that the interconnect would not be detrimental to the ratepayers but rather, that cost savings and increased reliability of supply would result in significant benefits.

Staff has presented testimony in opposition to the application. Staff argues that the cost/benefit analysis presented by Great River is based upon inappropriate and speculative numbers. Staff also argues that the financial risks associated with the proposed lease would rest almost entirely on Great River's ratepayers. Consequently, Staff states that Great River has failed to demonstrate that the proposed lease is not detrimental to the public interest.

As set forth in the Commission's conclusions of law, the standard for approval in a case such as this under Section 393.190 is whether the proposed transaction is detrimental to the public interest.

It appears uncontradicted that the total cost of the interconnect is $1,137,590 per year. Great River has attempted to show that the benefits attributable to the interconnect will not only cover the costs, but will result in a savings in the first year of between $355,211 to $1,069,217. These "quantifiable" benefits include savings related to transportation rate differentials, contract demand reductions, and commodity differentials. Great River has summarized these benefits and costs as follows:

	Minimum	Maximum
Contract Demand - D-1	$533,297	$601,266
Contract Demand - D-2	24,681	31,518
Commodity Differential	23,223	23,223
Transportation Differential	911,600	1,550,800
	$1,492,801	$2,206,807
Cost of Interconnect	$1,233,270	$1,233,270
Reduced Cost of Service by Tri-Energy	(95,680)	(95,680)
Total Cost	$1,137,590	$1,137,590
Net Savings	$ 355,211	$1,069,217

Since Great River is not required to show a benefit as a result of the interconnection, the Commission will focus its discussion only on Great River's alleged minimum savings to determine whether the savings will equal or exceed the costs.

Transportation Rate Differential

The major component of Great River's cost/benefit analysis is the savings attributable to transportation rate differentials. Currently, both Panhandle and ANR are open-access transporters under Section 311 of the Natural Gas Policy Act of 1978. Under Section 311 open access, transportation service by an interstate pipeline is provided on behalf of the local distribution company. Interstate pipelines file minimum and maximum rates for transportation and have the ability to "flex down", or charge less than the maximum rate. In addition, open access service under Section 311 may be abandoned by the interstate pipeline without FERC approval.

With the interconnection, Great River can force ANR and Panhandle to compete for the gas which Great River contracts with the pipelines to transport. As a result, Great River argues that its access to two pipelines will require Panhandle to discount (or "flex down") its transportation rates to retain the Missouri load and possibly gain some of the Iowa load. Using the same rationale, Great River believes it will also be able to negotiate a discounted transportation rate from ANR.

The evidence establishes that ANR currently has transportation rates ranging from a maximum of $.814 per DTH to a minimum of $.0008 per DTH. Great River currently pays $.702 for transportation of system supply gas and an average of $.45 for transportation for end-users to ANR. Panhandle has proposed transportation rates in FERC Docket No. CP88-213 that range from a maximum of $.45 per DTH to a minimum of $.0247 per DTH.

Great River argues that, with the interconnection in place, it can negotiate with ANR to reduce its firm and interruptible transportation rates from $.814 to $.20 and with Panhandle to reduce its firm and interruptible transportation rates from $.45 to $.20. Thus Great River estimates the savings due to the interconnection as follows:

	Transportation	Minimum	Maximum
ANR:	1,400,000 DTH @$.20 instead of $.450	$350,000	
	800,000 DTH @$.20 instead of $.702	401,600	
	2,200,000 DTH @$.20 instead of $.814		$1,350,800
Panhandle:	800,000 DTH @$.20 instead of $.400	160,000	
	800,000 DTH @$.20 instead of $.450		200,000
		$911,600	$1,550,800

Staff argues that the rates used by Great River are inappropriate. First, Staff argues that the rate Great River uses to flex down the minimum cost savings in Missouri is the interruptible rate of $.40 per DTH and the rate used to flex down the maximum savings is the interruptible rate of $.45 per DTH. Staff states that the appropriate rates are the commodity rates applicable to firm transportation which are at a maximum of $.14 per DTH. Although the Commission finds that $.14 is the appropriate maximum commodity rate for firm transportation, the Commission agrees with Great River's argument that a reservation charge for the firm transportation also exists and must be factored into the commodity charge to determine the appropriate rate. The reservation charge for firm transportation ranges from a maximum of $9.43 to a minimum of $8.21. This charge, factored with the commodity rate, produces a firm transportation rate of $.40 to $.45. Consequently, the Commission finds that Great River did not use the inappropriate interruptible rate in its cost/benefit analysis but, rather, the rates for interruptible and firm transportation are the same.

Staff also argues that the savings shown by Great River of $401,600 for the transportation of system supply gas on ANR is incorrect. Staff states that included in the $.702 rate is $.336/ of firm reservation charge for 678,170 DTH of firm transportation reservation volumes which must be paid with or without the interconnection. Staff argues that since this charge is guaranteed, it is unlikely that ANR would flex below it and make those sales at a loss. A witness for Great River, Mr. Wrench, testified to his belief that ANR would consider flexing below those rates "to the extent that, as part of a package, they would bring increased sales". Mr. Wrench stated that, by flexing below this minimum rate, ANR could increase their total firm transportation thereby bringing in incremental revenue in excess of their minimum rate.

The Commission finds little evidence to support Mr. Wrench's belief that ANR would flex below its $.3367 per DTH firm reservation charge for the 678,170 DTH of firm transportation reservation volumes. Great River presented no instances where ANR has done so in the past nor any commitments from ANR to do so in the future. The assumption was simply the belief of Great River's witness. Consequently, the Commission determines that the $.20 rate used by Great River for 678,170 DTH of firm transportation and the savings demonstrated by the use of such rate is speculative and not supported by the evidence, and a more appropriate minimum rate would be $.3367.

Staff also argues that the $.20 rate for Panhandle is unreliable and speculative. The rates used by Great River to demonstrate the savings available on the Panhandle system are the illustrative rates filed by Panhandle at the FERC in Docket No. CP88-213 which have not yet been approved. Panhandle's FERC application includes a proposal which, if approved, would allow Great River to convert up to 100% of its current firm sales contract demand to firm transportation on November 1, 1988, and contract for new S-2 firm sales services at any daily contract demand from zero to its current maximum winter daily contract demand. Staff argues that it is "unreasonable to expect that the extensive and far-reaching changes proposed by Panhandle in its filing will be approved by FERC with no modifications". In addition, Staff argues that, even in the unlikely event that Panhandle's rates are approved exactly as filed, ANR can be expected to make a similar filing which would then eliminate any short-term rate differential between Panhandle and ANR.

The Commission shares the concerns of its Staff with regard to the reliability and speculative nature of the rates used by Great River in developing its potential savings from the transportation rate differentials. Great River's alleged savings stem from their ability to negotiate a $.20 rate with both pipelines. Great River has, however, presented no substantive evidence to show that it could actually negotiate a $.20 rate with either pipeline. Great River's witness, Mr. Wrench, testified, "...it is logical that Great River can negotiate with ANR to reduce its firm and interruptible transportation rates from $.814 to $.20 <u>for example</u>..." (emphasis added). Thus, it appears that the $.20 rate was not chosen as the result of an investigation or analysis but was simply an example. The only evidence presented which indicates that such a rate is possible is the stipulation agreed to by all parties that Panhandle has, in the past, discounted fifty percent and in some instances, sixty percent. The parties also stipulated, however, that Panhandle has no written policy for such discounting and will not at this time represent whether it will or will not discount for firm transportation.

Based upon the lack of evidence to support the $.20 rate, the Commission determines that the minimum and maximum savings in Great River's cost/benefit analysis attributable to the transportation rate differential are highly speculative. The Commission has found that the $.20 rate is inappropriate for 678,170 DTH of firm transportation reservation volumes on ANR. This adjustment alone would reduce the minimum savings shown by Great River by $92,707:

121,830 DTH @$.20 instead of $.702	61,158
678,170 DTH @$.3367 instead of $.702	247,735
	$308,893

If Great River was unable to negotiate the $.20 rate on the remaining DTH these savings would diminish even further. For example, a negotiated rate of $.33 for both pipelines would completely eliminate the net savings alleged in the cost/benefit analysis:

ANR:	1,400,000 DTH @$.33 instead of $.450	$168,000
	121,830 DTH @$.33 instead of $.702	45,321
	678,170 DTH @$.3367 instead of $.702	247,735
Panhandle:	800,000 DTH @$.33 instead of $.40	56,000
		$517,056

Thus,

	Minimum
Contract Demand - D-1	$533,297
- D-2	24,681
Commodity Differential	23,223
Transportation Differential	517,056
	$1,098,257
Total Cost of Interconnect	$1,137,590
Net Savings	$ (39,333)

This $.13 shift in the rate Great River might be able to negotiate demonstrates the speculative nature of the alleged savings.

Although some savings could occur with respect to transportation costs as a result of the interconnection, Panhandle's proposed rates have not been approved and no evidence exists to indicate how low the pipelines would be willing to flex. Consequently, it is premature to approve an expenditure of $1,137,590 at a time when so many unknown factors exist. The Commission finds that Great River's estimated savings for the transportation rates are speculative and are not supported by sufficient evidence to offset the detriment of the cost of the interconnection.

Contract Demand Reductions

The second largest component of Great River's cost/benefit analysis is the savings attributable to the proposed reductions in contract demand. Panhandle has requested authority in its certificate application in FERC Docket No. CP88-213 to abandon the existing firm sales services and firm sales agreements with its customers on November 1, 1988. This would enable Great River to nominate a new contract demand vel with Panhandle. Great River proposes, if the interconnection is approved, to reduce its more expensive D-1 contract demand gas from Panhandle and replace it with the less expensive D-1 contract demand gas from ANR, resulting in a substantial savings for Missouri ratepayers.

Great River estimates that, with the interconnect, it can reduce the current contract demand of 9,372 DTH in Missouri by 4,357 DTH for a minimum savings of $533,297. Without the interconnection, Great River states that it will require a maximum daily (D-1) contract demand of firm S-2 sales service from Panhandle of 9,372 DTH. Using the interconnection, the difference between the daily firm sales contract demand volume from ANR in its current contract (13,852 DTH) and the actual peak day firm purchase requirements of Great River's Iowa customers (11,275 DTH), a total of 2,577 DTH, can be shifted to Missouri. This total, added to the additional contract demand which Great River alleges is available due to the four-hour contract day differential between the two pipelines of 1,280 DTH in Iowa and 1,780 DTH in Missouri, would enable Great River to reduce its daily S-2 sales service contract demand of 9,372 in Missouri to only 5,015 DTH [9,372-(2,577+1,780)]. Great River argues that it can then transfer to Missouri customers the cheaper demand costs of the available 4,357 DTH from ANR for a savings of between $533,297 and $601,266:

	Minimum		Maximum	
	Iowa	Missouri	Iowa	Missouri
Demand Cost Transferred from Iowa to Missouri				
4,357 DTH x $5.032* x 12	$(263,093)	$263,093	$(263,093)	$263,093
Missouri Demand Savings				
4,357 DTH x $10.20** x 12	0	$(533,297)		
4,357 DTH x $11.50** x 12			0	$(601,266)
	$(263,093)	$(270,204)	$(263,093)	$(338,173)
Total	$(533,297)		$(601,266)	

* ANR's currently effective D-1 contract demand rate per DTH.
** Initial D-1 demand rates per DTH from Exhibit P-1 of Panhandle's Docket No. CP88-213 application.

Staff argues that Great River does not have the excess firm contracted demand in Iowa to supply its Missouri customers as proposed. Staff admits that it did not have adequate time to perform a thorough evaluation of the appropriate level of excess contract demand but points to the May 4, 1987 Order of the Iowa State Utilities Board as evidence that no excess firm contracted demand exists on Great River's Iowa system. Great River denies the allegation that no unused demand is available from Iowa. To support its position, Great River presented evidence that the unused contract demand in Iowa on January 6 and 7, and February 11 and 12, 1986, was actually greater than the amount proposed to be transported to Missouri in Great River's cost/benefit analysis.

The Commission determines that sufficient evidence exists to support Great River's claim of unused contract demand in Iowa. Since the parties disagree as to the finding made by the Iowa State Utilities Board, and since such finding is currently on appeal, the Commission does not now intend to interpret the Board's decision. The Commission finds, however, that sufficient evidence exists to show that Great River has unused demand in Iowa and the weight of the evidence supports such a finding.

Staff also disagrees with Great River's use of the four-hour contract day differential which Great River claims would make an additional 1,780 DTH available for use by Missouri customers. Great River states that the "contract day differential numbers are the result of the fact that because the contract day on one pipeline is noon to noon, and the other is 8 a.m. to 8 a.m., gas can flow either from Missouri to Iowa, or vice versa, at least for those four hours on a calendar peak day because during that four-hour period Great River is on two different contract days".

Staff states that utilization of the four-hour contract day differential will require too much guesswork and will likely result in cost overrun penalties. Great River's witness, Mr. Wrench, admitted in his testimony that if Great River's four peak days in 1986 were adjusted for degree days, there would not have been enough contract demand to meet the total requirements, and overrun penalties talling $74,450 would have been incurred. Mr. Wrench also stated, however, that this amount is less than the amount Great River would have incurred had they contracted for the necessary amount of contract demand. Finally, Staff states, and Great River agrees, that on consecutive peak days, part or all of the contract day differential may be lost. As a result, Staff argues that Great River will be unable to reduce firm contracted demand without incurring penalty costs for overruns.

The Commission finds that utilization of the four-hour contract day differential will prove beneficial only in limited circumstances and, therefore, the savings attributable to it have been overstated by Great River. The evidence shows that peak days often occur consecutively. In such situations, the four-hour contract day differential is unavailable and, in fact, overrun penalties would occur. Staff states that "since Great River could reduce contracted demand with each of its suppliers and pay them overrun penalties without the interconnection, the four-hour differential provides no benefit". Although the Commission disagrees that "the four-hour differential provides no benefit", the Commission finds Staff's argument to be persuasive and determines that the savings shown by Great River in its cost/benefit analysis attributable to the four-hour contract day differential are available only in limited circumstances and, therefore, are not appropriate to be used in offsetting the cost of the interconnection.

Staff also argues that the contract demand rate differentials used by Great River contain inappropriate rates which greatly overstate the cost savings. Staff argues that the rates used to show the Missouri demand savings are the illustrative rates of Panhandle from a filing which has not yet been approved by the FERC. Even if the rates are approved, Staff argues that ANR can be expected to make a similar filing which is likely to eliminate the rate differentials that Great River alleges will exist between the two pipelines.

In addition, Staff also presented testimony to show that Great River has erred by using Panhandle's illustrative rates to quantify its cost savings since these rates are based on treatment inconsistent with FERC's policy regarding gathering costs. Staff's witness, Mr. Hubbs, testified that Panhandle's filing at the FERC is based directly on the cost of service, cost allocation, and rate design principles reflected in Panhandle's most recent rate filing at FERC Docket No. RP87-103, including the reclassification of fixed gathering cost to the D-1 demand recovery component from the nongas commodity component. Mr. Hubbs testified that the impact of such reclassification accounts for most of the differential between the previously effective and currently effective D-1 contract demand rates, even though the proposed classification is inconsistent with past FERC treatment of these gathering costs. Even if Panhandle's reclassification of gathering costs is approved by the FERC, Mr. Hubbs testified that he expects the FERC to be consistent in its application of these costs to both pipelines, which he argues would virtually eliminate any differential between the D-1 rates.

The Commission finds insufficient evidence to support the savings attributable to the rate differential as alleged by Great River. Great River has presented little evidence to show that Panhandle's illustrative rates and the treatment of gathering costs will be approved by the FERC as filed. If, for example, FERC continues to be consistent in its treatment of gathering costs, the rate differential between the two pipelines would diminish thereby eliminating much of the alleged savings. Although Mr. Hubbs admitted that a rate differential between the two pipelines will always exist, the Commission finds insufficient evidence to support a finding that there is a reasonable likelihood that the amount of such differential will be sufficient to pay for the costs of the interconnection over the next twenty years.

Finally, Staff argues that the loads used by Great River in its cost/benefit analysis for Missouri's firm peak requirements, peak day contract demand and interruptible loads are understated and unsubstantiated. The Commission finds these issues to be irrelevant to the matters before us and therefore makes no determination as to the validity of such numbers. The alleged savings attributable to proposed contract demand reductions stem from the excess contracted demand in Iowa d the rate differentials and, therefore, any changes made to the Missouri requirements would not materially affect Great River's cost/benefit analysis.

Great River also alleges additional savings, with the benefit of the interconnection, of between $24,681 and $31,518 due to a differential in the D-2 demand charge with Panhandle and ANR. Since no evidence appears to contradict this alleged savings, the Commission accepts this savings as presented.

The Commission hereby finds, however, that the savings alleged by Great River in its cost/benefit analysis attributable to the D-1 contract demand component are overstated and highly speculative. The Commission has determined that the four-hour contract day differential will prove beneficial only in limited circumstances. In addition, the rates relied upon by Great River are illustrative only and, just as with the transportation rates, may not be approved by the FERC. The Commission also believes that some question exists as to whether the FERC will approve Panhandle's proposal to allow its customers to reduce their firm contracted demand. Such contract demand reduction options were eliminated in FERC's Order 500. Consequently, if the proposal to reduce firm contracted demand is not approved, the savings attributable to contract demand reductions are eliminated.

<u>Commodity Differential</u>

A third component in Great River's cost/benefit analysis is the savings attributable to the commodity rate differential. Great River estimates an annual savings with the interconnection of $23,223 for the commodity rate differential. Since Staff states in its reply brief that this is not a contested issue, the Commission determines that a savings of $23,223 is appropriate.

<u>Benefits That Are Not Easily Quantifiable</u>

Great River lists a number of benefits available with the interconnection that are not as easily quantified as those already discussed. These include a greater availability of spot market gas and greater supply security in the event of future curtailments of system supply or transportation paths by making more supply sources and paths available.

Staff argues that these benefits are speculative. Staff cites the language used in Great River's application that "...to the extent gas supplies are available from producers adjacent to ANR and Panhandle..." as evidence that during many periods spot market gas may not be available. Staff also argues that the benefit of greater supply security in the event of future curtailments of system supply is speculative since recent federal actions have created a competitive atmosphere aimed at eliminating shortages and curtailments. In addition, Staff argues that if there are curtailments on one pipeline, there will likely be curtailments on many pipelines.

The Commission does not find these benefits to be as speculative as Staff alleges. Great River presented evidence that on at least one occasion transportation gas was interrupted on one pipeline while not on the other. Although this is not a situation which the Commission foresees as occurring on a regular basis, if it does occur again the benefit of the interconnection is clear. The benefits of having spot market gas available through two sources is equally clear. Such gas may not always be available or may not always be the least expensive available, however, the interconnection would allow access to spot market gas when its use is beneficial. These benefits though are not quantifiable. The Commission finds that these nonquantifiable benefits are not sufficient to offset the known $1,137,590 a year for twenty years.

<u>Summary</u>

Although the Commission believes that some benefits would result from the interconnection, upon an examination of all the evidence before it, the Commission finds that approval of Great River's application would be detrimental to the public interest. The evidence shows that the cost of the interconnection would be $1,137,590 per year. Great River has attempted to show that the savings resulting from the interconnection would exceed the costs by between $355,211 and $1,069,217. Since Great River is not required to show a benefit as a result of the interconnection, the Commission has focused its examination only on Great River's 'leged minimum savings in determining whether the savings will actually equal or exceed the costs.

The Commission finds that much of the savings alleged by Great River are speculative and are based upon filings currently before the FERC which have not yet been approved. Great River presented little evidence to support its allegations that it could negotiate a $.20 transportation rate with both pipelines, other than the stipulation by the parties that Panhandle has, in the past, discounted fifty to sixty percent in some instances. The Commission believes that reliance on unsupported examples to produce a savings of between $911,600 and $1,550,800 is not reasonable. Likewise, the Commission finds that the alleged savings attributable to the D-1 contract demand component of Great River's cost/benefit analysis are also speculative and overstated.

The Commission thus finds that the potential detriment to the public is too great to approve an expenditure of $1,137,590 per year when any potential savings are based upon so many unknown factors. As stated earlier, the Commission recognizes there may be some benefits from the interconnection, but until it is shown with more certainty that these benefits equal or outweigh the costs, or until Great River's shareholders accept some responsibility for any losses, this Commission cannot grant the authority sought herein.

Staff raised an issue in this proceeding expressing concern that the lease is between related parties. Staff argues that, since Mr. C. B. Dushane III is the President and Chairman of the Board of Directors of Great River and the President and sole shareholder of Tri-Energy, he exercised significant influence over the proposed transaction. Therefore, Staff argues that the terms of the transaction should be closely scrutinized. Great River responded by presenting evidence which attempted to show that adequate steps were taken to remove any alleged adverse effects of the ownership interests of Mr. Dushane. While the Commission recognizes that, as related parties, the motives of the parties should be scrutinized, it is not, standing alone, reason to deny the application, nor has it been considered in the Commission's determination in this case.

Additional issues were raised by Staff in this proceeding including the pressures at which the gas lines were to be operated and the potential for bypass. Staff also expressed concerns with certain terms of the lease. Since the Commission has found, however, that approval of the lease would be detrimental to the public interest, the Commission determines that it is unnecessary to address these issues.

Conclusions of Law

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

Great River requests authority from the Commission to lease portions of its gas pipeline to Tri-Energy, pursuant to Section 393.190, RSMo 1986. Under Section 393.190, a utility must first secure authorization from this Commission before it can sell any part of its system or assets necessary or useful in the performance of the utility's duties to the public.

The standard for Commission approval was set forth in State ex rel. City of St. Louis v. Public Service Commission, 335 Mo. 448, 73 S.W.2d 393 (Mo. banc 1934), and more recently in State ex rel. Fee Fee Trunk Sewer, Inc. v. Litz, 596 S.W.2d 466 (Mo. App. E.D. 1980). In Fee Fee, the Missouri Court of Appeals stated:

> The Commission may not withhold its approval of the disposition of assets unless it can be shown that such disposition is detrimental to the public interest.

596 S.W.2d at 468.

The Commission has found that approval of Great River's application would be detrimental to the public interest for the reasons discussed herein and, therefore, concludes that the application should be denied. In so doing the Commission finds that the cost of the interconnect is too great a burden to place upon the ratepayers of Great River without more concrete evidence that the proposed savings will occur.

The Commission also determines that the Application For Rehearing of the Notice Of Procedural Changes filed by Great River on June 2, 1988, should be denied.

It is, therefore,

ORDERED: 1. That the application of Great River Gas Company for authority to lease certain assets to Tri-Energy Pipeline Company be, and it hereby is, denied.

ORDERED: 2. That the Application For Rehearing filed by Great River Gas Company on June 2, 1988, be and it hereby is, denied.

ORDERED: 3. That this Report and Order shall become effective on the 1st day of September, 1988.

BY THE COMMISSION

Harvey G. Hubbs
Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Musgrave, Mueller,
Hendren and Fischer, CC., Concur.

Dated at Jefferson City, Missouri,
on this 22nd day of August, 1988.