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**STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service  
Commission held at its office  
in Jefferson City on the 16th  
day of December, 1997.

In the Matter of Missouri Gas Energy's	)	
Tariff Sheets Designed to Increase Rates	)	<b><u>Case No. GR-98-140</u></b>
for Gas Service in the Company's Missouri	)	
Service Area.	)	

**ORDER ESTABLISHING TEST YEAR**

On November 26, 1997, Missouri Gas Energy (MGE or Company) filed within the direct testimony of Charles B. Hernandez a recommendation that the Commission order the twelve-month period ending September 30, 1997, as the test period in this case. MGE recommended that this test year be updated through December 31, 1997. MGE stated this test period will provide a relatively current time period of actual experience on which to base rates while allowing the remaining parties the opportunity to audit this experience.

MGE filed with its direct testimony a motion for true-up audit and hearing. MGE requested a true-up through June 30, 1998, for the purpose of recognizing in rates the extraordinary plant investments and related expenses associated with MGE's safety line replacement program (SLRP) as well as MGE's implementation of automated meter reading (AMR). MGE requested that the following items should be considered in the true-up audit and hearing:

- (1) rate base items: (a) plant in service; (b) automated meter reading; (c) SLRP deferrals; (d) depreciation reserve; (e) deferred taxes; (f) unamortized deferred credit from GM-94-40; (g) related cash working capital effects;

- (2) income statement items: (a) revenue for customer growth; (b) payroll, employee levels and current wage levels; (c) updated gas prices; (d) rate case expense; (e) depreciation and amortization expense; (f) property taxes; (g) related income tax effects.

MGE suggested that Staff audit these matters on July 20 through 22, 1988, after the books for June are closed on July 15. MGE does not expect that a hearing would be required on these matters because they are not expected to be controversial, but MGE requests that a true-up hearing be scheduled for July 29.

On December 8, 1997, the Staff of the Missouri Public Service Commission (Staff) filed a test year recommendation and response to MGE's motion for true-up audit. Staff recommended a test year of the twelve months ending September 30, 1997, with an update for known and measurable changes through December 31, 1997. Staff argued that MGE's motion for true-up is premature because the Commission does not normally order a true-up until after the filing of Staff's direct case. Staff states that it cannot determine the advisability and scope of a true-up until after it has audited the books and records of the Company. Staff further argues that MGE's proposal does not allow Staff enough time to conduct a true-up audit and significantly decreases the Commission's deliberation time (less than a month from proposed true-up hearing and the date upon which the Commission needs to issue its order).

On December 8 the Office of the Public Counsel (Public Counsel) filed its recommendation for a test year using the Company's fiscal year, the twelve months ending June 30, 1997, updated for known and measurable changes through December 31, 1997. Public Counsel contends that using MGE's fiscal year for purposes of the test year would guarantee the availability of self-contained financial information for a specific period of time and would reduce administrative burdens of reconciling two separate

periods. Public Counsel also requests that the Commission order MGE to update its accounting information consistent with the test year ordered by the Commission.

On December 9 Public Counsel filed its response to MGE's motion for true-up audit. Public Counsel argued that the motion is premature because the parties have no way of knowing whether a true-up is necessary or appropriate. Public Counsel noted the determination for a true-up should only be made after an audit has been conducted. Public Counsel further noted that MGE's requested true-up allows Staff and Public Counsel only three days to complete the audit which is insufficient time. In addition, Public Counsel argues that MGE's proposal allows insufficient time for the Commission to generate scenario requests and have parties respond in a timely manner because final numbers will not be available until three weeks before the Report and Order must be issued. Public Counsel requests that the Commission defer its determination on the need for a true-up until after intervenors have filed their direct testimony.

The Commission finds that the request of Staff and MGE to establish a test year will provide a relatively current time period upon which to base rates and will allow the remaining parties sufficient opportunity to audit this period. The Commission will establish the historic test year for use in this case as the twelve-month period ending September 30, 1997, as updated for known and measurable changes through December 31, 1997.

The Commission will decline to adopt MGE's true-up proposal because it is premature.

**IT IS THEREFORE ORDERED:**

1. That the test year for use in this case is established as the twelve-month period ending September 30, 1997, as updated for known and measurable changes through December 31, 1997.

2. That this order shall become effective on December 26, 1997.

**BY THE COMMISSION**

A handwritten signature in black ink, reading "Dale Hardy Roberts". The signature is written in a cursive, slightly slanted style.

**Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge**

(S E A L)

Lumpe, Ch., Crumpton, Murray,  
and Drainer, CC., concur.

G. George, Regulatory Law Judge