Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
http://www.psc.state.mo.us

November 27, 2001

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

RE: Case Nos. GR-2001-629 and GT-2001-662 (Consolidated)

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of the **STAFF'S SUGGESTIONS IN SUPPORT OF STIPULATION AND AGREEMENT.**

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Lera L. Shemwell
Associate General Counsel
(573) 751-7431
(573) 751-9285 (Fax)

LLS:sw
Enclosure
cc: Counsel of Record

FILED[3]

NOV 2 7 2001

Missouri Public Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

In the matter of Laclede Gas Company's tariff sheets designed to increase rates for gas service in the Company's Missouri Service Area.	))))	Case No. GR-2001-629

STAFF SUGGESTIONS IN SUPPORT OF STIPULATION AND AGREEMENT

COMES NOW the Staff of the Missouri Public Service Commission (Staff) in support of the Unanimous Stipulation and Agreement (Agreement), which is either agreed to or not opposed by all of the Parties to the case, and states as follows:

All of the Parties, including the Staff, the Office of the Public Counsel (Public Counsel); Laclede Gas Company (Laclede or Company); the Missouri Industrial Energy Consumers; Union Electric Company; the Missouri Energy Group and the Paper, Allied-Industrial, Chemical, and Energy Workers Local 5-6, AFL-CIO, (collectively referred to as the Parties), agree that $11,985,000 is a reasonable revenue increase.

The Parties negotiated for a month to reach the settlement filed in this case. The Staff hoped to achieve several goals related to weather, pensions, and depreciation, among others. These goals and the results achieved are included in the issue discussions below. The Staff's calculation of the revenue requirement associated with the negotiations in this case produced a revenue requirement of $13,040,000. The Parties negotiated a reduction of that level to $11,235,000, in recognition of the Company receiving rates earlier than the April 16, 2001 Operation of Law Date. As part of the negotiations in Case No. AX-2002-203, the revenue requirement of $11,235,000 was increased by $750,000 for the recovery of any possible

51

incremental bad debt expense associated with the Emergency Cold Weather Rule Amendment.

The suggestions and explanations that follow are generally in the same order as they are presented in the Agreement filed in this case.

1. Return on Equity and Capital Structure

A specific return on equity is not included in the Agreement. The return on equity used by the Staff to calculate the revenue requirement included in the Agreement is 10% (ten percent) and reflects the level most recently ordered by the Commission for a major utility company, Empire District Electric Company, in Case No. ER-2001-299. This level is also consistent with the return on equity suggested by the Office of the Public Counsel in this proceeding. Staff has agreed to this movement of twenty-five basis points, an increase in revenue requirement of approximately $1 million, only for purposes of reaching a settlement agreement in this proceeding. This change in position should in no way be construed as a shift in policy by the Commission's Financial Analysis Department for determining a company's return on equity.

The Staff's filed position included a twelve-month average of the month-end short-term debt balances. The Staff's capital structure reflected in the Agreement includes the use of a twelve-month average of average daily short-term debt balances, which results in an approximate $.5 million increase in revenue requirement. The use of an average daily balance captures the effect of the change in the level of short-term debt, which fluctuates throughout the month. Staff has agreed to this movement in position, an increase in revenue requirement of approximately $.5 million, only for purposes of reaching a settlement agreement in this proceeding. This change in position should in no way be construed as a shift in policy by the

Commission's Financial Analysis Department for determining the appropriate level of short-term debt to be included in a company's capital structure.

2. Accounting changes

A. Corrections

As a result of the receipt of new and/or additional information, errors and omissions, the Staff made changes to its filed revenue requirement. These changes, which result in an approximately $1.2 million increase in the Staff's filed $1.4 million revenue requirement affect the following cost components: cash working capital, income taxes, injuries and damages expense, incentive compensation, lock box fees and pensions expense.

B. True-up

The Staff originally include an estimated value for true-up of approximately $4.1 million in its filed revenue requirement. Based on additional information supplied by the Company during the prehearing negotiations, the value of true-up increased the Staff's filed revenue requirement by $ .2 million. As ordered by the Commission, the true-up revenue requirement addressed a balanced package of adjustments to revenues, expenses and rate base.

C. Uncollectible Expense

The Staff used a three-year average of bad debt write-offs to determine the level of uncollectible expense included in its filed revenue requirement. Continued monitoring since the Staff's filing indicates a significant increase in the level of bad debt write-offs. Such increase is due in part to the write-off of bad debts associated with the weather experienced during the 2000 – 2001 winter included in the test year. In recognition of this increased level of bad debts, the Staff increased its revenue requirement by $2.2 million.

D. Payroll and Clearing Accounts

The Staff used a five-year average of overtime to determine the level of payroll expense included in its filed revenue requirement. The Staff's review of payroll data since its filing revealed an apparent continuing trend in the level of overtime hours being experienced by the Company. As a result the Staff has increased its level of overtime payroll, including associated payroll taxes and benefits, resulting in an approximate increase in revenue requirement of $ .7 million.

During the prehearing conference additional discussions took place regarding an adjustment originally proposed by the Company. This adjustment addressed an understatement of expense due to unapportioned costs from clearing accounts. Based on the additional discussions and its reexamination of this item, the Staff believes an adjustment recognizing these unapportioned costs is appropriate. The associated increase in the Staff's filed revenue requirement is approximately $ .4 million.

E. Miscellaneous

As a result of discussions, negotiations and the exchange of additional information during the prehearing conference, the Staff and the Company agreed to settle numerous smaller value issues. The settlement of these issues, which results in an approximately $1.3 million increase in the Staff's filed revenue requirement, affect the following revenue requirement components: cash working capital, dues and donations, copper survey costs, service initiation charges, revenues and the inclusion of merchandise income.

3. Revenue Shifts and Rate Design

A. Revenue Increases by Class

The result of the revenue shifts between classes is shown in Attachment 1A to the Agreement. The first two columns of Attachment 1A to the Agreement show the non-gas margin revenues (the revenues from customer charges, energy charges not related to the PGA, and demand charges) that are collected from each class at current rate levels ant the percentage of current non-gas margin revenues collected from each class. The third column of the Attachment shows each class' portion of the revenue increase of $11.985 million assuming no revenue shifts between classes (the total Company revenue increase multiplied by column two). The fourth column shows the revenue shifts agreed to by the parties. The fifth column shows each class' portion of the revenue increase after the shifts (the sum of columns three and four). The sixth column shows the percentage increase in non-gas margin revenues assuming the revenue increases in column five. The seventh and eight columns show the revenue increase including the service initiation charge that would only be collected from those customers that establish new service. Column nine shows the total margin revenue that will be collected from each class when gas costs are included. Column ten shows the percent increase to the various classes after shifts when gas costs are included.

The proposed class revenue increases assume a shift of $565,000 between classes after an equal percentage increase is applied to all classes. Specifically, the shifts would be a decrease, before application of the increase, to both the Residential and Transportation (LVTSS) rate classes of $365,000 and $200,000, respectively and an increase to the other classes. This shift is relatively small when compared to the proposed incremental increase of almost $12 million, the total margin revenues and the Company's total annual revenue. More specifically, the shifts are less than 5% of the incremental revenue increase, less than 0.5% of margin revenues, less than 0.1% of total annual revenues and is less than $1 per customer per year. Finally, the revenue shifts between classes were designed to ensure that all customer classes will incur a portion of the revenue increase.

In addition, the revenues shifts were designed so that most of the classes (with the exception of certain large customer classes) would receive the same equal percentage increase when the effects of the service initiation charge were taken into account. For the large customer classes, LVTSS will receive a decrease while Large Volume receives an increase. Although the typical customer will not incur the service initiation fee in any given year, the class revenue shifts were designed to minimize the change in share of class revenues when service initiation charge were included in the revenue increase.

B. Rate Design

For all customer classes except the LVTSS and Large Volume classes, the rate design to collect the proposed class revenues primarily kept all customer charges at current levels and increased the commodity charges. The only exceptions were an increase to the customer charges for the LVTSS class and an increase to the demand charge for the Large Volume class.

Staff has computed the estimated bill impact for a residential customer (assuming annual usage of 1200 therms) and has attached this analysis. The PGA rate used for this analysis is the current rate of $0.4125 per therm. Staff believes that this PGA rate is a reasonable estimate of gas prices for the upcoming year although last winter's high gas prices highlight the fact that gas prices can be volatile. The annual increase for a typical space heating residential customer would be $18.48 a year or approximately 2.30%.

C. Customer notification - rate switching.

As a result of the revenue shifts between classes serving non-residential customers, it is possible that certain business and industrial customers can lower their bill by switching to a different tariffed rate. This would result in the Company collecting less revenue than the revenue requirement approved by the Commission. To mitigate this problem, the potential customers were identified, and rates were adjusted to enable the Company to collect its full revenue requirement. The Company will, within 30 days, notify each of these customers that they have been identified as customers that could potentially lower their bill by switching to a different rate. Staff anticipates that, for customer notification, Laclede will use a letter much like the letter attached to the Direct testimony of Staff Witness Ann Ross.

4. Tariff Items

A. Service Initiation Charge

Staff does not object to the Service Initiation charge because it corresponds to Laclede's costs. It is important that this miscellaneous charge reflects Laclede's cost of performing this service. The individual customers causing the Company to incur these expenses should be responsible for the associated costs. Laclede provided Staff with information detailing the computation of the proposed $36 rate. This charge is based on a cost causation, per-job basis. Laclede has agreed to bill the charge at a rate of nine dollars ($9.00) per month over a four month period to lessen the impact on customers.

B. AMR Technology Tariff

Laclede provided Staff with information indicating the need for further evaluation of and potential use of new remote meter reading technology, and the need to provide Laclede the flexibility to determine the circumstances that would require installation of remote reading devices. Staff supports this proposal, because the move to remote meter reading technology should be consistently used throughout Laclede's system. The current tariff language leads to the use of different meter reading technologies that may not be compatible and that could potentially lead to higher costs. Therefore, Staff does not oppose this change.

C. Off-System Sales and Capacity Release Tariff Language

This tariff language relates to the inclusion in permanent rates of off-system sales and capacity release revenues and the accounting and record keeping relating to off-system sales. The inclusion of this language in Laclede's tariffs will specifically define how off-system sales and capacity release revenues and associated costs are to be treated and accounted for.

D. Other

The Agreement also modifies the provisions of the Cold Weather Rule. These modifications reflect the terms of Emergency Amendment approved by the Commission as a result of Case No. AX-2002-203. In addition the Agreement expands the seasonal commercial and industrial air conditioning rate schedules to include seasonal sales for on-site power generation customers.

5. Pensions

As included in the Staff's filed position, the Company will continue to book for financial purposes expenses related to pensions and other post retirement benefits in accordance with Financial Accounting Standards (FAS) 87, 88 and 106. The determination of these amounts follows the current Staff treatment, as ordered by the Commission in numerous cases, including the two prior rate cases for Laclede Gas Company. The only change proposed by the Staff and the Company, is in regard to the calculation of expense according to FAS 88. This change will require the Company to calculate gains and losses associated with all pension lump-sum payments only to the minimum extent permitted by FAS 88. Any gain or loss calculated will be included in rates in the same manner in which current unrealized gains and losses are treated in the calculation of pension expense according to FAS 87. The Staff believes this change will, in part, address the volatility associated with pension expense by reducing, to the minimum extent possible, the variation in the level of FAS 88 expense associated with pension lump-sum payments. Addressing the volatility of pension expense, that was discussed in the Company's direct testimony satisfied one of Staff's goals during this case.

6. Emergency Cold Weather Rule Bad Debt Expense

The Agreement contains a $750,000 increase in revenue requirement for the recovery of any incremental bad debt expense related to the implementation of the Emergency Cold Weather Rule Amendment ("Emergency Amendment") approved by the Commission in Case No. AX-2002-203. The difference between this amount and any actual bad debt expense incurred as a result of the Emergency Amendment shall be trued-up and the disposition of the difference between any associated actual incremental bad debts and the $750,000 will be in accordance with paragraph 5 of the Agreement. In consideration of the agreement, upon approval of this Agreement in its entirety, Laclede shall withdraw any application for rehearing, request for stay or petition for judicial review that may have been filed by Laclede regarding the Commission Order approving the Emergency Amendment or the Emergency Amendment itself. Since Laclede had a rate case proceeding in progress, a minimum level of bad debts was included in the recovery of base rates.

7. **Depreciation**

The depreciation rates agreed upon as a result of this Agreement comply with the Staff's current policy on the treatment of net salvage, as recently accepted by the Commission in the Empire District Electric Company Rate Case No. ER-2001-299. This treatment eliminates the net salvage component from depreciation rates and includes it as an annual expense in the income statement. The depreciation rates, agreed upon by Staff and Company, do not include an additional depreciation rate component to achieve a $5 million annual reduction in the depreciation reserve over-accrual, as originally included in the Staff's filed case. Although the Staff continues to supports such a reduction to the depreciation reserve over-accrual, in consideration of the agreement on net salvage, the Staff will not pursue its adjustment in this rate case. In the next rate case the Staff will perform a theoretical reserve calculation to determine the level of the depreciation reserve over-accrual and take the appropriate action to address this item, at that time. As a result of the settlement of this item, the Staff's revenue requirement increased approximately $5 million from its filed amount. Eliminating net salvage cost from the Company's depreciation rates and accounting for this item as an expense satisfied one of the Staff's goals in this case.

8. AAO

As a result of the negotiations in this case, the Company will be permitted to defer certain expenses related to the Commission mandated replacement of plant. The Company will be allowed to continue its Safety Replacement Deferral, which addresses the replacement of cast iron mains and bare steel mains, services and yard lines. The Company will also be allowed to establish a Copper Service Line Replacement Deferral, which addresses the replacement, renewal and relay of copper service lines. As part of this agreement the company will no longer defer the cost to survey and barhole test its buried fuel and copper service lines, but will treat this item as maintenance expense. This treatment follows the filed position of the Staff and the prior precedent of the Commission regarding mandated safety replacement of plant.

9. Income Tax – Accounting

This paragraph includes language addressing the continued normalization of income tax timing differences associated with pensions recorded according to FAS 87, pension gains and loss recorded according to FAS 88, and deferred accounting treatment as agreed to in this Agreement.

10. Off-system Sales and Capacity Release

The Staff's primary position in filed testimony was to include both off-system sales and capacity release credits in the Company's Purchased Gas Adjustment (PGA) Clause. A secondary position was to incorporate reasonable levels of off-system sales margins and capacity release credits in the non-gas cost rates developed in the general rate case. The Staff agreed to a level of $3,000,000 for off-system sales and capacity release as a reasonable compromise of its filed position of approximately $3,400,000.

11. Weather

The Staff agreed to settle on the same level of normal heating degree days (HDD) for Lambert Field as was agreed to in the previous Laclede rate case. This agreement increased the Staff's revenue requirement by approximately $1.7 million. In that previous case, the Company and Staff agreed to meet for purposes of investigating the impact of the 1996 movement of the weather station at Lambert airport. It now appears that National Oceanic and Atmospheric Administration's (NOAA) will take into account the effects of that movement when it publishes normal temperatures for the 1971-2000 period. Instead of continuing to meet in order to reach agreement on how to deal with this significant change, the Staff asked the Parties to accept the yet to be published NOAA adjustments, subject to a post publication review period in which any party may offer an alternative to the adjustments made by NOAA. As a result of this Agreement Staff hopes to have this issue settled for future rate cases. Achieving an agreement among the parties regarding the future use of weather data satisfies one of the Staff's goals in this case.

12. Fixed Bill Program

As a result of the negotiation in this case the Company agrees to provide a fixed bill service option, in advance of the 2002/2003 heating season, if the Company determines that such a service offering is workable, in the best interests of its customers, and financially justifiable for the Company. In order to facilitate this effort, the Company has agreed to provide bi-monthly written updates to the Staff regarding the status of its efforts to provide this service option for the 2002/2003 heating season, beginning January 31, 2002. The Staff believes this service will provide another option for customers to deal with the fluctuations in the cost of winter gas heating.

13. Weatherization

The Company, Staff and Public Counsel also agree to meet, develop and implement a weatherization program for low-income customers (Laclede Low-Income Customer Weatherization Program "Laclede LICWP"). The Laclede LICWP shall be funded at an annual level of $300,000, plus $40,000 for administrative costs. The tariffs and terms of implementation of this program shall be filed with the Commission for its approval no later than March 1, 2002.

The Laclede program will fund the Community Action Programs (CAP agencies) currently funded by the Missouri Department of Natural Resources to weatherize low-income homes using funds from the U. S. Department of Energy. This includes the Urban League in St. Louis City, STEP, Inc. in St. Louis County, Jefferson-Franklin Community Action Corp. in Hillsboro, and possibly others.

The Laclede program was proposed by the Office of the Public Counsel on the basis of the success of the Missouri Gas Energy Low-Income Customer Weatherization Program in Kansas City and the Ameren UE Low-Income Gas Customer Weatherization Program in Central and Southeast Missouri. Both of these programs have been in place for several years and both were found, by an independent evaluator, to be cost effective for all ratepayers. The level of funding will allow for the CAP agencies to efficiently and effectively increase their weatherization operations.

Respectfully submitted,

DANA K. JOYCE
General Counsel

Lera Shemwell
Associate General Counsel
Missouri Bar No. 43792

Robert Franson
Eric Anderson
David Murray
Victoria Kizito
Attorneys for the
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102
(573) 751-7431 (Telephone)
(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 27th of November, 2001.

Service List for
Case Nos. GR-2001-629 and
GT-2001-662 (Consolidated)
Revised: November 27 2001 (SW)

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

Gerald T. McNeive, Jr./Michael C. Pendergast
Laclede Gas Company
720 Olive Street
St. Louis, MO 63101

Robert C. Johnson
Lisa C. Langeneckert, Esq.
Missouri Energy Group
720 Olive Street, Suite 2400
St. Louis, MO 63101

Jan Bond
Diekemper, Hammond, Shinners,
Turcotte and Larrew, P.C.
7730 Carondelet Avenue, Suite 200
St. Louis, MO 63105

Ronald K. Evans
Ameren Services Company
1901 Chouteau Avenue
P.O. Box 66149 (MC 1310)
St. Louis, MO 63166-6149

Diana M. Vuylsteke
Bryan Cave, LLP
211 N. Broadway, Suite 3600
St. Louis, MO 63102

Joseph Schulte
P.A.C.E. Local 5-6
7750 Olive St.
St. Louis, MO 63130