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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>

May 29, 2001

BRIAN D. KINKADE  
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Director, Utility Operations

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Director, Utility Services

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Director, Administration

DALE HARDY ROBERTS  
Secretary/Chief Regulatory Law Judge

DANA K. JOYCE  
General Counsel

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

**RE: Case No. GR-2001-292**

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **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,

*Thomas R. Schwarz, Jr.*

Thomas R. Schwarz, Jr.  
Deputy General Counsel  
(573) 751-5239  
(573) 751-9285 (Fax)

TRS:sw  
Enclosure  
cc: Counsel of Record

**FILED<sup>2</sup>**

MAY 29 2001

Missouri Public  
Service Commission

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

**FILED<sup>2</sup>**

MAY 29 2001

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-2001-292

**STIPULATION AND AGREEMENT**

**Come now** the Staff of the Missouri Public Service Commission ("Staff"), the Office of the Public Counsel ("Public Counsel") and Missouri Gas Energy ("MGE") and stipulate and agree as follows:

1. As a result of discussions held during the prehearing conference of May 7-11, 2001, as well as communications that occurred thereafter, the Staff, Public Counsel and MGE have resolved various issues as among themselves for overall revenue requirement quantification purposes. The issues so resolved are:

**Rate Base**

- a. unamortized deferred credit per Case No. GM-94-40; and
- b. cash working capital.

**Income Statement**

- a. revenues (excluding off-system sales and capacity release) and billing determinants;
- b. payroll, payroll taxes, benefits, insurance/injuries & damages;
- c. severance pay;
- d. uncollectibles;
- e. Public Service Commission assessment;
- f. incentive compensation;

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- g. clearing account and loadings issues;
- h. state franchise and property tax issues;
- i. customer collection costs;
- j. dues and donations;
- k. legal fees, lobbying and other outside services expenses;
- a. federal income taxes, including but not limited to the rate base item of deferred taxes (except for deferred income taxes associated with SLRP deferrals); and
- b. public affairs.

2. The resolution of these issues for overall revenue requirement quantification purposes as between the Staff, Public Counsel and MGE produces the following overall revenue requirements (prior to true-up): the Staff—approximately \$4 million at its mid-point rate of return of 8.89%; and MGE—approximately \$38.8 million at a rate of return of 10.562%. These revenue requirements represent the “starting point” of the Staff and MGE, respectively, from which adjustments will need to be made to account for the Commission’s resolution of issues that remain to be litigated in quantifying the overall revenue requirement resulting from this case. These “starting point” revenue requirements will be reflected, respectively, in the revised accounting schedules of the Staff, and the revised revenue deficiency summary of MGE. The revised revenue deficiency summary of MGE shall be filed with the Commission no later than May 31, 2001. The revised accounting schedules of the Staff shall be filed with the Commission no later than May 31, 2001. MGE shall provide its revised revenue deficiency summary to all parties by next business day mail transmitted no later than May

31, 2001. The Staff will transmit its revised accounting schedules to all parties no later than May 31, 2001. To the extent that other parties may desire that these items be set forth and quantified on a reconciliation, the Staff, Public Counsel and MGE will endeavor to work with such parties to satisfy that desire.

The resolution of these issues as among the Staff, Public Counsel and MGE for quantification of overall revenue requirement purposes does not purport, and is not intended, to control the allocation of the dollars associated with such issues for purposes of determining class revenue responsibility. The Staff, Public Counsel and MGE expressly intend that this Stipulation and Agreement not resolve, control or determine how the settlement amounts attributable to such issues for purposes of overall revenue requirement quantification are to be allocated as between or among customer classes for purposes of determining class revenue responsibility, nor the manner in which the issues settled for overall revenue requirement quantification purposes are to be tried by any party for other purposes in this case. This Stipulation and Agreement is intended to reserve the ability of all parties to fully litigate all issues pertaining to the responsibility of customer classes for the incurrence of any cost as well as the proper assignment of any cost to the customer classes and the proper manner in which the amounts of any cost should be recovered in rates applicable to particular customer classes. In particular, the Staff, Public Counsel and MGE understand that the Midwest Gas Users' Association ("MGUA"), and Jackson County and the City of Riverside ("Jacom/Riverside") may desire to inquire into the distribution of costs to the various customer classes, as opposed to the overall level of costs, associated with certain items. The Staff, Public Counsel and

MGE expressly intend by entering into this Stipulation and Agreement that any party, including MGUA and Jacomo/Riverside, be permitted to exercise such right of inquiry.

3. The Staff, Public Counsel and MGE agree that, commencing during the fiscal year which began July 1, 1998, and continuing at least through the effective date of the new rates resulting from MGE's next general rate proceeding, MGE will use a five-year average (when five years of information is available; prior to that time the average of the number of years of available information will be used) for determining the unrecognized net gain/loss to be amortized over five years in calculating MGE's direct FAS 87 and FAS 106 costs for financial reporting purposes. This paragraph concerns costs associated with post-retirement benefits, including pension and non-pension benefits (FAS 87 and FAS 106), and reflects MGE's continued willingness to agree to the recommendation made by Staff witness Williams at page 28, line 17 through page 29, line 4 of his direct testimony in Case No. GR-98-140, et al., regarding the financial reporting of unrecognized net gains/losses. The Staff, Public Counsel and MGE also agree that in the event that in any given year the amount of the amortization of the unrecognized net gain/loss determined under the agreed-to methodology described above is less than the minimum amortization required under FAS 87 or FAS 106, then the amortization for such year shall be the minimum amortization required under FAS 87 and/or FAS 106.

4. The Staff, Public Counsel and MGE also agree to the following miscellaneous tariff changes:

- Include a provision, consistent with 4 CSR 240-10.040(4) that, for commercial and industrial customers, the rate of interest on a cash deposit shall be three percent (3%)

per annum if the cash deposit is kept in a separate and distinct trust fund and deposited as such in some bank or trust and company and is not used by the Company in the conduct of its business;

- Increase, or implement, miscellaneous service charges as follows—a) increase standard re-connect fee from \$29 to \$35; b) increase re-connect at the curb fee from \$50 to \$56; c) increase re-connect at the main fee from \$100 to \$106; d) implement transfer of service fee of \$5; and e) implement connect fee of \$20;
- Codify the insufficient funds check charge of \$15 as proposed by MGE in the tariff filing which initiated this case; and
- Modify MGE's PGA ("Purchased Gas Adjustment") tariff language as necessary to ensure that costs associated with the performance bond required in MGE's gas supply contract with Duke Energy is recoverable through the PGA rate.

5. The Staff, Public Counsel and MGE further agree that, in response to the direct testimony of Public Counsel witness Hong Hu (pages 20-22) and in consideration for the withdrawal of that issue from this case, MGE will conduct a special, detailed study to enable, in MGE's next general rate proceeding, identification and quantification of the elements of the required revenue shift associated with Public Counsel's proposal to change the definition of "residential" service as currently found in MGE's tariff. MGE agrees to work with Public Counsel and the Staff to determine the appropriate data to utilize in conducting the study and agree to discuss the appropriate methodology for conducting the study. In so agreeing to this paragraph 5, MGE makes no commitment to agree with the changed definition proposed by Public Counsel and hereby reserves all rights with respect thereto, as do all other signatories to this Stipulation and Agreement.

6. The Staff, Public Counsel and MGE further to agree to resolve the rate design issue of customer charge levels as follows: a) the residential customer charge shall be increased from \$9.05 to \$10.05; b) the small general service customer charge shall be increased from \$11.05 to \$13.55; c) the large general service customer charge shall be increased from \$65.80 to \$83.25; and d) the large volume service customer charge shall remain at \$409.30 and current LVS multi-meter customers shall be grandfathered under the current LVS multi-meter provisions as proposed by MGE in the tariff sheets which initiated this proceeding. Residual class revenue changes shall be reflected in the volumetric charges of each customer class. So long as this paragraph 6 of the Stipulation and Agreement is approved by the Commission, MGE agrees to withdraw its "minimum bill" proposal from consideration in this case.

7. The Staff, Public Counsel and MGE further agree that this case shall be "trued-up" through June 30, 2001, and that such true-up shall address the following items:

**Rate Base**

- a. Plant in service
- b. Depreciation reserve
- c. Related cash working capital effects
- d. Gas prices for storage inventory
- e. GM-94-40 deferred credit
- f. Advances and contributions
- g. Materials & supplies
- h. Pre-payments

- i. Customer deposits
- j. Interest expense offset and
- k. SLRP deferrals (in the event the Commission decides to include SLRP deferrals in rate base).

**Income Statement**

- a. Payroll, including employee levels for both MGE and corporate, wage and benefit levels
- b. Rate case expense
- c. Depreciation and amortization expense (including SLRP deferrals)
- d. PSC assessment
- e. FAS 87 and FAS 106 expense
- f. Related income taxes.

**Return**

- a. Capital structure (in the event the Commission decides to use an actual capital structure)
- b. Embedded cost of debt.

8. The Staff, Public Counsel and MGE further agree that none of them, as a result of entering into this document, shall have been deemed to have approved or acquiesced in any ratemaking or procedural principle, any method of cost determination or cost allocation, or any service or payment standard, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified in paragraph 3 herein upon the Commission's approval of this Stipulation and Agreement.



9. The Staff, Public Counsel and MGE further agree that this Stipulation and Agreement has resulted from extensive negotiations. The terms of this Stipulation and Agreement are interdependent. In the event the Commission does not approve and adopt the entirety of this Stipulation and Agreement, then this Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

10. The Staff, Public Counsel and MGE have reached the agreements above, in part, to avoid the time and expense of litigating the issues. The signatories respectfully request the Commission to issue an order adopting this Stipulation and Agreement in total as soon as possible so the parties and the Commission have the certainty of knowing that the issues as set forth herein have been finally resolved. The Commission may, of course, defer a ruling on the Stipulation and Agreement; however, if the Commission does not accept the terms of this Stipulation and Agreement in total, the signatories expressly reserve the right to litigate these issues and therefore request that they be informed of such action by the Commission sufficiently in advance for the signatories to draft any necessary rebuttal and/or surrebuttal testimony on such issues and for the issues to be litigated during the scheduled hearings in this case, or at such later dates in this proceeding as the Commission may schedule. The Staff, Public Counsel and MGE estimate that it would take at least three (3) days of hearings to litigate the issues settled by this document. Should the Commission reject the proposed Stipulation and Agreement, or any portion thereof, the Staff, Public Counsel and MGE expressly reserve the right to file rebuttal and surrebuttal testimony on issues subject to this Stipulation and Agreement. Neither the Staff, nor Public Counsel nor MGE shall oppose the filing of such rebuttal and/or surrebuttal testimony.

11. The Staff shall, and Public Counsel and MGE may, submit to the Commission written rationale for entering into this Stipulation and Agreement. Each party of record shall be served with any such rationale and shall be entitled to submit to the Commission, within five (5) days of receipt of such rationale, responsive material which shall also be served on all parties. Such rationale regarding the Stipulation and Agreement shall not bind or prejudice the party submitting such rationale, or any other party, in this or any future proceeding, whether or not the Commission approves this Stipulation and Agreement.

12. The Staff, Public Counsel and MGE also agree that the Staff shall also have the right to provide, at any agenda meeting at which this Stipulation and Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, promptly provide other parties with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure pursuant to the Protective Order issued in this case.

13. To assist the Commission in its review of this Stipulation and Agreement, the Staff, Public Counsel and MGE also request that the Commission advise them of any additional information that the Commission may desire from them relating to matters addressed in the Stipulation and Agreement, including any procedures for furnishing such information to the Commission.

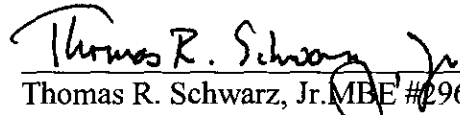
**Wherefore**, the Staff, Public Counsel and MGE respectfully request that the Commission issue an order approving this Stipulation and Agreement at its earliest opportunity.



Douglas E. Micheel MBE #38371  
Senior Public Counsel  
Office of the Public Counsel  
P.O. Box 7800  
Jefferson City, MO 65102  
573/751-5560  
FAX: 573/751-5562  
e-mail: [dmicheel@mail.state.mo.us](mailto:dmicheel@mail.state.mo.us)

ATTORNEY FOR THE OFFICE  
OF THE PUBLIC COUNSEL

Respectfully submitted,



Thomas R. Schwarz, Jr. MBE #29645  
Deputy General Counsel  
Missouri Public Service Commission  
P.O. Box 360  
Jefferson City, MO 65102  
573/751-7434  
FAX: 573/751-9285  
e-mail: [tschwarz@mail.state.mo.us](mailto:tschwarz@mail.state.mo.us)

ATTORNEY FOR THE STAFF  
OF THE MISSOURI  
PUBLIC SERVICE COMMISSION

Robert J. Hack by TOS  
Robert J. Hack MBE #36496

3420 Broadway  
Kansas City, MO 64111  
(816)360-5755  
FAX: (816)360-5536

e-mail: rob.hack@southernunionco.com

Gary W. Duffy MBE #24905  
P.O. Box 456  
Jefferson City, MO 65102  
(573)635-7166  
FAX: (573)635-3847

e-mail: duffy@brydonlaw.com

ATTORNEYS FOR MISSOURI  
GAS ENERGY

**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 29th day of May, 2001.

Thomas R. Schwanz Jr.

**Service List for  
Case No. GR-2001-292  
Revised: May 29, 2001 (SW)**

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

**Stuart W. Conrad  
Finnegan, Conrad & Peterson, L.C.  
3100 Broadway, Suite 1209  
Kansas City, MO 64111**

**Larry W. Dority, Esq.  
Fischer & Dority, P.C.  
101 Madison Street, Suite 400  
Jefferson City, MO 65101**

**Gary W. Duffy  
Brydon, Swearngen & England P.C.  
P.O. Box 456  
Jefferson City, MO 65102-0456**

**Mark W. Comley  
Newman, Comley & Ruth P.C.  
601 Monroe Street, Suite 301  
Jefferson City, MO 65101**

**Jeremiah D. Finnegan  
Finnegan, Conrad & Peterson, L.C.  
3100 Broadway, Suite 1209  
Kansas City, MO 64111**