BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Tariff Filing of Aquila, Inc., to Implement a General Rate Increase for Retail Electric Service Provided to Customers in its Aquila Networks—MPS and Aquila Networks—L&P Missouri Service Areas.	)))))	**Case No. ER-2007-0004** Tariff No. YE-2007-0001

STAFF'S LIST OF MISSOURI PUBLIC SERVICE COMMISSION DECISIONS FOR ADMINISTRATIVE NOTICE

COMES NOW the Staff of the Missouri Public Service Commission, as requested at hearing, and submits the following list of cases for the Commission to take administrative notice of in this matter:

A. The Commission has indicated it will take administrative notice of the following cases pertaining to the Commission's treatment of the Sibley plant accounting authority orders:

1. Report and Order, *In the matter of Missouri Public Service for authority to file tariffs increasing rates for electric service provided to customers in the Missouri service area of the company,* Case No. ER-90-101, 30 P.S.C. (N.S.) 320 (October 5, 1990).

The Sibley AAO is discussed in this decision at pages 336-41 (attached as Attachment A).

2. Report and Order on Rehearing, *In the matter of Missouri Public Service, a division of Utilicorp United, Inc.'s proposed tariffs to increase rates for electric service provided to customers in the Missouri service area of the Company,* Case No. ER-93-37, 2 Mo.P.S.C.3d 206 (June 18, 1993).

The Sibley AAO is discussed in this decision at pages 208-10 (attached as Attachment B).

3. Report and Order on Rehearing, *In the matter of Missouri Public Service, a division of Utilicorp United, Inc.'s proposed tariffs to increase rates for electric service provided to customers in the Missouri service area of the Company,* Case No. ER-93-37, 2 Mo.P.S.C.3d 230 (February 25, 1994).

The Sibley AAO is discussed in this decision at pages 233-37 (attached as Attachment C).

B. The Commission has also indicated it will take administrative notice of its Order Approving Stipulation and Agreement and its Attachment 1 (Nonunanimous Stipulation and Agreement), with reference to Appendix B of Attachment 1, in Case No. ER-2005-0436, *In the matter of Aquila, Inc. d/b/a Aquila Networks-MPS and Aquila Networks-L&P, for authority to file tariffs increasing electric rates for the* service *provided to customers in the Aquila Networks-MPS and Aquila Networks-L&P area* (February 23, 2006). The Order and its attachment is not yet available in the Commission's published reports, but can be found in the Commission's Electronic Filing and Information System as item no. 253 in that docket.

Respectfully submitted,

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 5th day of April 2007.

/s/ David A. Meyer

allocated between the jurisdictions. Company excluded those substations which function to step down voltage from the higher transmission level to the lower distribution level. Company contends that the standard for classifying facilities to be allocated between the jurisdictions does not apply to distribution substations but only to transmission lines. Company maintains that the vast majority of these facilities are distribution substations because their function is to step down the voltage to distribution levels.

The Commission determines that all 123 substations should be classified as transmission facilities. The Commission further determines that this standard should be applied to substations as well as to lines. One of the major FERC cases applying this standard involves "... step-down transformation facilities ...." Docket No. ER-76-184, *Re: Kansas City Power & Light Company*, 3 FERC Par. 63,008, p. 65,092 (1977). This FERC decision found these transformation facilities to be subject to the allocator. This standard applies to facilities which could, under any conditions, serve a transmission function. Company's own witness concludes that "... these stations *for the most part* do not serve functionally as transmission ...." Exhibit 35, p. 29. Emphasis added. Company has the burden of proof to show that a proposed rate increase is reasonable and that the expenses reflected in the proposed rate increase are justified. Section 393.150, RSMo 1986. The Commission finds not only that Company has not shown that these facilities could perform no transmission function but that Company, by its own evidence, has demonstrated that these facilities could perform some transmission functions.

While the Commission is concerned that none of Company's plant fall into a jurisdictional void where it is recovered in neither jurisdiction, the Commission is not persuaded by Company's assertion that the FERC has not classified this company investment as eligible for allocation. Company's conclusory statement is not a sufficient basis for the Commission to accurately judge the pertinence of, or basis for, the FERC's failure to so classify these facilities. Therefore, the Commission determines that the factor for allocating transmission facilities between the jurisdictions should be applied to these 123 substations.

Finally, Staff/Public Counsel urge the Commission to direct Company to keep transmission service schedule logs by the hour for all transmission services performed for other utilities. Company does not oppose keeping such logs. Therefore, the Commission will direct Company to keep such logs in the future.

E. Sibley Deferral

On December 27, 1989, the Commission issued an order (Accounting Authority Order or AAO) in Case No. EO-90-114, which case has been consolidated with this rate case, authorizing Company to defer to and record in Account No. 186 of the Uniform System of Accounts (USOA), the depreciation expenses, property taxes and carrying costs associated with the life extension and coal conversion projects at Company's Sibley Generating Station (Sibley). The parties agree that the AAO permits deferral of these costs from January 1, 1989 through the effective date of the rates established in this case. Account No. 186 is used for miscellaneous deferred debits.

Attachment A

An AAO authorizes deferral of costs outside of a rate case and allows the utility in question to seek recovery in rates of these deferred costs in a pending or subsequent rate case. This procedure can ameliorate the effect of regulatory lag. In this instance, regulatory lag can be defined as the interval between Company incurring costs and those costs being recovered in rates. In its order authorizing company to defer these costs the Commission reserved the right to consider the ratemaking treatment ultimately to be afforded these costs.

Staff/Public Counsel oppose reflecting these costs in rates for four main reasons. First, Staff/Public Counsel assert that these costs have already been recovered in rates because Company has earned in excess of its authorized rate of return since 1983. Second, Staff/Public Counsel argue that these deferred costs are not sufficiently significant when compared to either MPS's or UtiliCorp's operations to merit the special treatment of deferral and subsequent recovery in rates. Staff/Public Counsel state that of the 11 percent increase in net electric plant from spring 1989 through spring 1990, the 1989 additions comprise only a 2.3 percent increase in net electric plant. Staff/Public Counsel argue that $2,190,804 or 51 percent of the $4,321,093 in costs for which Company is seeking recovery in rates are estimated costs.

Third, Staff/Public Counsel maintain that MPS has overstated the costs and failed to keep records as directed by the Commission in its AAO. Specifically, Staff/Public Counsel point to the following costs as overstated. Property taxes were included for 1989 even though the 1989 property taxes were based on 1988 plant assessments. Furthermore, Staff/Public Counsel state that Company has included property taxes based on the assumption that the amount of property tax is directly related to the amount of plant in service when, in actuality, the property taxes paid as a percentage of book value have declined since 1985 as the tax rate has been more than offset by the decreases in the assessment rate.

Staff/Public Counsel state that Company included the cost of carrying costs on unpaid balances which would result in ratepayers paying for costs not incurred by Company. Staff/Public Counsel also state that Company has calculated a full month's carrying costs on plant additions completed during the course of a month thereby effectively assuming that all plant additions are completed by the first of each month. Staff/Public Counsel charge that Company compounded carrying costs on carrying costs on a monthly rather than semiannual basis when calculating the deferral as dollars were transferred from CWIP to plant in service. Staff/Public Counsel assert that Company normally compounds such costs semiannually on CWIP. Staff/Public Counsel state that Company included depreciation in the costs upon which it calculated carrying costs. Staff/Public Counsel point out that carrying costs on CWIP are not calculated with regard to depreciation since normally depreciation is not calculated until the plant in question is in service.

Staff/Public Counsel contend that Company did not use deferred income taxes in calculating carrying costs to obtain a net of tax effect respecting the AAO deferral. Also, Staff/Public Counsel state that Company did not maintain records as directed by the Commission in its order granting deferral of these costs.

Staff/Public Counsel maintain that as a consequence of that failure, the costs of the program are overstated. Staff/Public Counsel maintain that available data indicates that purchased power to replace Sibley's power during rebuilding outages has often been cheaper than the fuel costs which would have been incurred to run Sibley's various units. Staff/Public Counsel contend that Company experienced significant savings as the result of this disparity.

Fourth, and finally, Staff/Public Counsel contend that Company should have performed a more detailed study before proceeding with the rebuilding of Sibley Generating Units 1 and 2 although Staff/Public Counsel admit that the data generally support the rebuilding of Sibley Generating Unit 3. Staff/Public Counsel believe that prudence required that Company perform a more thorough analysis of the desirability of proceeding with the rebuilding in lieu of other options for increased capacity.

Company counters the above arguments by stating that these costs have not already been recovered in rates and that Staff/Public Counsel's use of this argument is an attempt to engage in retroactive ratemaking which is forbidden by the case law in this state. The doctrine of retroactive ratemaking forbids the recovery through rates of amounts in previous periods either above or below Company's authorized revenue requirement.

Company disagrees that the amounts involved in the deferral are insignificant. Company points out that $33.4 million in plant expenditures resulted from the construction at Sibley during the outage scheduled to begin November 1, 1989 concluding April, 1990. Company states that this plant expenditure, when combined with the plant expenditures in 1989 of $8.9 million, represent an 11 percent increase in electric plant within one year. Company further states that, in the month of September, 1990 alone, the deferral to be recorded is estimated at approximately 23 percent of Company's net income from the provision of electric service.

Company disagrees with Staff/Public Counsel's contention that Company should have done further study of relative costs before proceeding with the rebuilding of Sibley Generating Units 1 and 2. Company asserts that the incremental cost of the Sibley rebuilding and coal conversion projects is about $250 per kilowatt which is only one-sixth the cost of constructing new base load generating capacity estimated at $1,400 per kilowatt.

Company contends that they either have not overstated the amount of deferrals or they have adjusted the amount in keeping with Staff/Public Counsel's criticism. Company states it has adjusted the property taxes included in the deferrals by $79,000 to reflect the fact that property taxes are paid one year in arrears. Company does not respond to the assertion of Staff/Public Counsel that the increase in property taxes may have been more than offset by the decrease in the assessment rate.

Company argues that there are carrying costs of about $75,000 on unpaid invoices because Company's usual accounting practice is to assign unpaid invoices to the most recent expenditures, i.e., CWIP work orders. Company contends this approach reduces the amount of Allowance for Funds Used During Construction (AFUDC) capitalized to construction resulting in a benefit to customers.

from the invoices remaining unpaid thereby avoiding payment of financing charges related to the unpaid invoices. Company does not respond to Staff/Public Counsel's contention that Company calculates a full month's carrying cost on plant additions completed anytime during the month.

Company states that about $11,000 are associated with Staff/Public Counsel's concern over the Company compounding carrying costs monthly. Company further states that it compounds semiannually with respect to AFUDC in keeping with FERC guidelines and past practice of the Commission. However, Company asserts that these guidelines do not apply to deferral of other carrying costs and that Company must, therefore, recognize the opportunity costs of these funds. Staff/Public Counsel contend that the dollar value of monthly compounding of carrying costs is $131,987.

Company maintains that Staff/Public Counsel are wrong in opposing the accrual of about $53,000 of carrying costs which have been calculated by Company on deferred depreciation pursuant to the AAO. Company asserts that, since depreciation is not being recovered from ratepayers currently, Company must accrue carrying costs on depreciation.

Company does not respond to Staff/Public Counsel's assertion that deferred income taxes are not used in the calculation of carrying costs to obtain a net of the tax effect as to the AAO deferral.

Company disagrees with Staff/Public Counsel that the amount of the entire deferral is overstated because it does not reflect savings on fuel costs vis-a-vis purchased power. Company contends that it has incurred additional costs the recovery of which is not sought in this rate case and that these costs outweigh any such savings.

Company disagrees with Staff/Public Counsel that its record keeping did not comply with the requirements of the AAO. Company maintains that the records it already kept supplied the information the Commission requested in the AAO and that Staff's recommendation to the Commission in regard to the requested AAO did not convey the necessity to keep "special" records.

The Company urges the Commission to reflect these deferrals in rates and not to allow Staff/Public Counsel's piecemeal attack on this deferral to persuade the Commission to reject it entirely. Company contends that the life extension project is vital to Company's continued provision of reliable reasonably priced service. Company points out that Sibley Units 1 and 2 would have otherwise had to be retired in 1990 whereas this project will extend the life of the three Sibley units by about 20 years. Company states that the cost of alternative sources of capacity would have been significantly higher. Company further contends that the coal conversion project is vital to achieving the reductions in SO2 emissions necessary to have environmentally acceptable sources of power. Finally, despite the Commission's disclaimer in the AAO about reserving judgment on the ratemaking treatment of the amounts deferred, Company contends that the integrity of the AAO process will be brought into question if the Commission does not reflect these deferrals in rates.

The Commission determines that Company should be allowed to reflect in rates, as provided hereinafter, costs deferred pursuant to the AAO. The Commission finds that Staff/Public Counsel have provided no substantial evidence to support exclusion of all of these deferred costs. The Commission determines there is ample evidence of the significant impact of this enterprise on Company's financial status. As Company has pointed out, it expects to defer costs in September, 1990, amounting to 23 percent of its electric net income. Although Staff/Public Counsel have raised questions about the relative cost of these projects vis-a-vis other alternatives and the objectivity and depth of Company's study of these alternatives, Staff/Public Counsel do not contend that Company was imprudent to proceed with these projects.

The Commission finds unpersuasive the contention of Staff/Public Counsel that these costs have already been recovered in rates. Company seeks recovery of these costs from the beginning of 1989 through October 17, 1990. 1989 is the test year and these rates are set prospectively. Since even Staff/Public Counsel admit Company requires some rate increase, the relevance to this issue of passed overrecovery is nebulous at best.

However, the Commission determines there is validity to the concerns of Staff/Public Counsel as to an accurate accounting by Company of the costs eligible for deferment. The Commission finds that Company should have ascertained the effect on property tax of the decrease in the assessment rate before including it in the costs deferred. The Commission notes with approval that Company has already adjusted the deferred costs to reflect the fact that taxes are paid one year in arrears.

The Commission also determines that Company should not include carrying costs on unpaid balances in the deferred costs to be reflected in rates and should either record carrying costs on plant additions completed after the first of the month on a prorated basis in the month completed or on the first of the following month. Ratepayers should not be required to pay carrying costs on expenses not yet paid by Company or on uncompleted plant additions.

The Commission finds that Company's rates should not reflect carrying costs compounded monthly in calculating these deferred costs. The Commission determines that Company should compound these carrying costs semiannually just as Company compounds AFUDC semiannually. The Commission also determines that rates should not reflect deferred costs which include carrying costs calculated on amounts which include depreciation since CWIP carrying costs are calculated on dollars invested in CWIP without regard to depreciation.

The Commission finds that the deferred income tax related to the AAO deferral which is included in deferred tax reserves should be used to reduce rate base as part of the process of setting rates in this case since that is the treatment afforded deferred income taxes related to CWIP.

The Commission determines that Company should calculate the effect on these deferred costs of any savings enjoyed as a consequence of the outages of the Sibley units during the rebuilding and conversion projects. Ratepayers should not have to pay for costs which have, in reality, been offset by savings. The

Commission is not persuaded by Company's argument that it did not seek recovery of all costs and, therefore, should not have to reflect certain savings. Company could have sought recovery of all reasonable costs.

Finally, the Commission understands the record herein reflects estimates of the costs deferred and to be deferred from June through October, 1990. The hearings in this case were conducted in July and actual data were unavailable. The Commission will direct Company to provide Staff/Public Counsel as soon as possible the actual deferred costs from June through September 30, 1990, and to calculate these costs consistently with the findings made in this Report and Order. The costs deferred after September 30, 1990, to the operation of law date will be considered by this Commission in Company's next rate case.

The final matter to be addressed on this issue involves the length of time over which these deferred rates should be amortized and whether the unamortized portion of these costs should be reflected in rate base. Staff/Public Counsel contend that, if these costs are to be reflected in rates, they should be amortized over 20 years, the extended life of the Sibley Generating Station with the unamortized costs not reflected in rate base. Staff/Public Counsel support this viewpoint by stating that the Commission has afforded such costs this treatment in prior similar instances.

Company contends that these costs should be amortized over a three-year period which is the approximate length of time for completing these projects. Company believes this approach would match the recovery of costs with the enjoyment of benefits arising from these projects. Company maintains that the unamortized portion of these costs should be included in rate base in order that Company may be compensated for the value of the money for the time occurring between the spending of the funds and their ultimate recovery.

The Commission determines that these costs should be amortized over 20 years which is the approximate extended life of the plant. The Commission finds that this approach matches the payments of the costs by the ratepayers for the rebuilding with their enjoyment of its benefits. The Commission further determines that the unamortized costs should be reflected in rate base. This is the usual practice when capital costs are amortized. The cases cited by Staff/Public Counsel deal with extraordinary maintenance costs and, therefore, are not applicable.

F. Sibley Inspection Costs: Maintenance or Construction?

This issue involves the classification as either maintenance or construction of about $3.4 million spent by Company from 1986 to April 30, 1990, for inspections, estimates of cost and detailed plans relating to the life extension project at Company's Sibley Generating Station (Sibley). Staff/Public Counsel argue that this expenditure should be classified as an expense incurred for maintenance and, therefore, not recognized in any new rates set herein since Staff/Public Counsel believe these costs were recovered in prior periods. Staff/Public Counsel maintain that the rates in prior periods were adequate to recover these costs.

Company contends that these costs should be capitalized since they were incurred for construction to extend the life of Sibley beyond that initially of-service and rate design changes on an interim basis pending the final order in this case. On June 3, 1993, a true-up hearing was held in which the Stipulation and the parties' true-up report were received into the record.

Findings of Fact

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

On July 31, 1992, MoPub filed revised electric rate schedules designed to increase its annual electric revenue by approximately $19.4 million or 8.4 percent. The reconciliation filed by the parties on March 5, 1993 (Exhibit 2) shows that MoPub was seeking an increase of approximately $16.5 million while Staff supported an increase in the amount of $1.7 million and Public Counsel supported a $1.4 million increase.

On March 19, 1993, MoPub, Staff and the Association filed a Stipulation (Exhibit 88) in this case. The Stipulation is nonunanimous as Public Counsel is not a signatory. As a result of the Stipulation, MoPub would be allowed to file tariff sheets increasing its electric revenues by $8 million. On June 3, 1993, the stipulated $8 million amount was adjusted based on the true-up of customer levels, fuel expense and plant in service. Based on the true-up audit, the stipulating parties requested that MoPub be authorized to file tariffs reflecting an increase of $4,865,804.

On May 28, 1993, the Commission approved tariff sheets filed by MoPub implementing the class cost-of-service and rate design changes which were not disputed by any party on an interim basis pending the final order in this case. The adjusted increase of $4,865,804 is based on this rate design.

The ultimate issue to be determined in this case is the establishment of just and reasonable rates to be charged to MoPub's Missouri electric customers. Nonetheless, the Commission cannot simply find the Stipulation to be just and reasonable and summarily adopt it. As the Stipulation is nonunanimous, the Commission must consider and rule upon the specific issues contested by Public Counsel. After making such findings, the Commission may then determine whether the Stipulation results in just and reasonable rates.

Each issue disputed by Public Counsel shall be discussed in turn.

Sibley Deferral (Accounting Authority Orders)

The Stipulation contemplates the inclusion of the Accounting Authority Order (AAO) deferral of expenses associated with MoPub's Sibley Generating Station (Sibley) authorized in Case Nos. EO-90-114 and EO-91-358 to be reflected in rate base and amortized over a 20-year period. Public Counsel believes that all rate base treatment and amortization relating to the Sibley AAOs should be excluded from the cost of service. Public Counsel argues that allowing the expenses deferred pursuant to the AAOs in MoPub's current cost

Attachment B

of service would violate the ratemaking principle of matching. The matching principle requires that expenses from one period must be matched with revenues from that period in order to determine appropriate rates.

Public Counsel contends that MoPub was earning in excess of its authorized rate of return during the period of the deferrals. Public Counsel argues that the AAO deferrals have already been recovered because MoPub's earnings during the deferral periods were high enough to cover the costs of the Sibley projects and still allow an adequate return.

MoPub contends that, rather than violating the matching principle, recognition of the Sibley deferrals enhances the matching of costs and revenues for ratemaking purposes. MoPub argues that the Sibley projects are intended to extend Sibley's useful life by 20 years which matches the 20-year amortization of the deferrals contemplated by the Stipulation. MoPub maintains that Public Counsel's approach would amount to a write-off of over $3 million of depreciation expense without any matching revenues.

MoPub also argues that Public Counsel's over-earnings argument is based largely on the third quarter of 1991 which was an unusually hot period and which occurred prior to the commencement of the deferrals in question. Moreover, MoPub contends that an analysis of prior earnings is only appropriate if revenues are adjusted to account for the unusual effects of weather in the same manner as is done in order to determine revenue requirement at the outset. MoPub states that when such an adjustment is made its returns are shown to have been below those authorized during the deferral period. In addition, MoPub points out that although Public Counsel uses the over-recovery argument, it also concedes that some level of additional revenues is warranted.

Staff's testimony indicates that MoPub's return on average investment and return on equity increased significantly in 1991 and then declined sharply in 1992. Staff argues in its testimony that the quantification of excess earnings can be a very difficult and contentious process. Staff states that it has not performed the detailed analysis necessary to present a position on possible excess earnings which MoPub might have experienced in the past. Staff contends that an evaluation of the recovery of AAO deferrals should turn on the overall adequacy of MoPub's earnings.

The Commission determines that the Sibley project costs deferred pursuant to the AAOs should be reflected in the cost of service. The Commission determines that there is substantial evidence of the significant impact of the Sibley projects on MoPub's financial status. The $55,978,891 in outlays associated with the Sibley projects represent nearly all of MoPub's capital expenditures since May, 1990. The amount deferred from January 1, 1992 through June, 1993 is $3,069,797, of which $1,625,495 was deferred from January, 1993 through June, 1993. The net income impact of the 1993 deferral represents approximately 10 percent of MoPub's estimated 1993 net income for this time period. MoPub would experience a significant reduction in its estimated 1993 earnings if the Sibley deferrals were not reflected in rates. MoPub estimates that a write-off of the Sibley deferrals would reduce its return on equity by more than one percentage point.

The Commission also determines that including the Sibley deferrals in cost of service does not violate test year principles but rather matches costs and revenues for ratemaking purposes. The 20-year amortization of the Sibley deferrals will match the costs of the Sibley projects with the revenue produced during Sibley's 20 additional years of useful life. In addition, the Commission finds that this approach matches the payments of the costs by the ratepayers with their enjoyment of the benefits of the Sibley projects. Furthermore, the Commission finds unpersuasive Public Counsel's contention that the Sibley project costs have already been recovered in rates. Public Counsel's argument of over-earnings by MoPub are based primarily on the results of MoPub's 1991 third quarter which was prior to the commencement of the deferrals at issue. Moreover, when adjusted for the unusually hot weather during that period, MoPub's 1991 third quarter revenues were below those authorized by the Commission. The Commission is of the opinion that weather normalization, while not necessarily dispositive, is a proper consideration for the Commission when examining prior earnings in this context. Regardless, given that Public Counsel acknowledges that MoPub is entitled to some level of revenue increase, the relevance of the issue of past over-recovery in this context is nebulous at best.

Other Post Employment Benefits/FAS 106

Financial Accounting Standard (FAS) 106 is an accounting standard issued by the Financial Accounting Standards Board (FASB) in 1990 which requires that employers account for "other post employment benefits" (OPEBs), also called "other post retirement benefits" (OPRBs) and "post retirement benefits other than pensions" (PBOPs), by an accrual accounting method rather than a "cash" or "pay-as-you-go" accounting method. OPEBs are benefits, other than pensions, such as health care, dental care and life insurance. FAS 106 mandates that companies use an accrual method of accounting for financial reporting of OPEBs after December 15, 1992. Currently, utility companies under the Commission's jurisdiction, including MoPub, have accounted for OPEBs as they are paid on a cash basis. Accrual accounting under FAS 106 requires the employer, MoPub, to accrue the cost of these benefits in the same period the employees are earning the benefits. Thus, FAS 106 requires companies to record OPEB expense, for financial reporting purposes, in the amount of the benefit obligation that it estimates its employees have earned during the period, plus an amortization of OPEB costs of prior periods which have not been previously recorded as expense.

but the Commission must make appropriate findings which support its resolution of the contested issues. The Commission will address each of the issues contested by OPC in light of this requirement. These findings replace those made in the initial Report And Order.

Accounting Authority Order

In 1989 MPS filed an application for an AAO to defer certain costs associated with the Sibley Generating Station life extension and coal conversion projects. The Commission granted an AAO in Case No. EO-90-114 allowing the deferral of costs and consolidated that case with MPS's then pending rate case for consideration of the ratemaking treatment to be afforded the deferrals. In its Report And Order issued in Case No. ER-90-101 the Commission allowed the deferrals to be amortized and included in rate base while ordering certain modifications to the AAO deferral amounts. Since the actual costs deferred from September 30, 1990 to October 17, 1990 were not available, the Commission ordered that those deferral costs be considered in MPS's next rate case. *RE: Missouri Public Service*, 30 Mo. P.S.C. (N.S.) 320, 341 (1990).

Subsequent to the decision in ER-90-101, MPS filed for another AAO in May 1991 to defer additional costs associated with the Sibley projects, which was docketed as Case No. EO-91-358. In that application MPS requested authorization to defer costs, similar to those in EO-90-114, for the Sibley life extension and coal conversion projects after January 1, 1992. The Commission, as it had in Case No. EO-90-114, found that the projects were an extraordinary occurrence and that the costs could be deferred for a definite period of time. The Commission found that the issue of recovery of the deferred costs in rates would be addressed in a general rate case if one was filed prior to December 31, 1992. MPS filed this general rate case on July 31, 1992 and included as part of its proposed increase in revenue requirement the deferral costs from September 30, 1990, to October 17, 1990, and the deferral costs from January 1, 1992 through June 1993.

In this case MPS is requesting recovery of depreciation and carrying costs associated with the Sibley projects. The deferral costs are calculated as follows:

1. Net carrying cost plus depreciation. Carrying costs on depreciation are calculated and removed from the gross carrying costs to determine net carrying costs amount.

2. The carrying costs on the unpaid balances of invoices have been removed from the deferral.

3. The carrying cost rate is compounded semiannually.

Attachment C

4. A half-month convention is utilized for the carrying costs, whereby a half-month's carrying cost is computed during the month an amount is placed in service.

5. Property taxes are excluded from the deferral calculation.

6. These deferral costs are booked into Account 186 as authorized by the Commission in Case No. EO-91-358.

MPS proposed to recover the deferred costs over a twenty-year period. These costs include $235,466 for the period September 30, 1990 to October 17, 1990, and $3,069,797 for the period January 1, 1992 through June 30, 1993.

Although Commission Staff initially opposed the deferral of a portion of the costs as proposed by MPS, the nonunanimous stipulation at paragraph 6 indicates that Staff agreed to allow MPS to include the AAO "deferrals authorized in Cases No. EO-90-114 and EO-91-358, as adjusted by MPS, to be reflected in rate base and amortized over a twenty-year period." OPC opposes the inclusion of any of these deferred costs in MPS's revenue requirement.

OPC's position is based upon its contention that recovery of the deferred costs would distort the matching of revenues and expenses for a period in determining just and reasonable rates. OPC contends that MPS's earnings during the deferral period were more than sufficient to maintain MPS's rate of return during that period and therefore recovery of the deferral costs in this case is unwarranted. OPC asserts that all of the parties agree that MPS's earnings levels during the deferral period were excessive and therefore there is only one possible resolution of this issue.

After a review of the evidence on this issue the Commission is unable to adopt OPC's position or its reliance on one factor to deny the recovery of the deferred costs. Based upon the evidence, the Commission considers this issue as involving two separate amounts of deferral costs. There are the deferral costs left from Case No. EO-90-114 which were carried over from the Commission's Report And Order in ER-90-101, and there are the deferral costs accumulated by MPS pursuant to the AAO authorized in Case No. EO-91-358.

The EO-90-114 deferrals are those from September 30, 1990 to October 17, 1990. These deferral costs were not approved in Case No. ER-90-101 because the actual deferral costs were not available by the operation of law date in that case, October 17, 1990. The Commission finds, though, that the reasoning in that case supporting the recovery of these deferred costs should be adopted in this case. The deferred costs from September 30, 1990 to October 17, 1990 would have been approved if actual costs had been available. Now that the actual costs have been calculated consistent with the Commission's decision in ER-90-101, it is reasonable to allow the recovery of those costs. The findings from Case No. ER-90-101 are as follows:

> The Commission determines that Company should be allowed to reflect in rates, as provided hereinafter, costs deferred pursuant to the AAO. The Commission finds that Staff/Public Counsel have provided no substantial evidence to support exclusion of all of these deferred costs. The Commission determines there is ample evidence of the significant impact of this enterprise on Company's financial status. As Company has pointed out, it expects to defer costs in September, 1990, amounting to 23 percent of its electric net income. Although Staff/ Public Counsel have raised questions about the relative cost of these projects vis-a-vis other alternatives and the objectivity and depth of Company's study of these alternatives, Staff/Public Counsel do not contend that Company was imprudent to proceed with these projects.
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> The Commission finds unpersuasive the contention of Staff/Public Counsel that these costs have already been recovered in rates. Company seeks recovery of these costs from the beginning of 1989 through October 17, 1990. 1989 is the test year and these rates are set prospectively. Since even Staff/Public Counsel admit Company requires some rate increase, the relevance to this issue of passed [sic] overrecovery is nebulous at best.

RE: Missouri Public Service, 30 Mo. P.S.C. (N.S.) 320, 340 (1990).

The Commission finds further that allowing the recovery of the remainder of the EO-90-114 deferral costs does not distort the matching of expenses and revenues since these costs were deferred during a pending general rate case and a rate increase was found to be reasonable in that case. Even though the costs were deferred outside of the test year in Case No. ER-90-101, the only reason they were not included in the revenue requirement calculation was that they were not known and measurable. Now that they are known and measurable, the Commission finds the costs should be recovered on the same basis as the other EO-90-114 deferred costs.

The Commission authorized MPS to defer the additional costs associated with the Sibley rebuild project and the coal conversion project in Case No. EO-91-358 for the period January 1, 1992 through June 30, 1993. In that case the Commission found that it would be unreasonable to deny deferral of the remainder of the costs associated with the two projects. *MPS*, Case No. EO-91-358, Report And Order issued December 20, 1991. The Commission stated that it had already found the projects to be extraordinary events and that determination would be followed in Case No. EO-91-358. By granting MPS the authority to defer these costs, the Commission did not decide the proper ratemaking treatment of these costs but found that the proper ratemaking treatment of the costs would be considered in a general rate case, if one was filed before December 31, 1992. The instant case, Case No. ER-93-37, was filed in July 1992.

The Commission recognized in its Report And Order in Case No. EO-91-358 that the deferral of costs from one period to another violates the traditional method of setting rates based upon a test year. As stated in that Report And Order:

> Allowable operating expenses are those which recur in the normal operations of a company, and a company's rates are set for the future based upon its past experience for a test year with adjustments for annualizations, normalizations and known and measurable changes. Under historical test year ratemaking, costs are rarely considered from earlier than the test year to determine what is a reasonable revenue requirement for the future. Deferral of costs from one period to a subsequent ratecase causes this consideration and should be allowed only on a limited basis.

The limited basis is usually an event found to be extraordinary, as with the Sibley rebuild and coal conversion projects.

The Commission thus agrees in general with OPC that the deferral of these costs does fall outside the traditional matching of expenses and revenues. The Commission finds this is reasonable where events are found to be extraordinary. The Commission withheld the decision on the ratemaking treatment until this case and so can look at all relevant factors to determine whether recovery should occur.

In this case OPC would have the Commission look at actual earnings as the sole criterion for determining recovery of these costs. According to OPC, if a company was earning over its authorized rate of return during the period the costs were being deferred, then no rate recovery should be allowed.

The Commission finds that there are other factors besides earnings which must be considered in reaching a decision on the recovery of deferred costs. Of course, the earnings level of a company is the initial and primary focus. In this case, though, the evidence indicates that the period during which MPS was overearning, 1991, was a period when no AAO was in effect and no deferrals were occurring. This fact alone detracts significantly from OPC's position. The evidence, though, does indicate that MPS's earnings in the early months of the deferral period were above the return on equity authorized in ER-90-101, while during the remainder of the period earnings fell below that level. In addition, such factors as weather normalization or other adjustments to earnings must be considered if all relevant factors are to be weighed in looking at the earnings level during the deferral period. Staff witness Carver admitted that he had not done the complete analysis necessary to consider whether MPS's earnings were excessive for these periods.

The Commission finds OPC's limited analysis is not sufficient to support a decision not to allow recovery. In addition, the Commission finds that other factors support the recovery of the deferral costs. The innovative approach taken by MPS in completing the two projects is an important factor. The construction of the protect was extended over several years and has permitted MPS to return Sibley to service for peak use periods. Also, the projects themselves have extended the life of the Sibley plant by twenty years and have brought the plant into closer compliance with Clean Air Act standards. These factors have benefited ratepayers and will benefit ratepayers into the future. These ratepayer benefits are important factors.

The Commission finds further that the Sibley projects have had a significant effect on MPS's financial status. The outlays associated with the Sibley projects represent nearly ten percent of MPS's estimated 1993 net income. Even though the Commission limited the time period of the deferral to ensure it would not be faced with an amount of deferred costs so large that it could not disallow them, the Commission finds that the effect of total disallowance is a factor to be taken into account. The overall cost of the projects and its effect on MPS's financial activities were factors in finding them to be extraordinary, and are factors in determining whether recovery should be allowed.

Based upon the evidence as discussed above, the Commission finds that the recovery of the deferred costs as proposed by MPS and agreed to in the Stipulation And Agreement is reasonable. Recovery of these costs recognizes the benefits that the two projects will bring to ratepayers and recognizes MPS's financial situation during the period of the deferral.

Integrated Resource Planning (IRP) Compliance

The Commission is of the opinion that there is no need for it to make specific findings on the issue of integrated resource planning costs. This issue is one of the grounds on which OPC objects to the Report And Order which approved the nonunanimous stipulation. However, OPC offered no evidence on the issue to support any particular finding either in the initial part of this proceeding or on rehearing, leaving the Commission with no basis on which to find in favor of OPC. Although Staff and MPS offered evidence on integrated resource planning costs, they settled the case for a negotiated dollar amount, subject to true-up. There is no provision in the nonunanimous stipulation that addresses this issue. Consequently, it is impossible to determine how the issue was resolved between the signatories. The nonunanimous stipulation provides that, unless the stipulation specifies otherwise, neither party has "approved or acquiesced in any ratemaking principle or any method of cost determination or cost allocation" underlying the agreement.

Since the Commission will approve the nonunanimous stipulation in this Report And Order, and the signatories have given no guidance in the stipulation, their pleadings, or briefs as to how the issue was resolved between them, the Commission reserves a specific finding on the issue and concludes that the issue of integrated resource planning costs was resolved between Staff and MPS in a way that is consistent with a total increase in revenues of $4,865,804, after true-up.