

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Missouri Public Service	)	
Company of Kansas City, Missouri, for	)	
authority to file tariffs reflecting	)	
increased rates for gas service provided to	)	Case No. GR-80-117
customers in the Missouri service area of the	)	
company.	)	

In the matter of Missouri Public Service	)	
Company of Kansas City, Missouri, for	)	
authority to file tariffs reflecting	)	
increased rates for electric service provided	)	Case No. ER-80-118
to customers in the Missouri service area of	)	
the company.	)	

HEARING MEMORANDUM

Missouri Public Service Company (hereinafter the Company) on October 5, 1979, submitted to the Missouri Public Service Commission (hereinafter the Commission) revised electric rate schedules designed to increase the Company's billed jurisdictional electric revenues approximately \$28,400,000 annually not including the resulting increase for franchise and occupational tax. Also on October 5, 1979, the Company submitted to the Commission revised gas rate schedules designed to increase the Company's billed jurisdictional gas revenues approximately \$798,000 annually not including the resulting increase in franchise and occupational taxes. The Company gave the revised electric and gas rate schedules (hereinafter revised schedules) an effective date of November 5, 1979. The Commission accepted the revised schedules for filing on October 11, 1979.

On October 17, 1979, the Commission suspended the revised schedules for 120 days beyond November 5, 1979, to March 4, 1980, and ordered the Company to file its prepared testimony, exhibits and minimum filing requirements. On November 28, 1979, the Commission further suspended the revised schedules for six months from March 4, 1980, to September 4, 1980.

On November 28, 1979, the Commission also set December 28, 1979, as the date for intervention; May 16, 1980, as the date by which the Commission Staff (hereinafter the Staff), each intervenor, and the Public Counsel were to file and serve their prepared testimony and exhibits; June 9, 1980, as the date for the prehearing conference to begin; and June 12, 1980, as the date for the hearing to begin. In addition, in its November 28, 1979, order, the Commission consolidated the above cases for hearing.

On February 15, 1980, in response to a request from the Public Counsel, the Commission extended the date by which the Public Counsel was to file testimony and exhibits from May 16, 1980, to May 23, 1980.

On March 19, 1980, the Commission ordered local hearings to be held on June 5, 1980, at Raytown, Missouri, and on June 6, 1980, at Liberty, Missouri. Also on March 19, 1980, the Commission ordered the Company to comply with 4 CSR 240-2.110(12).

On May 6, 1980, in response to a request from the Staff, the Commission extended the date by which the Staff was to file testimony and exhibits from May 16, 1980, to May 30, 1980.

On May 6, 1980, in response to a request from the Public Counsel, the Commission extended the date by which the Public Counsel was to file testimony and exhibits from May 23, 1980, to June 4, 1980.

On December 13, 1979, the City of Marshall, Missouri (hereinafter Marshall), filed an application to intervene in Cases No. GR-80-117 and ER-80-118. On December 21, 1979, the City of Kansas City, Missouri, (hereinafter Kansas City) filed an application to intervene in Case No. ER-80-118. On December 27, 1979, Jackson County, Missouri, (hereinafter Jackson County), filed an application to intervene in Case No. ER-80-118. The Commission granted those applications.

On December 17, 1979, the Company timely filed and served on all parties of record its testimony and exhibits as required by the Commission.

On February 4, 1980, the Public Counsel served a data request upon the Company. On February 19, 1980, the Public Counsel served interrogatories upon the Company. On February 28, 1980, the Public Counsel served further interrogatories upon the Company. The Company timely answered all data requests and interrogatories.

Under the Commission's order of March 19, 1980, local public hearings were held on June 5 and 6, 1980.

On May 30, 1980, the Staff filed and served its testimony and exhibits.

On June 4, 1980, the Public Counsel timely filed and served on all parties of record his testimony and exhibits.

Under the Commission's Order of November 28, 1979, a prehearing conference was begun on June 9, 1980. Representatives of the Staff, the Company, and the Public Counsel attended the prehearing conference. Kansas City, Jackson County and the City of Marshall did not make an appearance at the prehearing conference.

Attached hereto as Appendices I and II are reconciliations of the Staff's and the Company's electric and gas cases. Any other party who desires may submit a reconciliation to the Commission after the close of the hearing to describe the dollar amount differences which continue to exist after the hearing.

Attached hereto as Appendix III is the Commission's Report & Order in the Company's interim electric case, Case No. ER-80-231, which permitted an annual increase for electric rates of \$10,250,000, subject to refund pending the outcome of Case Nos. GR-80-117 and ER-80-118.

At the prehearing conference, the parties agreed to utilize as a test year the twelve-month period ending December 31, 1979, as adjusted for known and measurable changes through June 30, 1980. The parties also agree to delineate for the Commission those areas of conflict which after the prehearing conference continue to exist between all or some of the parties and the witnesses sponsoring or opposing them will be presented, as follows:

I. ACCOUNTING ISSUES OTHER THAN INCOME TAXES

A. Electric Rate Base

As of the commencement of the hearing, the Company disagrees with the Staff's calculation of original cost, jurisdictional electric rate base, and the other parties to the case agree or disagree, as follows:

1. Jeffrey Common Plant

The Staff included in Company's rate base 50% of the facilities common to the generating units of the Jeffrey Energy Center (JEC).

The Company contends that 100% of these facilities that the Staff has defined as "common" at Jeffrey Energy Center should be included in rate base and, therefore, that the Staff's rate base should be increased by \$1,949,746. If Company prevails on this issue

Staff's level of Company's test year depreciation expense and ad valorem taxes should be increased by \$56,904 and \$23,968 respectively.

The Public Counsel supports the Staff.

Witnesses: McKinney, Barry, Fluegge (MPS); Dodson, Winter, Schallenberg (PSC)

2. Fuel Oil Inventory

The Staff placed in Company's jurisdictional rate base a level of oil inventory at Greenwood and Nevada generating station by calculating the simple average of the annual burn for 1978, 1979 and Staff's annualized level of burn in this case. The Staff did not include any oil inventory at the Company's KCI generating station.

The Company contends that its oil inventories at Greenwood, Nevada and KCI should be based upon a thirteen month average and therefore, that the Staff's rate base should be increased by \$3,021,646.

Public Counsel supports the Staff.

Witnesses: Allen, Barry, McKinney (MPS); Brosch (PSC)

3. Cash Working Capital Calculation

The Staff calculated a negative rate base component for cash working capital in the amount of \$5,193,099 (Electric) and \$372,765 (Gas). The Company contends that it has a positive cash working capital requirement of \$4,521,307 (Electric) and \$2,047,833 (Gas).

The Company opposes the method used by Staff to compute the following components of Staff's cash working capital requirement:

A. Calculation of a revenue lag (including the statistical reliability of Staff's sample).

B. Calculation of the expense lag associated with coal at JEC fuel oil and cash vouchers.

C. Deductions for accrued interest on bonded indebtedness, injuries and damages reserve, and property taxes.

Public Counsel supports the Staff.

Witnesses: Campbell, (MPS); Traxler (PSC); Ahlarah (Public Counsel)

B. Electric Operating Income

As of the commencement of the hearing, the Company disagrees with the Staff's jurisdictional electric operating income, and the other parties to the case agree or disagree, as follows:

1. Electric Operating Revenue Annualization

Company contends that revenues resulting from annualized KWH sales (including adjustment for unbilled revenues) in the test year should be \$114,775,509.

Staff contends that revenues in the test year from annualized KWH sales (including adjustment for unbilled revenues) should be \$121,831,210.

Thus the difference between Company and Staff on this issue is \$7,055,701. If the Commission accepts Company's annualized KWH sales, Staff's test year level of fuel expense and ad valorem taxes should be reduced in the amounts of \$2,288,348 and \$4,153. Additionally Staff's level of fuel inventories should be reduced by \$461,411.

Public Counsel supports Staff's position.

Witnesses: Allen, Van Dyke, McKinney (MPS); Brosch (PSC)

2. Research and Development (EPRI)

Staff and Public Counsel propose to exclude all of Company's jurisdictional EPRI assessment in the amount of (\$384,881) from the Company's test year cost of service.

The Company opposes this adjustment and proposes to include in its test year cost of service its 1980 estimated EPRI assessment in the amount of \$489,698.

Witnesses: Owen, Barry, Allen (MPS); Ahlarah (Public Counsel); Rackers (PSC)

3. EEI

The Public Counsel proposed to exclude EEI dues in the amount of \$29,415 from the Company's test year cost of service.

The Company opposes this adjustment.

Witnesses: Owen, Barry, Allen (MPS); Ahlarah (Public Counsel)

4. Load Research Expenses

Staff opposes Company's request to increase electric test year cost of service by \$414,572 to reflect expenses incurred to comply with the Commission ordered load research study which Company is currently undertaking.

Public Counsel supports the Staff.

Witnesses: Van Dyke (MPS); Rackers, Boyle (PSC)

5. Rate Case Expense

Company proposes to increase Staff's allowable test year rate case expense in the amount of \$78,704 (Electric) and (\$12,811) (Gas).

Staff and Public Counsel oppose this adjustment.

Witnesses: McKinney (MPS); Rackers (PSC)

II. Income Taxes

A. Current Income Taxes

Company opposes the method proposed by Staff for calculating the amount of interest expense to be used as an income tax deduction in computing test year taxable income. Company opposes this adjustment both in principle and amount. (Note: That as certain accounting issues i.e. unbilled revenues and capitalized interest are determined by the Commission the level of Schedule M adjustments will correspondingly change and affect the calculations of current income taxes.)

Witnesses: McKinney and Sager (MPS); Traxler, Schallenberg, Shackelford (PSC)

B. Deferred Taxes

The Company contends that all tax timing differences should be normalized. The Staff contends that certain tax timing differences should be flowed through. The tax timing differences which Staff has flowed through and Company proposes to normalize are as follows:

1. Capitalized interest;
2. Pensions and taxes capitalized;
3. Removal costs;
4. Unbilled revenues;
5. Book to guideline depreciation lives
6. JEC Trust deduction

The Public Counsel supports the Staff.

Witnesses: Lubow (MPS); Brosch (PSC); Ahlrah (Public Counsel)

C. Federal Income Tax Change

The Public Counsel proposes to return over a two-year period the tax difference created in the accumulated deferred income tax reserve when the federal corporate income tax rate was reduced from 48% to 46%. The amount of this adjustment is \$286,788 on an annual basis.

The Company opposes this adjustment.

Witnesses: Lubow and McKinney (MPS); Ahlarah (Public Counsel)

III. COST OF MONEY/RATE OF RETURN

A. Return on Equity and Capital Structure

The Staff contends that a reasonable rate of return is 9.59 to 9.80 percent based on the following capital structure and costs:

<u>Type of Capital</u>	6/30/80		<u>Cost</u>	<u>Weighted Cost</u>	
	<u>Capitalization</u>	<u>Ratio (%)</u>			
Common Equity	27.4		13.51-14.26	3.7	3.91
Preferred & Preference Stock	13.5		8.63	1.17	1.17
Intermediate Term Debt	9.1		11.1	1.01	1.01
Long Term Debt	50.0		7.41	3.71	3.71
	<u>100.0</u>			<u>9.59</u>	<u>9.80</u>

The Company contends that the required rate of return is 10.30-10.57 percent based on the following capital structure and costs:

<u>Type of Capital</u>	9/30/79		<u>Cost</u>	<u>Weighted Cost</u>	
	<u>Capitalization</u>	<u>Ratio (%)</u>			
Common Equity	27.4		15.00-16.00	4.11	4.38
Preferred & Preference Stock	13.5		8.63	1.17	1.17
Long Term Debt	50.0		7.41	3.71	3.71
Intermediate Term Debt	9.1		14.4	1.31	1.31
	<u>100.0</u>			<u>10.30</u>	<u>10.57</u>

The Public Counsel supports the Staff.

B. Attrition

Company recommended return on common equity of 15% is proposed to be increased to 16% in order to adjust for attrition. Public Counsel believes consideration of an attrition factor is only proper when rates are predicated on an average as opposed to year end rate base. Thus if an average rate base approach is used, Public Counsel recommends an attrition allowance in the amount of .67% to be multiplied by original cost rate base. Then the product of that calculation should be multiplied by the income tax rate and that product should be added to the revenue requirement.

Staff opposes Company's attrition adjustment.

Witnesses: Dunn, Wolf and Baker (MPS); Shackelford, Brosch (PSC); Ahlarah (Public Counsel)

IV. RATE DESIGN

A. Electric

Company proposes to apply the increase to its rates in effect prior to the Commission Order in ER-80-231 on an equal percentage basis to all rate schedules and to all steps within each rate schedule; except Company proposes to increase the excess step of its winter rate and its commercial space heating rate (No. 120) by the amount of the increased fuel cost only. Company does not oppose Staff's proposal to eliminate the water heating rate.

The Public Counsel supports the Staff's position regarding the elimination of the water heating rate schedule. However, Public Counsel proposes to spread any increase granted on a uniform cents per kilowatt hour basis, after offsetting the increase due to the elimination of the water heating rate schedule from the residential class revenue requirement.

Staff proposes to allocate the increase to Company's rates in effect prior to ER-80-231 related to fuel expense on a per KWH basis and the remainder on a percentage basis to each rate after eliminating the Company's water heating rate schedule.

Witnesses: Van Dyke (MPS); Washburn (PSC)

B. Gas

Company proposes to apply the increase in gas revenues on an equal per MCF basis to all rate schedules and to each step within each rate schedule.

Public Counsel reserves the right to inquire into and assert a position on this issue.

In regard to the Company's Southern and North Central gas systems, the Staff proposes to establish a separate customer charge with no usage for each class. Additionally Staff proposes a uniform commodity charge for all usage regardless of customer class except for interruptible customers.

Witnesses: Van Dyke (MPS); Ketter (PSC)

V. FAIR VALUE RATE BASE

Company contends that the fair value of plant in service should be determined as outlined in Company witness Owen's prepared testimony and Exhibit No. 1, Section 3, Schedule 2. All parties agree

that said prepared testimony and exhibit shall be incorporated into the record as if read without the need for Mr. Owen taking the witness stand on this issue. The parties further agree to waive cross-examination of Mr. Owen on this issue.

VI. TRUE UP

The parties, for purposes of this case, have agreed to utilize certain account balances as of June 30, 1980. Because the hearing in this matter predates this June 30, 1980, "cut-off" date these balances were budgeted. It is agreed, however, that as soon as these actual balances are known the parties will jointly prepare a revised reconciliation of the various positions similar to Appendices I and II attached hereto, utilizing these updated and actual figures. Should the parties, however, be unable to agree upon such reconciliation it is specifically understood and agreed that the record in this matter be reopened and further evidence be had in order for the various parties to present their respective positions. The facts and account balances to be "trued up" after June 30, 1980, are limited to the following items:

- A. PSC Assessment
- B. Rate Case Expense
- C. Budgeted Plant Additions
- D. Depreciation Reserve
- E. Deferred Income Taxes
- F. Customer Deposits
- G. Customer Advances

VII. COMPANY'S GAS RATE CASE

The parties agree that the issues delineated above are common to the Company's gas rate case except where noted. The specific dollar amounts in dispute are set forward in Appendix II.

VIII. CONCLUSION

All parties agree that the foregoing HEARING MEMORANDUM delineates some areas of agreement and all areas of disagreement which exist among some or all of the parties as of the close of the prehearing conference. All parties further agree that all issues settled during the prehearing conference were settled on the basis of a dollar amount only and that no parties shall be bound in this or

future proceedings by any theory of ratemaking or cost of service which may have been used in arriving at such settlements. All parties reserve the right to inquire into and establish a position concerning any issue which is pertinent to these proceedings and which arises during the course of the proceedings as a new issue based on matters which could not reasonable have been contemplated based on the filings and pleadings herein as of the date hereof.

Respectfully submitted,

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Revenue Requirements per Company		Electric		Gas	
Rate Base		no attrition	with attrition	no attrition	with attrition
		\$2182019	\$2182019	\$5249464	\$5249464
Rate of Return		10.30	10.57	10.30	10.57
NOI Required		27004748	27712639	1570695	1611868
Less: NOI Available		9307928	9307928	1287464	1287464
NOI Deficiency		7166820	8404711	283231	324404
Factor for Income Taxes (Note 1)		1.9357	1.9357	1.9357	1.9357
Revenue Requirement over Interior Rates		14898734	16263999	548250	627949

Revenue Requirement per Staff		Elec		Gas	
Rate Base		Low ROR	High ROR	Low ROR	High ROR
		\$24957632	\$24957632	\$2828866	\$2828866
Rate of Return		9.59%	9.8%	9.59%	9.8%
NOI Required		23779137	24299848	1230288	1257229
Less: NOI Available		24642624	24642624	1331279	1331279
NOI Excess		863487	312776	100991	74050
Factor for Income Taxes (Note 2)		1.9359	1.9359	1.9179	1.9179
Revenue Excess at Interior Rates		1671624	663580	193691	142030

Note 1 - These factors reflect incremental tax rates at 48.34%

Note 2 - These factors reflect marginal tax rates within the relevant range of Staff's recommendation.

Missouri Public Service Co.
 Cases No. 68 EQ-117, EK 80-118
 Revenue Requirement Reconciliation

PREPARED BY
 DATE