

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY**

MAY 2, 1997

CASE NO: GO-97-301

Robert J. Hack, Senior Attorney, Missouri Gas Energy, 3420 Broadway, Kansas City, MO 64111

Enclosed find certified copy of ORDER in the above-numbered case(s).

Sincerely,

A handwritten signature in black ink, appearing to read "Cecil L. Wright", with a stylized flourish at the end.

**Cecil L. Wright
Executive Secretary**

Uncertified Copy:

**Office of the Public Counsel, P.O. Box 7800, Jefferson City, MO 65102
Charles Hernandez, Director, Pricing & Regulatory Relations, Missouri Gas Energy,
3420 Broadway, Kansas City, MO 64111**

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION**

At a Session of the Public Service
Commission held at its office
in Jefferson City on the 2nd
day of May, 1997.

In the Matter of the Application of)
Missouri Gas Energy, a Division of)
Southern Union Company, for the)
Issuance of an Accounting Order)
Relating to Gas Safety Projects.)

CASE NO. GO-97-301

ACCOUNTING AUTHORITY ORDER

Missouri Gas Energy (MGE or Company) filed an application on February 4, 1997, for issuance of an accounting authority order (AAO) for the deferral of costs related to gas safety projects undertaken pursuant to Commission rules enacted in 1989 (4 CSR 240-40). The projects include the removal and replacement of Company-owned and customer-owned gas service and yard lines; the moving and resetting of meters; the removal and replacement of cast iron mains; the removal, replacement and cathodic protection of bare steel mains; and the repair and replacement of facilities in mobile home parks. The projects will be completed by approximately the year 2009. Similar applications were approved for MGE in Case No. GO-94-234 and for Western Resources in Case Nos. GO-90-51, GO-92-185, and GO-94-133.

MGE requests permission to defer and book to Account 186.1, beginning February 1, 1997, and continuing until the effective date of the Commission's Report and Order in MGE's next general rate case, the depreciation expense, property taxes, and carrying costs at the weighted average cost of capital of 9.46% which the Commission found appropriate for MGE in Case No. GR-96-285. MGE seeks deferred amounts to be computed on

plant placed in service beginning on October 31, 1996. MGE states the expenditures associated with the projects are significant, extraordinary, and have not been reflected in the rates being charged for gas service. According to MGE, the expenditures are the result of the unusual event of the enactment of the revised gas safety rules by the Commission in 1989, and MGE will not realize any incremental revenue from completion of the projects.

MGE requests the Commission to issue an order: (1) authorizing MGE to account for the safety project expenses in Account 186.1; and (2) confirming that assets recorded under AAO granted in Case No. GO-94-234 for the period November 1, 1996 through January 31, 1997, which were not included in the rates set by the Commission in Case No. GR-96-285, may continue to be recorded by MGE as regulatory assets in Account 186.1 on its books and that MGE may request rate recovery of such assets in its next rate proceeding.

On April 14, 1997, the Staff of the Commission (Staff) filed a memorandum in the official case file which recommended that the Commission conditionally approve an accounting authority order. Staff explained that in response to data requests, MGE stated that Federal Energy Regulatory Commission (FERC) Form 2 now allows for recording of regulatory assets in Account 182.3, Other Regulatory Assets. MGE proposes to account for its gas safety program deferrals in Account 182.3, and Staff agreed that Account 182.3 is the correct account to book safety program deferrals.

Staff reported that in response to data requests, MGE estimated it will invest approximately \$22 million in Mains and Services from February 1, 1997 through March 31, 1998, and the total deferral for carrying costs, property taxes and depreciation expense will be approximately \$1.9 million. MGE's current rates reflect recovery of costs

associated with two separate safety program deferrals. Under Case No. GO-92-185, MGE receives a return on \$6,371,127 included in rate base and recovers \$375,693 annually. As a result of Case No. GO-94-234, MGE receives a return on \$11,496,937 included in the rate base and recovers \$547,847 annually.

Staff agrees that MGE's costs incurred in compliance with the gas safety rules are "extraordinary." The Commission's Report and Order in Case No. GO-91-359 provides that expenses are extraordinary if they result from compliance with gas safety orders of the Commission. The Commission has historically treated costs for complying with gas safety rules as extraordinary.

Staff does not agree with MGE's requested deferral period. According to Staff, the Commission's traditional practice in AAO applications is to require the Company to file a rate case within two years of the beginning of the deferral period if it seeks to recover those costs. See *In re Kansas City Power and Light Co. Application for Accounting Authority Order*, Case No. GO-92-185, Order at 2 (April 10, 1992); *In re Missouri Public Service Applications for Accounting Authority Orders*, Report and Order, 1 Mo. P.S.C.3d 200, 209 (1991). Staff also believes that extending the deferral period up to the effective date of the Report and Order in a rate case will only create mechanical accounting problems. Therefore, Staff recommends that the deferral period in this AAO be cut off at the last day of the Commission's test year (including update or true-up period) in MGE's next rate case and that no cost recovery should be allowed unless MGE files a rate case within two years of the beginning of the deferral period authorized herein.

Staff does not agree with MGE's requested carrying cost rate of 9.46% which is the weighted average cost of capital approved by the Commission in MGE's most recent rate case, Case No. GR-96-285. In that case, the Commission ordered the deferral rate for previous gas safety AAOs to be equal to MGE's Allowance for Funds Used During Construction (AFUDC) rate. Staff believes the Commission's order in Case No. GR-96-285 provides MGE with sufficient guidance for selecting the appropriate rate. Nevertheless, Staff recommends that if the Commission should reference a specific rate in this order, it should specify a carrying cost rate equal to MGE's current AFUDC rate.

Staff does not oppose MGE's request that it may continue to record and seek future rate recovery of the regulatory assets deferred under GO-94-234 for the period November 1, 1996 through January 31, 1997. Staff addressed this issue in its initial and reply briefs in Case No. GR-96-285, so Staff is not convinced that additional language in this AAO is necessary.

Without objecting to the inclusion of item 4 below, Staff recommends that the Commission's order state:

1. That MGE is authorized to defer and book to Account 182.3, beginning February 1, 1997 and continuing through the last date of the Commission's test year, including any update on true-up period, in MGE's next rate case, depreciation expense, property taxes, and actual carrying costs incurred to remove and replace or repair facilities located in mobile home parks, to remove and replace Company-owned and customer-owned service and yard lines, to move and reset meters in connection therewith, to remove and replace cast iron mains, and to remove, replace, and cathodically protect bare steel mains, with the deferred amounts to be computed on plant placed in service beginning on February 1, 1997. If no rate case is filed by MGE on or before January 31, 1999, no recovery of these costs shall be allowed in any subsequent rate case unless said costs were, in whole or part, incurred in the approved test year.

2. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the costs and/or expenditures deferred in this proceeding, and the Commission reserves the right to consider the ratemaking treatment to be afforded all deferred costs and/or expenditures, including the resulting cost of capital incurred in financing the Company's gas safety program.
3. That MGE is directed hereby to maintain detailed supporting work papers relating to the monthly accruals of each item booked to Account No. 182.3 and any capital costs booked to capital accounts in regard to the deferrals approved in ordered paragraph 1. In addition, MGE shall develop accounting records in sufficient detail to allow the calculation and subsequent audit of the actual carrying costs incurred in financing its gas safety program.
4. That MGE may continue to record as regulatory assets the deferrals of carrying costs, property taxes and depreciation expense under GO-94-234 for the period November 1, 1996 through January 31, 1997, and may request rate recovery of such assets in its next rate proceeding.

The Commission has reviewed the application filed by MGE and the Staff's memorandum. The Commission finds that MGE's application for accounting authority order should be granted subject to the conditions recommended by Staff. The Commission finds that subject to the Staff's conditions, MGE should be authorized to defer and book to Account 182.3 its costs incurred in compliance with the Commission's gas safety rules beginning February 1, 1997, and continuing through the last date of the Commission's test year, including any update or true-up period, in MGE's next rate case if MGE files its rate case on or before January 31, 1999. The Commission further finds that MGE may continue to record as regulatory assets the deferrals of carrying costs, property taxes and depreciation expense under GO-94-234 for the period November 1, 1996 through January 31, 1997, and may request rate recovery for these assets in its next rate proceeding, subject to the conditions recommended by Staff.

IT IS THEREFORE ORDERED:

1. That Missouri Gas Energy is authorized to defer and book to Account 182.3, beginning February 1, 1997 and continuing through the last date of the Commission's test year, including any update or true-up period, in Missouri Gas Energy's next rate case, depreciation expense, property taxes, and actual carrying costs incurred to remove and replace or repair facilities located in mobile home parks; to remove and replace Company-owned and customer-owned service and yard lines; to move and reset meters in connection therewith; to remove and replace cast iron mains; and to remove, replace, and cathodically protect bare steel mains, with the deferred amounts to be computed on plant placed in service beginning on February 1, 1997. If no rate case is filed by Missouri Gas Energy on or before January 31, 1999, no recovery of these costs shall be allowed in any subsequent rate case unless said costs were, in whole or part, incurred during the approved test year.

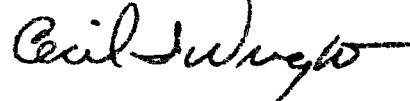
2. That nothing in this order shall be considered a finding by the Commission of the reasonableness of the costs and/or expenditures deferred in this proceeding, and the Commission reserves the right to consider the ratemaking treatment to be afforded all deferred costs and/or expenditures, including the resulting cost of capital incurred in financing the Company's gas safety program.

3. That Missouri Gas Energy is directed hereby to maintain detailed supporting work papers relating to the monthly accruals of each item booked to Account 182.3 and any capital costs booked to capital accounts in regard to the deferrals approved in ordered paragraph 1. In addition, Missouri Gas Energy shall develop accounting records in sufficient detail to allow the calculation and subsequent audit of the actual carrying costs incurred in financing its gas safety program.

4. That Missouri Gas Energy may continue to record as regulatory assets the deferrals of carrying costs, property taxes and depreciation expense under GO-94-234 for the period November 1, 1996 through January 31, 1997, and may request rate recovery of such assets in its next rate proceeding.

5. That this order shall become effective on May 13, 1997.

BY THE COMMISSION



Cecil I. Wright
Executive Secretary

(S E A L)

Zobrist, Chm., McClure,
and Drainer, CC., concur.
Crumpton, C., absent.

ALJ: George

ALJ/Sec'y: George / Boyce

428
Date Circulated

60-97-301
CASE NO.

h301/4
Chairman
Paul
Commissioner

Commissioner
Absent
Commissioner
W
Commissioner

5-2
Agenda Date

Action taken: 3-0, ADM

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

I have compared the preceding copy with the original on file in this office and

I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,

Missouri, this 2 day of MAY, 1997.

Cecil I. Wright
Cecil I. Wright
Executive Secretary