

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the Sho-Me Power Corporation)
for authority to file tariffs increasing)
rates for electric service provided to) Case No. ER-91-298
customers in the Missouri service area)
of the company.)

In the matter of the application of Sho-Me)
Power Corporation for an order requesting the)
Commission to issue its order finding that it)
is reasonable and prudent for Sho-Me Power)
Corporation to be a member of the rural)
electric cooperative system of the State of)
Missouri, including membership in Associated)
Electric Cooperative, Inc. and Sho-Me Power) Case No. EO-92-60
Corporation to honor the Electric Power)
Coordination Agreement between Associated)
Electric Cooperative, Inc. and Sho-Me Power)
Corporation and for Sho-Me Power Corporation)
which takes into consideration Sho-Me Power)
Corporation's position as an integral part)
of the REA financed rural electric)
cooperative system of the State of Missouri.)

APPEARANCES: **Rodric Widger**, Attorney at Law, and **Patrick Baumhoer**, Attorney at
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HEARING

EXAMINER: **Janet L. Sievert**

REPORT AND ORDER

Procedural History

On March 28, 1991, Sho-Me Power Corporation (Sho-Me) submitted tariffs reflecting an increase of approximately \$2.3 million (2.38%) in charges for electric service provided to wholesale customers in the Missouri service area of Sho-Me. The proposed tariffs will affect approximately twenty-seven (27) wholesale customers consisting of rural electric cooperatives, municipalities and Fort Leonard Wood. By order issued April 24, 1991, the Commission suspended these tariffs to February 24, 1992 and established a procedural schedule. By order issued June 7, 1991, the Commission granted intervention to the United States Department of Defense (DOD). The Commission Staff (Staff) and the Office of the Public Counsel (Public Counsel) also participated in this case.

The parties participated in the prehearing conference commencing on September 10, 1991. As a result of the prehearing conference, the parties signed a hearing memorandum delineating some of the areas of agreement and all the areas of disagreement in this proceeding. The parties agreed to use a test year based on the twelve (12) months ending March 31, 1991 updated through June 30, 1991.

Testimony was prefiled by Sho-Me and Staff and hearings were held October 15-17, 1991. Briefs were filed by all parties, except Public Counsel, pursuant to a schedule established by the hearing examiner. DOD, in its brief, supported all of Staff's positions.

During the course of the Commission's deliberations, the parties were asked to submit information to the Commission concerning the retirement pension plan moratorium and the disbursement of Rural Electrification Association (REA) loan funds. Additionally, the parties were asked to calculate and submit to the Commission numerical reconciliations based upon hypothetical resolutions of the

issues litigated in this case. The Commission's requests and the submissions filed in response have been marked as late-filed exhibits and will be received into the record in this order.

Findings of Fact

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

Sho-Me was originally incorporated as an agriculture cooperative in 1941. The Missouri Supreme Court, in 1946, concluded that a cooperative composed of representatives of electric cooperatives was not an association of agriculturists and could not engage in the business of operating an electric utility service under a statute authorizing creation of cooperatives to conduct agriculture or mercantile businesses and afforded Sho-Me one year to reorganize. State on Inf. Huffman, Pros. Atty, et al., v. Sho-Me Power Co-op., 191 S.W.2d 971 (Mo. banc 1946). In 1947, the Missouri Supreme Court approved Sho-Me's plan to reorganize as a general business corporation. State, at Inf. of Huffman, et al. v. Sho-Me Power Co-operative, 204 S.W.2d 276 (Mo. banc 1947). In choosing to reorganize as a corporation, Sho-Me placed its business operations under the regulation of the Commission. Since 1947, Sho-Me has twice filed applications, with the Commission, requesting that the Commission no longer assert jurisdiction over Sho-Me. In re: Sho-Me Power Corporation, 26 Mo.P.S.C. (N.S.) 576 (1984), In re: Sho-Me Power Corporation, 28 Mo.P.S.C. (N.S.) 100 (1986). In both proceedings, the Commission concluded that Sho-Me is a corporation under the statutory authority of the Commission and that the Commission has an obligation to regulate Sho-Me. Id. at 576, Id. at 100. In this proceeding, along with increased wholesale rates, Sho-Me has requested that the Commission approve Sho-

Me's participation in the Missouri Rural Electric Cooperative System including its membership in Associated Electric Cooperative, Inc. (AECI) and for Sho-Me to continue to honor the Electric Power Coordination Agreement between Sho-Me and AECI. Additionally, Sho-Me requested that the Commission adopt a streamlined method of rate regulation for Sho-Me which takes into consideration Sho-Me's position as an integral part of the REA's financial rural electric cooperative system of Missouri.

The Commission has long recognized that Sho-Me is in a unique position. It is a corporation statutorily under the regulation of the Commission, which is intricately intertwined in the Rural Electric Cooperative Association. Sho-Me, thus, functions operationally as a cooperative but is statutorily a regulated public utility. The Commission is sensitive to Sho-Me's request for expedited treatment as was indicated by the Commission's order to adopt a streamlined method of rate regulation for Sho-Me. In re: Sho-Me Power Corp., 28 Mo.P.S.C. (N.S.) 100 (1986). This case has once again brought to light the difficulties which arise between Staff and Sho-Me in the pursuit of regulating Sho-Me's business operations. The Commission is of the opinion that if Sho-Me would like to take full advantage of an expedited rate proceeding, there are certain requirements that need to be met. In order to resolve the differences and facilitate the regulation of Sho-Me in future proceedings, the Commission is of the opinion that Sho-Me, for regulation purposes should designate which facilities and plant it owns and which facilities and plant AECI owns. The Commission is of the opinion that the separation of the facilities should be in regard to ownership, use, cost, expense and revenues. With the separation of Sho-Me and AECI for regulatory purposes, the Staff should be able to audit Sho-Me's expenses, revenues and revenue requirement in an expedited manner. The

Commission will direct Sho-Me and Staff to submit, within six (6) months of this order, an agreement on the allocation of the ownership, use, cost, expense and revenues associated with Sho-Me's provision for electric service. This schedule will form a basis to start from in Sho-Me's next rate proceeding. If Sho-Me and Staff are unable to reach an agreement, the parties shall submit their proposals to the Commission for resolution.

The Commission rejects Staff's proposed rate design recommendations relating to removing Sho-Me from the Rural Electric Cooperative Association as being unreasonable. The Commission sees no purpose in destroying Sho-Me's ties with the Rural Electric Cooperative Association. Additionally, the Commission determines that the remaining non-revenue issues in this proceeding (i.e., expensing and capitalization, depreciation rates, accounting and property records and regulatory approval of contract issues) should be resolved in accordance with the Uniform System of Accounts, Commission rules and statutory regulations. The Commission is of the opinion that once Sho-Me has separated its plant and facilities from AECI for regulatory purposes, these issues should easily be resolved by the parties. Again, if there are differing interpretations as to the Uniform System of Accounts, Commission rules and statutory requirements, the parties shall submit the issues to the Commission for resolution, also within six (6) months of this order.

401 K Plan

Sho-Me has established a pension plan for its employees which qualifies for tax benefits under Section 401 K of the Internal Revenue Code. Under Sho-Me's 401 K Plan, an employee's contribution of 1% of base pay is matched by Sho-Me's contribution of 8% of the employee's base pay. Staff asserts that Sho-Me's

contribution is unreasonable and excessive when compared to other regulated electric companies in Missouri. Staff proposes an adjustment which matches 50 cents on each dollar contributed by an employee up to a maximum 6% contribution by Sho-Me of an employee's base pay per year.

Sho-Me asserts that the matching contribution percentage is the result of collective bargaining negotiations with the International Brotherhood of Electrical Workers Local #53. Sho-Me argues that when the entire journeyman lineman wage and compensation package is examined it is not excessive in comparison to other Missouri regulated electric corporations. Additionally, Sho-Me asserts it strives to provide higher compensation packages rather than merely raising wages, thereby reducing its payroll taxes and workers' compensation premium costs.

The Commission determines that Sho-Me's 401 K Plan is reasonable in relation to the journeymen linemen wages and compensation package and Staff's proposed adjustment should not be made. The Commission is persuaded by the evidence that Sho-Me ranks fourth in overall wages and compensation for its journeymen linemen in comparison with eight other Missouri regulated electric utility corporations. The Commission determines that this places the journeymen linemen wages and compensation package well within the reasonable limits of other regulated electric corporations. Furthermore, the 401K plan contribution percentage is the result of collective bargaining negotiations with the International Brotherhood of Electric Workers #53.

General Manager's Management Incentive Deferred Annuity (MINT) Plan

The General Manager's MINT Plan is a deferred income benefit plan which provides retirement benefits to the General Manager in the form of monthly income after certain eligibility requirements are met. Staff asserts that the General

Manager's MINT Plan is unreasonable as it is the third retirement plan provided to this employee, it is underfunded and Sho-Me is incurring excessive costs to maintain this plan. Additionally, Staff contends that this is not a standard benefit of the five other generating and transmission cooperatives. Sho-Me asserts that the General Manager's MINT Plan is inherently reasonable as it was approved by the Board of Directors and it is their responsibility to make decisions that are in the best interest of the corporation. Sho-Me argues that to properly evaluate this plan, one must consider the overall salary and compensation package provided to the General Manager.

The Commission finds that the General Manager's MINT plan is unreasonable and Staff's proposed adjustment should be made. The evidence presented demonstrates that the General Manager's MINT plan is out of the ordinary, as it is not a standard benefit provided by the other generating and transmission cooperatives. The Commission rejects Sho-Me's assertion that the Board of Directors' resolution is inherently reasonable and without further evidence will not allow recovery through rates.

Board of Directors' Management Incentive Deferred (MINT) Plan

Sho-Me's Board of Directors' MINT Plan provides retirement benefits to Sho-Me's Board of Directors who have served a minimum of seven (7) years. This plan began January 1, 1987 and is a retirement plan for Sho-Me's Board of Directors. Under this plan, a board member will receive \$10,000 per year for sixteen (16) years beginning at age 65 or upon discontinuing service as a board member, whichever is later. There are currently eight (8) individuals who are covered under this plan.

Sho-Me presented evidence from the September, 1989 issue of "The Utility Director" published by the Utility's Consulting Corporation wherein four

Missouri regulated electric utilities were analyzed regarding their Board of Directors' compensation plans. The article showed that one company made reference to deferred compensation, while the other three companies failed to mention deferred compensation, stock options or retirement plans. Sho-Me asserts that its Board of Directors' MINT plan is comparable to deferred compensation and is, therefore, reasonable. Moreover, Sho-Me asserts that standardization is not a true guide, as Board of Directors' compensation is locally determined within each utility.

Staff asserts that the Board members are not employees of Sho-Me and should not receive retirement compensation benefits from Sho-Me. Staff additionally argues that the Board of Directors' MINT Plan is not a standard benefit of the five other generating and transmission cooperatives. Staff further argues that AECI does not provide a pension to Sho-Me's General Manager for serving on AECI's Board of Directors.

The Commission finds that the Board of Directors' MINT Plan is unreasonable and Staff's proposed adjustment should be made. The persuasive evidence demonstrates that the Board of Directors are not employees of Sho-Me and the Board of Directors' MINT plan is not a standard benefit provided by the five other generating and transmission cooperatives, or even by AECI, to their Board of Directors. Additionally, this is not a standard benefit given to the Board of Directors of other regulated utilities.

Executive Secretary's Salary

This issue arises over the salary paid to the General Manager's secretary. The job title for the Executive Secretary sets forth the duties as: secretary to the General Manager; provide administrative assistance to the department managers; and periodically coordinate Board of Directors' meetings.

The Executive Secretary does not supervise any personnel. Staff proposes to exclude a portion of the Executive Secretary salary for ratemaking purposes.

Sho-Me argues that the Executive Secretary's responsibilities entail more than that of a clerical or secretarial position. Sho-Me argues that the job description provided is very sketchy and does not adequately describe the Executive Secretary's duties. However, Sho-Me failed to provide supplemental evidence to substantiate its argument that this position encompasses more than clerical or secretarial duties.

Staff asserts that, based on the job description, the Executive Secretary's salary is not reasonable and that a portion of the Executive Secretary's salary should be excluded for ratemaking purposes. Staff's evidence demonstrated that based on a national survey of all generating and transmission cooperatives' executive secretary salaries, Sho-Me's Executive Secretary is the highest paid in the nation. Staff argues that the survey sets forth the high, average and low base salary, and the mid-point range for this position. Staff utilizes the mid-point range as a reasonable level of pay. Additionally, in making this adjustment, Staff compared the results of a job survey conducted by the City of Springfield with Sho-Me's Executive Secretary's level of pay. Staff's evidence shows that the maximum range for a Secretary II is close to the mid-range of the generating and transmission salary survey. Staff asserts, based on these comparisons, the Springfield survey provides a reasonable basis for a localized level of pay for the Executive Secretary's position.

The Commission finds that Staff's proposed adjustment should be made, as it is based on a reasonable level of pay. The evidence demonstrates that the Executive Secretary position describes an administrative assistant and not an executive secretary with the decision-making responsibility of top management.

In addition, the Commission finds that it is unreasonable for Sho-Me to pay its Executive Secretary the highest salary of all generating and transmission corporations in the nation.

Retirement Benefit Plan Premiums

Sho-Me participates in a multi-employer defined benefits pension plan (plan) known as the National Rural Electric Cooperative Association Retirement and Security Program. Participation and the premium amount is not an issue in this proceeding. In June, 1987, due to a change in the federal law, a moratorium was placed on the plan when it reached its full funding limitations under the Internal Revenue Code. The moratorium has been continued from year to year on the basis of year-end evaluations of plant assets and liabilities. Sho-Me was not required to pay into the plan during the test year and has not paid into the plan since July 1, 1987.

Sho-Me asserts, based on Exhibit 6, Schedule 8, that the National Rural Electric Cooperative Association estimates that the moratorium will cease at the end of 1991. Sho-Me requests that the Commission allow it to collect its best estimate of the premium expense through its rates subject to an annual refund with interest if the premium obligation does not materialize. Sho-Me asserts that this is a reasonable solution as the overfunding status of the pension fund has diminished and will further diminish. Sho-Me's best estimate for current premium projections, 13.1% of base pay rate, could produce a \$441,000 annual liability in 1992. Sho-Me asserts that this liability could require the need for immediate rate relief if it is not allowed to collect this expense in its rates. Therefore, Sho-Me contends that this request is reasonable and necessary in the interest of its ratepayers. Staff asserts that as Sho-Me has had no pension plan costs for the past several years, including the test year, and future costs are

not known and measurable, Sho-Me's request to collect the best estimates of its future premium costs is unreasonable.

The Commission determines that Sho-Me's request to collect an estimated retirement premium expense in rates is unreasonable. The Commission is persuaded by the evidence that the possibility of a premium obligation in 1992 is speculative, as it is unknown when the moratorium will be lifted. Late-filed Exhibit 32 indicates that the moratorium was not lifted as of December 31, 1991, and whether it will be lifted in the future is unknown.

General Manager's Salary

This issue arises over allocating the General Manager's salary between his regulated and unregulated activities. The evidence revealed that the General Manager's primary responsibilities are (1) serve as the Chief Executive of Sho-Me, and (2) serve as a director of AECI. The evidence showed that, during the test year, the General Manager devoted approximately 15% of his time to AECI Board of Directors' activities.

Staff argues that 15% of the General Manager's salary should be excluded for ratemaking purposes, as this is the amount of time the General Manager devoted to AECI activities during the test year. Staff asserts that as the General Manager has a fiduciary duty to the unregulated AECI, conflicts of interest will arise. Therefore, Staff argues Sho-Me's ratepayers should not be compensating the General Manager for fulfilling a fiduciary duty to another organization. Sho-Me argues that high level executives are frequently required to participate in non-corporate activities as a regular part of their employment. Sho-Me asserts that this practice is standard for corporate executives.

The Commission finds that Staff's proposed adjustment should be made, as a fundamental element of rate regulation is the allocation of an executive's

compensation between regulated and unregulated activities. The Commission determines that Sho-Me's ratepayers should not be required to support the General Manager's unregulated activities.

Lebanon Discount

The City of Lebanon (Lebanon) receives its wholesale power from Sho-Me at a Lebanon-owned substation. No other customer of Sho-Me receives power at a customer-owned primary substation. In 1986, Sho-Me and Lebanon negotiated a discount of \$.34 per kw of average billing demand. Sho-Me's analysis of cost savings, relating to Lebanon providing the substation, supports a monthly discount of \$.22 to \$.30 per kw. The analysis sustains \$.22 as the embedded cost saved by Sho-Me through avoidance of initially constructing the necessary facilities to serve the City and a \$.30 savings if the discount were priced as if new facilities were installed, by Sho-Me, in 1986. Lebanon's consultant recommended a discount of \$.54 per kw.

Staff proposes to reduce the Lebanon discount to \$.22 per kw arguing that if a discount is to be granted, it should be cost-based and either (1) subject to Commission approval prior to implementation, or (2) stated as a fixed tariff rate available to all customers that qualify for the discount. Staff does not dispute Sho-Me's cost savings analysis but argues that a discount greater than \$.22 will allow the City to receive service at a rate which is not justified by offsetting cost savings. Sho-Me asserts that the present \$.34 per kw of average billing demand discount represents a negotiated compromise between Sho-Me and Lebanon for the reasonable value of energy delivered through customer-owned facilities.

The Commission determines that Staff's proposal to reduce Lebanon's discount should be rejected. The evidence shows that the current discount of

\$.34 per kw is based on good faith negotiations between Sho-Me and Lebanon. The Commission will not disturb the discount at this time. However, the Commission does agree with Staff that Sho-Me should file a tariff reflecting a discount rate for customer-owned substations applicable to any qualified customer. The Commission further determines that after the tariff is filed additional analyses can be performed to determine if the discount rate reflects current cost savings.

Rate of Return - Return on Equity

The rate of return for a utility corporation is established by combining the cost of common equity with its cost for debt and preferred stock. As Sho-Me is a corporation functioning as a cooperative, it has characteristics which make it difficult to use the normal Discounted Cash Flow (DCF) method of rate of return estimation. These characteristics are: (1) Sho-Me's capital structure is different from other regulated utility corporations; and (2) Sho-Me receives its funding from the Rural Electrification Association (REA). The DCF method normally employed by the Commission to calculate equity returns utilizes widely-published data pertaining to companies whose stock is publicly-traded, whose parent company's stock is publicly-traded, or is similar to other companies with publicly-traded stock and has the traditional capital structure of regulated utilities. Sho-Me is a corporation functioning as a cooperative which is intricately intertwined with the Rural Electric Cooperative Association. Sho-Me's capital structure is unique in that it consists of approximately 80% debt and 20% equity whereas utility corporations commonly have a capital structure in which debt ranges from 60-40% and equity ranges from 40-60%. Additionally, Sho-Me receives a major portion of its borrowed money from the REA which it supplements by borrowing through the National Rural Utility Cooperative Finance Corporation.

The REA requires generating and transmission cooperatives to maintain a Times Interest Earned Ratio (TIER) of 1.0X. The TIER formula consists of dividing gross income by gross interest. A 1.0X TIER indicates that a firm is generating enough revenue to cover its debt cost. A TIER over 1.0X indicates that a firm is earning more than its interest expense and a TIER under 1.0X means a firm is unable to meet its debt obligation and is in financial distress.

In this case, Sho-Me has calculated its current TIER to be 1.12X and Staff has calculated Sho-Me's current TIER to be 1.10X. Sho-Me requests that its TIER be increased to 1.50X arguing that in recent years REA funding has been reduced to such an extent that rural electric cooperatives and other organizations, such as Sho-Me, have been required to seek funding from alternative sources. Therefore, Sho-Me argues that in order to facilitate its movement toward obtaining alternative funding sources, its TIER ratio must be gradually increased.

Furthermore, Sho-Me requests that an additional \$4,400,000 in REA funding be included in the TIER calculation. Sho-Me contends that since June, 1990, it has had a loan application on file with the REA for \$4,400,000. Sho-Me asserts that the REA has granted the loan. However, Sho-Me has not received written confirmation that the loan has been funded, nor does Sho-Me have any knowledge when the funds will be disbursed. Sho-Me contends that it is appropriate to include the \$4,400,000 in calculating its TIER of 1.50X, as they will eventually receive the funds.

Staff argues that it is inappropriate to depend solely on a TIER coverage in determining revenue requirements. Staff contends that if revenue requirement is based solely upon interest covered ratios, it is impossible to conduct reviews to determine if specific utility expenses are prudent.

Therefore, Staff recommends using the current Federal Energy Regulatory Commission's (FERC) benchmark on common equity of 11.72% which it uses for electric companies. Staff argues one of FERC's primary duties is to regulate electric utility wholesale rates and transactions. The sale of electricity for resale accounts for approximately 25% of the total sales from United States investor-owned electric utilities and that these sales occur between public utilities or by a public utility to a municipality or cooperative. Staff argues FERC monitors public electric utilities to ensure that their rates are just and reasonable and not unduly discriminatory or preferential. Staff asserts that even though FERC rules apply mainly to utilities involved in interstate commerce, the business operations of Sho-Me closely parallel the companies subject to FERC regulations. Staff argues that Sho-Me's primary business is in the transmission of wholesale electric power, within the boundaries of the State of Missouri, and that Sho-Me's wholesale revenues account for 94% of Sho-Me's total operating revenues and that .43% of its revenues stem from the generation of power which Sho-Me sells. Based upon the similarity between FERC-regulated suppliers and Sho-Me, Staff argues that the 11.72% return on common equity developed by FERC is an appropriate benchmark to use in determining the cost of capital for Sho-Me.

Once established, the return on common equity is used in determining the weighted average cost of capital. The weighted average cost of capital is calculated by utilizing short-term debt, long-term debt, preferred stock and common equity. The result of Staff's calculation for the weighted cost of capital is 7.61%. Staff asserts that this figure is equal to an appropriate rate of return for Sho-Me. Staff further argues that the weighted average cost of capital is the normal method of calculating the overall rate of return and is synonymous with a fair rate of return. Staff asserts that once the appropriate

cost of equity is determined the weighted cost of capital is applied to rate base and this should provide enough revenues to service the components of the capital structure which constitute rates.

All parties agree that Sho-Me has total capital of \$88,169,744 of which \$67,173,153 is the regulated portion of capital or rate base. Staff asserts that when the 7.61% weighted cost of capital is multiplied by \$67,173,153, the regulated portion of capital, it produces a \$5,111,877 return. When this amount is divided by \$4,476,468, gross interest expense of Sho-Me's total debt (debt supporting both regulated and unregulated operations), it allows Sho-Me a 1.14X TIER. Staff asserts that a 1.14X TIER should allow Sho-Me to continue to meet all (both regulated and unregulated operations) of its debt obligations. Staff further argues it is not appropriate to reflect the additional \$4.4 million of REA funding in Sho-Me's capital structure. Staff does not dispute that the funding has been approved by the REA and the Commission nor that it will be used by the Company when it is available. Staff argues that as the exact date the funds will be available is unknown the additional debt is not a known and measurable change. Therefore, Staff asserts that, at this time, there is no basis for including the \$4.4 million in Sho-Me's capital structure.

The Commission normally employs the Discounted Cost Flow (DCF) method in developing a company's return on equity if a company is publicly-traded or has a parent company which is publicly-traded or is similar to other publicly-traded companies. In this case, the DCF method is not suitable as Sho-Me is not publicly-traded, does not have a parent company which is publicly-traded, nor is it similar to other publicly-traded companies. The Commission recognizes that Sho-Me is a hybrid, it is a corporation which functions as a cooperative and is intricately intertwined in the Rural Electric Cooperative Association.

Furthermore, Sho-Me's business operations closely resemble wholesale companies which are regulated by FERC, rather than the retail companies regulated by the Commission.

One of FERC's primary duties is to regulate interstate electric utility wholesale rates and transactions. FERC monitors public electric utilities to ensure that their rates are just and reasonable and not unduly discriminatory or preferential. Sho-Me's primary business is the transmission of wholesale power; 94% of its revenues stem from wholesale revenues and .43% of its revenues are from the generation of power it sells. The Commission determines that the FERC benchmark of 11.72% is a reasonable substitute for the DCF method in this case, based on Sho-Me's unique characteristics. The Commission recognizes that as of February 3, 1992, FERC discontinued using the benchmark method of establishing rates. *FERC Statutes and Regulations*, par. 30,935 (eff. Feb. 3, 1992). However, FERC concluded that its actions in this proceeding are not intended to preclude other institutions or individuals from continuing to calculate an average return in accordance with FERC prior decisions. *Id.* at 30,371. In view of Sho-Me's unique business operations the Commission finds that the use of FERC's benchmark continues to serve as an appropriate reference point in setting an allowed rate of return for Sho-Me. The Commission recognizes Sho-Me's concerns regarding the future availability of REA funding and the additional expense and risk in obtaining alternative funding sources. Therefore, the Commission determines that it is appropriate to add 50 basis points to the 11.72% return on equity, thus providing Sho-Me with a 12.22% return on equity. The Commission finds, therefore, that 12.22% is a reasonable return on common equity for Sho-Me and is appropriate to use in determining the weighted cost of capital. The Commission finds that using the 12.22% return on equity produces a weighted cost of capital

of 7.72%. When the 7.72% weighted cost of capital is multiplied by \$67,173,153, the regulation portion of rate base, it produces a return of \$5,185,767 and that when this amount is divided by \$4,476,468, gross interest expense of Sho-Me's total debt, it allows a TIER of 1.16X. The Commission finds that a 1.16X TIER is sufficient to meet the debt obligation of Sho-Me's regulated business operation. The TIER of 1.16X, additionally, is above the 1.00 x TIER required by the REA. Furthermore, the Commission determines that the REA funding should be excluded from the rate of return calculation as it is unknown when the funds will be disbursed and, therefore, is not known and measurable. (See Late-filed Exhibit 32).

The Commission has previously determined and reiterates that interest coverage ratios are not a suitable means of establishing a company's rate of return. In re: Missouri Cities Water Company, Case No. WR-91-172 and SR-91-174. To depend solely on interest coverage ratios could allow a company's management to determine rate of return by simply incurring debt. The Commission cannot, as proposed by Sho-Me, depend solely on interest coverage ratios to arrive at Sho-Me's revenue requirement.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions of law.

Sho-Me is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1986, as amended. In re: Sho-Me Power Corporation, 26 Mo. P.S.C. (N.S.) 576 (1984), In re: Sho-Me Power Corporation, 28 Mo. P.S.C. (N.S.) 100 (1986). Company's tariffs herein were suspended pursuant to authority vested in this Commission by Section 393.150,

RSMo 1986, which places upon Company the burden of proof to show that the proposed increase in rates is just and reasonable.

The Commission, after notice and hearing, may order a change in the rate, charge, or rental, and any regulation or practice affecting the rate, charge or rental, and it may determine and prescribe the lawful rate, charge or rental, and the lawful regulation or practice affecting such rate, charge or rental thereafter to be observed.

Based upon the Commission's findings in this case, the Commission concludes that Company should be allowed to file revised tariffs designed to increase its revenues exclusive of gross receipts and franchise taxes by \$408,858 or 42% on an annual basis. This increase in charges will affect approximately twenty-seven (27) wholesale customers. The result is based upon late-filed Exhibit 34. Since the rate increase approved herein does not exceed 7%, the provisions of Section 393.275, RSMo 1986 do not apply.

IT IS THEREFORE ORDERED:

1. That the proposed tariffs filed by Sho-Me Power Corporation in this case be hereby disapproved and that Sho-Me Power Corporation be hereby authorized to file in lieu thereof, for the approval of this Commission, tariffs designed to increase gross revenues exclusive of gross receipts and franchise taxes by the amount of \$408,858 on an annual basis over the currently effective rates.

2. That late-filed Exhibits 31, 32, 33 and 34 be received hereby into evidence. Late-filed Exhibit 31 is a letter from Examiner Sievert dated January 29, 1992 requesting additional information concerning the moratorium on retirement benefit plan premiums and the disbursement of REA loan funds. Late-filed Exhibit 32 is the response of the parties to late-filed Exhibit 31. That late-filed Exhibit 33 is a memorandum dated February 7, 1992 requesting an

updated reconciliation based on a hypothetical set of decisions of the issue in this case. Late-filed Exhibit 34 is the response of the parties to late-filed Exhibit 33.

3. That any objections not heretofore ruled upon be overruled hereby and any outstanding motions be denied hereby.

4. That the parties shall file with the Commission, in a separate docket, an agreement on the allocation of the ownership, use, cost, expense and revenues associated with Sho-Me Power Corporation's provision for electric services on or before August 13, 1992.

5. That this Report and Order shall become effective on February 24, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch and Perkins, CC., Concur. and certify compliance with the provisions of Section 536.080, RSMo 1986. Kincheloe, C., Not participating.

Dated at Jefferson City, Missouri, on this 13th day of February, 1992.