

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 25th
day of June, 1991.

In the matter of Union Electric Company's request for)
authority to waive certain tariffed charges to meet) Case No. EO-91-386
unregulated competition.)
)

ORDER GRANTING WAIVERS

On June 3, 1991, Commission Staff filed a motion requesting this docket be established to address two requests by Union Electric Company (UE) for waivers of certain line extension charges to meet unregulated competition. Staff indicated that it anticipated that UE would oppose its recommendation concerning the waivers and the docket would give UE an opportunity to formally respond to Staff's recommendation. On June 13, 1991, UE filed a response to Staff's recommendation.

UE has an unregulated competition tariff which allows it to request waiver of certain charges to meet unregulated competition. On January 25, 1991, pursuant to its tariff UE requested waiver of underground and meter base charges for a 15 lot subdivision in Stoddard County near Dexter, Missouri, and on April 16, 1991 UE requested the waiver of underground charges for a 55 lot subdivision in Kearney, Missouri. The rural electric cooperatives which provide service in these areas have offered to provide underground service and meter bases free.

UE contends that waiving charges at both locations will be a good investment. UE estimates that the waived costs for the Stoddard County location will be recovered within 15 months of completion of the development. The waived costs for this location are estimated to be \$14,748. For the Kearney location, UE estimates the waived charges will total \$8,250.00.

UE entered the data for both developments into its "Justify" computer program to determine the economic justification for extending service to the developments. The "Justify" program considers generation costs, line extension costs and underground costs in analyzing whether the extension is justified. The program determined that the Stoddard County was cost-justified. The program, though, did not support the entire investment for the Kearney development. The total investment for Kearney is estimated to be \$55,575 and the "Justify" program supports \$55,085.40.

Staff indicates it has reviewed UE's requested waiver and the determination of the "Justify" program. Based upon that review Staff recommends the Commission grant the waivers subject to certain conditions. Specifically, Staff recommends that (1) UE not be allowed rate base treatment of the waived costs and (2) any revenues resulting from such customer additions should be recognized in rates.

Staff's recommendation is based on several concerns. Staff believes the waiver of charges for certain customers to meet unregulated competition is discriminatory. Staff believes that only the developers and UE's stockholders are the beneficiaries of these waivers and the waivers may be detrimental to other customers who do not receive waivers. Staff contends further that other UE customers should not be at risk just because of the proximity of a cooperative to certain customers. Staff sees the requests for waivers as a potential bidding war with cooperatives which would result in destructive competition. In addition, Staff states that it reviewed the "Justify" program but Staff has not done an in-depth analysis of the assumptions in the program.

The Commission will approve the waiver of charges requested by UE with regard to the Stoddard County and Kearney developments. The Commission has granted waivers in many instances in the past and the waivers proposed in this case appear to be similar. The use of the "Justify" program to test the prudence of the investment is reasonable and is an improvement over information provided in

past waiver requests. The Commission believes it is reasonable to utilize the results of the "Justify" program as a factor in determining whether to grant a waiver until Staff has an opportunity to perform an in-depth analysis of the program to determine whether the program's assumptions are realistic.

The Commission does not believe the waiver by UE of tariffed charges to meet competition is discriminatory. These charges are waived pursuant to a tariff approved by the Commission and require good cause before the waiver is authorized. The presence of unregulated competition can be good cause. The Commission has found that good cause exists in some cases where the waived costs can be economically justified and unregulated competition exists. In similar cases the Commission has denied a waiver because of the lack of benefit to ratepayers. The Commission, though, is concerned about the accumulation of waivers of charges to meet unregulated competition on other ratepayers. If the revenue generated by the new customers does not in a reasonable period of time recover the costs or if expanding customer base through waived charges causes the need for additional generation capacity, these waivers may not be reasonable.

These issues, though, cannot be thoroughly reviewed outside of a general rate case proceeding. The Commission has considered the same issue in Cases No. ER-90-101, et al., involving Missouri Public Service and would expect to see the issue in the next rate case filed by UE. To reserve the issue for the next general rate case, the Commission will not order the disallowance of the costs associated with these two developments in rate base as recommended by Staff, but will order that the costs be separately identified.

The Commission will approve the waiver for the Kearney development even though the "Justify" program does not support all of the costs. The unsupported amount is only \$489.60 and is not significant in this instance. In addition, the Commission rejected a blanket waiver for Kearney in Case No. EO-90-31, indicating UE should seek waivers on a case-by-case basis under its tariff while attempting

to negotiate a territorial agreement. The Commission hopes UE is still attempting to reach a territorial agreement for Kearney so that the potential for a bidding war in that area is removed. Approval of this waiver may help with the negotiations.

IT IS THEREFORE ORDERED:

1. That Union Electric Company be hereby authorized to waive underground and meter base charges as requested January 25, 1991 for a development in Stoddard County, Missouri.
2. That Union Electric Company be hereby authorized to waive underground charges as requested April 16, 1991 for a development in Kearney, Missouri.
3. That Union Electric Company shall separately indicate on its books costs associated with the waivers approved in this order.
4. That this order shall become effective on the 5th day of July, 1991.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Mueller, Rauch, McClure and
Perkins, CC., concur.
Steinmeier, Chm., absent.