

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

CASE NO. EO-84-212

In the matter of the audit of forecasted
fuel expense of UNION ELECTRIC COMPANY.

APPEARANCES: Paul A. Agathen and Michael Barnes, Attorneys at Law,
P. O. Box 149, 1901 Gratiot Street, St. Louis, Missouri 63166,
for Union Electric Company.

Robert M. Lee, Associate General Counsel, 720 Olive Street,
St. Louis, Missouri 63101, for Laclede Gas Company.

Mark S. Packer, Attorney at Law, Peper, Martin, Jensen,
Maichel & Hetlage, 720 Olive Street, 24th Floor, St. Louis,
Missouri 63101, for Monsanto, et al.

Richard W. French, Assistant Public Counsel, P. O. Box 7800,
Jefferson City, Missouri 65102, for the Office of the Public
Counsel and the Public.

William C. Harrelson, Deputy General Counsel, P. O. Box 360,
Jefferson City, Missouri 65102, for the Staff of the Missouri
Public Service Commission.

REPORT AND ORDER

PROCEDURAL HISTORY

On July 6, 1983, the Commission issued its Report and Order in Case No. ER-83-163 authorizing the Union Electric Company to file tariffs in accordance with the Stipulation and Agreement executed by the parties in the case. Under the Stipulation and Agreement the tariffs were designed to increase the Company's gross annual electric revenues by \$30,500,000 exclusive of applicable local taxes, including gross receipts and franchise taxes. With respect to projected fuel costs, paragraph 7 of the Stipulation provides as follows:

7. That the recommended increase to Company's Missouri jurisdictional gross annual electric revenues includes the amount of \$16,632,000 representing an allowance for projected fuel costs beyond June 15, 1983, based on fuel prices estimated to be effective for January, 1984. The amount of this allowance in excess of the June 15, 1983 fuel

costs is subject to a true-up and refund based on fuel prices effective for January 1984, known and measurable as of March 31, 1984, as evidenced by paid Company invoices plus, to the extent reasonable, Company's Permanent Notice of Changes (Form 1305). The June 15, 1983 fuel costs are based on the prices and mine mix shown on Appendix B attached hereto. The Company is not to collect any underrecovery should the allowance be deficient based upon the true-up.

In Order 7 of the Commission's Report and Order the Staff was ordered to perform a true-up audit of the Company's projected fuel costs and directed it to present the audit to the Commission in a true-up hearing to be held April 23, 1984, in the Commission's hearing room in Jefferson City, Missouri.

By Order issued April 19, 1984, the Commission created Docket No. EO-84-212 for the audit of the forecasted fuel expense and incorporated the record of Case No. ER-83-163 into the new docket. Subsequently the hearing was continued to May 14, 1984.

The hearing was duly convened on May 14, 1984, the Commission took evidence with respect to the forecasted fuel issues and a briefing schedule was established at the close of the hearing. Initial and reply briefs have been submitted by the Company, the Staff, the Public Counsel and the Industrial Intervenors.

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:

As a result of the true-up audit all parties agree that fuel expense was overprojected. Issues exists as to the amount of the overprojection, the amount of the refund, the method of refund and the method of rate reduction.

I. Amount of Overprojection of Fuel Expense

The Company asserts that true-up fuel expense amounts to \$2,886,000, while Staff maintains that true-up fuel expense is \$2,399,000. The difference between the

Company and the Staff results from certain oil and freight increases which Staff has excluded.

With respect to freight increases, the Missouri Pacific Railroad was authorized to increase its tariffs by 4.1 percent. The Railroad's tariff became effective February 7, 1984. In the case of oil prices, the Company received a notice of change in January, but no oil purchased during the month of January was subject to the change.

Staff contends that exclusion of the freight and oil price increases noted above is proper, since the increases did not affect the price of fuel which was actually purchased during the month of January, 1984. Company, on the other hand, argues that freight should be included since the inclusion of freight is more representative of a 12-month average price. Company contends that oil prices should be included since the notice of change was received in January.

The Commission concludes that freight and oil should be excluded, as recommended by the Staff, since the Stipulation and Agreement contemplates a January 1984, cut-off for fuel prices. Thus, the Commission believes that it is not within the terms of the Stipulation to allow increased February freight charges or to allow oil changes which did not affect the January delivered price.

Based on the foregoing, the Commission finds that trued-up fuel expense amounts to \$2,399,000 which results in an overprojection of fuel expense of \$14,233,000.

II. Amount and Method of Refund

The Company proposed to refund to customers an amount which would equal the overprojection. Since the Commission has found for the Staff on freight and oil increases, the amount to be refunded under the Company's proposal would be \$14,233,000. The refund amount would be divided by all kilowatt-hours billed, to arrive at a cents per kilowatt-hour factor to be applied to kilowatt-hour usage since July 10, 1983. In addition, the Company proposes to refund to its former subsidiary

customers an amount derived from a cents per kilowatt-hour factor based on test year sales and the amount to overprojection. The cents per kilowatt-hour factor would be applied to actual sales billed.

For all customers, Staff proposes to calculate a cents per kilowatt-hour factor based on the test year sales and the amount of overprojection, which factor would be applied to actual sales. Thus, Staff's refund is based on actual sales while Company's refund is based on annualized sales with the exception of the former subsidiary customers. The estimated refund under Staff's proposal is \$17,536,000.

Public Counsel proposes to allocate the refund between the classes on a percentage basis in an attempt to mirror the manner rates were increased in the rate case which was on an equal percentage basis. Public Counsel then calculates a cents per kilowatt-hour factor for each class to be applied to actual sales.

The industrial intervenors oppose the Public Counsel's equal percentage position and propose that the refund be made on a cents per kilowatt-hour basis. The Industrial Intervenors took no position with respect to annualized versus actual sales.

The Commission determines that the refund should be made based on annualized sales as proposed by the Company rather than actual sales as proposed by Staff. The record reflects that annualized sales was the method approved in the Company's last permanent rate case, Case No. ER-82-52. The Stipulation and Agreement executed by the parties and approved by the Commission in the instant case, specifies an allowance of \$16,632,000 which represents projected fuel increases from June 15, 1983 to January, 1984. The Stipulation and Agreement further specifies that:

The amount of this allowance in excess of the June 15, 1983, fuel costs is subject to a true-up and refund based on fuel prices effective for January, 1984,.... (emphasis supplied)

In the Commission's opinion, the Stipulation contemplates that the allowance of \$16,632,000 is the amount which is subject to refund. Thus, although

Staff's method is reasonable as it attempts to refund the amount actually overcollected, Staff's method was not specified in the Stipulation and Agreement.

Based on the foregoing, the Commission determines that \$14,233,000 should be refunded to the Union Electric Company's customers with additional refunds being made to the former subsidiary customers in the manner proposed by the Company.

Finally, having considered the arguments with respect to allocating the refund among the classes, the Commission determines that the refund should be made among and within the classes on a cents per kilowatt-hour basis as proposed by Company, Staff, and the Industrial Intervenors. The cents per kilowatt-hour basis is a reasonable and practical method of allocating the refund, since fuel cost is a variable cost and is related to kilowatt-hour consumption.

III. Small General Service Class

The Staff proposes that the refund should be made to all classes, including Small General Service Class. All other parties would exclude the Small General Service Class from any refund.

The Commission determines that the small General Service Class should be excluded from the refund. Since the Small General Service Class received no increase in the permanent rate case, the Small General Service customers did not pay an amount related to the overprojection of fuel expense which was allowed in the case.

IV. Interest Rate

Company and Staff agree that the interest rate to be applied to the refund shall be the composite prime rate based on St. Louis banks as illustrated in Late-filed Exhibit 12. The Commission determines that the interest rate as agreed upon by the Staff and the Company is reasonable and should be used for the purposes of the refund.

V. Inactive Customers

The Company proposes to make refunds only to active customers in order to save costs. Alternatively, if a refund to inactive customers is required, the

Company proposes to mail checks to the last known address of inactive customers. If a newspaper notice is required, the Company proposes that the notice be published after the checks have been sent to the last known address. In addition, the Company proposes that refunds to inactive customers below \$1.50 not be required since \$1.50 is the approximate cost of programming, processing, printing and postage connected with the refund.

The Commission determines that refunds to inactive customers should be required and that newspaper notices should be required under the conditions set forth above. In addition, refunds below \$1.50 shall not be required.

Finally, the Commission determines that any unrefunded amounts (including refunds below \$1.50) remaining after six months from the date of the newspaper notices shall be placed in the "Dollar More" Program.

VI. Rate Reduction

The Staff proposes to reduce all rate classes on a cents per kilowatt-hour basis. Company and the Industrial Intervenors propose to reduce rates to all classes except the Small General Service Class on a cents per kilowatt-hour basis.

The Public Counsel proposes to reduce rates for all classes, excluding the Small General Service Class, on an equal percentage basis in the same manner that it proposes to refund to the classes.

The Commission determines that the rate reduction shall be on a cents per kilowatt-hour basis between and among the classes excluding the Small General Service Class. The cents per kilowatt-hour reduction to rate values shall be calculated by dividing \$14,233,000 by test year sales. In the Commission's opinion the cents per kilowatt-hour reduction recognizes that fuel cost is variable.

VII. Summary

The Commission determines that the Company shall refund \$14,233,000 to its pre-merger customers, among and between classes on a cents per kilowatt-hour basis. Refunds shall be made to former subsidiary customers by applying a cents per kilowatt

hour factor to actual sales as proposed by the Company. No refund shall be made to Small General Service Class customers. The interest rate on the refund shall be calculated using the composite prime rate based on the St. Louis banks. The Company shall begin making billing credits thirty (30) days after the effective date of this Report and Order and interest shall be accrued up to the date that the refund is calculated.

The Company shall refund to inactive customers by mailing checks to the last known address of such customers. The Company shall also publish newspaper notices in newspapers of general circulation throughout the Company's service area. The notice shall be printed 21 days after the date checks are mailed and shall inform the customers of the availability of the refund. Refunds below \$1.50 are not required. Any unrefunded amounts after six months from the date of the publication of the newspaper notice shall be placed in the Company's "Dollar More" Program.

Conclusions

The Missouri Public Service Commission has arrived at the following conclusions:

The Commission's order must be based on competent and substantial evidence.

Pursuant to the Stipulation and Agreement approved by the Commission on July 6, 1983, in Case No. ER-83-163, the projected fuel increases contained in the Company's existing rates have been found to be excessive.

The Company shall refund to its customers the amount found to be excessive and subject to refund in accordance with the findings and conclusions of this Report and Order.

The Company shall file for Commission approval revised tariffs reducing rates in accordance with the findings and conclusions of this Report and Order.

Late-filed Exhibits 12, 13, 14 and 15 are hereby received.

It is, therefore,

ORDERED: 1. That the Union Electric Company shall file for Commission approval revised tariffs effecting a rate reduction in accordance with the findings and conclusions of this Report and Order.

ORDERED: 2. That the Company shall refund with interest \$14,233,000 to its pre-merger customers, excluding the Small General Service Class, in accordance with the findings and conclusions of this Report and Order. The Company shall refund to its former subsidiary customers, excluding the Small General Service Class, an amount to be calculated in accordance with the findings and conclusions of this Report and Order.

ORDERED: 3. That the interest to be applied to the refunds ordered herein shall be based on the composite prime rate based on St. Louis banks as set forth in this Report and Order.

ORDERED: 4. That the Company shall make refunds to inactive customers in the manner specified in this Report and Order and unrefunded amounts (including refunds below \$1.50) shall be placed in the Company's "Dollar More" Program as specified in this Report and Order.

ORDERED: 5. That the Company shall submit its proposed newspaper notice for Commission approval at the same time that the refund checks are mailed.

ORDERED: 6. That the tariffs ordered to be filed herein shall be effective for service rendered on and after July 10, 1984.

ORDERED: 7. That this Report and Order shall become effective on
July 10, 1984.

BY THE COMMISSION

Harvey G. Hubbs

Harvey G. Hubbs
Secretary

(S E A L)

Steirmeier, Chm., Musgrave, Mueller,
and Hendren, CC., Concur and certify
compliance with the provisions of
Section 536.080, RSMo 1978.
Fischer, C., Not Participating.

Dated at Jefferson City, Missouri,
this 29th day of June, 1984.