MEMORANDUM

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PUBLIC SERVICE COMMISSION

TO: Official Case File
Case No. GO-90-115

FROM: Mark Oligschlaeger, Accounting Department MLO

RE: Staff's Recommendation in Case No. GO-90-115
Utilicorp United, Inc. (Missouri Public Service)

DATE: January 11, 1990

REVIEWED BY: 1/12/90 Director of Utilities/Date   1/12/90 1/12/90 Deputy General Counsel/Date

On December 6, 1989, Missouri Public Service (MPS) a division of Utilicorp United, Inc. (Utilicorp) filed an application with the Commission to obtain an Accounting Order authorizing MPS to defer on its books for future recovery in rates certain expenditures made in 1989 in connection with a "major gas safety program". Said gas safety program was stated by MPS to include "gas leak surveys of service lines as well as a gas line replacement program", and was further stated to cause MPS to "incur a significantly higher level of operations and maintenance expense as well as a substantial increase in capital expenditures." The above-described expenditures were described by MPS as being extraordinary and material, and deferral of these costs to Account 186 was alleged to be necessary to allow MPS to recover these costs in rates in its next general gas rate case. Specifically, in this application MPS is asking to be allowed to defer certain operations and maintenance (O&M) expenses associated with its gas safety program, including the cost of leak surveys. MPS is also seeking to defer depreciation expense, property taxes and carrying costs related to gas safety program capital additions to Account 186, Miscellaneous Deferred Debits. These items would normally be expensed on the books of MPS at the in-service date of the additions.

MPS does not have a current general gas rate case filed with the Commission, but has indicated to the Staff that one will be filed in the Spring of 1990.

KPL Gas Service (KPL) has previously requested from the Commission in Case No. GO-90-51 deferral of O&M expenses, depreciation, property taxes and carrying charges associated with a gas safety program. KPL's request for an Accounting Order was granted in October, 1989.

The Staff's investigation of this request for an accounting order revealed significant differences between KPL's previous request and that of MPS. KPL's request concerned a major program to conduct leak surveys and replace bare steel customer-owned service lines. The Commission's emergency gas safety rules, issued in the spring of 1989, required KPL and other gas utilities in the state of Missouri to commence a comprehensive leak survey of

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bare steel customer service lines, and replace leaking service lines in strict compliance with each utility's internal regulations. In contrast, MPS has indicated to the Staff that of $3.5 million it asserts to have spent on capital projects in 1989 related to its safety program, only approximately $1 million related to service line replacement. The other $2.5 million related to a program of replacement of bare steel and cast iron distribution mains. A main replacement program has been in effect at MPS for the last couple of years, and expenditures on the program were accelerated in 1989 due to safety concerns, according to MPS. The Commission's emergency gas safety rules did not address main replacement. The Commission's permanent gas safety rules issued in December, 1989, did call for replacement of bare steel and cast iron mains, but set no specific time frame for this replacement and required each gas utility to suggest a reasonable timeframe for a replacement program. (MPS' current replacement program for mains is due to be completed in 1994, according to Staff Data Information Request responses.)

In light of the above, the Staff opposes allowing MPS to defer costs on its books relating to that portion of the gas safety program not clearly related to the Commission's emergency gas safety rules concerning bare steel customer service lines. A decision to accelerate expenditures in 1989 on a pre-existing program of replacement of bare steel and cast iron mains does not constitute extraordinary expenditures necessitating deferral of such costs on MPS' books. MPS' main replacement program should be considered as normal construction, which should not be accounted for differently than MPS' main replacements have in the past. In the Staff's opinion, only the portion of MPS' gas safety program relating to customer service lines should be considered extraordinary in nature (if material) due to the emergency safety rules issued by the Commission.

However, even MPS' expenditures for replacement of customer service lines should not be deferred on MPS' books, as they are immaterial. Of the $720,000 MPS has indicated it will seek deferral of related 1989 expenditures, $420,000 relates to O&M expenses related to service line replacement (including $80,000 for leak surveys). If MPS files a rate increase request for its gas operations in the Spring of 1990 as planned, a test year including most or all of these O&M expenses is likely to be proposed and agreed to by MPS and the Staff. The recovery of a majority of these costs by MPS, therefore, is not contingent upon granting an accounting order in this docket by the Commission. The other $300,000 MPS is requesting to defer relates to depreciation, property taxes and carrying charges on capital expenditures for the gas safety program. As stated above, a majority of these costs (approximately 75%) relate to the distribution main replacement program, and should not be deferred by MPS. The remaining 25% of the capital costs associated with customer service line replacement, approximately $85,000, is clearly immaterial when compared to the $29,800,000 of gas operating expenses incurred by MPS in the twelve months ended October 31, 1989. The minimal amount of dollars at question here does not justify a deviation from the normal regulatory accounting practice of immediate expensing of depreciation and property taxes, as well as the cessation of AFUDC accruals, at the in-service date of the service line replacement projects.

For the above reasons, Staff recommends that MPS' application for an Accounting Order in this docket be denied by the Commission. However, if the Commission should grant MPS' application for an accounting order, the Staff would request that language be placed in the Order specifying that the accounting treatment granted not be binding for any ratemaking treatment to be considered in future rate proceedings.

MLO/msb

cc: Gordon Persinger
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