

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

JUNE 13, 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 dark ink, appearing to read "Cecil I. Wright", with a stylized flourish at the end.

**Cecil I. 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 13th
day of June, 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

**ORDER GRANTING IN PART AND DENYING IN PART THE
APPLICATION FOR REHEARING**

Missouri Gas Energy (MGE or Company) filed an application for issuance of an accounting authority order (AAO) on February 4, 1997, for the deferral of costs related to gas safety projects undertaken pursuant to 4 CSR 240-40. On May 2 the Commission granted MGE an AAO subject to the conditions recommended by the Staff of the Commission (Staff). The AAO stated in ordered paragraph 1 that MGE could defer actual carrying costs incurred for gas safety plant placed in service after October 31, 1996, and the order did not specify a carrying cost rate.

MGE filed an application for rehearing on May 9. MGE seeks clarification as to the carrying cost rate applicable to deferrals associated with gas safety plant placed in service after October 31, 1996, and before February 1, 1997. MGE requests that the Commission specify a carrying cost rate of 9.46% which is the weighted Average Cost of Capital set in MGE's last rate proceeding, Case No. GR-96-285, notwithstanding the fact that the Commission found there that the AFUDC rate (Allowance for Funds Used During Construction) was appropriate for use as the carrying cost rate for ratemaking purposes.

MGE further contends in its application for rehearing that the Commission must specify the carrying cost rate for gas safety plant after it is placed in service and that the carrying cost rate should be 9.46%. MGE states that the AAO must specify a carrying cost rate in order that MGE and the financial community can identify with assurance the impact of the gas safety program on returns and earnings. MGE refers to FASB¹ 71 for the following standards established for independent auditors to recognize deferral of costs: (1) it must be probable that the capitalized costs will be allowable for ratemaking purposes and that future revenues will equal the capitalized cost; and (2) based on available evidence, it must be probable that rates set in the future will provide revenue sufficient to recover the previously incurred costs instead of being set to provide for recovery of expected levels of similar future costs. MGE further requests that the Commission revise ordered paragraph 2 of the AAO to remove the statement that the Commission reserves the right to consider the ratemaking treatment to be afforded the resulting cost of capital incurred in the gas safety program.

On May 19 Staff filed its response and requested that the Commission deny MGE's application for rehearing. Staff states that by not specifying a carrying charge in its order, the Commission in effect is allowing MGE to use the carrying charge rate the Company believes to be most appropriate for deferral purposes subject to the condition that MGE will have to justify the rate in its next rate proceeding. According to Staff, if the risk of disallowance is unacceptable to MGE, then the Company is free to use a carrying cost rate consistent with the Commission's decision in the Company's most recent general rate case, Case No. GR-96-

¹Financial Accounting Standards Board.

285. Staff requests in the alternative that if the Commission should grant MGE's application, then the Commission should specify the use of the AFUDC rate as the carrying cost rate consistent with its order in Case No. GR-96-285.

In response to MGE's request for clarification of continued deferral of gas safety amounts booked from November 1996 to January 1997, Staff believes MGE should select the appropriate carrying cost rate, as with new deferrals authorized in this case, but that clearly a 10.54% rate is not mandated in light of the Commission's order in Case No. GR-96-285. Staff states it is reasonable to assume that use of a carrying cost rate consistent with the Commission's decision in Case No. GR-96-285 would reflect the intent of the Commission as to the appropriate carrying cost rate for the November 1996 through January 1997 deferrals.

Staff notes that utilities do not always request the Commission to specify a carrying cost rate in their gas safety AAO applications, and in those cases the Commission does not specify such a rate. Therefore, according to Staff, FASB 71 will not prevent independent auditors from recognizing the deferrals.

The Commission has reviewed the application for rehearing filed by MGE and the response filed by Staff. The Commission is somewhat mystified by the great attention given to the rate specified for MGE to book these deferrals. As shown in the Commission's decision in Case No. GR-96-285, a rate specified in an accounting authority order is not binding for ratemaking purposes. A carrying cost rate specified in an accounting authority order by itself has no weight for purposes of a rate proceeding. The Commission finds that it need not identify a specific carrying cost rate for the purpose of granting an accounting authority order for the

afforded all deferred costs and/or expenditures, including the resulting cost of capital incurred in financing the Company's gas safety program.

IT IS THEREFORE ORDERED:

1. That Missouri Gas Energy's application for rehearing filed on May 9, 1997, is granted in part and denied in part as stated herein.

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

3. 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.

4. That this order shall become effective on June 24, 1997.

BY THE COMMISSION

A handwritten signature in dark ink, appearing to read "Cecil I. Wright", with a long horizontal flourish extending to the right.

Cecil I. Wright
Executive Secretary

(S E A L)

Crumpton, Murray and Drainer, CC., concur.
Zobrist, Chm., and Lampe, C., absent.

ALJ: George

ALJ/Sec'y: George Boyce

6-10 60-97-301
Date Circulated CASE NO.

K. B. Abbott

Chairman

[Signature]

Commissioner

Abbott

Commissioner

[Signature]

Commissioner

[Signature]

Commissioner

6-13
Agenda Date

Action taken: 3-0 A.A.

**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 13 day of June, 1997.

Cecil I. Wright
Cecil I. Wright
Executive Secretary