BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the application of Union Electric Company for an order authorizing the sale, transfer and assignment of certain assets, real estate, leased property, easements and contractual agreements to Iowa Electric Light & Power Company and, in connection therewith, certain other related transactions.	)	CASE NO. EM-92-225
In the matter of the application of Union Electric Company for an order authorizing the sale, transfer and assignment of certain assets, real estate, leased property, easements and contractual agreements to Central Illinois Public Service Company and in connection therewith, certain other related transactions.	)	CASE NO. EM-92-253

APPEARANCES: Paul A. Agathen, General Attorney, and Steven R. Sullivan, Attorney at Law, P. O. Box 149, St. Louis, Missouri 63166, for Union Electric Company.

Randy Bakewell, Assistant Public Counsel, P. O. Box 7800, Jefferson City, Missouri 65102, for the Office of the Public Counsel and the Public.

Michaelene A. Knudsen, Assistant General Counsel, and Steven Dottheim, Deputy General Counsel, P. O. Box 360, Jefferson City, Missouri 65102, for the Staff of the Missouri Public Service Commission.

Hearing Examiner: Mark A. Grothoff

REPORT AND ORDER

On March 12, 1992, Union Electric Company (UE) filed an application seeking authority to sell, transfer and assign certain of its Iowa properties to Iowa Electric Light & Power Company (Iowa Electric). That application was docketed as Case No. EM-92-225. On March 31, 1992, UE filed an application seeking authority to sell, transfer and assign certain of its Illinois properties to Central Illinois Public Service Company (Central Illinois). That application was docketed as Case No. EM-93-253. On April 29, 1992, the Commission consolidated the two cases into one proceeding.

On May 27, 1992, the Commission granted intervention to Anheuser-Busch, Inc.; Chrysler Corporation; Continental Cement Company; The Doe Run Company; Emerson Electric Company; Ford Motor Company; General Motors Corporation; Holnam, Inc.; MEMC Electronic Materials Co.; Mallinckrodt, Inc.; McDonnell Douglas Corporation; Monsanto Company; Nooter Corporation; and Pea Ridge Iron Ore Company (collectively referenced as Intervenors). On June 24, 1992, the Staff of the Commission (Staff), UE, the Office of the Public Counsel (Public Counsel) and the Intervenors participated in a prehearing conference.

UE, Staff and Public Counsel participated in a hearing which convened on September 28, 1992 and continued through September 30, 1992. Briefs were subsequently filed by UE, Staff and Public Counsel.

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:

UE presently provides retail electric service in Missouri, Illinois and Iowa. It also sells electric service at wholesale to 18 municipalities in Missouri and to one in Iowa. UE's Illinois service territory consists of two separate geographic areas: the metropolitan St. Louis area including East St. Louis and Alton, and an area across the Mississippi River from UE's Iowa service territory (the northern Illinois service area).

UE has agreed to sell its retail electric system in Iowa to Iowa Electric and its northern Illinois distribution facilities to Central Illinois. Those companies would thereafter provide electric service to the customers presently served in those areas by UE.

Service to its Iowa territory constitutes approximately 2.5 percent of UE's electric business. UE states that it is selling the Iowa property in order to eliminate the high regulatory and administrative costs associated with serving such a small portion of the business in a separate state.

UE states that the sale of its northern Illinois service area is coincidental to the sale of its Iowa service area. The northern Illinois area is serviced by UE personnel and facilities in its Iowa District, and after the Iowa sale, UE would have no practical means of serving the northern Illinois area. Each sale is contingent on the closing of the other.

In order to phase-out its Iowa and northern Illinois business, UE has entered into contracts with Iowa Electric and Central Illinois to provide 60 Hz wholesale power for a portion of the retail loads to be taken over by Iowa Electric and Central Illinois. Also, UE will sell 25 Hz power to Iowa Electric at wholesale for a six-year period. Iowa Electric will provide this power at retail to the five 25 Hz customers it inherits from UE.

Staff and UE have reached agreement on one issue. UE will transfer the amount in the Iowa subaccount of its external Callaway decommissioning trust fund to its three other subaccounts (Missouri, Illinois and FERC). The details of this agreement are set out in the Hearing Memorandum which is Exhibit 23 in this case.

The underlying issue in this case is whether the sale of UE's facilities to Iowa Electric and Central Illinois should be approved. In addition, the following issues have been presented for Commission determination:

1) the financial tracking system proposed by Staff;

2) the load flow reports proposed by Staff; and

3) ratemaking issues.

Each issue shall be discussed in turn.

The Proposed Sales

Iowa Electric will pay UE approximately $59 million for its Iowa facilities. Central Illinois will pay $8.5 million for the northern Illinois properties. According to UE, this will produce a total gain (sales price in excess of net book value) of approximately $34 million, or $14.8 million after taxes.

UE states that in addition to no longer being regulated by Iowa and thereby be able to more fully focus on its Missouri and Illinois services, the sales will produce distinct benefits for UE's remaining customers. UE indicates that the principal benefit is that the sales will allow it to eliminate or defer the need to add new high-cost generating capacity.

The transfer of customers to Iowa Electric and Central Illinois will eliminate approximately 150 MW of existing load from UE's system which will delay when UE would otherwise need to add new generating capacity. According to UE, including reserves for the 150 MW of peak load in Iowa, UE's future capacity needs would actually be reduced by approximately 180 MW.

Another benefit indicated by UE is that eliminating service to Iowa would reduce the total energy requirements of UE's native load customers. According to UE, as the load on a system increases, it is served by generating units with escalating variable costs. UE states that by eliminating the Iowa loads, it will reduce the reliance on its more costly generating units, thereby decreasing the overall average cost of energy production for its remaining customers. Also, UE states that by reducing the energy requirements on its system, it will also reduce sulfur dioxide emissions which will lower its cost of complying with the 1990 Clean Air Act.

The investment in UE's power plants is currently allocated among its four jurisdictions (Missouri, Illinois, Iowa and FERC wholesale business) on the basis of the proportionate share of each jurisdiction's contribution to the average peak demand. UE acknowledges that the elimination of the Iowa load would slightly increase the jurisdictional demand factor which would slightly increase the total cost of the power pool facilities allocated to Missouri. UE argues, however, that this potential negative impact on the Missouri allocation factor is offset by the potential benefits: deferral of new capacity, lower fuel costs and lower costs of compliance with the Clean Air Act.

UE also acknowledges that the allocation of the costs and benefits between shareholders and customers will be affected by the timing of its next rate case. The earliest a rate case could take effect is 1995 (pursuant to the Stipulation in Case No. ER-93-52). UE states that with a rate case in 1995, the net benefits to the customer would not become positive until 2006. UE argues, however, that in all other cases the cumulative benefits become positive at an earlier date and are always positive if the next rate change does not take effect until 1998 or later.

According to UE, the total net benefits for customers (i.e., the total of the three types of savings less the net cost of absorbing the reallocated 150 MW of capacity) will be approximately $1.4 billion. UE also states that the net present value of customer savings ranges from $148,597,000 (assuming a 1995 rate case) to $178,924,000 (assuming a rate case in 2000).

Staff is recommending that the Commission approve UE's proposed sale on the condition that UE be required to implement a mechanism to track the costs and savings associated with the transactions. Staff believes that without such tracking mechanism the sale is detrimental to the public interest. Staff expects costs to exceed savings for the five-year period after the rate case moratorium (1995-1999) and believes that in UE's first rate case after the moratorium rates will increase.

The Commission finds that UE's proposed sale would result in UE eliminating or deferring the need to add new capacity, a decrease in the overall average cost of energy for UE's remaining customers, and a reduction in the cost of complying with the 1990 Clean Air Act. The Commission also finds that UE's proposal will bring about significant cumulative savings to the customer. The Commission is of the opinion that UE's proposed sale is in the overall interest of the public despite an initial short-term detriment. The Commission further finds that UE's proposed sale is not detrimental to the public interest, regardless of whether Staff's proposed tracking mechanism should be imposed during the period of short-term cost. Thus, the Commission determines that UE's proposed sale of electric facilities to Iowa Electric and Central Illinois should be approved.

The Proposed Tracking Mechanism

Staff has proposed that UE implement a financial tracking system to track the costs and savings associated with the UE sale. Staff states that the tracking mechanism is an attempt to safeguard and protect the ratepayer during the period of 1995 through 1999 when Staff expects costs to exceed savings.

Staff's proposed tracking mechanism would be implemented by compiling two separate cost of service studies: a standard cost of service study calculating the actual Missouri jurisdictional revenue requirement, and a hypothetical study which would be calculated and compiled as if the Iowa and northern Illinois service areas were still owned and operated by UE. According to Staff, a comparison of the two revenue requirements would demonstrate the dollar impact of the sale on UE's Missouri revenue requirement.

UE states that the tracking system should be rejected because it will be used to judge the sale based on hindsight. UE argues that the sale should be judged on the data available when the decisions are being made and not on the hindsight-oriented tracking system proposed by Staff. UE also stated that the tracking system is not needed because the sale produces substantial net benefits for customers. UE further argues that Staff's proposal is unworkable. UE points out that none of the data in the hypothetical cost of service study will be known and measurable. Rather, the data in the hypothetical study will be based on estimates on what would have been had the sale not been completed. UE states that such projected data would be meaningless for the purpose of adjusting rates.

Staff's proposal seems to be inconsistent with its position on projected data in previous cases. Staff generally argues that test year data must be known and measurable on the ground that projected data is too unreliable to be used in setting rates. Also, in the examples discussed by Staff and UE of tracking systems previously ordered by the Commission, the data was readily available to the company implementing the tracking system.

In this case, the data will not be readily available to UE. There will be no practical way for UE to know what is occurring in the Iowa and northern Illinois service areas. The hypothetical nature of the tracking system proposed by Staff makes the data used and produced by the tracking mechanism so unreliable as to be useless.

The Commission finds that data used and produced by the tracking mechanism proposed by Staff would be unreliable. Thus, the Commission determines that the tracking mechanism proposed by Staff should not be implemented.

<u>The Proposed Load Flow Reports</u>

Staff is requesting that UE be ordered to submit four tracking reports which would contain detailed information related to UE's system operations. Staff describes these reports as follows:

1. <u>UE Owned Generation</u>

> The first tracking report is a monthly report which will contain the verified gross, auxiliary and net generation delivered to the grid each hour of the day of system peak each month. If a unit is not generating for the grid, the verified auxiliary power used by or at each unit will be reported each hour for the day of system peak. This report will list the actual accredited generating capability of each unit. This report should include UE owned Joppa generation.

2. <u>34 Kv and Above UE Ties with Other Utilities, Cooperatives, Municipalities, DOE, TVA and SWPA</u>

The second tracking report is a monthly report which will list every 34.5, 69, 110, 115, 138, 161 and 345 Kv tie with any FERC regulated utility, cooperative and Federal agency at each utility's, cooperative's and agency's actual geographic tie point with UE owned facilities. This report should list the megawatt power flow, at each physical tie point, both in and out each hour of the day of system peak each month.

3. <u>Interstate Ties within the UE Load Control Area</u>

The third tracking report is a monthly report which will list every UE owned 34.5, 69, 115, 138, 161 and 345 Kv line crossing the Mississippi River between Illinois and Missouri. This report should identify the power flow into Missouri and out to Illinois every hour of the day of system peak each month for each line and where this power flow is metered.

4. <u>Wholesale Power Agreements</u>

The fourth tracking report is a yearly report which will identify every UE Wholesale Power Contract/ Agreement and list UE's capacity commitments under every contract and identify if this capacity commitment is backed by reserves. For those wholesale customers billed on a metered basis, this report should identify their hourly peak on UE's system peak each month. For those wholesale customers that schedule generation through FERC approved POWER SERVICE SCHEDULES, (i.e., Participation or Unit Participation, Firm-backed by reserves, Short term Firm and System Participation), the UE general unit(s) out of which power is sold must be identified for every hour for each transaction and the energy price paid for each hour of each transaction.

Staff states that the tracking reports are essential for accurately tracking and verifying the allocation shifts which will occur as a result of UE's sale. Staff also states that the reports would replace UE's currently inadequate reporting. Staff further states that the tracking reports will allow for review of UE's system operations on a routine basis.

UE states that its current reporting is complete and accurate. UE also states that it already provides the data requested by Staff, albeit not in the format requested by Staff, and that some of its reports are more pertinent than those requested by Staff. UE further states that to generate the reports in the format requested by Staff would require a significant amount of manpower at a time when UE is focused on reducing manpower to control its costs to its retail customers.

The Commission finds that the load flow tracking reports requested by Staff would not be unduly burdensome to UE. Since UE already compiles the information requested by Staff, it should not be difficult or complicated to place the data in the format requested by Staff. The Commission also finds that the data in the load flow tracking reports would be known and measurable and should be useful to Staff in reviewing UE's system operations. Thus, the Commission determines that UE should submit to the Commission the load flow tracking reports as requested by Staff.

Ratemaking Issues

UE has requested that the Commission make a determination regarding ratemaking treatment of the following items: the 150 MW of 60 Hz capacity previously used to serve the Iowa area; the 60 Hz wholesale contracts with Iowa Electric and Central Illinois; and the 25 Hz wholesale contract with Iowa Electric. In addition, Public Counsel has requested a determination on the ratemaking treatment on the gain from the sale of the property.

Staff argues that no ratemaking determination should be made. Staff states that because UE made its request for ratemaking treatment late in the proceedings, Staff did not have time to conduct a full cost of service study which is essential for determining the treatment to be afforded a particular item.

The Commission finds that the parties did not have sufficient time to fully investigate the ratemaking issues in this case. The Commission also finds that this case is not the proper venue in which to make a ratemaking determination. Thus, the Commission determines that the requested ratemaking determinations should not be made in this case, but deferred to a later proceeding.

Conclusions of Law

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

The Commission has jurisdiction over this matter pursuant to Section 386 and 393, RSMo 1986, as amended. The standard for Commission approval of a sale of any part of an electric system is whether the sale is detrimental to the public interest. ***State ex rel. City of St. Louis v. Public Service Commission***, 73 S.W.2d 393 (Mo. banc 1934); ***State ex rel. Fee Fee Trunk Sewer, Inc. vs. Litz***, 596 S.W.2d 466 (Mo. App. 1980); 4 CSR 240-2.060(3)(D).

The Commission may authorize UE's proposed sale if it finds that the sale is not detrimental to the public interest. The Commission has so found and thus concludes that the sale proposed by UE should be authorized. The Commission is also of the opinion that the load flow tracking reports proposed by Staff will be beneficial for purposes of protecting the public interest in the future.

IT IS THEREFORE ORDERED:

1. That Union Electric Company is hereby authorized to sell, transfer and assign its retail electric system in Iowa to Iowa Electric Light & Power Company as contemplated by the application and this Report and Order.

2. That Union Electric Company is hereby authorized to sell, transfer and assign its distribution facilities in northern Illinois to Central Illinois Public Service Company as contemplated by the application and this Report and Order.

3. That Union Electric Company may execute such instruments and may undertake such other acts as are necessary to consummate the sales authorized in Ordered Paragraphs 1 and 2.

4. That Union Electric Company shall transfer the amount in the Iowa subaccount of its external Callaway decommissioning trust fund to its three other subaccounts in the manner described in the Hearing Memorandum, Exhibit 23.

5. That Union Electric Company shall compile and submit to the Commission the load flow tracking reports described in this Report and Order.

6. That nothing in this Report and Order shall be considered as a finding by the Commission of the reasonableness of the expenditures herein involved, or of the value for ratemaking purposes of the properties herein involved, nor as an acquiescence in the value placed upon said properties by Union Electric Company.

7. That the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions in any later proceeding.

8. That this Report and Order shall become effective on December 31, 1992.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

McClure, Chm., Mueller, Rauch,
Perkins and Kincheloe, CC., Concur
and certify compliance with the
provisions of Section 536.080,
RSMo 1986.

Dated at Jefferson City, Missouri,
on this 22nd day of December, 1992.