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March 30, 1987

Mr. Harvey G. Hubbs
Secretary
Missouri Public Service Commission
P. O. Box 360
Jefferson City, Missouri 65102

Re: Case No. AO-87-48

Dear Mr. Hubbs:

Enclosed for filing in the above-referenced matter please find an original and fourteen (14) copies of the Response of Great River Gas Company. Copies have been sent this date to all parties of record.

If there are any questions about this, please let me know.

Sincerely yours,

HAWKINS, BRYDON & SWEARENGEN P.C.

By: Gary W. Duffy

Gary W. Duffy

GWD/da
cc: All Parties of Record
Mr. Richard K. Wrench
Mr. Dick DeCleene

FILED
MAR 30 1987
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the investigation of the revenue effects upon Missouri utilities of the Tax Reform Act of 1986.	))))	Case No. AO-87-48

RESPONSE OF GREAT RIVER GAS COMPANY

1. This response is filed pursuant to the ORDERED provisions of an "Order Establishing Docket" ("the Order") issued in the above-captioned proceeding on November 3, 1986, as modified by ORDERED: 6 of an order dated January 30, 1987, extending the filing date for Great River Gas Company.

2. Great River Gas Company's response to the revenue requirement information for calendar 1986 will follow items 1 through 6 set forth in the body of the Order, seriatim.

Item 1

Schedule 1 sets forth a statement of operating income for 1986. Column B presents Company-wide totals, Column C Missouri only, and Column D reflects the additional revenue requirement needed to obtain net utility operating income of $682,713. Line 14 represents Missouri jurisdictional rate base as of December 31, 1986, of $5,498,215 and is referenced to Schedule 2 where the components of rate base are detailed. This rate base has been computed in a manner consistent with that utilized in the Company's latest rate proceeding, GR-85-136. Line 15 of Schedule 1 presents the required return on rate base. The return on Line

114.

X

15, Column C reflects the actual return earned for the twelve months ended December 31, 1986, and the return in Column E reflects the required return of 12.42%. The 12.42% return is detailed on Schedule 3 and is based upon the amounts of long-term and short-term debt and equity capital as of December 31, 1986. The cost of debt is based upon the actual rates as of December 31, 1986, while the equity return of 15.08% is that authorized in the latest rate order GR-85-136. Line 16 presents the return on equity. The equity return on Line 16, Column C reflects the actual return earned for the twelve months ended December 31, 1986, and the equity return in Column E reflects the authorized equity return of 15.08%. Schedule 4, pages 1, 2, and 3 present the income tax calculations which are referenced to lines 8, 9, and 10 of Schedule 1. Schedule 5 presents the calculation of the investment tax credit adjustment and is also referenced to Schedule 1.

Item 2

Schedules 6 and 7 set forth comparable data as on Schedules 1 and 4 for the year 1986 utilizing a 40% federal tax rate.

In addition to the rate reduction from 46% to 40% to 34%, the Tax Reform Act instituted two new tax depreciation systems known as the modified accelerated cost recovery system and the alternative depreciation system. The impact of the systems will be prospective for years beginning in 1987 and do not impact the pro forma presentation of 1986 operations using the 1987 40% federal tax rate. The new modified accelerated cost recovery system or alternative depreciation system will not significantly impact the Company or revenue requirements since the difference between tax depreciation and book depreciation for method and life differences is required to be normalized for revenue requirement purposes. By way of example, if the 1986 Missouri property additions were depreciated utilizing the alternative depreciation system instead of the present accelerated cost recovery system utilizing the same method the Company currently uses, the difference in tax depreciation would only be $2,775.

The presentation of the 1986 results utilizing the new 40% tax rate does not take into consideration the possibility that the Company would be subject to the corporate alternative minimum tax. Since the Company has investment tax credit carryforwards of $480,682 at December 31, 1986, the alternative minimum tax will result in delaying utilization. Whether the Company is subject to the alternative minimum tax will not significantly impact the Company's revenue requirements since the Tax Reform Act requires the Treasury Department to draft alternative minimum tax normalization rules. In short, if the Company were subject to the alternative minimum tax, the difference between the statutory rate, 40% in this case, and the alternative minimum tax would result in a prepayment of taxes and for revenue requirement purposes the statutory rate would continue to be used.

The Tax Reform Act also makes changes to tax accounting methods. The prior tax law generally allowed utilities to expense for income tax purposes, payroll taxes, certain employee benefits, sales and use taxes and indirect overheads associated with the construction of assets. Under the new law these costs must be capitalized as part of the cost of self-constructed assets. This change in tax accounting requirements has limited impact on the Company since it has capitalized such overheads for both book and tax purposes in the past. The new Tax Reform Act also contains new interest capitalization rules. All interest arising from self-constructed real property, property with an asset depreciation range life of more than 20 years, and property with a construction period of more than two years (or one year if costs exceed $1 million) must be capitalized as part of the tax basis. Due to the nature of the Company's construction program most of its construction is for relatively minor plant additions with a construction period of less than 30 days. Therefore, the Company for book purposes has not capitalized interest during construction and thus this change in the tax law will impact revenue requirements. However, the impact will not be significant. For example, if one utilized 1986 additions to construction work in progress of $237,340, assumed an average construction period of 30 days and an average construction work in progress balance of $19,778, and utilized a rate equal to the short-term debt rate, 8.28%, since short-term debt during the period exceeded the average construction work in progress balance, the amount of interest which would have been capitalized for tax and presumably for books would be $1,638. Utilizing a 40% federal tax rate and a 41.84% composite rate this would increase currently payable taxes $685 and utilizing a 34% Federal rate and a 36.22% composite rate this would increase currently payable taxes $593. In short, this change will increase revenue requirements.

The Tax Reform Act also requires all utilities to report revenue on the unbilled method for tax purposes beginning in 1987. The amount of the change in income in 1987 as a result of this requirement is added back to taxable income over a four year period, 1987 through 1990. Utilizing the estimated unbilled at the end of 1986, the Company would be required to increase taxable income $194,878 for each of the four years in the transition period. This would result in an increase in currently payable taxes of $81,537 utilizing a 41.84% composite rate and $70,584 using a 36.22% composite rate. This change in the tax law would not impact revenue requirements but would result in a prepaid tax which would result in negative deferred income taxes and a positive deferred tax asset. It should also be pointed out that a change to the unbilled method for books would have no impact on revenue requirements since the Company has consistently matched unit sales and units expensed in the ratemaking process in its prior rate filings before the Commission.

The Tax Reform Act also repeals the reserve method for bad debts for years beginning after December 31, 1986. Basically, the Act requires that the reserve for bad debts be added back to taxable income over a four year period beginning in 1987. Based upon the Company's reserve for bad debts of $17,602 as of

December 31, 1986, this would result in an increase in taxable income of $4,400 for the four transition years. This would increase currently payable taxes $1,841 at a 41.84% composite rate and $1,594 at a 36.22% composite rate. Under generally accepted accounting principles this change in tax accounting would require interperiod tax allocation which would negate any significant impact on revenue requirements.

The Tax Act also requires that contributions in aid of construction for years after December 31, 1986, be included in taxable income when received. The Company does not believe this will have a significant impact on the Company due to the insignificance of contributions in aid of construction. For 1986, the Company received $771 in contributions in aid of construction. This item would also require interperiod tax allocation since any contributions included in income would be depreciated in future years and, thus, any significant revenue requirement impact would be minor.

The Tax Act also limits deductions for vacation pay accruals to the amount of vacation which is actually taken within 8-1/2 months after year-end. Presently the Company does not believe this change would significantly impact the Company since most of the vacation accrual would typically be utilized within the statutory timeframe. However, any amounts not utilized would be timing differences and would require interperiod tax allocation and thus would not impact revenue requirements.

The final item of the Tax Reform Act which impacts the Company is the 80% limitation of otherwise deductible business entertainment and meals expense. Based upon 1986, the Company estimates that approximately $2,895 of travel and entertainment expenses would not qualify for a deduction. Since this is a permanent disallowance of a deduction, not a timing difference, it would result in an increase in revenue requirements and based upon a 41.84% composite rate would increase currently payable taxes $1,211 and at a 36.22% composite rate would increase currently payable taxes $1,049.

<u>Item 3</u>

Schedules 8 and 9 set forth comparable data as on Schedules 1 and 4 for the year 1985 utilizing a 34% federal tax rate. The other changes which the Tax Reform Act will have were discussed in Item 2 and will not be repeated here. However, as in Item 2, none of these items are reflected in the calculations since they do not have a significant impact on revenue requirements.

<u>Item 4</u>

Schedule 10 presents a summary of the Company's deferred income taxes by vintage year covering method and life differences and basis differences for both Federal and state purposes refined from that originally filed in conjunction with the 1985 data and updated for 1986 activity. For only the 1976 and 1977 vintages has the Company experienced any turnaround in the difference between book and tax depreciation. The Tax Reform Act provides that deferred taxes related to depreciation method and life on public utility property in excess of the new 34% statutory rate must be flowed back using the average rate assumption. This method requires the development of an average rate determined by dividing the aggregate normalized timing differences into the accumulated deferred taxes that have been provided on those timing differences. As the timing differences begin to reverse the turnaround occurs at this average rate. Schedule 10 shows that for the 1976 vintage the turnaround in depreciation will result in a reduction of the deferred tax reserve at a 48.03% or the average rate for that vintage. It also shows that the 1977 vintage will turnaround at an average rate of 77.18%. For the 1976 state vintage the turnaround rate is 4.16%, and for the 1977 vintage it is 17.44%. Thus, under this method the excess in the reserve for deferred taxes is required to be reduced over the remaining lives of the property. This is the procedure the Company intends to follow.

Item 5

Schedule 10 presents the deferred tax information broken down between method and life differences and basis differences.

Schedule 5 presents an analysis of the deferred investment tax credit balance by year and the investment tax credit adjustment for 1986.

Item 6

The Company has no additional information to provide at this time.

The Commission has also directed each Company to explain any plans or proposals it may have for reflecting the impact of the change in the tax law upon its Missouri jurisdictional operations. As Schedules 1, 6, and 8 show, the Company has a revenue deficiency under each of the three scenarios as of December 31, 1986. In addition, per Schedules 1, 6, and 8, the Company's return on equity is well below the last authorized return on equity established in Case No. GR-85-136. Thus, the Company suggests no rate adjustment is appropriate at this time, nor does the Company believe that one-issue ratemaking, as detailed in its earlier comments in the docket, is appropriate at any time.

Respectfully submitted,

Gary W. Duffy

Gary W. Duffy
HAWKINS, BRYDON & SWEARENGEN P.C.
P.O. Box 456
312 East Capitol Avenue
Jefferson City, Missouri 65102
(314) 635-7166

Dated: March 31, 1987

CERTIFICATE OF SERVICE

THE UNDERSIGNED certifies that a copy of the foregoing instrument was served upon the attorneys of record of all parties of the above cause by enclosing the same in an envelope addressed to such attorneys at their business address as disclosed by the pleadings of record herein with postage fully prepaid, and by depositing said envelopes in the United States mails at Jefferson City Missouri This 30th day of March 19 87

Gary W. Duffy

MoResponse/GR3

Schedule 1

GREAT RIVER GAS COMPANY

Missouri Division

Pro Forma Statement of Operating Income

Line No	Description (A)	(B) Actual Twelve Months Ended December 31, 1986 Company	(C) Actual Twelve Months Ended December 31, 1986 Missouri	(D) ADDITIONAL REVENUE REQUIREMENT	(E) AS ADJUSTED 12/31/86
1	Operating Revenues	$21,885,032	10,724,135	188,150	10,912,285
	Operating Expenses:				
2	Cost of Gas Distributed	$15,812,017	7,341,957		7,341,957
3	Other Operation Expenses	3,610,411	1,852,298		1,852,298
4	Maintenance Expenses	295,274	147,026		147,026
5	Depreciation Expense	562,971	236,933		236,933
6	Amort. of Limited Term Plant	119,920	50,434		50,434
7	Taxes Other Than Income	789,820	474,092		474,092
8	Federal Income Taxes (Schedule 4)	(151,082)	14,110	84,157	98,267
9	State Income Taxes (Schedule 4)	(4,897)	(4,968)	5,200	232
10	Deferred Income Taxes (Schedule 4)	31,563	12,509		12,509
11	Investment Tax Credit (Schedule 5)	36,426	15,824		15,824
12	Total Utility Operating Expenses	$21,102,423	$10,140,215	$89,357	$10,229,572
13	Net Utility Operating Income	$782,609	$583,920	$98,793	$682,713
14	Missouri Rate Base (Schedule 2)		5,498,215		5,498,215
15	Return On Rate Base (Schedule 3)		10.62%		12.42%
16	Return On Equity		12.90%		15.08%

Schedule 2

GREAT RIVER GAS COMPANY

RATE BASE

	12/31/86
Net Plant in Service	$ 5,527,785
Add:	
Cash Working Capital	(250,000) (a)
Materials and Supplies	108,565
Allocation from Iowa	401,396
Fuel Stock Propane Inventory	24,946
Less:	
Deferred Taxes	283,373
Customer Deposits	30,379
Customer Advances	725
Total Rate Base (Schedule 1)	5,498,215

(a) Cash working capital estimate based upon ($239,484) authorized under Rate Order GR-85-136.

GREAT RIVER GAS COMPANY

Schedule 3

CAPITALIZATION

DECEMBER 31, 1985

		Ratio	Cost	Weighted Cost
Long-Term Debt	$ 5,328,548	55.63%	12.60%	7.01%
Short-Term Debt	1,810,000	18.89%	8.28%	1.56%
Equity	2,441,102	25.48%	15.08% (a)	3.84%
Total (Schedule 1)	$ 9,579,650	100.00%		12.42%

Long-Term Principal	Rate	Annualized Cost
$ 286,000	7.8500%	22,451
1,875,000	15.2500%	285,938
1,080,000	7.0000%	75,600
216,000	8.1250%	17,550
276,150	10.5000%	28,996
77,770	13.0500%	10,149
41,046	11.8611%	4,868
104,764	15.4555%	16,192
3,799	15.4020%	585
1,300,000	14.7500%	191,750
20,251	15.3707%	3,113
47,768	15.1824%	7,252
		6,745 (b)
5,328,548	12.5961%	671,189

(a) Authorized return on equity under Rate Order GR-85-136.

(b) Amortization of debt expense.

GREAT RIVER GAS COMPANY
ALLOCATION OF NON-OPERATING INCOME TAXES - MISSOURI
TAX RATE OF 46%

SCHEDULE 4
1/3

STATE

MERCHANDISING & JOBBING REVENUES	33,517
OTHER INTEREST	10,103
NON-OPERATING ALLOCATION BASIS	43,620
MISSOURI UTILITY ALLOCATION BASIS	10,767,756
NON-OPERATING %	0.4051%
MISSOURI SIT AS CALCULATED - CURRENT	4,176
SIT ALLOCTED TO NON-OPERATING	15
SIT ALLOCATED TO MISSOURI UTILITY	4,161
MISSOURI SIT - CURRENT/DEFERRED	(9,129)
TOTAL MISSOURI UTILITY SIT	(4,968)

FEDERAL

NON-OPERATING INCOME	9,788
SIT DEDUCTION	(15)
TAXABLE NON-OP. INCOME	9,773
FEDERAL TAX RATE	46%
NON-OPERATING FIT	4,496
FIT AS COMPUTED	45,834
UTILITY FIT	41,338
LESS: ITC PROVISION	(17,687)
SURTAX EXEMPTION	(10,125)
BOOK TO TAX	584
CURRENT UTILITY FIT	14,110

DEFERRED TAXES

FEDERAL	(2/)	11,781
STATE	(3/)	728
		12,509

GREAT RIVER GAS CO.

SCHEDULE 4
2/3

FEDERAL INCOME TAX - MISSOURI
FEDERAL TAX RATE OF 46%

	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	156,830	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(26,339)	-	26,339	-
RATE REFUND RESERVE	0	-	-	(0)
DEFERRED DEBITS & CREDITS	81,947	(81,947)	-	-
UNBILLED REVENUE - PRIOR	1,222,975	(1,222,975)	-	-
- CURRENT	(779,514)	779,514	-	-
PGA RECONCILIATION - PRIOR	(21,481)	21,481		
- CURRENT	(173,549)	173,549		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL>US	(22,125)	-	-	22,125
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	268,234	(330,378)	26,339	35,805
MISSOURI INCOME BEFORE SIT DEDUCTION	425,064	(330,378)	26,339	
SIT DEDUCTION	(4,176)	9,129	(728)	
SURTAX EXEMPTION	0	-	-	
FEDERAL TAXABLE INCOME - MISSOURI	420,888	(321,249)	25,611	
FEDERAL TAX RATE	46.00%	46.00%	46.00%	
FEDERAL TAX - MISSOURI	193,608	(147,774)	11,781	
TOTAL CURRENT		45,834		

GREAT RIVER GAS CO.

SCHEDULE 4
3/3

STATE INCOME TAX - MISSOURI FEDERAL TAX RATE OF 46%	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	156,830	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(26,339)	-	26,339	-
RATE REFUND RESERVE	0	-	-	(0)
DEFERRED DEBITS & CREDITS	81,947	(81,947)	-	-
UNBILLED REVENUE - PRIOR	1,222,975	(1,222,975)	-	-
- CURRENT	(779,514)	779,514	-	-
PGA RECONCILIATION - PRIOR	(21,481)	21,481		
- CURRENT	(173,549)	173,549		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL>U5	(22,125)	-	-	22,125
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	268,234	(330,378)	26,339	35,805
MISSOURI INCOME BEFORE FIT DEDUCTION	425,064	(330,378)	26,339	
MISSOURI ALLOCATED INCOME	148,619	-	-	
FIT DEDUCTION	(65,099)	147,774	(11,781)	
STATE TAXABLE INCOME - MISSOURI	83,520	(182,604)	14,558	
STATE TAX RATE	5.00%	5.00%	5.00%	
STATE TAX - MISSOURI	4,176	(9,129)	728	
	(4,953)			

SCHEDULE 5

GREAT RIVER GAS COMPANY
DEFERRED INVESTMENT TAX CREDIT

VINTAGE YEAR	BALANCE 12/31/85	PROVISION	AMORTIZATION	OTHER ADJUSTMENTS	BALANCE 12/31/86
1977	27,150	0	(1,292)		25,858
1978	690	12,045	(354)	(645)	11,736
1979	0	5,642	(217)		5,425
	27,840	17,687	(1,863)	(645)	43,019
(SCHEDULE 1)			15,824		

NOTE: OTHER ADJUSTMENTS REPRESENT 1985 BOOK TO TAX ADJUSTMENTS TO TRUE-UP 1985 AMORTIZATION OF DEFERRED INVESTMENT TAX CREDIT. AT DECEMBER 31, 1986 THE COMPANY HAD INVESTMENT TAX CREDIT CARRYFORWARDS OF $479,088 ON A TOTAL COMPANY BASIS.

Schedule 6

GREAT RIVER GAS COMPANY

Missouri Division

Pro Forma Statement of Operating Income

	(A)	(B)	(C)	(D)	(E)	(F)	(G)
		Actual Twelve Months Ended December 31, 1986		ADJUSTMENTS FOR CHANGE TO 40% TAX	AS ADJUSTED FOR TAX RATE CHANGE 12/31/86	ADDITIONAL REVENUE REQUIREMENT	AS ADJUSTED 12/31/86
Line No	Description	Company	Missouri				
1	Operating Revenues	$21,885,032	10,724,135		10,724,135	157,456	10,881,591
	Operating Expenses:						
2	Cost of Gas Distributed	$15,812,017	7,341,957		7,341,957		7,341,957
3	Other Operation Expenses	3,610,411	1,852,298		1,852,298		1,852,298
4	Maintenance Expenses	295,274	147,026		147,026		147,026
5	Depreciation Expense	562,971	236,933		236,933		236,933
6	Amort. of Limited Term Plant	119,920	50,434		50,434		50,434
7	Taxes Other Than Income	789,820	474,092		474,092		474,092
8	Federal Income Taxes (Schedule 7)	(151,082)	14,110	(5,169)	8,941	61,055	69,996
9	State Income Taxes (Schedule 7)	(4,897)	(4,968)	(553)	(5,521)	4,820	(701)
10	Deferred Income Taxes (Schedule 7)	31,563	12,509	(1,490)	11,019		11,019
11	Investment Tax Credit (Schedule 5)	36,426	15,824		15,824		15,824
12	Total Utility Operating Expenses	$21,102,423	$10,140,215	($7,212)	$10,133,003	$65,875	$10,198,878
13	Net Utility Operating Income	$782,609	$583,920	$7,212	$591,132	$91,581	$682,713
14	Missouri Rate Base (Schedule 2)		5,498,215		5,498,215		5,498,215
15	Return On Rate Base (Schedule 3)		10.62%		10.75%		12.42%
16	Return On Equity		12.90%		13.06%		15.08%

SCHEDULE 7
1/3

GREAT RIVER GAS COMPANY
ALLOCATION OF NON-OPERATING INCOME TAXES - MISSOURI
TAX RATE OF 40%

STATE	
MERCHANDISING & JOBBING REVENUES	33,517
OTHER INTEREST	10,103
NON-OPERATING ALLOCATION BASIS	43,620
MISSOURI UTILITY ALLOCATION BASIS	10,767,756
NON-OPERATING %	0.4051%
MISSOURI SIT AS CALCULATED - CURRENT	4,608
SIT ALLOCTED TO NON-OPERATING	15
SIT ALLOCATED TO MISSOURI UTILITY	4,593
MISSOURI SIT - CURRENT/DEFERRED	(10,114)
TOTAL MISSOURI UTILITY SIT	(5,521)

FEDERAL	
NON-OPERATING INCOME	9,788
SIT DEDUCTION	(15)
TAXABLE NON-OP. INCOME	9,773
FEDERAL TAX RATE	40%
NON-OPERATING FIT	3,909
FIT AS COMPUTED	40,078
UTILITY FIT	36,169
LESS: ITC PROVISION	(17,687)
SURTAX EXEMPTION	(10,125)
BOOK TO TAX	584
CURRENT UTILITY FIT	8,941

DEFERRED TAXES

FEDERAL	(2/)	10,213
STATE	(3/)	806
		11,019

GREAT RIVER GAS CO.

SCHEDULE 7
2/3

FEDERAL INCOME TAX - MISSOURI
@ 40% FEDERAL TAX RATE

	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	156,830	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(26,339)	-	26,339	-
RATE REFUND RESERVE	0	-	-	(0)
DEFERRED DEBITS & CREDITS	81,947	(81,947)	-	-
UNBILLED REVENUE - PRIOR	1,222,975	(1,222,975)	-	-
- CURRENT	(779,514)	779,514	-	-
PGA RECONCILIATION - PRIOR	(21,481)	21,481		
- CURRENT	(173,549)	173,549		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL>US	(22,125)	-	-	22,125
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	268,234	(330,378)	26,339	35,805
MISSOURI INCOME BEFORE SIT DEDUCTION	425,064	(330,378)	26,339	
SIT DEDUCTION	(4,605)	10,114	(806)	
SURTAX EXEMPTION	0	-	-	
FEDERAL TAXABLE INCOME - MISSOURI	420,459	(320,264)	25,533	
FEDERAL TAX RATE	40.00%	40.00%	40.00%	
FEDERAL TAX - MISSOURI	168,184	(128,106)	10,213	
TOTAL CURRENT	40,078			

GREAT RIVER GAS CO.

STATE INCOME TAX - MISSOURI @ 40% FEDERAL TAX RATE	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	156,830	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(26,339)	-	26,339	-
RATE REFUND RESERVE	0	-	-	(0)
DEFERRED DEBITS & CREDITS	81,947	(81,947)	-	-
UNBILLED REVENUE - PRIOR	1,222,975	(1,222,975)	-	-
- CURRENT	(779,514)	779,514	-	-
PGA RECONCILIATION - PRIOR	(21,481)	21,481		
- CURRENT	(173,549)	173,549		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL>US	(22,125)	-	-	22,125
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	268,234	(330,378)	26,339	35,805
MISSOURI INCOME BEFORE FIT DEDUCTION	425,064	(330,378)	26,339	
MISSOURI ALLOCATED INCOME	148,619	-	-	
FIT DEDUCTION	(56,453)	128,106	(10,213)	
STATE TAXABLE INCOME - MISSOURI	92,166	(202,272)	16,126	
STATE TAX RATE	5.00%	5.00%	5.00%	
STATE TAX - MISSOURI	4,608	(10,114)	806	
		(5,505)		

Schedule 8

GREAT RIVER GAS COMPANY

Missouri Division

Pro Forma Statement of
Operating Income

Line No	(A) Description	(B) Actual Twelve Months Ended December 31, 1986 Company	(C) Missouri	(D) ADJUSTMENTS FOR CHANGE TO 34% TAX	(E) AS ADJUSTED FOR TAX RATE CHANGE 12/31/86	(F) ADDITIONAL REVENUE REQUIREMENT	(G) AS ADJUSTED 12/31/86
1	Operating Revenues	$21,885,032	10,724,135		10,724,135	132,182	10,856,317
	Operating Expenses:						
2	Cost of Gas Distributed	$15,812,017	7,341,957		7,341,957		7,341,957
3	Other Operation Expenses	3,610,411	1,852,298		1,852,298		1,852,298
4	Maintenance Expenses	295,274	147,026		147,026		147,026
5	Depreciation Expense	562,971	236,933		236,933		236,933
6	Amort. of Limited Term Plant	119,920	50,434		50,434		50,434
7	Taxes Other Than Income	789,820	474,092		474,092		474,092
8	Federal Income Taxes (Schedule 9)	(151,082)	14,110	(10,412)	3,698	43,433	47,131
9	State Income Taxes (Schedule 9)	(4,897)	(4,968)	(1,100)	(6,068)	4,437	(1,631)
10	Deferred Income Taxes (Schedule 9)	31,563	12,509	(2,970)	9,539		9,539
11	Investment Tax Credit (Schedule 5)	36,426	15,824		15,824		15,824
12	Total Utility Operating Expenses	$21,102,423	$10,140,215	($14,482)	$10,125,733	$47,871	$10,173,604
13	Net Utility Operating Income	$782,609	$583,920	$14,482	$598,402	$84,311	$682,713
14	Missouri Rate Base (Schedule 2)		5,498,215		5,498,215		5,498,215
15	Return On Rate Base (Schedule 3)		10.62%		10.88%		12.42%
16	Return On Equity		12.90%		13.22%		15.08%

GREAT RIVER GAS COMPANY
ALLOCATION OF NON-OPERATING INCOME TAXES - MISSOURI
TAX RATE OF 34%

STATE

MERCHANDISING & JOBBING REVENUES	33,517
OTHER INTEREST	10,103
NON-OPERATING ALLOCATION BASIS	43,620
MISSOURI UTILITY ALLOCATION BASIS	10,767,756
NON-OPERATING %	0.4051%
MISSOURI SIT AS CALCULATED - CURRENT	5,038
SIT ALLOCTED TO NON-OPERATING	15
SIT ALLOCATED TO MISSOURI UTILITY	5,023
MISSOURI SIT - CURRENT/DEFERRED	(11,091)
TOTAL MISSOURI UTILITY SIT	(6,068)

FEDERAL

NON-OPERATING INCOME	9,788
SIT DEDUCTION	(15)
TAXABLE NON-OP. INCOME	9,773
FEDERAL TAX RATE	34%
NON-OPERATING FIT	3,323
FIT AS COMPUTED	34,251
UTILITY FIT	30,928
LESS: ITC PROVISION	(17,689)
SURTAX EXEMPTION	(10,125)
BOOK TO TAX	584
CURRENT UTILITY FIT	3,698

DEFERRED TAXES

FEDERAL	(2/)	8,655
STATE	(3/)	884
		9,539

GREAT RIVER GAS CO.

SCHEDULE 9
2/3

FEDERAL INCOME TAX - MISSOURI @ 34% FEDERAL TAX RATE	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	156,830	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(26,339)	-	26,339	-
RATE REFUND RESERVE	0	-	-	(0)
DEFERRED DEBITS & CREDITS	81,947	(81,947)	-	-
UNBILLED REVENUE - PRIOR	1,222,975	(1,222,975)	-	-
- CURRENT	(779,514)	779,514	-	-
PGA RECONCILIATION - PRIOR	(21,481)	21,481		
- CURRENT	(173,549)	173,549		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL>US	(22,125)	-	-	22,125
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	268,234	(330,378)	26,339	35,805
MISSOURI INCOME BEFORE SIT DEDUCTION	425,064	(330,378)	26,339	
SIT DEDUCTION	(5,038)	11,091	(884)	
SURTAX EXEMPTION	0	-	-	
FEDERAL TAXABLE INCOME - MISSOURI	420,026	(319,287)	25,455	
FEDERAL TAX RATE	34.00%	34.00%	34.00%	
FEDERAL TAX - MISSOURI	142,809	(108,558)	8,655	
TOTAL CURRENT		34,251		

GREAT RIVER GAS CO.

SCHEDULE 9
3/3

STATE INCOME TAX - MISSOURI
@ 34% FEDERAL TAX RATE

	CURRENT	CURRENT DEFERREDRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	156,830	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(26,339)	-	26,339	-
RATE REFUND RESERVE	0	-	-	(0)
DEFERRED DEBITS & CREDITS	81,947	(81,947)	-	-
UNBILLED REVENUE - PRIOR	1,222,975	(1,222,975)	-	-
- CURRENT	(779,514)	779,514	-	-
PGA RECONCILIATION - PRIOR	(21,481)	21,481		
- CURRENT	(173,549)	173,549		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL>US	(22,125)	-	-	22,125
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	268,234	(330,378)	26,339	35,805
MISSOURI INCOME BEFORE FIT DEDUCTION	425,064	(330,378)	26,339	
MISSOURI ALLOCATED INCOME	148,619	-	-	
FIT DEDUCTION	(47,850)	108,558	(8,655)	
STATE TAXABLE INCOME - MISSOURI	100,769	(221,820)	17,684	
STATE TAX RATE	5.00%	5.00%	5.00%	
STATE TAX - MISSOURI	5,038	(11,091)	884	

(6,053)

DEFERRED TAXES BY VINTAGE Y[illegible]OPERTY
PROTECTED LIFE & METHOD DIFFE[illegible]CES

FEDERAL *********		1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	TOTAL ACCUMULATED DEFERRED TAXES	AGGREGATE NORMALIZED TIMING DIFFERENCES	AVERAGE RATE(a)
VINTAGE	1976	64,683	39,142	23,305	1,367	1,243	3,649	3,076	(2,193)	2,649	(2,343)	(7,955)	126,624	263,633	48.03%
	1977		1,965	2,852	1,107	144	(42)	(456)	(770)	(1,023)	(1,239)	(1,681)	856	1,109	77.18%
	1978		0	4,353	6,803	4,836	3,735	2,974	2,401	1,928	1,522	1,165	29,718		
	1979		0	0	6,239	9,734	2,438	946	(1,664)	(3,989)	(6,062)	(7,914)	(273)	29,171	-0.94%
	1980		0	0	0	2,218	3,971	3,419	2,909	2,437	2,002	1,599	18,554		
	1981		0	0	0	0	1,799	2,655	3,295	3,304	3,271	3,258	17,581		
	1982		0	0	0	0	0	1,146	2,326	2,373	2,355	2,584	10,783		
	1983		0	0	0	0	0	0	2,992	6,004	5,851	6,272	21,119		
	1984		0	0	0	0	0	0	0	5,468	9,754	8,605	23,828		
	1985		0	0	0	0	0	0	0	0	3,107	6,180	9,287		
	1986											1,250	1,250		
DEFERRED FIT METHOD & LIFE DIFF.		64,683	41,107	30,510	15,517	18,175	15,549	13,759	9,296	19,152	18,216	13,364			
BASIS DIFF.		0	0	13,629	3,139	0	330	0	0	0	0	0	17,097		
REVERSAL OF BASIS DIFF.					(1,620)	(1,575)	(1,575)	(1,575)	(1,575)	(1,575)	(1,575)	(1,575)	(11,069)		
TOTAL DEFERRED FIT		64,683	41,107	44,139	17,035	16,600	14,304	12,184	7,721	17,577	16,641	11,789			
CUMULATIVE		64,683	105,790	149,929	166,964	183,564	197,868	210,053	217,774	235,350	251,991	263,780			

STATE *********		1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986			
VINTAGE	1976	6,738	1,770	2,428	149	77	225	190	(135)	164	(145)	(491)	10,968	263,633	4.16%
	1977		89	297	120	9	(3)	(28)	(47)	(63)	(76)	(104)	193	1,109	17.44%
	1978		0	453	740	298	231	184	148	119	94	72	2,338		
													0		
	1979		0	0	536	522	72	(20)	(181)	(325)	(453)	(567)	(414)	29,171	-1.42%
													0		
	1980		0	0	0	137	245	211	180	150	124	99	1,145		
	1981		0	0	0	0	111	164	203	204	202	201	1,085		
													0		
	1982		0	0	0	0	0	71	144	146	145	159	665		
	1983		0	0	0	0	0	0	185	371	361	387	1,303		
	1984		0	0	0	0	0	0	0	337	602	531	1,471		
													0		
	1985		0	0	0	0	0	0	0	0	192	381	573		
	1986											77	77		
													0		
DEFERRED SIT METHOD & LIFE DIFF.		6,738	1,858	3,178	1,545	1,043	881	771	495	1,104	1,046	747			
BASIS DIFF.		0	0	0	341	0	20	0	0	0	0	0	362		
REVERSAL OF BASIS DIFF.					(34)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(147)		
TOTAL DEFERRED SIT		6,738	1,858	3,178	1,852	1,025	883	752	477	1,085	1,027	728			
CUMULATIVE		6,738	8,596	11,774	13,626	14,651	15,533	16,285	16,762	17,847	18,874	19,601			
TOTAL DEFERRED TAX BY YEAR		71,421	114,386	161,703	180,590	198,215	213,402	226,338	234,536	253,197	270,865	283,382			
PER GENERAL LEDGER											270,864	283,382			

(a) THE TAX REFORM ACT OF 1986 PROVIDES THAT DEFERRED TAXES RELATED TO DEPRECIATION METHOD AND LIFE ON PUBLIC UTILITY PROPERTY IN EXCESS OF THE 34% STATUTORY TAX RATE MUST BE FLOWED BACK USING THE AVERAGE RATE ASSUMPTION METHOD. THIS METHOD REQUIRES THE DEVELOPMENT OF AN AVERAGE RATE DETERMINED BY DIVIDING THE AGGREGATE NORMALIZED TIMING DIFFERENCES INTO THE ACCUMULATED DEFERRED TAXES THAT HAVE BEEN PROVIDED ON THOSE TIMING DIFFERENCES. FOR GREAT RIVER GAS COMPANY 1976 AND 1977 VINTAGE PROPERTY, FUTURE DEPRECIATION DIFFERENCE TURNAROUNDS WILL BE FLOWED BACK AT THIS AVERAGE RATE.