



1901 Gratiot Street St. Louis

(314) 554-2554

March 10, 1987

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

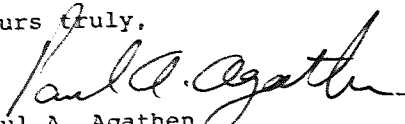
AO-87-48

Dear Mr. Hubbs:

Enclosed are the original and fourteen  
copies of a Response of Union Electric Company,  
et al., To Suspend Phase-In Tariffs of Arkansas  
Power & Light Company.

Kindly acknowledge receipt by date  
stamping the duplicate of this cover letter  
and returning it to me in the enclosed self-  
addressed stamped envelope.

Yours truly,

  
Paul A. Agathen  
General Attorney

PAA/lmj  
Enclosures

cc: w/encl. All parties

**FILED**  
MAR 12 1987  
PUBLIC SERVICE COMMISSION

BEFORE THE PUBLIC SERVICE COMMISSION  
STATE OF MISSOURI

FILED  
MAR 12 1987  
PUBLIC SERVICE COMMISSION

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 Union Electric Company  
to Motion of Doe Run Company,  
et al., To Suspend Phase-In Tariffs  
of Arkansas Power & Light Company

This is a Response by Union Electric Company to the Motion filed on or about March 5, 1987 by Doe Run Company, et al., asking that the Commission suspend Arkansas Power & Light Company's phase-in tariffs which are scheduled to take effect on March 21, 1987.

1. Union Electric has a legitimate interest in this issue, in that its rates for the next six years are also subject to a rate phase-in plan. While there may be differences between the two phase-in plans, it is at least arguable that a suspension of AP&L's next phase-in would be cited by some other party as authority for similar treatment in the future of a Union Electric rate phase-in.

2. The Company assumes that AP&L will brief the legal infirmities of Doe Run's position, and the Company will confine its remarks here to the broader policy grounds on which Doe Run's Motion should be rejected. First, the suspension of a previously approved phase-in rate increase would obviously cause concern in the financial community about the ability of the utilities in this state to recover the portion of initial rate increases which have been deferred through phase-in plans. The phase-in plans adopted by this Commission have been cited as models nationally, no doubt in large part due to of the general perception that the utilities will recover the full amount of the deferred increase. As

the Commission stated in the Company's case, the yearly increases should be allowed to take effect "automatically," so that, inter alia,

...UE and the investment community will have an assurance that the phase-in plan is in effect, thereby eliminating any perceived risk or uncertainties regarding the ultimate inclusion in rates of the allowed Callaway capital costs and deferred equity. The elimination of uncertainties will enable UE to obtain a lower cost of capital benefitting both shareholders and ratepayers.

(Mimeo, pp. 134)

The short-run savings which Doe Run seeks to capture here will clearly be more than offset in the long run, for the very reasons expressed above by the Commission. Notwithstanding any differences in the rate case orders of the utilities subject to phase-in plans, the damage in this case would in all likelihood not be confined to AP&L and its ratepayers. Despite any legal niceties which might distinguish the various phase-in plans, the financial community is clearly apt to view a suspension in this case as a significant threat to the integrity of all other phase-in plans in this state as well.

It was the very possibility of the type of tactic used here by Doe Run which caused the Company so much concern in its own rate case. For the reasons already expressed by the Commission, the Motion to Suspend should be rejected summarily.

3. The Motion should be rejected for a second reason as well. Doe Run seems to forget that phase-in plans are simply deferrals of a rate increase already approved, but not fully recovered. Had the full increase been allowed in the first year, as is normally the case, there clearly would be no conceivable basis for "suspending" the continued collection of that increase. Doe Run is simply attempting to take further advantage of the fact that it was not required to pay for the

full increase in the first year. Aside from the legality of the Doe Run proposal, it is clearly unfair when implementing the Tax Reform Act to treat utilities with phase-in plans more harshly than those utilities which were allowed to fully recover their last rate increase in the first year.

4. Finally, on the subject of fairness and equity, the argument that ratepayers are "entitled" to immediate rate reductions to reflect a single cost decrease is somewhat ironic. For years the utilities and the Commission have been told by other parties about the inherent virtues of "regulatory lag;" of the dangers in reflecting single cost increases; and of the dire necessity for protracted audits, prehearings and hearings to ensure fair treatment of the ratepayer. Now, suddenly, their challenge apparently is to devise a mechanism for circumventing those same arguments. The Company respectfully suggests that such proposals should be given the same treatment as would a request by a utility for immediate rate relief to track an increase in just one of its costs.

For the above reasons, Doe Run's Motion To Suspend Phase-In Tariffs should be rejected.

Respectfully submitted,

UNION ELECTRIC COMPANY

By Paul A. Agathen /lab  
Paul A. Agathen

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Dated: March 10, 1987

Certificate of Service

I certify that a copy of this pleading was mailed this 10 day of March, 1987, to all parties listed on the service list attached to the Commission's Order in this case of February 20, 1987.

Paul A. Agathen / 12/26  
Paul A. Agathen