LAW OFFICES
HAWKINS, BRYDON & SWEARENGEN
PROFESSIONAL CORPORATION
312 EAST CAPITOL AVENUE
P O BOX 456
JEFFERSON CITY, MISSOURI 65102-0456

ROBERT L. HAWKINS, JR.
DAVID V.G. BRYDON
JAMES C. SWEARENGEN
WILLIAM R. ENGLAND, III
ROBERT L. HAWKINS, III
JOHNNY K. RICHARDSON
STEPHEN G. NEWMAN
MARK W. COMLEY
GARY W. DUFFY
VICKI J. GOLDAMMER
PAUL A. BOUDREAU

AREA CODE 314
TELEPHONE 635-7166
TELECOPIER 634-7431

December 15, 1986

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

Re: Docket No. AO-87-48

Dear Mr. Hubbs:

As set forth in the "Order Establishing Docket" dated November 3, 1986, enclosed for filing with your office please find three copies of the response of Great River Gas Company.

Please note that in paragraph numbered 7, Great River requests an extension of the February 28, 1987 deadline for filing.

If there are any questions about this, please do not hesitate to call.

Sincerely yours,

HAWKINS, BRYDON & SWEARENGEN P.C.

By: Gary W. Duffy

Gary W. Duffy

GWD/da
cc: Office of Public Counsel

FILED
DEC 15 1986
PUBLIC SERVICE COMMISSION

HD

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" issued in the above captioned proceeding on November 3, 1986 ("the Order").

2. Correspondence, communications, orders or other matters in relation to this docket should be addressed to:

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Mr. Richard K. Wrench, Treasurer
Great River Gas Company
P.O. Box 967
Keokuk, Iowa 52632

Mr. Gary W. Duffy, Attorney at Law
Hawkins, Brydon & Swearengen P.C.
P.O. Box 456
Jefferson City, Missouri 65102

3. The Company's response to the "revenue requirement impact" requests for information will follow items 1 through 6 set forth in the body of the Order, seriatim. References to Schedules 1 through 10 are to Schedules which are attached hereto and incorporated herein by reference.

Item 1

Schedule 1 sets forth a statement of operating income for 1985. Column B presents Company-wide totals, Column C Missouri

11.

only, and Column D reflects the additional revenue requirement needed to obtain net utility operating income of $719,893. Line 14 represents Missouri jurisdictional rate base as of December 31, 1985, of $5,589,234 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 15, Column C reflects the actual return earned for the twelve months ended December 31, 1985, and the return in Column E reflects the required return of 12.88%. The 12.88% 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, 1985. The cost of debt is based upon the actual rates as of December 31, 1985, while the equity return of 15.08% is that authorized in the latest rate order GR-85-136. 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 1985 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 1985 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 1985 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 $700.

The presentation of the 1985 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 $474,050 at December 31, 1985, 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 requirement 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 1985 additions to construction work in progress of $292,436, assumed an average construction period of 30 days and an average construction work in progress balance of $24,370, and utilized a rate equal to the short-term debt rate, 9.75%, 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 $2,376. Utilizing a 40% federal tax rate and a 41.84% composite rate this would increase currently payable taxes $994 and utilizing a 34% federal rate and a 36.22% composite rate this would increase currently payable taxes $861. 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 1985, the Company would be required to increase taxable income $64,395 for each of the four years in the transition period. This would result in an increase in currently payable taxes of $26,943 utilizing a 41.84% composite rate and $23,324 using a 36.22% composite rate. If the Company were to continue its current method of revenue recognition based upon meters read, 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, if the Company were to change to the unbilled method for books, it 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 $7,678 as of December 31, 1985, this would result in an increase in taxable income of $1,919 for the four transition years. This would increase currently payable taxes $803 at a 41.84% composite rate and $695 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 1985, the Company received $1,134 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 1985 the Company estimates that approximately $1,416 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 $592 and at a 36.22% composite rate would increase currently payable taxes $513.

Item 3

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.

Item 4

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. 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 48.68% or the average rate for that vintage. It also shows that the 1977 vintage will turnaround at an average rate of 52.16%. For the 1976 state vintage the turnaround rate is 4.44%, and for the 1977 vintage it is 6.13%. 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 1985.

Item 6

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

4. The order directs 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, Great River Gas Company has a revenue deficiency under each of the three scenarios as of December 31, 1985. Great River believes that before considering any rate adjustments it will be necessary to analyze calendar year 1986. Great River is under the assumption that current Missouri law would not support the adjustment of base rates for a change in a single element of unregulated costs, e.g. federal tax rates, so any consideration of rate adjustments will take place in the context of an examination of all elements of the cost of service.

5. In consideration of the fact that the Order issued on November 3, 1986, purports to be a request for information, Great River has supplied the information because the Commission has the statutory authority to request information. (§393.140(9) RSMo) However, to the extent that Case No. AO-87-48 purports to be an investigation into the reasonableness of rates of any utility, Great River notes that its present rates are prima facie lawful until found otherwise (§386.270 RSMo), and the burden of proving otherwise rests upon the party adverse to such such order (§386.430 RSMo). Great River therefore reserves any and all objections it may have to future substantive or procedural

rulings in this docket. Compliance by Great River in responding to requests for information set forth in the Order of November 3, 1986 should not be construed as a waiver of any rights Great River may have to object to the nature of this docket, to the validity of the November 3, 1986 order, or to any future orders in this docket or any other docket created for a similar purpose.

6. Great River's observation with regard to the "procedural alternatives" available for recognizing the effects of the changes to be brought about by the 1986 Tax Reform Act is that all of the procedural alternatives available to the Commission in that regard are set forth in Chapters 386 and 393 of the Revised Statutes of Missouri.

7. ORDERED 2: of the Order directs all companies to file a response on or before February 28, 1987 regarding changes to 1986 operations. Great River will not have its books closed until late February, 1987 and will not have its annual audit completed until approximately March 15, 1987. The annual audit has taken place in March for several years and is the result of the previous scheduling of outside, independent auditors. Because the audited information the Commission seeks will not be available by February 28, 1987, Great River requests an extension to March 27, 1987, to provide the 1986 information.

Respectfully submitted,

Gary W. Duffy
Hawkins, Brydon & Swearengen P.C.
312 East Capitol Avenue
P.O. Box 456
Jefferson City, Missouri 65102

Attorneys for Great River
Gas Company

December 15, 1986

Schedule 1

GREAT RIVER GAS COMPANY

Missouri Division

Pro Forma Statement of
Operating Income

Line No	(A) Description	(B) Actual Twelve Months Ended December 31, 1985 Company	(C) Missouri	(D) ADDITIONAL REVENUE REQUIREMENT	(E) AS ADJUSTED 12/31/85
1	Operating Revenues	$27,903,092	12,128,083	108,290	12,236,373
	Operating Expenses:				
2	Cost of Gas Distributed	$21,988,658	8,843,521		8,843,521
3	Other Operation Expenses	3,225,504	1,634,030		1,634,030
4	Maintenance Expenses	283,817	136,995		136,995
5	Depreciation Expense	543,526	230,471		230,471
6	Amort. of Limited Term Plant	100,487	49,831		49,831
7	Taxes Other Than Income	757,263	488,650		488,650
8	Federal Income Taxes (Schedule 4)	(1,147)	59,807	48,438	108,245
9	State Income Taxes (Schedule 4)	(6,038)	3,535	2,989	6,524
10	Deferred Income Taxes (Schedule 4)	34,998	17,639		17,639
11	Investment Tax Credit (Schedule 5)	(3,311)	574		574
12	Total Utility Operating Expenses	$26,923,757	$11,465,053	$51,427	$11,516,480
13	Net Utility Operating Income	$979,335	$663,030	$56,863	$719,893
14	Missouri Rate Base (Schedule 2)		5,589,234		5,589,234
15	Return On Rate Base (Schedule 3)		11.86%		12.88%

GREAT RIVER GAS COMPANY

Schedule 2

RATE BASE

	12/31/85
Net Plant in Service	$ 5,619,024
Add:	
Cash Working Capital	(250,000) (a)
Materials and Supplies	101,036
Allocation from Iowa	359,409
Fuel Stock Propane Inventory	54,097
Less:	
Deferred Taxes	270,864
Customer Deposits	22,613
Customer Advances	855
Total Rate Base (Schedule 1)	5,589,234

(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	$ 6,001,353	65.88%	12.52%	8.25%
Short-Term Debt	875,000	9.60%	9.75%	0.94%
Equity	2,233,992	24.52%	15.08% (a)	3.69%
Total (Schedule 1)	$ 9,110,345	100.00%		12.88%

Long-Term Principal	Rate	Annualized Cost
$ 364,000	7.8500%	28,574
2,187,500	15.2500%	333,594
1,160,000	7.0000%	81,200
232,000	8.1250%	18,850
420,800	10.5000%	44,184
109,718	13.0500%	14,318
53,864	11.8611%	6,389
135,392	15.4555%	20,925
3,062	9.8800%	303
10,580	15.4020%	1,630
1,300,000	14.7500%	191,750
24,437	15.3707%	3,756
		6,012
6,001,353	12.5219%	751,485

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

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

STATE			FEDERAL		
MERCHANDISING & JOBBING REVENUES		28,726	NON-OPERATING INCOME		40,951
OTHER INTEREST		38,558	SIT DEDUCTION		17
NON-OPERATING ALLOCATION BASIS		67,284	TAXABLE NON-OP. INCOME		40,968
MISSOURI UTILITY ALLOCATION BASIS		12,195,367	FEDERAL TAX RATE		46%
NON-OPERATING %		0.5517%	NON-OPERATING FIT		18,845
MISSOURI SIT AS CALCULATED - CURRENT	(3/)	(3,002)	FIT AS COMPUTED	(2/)	78,652
SIT ALLOCTED TO NON-OPERATING		(17)	UTILITY FIT		59,807
SIT ALLOCATED TO MISSOURI UTILITY		(2,985)	LESS: ITC PROVISION		(0)
MISSOURI SIT - CURRENT/DEFERRED	(3/)	6,520	CURRENT UTILITY FIT(SCHEDULE 1)		59,807
TOTAL MISSOURI UTILITY SIT (SCHEDULE 1)		3,535			

DEFERRED TAXES

FEDERAL	(2/)	16,613
STATE	(3/)	1,026
(SCHEDULE 1)		17,639

GREAT RIVER GAS CO.

SCHEDULE 4
2/3

FEDERAL INCOME TAX - MISSOU TAX RATE OF 46%	SCH. REF.	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX		246,819	-	-	-
SCHEDULE M ITEMS					
EXCESS DEPRECIATION		(37,142)	-	37,142	-
RAR ADJUSTMENTS		0	-	-	(0)
DEFERRED DEBITS & CREDITS		(74,218)	74,218	-	-
COST OF GAS - PRIOR		595,196	(595,196)	-	-
- CURRENT		(841,120)	841,120	-	-
PGA RECONCILIATION - PRIOR		62,726	(62,726)		
- CURRENT		21,481	(21,481)		
ACRS RETIREMENTS		(0)			0
AFUDC		(0)	-	0	-
COST OF REMOVAL		(21,498)	-	-	21,498
ORIGINAL COST ADJUSTMENT		(13,680)	-	-	13,680
CONTRIBUTIONS		0	-	-	(0)
NET SCHEDULE M ITEMS		(308,255)	235,935	37,142	35,178
MISSOURI INCOME BEFORE SIT DEDUCTION		(61,436)	235,935	37,142	
SIT DEDUCTION		3,002	(6,520)	(1,026)	
SURTAX EXEMPTION		0	-	-	
FEDERAL TAXABLE INCOME - MISSOURI		(58,434)	229,415	36,116	
FEDERAL TAX RATE		46.00%	46.00%	46.00%	
FEDERAL TAX - MISSOURI		(26,879)	105,531	(1/3) 16,613	
TOTAL CURRENT	(1/3)	78,652			

GREAT RIVER GAS CO. SCHEDULE 4

3/3

STATE INCOME TAX - MISSOURI
TAX RATE OF 46%

	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	246,819	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(37,142)	-	37,142	-
RAR ADJUSTMENTS	0	-	-	(0)
DEFERRED DEBITS & CREDITS	(74,218)	74,218	-	-
COST OF GAS - PRIOR	595,196	(595,196)	-	-
- CURRENT	(841,120)	841,120	-	-
PGA RECONCILIATION - PRIOR	(62,726)			
- CURRENT	21,481			
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL	(21,498)	-	-	21,498
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	(308,255)	235,935	37,142	35,178
MISSOURI INCOME BEFORE FIT DEDUCTION	(61,436)	235,935	37,142	
MISSOURI ALLOCATED INCOME	(106,616)	-	-	
FIT DEDUCTION	46,564	(105,531)	(16,613)	
STATE TAXABLE INCOME - MISSOURI	(60,052)	130,404	20,529	
STATE TAX RATE	5.00%	5.00%	5.00%	
STATE TAX - MISSOURI	(1/3) (3,002)	(1/3) 6,520	(1/3) 1,026	
		3,518		

GREAT RIVER GAS COMPANY
DEFERRED INVESTMENT TAX CREDIT

SCHEDULE 5

VINTAGE YEAR	BALANCE 12/31/84	PROVISION	AMORTIZATION	BALANCE 12/31/85
1977	28,443	0	(1,293)	27,150
1978	11,617	(11,401)	474	690
1979	33,450	(34,843)	1,393	0
(SCHEDULE 1)	73,510	(46,244)	574	27,840

In 1985, the Company had a net operating loss for income tax purposes which was carried back to 1984. Consequently, previously utilized investment tax credit was freed up and prior amortization had to be reversed, which resulted in a positive amount of investment tax credit amortization in 1985. At December 31, 1985, the company had investment tax credit carryforwards of $474,050 on a total Company basis.

Schedule 6

GREAT RIVER GAS COMPANY

Missouri Division

Pro Forma Statement of Operating Income

Line No	(A) Description	(B) Actual Twelve Months Ended December 31, 1985 Company	(C) Actual Twelve Months Ended December 31, 1985 Missouri	(D) ADJUSTMENTS FOR CHANGE TO 40% TAX	(E) AS ADJUSTED FOR TAX RATE CHANGE 12/31/85	(F) ADDITIONAL REVENUE REQUIREMENT	(G) AS ADJUSTED 12/31/85
1	Operating Revenues	$27,903,092	12,128,083		12,128,083	81,154	12,209,237
	Operating Expenses:						
2	Cost of Gas Distributed	$21,988,658	8,843,521		8,843,521		8,843,521
3	Other Operation Expenses	3,225,504	1,634,030		1,634,030		1,634,030
4	Maintenance Expenses	283,817	136,995		136,995		136,995
5	Depreciation Expense	543,526	230,471		230,471		230,471
6	Amort. of Limited Term Plant	100,487	49,831		49,831		49,831
7	Taxes Other Than Income	757,263	488,650		488,650		488,650
8	Federal Income Taxes (Schedule 7)	(1,147)	59,807	(7,959)	51,848	31,472	83,320
9	State Income Taxes (Schedule 7)	(6,038)	3,535	395	3,930	2,483	6,413
10	Deferred Income Taxes (Schedule 7)	34,998	17,639	(2,100)	15,539		15,539
11	Investment Tax Credit (Schedule 5)	(3,311)	574		574		574
12	Total Utility Operating Expenses	$26,923,757	$11,465,053	($9,664)	$11,455,389	$33,955	$11,489,344
13	Net Utility Operating Income	$979,335	$663,030	$9,664	$672,694	$47,199	$719,893
14	Missouri Rate Base (Schedule 2)		5,589,234		5,589,234		5,589,234
15	Return On Rate Base (Schedule 3)		11.86%		12.04%		12.88%

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

STATE			FEDERAL		
MERCHANDISING & JOBBING REVENUES		28,726	NON-OPERATING INCOME		40,951
OTHER INTEREST		38,558	SIT DEDUCTION		18
NON-OPERATING ALLOCATION BASIS		67,284	TAXABLE NON-OP. INCOME		40,969
MISSOURI UTILITY ALLOCATION BASIS		12,195,367	FEDERAL TAX RATE		40.00%
NON-OPERATING %		0.5517%	NON-OPERATING FIT		16,388
MISSOURI SIT AS CALCULATED - CURRENT	(3/)	(3,311)	FIT AS COMPUTED	(2/)	68,236
SIT ALLOCTED TO NON-OPERATING		(18)	UTILITY FIT		51,848
SIT ALLOCATED TO MISSOURI UTILITY		(3,293)	LESS: ITC PROVISION		(0)
MISSOURI SIT - CURRENT/DEFERRED	(3/)	7,223	CURRENT UTILITY FIT(Schedule 6)		51,848
TOTAL MISSOURI UTILITY SIT (Schedule 6)		3,930			

DEFERRED TAXES

FEDERAL	(2/)	14,402
STATE	(3/)	1,137
(Schedule 6)		15,539

GREAT RIVER GAS CO.

Schedule 7
2/3

FEDERAL INCOME TAX - MISSOURI
TAX RATE OF 40%

	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	246,819	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(37,142)	-	37,142	-
RAR ADJUSTMENTS	0	-	-	(0)
DEFERRED DEBITS & CREDITS	(74,218)	74,218	-	-
COST OF GAS - PRIOR	595,196	(595,196)	-	-
- CURRENT	(841,120)	841,120	-	-
PGA RECONCILIATION - PRIOR	62,726	(62,726)		
- CURRENT	21,481	(21,481)		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL	(21,498)	-	-	21,498
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	(308,255)	235,935	37,142	35,178
MISSOURI INCOME BEFORE SIT DEDUCTION	(61,436)	235,935	37,142	
SIT DEDUCTION	3,311	(7,223)	(1,137)	
SURTAX EXEMPTION	0	-	-	
FEDERAL TAXABLE INCOME - MISSOURI	(58,125)	228,712	36,005	
FEDERAL TAX RATE	40.00%	40.00%	40.00%	
FEDERAL TAX - MISSOURI	(23,249)	91,485 (1/)	14,402	
TOTAL CURRENT (1/)	68,236			

GREAT RIVER GAS CO.

STATE INCOME TAX - MISSOURI
TAX RATE OF 40%

		CURRENT		CURRENT DEFERRRED		DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX		246,819		-		-	-
SCHEDULE M ITEMS							
EXCESS DEPRECIATION		(37,142)		-		37,142	-
RAR ADJUSTMENTS		0		-		-	(0)
DEFERRED DEBITS & CREDITS		(74,218)		74,218		-	-
COST OF GAS - PRIOR		595,196		(595,196)		-	-
- CURRENT		(841,120)		841,120		-	-
PGA RECONCILIATION - PRIOR		(62,726)					
- CURRENT		21,481					
ACRS RETIREMENTS		(0)					0
AFUDC		(0)		-		0	-
COST OF REMOVAL		(21,498)		-		-	21,498
ORIGINAL COST ADJUSTMENT		(13,680)		-		-	13,680
CONTRIBUTIONS		0		-		-	(0)
NET SCHEDULE M ITEMS		(308,255)		235,935		37,142	35,178
MISSOURI INCOME BEFORE FIT DEDUCTION		(61,436)		235,935		37,142	
MISSOURI ALLOCATED INCOME		(106,616)		-		-	
FIT DEDUCTION		40,378		(91,485)		(14,402)	
STATE TAXABLE INCOME - MISSOURI		(66,238)		144,450		22,740	
STATE TAX RATE		5.00%		5.00%		5.00%	
STATE TAX - MISSOURI	(1/3)	(3,311)	(1/3)	7,223	(1/3)	1,137	
			3,912				

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, 1985 — Company	(C) Actual Twelve Months Ended December 31, 1985 — Missouri	(D) ADJUSTMENTS FOR CHANGE TO 34% TAX	(E) AS ADJUSTED FOR TAX RATE CHANGE 12/31/85	(F) ADDITIONAL REVENUE REQUIREMENT	(G) AS ADJUSTED 12/31/85
1	Operating Revenues	$27,903,092	12,128,083		12,128,083	58,942	12,187,025
	Operating Expenses:						
2	Cost of Gas Distributed	$21,988,658	8,843,521		8,843,521		8,843,521
3	Other Operation Expenses	3,225,504	1,634,030		1,634,030		1,634,030
4	Maintenance Expenses	283,817	136,995		136,995		136,995
5	Depreciation Expense	543,526	230,471		230,471		230,471
6	Amort. of Limited Term Plant	100,487	49,831		49,831		49,831
7	Taxes Other Than Income	757,263	488,650		488,650		488,650
8	Federal Income Taxes (Schedule 9)	(1,147)	59,807	(15,869)	43,938	19,368	63,306
9	State Income Taxes (Schedule 9)	(6,038)	3,535	787	4,322	1,981	6,303
10	Deferred Income Taxes (Schedule 9)	34,998	17,639	(4,188)	13,451		13,451
11	Investment Tax Credit (Schedule 5)	(3,311)	574		574		574
12	Total Utility Operating Expenses	$26,923,757	$11,465,053	($19,270)	$11,445,783	$21,349	$11,467,132
13	Net Utility Operating Income	$979,335	$663,030	$19,270	$682,300	$37,593	$719,893
14	Missouri Rate Base (Schedule 2)		5,589,234		5,589,234		5,589,234
15	Return On Rate Base (Schedule 3)		11.86%		12.21%		12.88%

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

STATE			FEDERAL		
MERCHANDISING & JOBBING REVENUES		28,726	NON-OPERATING INCOME		40,951
OTHER INTEREST		38,558	SIT DEDUCTION		20
NON-OPERATING ALLOCATION BASIS		67,284	TAXABLE NON-OP. INCOME		40,971
MISSOURI UTILITY ALLOCATION BASIS		12,195,367	FEDERAL TAX RATE		34.00%
NON-OPERATING %		0.5517%	NON-OPERATING FIT		13,930
MISSOURI SIT AS CALCULATED - CURRENT	(3/)	(3,619)	FIT AS COMPUTED	(2/)	57,868
SIT ALLOCTED TO NON-OPERATING		(20)	UTILITY FIT		43,938
SIT ALLOCATED TO MISSOURI UTILITY		(3,599)	LESS: ITC PROVISION		(0)
MISSOURI SIT - CURRENT/DEFERRED	(3/)	7,921	CURRENT UTILITY FIT (Schedule 8)		43,938
TOTAL MISSOURI UTILITY SIT (Schedule 8)		4,322			

DEFERRED TAXES

FEDERAL	(2/)	12,204
STATE	(3/)	1,247
(Schedule 8)		13,451

GREAT RIVER GAS CO. Schedule 9

2/3

FEDERAL INCOME TAX - MISSOURI TAX RATE OF 34%	CURRENT	CURRENT DEFERRED	DEFERRED	FLOW-THROUGH
MISSOURI INCOME BEFORE TAX	246,819	-	-	-
SCHEDULE M ITEMS				
EXCESS DEPRECIATION	(37,142)	-	37,142	-
RAR ADJUSTMENTS	0	-	-	(0)
DEFERRED DEBITS & CREDITS	(74,218)	74,218	-	-
COST OF GAS - PRIOR	595,196	(595,196)	-	-
- CURRENT	(841,120)	841,120	-	-
PGA RECONCILIATION - PRIOR	62,726	(62,726)		
- CURRENT	21,481	(21,481)		
ACRS RETIREMENTS	(0)			0
AFUDC	(0)	-	0	-
COST OF REMOVAL	(21,498)	-	-	21,498
ORIGINAL COST ADJUSTMENT	(13,680)	-	-	13,680
CONTRIBUTIONS	0	-	-	(0)
NET SCHEDULE M ITEMS	(308,255)	235,935	37,142	35,178
MISSOURI INCOME BEFORE SIT DEDUCTION	(61,436)	235,935	37,142	
SIT DEDUCTION	3,619	(7,921)	(1,247)	
SURTAX EXEMPTION	0	-	-	
FEDERAL TAXABLE INCOME - MISSOURI	(57,817)	228,014	35,895	
FEDERAL TAX RATE	34.00%	34.00%	34.00%	
FEDERAL TAX - MISSOURI	(19,657)	77,525	(1/) 12,204	
TOTAL CURRENT (1/)	57,868			