BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

CASE NO. ER-83-40

In the matter of Missouri Public
Service Company of Kansas City,
Missouri, for authority to file
tariffs increasing rates for
electric service provided to
customers in the Missouri
service area of the company.

APPEARANCES: W. R. ENGLAND, III, Attorney at Law, JAMES C. SWEARENGEN, Attorney at Law, and GARY W. DUFFY, Attorney at Law, Hawkins, Brydon & Swearengen, P. O. Box 456, Jefferson City, Missouri 65102, for Missouri Public Service Company.

RICHARD W. FRENCH, Assistant Public Counsel, and MICHAEL C. PENDERGAST, Assistant Public Counsel, 1014 Northeast Drive, Jefferson City, Missouri 65101, for Office of the Public Counsel and the Public.

KENT M. RAGSDALE, General Counsel, MARY ANN GARR, Assistant General Counsel, A. SCOTT CAUGER, Assistant General Counsel, and DOUGLAS M. BROOKS, Assistant General Counsel, P. O. Box 360, Jefferson City, Missouri 65102, for Staff of the Missouri Public Service Commission.

REPORT AND ORDER

On August 13, 1982, the Missouri Public Service Company (Company or MoPub) submitted to the Missouri Public Service Commission (Commission) revised tariffs designed to increase Company's rates for electric service provided to the customers in its Missouri service area, bearing a proposed effective date of September 13, 1982. The tariffs were designed to increase Company's billed jurisdictional electric revenues by approximately $32,800,000 annually, exclusive of franchise and occupational taxes. By its "Suspension Order and Notice of Proceedings" issued September 3, 1982, in Case No. ER-83-40, the revised electric tariffs were suspended from September 13, 1982 to July 11, 1983, unless otherwise ordered by the Commission.

The Suspension Order and Notice of Proceedings issued in this case established deadlines for the filing of applications to intervene, the filing of prepared direct testimony and exhibits, and the filing of rebuttal testimony and exhibits, as defined in said Suspension Order. The schedule of proceedings was subsequently revised by Commission orders of October 7, 1982 and January 13, 1983.

On December 6, 1982, the Commission issued its Order Approving Notice and Setting Local Hearings. On Thursday, February 3, and Saturday, February 5, 1983, local public hearings were held in Sedalia and Raytown, Missouri, respectively. Public testimony was taken at both of such hearings, and has become a part of the record of this case.

On January 20, 1983, Trans World Airlines, Inc. filed its Petition for Leave to Intervene. Said Petition was denied by Commission Order of February 10, 1983.

On February 4, 1983, the Commission issued its Order indicating that it would consider six ratemaking standards found in Section 111(d) of the Public Utility Regulatory Policies Act (PURPA) to determine whether it is appropriate to implement such standards in order to meet the purposes of the Act. Consequently, the Commission ordered Company to publish, in a newspaper of general circulation, notice of the Commission's decision to consider these ratemaking standards in the context of the instant case and further requiring Company, Staff and any other interested party to file evidence concerning the adoption or rejection of the standards on or before March 1, 1983.

On February 24, 1983, the Commission issued its Order Approving Notice, wherein it approved Company's form of notice notifying customers of the Commission's decision to consider the aforementioned six ratemaking standards set forth in Section 111(d) of PURPA.

On March 14, 1983, pursuant to Commission Order, a prehearing conference in this case was convened in which representatives of the Company, the Staff of the

Public Service Commission (Staff), and the Office of Public Counsel (Public Counsel) participated.

The hearing of this case commenced in the Commission's hearing room in Jefferson City, Missouri, on Tuesday, March 29, 1983. The same parties which participated in the prehearing conference also participated in the hearing in this case. The hearing concluded on April 6, 1983. At the conclusion of the hearing a briefing schedule was established. The reading of the record by the Commission pursuant to Section 536.080, RSMo 1978, has not been waived.

Findings of Fact

The Missouri Public Service Commission makes the following findings of fact, based upon the competent and substantial evidence upon the whole record:

I. The Company

The Company is a public utility corporation duly organized and existing under the laws of the State of Missouri. The Company is an electric, gas and water corporation as defined in Chapters 386 and 393, RSMo 1978, with its administrative offices and principal place of business located at 10700 East 350 Highway, Kansas City, Missouri. It is engaged in the generation, transmission, distribution and sale of electric energy, as well as the furnishing of water service and natural gas service, within its authorized Missouri service area and under the jurisdiction of this Commission.

II. Elements of Cost of Service

The Company's authorized rates are generally based on its cost of service or its revenue requirement. As elements of its revenue requirement, Company is authorized to recover all of its reasonable and necessary operating expenses and, in addition, a reasonable rate of return on the value of its property used in public service. It is necessary, therefore, to establish the value of the Company's property and to establish a reasonable return to be applied to the value of its property or rate base which, when added to the allowable operating expenses, results in the total revenue requirement of Company. By calculating the Company's reasonable level of revenues, it is possible to mathematically calculate the existence and extent of any deficiency between the present earnings and any revenue requirement determined to be allowable in this rate proceeding.

III. The Test Year/True-Up

The purpose of using a test year is to create or construct a reasonably expected level of revenues, expenses and investments during the future period during which the rates, to be determined herein, will be in effect. All of the aspects of the test year operations may be adjusted upward or downward to exclude unusual or unreasonable items or to include unusual items by amortization or otherwise, in order to arrive at a proper allowable level of all of the elements of the Company's operations.

The parties to this case agreed to utilize, as a test year, the twelve-month period ending September 30, 1982, as adjusted for known and measurable changes through April 30, 1983.

IV. Contested Issues

The Commission herein below sets out its findings as to those issues presented to it for decision in the Hearing Memorandum in this case (Joint Exhibit No. 11), which were not resolved by the parties in the prehearing conference.

V. Net Operating Income

Several adjustments to the Company's operating revenues and expenses have been proposed. Generally, adjustments to operating revenues and expenses found to be proper represent a reduction or addition to the Company's net operating income, after giving effect to income tax liability. After adjustments made on the basis of the following issues, the Commission finds Company's net electric operating income under the present rates to be $26,416,157.

A. Purchased Power (Price)

For purposes of calculating test year purchased power expense, Company and Staff have agreed to the number of megawatt hours (MWH) utilized in the calculation. Company and Staff disagreed, however, as to the expense, or cost per MWH, which should be allowed for purchased power.

Company recommends the allowance of $27.28 per MWH for purchased power expense. In arriving at this number Company reviewed each month from January, 1980, through September, 1982, and determined which month was more "normal" in terms of weather conditions, generator outages, and types and amounts of power purchased. Company then "weighted" the varying amounts of purchased power by month. As the result of the aforementioned process, Company was able to construct a "normal" year for purposes of predicting the prices to be incurred. Company then applied a five percent escalation factor to some of the months selected where it felt such an adjustment was appropriate.

The Staff annualized purchased power in three distinct components: (1) border purchases; (2) spot purchases; (3) participation power. Border purchases relate to purchases made to supply the border areas of Company's system, and comprise about two percent of the total annualized purchased power. Spot purchases are purchases made on a random basis from other utilities. Generally, the price includes fuel and maintenance costs, plus profit to the seller. Participation power is power purchased in conjunction with a demand contract. In consideration of demand charges (expressed in dollars per kilowatt hour per week), the supplying utility dedicates a portion of its system generating capacity to the purchasing utility for a stated period of time. Participation power purchases consist of an energy charge in addition to a demand charge. Depending upon the particular contract, the supplying utility will supply energy to the "best of its ability", or in certain instances the supplying utility may be obligated to seek other sources should it be unable to meet purchaser requirements with its own generation.

Staff determined the average yearly price increase from 1979 to November 30, 1982 for border purchases, then applied the average increase to the composite price of border purchases during 1982, up to November. For spot purchases, Staff used the 1982 average actual price for spot purchased price, because Staff detected a downward price trend evidenced by a decrease in the average price of spot purchases between 1980 and 1981 and between 1981 and 1982. Staff utilized the current contract demand rate found in Company's participation power contracts with Kansas Power & Light and Union Electric Company as the appropriate price for the demand component of Company's participation power purchases. The energy component of participation power price was computed similar to border purchases. Using this analysis, Staff determined that the Company's reasonable and proper purchased power expense is $25.57 per MWH.

The Commission concludes that Staff's analysis of purchased power expense should be relied upon in this case. While the Commission would commend the Company for its attempt to perform an analysis of its purchased power expense consistent with that suggested in its last rate case, the Commission is of the opinion that Company's study is incomplete in several respects, particularly in relation to the criteria used for the selection of "normal" months. The Commission further concludes that the points raised by Staff in its reply brief concerning the use of "extra record" material in Company's initial brief are well taken. The Commission is extremely concerned that such material would be included in any brief filed with it and has therefore not considered any arguments related to asserted facts which could not be found in the record.

The Company will be allowed an expense of $25.57 per MWH for purchased power in this case.

B. <u>Edison Electric Institute (EEI)</u>

Company also proposes to include in its test year cost of service payments by the Company to the Edison Electric Institute (EEI) in the amount of $65,774.

Staff and Public Counsel argue that these dues should be excluded from Company's test year cost of service.

EEI is a voluntary association of investor-owned electric utility companies, whose members serve over ninety-nine percent of all ultimate customers of the investor-owned segment of the industry. Company asserts that, based upon recent Commission decisions, the debate over the inclusion of dues paid to EEI has shifted focus from an examination of EEI's lobbying as to whether the activities of EEI afford any benefit to ratepayers. Company therefore attempted in the instant case to establish the amount of monetary benefit to ratepayers as a result of the Company's participation in EEI meetings and committee functions as well as the benefits derived from EEI's lobbying efforts. Since these estimates show that the total dollar amount of EEI-related benefits far exceed the cost of EEI dues, the Company concludes the entire amount should be included in cost of service.

The Commission finds that the Company's analysis is faulty in several respects. First and most importantly, the Commission notes that Company did not attempt to allocate EEI-related expenses between ratepayers and shareholders. That is, Company attempted to prove only what benefits flowed to ratepayers from EEI activities. As the Commission has mentioned in a recent rate case involving Kansas City Power & Light Company (Case No. ER-82-66) "...the Company needs to develop some method of allocating expenses between its shareholders and the ratepayers once the benefits and activities leading thereto have been adequately quantified." It remains entirely possible that the amount of monetary benefit to shareholders could exceed the amount which may benefit the ratepayers. In that event the shareholders should bear a larger portion of the EEI dues than the ratepayers.

A second flaw in Company's analysis was that it selected only a few aspects of EEI's overall activities to examine. Upon cross-examination it became apparent that the Company witness had little or no actual knowledge of EEI's positions on any of the Company's selected items.

Public Counsel contends that since EEI directs its efforts to benefit utility shareholders that group should properly pay the entire cost of these efforts. The Commission rejects Public Counsel's position and reaffirms the allocation methodology described above.

For the foregoing reasons the Commission finds that the EEI dues should not be included as an expense for setting the permanent rates in this matter.

C. Maintenance Work Order Expense

Staff included in Company's test year cost of service non-wage maintenance expense actually paid as of September 30, 1982. Company opposes this adjustment and contends that, for purposes of its test year cost of service, a non-wage maintenance expense should be based upon actual payments as of December 31, 1982.

Staff states that it decided not to update non-wage maintenance work order expense beyond the test year period because the test year level alone significantly exceeded the 1981 and 1980 calendar year maintenance levels, and movement to a calendar year 1982 basis would have increased the differential even more significantly. Staff submits that the test year level of expense will provide a reasonable amount to be included in rates, but that updating the amount as requested by Company would provide an excessive level of maintenance expense for the Company.

In support of its position on this issue Company "trended" maintenance work order expense for the years 1978 through 1981 to a 1982 dollar level. Simply stated, the purpose of this trending is to put all historically incurred expenses on an equal footing or level. The bar graph which demonstrates the results of this "trending" appears at Schedule JWM M-12 of Exhibit No. 23. An examination of this graph reveals that in three of the past five years Company has incurred expenses totaling around ten ten million "constant" dollars per year. Company explained that the other two years were abnormal years, being due to forced expense cutbacks in 1978 and a major overhaul of Sibley Unit No. 3 in 1981.

Although the Staff pointed out some alleged shortcomings in Company's method of trending, it was unable to clearly show how they adversely affected Company's results. Further, the Staff did not point to any specific expenses in maintenance work orders that should be excluded because they were abnormally high for the calendar year period of 1982. Thus there is not substantial evidence showing that the 1982 actual incurred expenses, which represent the most current, known and measurable amounts, are unreasonable.

Based on the foregoing, the Commission finds that the calendar year 1982 expenses are reasonable and appropriate for use in this case, and therefore the Company should prevail on this issue.

D. <u>Maintenance Payroll</u>

Company determined its maintenance payroll expense by adjusting test year work order accruals to an actual payment basis through September 30, 1982. Staff on the other hand did not adjust its estimate of Company's accrued maintenance payroll for the test year to an actual paid level.

A second part of this issue concerns Staff's bookkeeping recommendations regarding maintenance payroll. Staff recommends that Company maintain its books and records so that: (1) the actual per book distribution of payroll to expense and capital accounts can be determined on a monthly basis at other than a calendar year end; and, (2) the payroll portion of maintenance work order accruals can be identified on a monthly basis at other than a calendar year end. Company contends that it does keep its books and records in such a manner that the actual distribution of payroll through expense and capital accounts can be determined on a monthly basis. Company has indicated that it no longer resists Staff's second recommendation. It asserts that it plans to change its accounting practices in 1984 such that the wage portion for all work order accruals will be identified.

Staff explains that Company's maintenance expense consists of two portions, wage and non-wage. Both portions are lumped together for estimating the next calendar year's maintenance level. This amount is divided by twelve, with the result booked on a monthly basis during the year as maintenance accrual. At the end of the calendar year Company determines what it actually paid for maintenance during that period and adjusts the total accrual up or down to the actually paid level.

In booking its accrual on a month-to-month basis Company does not identify the amount of payroll embedded in the accrual. As a result Staff cannot determine how accurately the percentage of payroll embedded in the test year maintenance accrual tracks the percentage of payroll in Company's actually paid maintenance for the same period. Therefore Staff, in order to utilize the accruals in determining per books payroll expense for a test year ending in a month other than December, must estimate what portion of the accruals represents payroll. Staff states that it cannot be confident that any adjustments it makes to per books payroll expense in a non-calendar test year are accurate. Staff's position then is that an adjustment made to an unverifiable estimate of a per book level of expense produces an equally unverifiable estimate of the adjustment. The use of an estimated adjustment leads to an estimated and probably misstated revenue requirement. Staff determined not to adjust accrued maintenance payroll to an actually paid level because such would give effect to an inaccurate and unverifiable level of payroll expense.

Company contends that a proper payroll adjustment should include an adjustment of test year maintenance accruals to an actual paid level, and that Staff's failure to do so denies Company recovery of its actual incurred expenses. Company further asserts that even if its bookkeeping practices do possess inherent shortcomings, it is irrelevant to the question of whether the maintenance payroll actually paid during the test year is reasonable or not.

For purposes of this proceeding the Commission finds that the maintenance payroll expense should be adjusted to an actual paid level as suggested by Company. By so finding, the Commission does not intend to approve of Company's bookkeeping methods. The Commission believes that the amount Company claims to have actually paid is more reasonable than the amount accrued as of September 30, 1982.

With regard to the issue of Staff's first accounting recommendation Staff asserts that if Company performed a distribution of its per book payroll to expense and capital on a monthly basis, then Staff would be able to identify with precision Company's per books payroll expense for any twelve-month period. Similarly, if Company maintained its books so that the payroll portion of all maintenance work order accruals can be identified on a monthly basis, Staff would not have to estimate that portion of the accruals in order to separately adjust wage and non-wage maintenance per books expense for a non-calendar year test year.

Company claims that it does maintain its books and records in a manner such that the actual distribution of payroll to expense and capital accounts can be determined on a monthly basis. Company asserts that the difference in opinions regarding Company's accounting capabilities apparently arises from the confusion between accrued maintenance payroll and actually paid maintenance payroll. Company accrues maintenance payroll for a calendar year period in order to minimize the effect fluctuations in the account would have on the earnings of Company. At year end, the accrued amount is adjusted to an actually paid basis. In light of the distinction between actual and accrued payroll, there appears to be no doubt that Company can distribute actually paid payroll for any month or combination of months. It is accrued payroll which Company cannot currently distribute on other than a calendar year-end basis. Company therefore submits that this additional requirement is unnecessary and would create additional work that serves no useful purpose. As to Staff's second accounting recommendation, Company claims no issue remains since it has agreed to change its accounting practices beginning in 1984. Staff feels that this change should be made as soon as possible and points out that if made in January, 1984, the procedure would be of no use until 1985 or December, 1984 when Company's books are closed. Thus, the same issue could arise if Company should file for a future rate increase utilizing a test year ending before December 31, 1984.

Having fully considered the positions of the parties on Staff's bookkeeping recommendations the Commission is of the opinion that Company should implement them as soon as possible. The Commission finds that there is no substantial evidence tending to show that this requirement will be an undue burden upon the Company.

E. Stipulation Concerning Accelerated Cost Recovery System

In the Hearing Memorandum in this case (Joint Exhibit No. 11), the parties stipulated and agreed that the Report and Order in the instant case should contain the following specific provision:

> ORDERED: _____. Company is authorized to use "the Accelerated Cost Recovery System" (ACRS) for calculating depreciation for income tax deduction purposes and is further authorized to use a normalization method of accounting, as defined and prescribed in the Economic Recovery Tax Act of 1981, and as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of that Act.

The Commission concludes that it is just and reasonable that the Company, pursuant to the Economic Recovery Tax Act of 1981, should be authorized to use "the Accelerated Cost Recovery System" as stipulated above. This Report and Order will contain the provisions stipulated to by the parties.

F. Stipulation Concerning Jeffrey Energy Center Operation and Maintenance Expense

Staff and Company presented as Joint Exhibit No. 35 a Stipulation and Agreement resolving the appropriate level of operation, maintenance and other expenses at the Jeffrey Energy Center to be included in the rates to be established by this proceeding. Public Counsel asserted no position on this matter in the Hearing Memorandum and indicated he had no objection to receipt of the Stipulation and Agreement. The aforementioned Stipulation and Agreement provides as follows:

STIPULATION AND AGREEMENT

> To resolve an issue involving the appropriate level of operation, maintenance and other expenses at the Jeffrey Energy Center to be included in the rates to be established in this proceeding, the undersigned parties hereby stipulate and agree as follows:

1. That the parties agree that $2,716,481 represents forecasted operation and maintenance, dispatching, administrative and general loading, and payroll tax loading expenses at the Jeffrey Energy Center for the period of July 1, 1983 through June 30, 1984 (referred to herein as JEC O&M) which is expected to be incurred by Missouri Public Service Company due to its minority ownership interest in JEC and the placing in service of unit number 3 at JEC. The parties agree that this amount of JEC O&M expense is appropriate for inclusion in Company's cost of service in this case and that Staff's final reconciliation in this case shall reflect that amount being included. The parties further agree that if the actual costs incurred by Missouri Public Service Company for those items as billed to it from Kansas Power and Light Company for that period are less than $2,716,481, then the difference between the actual costs incurred by Missouri Public Service Company and $2,716,481 will be subject to refund to its Missouri jurisdictional customers with interest.

2. That the parties agree that the Commission should establish a separate investigatory proceeding to be held in August or September 1984 for the purpose of audit and verification of these costs incurred by Missouri Public Service Company. In the event it is determined after such investigation that Missouri Public Service Company is obligated to refund any amount collected pursuant to this agreement, simple interest on such amount shall accrue beginning on January 1, 1984 until the date it is credited to the customers.

3. That the interest rate to be utilized for purposes of this agreement shall be 104 percent of the weighted average prime rate charged by Citibank during the period of July 1, 1983 through June 30, 1984.

4. That as a condition of and for purposes of this agreement, Missouri Public Service Company agrees to provide a monthly reconciliation from figures on the summary of Jeffrey Energy Center operation and maintenance expenses to the books and records of the Company by account number. Should the method of accounting in the JEC Summary change during the period in question, Company shall maintain its records in the months after the change to reflect its expense on a basis consistent with its records prior to the change.

5. That if Missouri Public Service Company is ordered to refund any amounts collected pursuant hereto, the refund shall be made within 60 days of the effective date of such order by a credit on the customer's bill utilizing the most recent month's usage and in a manner identical to the rate design determined appropriate for non-fuel expenses in this proceeding.

6. That if as a result of the true-up hearing in this case the Commission decides that the Company's interest in Jeffrey Energy Center Unit No. 3 should not be included in Company's rate base, then the proper level of JEC O&M expense to be included in Company's cost of service is the per books level for the test year.

7. That this stipulation and agreement represents a negotiated settlement for the sole purpose of disposing of an issue in this proceeding and none of the parties to this stipulation and agreement shall be prejudiced, bound by, or in any way affected by the terms of this stipulation and agreement in any other issue in this proceeding or in any future proceeding and that none of the parties shall be deemed to have approved or acquiesced in any ratemaking principle, method of cost of service determination, rate design proposal or cost allocation underlying or allegedly underlying this agreement. The undersigned parties further agree that this settlement and agreement is offered for the sole purpose of resolving the differences between the parties on this issue only, and that this settlement is the result of the particular set of circumstances involved in this issue.

8. That the undersigned parties waive cross-examination of each other's witnesses upon this issue in this proceeding and agree that the prefiled direct testimony on this issue of Company and Staff witnesses may be received in evidence without objection on the part of the undersigned.

9. That the undersigned parties urge the Commission to accept this joint recommendation as resolution of what was designated as the Jeffrey Energy Center Operation and Maintenance Expense issue in the Hearing Memorandum in this proceeding.

MISSOURI PUBLIC SERVICE COMPANY

By: /s/ Gary W. Duffy
Gary W. Duffy
HAWKINS, BRYDON & SWEARENGEN P. C.
P. O. Box 456
Jefferson City, Missouri 65102
(314) 635-7166

Attorneys for Missouri Public Service Company

STAFF OF THE MISSOURI PUBLIC SERVICE COMMISSION

By: /s/ Douglas M. Brooks
Douglas M. Brooks
Assistant General Counsel
P. O. Box 360
Jefferson City, Missouri 65102

The Commission finds that the Stipulation and Agreement entered into by Staff and Company provides a just and reasonable resolution of this issue and therefore should be accepted and adopted by the Commission.

VI. Rate Design

All parties agree with the Staff's proposal to equalize the rates for the first 600 kwhs in the summer excess block of Schedule 040, "Electric Space Heating" to those on Schedule 010, "Residential Service". To compensate for the resulting increase in revenues, Staff further proposes, and all parties agree, that the winter excess block of Schedule 040 be reduced by an amount equal to the additional revenues generated by the change in other blocks of Schedule 040. Consequently, the Schedule would generate the same revenues as before the change.

At the time of hearing the Company and Staff supported Staff's proposed rate design. It is the Staff and Company recommendation that any rate change ordered by the Commission that is attributable to fuel and fuel handling expenses and purchased power expense, be applied on a cents per kwh basis and the remaining increase or decrease be applied on an across-the-board percent. The Office of Public Counsel on the other hand proposes that any increase associated with the inclusion of Jeffrey Energy Center Unit No. 3 (JEC3) into rate base be spread to all rate classifications and within those classifications to all rate schedules on an equal cents per kwh basis.

Before discussing the merits of the parties' positions, the Company's objection to the testimony of witness Andersen must be ruled on. Public Counsel sponsored witness Andersen as a rebuttal witness to Company and Staff's position regarding this issue. Company maintains that since Public Counsel did not file direct testimony supporting its rate design proposal and in fact Public Counsel's affirmative proposal on this issue appears for the first time in the Hearing Memorandum, Exhibit 11, the testimony of its witness Andersen should be stricken along with all examination related thereto. In other words, Public Counsel should be precluded from presenting what Company maintains is direct testimony in its rebuttal testimony. Company asserts that the acceptance of this testimony would be a violation of the Commission's Suspension Order and Notice of Proceedings which defines among other things "direct" and "rebuttal" testimony. Company points out that the aforementioned order states that the Commission will not countenance any effort to present a party's entire case as rebuttal.

Although many of Company's points are well taken the Commission in this instance will accept witness Andersen's testimony. The Commission is of the opinion that since the Andersen testimony does not support Public Counsel's position but instead attempts to rebut the testimony of Staff and Company, it is acceptable. Further, as Staff noted during the hearing, all parties had an adequate amount of time to prepare for cross-examination of Andersen. The Commission is concerned with Public Counsel's presentation of this issue, and would suggest that in the future Public Counsel avoid any possibility of violating the spirit and intent of the Commission's orders concerning the filing of testimony.

In support of its position Staff states that Company's current rate structure could be best described as a culmination of the rate changes the Company has implemented through the years. It is Staff's position that absent results of the Company's load research study a traditional allocation of the rate changes in this docket are preferable. The evidence reveals that in the Company's next rate proceeding it will have load research data.

Staff further states that its proposal in this proceeding is identical to the result reached by the Commission in Case No. ER-82-66, involving the Kansas City Power & Light Company. Staff argues that the fact situations are substantially the same between Case No. ER-82-66 and the pertinent facts in this case. Those pertinent facts are the inclusion of a major coal-fired base load generating station in the Company's rate base that has caused a decrease in Company's fuel expense. There is a collection of load research data, the results of which can be implemented in

Company's next rate case. More specifically, in Case No. ER-82-66, Public Counsel argued that the inclusion of the Iatan generation station changed KCP&L's generation and fuel cost. Thus, in that case as in this case, the prospect of a reduction in fuel expense was presented. Because the addition of a generating station led to lower fuel expenses in the KCP&L case, Public Counsel argued that the Iatan plant's capacity costs should be treated as a variable or energy cost. In regards to this proposal the Commission held:

> "While Iatan may be the reason for lower fuel costs, the Commission from the instant record cannot reach the conclusion of Public Counsel respecting the reasons for the building of Iatan and the customer classes it benefits. These questions are more fully and accurately considered in the context of a full class cost-of-service study." Re: Kansas City Power & Light Company, Case No. ER-82-66, Report and Order, p. 50.

Consequently, because of the similarities in these two cases, the Staff believes that precedent should guide the Commission to reaffirm its decision in Case No. ER-82-66 and adopt the Staff and Company's rate design proposals in this case.

Public Counsel asserts that past Commission practice involving the allocating of costs of generating plants involves the time of use method of allocation. Therefore Public Counsel believes that since JEC3 is a base load unit and absent forced outages and scheduled maintenance, will be in operation all hours of the year, that the cost of the plant should be spread on a demand (kwh) basis.

Further, Public Counsel states that if the Commission decides to accept the Staff's allocation methodology, that is, a "fixed variable split", with "fixed" costs being spread on an across-the-board percent basis and "variable" costs being spread on a cents per kwh basis, the Commission should consider the modification suggested by Andersen in his rebuttal testimony. Andersen suggests that 64 percent of the non-fuel costs related to JEC3 should be properly classified as energy related. Public Counsel sets forth three reasons this adjustment should be accepted: First, Anderson's adjustment is in compliance with the adoption of the average and peak methodology as the proper proxy for the time of use allocation methodology which has been accepted by this Commission as a proper method for allocating generation costs. Second, this case is unique in that it involves the inclusion of a generation unit, JEC3, as the main, if not only, reason for any increase in the Company's revenue requirement. Third, the proposal by the Staff to classify only those expenses directly related to fuel as variable, is simplistic and not in accordance with previous Commission decisions or positions taken by Staff in previous cases.

While it appears that Public Counsel is correct in its assertion that JEC3 may be the reason for lower fuel costs and any increase in Company's revenue requirement in the context of this proceeding, the Commission cannot from the instant record adopt the position of Public Counsel. The record indicates that sufficient data should be available for a more complete resolution of this issue in the Company's next rate proceeding.

The Commission in the past has allocated fuel increases on a cents per kwh basis while spreading non-fuel increases on an equal percentage basis. The Commission finds that the decreased fuel expenses in this case should be reflected on a cents per kwh basis, and the increased revenue requirement resulting from non-fuel costs should be spread on an equal percentage basis as defined by Staff herein.

VII. Rate of Return

A. Capital Structure

All parties have agreed to use the following capital structure in an embedded cost of long-term debt and preferred and preference stock for purposes of this case:

Type of Capital	Amount	Ratio	Embedded Cost
Long-Term Debt	$151,791,000	51.73	9.21
Preferred and Preference Stock	43,540,000	14.84	10.09
Common Equity	98,073,000	33.43	---

B. Return on Equity

Once a capital structure and embedded cost of debt and preferred stock are determined, the ultimate finding as to a fair rate of return next requires the determination of the appropriate return on equity. Company contends that the appropriate return on equity to be determined in this proceeding should be between 16 and 17 percent. Staff contends that the appropriate return on equity lies within a range of 14.0 percent to 15.5 percent. Public Counsel supports Staff's position on this issue, but contends as well that the appropriate return in this proceeding should be less than the 14.9 percent return on equity granted to Company by this Commission in Case No. ER-82-39.

Staff and Company both performed discounted cash flow (DCF) analyses. Although both used the same basic formula, as will be seen herein, some theoretical as well as mathematical differences exist. Company also performed a risk premium analysis.

Company's DCF analysis was performed by its expert witness Dr. Eugene Brigham. Dr. Brigham utilized the following formula:

$$k = \frac{D_1}{P_o} + g$$

where k is the required rate of return on common equity, D_1 equals the dividend expected during the year, P_o equals the current stock price, and g equals the expected growth rate in earnings and dividends.

Staff's DCF analysis was performed by Mike Stubblefield. Mr. Stubblefield utilized the continuous form of the DCF model which assumes that dividends accrue to stockholders continuously, and that the stockholder discounts these dividends continuously. The continuous formula may be expressed as follows:

$$k = \frac{D_o}{P_o} + g$$

where k is the required rate of return on common equity, D_o equals current dividend rate, P_o equals the current market price, and g equals continuous growth rate.

From an investor's point of view, cash flow consists of the dividends received while holding stock, plus capital gain or loss, i.e., selling price less purchase price. The DCF formula considers both dividends and capital gains. Therefore, DCF attempts to determine the cash flows that an investor can reasonably expect to receive.

Both of the DCF formulas expressed above are only applicable to the cost of common equity obtained from internally obtained funds. Common equity obtained from public offerings of additional common shares is more costly due to flotation costs associated with selling the new shares. For externally obtained (market procured) common equity, the DCF formulas must be adjusted to reflect this additional cost by multiplying (1-f) and P_o. In this form of the equation, "f" equals flotation costs as a percent of book value.

The primary differences in the parties' DCF analyses lie in their respective methods of calculation of the dividend yield ($\frac{D_1}{P_o}$ and $\frac{D_o}{P_o}$) and growth rate portions (g) of their formulas. Company witness Brigham computes g by multiplying the fraction of the Company's earnings that it is expected to retain by the expected return on book equity. Brigham asserts that this product is an estimate of the future growth rate in both earnings and dividends per share. This formula yields a forecasted growth rate of 8 to 9 percent. Brigham specifically rejected the use of a historic growth pattern as the basis for computing g. Based upon his research, Brigham concluded that historic growth rates do not provide accurate forecasts of future growth. Brigham then checked his range of 8 to 9 percent by examining Value Line's July 30, 1982 report on Company. Value Line predicted a growth rate in dividends from 1982 to 1986 of 8 percent and further projected that beyond 1986, Company will earn 15 percent on average common equity and will have a retention rate of 58.8 percent. These figures when multiplied provide a "long-run growth rate" of 8.8 percent. Thus, Brigham found his 8 percent growth figure to be reasonable.

Mr. Stubblefield on the other hand utilized historic data to calculate g. Based upon historic data for dividend per share growth since 1965, adjusted retroactively for stock dividends, Stubblefield determined that Company's projected five-year growth rate for the period 1979 to 1983 would be 6.9 percent. Considering both historic data and the implied growth rates, assuming the currently indicated dividend is paid in 1983, Stubblefield determined an appropriate range for g as 6.2 percent to 6.9 percent.

The Commission is of the opinion that Staff's method of determining growth rate is preferable for purposes of this case. The Commission is not persuaded by Company's criticism of the use of historic data. Further, the Commission believes that Company's reliance upon short-term projections, contained in publications such as Value Line, to determine a "long-term" growth rate is not justified. Therefore the Commission finds that Staff's range of 6.2 to 6.9 percent is reasonable.

With regard to the dividend yield portion of the formula Dr. Brigham uses D_1 rather than D_o because he states D_o is a variable which is indicative of the "continuous growth model" as opposed to the discreet DCF model. Brigham asserts that the continuous growth model was developed for theoretical work in finance under the hypothetical condition of continuous dividend payments. Practicality and the real world dictate that investors do not receive dividends continuously. Investors receive dividends quarterly. Therefore Brigham asserts that D_1 or the dividend expected during the year is more appropriate.

In answer to Brigham's criticism of Stubblefield's use of D_o, Staff points out that there is little difference in their respective end results. Brigham in his updated direct testimony utilized a dividend figure of $1.15 and a stock price of $14.50 to arrive at a dividend yield, unadjusted for flotation, of 7.9 percent. Stubblefield analyzed Company's historic dividend yield and determined that the range exhibited by stock from August, 1982 to January, 1983, was an appropriate yield to utilize for DCF purposes. These yields range from a low of 7.4 percent to a high of

8.2 percent. Brigham's updated recommendation falls only 10 basis points above Stubblefield's midrange. Staff therefore suggests that arguments over the subtleties of using D_0 as opposed to a D_1 might be interesting from an academic viewpoint, but for practical purposes would have little or no effect on the selection of a specific dividend yield for use in this case.

While the Commission believes there may be some merit in the Company's criticism of Staff's dividend yield calculation, in particular with regard to Staff's use of D_0 rather than D_1, the Commission agrees with Staff that the difference in results derived from the calculations are not significant. The Commission finds Company's evidence insufficient to support a dividend yield range in excess of Staff's.

Flotation costs are generally those costs associated with the sale of new issues of common stock, and to account for such in determining a rate of return on common stock, an adjustment must be made (i.e., legal fees, the cost of accounting opinions, sales efforts, printing, etc., are deducted from the proceeds of the sale). After application of somewhat different methodologies the parties' flotation adjustments proved to be very similar, and will not be addressed in detail herein.

Combining his dividend yield range, growth range, and flotation adjustment, Brigham in his updated direct testimony determined 16.4 percent to be a "fair rate of return". Staff maintains the appropriate range to be between 14.0 percent and 15.5 percent.

As was mentioned above, Company also performed a risk premium analysis. A risk premium is based upon the theory that investors perceive stocks as riskier investments than bonds, and thus require a "risk premium" for stocks above and beyond the return they could earn from bonds. The four steps Dr. Brigham followed in applying the risk premium method are: (1) determining the rate of interest on long-term U.S. Treasury bonds; (2) estimating the risk premium, or the "additional return investors demand as compensation for investing in common stocks rather than in riskless U.S. government bonds"; (3) estimating an adjustment for flotation expenses and market pressure; (4) summing the foregoing elements to obtain the estimated fair rate of return on common equity for Company. Company notes that Brigham's updated risk premium approach supported a range of 16 to 17 percent.

The Commission concludes that the range of returns proposed by Staff is fair and reasonable, and should be relied on in this case. The Commission determines on the evidence herein, that the dividend yields and growth rates utilized by Company in its DCF analysis are overstated. Further, Company has not persuaded the Commission as to the accuracy or reliability of its "risk premium" analysis.

The Company has not persuaded the Commission as to the accuracy or reliability of its "risk premium" analysis.

Based upon the above findings the Commission concludes that the range of return proposed by Staff, 14.0 to 15.5 percent, is fair and reasonable. The Commission notes the midpoint of this range is 14.75 percent. In the Company's last rate case, ER-82-39, this Commission granted a return on common equity of 14.9 percent. The Commission further notes that there is no substantial evidence in this record showing that financial conditions, cost of equity in particular, have significantly changed since that time. For that reason the Commission is of the opinion that it is appropriate to adjust the required rate of return on equity within Staff's range to 14.9 percent.

Having considered the totality of the competent and substantial evidence before it in this case, the Commission finds that the appropriate and necessary return on common equity to be allowed Company is 14.9 percent. Applying this figure to the capital structure agreed to by the parties in this case results in an overall rate of return of 11.24 percent as reflected in the chart below:

Type of Capital	Ratio	Embedded Cost	Weighted Cost
Long-Term Debt	.5173	.0921	4.76%
Preferred and Preference Stock	.1484	.1009	1.50%
Common Equity	.3343	.1490	4.98%
	1.0000		11.24%

VIII. Rate of Return Adjustment

The Commission has noted in past cases the propriety of adjusting a company's rate of return to account for management efficiency, or the lack thereof. In the Commission's report and order issued in ER-82-39 and WR-82-50, Re: Missouri Public Service Company, the Commission addressed that issue directly and made a downward adjustment therein for poor company performance. Authority to make adjustments is clearly authorized by law. E.g., Bluefield Water Works & Improv. Company v. Public Service Commission, 262 U.S. 679, 693, 43 S. Ct. 675, 679, 67 L.Ed. 1177, 1183 (1923); Smyth v. Ames, 169 U.S. 466, 547, 18 S. Ct. 418, 42 L.Ed. 819 (1897); D. C. Transit System v. Washington Metro. Area Transit Commission, 466 F.2d 394, 407-13, 418-23 (D.C. Cir. 1972). New Jersey v. New Jersey Bell Tel. Company, 30 N.J. 16, 152 A.2d 35, 42 (1959); State ex rel. Utility Commission v. General Tel. Company, 285 N.C. 671, 208 S.E.2d 681, 686-690 (1974); Petition of New England Tel. and Tel. Company, 115 Vt. 494, 66 A.2d 135, 147 (1949); Re: Middle States Utilities Company, 72 P.U.R. (N.S.) 17, 28-30 (Mo.P.S.C. 1947). See, Re: North Missouri Tel. Company, 49 P.U.R.3d 313, 317-9 (Mo.P.S.C. 1963); Re: Western Light & Tel. Company, 10 P.U.R.3d 70, 74-76 (Mo.P.S.C. 1955); Re: The United Tel. Company, 1 Mo.P.S.C. (N.S.) 341, 349-50 (1948); Public Service Commission v. Missouri Utilities Company, 1932E P.U.R. 449, 489 (Mo.P.S.C. 1932); Re: Lexington Water Company, 1928E P.U.R. 322, 345-6 (Mo.P.S.C. 1928). See generally, Note, "Public Utility Law -- Public Service Commission Ordered Rebates for Inadequate Service," 1976 Wisc. L. Rev. 584 (1976); See cases cited at Mo.P.S.C. Digest, Rates, sec. 25; Mo.P.S.C. Digest, Return, sec. 30; 4 P.U.R. Digest (Cumulative), Rates, sec. 150; 5 P.U.R. Digest (Cumulative), Return, sec. 36; 1 Priest, Principles of Public Utility Regulation: Theory & Application, 206-7 (1969); Nichols and Welch, Ruling Principles of Utility Regulation: Rate of Return, 382-95 (1955); Nichols and Welch, Ruling Principles of Utility Rate Regulation: Rate of Return (Supplement A), 303-7 (1964); Bonbright, Principles of Public Utility Regulation, 262-5 (1961); Note, "The Duty of a Public Utility To Render Adequate Service: Its Scope and Enforcement," 62 Colum. L. Rev. 312, 329-31 (1962); Note, "Public Utilities -- Fair Rates for Fair Service," 53 N.C. L. Rev. 1083 (1975); Nolan, "Incentive Rate of Return," Public Utilities Fortnightly, 50 (July 30, 1981); Article, "Service, Efficiency and Rate of Return", Public Utilities Fortnightly, 46 (January 18, 1979).

The Supreme Court of the United States left no doubt in its Bluefield decision that efficient and economic management must be considered in the context of setting the allowed return on a utility company's rate base:

> "The return should be reasonably sufficient to assure confidence in the financial soundness of the utility, and should be adequate, under efficient and economic management, to maintain and support its credit, and enable it to raise money necessary for the proper discharge of its public duties." (Emphasis added).

Bluefield Water Works & Improv. Company v. Public Service Commission, supra, 262 U.S. at 693. This language makes it clear that the Commission must consider evidence regarding the efficiency and economy of management in order to determine a proper return for the Company. Moreover, since Bluefield, "[n]umerous other decisions have recognized that superior service commands a higher rate of return as a reward for management efficiency and, conversely, that inefficiency and inferior service merits a lower return." (Emphasis added). Note, Wisc. L. Rev., supra at 594.

An excellent statement of the relevant principles has been noted by Nichols and Welch, quoting a Michigan Commission ruling:

> <u>The commission believes it proper to base its rate of return in some degree upon the economy and efficiency with which the utility in question serves the public.</u> The owners of a utility who are alert and active at all times in an endeavor to serve their public at the lowest possible reasonable cost are entitled to be compensated for their efforts. The amount of money going to the owners of a utility by way of return upon the fair value of the property used and useful in serving the public is ordinarily rather a small proportion of the total amount the patrons of the utility are required to pay. By far the greater amount the public is required to pay is used up in operating expenses, taxes, and the maintenance of the property. Where the owners of a utility make use of every reasonable economy that will keep the operating expenses at the lowest possible reasonable figure, they can and should be granted a greater rate of return than they should receive where these efforts are not made. Assume two gas utilities existing under practically the same conditions; one of them through up-to-date methods is able to furnish gas to the public at a given price, while it costs the other 10 cents per M cubic feet more than it costs the first one. Should the owners of each utility receive the same rate of return? The commission thinks not. Enterprise, economy, and efficiency should receive some reward. The only means by which the owners of a utility can be compensated for their enterprise, efficiency, and economy is through the rate of return. Eight per cent is proper in some cases; 7 per cent or 6 per cent or possibly less would be sufficient in others. The commission will not hesitate to fix a higher rate of return where circumstances warrant it and <u>conversely a lower rate of return will be fixed where conditions seem to demand it</u> and this rate of return should be changed from time to time to correspond with the performance of the utility." (Emphasis added).

Nichols and Welch, <u>Ruling Principles of Utility Regulation: Rate of Return</u>, 382-3 (1955).

Commissions around the country have made adjustments varying from .4 percent to 1.0 percent. See: <u>Re: Detroit Edison</u>, 47 P.U.R.4th 292 (Mich. P.S.C. 1982); <u>Re: Southwestern Public Service Co.</u>, 27 P.U.R.4th 302 (N.M. P.S.C. 1978); <u>Re: General Telephone Co. of California</u>, 37 P.U.R.4th (Cal. P.U.C. 1980); <u>Re: Narragansett Electric</u>, 40 P.U.R.4th 498 (R.I. Util. Comm. 1980); <u>Re: General Telephone Co. of the Southwest</u>, 39 P.U.R.4th 483 (Texas P.U.C. 1980); <u>Re: Carolina Power and Electric</u>, 49 P.U.R.4th 188 (N.C. Util. Comm. 1982); <u>Re: Blountsville Telephone Company</u>, 49 P.U.R.4th 102 (Ala. P.S.C. 1982).

This Commission, since its Report and Order issued in ER-82-39 and WR-82-50, supra, has included in its rate case suspension orders directives requiring the parties to present evidence on issues this Commission finds indispensable to its ratemaking duties. One of those issues is management efficiency. The Commission believes that company performance in providing the most efficient least-cost energy to customers is a company factor to be recognized in the ratemaking process. This Commission is committed to a ratemaking policy consistent with the cited authorities wherein superior service by a utility which saves customers money due to lower operating expenses should be recognized by an upward adjustment to a utility's rate of return, while inferior performance should result in a downward adjustment.

In the recent case of Re: In the matter of the Empire District Electric Company, decided June 17, 1983, this Commission added .4 percent to the required return on equity. In this proceeding Mr. Richard C. Green, Jr. presented evidence on behalf of Company tending to show that in certain areas efficiency and productivity are reaching their full potential. However, the Commission is of the opinion that overall, there is not sufficient evidence in this case upon which to base an adjustment.

For future cases, evidence of the quality and quantity submitted in this case will not suffice. The Commission expects a continuing and ongoing effort on the part of the Company to ever improve its cost and quality of service. New evidence of superior or inferior performance must be introduced if an adjustment is to be made in future rate cases.

The Commission is of the opinion that recognition of Company performance through a rate of return adjustment is necessary to encourage the provision of energy on the most efficient and economical basis possible. However, the success of such a policy depends upon the investigation and presentation of information and evidence by the parties involved in rate cases such as this. Consequently, such information should be provided by all parties in future cases in order to consider a rate of return adjustment.

IX. Fair Value Rate Base

The Commission finds, based upon the evidence in the record, that the Missouri jurisdictional portion of the Company's fair value rate base to be $532,339,486 for electric operations. This amount includes all necessary components of rate base required by law. Applying the net operating income requirement of $32,612,972 for electric operations which has been found reasonable in this case to be the electric fair value rate base produces a fair value rate thereon of 6.13 percent, which the Commission finds to be fair and reasonable.

X. Revenue Deficiency

Based on the rate of return found to be proper herein, the Company's net operating income requirement for electric operations is $32,612,972 or $6,196,815 in addition to its net operating income under its existing rates. Applying the proper allowance for income taxes as provided herein, the additional revenue requirement as a result of the findings in this case is $11,801,732 on an annual basis, exclusive of applicable gross receipts and franchise taxes.

XI. PURPA

On February 4, 1983, the Commission issued an order in this matter requiring the Company, Staff and any other interested party to file evidence concerning the six ratemaking standards found in Section 111(d) of the Public Utility Regulatory Policies Act of 1978, P.L. 95-617, 16 U.S.C. Section 2601, et seq. Company, Staff and Public Counsel all recommended adoption of PURPA Section 111(d) Standards (1), (2), (3), (4), and (6), which read as follows:

> (1) Cost of Service. Rates charged by any electric utility for providing electric service to each class of electric consumers shall be designed, to the maximum extent practicable, to reflect the costs of providing electric service to such class, as determined under section 115(a).
>
> Section 115(a)--In undertaking the consideration and making the determination under section 111 with respect to the standard concerning cost of service established by section 111(d)(1), the costs of providing electric service to each class of electric consumers shall, to the maximum extent practicable, be determined on the basis of methods prescribed by the State regulatory authority. . . . Such methods shall to the maximum extent practicable--

(1) permit identification of differences in cost-incurrence, for each such class of electric consumers, attributable to daily and seasonal time of use of service and

(2) permit identification of differences in cost-incurrence attributable to differences in customer demand, and energy components of cost. In prescribing such methods, such State regulatory authority . . . shall take into account the extent to which total costs to an electric utility are likely to change if --

(A) additional capacity is added to meet peak demand relative to base demand; and

(B) additional kilowatt-hours of electric energy are delivered to electric consumers.

(2) Declining Block Rates. The energy component of a rate or the amount attributable to the energy component in a rate, charged by any electric utility for providing electric service during any period to any class of electric consumers may not decrease as kilowatt-hour consumption by such class increases during such period except to the extent that such utility demonstrates that the costs to such utility of providing electric service to such class, which costs are attributable to such energy component, decrease as such consumption increases during such period.

(3) Time-of-Day Rates. The rates charged by any electric utility for providing electric service to each class of electric consumers shall be on a time-of-day basis which reflects the costs of providing electric service to such class of electric consumers at different times of the day unless such rates are not cost-effective with respect to such class, as determined under section 115(b).

Section 115(b). In undertaking the consideration and making the determination required under section 111(d)(3) . . . a time-of-day rate charged by an electric utility for providing electric service to each class of electric consumers shall be determined to be cost-effective with respect to each such class if the long-run benefits of such rate to the electric utility and its electric consumers in the class concerned are likely to exceed the metering costs and other costs associated with the use of such rates.

(4) Seasonal Rates. The rates charged by an electric utility for providing electric service to each class of electric consumers shall be on a seasonal basis which reflects the costs of providing service to such class of consumers at different seasons of the year to the extent that such costs vary seasonally for such utility.

(5) Load Management Techniques. Each electric utility shall offer to its electric consumers such load management techniques as the Commission determines will--

(a) be practicable and cost-effective, (a load management technique shall be determined to be cost-effective if such technique is likely to reduce maximum kilowatt demand on the electric utility, and the long-run cost-savings to the utility of such reduction are likely to exceed the long-run costs to the utility associated with implementation of such technique.)

(b) be reliable, and

(c) provide useful energy or capacity management advantages to the electric utility.

Staff and Company further agree that Section 111(d) Standard (5), Interruptible Rate, should not be adopted by the Commission. In lieu of the PURPA Interruptible Rate Standard, Staff recommends the Commission adopt the following language as a statement of policy regarding the use of interruptible rates as a rate design and load management technique.

> Interruptible Rates. Each electric utility shall offer each industrial and commercial electric consumer an interruptible rate which reflects the cost of providing interruptible service, if it is determined that the long-run benefits of such rate to the electric utility and its electric consumers are likely to exceed the costs associated with the use of such rates including, but not limited to, metering costs.

Furthermore, Staff, Company and Public Counsel agree that should the Commission adopt the Load Management Standard Section 111(d)(6), a separate docket should be established to analyze the results of the load study of Company's system.

For that purpose, Staff, Company and Public Counsel suggest that the Commission utilize Case No. EO-81-66, which was created by Commission order on September 4, 1980 for the purpose, inter alia, of examining "the possibility of adapting load management to the Company's system" and which will become the repository for Company's load management study referred to above.

The Commission is of the opinion that the matters of agreement between the parties with respect to this issue are reasonable and should be accepted. Consequently, Standards 1, 2, 3, 4, and 6 as set forth in PURPA Section 111(d), are hereby adopted. Similarly, Section 111(d) Standard (5) is rejected and the Commission adopts the language suggested by Staff as set forth above as its policy regarding the use of interruptible rates. Furthermore the Commission agrees that Case No. EO-81-66 should be utilized to analyze the results of the load study of Company's system by Systems Control, Inc., and evaluate specific load management techniques to determine whether such load management techniques are practicable, cost-effective, reliable, and provide useful energy or capacity management advantages. In any event, the Commission is of the opinion that Company should propose specific load management techniques in Case No. EO-81-66, or in its next general rate case, but in any event no later than the filing of testimony in its next general rate case.

Conclusions

The Public Service Commission of Missouri reaches the following conclusions:

The Company is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1978.

The Company's tariffs which are the subject matter of this proceeding were suspended pursuant to authority vested in this Commission by Section 393.150, RSMo 1978. The burden of proof to show that the proposed increased rates are just and reasonable is upon the Company.

The Commission, after notice and hearing, may order a change in the rate, charge or rental, and any regulation or practice affecting the rate, charge or rental, and it may determine and prescribe a lawful rate, charge or rental and the lawful regulation or practice affecting said rate, charge or rental thereafter to be observed by any regulated company.

The Commission may consider all facts which, in its judgment, have any bearing upon a proper determination of the price to be charged with due regard, among other things, to a reasonable average return upon the capital actually expended and to the necessity of making reservations out of income for surplus and contingencies.

The order of this Commission is based upon competent and substantial evidence upon the whole record.

The Company's existing rates and charges for electric service are insufficient to yield reasonable compensation for electric service rendered by it in this state and, accordingly, revisions in the Company's applicable electric tariff charges, as herein authorized, are proper and appropriate and will yield the Company a fair return on the net original cost rate base or the fair value rate base found proper herein. Electric rates resulting from the authorized revisions will be fair, just, reasonable and sufficient and will not be unduly discriminatory or unduly preferential.

For ratemaking purposes, the Commission may accept a stipulation and settlement of any contested matter submitted by the parties. The Commission is of the opinion that the matters of agreement between the parties in this case are reasonable and proper and should be accepted.

All motions not heretofore ruled upon are denied and all objections not heretofore ruled upon are overruled.

The Company should file, in lieu of the proposed revised electric tariffs, new tariffs designed to increase gross electric revenues by $11,801,732 exclusive of gross receipts and franchise taxes.

It is, therefore,

ORDERED: 1. That the proposed revised electric tariffs filed by Missouri Public Service Company in Case No. ER-83-40, are hereby disapproved and the Company is authorized to file in lieu thereof, for approval by this Commission, permanent tariffs designed to increase gross revenues by $11,801,732 on an annual basis, exclusive of gross receipts and franchise taxes.

ORDERED: 2. That Missouri Public Service Company shall file the tariffs in compliance with this Report and Order on or before July 6, 1983.

ORDERED: 3. That the rates to be established in the tariffs may be effective for service rendered on and after July 11, 1983.

ORDERED: 4. That Company is authorized to use "the Accelerated Cost Recovery System" (ACRS) for calculating depreciation for income tax deduction purposes and is further authorized to use a normalization method of accounting, as defined and prescribed in the Economic Recovery Tax Act of 1981, and as defined and prescribed in any rulings or regulations which might be promulgated to further explain or define the provisions of that Act.

ORDERED: 5. That Company shall file either in Case No. EO-81-66 or its next general rate case, its proposed specific load management techniques. These shall be filed no later than the date scheduled for the filing of testimony in its next general rate case.

ORDERED: 6. That Joint Exhibit No. 36 be, and the same is, hereby received.

ORDERED: 7. That all objections and motions not heretofore ruled upon, are hereby overruled and denied.

ORDERED: 8. That this Report and Order shall become effective on the 11th day of July, 1983.

BY THE COMMISSION

Harvey G. Hubbs

Harvey G. Hubbs
Secretary

(S E A L)

Shapleigh, Chm., Fraas, Dority and Musgrave, Concur and certify compliance with the provisions of Section 536.080, RSMo 1978.

Dated at Jefferson City, Missouri, on this 1st day of July, 1983.