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## Missouri Public Service Commission

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Director, Administration

**DALE HARDY ROBERTS**  
Chief Administrative Law Judge

**DAN JOYCE**  
General Counsel

May 19, 1997

**FILED**

**MAY 19 1997**

MISSOURI  
PUBLIC SERVICE COMMISSION

Mr. Cecil I. Wright  
Executive Secretary  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102

**RE: Case No. GO-97-301 - In the matter of the application of Missouri Gas Energy for the issuance of an accounting authority order relating to gas safety projects.**

Dear Mr. Wright:

Enclosed for filing in the above-captioned case are an original and fourteen (14) conformed copies of a **Staff's Response to Application for Rehearing**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

**Roger W. Steiner**  
Assistant General Counsel  
(573) 751-7434  
(573) 751-9285 (Fax)

RWS/clw

Enclosure

cc: Counsel of Record

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

**FILED**

**MAY 19 1997**

MISSOURI  
PUBLIC SERVICE COMMISSION

In the matter of the application of Missouri )  
Gas Energy for the issuance of an accounting )  
authority order relating to gas safety projects. )

Case No. GO-97-301

**STAFF'S RESPONSE TO APPLICATION FOR REHEARING**

Missouri Gas Energy's (MGE or Company) Application for Rehearing (Application) should be denied for the following reasons.

1. MGE claims in paragraph 2 of its Application, that it is unreasonable, an abuse of discretion and unlawful for the Commission not to specify a carrying cost rate in its order granting MGE's application for an accounting authority order (AAO). By not specifying a carrying charge in its order, the Commission is in effect allowing MGE to use the carrying charge rate the Company believes to be most appropriate for deferral purposes. Of course, MGE will have to justify the rate chosen in its next rate proceeding, with some amount of the deferral potentially subject to disallowance if the Commission disagrees with MGE's method for calculating the deferral rate. If that risk of disallowance is unacceptable to MGE, then under the terms of the Commission's order the Company is totally free to use a carrying cost rate consistent with the Commission's decision in Case No. GR-96-285. MGE's recent general rate case (i.e., MGE's current AFUDC rate). But it is not unreasonable, an abuse of discretion or unlawful for the Commission to place on MGE the decision as to whether to book its proposed 9.46% carrying cost rate, and justify it in a subsequent rate proceeding, or use a rate more consistent with the Commission's order in Case No. GR-96-285.

2. MGE also requests in paragraph 5 of its application, "clarification" of the Commission's order regarding continued deferral of gas safety amounts booked from November 1996 to January 1997. MGE asks that the Commission clearly indicate that MGE may book these continued deferrals using the "actual carrying costs incurred", and not using the 10.54% rate specified by the Commission in its previous gas safety AAO, Case No. GO-94-234.

The Commission specifically rejected use of a 10.54% rate in its order in Case No. GR-96-285. It is reasonable to assume that use of a carrying charge rate consistent with that order for November 1996 - January 1997 deferrals would fully reflect the intent of the Commission as to the appropriate carrying cost rate to apply to these deferrals. The Staff believes MGE should select the appropriate carrying cost rate to use for November 1996 - January 1997 deferrals, as with the new deferrals authorized by the instant docket, but that clearly a 10.54% rate is not mandated by the Commission in light of its rate case order.

3. In paragraph 10 of its Application, MGE states:

The Commission, therefore, must specify a carrying cost rate in the accounting authority order to meet the standards of FASB Statement 71 for the creation of a valid regulatory asset which will permit independent auditors to recognize the associated deferrals and not require the immediate recognition of such expenditures in the period incurred.

Most utilities do not request that the Commission specify a carrying charge rate in their gas safety AAO applications, and the Commission does not do so. The Staff is aware that these utilities booked gas safety regulatory assets pursuant to the Commission's AAOs, and accordingly that FASB 71 presumably did not prohibit independent auditors from recognizing regulatory assets for these utilities notwithstanding the fact that the Commission did not direct a specific carrying cost rate to be used. For example, the Commission did not specify a carrying cost rate to be used in its

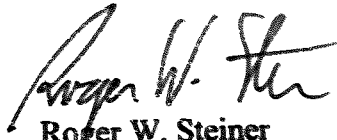
gas safety AAO granted to the Kansas Power and Light Company (KPL) in Case No. GO-92-185. Subsequent rate recovery of that regulatory asset was granted to KPL in Case No. GR-93-240.

Even if, however, the Commission was inclined to accept MGE's thinking that some guidance from the Commission was needed in respect to the appropriate carrying charge rate to use in the new deferral, then common sense would indicate that the Commission's order in Case No. GR-96-285 already provides such guidance sufficient for MGE and its external auditor (i.e., use of the AFUDC rate). In fact, no better evidence exists of what the Commission is likely to allow in rates in future rate cases in regard to deferred costs than what it has allowed in rates in past rate cases.

4. In the last paragraph of its Application MGE requests that the Commission revise ordered paragraph 2 of its order granting an AAO in this case, but does not explain why its wording is more appropriate than the Commission's wording. The Staff does not understand why MGE wants to remove the word "costs" from this paragraph. The Staff can only assume that it is MGE's position that the Commission cannot reserve the right to consider the ratemaking treatment of costs (including the cost of capital) deferred pursuant to this AAO. The wording should not change as the Commission's language accurately reflects its long-standing policy towards AAOs and their non-binding impact on subsequent rate proceedings.

**WHEREFORE**, the Staff requests that MGE's Application for Rehearing be denied. If MGE's Application is granted, the Commission should specify use of the AFUDC rate as the deferral carrying charge rate consistent with its last rate case order.

Respectfully submitted,

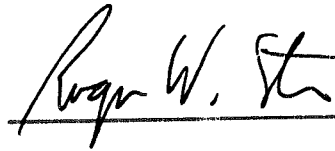


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### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 19th day of May, 1997.



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Service List  
Case No. GO-97-301  
Revised: May 19, 1997

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