

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

In the matter of the application of The Empire )  
District Electric Company for Authority to )  
Utilize Construction Accounting for its ) **Case No. EO-2010-0262**  
Investments Related to the Plum Point Power )  
Generation Unit. )

In the Matter of The Empire District Electric )  
Company of Joplin, Missouri for Authority to )  
File Tariffs Increasing Rates for Electric Service ) **Case No. ER-2010-0130**  
Provided to Customers in the Missouri Service )  
Area of the Company. )

**INFORMATIONAL PLEADING**

COMES NOW the Staff (“Staff”) of the Missouri Public Service Commission (“Commission”), by and through the Staff Counsel’s Office of the Commission and for its *Informational Pleading* states as follows:

1. At the May 5, 2010 Agenda Session, the Commission took up the *Staff’s Recommendation to Approve Application*, filed in Case No. EO-2010-0262.

2. As stated in the *Staff’s Recommendation to Approve Application*, the application of The Empire District Electric Company (“Empire”) for authority to utilize Construction Accounting for its investments related to the Plum Point Power Generation Unit was made consistent with the February 25, 2010, non-unanimous *Stipulation and Agreement* filed in Case No. ER-2010-0130.

3. At the May 5, 2010 Agenda Session, Commissioner Davis requested that the Staff provide an explanation of what constitutes Construction Accounting.

## Construction Accounting

In the Commission-approved stipulation and agreement in Case No. EO-2005-0263 (the “Empire Experimental Regulatory Plan Stipulation”), "Construction accounting" is defined in paragraph D.5 as the "use of the same treatment for expenditures and credits consistent with the accounting treatment prior to the time these investments are placed into service through the effective date of the next succeeding rate case." There is no further detail in Empire's Experimental Regulatory Plan Stipulation as to what the specific components of construction accounting might be.<sup>1</sup>

On February 25, 2010, the parties to Case No. ER-2010-0130 filed a non-unanimous *Stipulation and Agreement*, in which “Construction Accounting” is defined as the “use of the same treatment for expenditures and credits with the accounting treatment prior to the time that an investment is found to be Fully Operational and Used for Service through the effective date of compliance tariffs filed in the next succeeding general rate case.”

Stated a different way, Construction Accounting is the application of accounting treatments similar to what is normally afforded costs during a project’s construction period to plant in service costs during the period of time between when the plant project is found Fully

---

<sup>1</sup>In the Commission-approved stipulation and agreement in Case No. EO-2005-0329 (the “KCPL Experimental Regulatory Plan Stipulation”), the signatory parties agreed to support “Construction Accounting” for KCPL’s investment in (1) Iatan 2, (2) the Iatan 1 environmental upgrade, and (3) Iatan 1 and 2 common plant. Although the Commission has approved the KCPL Experimental Regulatory Plan Stipulation, the Commission has not yet entered an order following a hearing to contest the impact on rates of Construction Accounting regarding these investments. The KCPL Experimental Regulatory Plan Stipulation provides that:

The Signatory Parties agree that KCPL should be allowed to treat the Iatan 2 project under “Construction Accounting” to the effective date of new rates in the 2009 Rate Case. Construction Accounting will be the same treatment for expenditures and credits consistent with the treatment for Iatan 2 prior to Iatan 2’s commercial in service operation date. Construction Accounting will include treatment for test power and its valuation consistent with the treatment of such power prior to Iatan 2’s commercial in service operation date with the exception that such power valuation will include off-system sales. The AFUDC rate that will be used during this period will be consistent with the AFUDC rate calculation in Paragraph III.B.1.g. The amortization of the amounts deferred under this Construction Accounting method will be determined by the Commission in the 2009 Rate Case. The non-KCPL Signatory Parties reserve the right to challenge amounts deferred under this Paragraph in the event that they contend that the Iatan 2 commercial in service operation date was delayed due to imprudence relating to its construction.

Operational and Used for Service and the time the plant project's presence in rate base is reflected in the rates resulting from a general rate proceeding. When a plant project is under construction, all direct and indirect costs associated with that construction project are normally capitalized on the utility's balance sheet as Construction Work in Progress (CWIP), and then the construction costs are recovered over the life of the asset once the plant asset is deemed to be fully operational and used for service through ongoing accruals of depreciation expense. Once a plant project is fully operational and used for service, all ongoing costs associated with that plant item are then normally charged to expense as incurred, and are no longer capitalized.

In a broad sense, the Staff has interpreted Construction Accounting as being a set of procedures designed to protect utilities in certain circumstances from material negative impacts on earnings due to the lag between when a plant project is placed in-service and when the costs of that project can be reflected in the utility's rates. Use of construction accounting is intended to delay the point in which project costs are immediately charged to expense as incurred by the utility, and allow the utility to continue to capitalize project costs for a period of time after the project is fully operational and used for service, until rates are changed to reflect the addition of the plant item in question in the utility's rate base.

In the Empire Experimental Regulatory Plan Stipulation, the signatory parties agreed to support "Construction Accounting" for Empire's investment in (1) Iatan 2, (2) the Iatan 1 environmental upgrade, and (3) Iatan 1 and 2 common plant. Although the Commission has approved the Empire Experimental Regulatory Plan Stipulation, the Commission has not yet entered an order in a rate case in which Empire has requested rates that reflect the effects of Construction Accounting regarding these investments.

In the February 25 Case No. ER-2010-0130 non-unanimous *Stipulation and Agreement*, the signatories, among other things, agreed not to oppose a request by Empire for Construction Accounting for its investment in the Plum Point generating facility. Empire has so filed, and such request was supported by the Staff and approved by the Commission.

The Commission has not yet adjudicated which specific accounts are to be afforded Construction Accounting treatment. In Staff's interpretation, it is not practical to make such determination without knowledge of whether the value of a specific account is or is not material.

WHEREFORE, the Staff provides its *Informational Filing*, in conformance with the request of Commissioner Davis presented at the Commission's May 5, 2010 Agenda Session.

Respectfully submitted,

/s/ Sarah Kliethermes

Sarah L. Kliethermes  
Associate Counsel  
Missouri Bar No. 60024

Attorney for the Staff of the  
Missouri Public Service Commission  
P. O. Box 360  
Jefferson City, MO 65102  
(573) 751-6726 (Telephone)  
(573) 751-9285 (Fax)  
sarah.kliethermes@psc.mo.gov

### **CERTIFICATE OF SERVICE**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, transmitted by facsimile or electronically mailed to all counsel of record this 17<sup>th</sup> day of May, 2010.

/s/ Sarah Kliethermes