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January 3, 2002

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Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

FILED²

JAN 03 2002

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. GA-2002-285-In the Matter of the Application of UtiliCorp United Inc. d/b/a Missouri Public Service and St. Joseph Light & Power Company for an accounting authority order relating to Commission Rule 4 CSR 240-13.055(13).

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF MEMORANDUM AND RECOMMENDATION**.

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,

David A. Meyer
Associate General Counsel
(573) 751- 8706
dmeyer@mail.state.mo.us

Enclosure

cc: Counsel of Record

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

FILED²
JAN 03 2002
Missouri Public
Service Commission

In the Matter of the Application of)
UtiliCorp United Inc. d/b/a Missouri)
Public Service and St. Joseph Light &)
Power Company for an accounting)
authority order relating to Commission)
Rule 4 CSR 240-13.055(13).)

Case No. GA-2002-285

STAFF MEMORANDUM AND RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission and respectfully states as follows:

1. On December 14, 2001, UtiliCorp United d/b/a Missouri Public Service and St. Joseph Light & Power Company (UtiliCorp), filed an Application (Application) with the Commission for an Accounting Authority Order relating to its incremental expenses incurred and incremental revenues caused by the emergency amendment to the Commission's Cold Weather Rule (4 CSR 240-13.055(13)) between the effective date of the emergency amendment and September 30, 2003. As part of its Application, UtiliCorp requested expedited treatment and asked that the Commission issue an Accounting Authority Order prior to January 11, 2002.

2. Staff has reviewed the Application and its Memorandum is attached as Exhibit A. Despite the Application's deviation from the Commission's normal practice, Staff recognizes the special circumstances of this Application and acknowledges that 4 CSR 240-13.055(13) calls for Accounting Authority Orders as part of its emergency provisions, and indicates it is generally willing to accept the Accounting Authority Order and will accede to the language UtiliCorp proposes in its Application.

3. Staff makes its positive recommendation subject to two caveats. First, Staff recommends that the Commission clarify that its approval of UtiliCorp's Application does not

eliminate subsequent review of any amounts deferred through the Accounting Authority Order in rate proceedings for prudence and for verification of the incremental nature of the costs in question. Second, Staff recommends that any mechanism to recover UtiliCorp's bad debt expense that results from the proceedings in Case No. GO-2002-175 should be netted against the deferrals booked under the Accounting Authority Order resulting from this Application.

WHEREFORE, for the reasons set forth in its attached Memorandum, Staff respectfully requests that the Commission issue an Order granting UtiliCorp's request for an Accounting Authority Order, subject to the two caveats noted above and in the Staff Memorandum.

Respectfully submitted,

DANA K. JOYCE
General Counsel

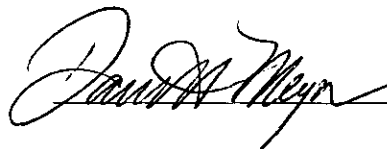


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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record and other interested parties as shown on the attached service list this 3rd day of January, 2002.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File
Case No. GA-2002-285
UtiliCorp United Inc., d/b/a Missouri Public Service Company
And St. Joseph Light & Power Company

FROM: Mark L. Oligschlaeger, Regulatory Auditor V ^{mlv}
Thomas M. Imhoff, Rates and Tariffs Supervisor Energy ^{TMS}
Mark L. Oligschlaeger ^{1/3/02} Thomas R. Schwager Jr. ^{1/5/02}
Project Coordinator/Date General Counsel's Office/Date

SUBJECT: Staff Recommendation on UtiliCorp United Inc.'s Application for an Accounting Authority Order and Motion for Expedited Treatment Pursuant to 4 CSR 240-13.055(13), Section 393.140 RSMo. 2000, 4 CSR 240-50.030 and 4 CSR 240-2.080(17)

DATE: January 3, 2002

On December 14, 2001, UtiliCorp United Inc. d/b/a Missouri Public Service Company and St. Joseph Light & Power Company (UCU or Company) of Kansas City, Missouri filed an Application For Accounting Authority Order Requested to be Issued Prior to January 11, 2002 and Motion for Expedited Treatment (Application) pertaining to certain costs and revenues associated with the Commission's recent promulgation of an Amendment to the Cold Weather Rule (Amendment) concerning gas utilities' provision of service to certain customers between November 18, 2001 and March 31, 2002.

Accounting authority orders (AAOs) have been used by the Commission in the past on a number of occasions to set forth specifications for accounting treatment of various items, usually those associated with extraordinary events. In general terms, AAOs allow utilities to defer certain costs on their balance sheets that would otherwise be charged to expense currently on the utilities' income statements. The deferral treatment preserves the costs so that the utility can seek rate recovery of the amounts in future rate proceedings.

On November 8, 2001, the Commission promulgated an Amendment to its existing Cold Weather Rule on an emergency basis. As part of the Amendment, the Commission stated:

The Commission shall grant an Accounting Authority Order...
upon application by a gas utility, and the gas utility may book to
Account 186 for review, audit and recovery all incremental expenses
Incurred and incremental revenues that are caused by this emergency
amendment. Any such Accounting Authority Order shall be effective
until September 30, 2003.
(Subsection 4 CSR 240-13.055(13)(F))

In response to the Amendment, UCU has requested an AAO from the Commission that utilizes the following language:

That UtiliCorp is authorized to maintain on its books a regulatory asset which represents all incremental expenses incurred and incremental revenues that are caused by 4 CSR 240-13.055(13) between the effective date of 4 CSR 240-13.055(13) and September 30, 2003. Such regulatory asset may remain on UtiliCorp's books until the effective date of a Report and Order in UtiliCorp's next general rate proceeding; and That the Commission intends that rates established in UtiliCorp's next general rate case will include, among other things, treatment of the amounts deferred by UtiliCorp in accordance with 4 CSR 240-13.055(13) and this AAO, and, if amortized, an amortization of such amounts deferred pursuant to this AAO, over a period of time no later than three years after rates become effective in UtiliCorp's next rate case.

UCU's request is not consistent with standard past Commission policies regarding AAOs in one major respect. The Commission has not made rate determinations in the context of AAO applications, and reserving all rate findings concerning deferred costs to subsequent rate proceedings. In this Application, UCU is seeking language from the Commission that would specify the Commission's intent to allow rate recovery of deferred costs in UCU's next rate proceedings, and would spell out that any rate recovery in the form of an expense amortization would be for a period not to exceed three years.

The Staff recognizes that the circumstances underlying this AAO application are unique, in that it involves costs incurred pursuant to a Commission rule and that the rule itself provides for use of AAOs for the purpose of recovering these costs. Therefore, the Staff is generally willing to accept the AAO language proposed by the Applicants, with two caveats. However, this position in the context of this AAO Application should not be interpreted as a general agreement by the Staff to the Commission making rate determinations in non-rate applications.

The Staff's first concern is that the language proposed by UtiliCorp, regarding the Commission allowing recovery of deferred costs pursuant to this AAO in subsequent rate proceedings, is suggestive of a "blank check". The Staff intends to review any amounts deferred through this AAO for prudence and to verify that the amounts are truly incremental to the Amendment and reflects fairly both beneficial and detrimental impacts of the rule. Attached to this recommendation is a copy of a "matrix" that illustrates the various factors that the Staff intends to review to ensure that any bad debt deferral by UCU represents a fair and comprehensive analysis of all financial impacts incrementally associated with the rule. (This matrix has been previously attached to the Stipulation and Agreement in Case No. GR-2001-629, Laclede Gas Company.) The Staff recommends that the Commission make clear in any order approving this AAO that any amounts to be deferred are subject to review in subsequent rate proceedings for prudence and for verification of the incremental nature of the costs in question.

MO PSC Case No. GO-2002-285

OFFICIAL CASE FILE MEMORANDUM

PAGE 3 OF 3

Second, UtiliCorp is currently a party to Case No. GO-2002-175, in which authority to implement various measures (including an AAO) is being sought to allow recovery of certain bad debt expenses that have and will be incurred by Missouri natural gas utilities. The Staff believes that approval of UCU's AAO request in the instant proceeding will make its application in Case No. GO-2002-175 moot. In any case, in the event that the Commission determines that some special mechanism for recovery of bad debt expense should be granted to UtiliCorp in Case No. GO-2002-175, the Staff recommends that the Commission order any such amounts be netted against the deferrals booked pursuant to this AAO application, Case No. GO-2002-285. This treatment is appropriate because there appears to be some duplication between the costs for which deferral or some other extraordinary treatment is being sought in Case No. GO-2002-175 and the costs for which deferral authority is sought in Case No. GO-2002-285.

The Commission's Staff for these reasons, recommends that the Commission approve the Joint Applicants' request for an AAO in this case, subject to the conditions discussed above. Staff is of the opinion that good cause for approval of this tariff sheet on less than thirty (30) days notice is demonstrated by UCU's steps to comply with the Commission's Amendment.

Cold Weather Default Emergency Rule

Dollar & Measurement Matrix

Customer Groups in Default of Cold Weather Agreements	Rule Impact @ Reconnection	Rule Impact After Reconnection if Customers Pay Bills	Rule Impact After Reconnection if Customers Do Not Pay Bill
Customers that <u>would</u> have reconnected without the emergency rule provisions	Receive less monies upon reconnection	Interest costs on monies not collected up-front	Additional Bad Debts equivalent to reduction in receipt of up-front monies and interest costs on monies not collected up-front
Customers that <u>would not</u> have reconnected without the emergency rule provisions	Receive more monies than amounts realized through normal collection practices	Reduction in bad debts equivalent to monies received in excess of amounts realized through normal collection practices	Additional bad debts equivalent to unpaid portion of 2001-2002 winter bill

Cold Weather Default Emergency Rule

Dollar & Measurement Matrix

Measurement Characteristics	Basis
Customers that <u>would</u> have reconnected without the emergency rule provisions	Historical experience of the number or percentage of customers that connect in previous winters
Customers that <u>would not</u> have reconnected without the emergency rule provisions	Difference between actual customers connected in default of cold weather agreements and historical experience of the number or percentage of customers that connect in previous winters.
Receive less monies upon reconnection	Difference between actual receipts and benchmark established from sample of prior customer arrangements.

Cold Weather Default Emergency Rule

Dollar & Measurement Matrix

Measurement Characteristics	Basis
Receive more monies than amounts realized through normal collection practices	Difference between actual receipts and benchmark established from percentage of monies realized through historical collection practices.
Interest costs on monies not collected up-front	Application of company's short-term debt interest rate to relevant amounts

**Cold Weather Default Emergency Rule
Dollar & Measurement Matrix**

Measurement Characteristic	Basis
Additional Bad Debts equivalent to reduction in receipt of up-front monies and interest costs on monies not collected up-front	Difference between actual receipts and benchmark established from sample of prior customer arrangements. Application of company's short-term debt interest rate to relevant amounts
Reduction in bad debts equivalent to monies receive in excess of amounts realized through normal collection practices	Difference between actual receipts and benchmark established from percentage of monies realized through historical collection practices.
Additional bad debts equivalent to unpaid portion of 2001-2002 winter bill	Actual customer billing records.

**Service List for
Case No. GA-2002-285
Revised: December 21, 2001 (SW)**

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