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January 12, 1987

FILED
JAN 13 1987
PUBLIC SERVICE COMMISSION

Mr. Harvey G. Hubbs, Secretary
Public Service Commission
301 West High Street, Suite 530
Floor 5, A-North
Jefferson City, MO 65101

Re: Generic Tax Investigation - Docket #AO-87-48

Dear Mr. Hubbs:

I enclose herewith an original and fourteen copies of Comments of Industrial Intervenors Monsanto, et al. on the Revenue Effects Upon Missouri Utilities of the Tax Reform Act of 1986 for filing in the above docket on behalf of Monsanto Company, et al., and Anheuser-Busch, Inc. and will appreciate your bringing this filing to the attention of the Commission.

Copies of the enclosed filing are being served on counsel for Kansas City Power & Light Company, Kansas Power & Light Company, Laclede Gas Company, and Union Electric Company as indicated below, and also on each of the other individuals listed below.

Yours very truly,

Robert C. Johnson

Robert C. Johnson

RCJ/lh

Enclosures

cc: Douglas Walther
Mark English
John Rosenberg
Gerald T. McNeive, Jr.
Paul A. Agathen
Richard W. French
Donald E. Johnstone
Stuart W. Conrad

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the investigation of the revenue effects upon Missouri utilities of the Tax Reform Act of 1986.	))))	Case No. AO-87-48

COMMENTS OF INDUSTRIAL INTERVENORS MONSANTO, ET AL.
ON THE REVENUE EFFECTS UPON MISSOURI UTILITIES
OF THE TAX REFORM ACT OF 1986

These comments respond to the filings of Associated Natural Gas Company, Kansas City Power and Light Co., KPL Gas Service, Laclede Gas Company, and Union Electric Company (the "utilities"), pursuant to the November 3, 1986 Order of the Missouri Public Service Commission ("MPSC" or "Commission"). The comments are provided on behalf of the following industrial consumers of electricity and natural gas: American-National Can Company, Anheuser-Busch, Inc., Ford Motor Company, General Motors Corporation, McDonnell Douglas Corporation, Monsanto Company, Noranda Aluminum, Inc., PPG Industries, Inc., Proctor and Gamble Manufacturing Company, and Union Carbide Corporation. These are large industrial consumers of natural gas and electricity in the state of Missouri with collective expenditures well in excess of $100 million for purchases of natural gas and electricity from the utilities listed above.

43

In the following paragraphs, we will first present comments on each utility's response to the MPSC's Order. Next, we will present comments regarding additional information which we believe the MPSC should request. Finally, we will offer recommendations as to the procedural course the MPSC should follow in this matter.

A. Utility - Specific Comments

1. Associated Natural Gas Company (ANGC)

In its filing, ANGC notes that the analysis presented for the per book results of calendar year ("CY") 1985 indicated a revenue deficiency for the its Missouri jurisdictional operation at income tax rates of 46%, 40%, or 34%. In addition, ANGC states that its earnings during CY 1986 indicates an increased revenue deficiency. On the other hand, the ANGC filings indicate significant tax savings at the 1987 average rate of 40% and at the 1988 rate of 34%.

In addition to its observations on the results of the quantitative data filed, ANGC states that a jurisdictional cost study must be performed which reflects pro forma adjustments appropriate to the test period. In regard to procedural alternatives, ANGC sees no alternative to a rate proceeding for the purpose of any revisions to its rates which would comprehend the Tax Reform Act of 1986 ("TRA" or "the Act").

While we find it reasonable to accept ANGC's recommendation that a rate proceeding be held for the purpose of evaluating effects of the Act as well as all other changes in revenue requirements, the Company's filing does not provide sufficient information to determine whether a rate proceeding is appropriate at this time.

In ANGC's Schedule DT-5, ANGC provides a statement on excess deferred tax reserve. In this statement, ANGC alleges that it has no substantial deferred tax balance which is not reversed in the following year. This statement seems inconsistent with information provided in GR-86-86. Attached to these comments as Attachment A is Schedule 4 from Section L of ANGC's minimum filing requirement filed in January, 1986, based on a test year ended June 30, 1985. This schedule illustrates a consistent positive balance in Account 283 from the mid-70's that has grown to a level of $1,747,153. This is not an insignificant amount, particularly as compared to the balance in Account 282, liberalized depreciation, of $1,863,700. We recommend that the MPSC direct ANGC to provide an explanation of the growing balance and an illustration of the manner in which the deferred tax balance in this account is turned around on an annual basis. We also recommend that ANGC be directed to provide the year-end 1985 and 1986 deferred tax balances with the same degree of specificity as provided in Attachment A. Finally, we recommend that the MPSC direct ANGC to quantify the effect of its one-year turn around claim in deferred taxes, excluding those for liberalized depreciation on its income, at assumed tax rates of 40% and 34%

The above data regarding ANGC's deferred taxes should provide the MPSC with a better assessment of the impact of the Act on ANGC. With this additional information, we believe the Commission should then have enough information to determine its future course of action.

2. Kansas City Power & Light Company (KCPL)

At present, we only have available for review a nonconfidential summary of KCPL's filing that was provided by copy of a letter from Mr. B. J. Beaudoin to Mr. Harrellson dated December 30, 1986. Therefore, we cannot comment at this time as to the details of KCPL's filing. We request leave to file specific comments in a timely fashion in this proceeding should we determine it is appropriate to do so, and if we can obtain additional details of the KCPL filing.

3. KPL Gas Service (KPL)

KPL Gas Service, in its response to the MPSC's Order, states that the excess deferred income tax reserve to be flowed back to consumers is insignificant. However, KPL has furnished no evidence to support this conclusion.

We recommend that the MPSC direct KPL to file additional information sufficient to allow the MPSC and other interested parties to examine the factual basis for KPL's conclusion. Such information should include the year-end balance for each balance sheet deferred tax account and sub-account for each historical year to the extent necessary to apply the Company's method for reversing the excess deferred tax balance.

We also note that KPL recommends that the Commission assess the effects of the TRA on a case-by-case basis. We concur and agree that this should be done promptly.

4. <u>Laclede Gas Company (Laclede)</u>

Laclede, in its response to the MPSC's Order, states that application of the 1987 and 1988 TRA provisions to the unadjusted 1985 operations has produced results that are likely to be significantly different than those actually experienced in 1987 and 1988. In other words, Laclede believes that the data do not provide a complete basis for a rate change. In our opinion, however, the data are at least sufficient to indicate generally the direction of the TRA's effects on Laclede. In addition, Laclede's response has raised an issue with respect to the treatment to be accorded the excess deferred tax balance. Undoubtedly, additional issues will be identified by other parties.

Laclede alleges that only the deferred tax balances that will exist at September 30, 1986, 1987 and 1988 (fiscal year-end) can be used to quantify the turn-around of benefits of the excess deferred taxes. This is true with respect to the appropriate rate levels for future years. However, the Commission's investigation will ultimately focus on the appropriate level of rates in the immediate future.

In this regard, we note that several utilities have provided information related to the deferred tax balance for a number of historical years, or vintages, under the theory that it is the historical data which underlie the year-end deferred tax balances in addition to the actual balance that must be considered in the assessment of the impact of the TRA. Laclede should be directed to provided the deferred tax balance in each balance sheet account and sub-account for the years ended September 30, 1985 and 1986, broken down into vintages that will enable Laclede to illustrate the derivation of the amount which is currently excess. Furthermore, Laclede should explain and illustrate the effect of excess taxes associated with excess deferred taxes on its results for FY 85 and FY 86, based on the TRA as applied to Laclede under the FY 87 and FY 88 assumptions. Laclede should also illustrate the computations which will develop the turn around benefit associated with liberalized depreciation in each of those years and explain why other estimated excess tax reserves are, in its filing, not reversed until the underlying entry is reversed.

We will reserve comment on Laclede's proposed tax adjustment clause until Laclede provides more information with respect to its proposal.

5. Union Electric Company (UE)

Our comments in regard to UE are addressed only to the Company's electric operations. UE is distinguished from the other utilities which are the subject of our comments in that it has provided a means to incorporate the savings arising out of the TRA into its retail rates. We note that UE has expressed a willingness to meet with the MPSC and discuss its proposal. UE has further volunteered that it may be possible to modify the proposal in a "mutually agreeable" manner. We support the concept of reducing UE's rates to reflect reduced costs. This constitutes an opportunity to address problems in the allocation of UE's revenue requirements among the classes and in the design of the primary service rate pursuant to the Commission's Order in EO-86-129.

We urge that the problems we have identified be raised and discussed in the course of negotiations towards a mutually agreeable rate change.

B. <u>Additional Informational Filing Requirements</u>

Generally, we have found that additional information would be useful in evaluating the impact of the TRA on the accounting for deferred taxes. In particular, it is our opinion that each utility should provide a breakdown of each deferred tax balance sheet account and sub-account into historical vintages and to provide a schedule which sets forth such balances based on 1986 tax rates and based on first- and second-year tax rates under the TRA.

Furthermore, each utility should provide a schedule which sets forth the annual amortization of each account and sub-account and describe how these excess tax collections will be returned to the utility's customers.

Additional information is appropriate for Commission consideration for several reasons. First, at some point the utilities will all require MPSC approval of changes in their rates. To the extent that they are separate cases, each will have to be decided on its own merits. However, it is also true that a consistent treatment toward tax accounting will likely evolve at some point in time. To that end, this docket provides an excellent opportunity for the utilities to provide illustrations and information regarding alternative treatments of the effects of the new tax law in general, and of excess deferred taxes in particular. It is clear that monies which have been collected for expenses expected to be incurred in the future, but which have now been forgiven, should be returned to the ratepayers at the earliest possible date.

It is important to distinguish these other deferred taxes (nondepreciation-related) from the depreciation-related deferred tax balances which are treated separately in the tax law. We interpret the TRA to place no restrictions on the return of these other deferred taxes, while depreciation-related deferred taxes must be flowed back under the "average rate assumption method." These issues are important in the determination of future rates.

Furthermore, how the utility accounts for the return of these taxes in the interval between the present and the time at which a rate case is held will affect both the utility's book earnings in this interim period and the amount of the deferred tax balance which remains for consideration in future rate proceedings. For this reason, all TRA ramifications should be explored now so that the MPSC will have sufficient information to issue an accounting order to the utilities should the MPSC deem such action appropriate.

In order to provide the MPSC with the necessary information, we suggest that the MPSC order each utility to provide the following information:

1. The balance in each deferred tax balance sheet account and sub-account, by vintage, to the extent such is necessary to determine the excess balance for 1985 and 1986.

2. An explanation of the accounting treatment the utility plans to afford such excess deferred tax balances until such time as the issue is considered by the MPSC in this or some other proceeding.

3. The appropriate treatment for amortizing or otherwise returning these balances to its ratepayers pursuant to its next rate proceeding, assuming such treatment is different than the interim treatment described previously in Item 2 above.

C. <u>Procedural Alternatives</u>

1. <u>Separate dockets</u>

We recommend that the MPSC establish a separate docket for each utility. The instant proceeding is adequate for gathering information which will be useful to the Commission in establishing a policy direction and establishing, within boundaries, the effects of the TRA. It is clear, however, that a consideration of exactly how the benefit of any reduced revenue requirement resulting from TRA is to be flowed back to the customer classes of each utility must be based upon facts and circumstances unique to each separate utility, and best adduced in individual proceedings. To accumulate such detailed information in a generic docket would be an administrative burden for the Commission and the parties, who would be required to provide copies of all filings and motions to all parties, including many parties potentially not affected by its particular motions and pleadings.

2. Informal meetings

We recommend that after the Commission obtains the additional information described above, it proceed by calling an informal meeting of each utility, all interested parties for that utility, and the Staff and Public Counsel to determine whether the issues can be resolved through a negotiated settlement. One consideration in such a meeting should be a rate reduction to implement the effects of the TRA. Failing a negotiated settlement, the parties have available to them the procedures provided by statute.

The above comments are respectfully submitted on behalf of the above-named large consumers of electric utility and gas services in the State of Missouri.

PEPER, MARTIN, JENSEN, MAICHEL
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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing has been served upon the Staff of the Missouri Public Service Commission, the Office of Public Counsel, Associated Natural Gas Company, Kansas City Power and Light Company, Kansas Power & Light Company, Laclede Gas Company, and Union Electric Company, by first class United States mail, postage prepaid, this 12st day of January, 1987.

Alphonse McMahon

3435z

Attachment A

STATE OF MISSOURI

PUBLIC SERVICE COMMISSION
MINIMUM FILING REQUIREMENT

EXHIBITS OF
ASSOCIATED NATURAL GAS COMPANY

Docket No. GR-86-86

BASED ON
TEST YEAR ENDED
JUNE 30, 1985

JANUARY 1986

ASSOCIATED NATURAL
GAS COMPANY

ASSOCIATED NATURAL GAS COMPANY

ACCUMULATED DEFERRED INCOME TAX
BY VINTAGE YEAR

JUNE 30, 1985

Line No.	Vintage Year	Account 190 Unbilled Revenue	Property Insurance Reserve	Injuries & Damages Reserve	Pensions	Computer	Total A/C 190
01	1971	$ -	$ -	$ -	$ -	$ -	$ -
02	1972	-	-	-	-	-	-
03	1973	-	-	-	-	-	-
04	1974	123,515	-	-	-	-	123,515
05	1975	65,127	-	-	-	-	65,127
06	1976	158,758	-	-	-	-	158,758
07	1977	218,821	-	-	-	-	218,821
08	1978	111,584	-	-	-	-	111,584
09	1979	(141,676)	14,394	29,037	-	-	(98,245)
10	1980	148,658	2,440	7,256	-	-	158,354
11	1981	345,749	14,097	9,785	-	-	369,631
12	1982	71,558	316	19,305	-	-	91,179
13	1983	148,473	23,165	(5,053)	-	-	166,585
14	1984	(319,180)	(33)	(24,611)	23,155	71,149	(249,520)
15	June 30, 1985	-	-	-	-	-	-
16	Balance at June 30, 1985	$931,387	$54,379	$35,719	$23,155	$71,149	$1,115,789

Account 282 Liberalized Depreciation	Account 283 Deferred Gas	Account 283 Purchased Gas Adjustment	Account 283 Rate Case	Account 283 Gain On Sale Of Kennett	Account 283 Customer Accounting	Account 283 Total A/C 283	Total Deferred Income Tax Net
$ 6,774	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,774
19,666	-	-	-	-	-	-	19,666
27,630	-	-	-	-	-	-	27,630
35,586	-	-	-	-	-	-	(87,929)
36,228	-	-	-	-	-	-	(28,899)
49,189	-	-	-	-	-	-	(109,569)
49,483	524,642	-	-	-	-	524,642	355,304
223,807	297,254	-	18,983	-	-	316,237	428,460
208,902	12,603	-	29,428	-	59,214	101,245	408,392
202,736	439,967	598,330	(12,766)	-	(29,643)	995,888	1,040,270
197,843	60,145	(67,889)	8,515	-	(29,571)	(28,800)	(200,588)
229,002	(1,334,611)	1,281,484	79,786	-	-	26,659	164,482
216,334	-	436,853	52,986	-	-	489,839	539,588
227,872	-	(1,155,218)	(55,371)	583,032	-	(627,557)	(150,165)
132,648	-	-	(51,000)	-	-	(51,000)	81,648
$1,863,700	$ -	$1,093,560	$70,561	$583,032	$ -	$1,747,153	$2,495,064