

**STATE OF MISSOURI
PUBLIC SERVICE COMMISSION
JEFFERSON CITY
December 14, 2000**

CASE NO: EO-2000-845

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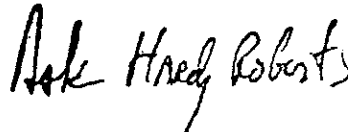
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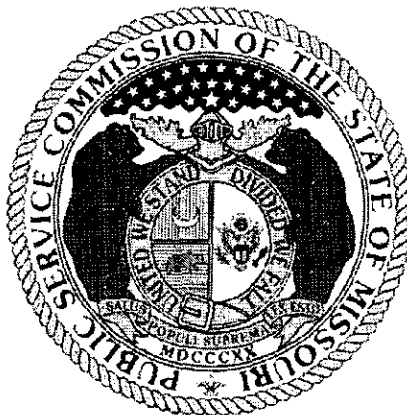
Enclosed find certified copy of a REPORT AND ORDER in the above-numbered case(s).

Sincerely,



**Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge**

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



In the Matter of the Application of)
St. Joseph Light & Power Company for the)
Issuance of an Accounting Authority)
Order Relating to its Electrical)
Operations)

Case No. EO-2000-845

REPORT AND ORDER

Issue Date: December 14, 2000

Effective Date: December 24, 2000

OF THE STATE OF MISSOURI

Case No. EO-2000-845

APPEARANCES

Gary W. Duffy, Attorney at Law, P.O. Box 456, Jefferson City, Missouri 65102, for St. Joseph Light & Power Company.

Stuart W. Conrad, Attorney at Law, and
Jeremiah D. Finnegan, Attorney at Law, 1209 Penntower, 3100 Broadway,
Kansas City, Missouri 64111, for AG Processing Inc.

Douglas E. Mischeel, Attorney at Law, and
John B. Coffman, Attorney at Law, P.O. Box 7800, Jefferson City, Missouri
65102, for the Office of the Public Counsel and the public.

Nathan Williams, Attorney at Law, P.O. Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

REGULATORY LAW JUDGE: Morris L. Woodruff

REPORT AND ORDER

Procedural History

On June 23, 2000, St. Joseph Light & Power Company (SJLP) filed an Application for Accounting Authority Order relating to its electrical operations. SJLP's Application indicated that a turbine failure and fire at its Lake Road Power Plant on June 7, 2000, resulted in the unplanned shutdown of Turbine 4 and Boiler 6 unit (Unit 4/6). The Application estimated that Unit 4/6 would be unavailable for power production until approximately September 1, 2000. SJLP indicated that as a result of the

loss of Unit 4/6, it would be required to purchase significant portions of its customer's energy requirements on the open market at prices considerably in excess of the energy cost that would have been experienced had Unit 4/6 been available. In its Application SJLP estimated that the cost of incremental replacement energy above the energy cost of Unit 4/6 and repair cost, net of insurance proceeds, would be \$7,105,000. SJLP estimated that the incremental cost, net of income taxes, would represent approximately fifty percent of its 1999 earnings, excluding merger-related expenses.

SJLP asked that the Commission issue an order authorizing SJLP to defer and record in Uniform System of Accounts, account 182.3, the incremental costs (net of any insurance proceeds) incurred by SJLP as a result of and in connection with the June 7, 2000 incident at the Lake Road Plant. This deferral would continue until the effective date established in SJLP's next general electric rate case. SJLP requested that the Commission's order authorizing the requested accounting procedures be effective no later than year-end 2000.

On June 30, 2000, AG Processing Inc. (AGP) filed an Application to Intervene in which it indicated its opposition to SJLP's request for an Accounting Authority Order. On July 3, 2000, the Staff of the Commission (Staff) filed a response to SJLP's application for an Accounting Authority Order. Staff indicated that it opposed the granting of the requested accounting authority. Also on July 3, 2000, the Office of the Public Counsel (Public Counsel) filed a motion asking the Commission to dismiss SJLP's application or in the alternative asking that the matter be set for hearing.

On July 17, 2000, the Commission issued an order that granted AGP's request to intervene. The same order provided notice of the application and directed that interested parties would be allowed until

August 16, 2000, to file a request to intervene. The order also scheduled an early prehearing conference for August 31, 2000, and directed the parties to file a proposed procedural schedule no later than September 11, 2000. On August 1, 2000, the Commission denied Public Counsel's Motion to Dismiss. No additional parties sought to intervene.

On September 14, 2000, the Commission issued an Order Adopting Procedural Schedule. That procedural schedule provided that SJLP would file direct testimony on September 18, 2000. All other parties were directed to file rebuttal testimony on October 10, 2000, and surrebuttal and cross-surrebuttal testimony on October 17, 2000. An evidentiary hearing was held on October 26 and 27, 2000. Initial briefs were filed on November 21, 2000, with final briefs filed on December 4, 2000.

Discussion

SJLP indicates that all that it is requesting from the Commission is the authority to defer certain costs¹ on its books until the Commission can have the opportunity to examine them in a future rate case. The Commission could grant such authority by issuing what is referred to as an Accounting Authority Order (AAO). SJLP argues that its expenses arising from the Lake Road incident meet the test used by the Commission in deciding whether or not an AAO is appropriate in that the costs are "extraordinary" and "nonrecurring." SJLP argues that so long as the costs meet that two-prong test then the Commission need not look at any other circumstances before granting the AAO.

Staff, Public Counsel and AGP argue that the Commission should not grant the requested AAO because the Lake Road incident resulted directly

¹ SJLP indicated that as of September 30, 2000, the actual costs, net of insurance, that it was requesting to be deferred was \$3,332,931. This amount is substantially less than the loss of \$7,105,000 that SJLP estimated it would sustain at the time it filed its request for an AAO.

from the acts or omissions of SJLP. They argue that SJLP should not be allowed to recover in rates the costs it incurred through its own imprudence and negligence.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact. The positions and arguments of all of the parties have been considered by the Commission in making this decision. Failure to specifically address a piece of evidence, position or argument of any party does not indicate that the Commission has failed to consider relevant evidence, but indicates rather that the omitted material was not dispositive of this decision.

The essential facts of what happened at SJLP's Lake Road Power Plant on June 7, 2000 are not disputed by any party. The parties do, however, have serious disagreements about the responsibility for those events and the impact of those events on whether or not the Commission should grant the AAO requested by SJLP.

SJLP's Lake Road power plant is located in south St. Joseph, Missouri, on the east bank of the Missouri River. The plant consists of four steam turbine-generators, three combustion turbines, and six fuel-fired steam boilers. Turbine-generator number 4 and boiler number 6, referred to as Unit 4/6, is primarily fueled by coal and, by itself, has a nominal generating capacity of 97 megawatts.

In the spring of 2000, Unit 4/6 was out of service for its annual spring outage, starting on May 2 and concluding on June 2. During this outage, routine boiler and plant maintenance were carried out. In addition, a new turbine-generator control system and a new static generator excitation system were installed.

On the afternoon of June 7, 2000, Unit 4/6 was running at near full capacity when it "tripped off." The turbine and generator were spinning at 3,600 revolutions per minute. When the trip occurred, stop valves on the turbine immediately interrupted the flow of steam from the boiler to the turbine, stopping the blades of the turbine.

Immediately after the unit tripped, the supply of lubricating oil to the unit's bearings and seal oil to the generator's hydrogen seals was interrupted. The loss of lubricating oil caused the bearings to almost instantly overheat with resulting mechanical damage. The loss of oil to the hydrogen seals allowed the hydrogen that is inside the generator to escape. The escaping hydrogen came in contact with the overheated bearings resulting in an explosion and fire and more damage to the unit.

The unit's supply of lubricating and seal oil is provided by three oil pumps. The first two were powered by AC current supplied by the Unit 4/6 generator. In other words, in normal operation the generator is generating the electric power necessary to run its own oil pumps. When the generator tripped and ceased generating power, the two AC oil pumps stopped working. The unit contains a back up, battery powered, DC oil pump that is supposed to sense the loss of oil pressure and automatically kick in to keep the oil flowing. When the unit tripped on June 7, the DC oil pump did not start as expected and the resulting loss of oil pressure caused the damage to the unit.

The DC oil pump did not start because the control for the pump was in an incorrect position, preventing the oil pump from automatically starting when oil pressure dropped. The parties vehemently disagreed about why the control was not in the correct position. SJLP argued that it resulted from an unforeseen trap created when General Electric installed a new turbine-generator control system during the planned spring outage. The other parties argued that the control was in the wrong position because

SJLP had not tested and verified the revised design of the control system before putting the unit back into service. It was also alleged that SJLP had failed to ensure that its operators were properly trained before placing the unit back into service. For reasons explained in the Commission's Conclusions of Law, it will not be necessary for the Commission to determine, in this proceeding, exactly why the Lake Road incident occurred. Neither will it be necessary, nor appropriate, for the Commission to assess blame for the incident in this case.

Conclusions of Law

The Missouri Public Service Commission has reached the following conclusions of law.

SJLP is an "electrical corporation" and a "public utility" as those terms are defined in Section 386.020, RSMo Supp. 1999, and is subject to the jurisdiction of the Commission pursuant to Section 386.250, RSMo Supp. 1999.

Section 393.140(4), RSMo 1996, authorizes the Commission to prescribe a uniform method of keeping accounts for electric utilities subject to Commission jurisdiction. Pursuant to that authority, in 4 CSR 240-20.030, the Commission directs that such electric utilities are to keep all accounts in conformity with the Uniform System of Accounts (USOA) Prescribed for Public Utilities and Licensees subject to the provisions of the Federal Power Act, as prescribed by the Federal Energy Regulatory Commission.

Section 393.140(8), RSMo 1996, grants the Commission the power, after hearing, to prescribe by order the accounts in which particular outlays and receipts shall be entered, charged or credited.

In its application, SJLP requests authority to:

defer and record in Uniform System of Accounts, account 182.3, the incremental costs (net of insurance proceeds)

incurred by SJLP as a result of and in connection with the June 7, 2000, incident at the Lake Road Plant . . . through the effective date of rates to be established in SJLP's next general electric rate case. SJLP also proposes that in such rate case, the incremental costs which are deferred and recorded in account 182.3 be amortized in rates over a five-year period, . . . (Application at p. 3-4)

The deferral of costs from one period to another period for the development of a revenue requirement violates the traditional method of setting rates whereby the Commission considers all relevant expenses in a particular historical test year to determine a reasonable revenue requirement for the future. The deferral of costs distorts the expenses recognized in that test year by importing costs from a previous period. For that reason, the Commission has considered requests for AAOs on a case-by-case basis and has granted them only under limited circumstances.

The test that the Commission has used for determining whether or not to grant an AAO is whether the expense to be deferred is "extraordinary, unusual and unique and not recurring." In the Matter of Missouri Public Service, 1 MPSC 3d 200, 205 (1991). However, the simple fact that an expense is extraordinary and nonrecurring is not enough to justify the deferral of that expense. Implicit in the Commission's previous orders regarding requests for AAOs is a requirement that there must be some reason why the expense to be deferred could not be immediately included for recovery in a rate case.

A representative of SJLP testified that SJLP could have filed an immediate rate case in which it could attempt to recover its costs resulting from the Lake Road incident. It did not do so because it did not wish to "muddy the water" regarding SJLP's pending merger with UtiliCorp United Inc. (UtiliCorp). Approval of the UtiliCorp/SJLP merger is before the Commission in case number EM-2000-292. Part of the proposed regulatory plan put forward by UtiliCorp in that case would have the Commission impose a five-year rate moratorium on the SJLP unit after the merger. That would

mean that SJLP could not bring a rate case within that five-year period. It is understandable that the existence of a rate freeze proposal by its merger partner would prompt SJLP not to propose a rate case while the merger case was pending.

However, the Commission has now issued its ruling in the SJLP/UtiliCorp merger case and has rejected UtiliCorp's proposed regulatory plan including the five-year rate moratorium. Therefore, SJLP, either as a stand-alone company or as a unit of UtiliCorp, is now free to file a rate case. If SJLP chooses to file a rate case within a reasonable amount of time, at least before June of 2001, it is likely that the appropriate test year would include the Lake Road Incident of June 7, 2000. There is, therefore, no longer any reason why the expenses should be deferred through an AAO.

The Commission will not now make any determination about whether or not SJLP should be allowed to recover in rates the costs for which it was seeking an AAO. Such a determination is a rate case issue and this is not a rate case.

Based on the evidence, the arguments of the parties, the Commission's Findings of Fact and its Conclusions of Law, the Commission determines that SJLP's Application for an Accounting Authority Order should be denied.

IT IS THEREFORE ORDERED:

1. That the Application for Accounting Authority Order filed by St. Joseph Light & Power Company on June 23, 2000, is denied.

2. This Report and Order shall become effective on December 24, 2000.

BY THE COMMISSION

A handwritten signature in black ink, appearing to read "Dale Hardy Roberts". The signature is written in a cursive, somewhat stylized script.

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

(S E A L)

Lumpe, Ch., Drainer, Schemenauer, and Simmons, CC.,
concur and certify compliance with the provisions
of Section 536.080, RSMo 1994.
Murray, C., absent

Dated at Jefferson City, Missouri,
on this 14th day of December, 2000.

ALJ/Sec'y: Woodruff/Boyce

12-13 ED-2000-845
Date Circulated CASE NO.

12-13-89
Lumpke, Chair

12-13-89
Draimer, Vice Chair

12-13-89
Murray, Commissioner

12-13-89
Schemenauer, Commissioner

KS
Simmons, Commissioner

12-14
Agenda Date

Action taken: 4-0 AP

Must Vote Not Later Than _____

STATE OF MISSOURI
OFFICE OF THE PUBLIC SERVICE COMMISSION

I have compared the preceding copy with the original on file in this office and

I do hereby certify the same to be a true copy therefrom and the whole thereof.

WITNESS my hand and seal of the Public Service Commission, at Jefferson City,
Missouri, this 14th day of December 2000.

Dale Hardy Roberts

Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge

