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Exhibit No. 135

Evergy Missouri West – Exhibit 135
Report and Order
from ER-90-101 (10/05/90)
File Nos. ER-2022-0129 & ER-2022-0130

1990 WL 488941 (Mo.P.S.C.), 118 P.U.R.4th 215, 30 Mo.P.S.C. (N.S.) 320

Re Missouri Public Service, a division of UtiliCorp United, Inc.

Case Nos. ER-90-101 et al.

Missouri Public Service Commission

October 5, 1990

APPEARANCES: *James C. Swearengen*, *Gary W. Duffy*, and *Paul A. Boudreau*, Attorneys at Law, Hawkins, Brydon, Swearengen & England, P.C., 312 East Capitol Avenue, Jefferson City, Missouri 6510*l*, for UtiliCorp United Inc., d/b/a Missouri Public Service. *Richard S. Brownlee, III, and* Gerald E. Roark, *Attorneys at Law, Hendren and Andrae, 235 East High Street, Jefferson City, Missouri 65101, for Sedalia Industrial Energy Users Association.* Martha S. Hogerty, *Public Counsel, and* Lewis R. Mills, Jr., *and* John B. Coffman, *Assistant Public Counsels, Office of the Public Counsel, P.O. Box 7800, Jefferson City, Missouri 65102, for Office of the Public Counsel and the public.* Steven Dottheim, *Deputy General Counsel,* Penny G. Baker *and* William K. Haas, *Assistant General Counsels, Missouri Public Service Commission, P.O. Box 360, Jefferson City, Missouri 65102, for Staff of the Missouri Public Service Commission.*

Before Steinmeier, chairman, Mueller, Rauch, McClure, and Letsch-Roderique, commissioners, and O'Donnell, hearing examiner.

By the COMMISSION:

Procedural History

On November 17, 1989, Missouri Public Service (MPS or Company) a division of UtiliCorp United, Inc. (UtiliCorp) filed tariffs designed to increase its gross annual electric revenue by approximately $25.5 million or 12.7 percent, exclusive of applicable franchise and occupational taxes. By order issued December 8, 1989, the Commission suspended these tariffs to October 17, 1990, and established a schedule of proceedings. The Commission also consolidated with this rate case, Case No. ER-88-167 dealing with Company's application to revise depreciation rates, Case No. EO-90-114 dealing with Company's request to defer and book to Account 186 certain depreciation expenses, and Case No. ER-90-268 dealing with Company's request to initiate a late payment charge of 1.5 percent on delinquent consumer bills. Depreciation rates and deferral of certain costs associated with the life extension and coal conversion projects at Company's Sibley Generating Station (Sibley) are issues addressed in this Report and Order. There is no longer any opposition of the parties to implementation of Company's late payment charge.

By order issued April 27, 1990, the Commission granted the applications to intervene of Pittsburgh Corning Corporation and the Sedalia Industrial Energy Users Association comprised of Alcolac, Inc.; Broderick & Bascom Wire Rope Company; Gardner-Denver Company, Division of Cooper Industries, Inc.; Kelsey-Hayes Company; Stahl Specialty Company; and Waterloo Industries, Inc. (Industrial Intervenors). By notice issued May 29, 1990, the Commission revised the procedural schedule. The Commission's Staff (Staff) and the Office of the Public Counsel (Public Counsel) also participated in this case. Staff and Public Counsel presented a joint case in these proceedings.

The parties participated in the prehearing conference commencing on June 12, 1990. As a result of the prehearing conference, the parties signed a hearing memorandum which was received into evidence as Joint Exhibit 1. The signatories agreed that the hearing memorandum, except as otherwise noted therein, delineated most of the areas of agreement and all the areas of disagreement in these proceedings among some or all of the parties as of the close of the prehearing conference. Subsequent to the receipt into evidence of the hearing memorandum, the issues of weather normalization, pensions and the subissue of cost of removal in regard to the Sibley maintenance versus capital issues were settled.

Prefiled testimony was submitted and oral hearings were held July 5-13, 1990. Confidential material was filed by the parties under seal pursuant to agreements concluded by the parties. Briefs were filed by the parties pursuant to a schedule established by the hearing examiner.

During the course of the Commission's deliberations the parties were asked to calculate and submit to the Commission numerical reconciliations based upon hypothetical resolutions of the issues litigated in this case. The Commission's request and the submissions filed in response to it have been marked as late-filed exhibits and will be received into the record.

On October 4, 1990, the Commission held an oral hearing to take additional evidence on the narrow issue of whether Staff/Public Counsel included future additions in their calculation of the life expectancy element in establishing depreciation rates for steam production plant.

At the July hearing, the parties requested that the hearing examiner withhold ruling on the admissibility of Exhibits 20 and 21 until the parties had more time to examine them. In addition, at the July hearing numbers were reserved for late-filed exhibits. At the October hearing Public Counsel objected to the receipt into evidence of Late-Filed Exhibit 130. That objection was overruled. There have been no objections to any of the other exhibits. The Commission will receive into the record Exhibits 20 and 21 and Late-Filed Exhibits 126, 127, 128, 129, as updated, 130, 131 and 132. The contents of these exhibits are described in Appendix A.

Findings of Fact

The Missouri Public Service Commission, having considered all the competent and substantial evidence upon the whole record, makes the following findings of fact.

The effect on the revenue requirement of the Commission's decisions on the issues litigated herein can be found in Late-Filed Exhibit 129, as modified on October 4, 1990, which is an update of the Second Addendum to Joint Exhibit 1.

I. *TEST YEAR AND TRUE-UP*

Company and Staff/Public Counsel have used a test year ending December 31, 1989. Staff/Public Counsel have updated for known and measurable events through approximately April 30, 1990. Company's direct case proposed to adjust the test year for changes through October I, 1990, with a true up through the period ending June 30, 1990. Company no longer proposes that a true-up be performed. Staff/Public Counsel do not propose that a true-up be performed.

The Commission determines that a test year ending December 31, 1989, updated for known and measurable changes through approximately April 30, 1990, except where found otherwise herein in regard to a particular issue, is reasonable.

II. *RATE BASE ISSUES*

A. *Fuel Inventory*

Staff/Public Counsel and Company disagree on what amount of the fuel oil kept in inventory for use at Company's Greenwood and Nevada generating stations should be reflected in Company's rate base. Company includes in rate base the carrying charges on 2,780,230 gallons of burnable oil as inventory for the Greenwood station and 202,685 gallons for the Nevada station. Company calculates these levels based upon commitments to the Southwest Power Pool in which Company participates and the length of time it takes to resupply the inventory of each plant. It takes seven to ten days to resupply the Greenwood station and four to six days to resupply the Nevada station. In its calculation, Company uses a ressupply period of 7.37 days for Greenwood and 4.75 days for Nevada.

Staff/Public Counsel contend that 440,713 gallons of the burnable oil kept in inventory at the Greenwood station should be reflected in Company's rate base and 38,050 gallons of the burnable oil kept in inventory at the Nevada station should be reflected in Company's rate base. Staff/Public Counsel state that they calculate these levels based upon the history of fuel use at each plant and the time it takes to resupply each plant.

Staff/Public Counsel argue that the fuel inventory level that Company would reflect in rate base is unreasonable because it is based upon burning the maximum amount of fuel that can be burned at these plants for 24 hours per day for the length of time it takes to resupply each plant. Staff/Public Counsel state that it is unreasonable to assume that these plants would burn fuel oil at the maximum possible capacity for anytime much less for the number of days it takes to resupply these plants. Staff/Public Counsel point out that the average hourly oil usage at Greenwood during the two-week period of system peak was 3,596 gallons per hour during the period 1980 through 1989. This figure is substantially below the 18,000 gallon per hour consumption possible at full capacity. Staff/Public Counsel point out that the average hourly burn during voltage support conditions for the Nevada plant was 1,684 gallons per hour for the period 1987 through February, 1990, well below the maximum capacity burn of 2,280 gallons per hour.

Company argues that Staff/Public Counsel's level of fuel inventory to be included in rate base is unreasonable because it does not reflect the requirement of the Southwest Power Pool that these plants be on line and ready for service at full load upon ten minutes notice. Company further argues that using the historical method applied by Staff/Public Counsel could result in insufficient fuel reserves when unforeseen emergencies in future years increase the levels of demand placed on these plants over the levels experienced in the past. To illustrate this point Company used Staff/Public Counsel's method to 'estimate' required inventory levels for the years 1986, 1987 and 1988. The levels set by Staff/Public Counsel's method were significantly below the levels of actual fuel use in those three years. Staff/Public Counsel counter that the method employed by them in this case would not have been reasonable in setting inventory levels for 1986, 1987 and 1988 since Staff/Public Counsel would never recommend an inventory level based on a year which was obviously low in fuel use compared to other years.

The Commission determines that the carrying costs on Company's proposed levels of fuel inventory should be reflected in Company's rate base. Company has shown that the historical method employed by Staff/Public Counsel does not always accurately estimate future demand. Company is required by the Southwest Power Pool to be ready for service at full load within ten minutes. It is reasonable to set the fuel inventory based upon maximum use for the length of time it takes to resupply since maximum use could be required by the power pool. The Commission cannot conclude that the inventory levels proposed by Company are unreasonable.

B. *Line Extension Fee Waivers*

Company proposes that rates reflect line extension fees waived by Company to induce prospective customers to take its electrical services instead of the electrical services of an unregulated competitor. Line extension fees are charges paid by prospective customers to extend electrical facilities to their residences so that they can take a company's electrical services. Electrical companies regulated by the Commission can petition for the Commission's approval of a waiver of such fees when the company is able to show that the prospective customers might take the service of an electrical cooperative unless the regulated utility is permitted to match the cooperative's waiver of extension fees. Electrical cooperatives are not regulated by the Commission except as to matters of safety. Company believes that these waived amounts should be included in rate base since the waivers made it possible to add customers to share in the embedded costs of facilities thereby lowering the amount each customer pays for these embedded costs. Company reasons that this is a benefit to all ratepayers who should, therefore, share in its cost.

Staff/Public Counsel oppose including these waivers in rate base. Staff/Public Counsel state that their opposition is consistent with Staff's recommendation in the dockets approving the waiver of these fees. Staff/Public Counsel propose that the amount of these waivers be added to the level of contributions in aid of construction (CIAC) as of April 30, 1990, which operates as an offset to rate base. Staff/Public Counsel contend that there is a question as to the overall advantage of inducing new customers to take Company's electrical service. Staff/Public Counsel argue that the short-run advantage of spreading embedded costs over more customers may be more than offset by the long-run cost of adding new capacity to meet future demand. Staff/Public Counsel believe that Company should be conducting a study to ascertain whether it is more advantageous to avoid rather than promote new load given the high cost of adding new capacity in the future.

Company responds that Staff/Public Counsel does not appreciate the benefit to all customers from the addition of new customers to share embedded costs. Company also contends that Staff/Public Counsel have calculated the amount of the waivers incorrectly. Company asserts that the amount of the waivers should be based on the Company's currently approved tariffs governing line extensions. In addition, Company argues that Staff/Public Counsel have mistakenly included $4,090 in the amount in question. Company contends that this amount represents refundable advances which would have been refunded to the builder by now had the charges not been waived.

Staff/Public Counsel argue that the amount of the waivers to be included in CIAC should be the amount actually approved for waiver by the Commission based upon the tariff in effect at that time and the recommendation made to the Commission at that time by Staff. Staff/Public Counsel further argue that the amount of waivers that they recommend be included in CIAC, is based on Company's responses to data requests.

The Commission further determines that these waivers should be included in CIAC as an offset to the amount of rate base. Without a study with which to ascertain the relative advantage of avoiding rather than promoting new load, the Commission cannot determine whether there is an overall benefit to other ratepayers from the addition of new customers. Without a showing of overall benefit, the Commission will not allocate to ratepayers the cost of these waivers.

The Commission notes that Company admits by response to a data request that Company's cost of incremental capacity will jump to $14.59 per kilowatt per month in 1999 and $28.80 per kilowatt per month in 2003 from $2.54 per kilowatt per month now and $6.07 per kilowatt per month in 1998. Exhibit 84, page 21 and Schedule 1. Under these circumstances, the Commission believes it is necessary for Company to justify these waivers with more than a recital of the theoretical benefits of spreading embedded costs over more customers. The Commission believes that Staff/Public Counsel's recommendation is well taken that Company should study whether promotional practices such as these will result, in the long run, in incremental revenues exceeding incremental costs.

The Commission further determines that the method for calculating these waivers should be based on the tariff in effect when the waivers were approved since that tariff would dictate the amounts that would have been paid to Company by those prospective customers had the requests for waivers been denied. The Commission finds also that the amount of $4,090 which Company states should be excluded from CIAC because it represents refundable advances, should be included in CIAC since the adjustment recommended by Staff/Public Counsel is based upon responses by Company to data requests.

III. *OPERATING EXPENSES*

A. *Advertising*

This issue involves the question of whether the expense of certain advertisements commissioned by the Company should be reflected in rates. Staff/Public Counsel contend that the expense incurred by Company for institutional and certain promotional advertisements should not be reflected in rates. Staff/Public Counsel argue that Company has not shown the benefit to ratepayers from these promotional advertisements outweighs their cost. These advertisements primarily either urge commercial enterprises to locate in Company's service area or urge residential customers to buy heat pumps.

For the past few years the Commission has allowed the expense for advertisements to be reflected in rates under three circumstances: (1) When the advertisements convey ways to safely use the Company's service; (2) when the advertisements convey information useful in providing adequate service such as detailing the Company's office hours or its rates for services;

(3) when the advertisements encourage the use of the Company's service provided the Company can show that the benefits received by ratepayers from the advertising outweigh the costs associated with the advertising and that the benefit to ratepayers is a result of the advertising. *In re Kansas City Power & Light Company (KCPL)*, 28 Mo.P.S.C. (N.S.) 228, 269, 75 PUR4th 1 (1986) and *Staff v. Union Electric Company (UE)*, 29 Mo.P.S.C. (N.S.) 305, 90 PUR4th 400 (1987).

Company asserts that these advertisements should not be classified as promotional but rather as advertisements to advance economic development and the use of electricity during off-peak periods of the day. Company contends that expenses for advertisements promoting economic development and off-peak use should be reflected in rates without the necessity to show that the revenues exceed the costs of the program. Company further argues that these advertisements can be causally related to behaviors which benefit the ratepayers by lowering the cost of electricity to all customers. Company points to studies that these advertisements have resulted in a higher awareness among residential customers of heat pumps and a higher likelihood of considering the purchase of heat pumps. Company contends that greater use of heat pumps results in a lower cost of electricity for ratepayers because heat pumps increase the demand for electricity at off-peak periods.

Company also states that seven companies have located their facilities in MPS's service area after having contacted MPS. Company alleges that these companies contacted MPS as a result of MPS's advertising. Company contends that the additional revenue from these new companies and the additional revenue from a growth in electric space heating customers outweigh Company's expenses for these advertisements. Further, Company argues that the addition of these customers improves its load factor. The load factor is the ratio of the average demand during a designated period to the peak demand occurring in that period. Company has a low load factor which it desires to improve. Company argues that the Commission has always fostered the efforts of electric utilities to improve their load factor and that it is inconsistent with that policy for Staff/Public Counsel to propose the disallowance of expenses associated with advertising directed toward improving the load factor.

Staff/Public Counsel counter Company's assertions by stating that Company shows no causal relationship between Company's advertisements and behavior resulting in greater off-peak use of electricity. Staff/Public Counsel argue that other variables may be the cause of this behavior. For example, Staff/Public Counsel contend that the companies that relocated in MPS's service area might have relocated there because of labor availability, transportation facilities, tax abatements or any number of other reasons. Staff/Public Counsel reason that any Company about to locate in an area would call the monopoly offering electrical service in that area before moving there. Staff/Public Counsel also contend that customers might purchase heat pumps for any number of reasons unrelated to Company's advertising including the price of electricity compared to gas, new housing starts and safety concerns arising from recent gas explosions in the area.

Finally, Staff/Public Counsel argue that these advertisements might be counterproductive since heat pumps and new commercial customers use electricity at peak periods as well as off-peak periods. Staff/Public Counsel contend that money spent to induce greater demand at peak will result in Company having to spend money sooner on additional generating facilities or purchase power. Therefore, Staff/Public Counsel assert that this advertising might result ultimately in higher costs for ratepayers.

The Commission determines that the advertisements in question are either promotional or institutional. According to the standard established by the Commission in past cases, institutional advertisements are to be excluded. *KCPL* and *UE*. Some of the promotional advertisements attempt to get companies to locate in MPS's service area and some attempt to promote the use of heat pumps, outdoor lighting and electric heating. In any of these cases this advertising promotes or encourages the use of electricity thereby fitting into the promotional category of advertising which is used by this Commission to classify advertisements for ratemaking purposes. *KCPL*, at 270.

Under the standard established by the Commission in past cases the Company must demonstrate a benefit to ratepayers in order to recover the cost of promotional advertising in rates. Company must show that these advertisements resulted in a benefit to the ratepayers which outweighed the cost of the advertising. *KCPL* and *UE*. Company fails to show that these advertisements resulted in a benefit to ratepayers.

It is speculative to assert as Company does that certain advertisements caused companies to move to MPS's service area or that other advertisements caused residential customers to buy heat pumps. These statements by Company are conclusory and there is no direct evidence that this, in fact, happened. Company did not survey these customers to ascertain what motivated them to engage in these actions. Because companies located in MPS's service area and because residential ratepayers bought heat pumps and because Company did advertising promoting these behaviors, Company assumes there is a causal relationship. Company did not conduct a survey which would exclude other possible causal factors thereby establishing a valid inference that a causal relationship existed between these two variables.

The increased revenue claimed by Company to benefit ratepayers cannot be causally linked to the advertising expense involved. Therefore, there can be no showing that a benefit to ratepayers outweighed any expense Company wants them to bear. It is admirable that Company is trying to improve its load factor and the economic climate of the communities it serves. However, to have the cost of promotional advertising reflected in rates, Company must show that the cost of this activity resulted in an even greater benefit to ratepayers. This, Company has not done. When companies meet this burden of proof the Commission will be open to reflecting in rates the cost of promoting economic development.

B. *John Knox Village*

John Knox Village (JKV) is a not-for-profit corporation operating a retirement complex with 663 individually metered electrical accounts generating 663 bills every month paid by JKV with a single check. Company and JKV have concluded a contract yet to be approved by the Commission which allows JKV to be billed as though the usage measured by the individual meters were measured by one meter. This practice is called conjunctive metering and permits JKV to avoid multiple customer charges and the higher initial block kilowatt hour rate charged residential customers. Company is seeking approval of this contract and a known and measurable adjustment to the test year figures reflecting the decrease in revenue expected from implementing this contract.

Company notes that this contract must be approved before it can be afforded ratemaking treatment. Company asserts that this contract should be approved because it forestalls loss of JKV to a competing source of power and, therefore, does not constitute impermissible discrimination against Company's other ratepayers. Company contends that there is greater benefit to the other ratepayers from retaining the customers at JKV even at a lessened level of revenue because the revenue they will generate pursuant to the contract exceeds the incremental cost of serving them.

Staff/Public Counsel oppose the recovery in rates of the revenues which would be foregone if this contract is approved by the Commission and goes into effect. Staff/Public Counsel argue that the contract discriminates against Company's other customers since the situation does not involve factors qualifying JKV for an exception. Staff/Public Counsel point out that there are no cost savings for Company in changing JKV to conjunctive metering since Company must continue to maintain and read 663 separate meters. Staff/Public Counsel admit that there might be a threat of competition associated with this matter which could justify a special contract. Staff/Public Counsel's witness, Proctor, stated that he understood that JKV threatened to disconnect from Company and take service from another source. However, Staff/Public Counsel point out that Company made no showing in this case to support the likelihood that this threat would be carried out. Staff/Public Counsel also state that Company made no showing that there would be a greater benefit to ratepayers from carrying this load for a reduced charge than losing this load altogether.

Staff/Public Counsel also point out that Company intends to charge JKV its primary rate 210 which is designed for large commercial and industrial customers having little weather sensitive demand. Staff/Public Counsel state that the residents of JKV, like all residential customers, are more costly to serve because their demand is largely weather sensitive.

Staff/Public Counsel further state that, even supposing that there is a basis for finding this contract nondiscriminatory, Staff/Public Counsel would oppose this contract as contrary to the Commission's policy requiring multiple-occupancy buildings to be metered individually. Staff testified that, since it would be prohibitively expensive to rewire existing master metered apartment buildings, the Commission has not required rewiring but does require that such buildings be treated as if each apartment is individually metered. This approach requires each customer to be charged a customer charge and an initial block kilowatt hour charge. Staff/Public Counsel further point out that this requirement fosters energy conservation by giving the price incentive to each customer to reduce usage. Staff/Public Counsel reason that this contract not only violates the rule but also undermines the policy which engendered the rule. In addition, Staff/Public Counsel point out that this contract violates Company's tariff which conforms to the Commission's policy.

The Commission determines that the contract with JKV should not be approved and as a consequence, the loss of revenue associated with this contract should not be reflected in rates. The contract provides the customers at JKV with a preferential rate. Company has not shown any reason why the customers at JKV should receive preferential treatment in the charges they pay. Company has shown no cost benefit to conjunctive metering for JKV. Company has not shown that there is a realistic risk of losing JKV as a customer or that, if JKV is lost as a customer, the loss would harm the other ratepayers more than the harm they suffer from subsidizing the preferential treatment of these customers. Finally, the contract is inconsistent with Company's tariff regarding master metering which provides for individually charging customers in master-metered 'multiple domestic living units at a single location'. The contract with JKV allows the customers to be charged as a group when they are metered separately thereby fostering a policy diametrically opposed to that promoted by the tariff.

c. *Unbilled Revenue*

Company proposes to include in its cost of service the income tax expense occurring during the test year arising from the four-year amortization required by the Tax Reform Act of 1986 (TRA) of the unbilled revenue balance existing as of December 31, 1986. This expense amounts to $809,426. Unbilled revenue arises from services rendered customers for which the Company has yet to render a bill because the services were provided between meter readings. Prior to the TRA, utilities were permitted to postpone payment of income taxes on utility sales until the sales were billed. In 1958 Company began recording in its books an estimate of its services sold but not yet billed. When the TRA became effective in 1987, Company was required to begin paying taxes on the revenue from unbilled sales. In addition, Company was required under the TRA to pay the taxes on the balance of unbilled revenue which had been accumulating beginning in 1958. Under the TRA, Company was permitted to amortize the payment of these taxes over a four-year period beginning in 1987 and ending in 1990.

Staff/Public Counsel argue that Company's ratepayers have already paid these taxes and should not be required to pay them again. In support of their position, Staff/Public Counsel point to the past ratemaking treatment of the timing difference between booking unbilled revenue and paying taxes on it. In ratemaking, the book/tax timing difference on unbilled revenue can be either 'normalized' or 'flowed through'. In the latter instance the benefit of the lag between booking unbilled revenue and paying taxes on it is passed through to the ratepayer. By normalizing the Commission sets rates which reflect the taxes which will be paid on the unbilled revenue.

It is agreed by all parties that both treatments have been afforded Company over the years since Company started booking unbilled revenue in 1958. All parties agree that taxes on unbilled revenue were normalized in Case Nos. 18,502E in 1976 and ER-79-60. All parties agree that the taxes on the unbilled revenue balance as of December 31, 1986, should not be paid by ratepayers to the extent that this balance includes amounts represented by the rate treatment in those two cases. Company believes this payment by ratepayers was very small and would not offset the expense Company is proposing to reflect in operating expenses. Company argues that the remainder of the ratemaking treatment of taxes on unbilled revenue since 1958 represents a flow-through to ratepayers of the benefits of the book/tax timing difference. Company contends that now those taxes are due and the ratepayers must, in fairness, pay the amount of these taxes represented in the test year.

Staff/Public Counsel argue that normalization occurred in more instances than the two conceded by Company. Specifically, Staff/Public Counsel contend that effective normalization occurred from 1958 to 1969. In 1958, Company began booking unbilled revenue but did not have a rate case to reflect this change in procedure. Company's next rate case occurred in 1969. Staff/Public Counsel contend that in 1958 Company booked an extra one-half month of revenue but this extra revenue was not reflected in rates because Company had no rate case where an adjustment could be made to reflect this extra revenue. Staff/Public Counsel also argue that from 1958 to 1969 the ratepayers did not receive the benefit of the unbilled revenue and, therefore, should not pay the taxes on this revenue. Company counters that these facts actually represent a flow-through of the benefit of the book/ tax timing difference since ratepayers were not paying taxes on the unbilled revenue booked.

Staff/Public Counsel contend that there was effective normalization in the 1969 rate case since a review of both the Staff's and Company's tax calculations reveal no Schedule M or book timing difference relating to unbilled revenue. Company counters that there is no finding in that case by the Commission that taxes on unbilled revenue should be reflected in rates. Therefore, Company states that the only reasonable conclusion is that the de facto policy of collecting income taxes only on billed revenue continued unchanged. Company further argues that, if only billed revenue is included in net operating income, it would be unnecessary to include a Schedule M or book timing difference in the income tax calculation.

The parties agree that normalization occurred in the 1976 case (Case No. 18,502E), flow-through in Case No. ER-78-29, normalization in Case No. ER-79-60 and flow-through in Case No. ER-80-118. Staff/Public Counsel contend that there was also normalization in Case No. ER-81-85. Staff/Public Counsel point out that Company had requested normalization of all tax timing differences and Staff had advocated flow-through of several such timing differences but not in the treatment of unbilled revenue. Since no other signatories to the stipulation in Case No. ER-81-85 advocated flow-through of unbilled revenue, Staff/ Public Counsel reason that normalization was the treatment afforded unbilled revenue in that case. Company counters that since the Report and Order articulated no change in policy, flow-through continued to be the treatment afforded unbilled revenue.

The parties agree that the benefit from the tax timing difference related to unbilled revenue was flowed through to ratepayers in Case Nos. ER-82-39 and ER-83-40. Staff/Public Counsel argue that ratepayers have funded three of the four years (1987 to 1989) of amortization of the tax expenses on the balance of unbilled revenue as of December 31, 1986. Case No. ER-83-40 was the last time Company litigated an electric rate case. Staff contends that, since Company was earning in excess of its approved rate of return during most of 1987 to 1989 when it was in the process of amortizing the tax expense on the unbilled revenue balance, it is logical to conclude that the ratepayers have already paid for three of the four years of amortization. Company counters that there was no rate case which reflected this amortization expense. Company points to the tax reform docket, Case No. AO-87-48 which was consolidated with Company's last settled electric rate case (Case No. EO-88-36) to argue that the expense of this amortization was never reflected in rates. Company states that the test years used in that case were prior to the amortization and did not reflect that expense.

The Commission determines that the amortization occurring during the test year of the unbilled revenue balance as of December 31, 1986, should not be recognized as an operating expense in setting Company's rates. One of the primary functions of a rate case is to establish future rates by estimating future costs through the examination of past costs. The amortization of the unbilled revenue balance will terminate two and one-half months after the rates being established in this case go into effect. It would be counter to the theory of ratemaking to make this nonrecurring expense a part of these future rates.

Company has argued that fairness requires that ratepayers pay for this tax expense since they have, in the past, benefited from the flow-through of the book/tax timing difference. However, the Company was unable to show definitively that the flow-through of this benefit occurred to such an extent that the ratepayers should pay roughly $1 million in tax expense. Although the parties agree that ratepayers have in some instances paid the tax on unbilled revenue and in other instances have not, much of the historic rate treatment of Company's income tax expenses on unbilled revenue remains unclear. Company has the burden to show that a proposed rate increase is reasonable and that the expenses reflected in the proposed rate increase are justified. Section 393.150, RSMo 1986. Since Company was unable to show that the ratepayers, in fairness, 'owed' this tax expense to Company, the Commission determines that it is unreasonable to establish future rates based upon an expense which will not continue during the vast majority of the time these rates are in place.

D. *Jurisdictional Allocations*

The process of jurisdictional allocations involves assigning the costs associated with Company's facilities either to the retail jurisdiction under the authority of this Commission or to the wholesale jurisdiction under the authority of the Federal Energy Regulatory Commission (FERC).

There are two major areas still at issue in the allocation process. The first involves the appropriate factors to be used in allocating production and transmission facilities. The second involves selecting those transmission facilities to which the transmission allocator should be applied.

1. *Production Allocation Factor*

Company has allocated 95.6 percent of its production facilities to the retail jurisdiction. Staff/Public Counsel state that Company allocated 4.86 percent to the wholesale jurisdiction in its last FERC case. Staff/Public Counsel assert that Company should not be permitted to allocate 95.6 percent in this case because these two percentages add up to more than 100 percent thereby permitting Company to collect revenue on .46 percent of nonexistent plant.

Company counters that it is not unusual for these factors to add up to more than 100 percent when cases are tried in the two jurisdictions with different test years. Company points out that the production allocator employed in this case by Staff/Public Counsel (95.39 percent) when added to the wholesale allocator from Company's last case at the FERC (4.86 percent) amounts to 100.25 percent or .25 percent of 'phantom plant'.

The Commission determines that Company's factor should be used in allocating production plant between the jurisdictions. The only question raised by Staff/Public Counsel in regard to Company's factor can be raised in regard to the factor employed by Staff/Public Counsel. The Commission does not find any reasonable evidence upon which to base selection of Staff/Public Counsel's figure. There is no evidentiary basis for selecting some other figure in place of Company's factor. Company has pointed to the possibility of a mismatch between the two jurisdictions because different sets of data arise from different test years. The Commission has no basis for rejecting this explanation of the results.

2. *Transmission Allocation Factor*

Company has employed a factor of 4.92 percent to allocate transmission facilities to the wholesale jurisdiction. Staff/Public Counsel state that the factor should be 8.90 percent. The difference arises primarily from a disagreement as to the type of service Company is providing to the City of Independence (City). The Company asserts that it is providing 15 megawatts of emergency service to the City. Company states the City contracted for the service to avoid an overload condition on Substation M should there be an outage on the Blue Mills/Eckles Road Line. Company maintains that, under normal conditions, the City has adequate capacity to carry the power for which the City has contracted. Company states that the City has never required Company's emergency service since the City contracted for it April 15, 1987.

Staff/Public Counsel contend that Company is providing to City at least 35 megawatts of firm transmission service. Staff/Public Counsel argue that this service makes the City a wholesale customer of Company. Staff/Public Counsel maintain that power purchased by the City from the Iowa Public Service Company (IPS) and Kansas City Power & Light Company (KCPL) is too great for the capacity of the routes serving the City, especially since one of the routes for carrying this power is still under construction and is not planned to be completed until June 1, 1991. Therefore, Staff/Public Counsel reason that the City needs the transmission capacity of Company.

In addition, Staff/Public Counsel assert that the flow of power into the city from Company supports the conclusion that substantial amounts of power are being wheeled by Company into the City. Finally, Staff/Public Counsel contend that communications between Company and the City prior to the 1987 contract contemplated Company providing firm transmission service to the City.

Company counters that the city has no need for firm transmission service from Company since it has ample capacity under normal conditions to carry the power it has purchased. Company states that the power flowing into the City from Company's facilities represents the normal flow into and out of interconnected transmission systems. Company asserts that it is accepted practice not to interfere with this flow unless one of the utilities involved suffers an undue burden as a result of this circulating power. Finally, Company states that the type of service contemplated by the Company and the City prior to concluding the contract for emergency service is immaterial since the contract does not provide for firm transmission service. Company points out that Staff/Public Counsel admit that they know of no contract between Company and City for firm transmission service.

The Commission determines that there is no basis for finding that Company is extending firm transmission service to the City. The Commission finds no evidence of a contract between Company and City for firm service. The Commission further finds that flows of power between Company's facilities and the City have been explained satisfactorily as the normal flow passing through interconnected systems. Finally, the Commission finds there is ample evidence that the City has sufficient capacity to accommodate the power it is purchasing. Therefore, the Commission determines that Company's designation of the City as an emergency customer is reasonable and that the factor for allocating transmission facilities between the federal and state jurisdictions should reflect that designation.

There is another disagreement affecting the amount of the factor for allocating transmission facilities between the jurisdictions. This disagreement involves the method for computing the costs ascribed to Associated Electric Cooperative (AEC) for transmission services rendered it by the Company at the Belton, Missouri substation. Staff/Public Counsel base these costs on the amount of 2,976 kilowatts per hour at which level Company billed AEC as shown on invoices rendered to AEC by Company in June, July, August and September, 1989. Since Company does not keep hourly/daily transmission service logs, Staff/Public Counsel adopted these billed amounts for its computation.

Company maintains that the figure of 2,976 kilowatts per hour is actually the peak requirement of AEC in 1988 which was the basis for the billings to AEC in 1989 and was subsequently reduced to 2,672 kilowatts per hour based on actual maximum requirements in 1989. Company argues that these costs should be ascribed to AEC not based upon the maximum amount of power transmitted by Company to AEC in either 1988 or 1989 but rather the average of the four peak requirements of AEC during the test year of 1989. Company contends that this calculation would be consistent with the method otherwise employed by Staff/Public Counsel in establishing the jurisdictional allocators. Staff/Public Counsel used the four coincident peak (4CP) method in establishing its jurisdictional allocators. This method divides the maximum coincident one-hour peak in kilowatts of demand by all customers during each of the summer months of June, July, August and September into the retail portion of these coincidental peaks in kilowatts.

The Commission determines that the costs ascribed to AEC in calculating the transmission allocator should be based on the average use of AEC during the test year months of June, July, August and September. The Commission finds that this approach parallels the calculations employed to establish the jurisdictional allocators. In its brief, Company adjusts the average figure of 2,477 kilowatts per hour arrived at by its witness, Mr. Loos, upward to 2,643 kilowatts per hour to account for 'losses'. The Commission will accept the adjusted figure of 2,643 kilowatts per hour to be used in calculating the transmission allocator.

3. *Transmission Facilities Subject to Allocation*

Staff/Public Counsel and Company disagree as to which facilities of Company are used purely for distribution to retail customers and which facilities have some transmission capabilities. Transmission facilities are to be allocated between the jurisdictions. Staff/Public Counsel classify 123 substations representing $48,924,682 of investment as having transmission capabilities. Staff/Public Counsel maintain that any facilities having any transmission capabilities are subject to the allocation process except in the exceptional situation where a particular customer is being served by facilities which are truly isolated from the integrated system and operated in a substantially different manner from the rest of the system so that the customer being served represents a nonintegrated load. Staff/Public Counsel argue that the exceptional situation is not applicable in regard to these 123 substations.

Staff/Public Counsel maintain that this is the FERC standard of classification which was applied by this Commission in similar circumstances in Case No. ER-85-265. *Re: Arkansas Power and Light Company*, 28 Mo.P.S.C. (N.S.) 435, 462-63, 74 PUR4th 36 (1986).

Company maintains that only a portion of these substations representing $15,009,670 of investment serve a transmission function requiring them to be allocated between the jurisdictions. Company excluded those substations which function to step down voltage from the higher transmission level to the lower distribution level. Company contends that the standard for classifying facilities to be allocated between the jurisdictions does not apply to distribution substations but only to transmission lines. Company maintains that the vast majority of these facilities are distribution substations because their function is to step down the voltage to distribution levels.

The Commission determines that all 123 substations should be classified as transmission facilities. The Commission further determines that this standard should be applied to substations as well as to lines. One of the major FERC cases applying this standard involves '. . .step-down transformation facilities. . .' Docket No. ER-76-184, *Re: Kansas City Power & Light Company*, 3 FERC Par. 63,008, p. 65,092 (1977). This FERC decision found these transformation facilities to be subject to the allocator. This standard applies to facilities which could, under any conditions, serve a transmission function. Company's own witness concludes that '. . .these stations *for the most part* do not serve functionally as transmission. . ..' Exhibit 35, p. 29. Emphasis added. Company has the burden of proof to show that a proposed rate increase is reasonable and that the expenses reflected in the proposed rate increase are justified. Section 393.150, RSMo 1986. The Commission finds not only that Company has not shown that these facilities could perform no transmission function but that Company, by its own evidence, has demonstrated that these facilities could perform some transmission functions.

While the Commission is concerned that none of Company's plant fall into a jurisdictional void where it is recovered in neither jurisdiction, the Commission is not persuaded by Company's assertion that the FERC has not classified this Company investment as eligible for allocation. Company's conclusory statement is not a sufficient basis for the Commission to accurately judge the pertinence of, or basis for, the FERC's failure to so classify these facilities. Therefore, the Commission determines that the factor for allocating transmission facilities between the jurisdictions should be applied to these 123 substations.

Finally, Staff/Public Counsel urge the Commission to direct Company to keep transmission service schedule logs by the hour for all transmission services performed for other utilities. Company does not oppose keeping such logs. Therefore, the Commission will direct Company to keep such logs in the future.

E. *Sibley Deferral*

On December 27, 1989, the Commission issued an order (Accounting Authority Order or AAO) in Case No. E0-90-114, which case has been consolidated with this rate case, authorizing Company to defer to and record in Account No. 186 of the Uniform System of Accounts (USOA), the depreciation expenses, property taxes and carrying costs associated with the life extension and coal conversion projects at Company's Sibley Generating Station (Sibley). The parties agree that the AAO permits deferral of these costs from January 1, 1989 through the effective date of the rates established in this case. Account No. 186 is used for miscellaneous deferred debits.

An AAO authorizes deferral of costs outside of a rate case and allows the utility in question to seek recovery in rates of these deferred costs in a pending or subsequent rate case. This procedure can ameliorate the effect of regulatory lag. In this instance, regulatory lag can be defined as the interval between Company incurring costs and those costs being recovered in rates. In its order authorizing Company to defer these costs the Commission reserved the right to consider the ratemaking treatment ultimately to be afforded these costs.

Staff/Public Counsel oppose reflecting these costs in rates for four main reasons. First, Staff/Public Counsel assert that these costs have already been recovered in rates because Company has earned in excess of its authorized rate of return since 1983.

Second, Staff/Public Counsel argue that these deferred costs are not sufficiently significant when compared to either MPS's or UtiliCorp's operations to merit the special treatment of deferral and subsequent recovery in rates. Staff/Public Counsel state that of the 11 percent increase in net electric plant from spring 1989 through spring 1990, the 1989 additions comprise only a 2.3 percent increase in net electric plant. Staff/Public Counsel argue that $2,190,804 or 51 percent of the $4,321,093 in costs for which Company is seeking recovery in rates are estimated costs.

Third, Staff/Public Counsel maintain that MPS has overstated the costs and failed to keep records as directed by the Commission in its AAO. Specifically, Staff/Public Counsel point to the following costs as overstated. Property taxes were included for 1989 even though the 1989 property taxes were based on 1988 plant assessments. Furthermore, Staff/Public Counsel state that Company has included property taxes based on the assumption that the amount of property tax is directly related to the amount of plant in service when, in actuality, the property taxes paid as a percentage of book value have declined since 1985 as the tax rate has been more than offset by the decreases in the assessment rate.

Staff/Public Counsel state that Company included the cost of carrying costs on unpaid balances which would result in ratepayers paying for costs not incurred by Company. Staff/Public Counsel also state that Company has calculated a full month's carrying costs on p ant additions completed during the course of a month thereby effectively assuming that all plant additions are completed by the first of each month. Staff/Public Counsel charge that Company compounded carrying costs on carrying costs on a monthly rather than semiannual basis when calculating the deferral as dollars were transferred from CWIP to plant in service. Staff/Public Counsel assert that Company normally compounds such costs semiannually on CWIP. Staff/Public Counsel state that Company included depreciation in the costs upon which it calculated carrying costs. Staff/Public Counsel point out that carrying costs on CWIP are not calculated with regard to depreciation since normally depreciation is not calculated until the plant in question is in service.

Staff/Public Counsel contend that Company did not use deferred income taxes in calculating carrying costs to obtain a net of tax effect respecting the AAO deferral. Also, Staff/Public Counsel state that Company did not maintain records as directed by the Commission in its order granting deferral of these costs. Staff/Public Counsel maintain that as a consequence of that failure, the costs of the program are overstated. Staff/Public Counsel maintain that available data indicates that purchased power to replace Sibley's power during rebuilding outages has often been cheaper than the fuel costs which would have been incurred to run Sibley's various units. Staff/Public Counsel contend that Company experienced significant savings as the result of this disparity.

Fourth, and finally, Staff/Public Counsel contend that Company should have performed a more detailed study before proceeding with the rebuilding of Sibley generating Units 1 and 2 although Staff/Public Counsel admit that the data generally support the rebuilding of Sibley Generating Unit 3. Staff/Public Counsel believe that prudence required that Company perform a more thorough analysis of the desirability of proceeding with the rebuilding in lieu of other options for increased capacity.

Company counters the above arguments by stating that these costs have not already been recovered in rates and that Staff/Public Counsel's use of this argument is an attempt to engage in retroactive ratemaking which is forbidden by the case law in this state. The doctrine of retroactive ratemaking forbids the recovery through rates of amounts in previous periods either above or below Company's authorized revenue requirement.

Company disagrees that the amounts involved in the deferral are insignificant. Company points out that $33.4 million in plant expenditures resulted from the construction at Sibley during the outage scheduled to begin November 1, 1989 concluding April, 1990. Company states that this plant expenditure, when combined with the plant expenditures in 1989 of $8.9 million, represent an 11 percent increase in electric plant within one year. Company further states that, in the month of September, 1990 alone, the deferral to be recorded is estimated at approximately 23 percent of Company's net income from the provision of electric service.

Company disagrees with Staff/Public Counsel's contention that Company should have done further study of relative costs before proceeding with the rebuilding of Sibley Generating Units 1 and 2. Company asserts that the incremental cost of the Sibley rebuilding and coal conversion projects is about $250 per kilowatt which is only one-sixth the cost of constructing new base load generating capacity estimated at $1,400 per kilowatt.

Company contends that they either have not overstated the amount of deferrals or they have adjusted the amount in keeping with Staff/Public Counsel's criticism. Company states it has adjusted the property taxes included in the deferrals by $79,000 to reflect the fact that property taxes are paid one year in arrears. Company does not respond to the assertion of Staff/Public Counsel that the increase in property taxes may have been more than offset by the decrease in the assessment rate.

Company argues that there are carrying costs of about $75,000 on unpaid invoices because Company's usual accounting practice is to assign unpaid invoices to the most recent expenditures, i.e., CWIP work orders. Company contends this approach reduces the amount of Allowance for Funds Used During Construction (AFUDC) capitalized to construction resulting in a benefit to customers from the invoices remaining unpaid thereby avoiding payment of financing charges related to the unpaid invoices. Company does not respond to Staff/Public Counsel's contention that Company calculates a full month's carrying cost on plant additions completed anytime during the month.

Company states that about $11,000 are associated with Staff/Public Counsel's concern over the Company compounding carrying costs monthly. Company further states that it compounds semiannually with respect to AFUDC in keeping with FERC guidelines and past practice of the Commission. However, Company asserts that these guidelines do not apply to deferral of other carrying costs and that Company must, therefore, recognize the opportunity costs of these funds. Staff/Public Counsel contend that the dollar value of monthly compounding of carrying costs is $131,987.

Company maintains that Staff/Public Counsel are wrong in opposing the accrual of about $53,000 of carrying costs which have been calculated by Company on deferred depreciation pursuant to the AAO. Company asserts that, since depreciation is not being recovered from ratepayers currently, Company must accrue carrying costs on depreciation.

Company does not respond to Staff/Public Counsel's assertion that deferred income taxes are not used in the calculation of carrying costs to obtain a net of the tax effect as to the AAO deferral.

Company disagrees with Staff/Public Counsel that the amount of the entire deferral is overstated because it does not reflect savings on fuel costs vis-a-vis purchased power. Company contends that it has incurred additional costs the recovery of which is not sought in this rate case and that these costs outweigh any such savings.

Company disagrees with Staff/Public Counsel that its record keeping did not comply with the requirements of the AAO. Company maintains that the records it already kept supplied the information the Commission requested in the AAO and that Staff's recommendation to the Commission in regard to the requested AAO did not convey the necessity to keep 'special' records.

The Company urges the Commission to reflect these deferrals in rates and not to allow Staff/Public Counsel's piecemeal attack on this deferral to persuade the Commission to reject it entirely. Company contends that the life extension project is vital to Company's continued provision of reliable reasonably priced service. Company points out that Sibley Units 1 and 2 would have otherwise had to be retired in 1990 whereas this project will extend the life of the three Sibley units by about 20 years. Company states that the cost of alternative sources of capacity would have been significantly higher. Company further contends that the coal conversion project is vital to achieving the reductions in SO_{22} emissions necessary to have environmentally acceptable sources of power. Finally, despite the Commission's disclaimer in the AAO about reserving judgment on the ratemaking treatment of the amounts deferred, Company contends that the integrity of the AAO process will be brought into question if the Commission does not reflect these deferrals in rates.

The Commission determines that Company should be allowed to reflect in rates, as provided hereinafter, costs deferred pursuant to the AAO. The Commission finds that Staff/Public Counsel have provided no substantial evidence to support exclusion of all of these deferred costs. The Commission determines there is ample evidence of the significant impact of this enterprise on

Company's financial status. As Company has pointed out, it expects to defer costs in September, 1990, amounting to 23 percent of its electric net income. Although Staff/Public Counsel have raised questions about the relative cost of these projects vis-a-vis other alternatives and the objectivity and depth of Company's study of these alternatives, Staff/Public Counsel do not contend that Company was imprudent to proceed with these projects.

The Commission finds unpersuasive the contention of Staff/Public Counsel that these costs have already been recovered in rates. Company seeks recovery of these costs from the beginning of 1989 through October 17, 1990. 1989 is the test year and these rates are set prospectively. Since even Staff/Public Counsel admit Company requires some rate increase, the relevance to this issue of passed overrecovery is nebulous at best.

However, the Commission determines there is validity to the concerns of Staff/Public Counsel as to an accurate accounting by Company of the costs eligible for deferment. The Commission finds that Company should have ascertained the effect on property tax of the decrease in the assessment rate before including it in the costs deferred. The Commission notes with approval that Company has already adjusted the deferred costs to reflect the fact that taxes are paid one year in arrears.

The Commission also determines that Company should not include carrying costs on unpaid balances in the deferred costs to be reflected in rates and should either record carrying costs on plant additions completed after the first of the month on a prorated basis in the month completed or on the first of the following month. Ratepayers should not be required to pay carrying costs on expenses not yet paid by Company or on uncompleted plant additions.

The Commission finds that Company's rates should not reflect carrying costs compounded monthly in calculating these deferred costs. The Commission determines that Company should compound these carrying costs semiannually just as Company compounds AFUDC semiannually. The Commission also determines that rates should not reflect deferred costs which include carrying costs calculated on amounts which include depreciation since CWIP carrying costs are calculated on dollars invested in CWIP without regard to depreciation.

The Commission finds that the deferred income tax related to the AAO deferral which is included in deferred tax reserves should be used to reduce rate base as part of the process of setting rates in this case since that is the treatment afforded deferred income taxes related to CWIP.

The Commission determines that Company should calculate the effect on these deferred costs of any savings enjoyed as a consequence of the outages of the Sibley units during the rebuilding and conversion projects. Ratepayers should not have to pay for costs which have, in reality, been offset by savings. The Commission is not persuaded by Company's argument that it did not seek recovery of all costs and, therefore, should not have to reflect certain savings. Company could have sought recovery of all reasonable costs.

Finally, the Commission understands the record herein reflects estimates of the costs deferred and to be deferred from June through October, 1990. The hearings in this case were conducted in July and actual data were unavailable. The Commission will direct Company to provide Staff/Public Counsel as soon as possible the actual deferred costs from June through September 30, 1990, and to calculate these costs consistently with the findings made in this Report and Order. The costs deferred after September 30, 1990, to the operation of law date will be considered by this Commission in Company's next rate case.

The final matter to be addressed on this issue involves the length of time over which these deferred rates should be amortized and whether the unamortized portion of these costs should be reflected in rate base. Staff/Public Counsel contend that, if these costs are to be reflected in rates, they should be amortized over 20 years, the extended life of the Sibley Generating Station with the unamortized costs not reflected in rate base. Staff/Public Counsel support this viewpoint by stating that the Commission has afforded such costs this treatment in prior similar instances.

Company contends that these costs should be amortized over a three-year period which is the approximate length of time for completing these projects. Company believes this approach would match the recovery of costs with the enjoyment of benefits arising from these projects. Company maintains that the unamortized portion of these costs should be included in rate base in order that Company may be compensated for the value of the money for the time occurring between the spending of the funds and their ultimate recovery.

The Commission determines that these costs should be amortized over 20 years which is the approximate extended life of the plant. The Commission finds that this approach matches the payments of the costs by the ratepayers for the rebuilding with their enjoyment of its benefits. The Commission further determines that the unamortized costs should be reflected in rate base. This is the usual practice when capital costs are amortized. The cases cited by Staff/Public Counsel deal with extraordinary maintenance costs and, therefore, are not applicable.

F. *Sibley Inspection Costs: Maintenance or Construction?*

This issue involves the classification as either maintenance or construction of about $3.4 million spent by Company from 1986 to April 30, 1990, for inspections, estimates of cost and detailed plans relating to the life extension project at Company's Sibley Generating Station (Sibley). Staff/Public Counsel argue that this expenditure should be classified as an expense incurred for maintenance and, therefore, not recognized in any new rates set herein since Staff/Public Counsel believe these costs were recovered in prior periods. Staff/Public Counsel maintain that the rates in prior periods were adequate to recover these costs.

Company contends that these costs should be capitalized since they were incurred for construction to extend the life of Sibley beyond that initially expected rather than replacements and repairs designed to realize the life expectancy of that station. Sibley Units 1 and 2 began service in 1961 and 1962, respectively and Sibley Unit 3 began service in 1969. Company was expecting to retire Sibley Units 1 and 2 in 1990. The rebuilding project is expected to extend the life of the three units at the Sibley plant for about 20 years. Company maintains that the proper treatment of these costs is to reflect them in the rates being considered herein by including them in rate base or at least amortizing them.

Company contends that, otherwise, it will suffer financial impairment by having to write off $3.4 million in 1990 thereby diminishing after tax net income by more than 10 percent. Company maintains that these inspection reports were a prerequisite to the rebuilding of the Sibley plant and would not have been performed except for the life extension project. Company argues that it is unfair to its shareholders to expense these costs since ratepayers will not ever pay for the benefits purchased by these costs. Company states that these costs have never been and will never be reflected in rates but the ratepayers will enjoy the benefits of the life extension project for the next 20 years. Finally, Company argues that, in seeking guidance from FERC for the classification of costs associated with the Sibley rebuilding, Company received a letter from the chief accountant at FERC in which the chief accountant approved Company's intention to classify these costs as capital expenditures.

Staff/Public Counsel argue that these costs purchased inspections, tests and reports on the condition of the Sibley plant to determine the need for repairs, replacements, rearrangements and changes for the purpose of preventing failure, restoring serviceability and maintaining the life of the plant. Staff/Public Counsel contend that, under the USOA, such costs are considered maintenance. Staff/Public Counsel note that the inspection reports bought by Company always offered a series of options ranging from outright replacement to mere repairs and, therefore, were not inspections tied solely to the rebuilding program. Staff/Public Counsel point out that if Company had decided not to rebuild Sibley, the costs of these reports could not have been capitalized and would have to be charged to Account 510 as a maintenance expense rather than Account 183 as an electric plant cost. Staff/Public Counsel disagree with Company that the rebuilding project will extend the expected life of the Sibley plant since Staff/Public Counsel contend that the expected life of a generating plant is 30 years and Sibley Unit 3 began service only 21 years ago.

The Commission determines that these costs are related to construction at the Sibley plant and should be capitalized. The Commission finds that the primary purpose of these inspection reports was to find optimal methods to extend the life expectancy of Sibley for another 20 years. This was the expressed goal of Company's contract with the contracting engineers and the specifications of that contract required those engineers to provide a comprehensive program to extend the useful life of the unit up to the year 2010. The Commission further finds the reports provided Company with advice on routine maintenance but clearly the overall purpose of the evaluations was to dramatically extend the life of these units, two of which were scheduled to be retired this year. The Commission is not persuaded by the argument of Staff/Public Counsel that these reports would have to be classified as maintenance if the life extension project did not take place. The life extension project did take place and the Commission finds that these inspection reports were a necessary part of preparing for the life extension project.

G. *Cost of Removal*

This issue involves the question of whether ratepayers or shareholders should benefit from the tax deduction associated with the cost of removing steam production plant. Staff/Public Counsel have adjusted Company's income tax deduction so that ratepayers may benefit over a two-year period from the cost of removal tax deduction primarily associated with the Sibley life extension project. Company argues this is inappropriate because this tax deduction is an out-of-test-year, extraordinary event which will not recur during the period the rates at issue herein will be in effect. Staff/Public Counsel do not dispute that this is a nonrecurring event out of the test year but counter that it is a matter of fairness that ratepayers benefit from the tax deduction associated with these removal costs since the ratepayers have been paying for these removal costs over the years through depreciation rates.

Company disputes that ratepayers have paid for these removal costs in depreciation rates. To support this point Company cites a letter written in 1969 to Company by a consultant Company had retained. The parties disagree over what the letter means. Company states the letter recommends the exclusion from depreciation rates of these removal costs. Company also points to the calculations attached to the letter stating that these calculations do not include cost of removal. Company notes that the same calculations appear in the Commission's 1969 order approving depreciation rates for Company and in the Commission's 1969 Report and Order approving Company's new rates. Company infers from these coincidental calculations that these costs of removal were not included in the depreciation rates set in 1969 which are the applicable depreciation rates in the matter at issue.

Staff/Public Counsel point to different language in the same letter and state the letter includes these costs of removal in the depreciation rates. Finally, Staff/Public Counsel contend that, even supposing these costs of removal were not included in the depreciation rates, fairness dictates that ratepayers receive the benefit of the tax deduction because these costs of removal have been carried in the depreciation reserve account where they have earned a return for shareholders.

The Commission determines that the ratepayers should benefit from the tax deduction associated with the cost of removing steam production plant primarily as part of the life extension project at Sibley. The Commission realizes that this particular deduction will not recur. However, fairness indicates that ratepayers should benefit from such tax deductions because ratepayers usually pay for removal costs through depreciation rates. The Commission determines that Company has failed to prove that ratepayers have not paid for these removal costs through depreciation rates. The Commission finds the 1969 consultant's letter inconclusive, at best, as to whether those depreciation rates included these removal costs. Taken in the light most favorable to Company the letter is contradictory.

The calculations which are attached to the letter and which are repeated in the Commission's 1969 depreciation order and report and order, make no mention of removal costs. Company has the burden of proof to show that a proposed rate increase is reasonable and that expenses upon which the proposed increase is based are reasonable. Section 393.150, RSMo 1986. On the instant record Company has failed to meet its burden of proof.

H. *Depreciation*

The primary purpose of establishing depreciation rates is the recovery over the life of the asset of the cost to the Company of acquiring the asset by recording on the Company's books some percentage of that cost each year. It is also customary to recover through the depreciation rates the estimated cost of ultimately removing the asset offset by the projected amount to be realized from its salvage price. In establishing these depreciation rates for multiple assets it is necessary to establish some grouping of the assets according to their date of inception and their life expectancy. Staff/Public Counsel and Company differ as to the method by which these rates should be established.

1. *Method of Calculation*

Company calculated its depreciation rates by using the average life group (ALG) procedure and the remaining life (RL) technique. Company reflected interim additions and terminal net salvage in its depreciation rates. Interim additions are capital replacements and additional assets placed in service after the commercial operation of a plant begins. Terminal net salvage consists of the estimated cost of the final demolition of the electric plant at its retirement offset by the projected amount to be realized from its salvage price.

Staff/Public Counsel object to Company's use of the RL technique because Staff/Public Counsel believe that the RL depreciation rate is intimately related to the theoretical depreciation reserve (TDR). Staff/Public Counsel contend that the TDR is based upon a study premised almost entirely upon estimates of the future which assume that the lives, salvage factors, costs of removal and depreciation rates will not change throughout the entire remaining life. Staff/Public Counsel maintain that the probability is very low that the parameters of life, salvage and cost of removal will remain the same throughout the life of the facilities. Staff/Public Counsel note that the Commission has not previously authorized RL depreciation rates for electric companies except when nuclear facilities were involved.

Company counters that it did not use a theoretical reserve in establishing its depreciation rates. Company maintains that it used the theoretical reserve only to evaluate whether the whole life or remaining life technique should be used in establishing the depreciation rates. Company states that it employed the RL technique as a means to adjust the whole life rate in order to amortize the calculated theoretical reserve difference over the remaining life.

In establishing these depreciation rates, Staff/Public Counsel used the straight line, vintage group (average life group), whole life procedure. The whole life depreciation rate is calculated at 100 percent of cost minus the average net salvage divided by the estimated average service life. In support of its use of the whole life approach, Staff/Public Counsel state that the whole life technique has the flexibility to allow adjustment for over or under accruals if life estimates, salvage and removal costs should change.

Company opposes Staff/Public Counsel's method of establishing depreciation rates as resulting in a significant deferral of the recording and recovery of depreciation because, in Company's opinion, it eliminates accrual accounting and uses the equivalent of cash accounting for salvage and costs of removal. Company maintains that Staff/Public Counsel's treatment of salvage and cost of removal hides the establishment of cash accounting in the depreciation rate calculation. Company believes that, if the Commission adopts this method, it should openly direct Company to record salvage recoveries as period income and removal costs as period expenses. Further, Company maintains that, if the Commission adopts Staff/Public Counsel's approach, the Commission should provide for an annual recalculation of the depreciation rates to be reflected in rates to assure eventual recovery of the amounts deferred.

Company also opposes Staff/Public Counsel's method of calculating depreciation rates because, in Company's opinion, the pattern of accrual of depreciation rates for steam production plant does not match the pattern of consumption of the underlying assets. Company contends that Staff/Public Counsel's approach would result in rates increasing at each recalculation which would be more appropriate to generating units having an increasing pattern of usage. Company maintains that none of its units are expected to have such a pattern. In addition, Company opposes Staff/Public Counsel's method of calculating depreciation rates because Staff/Public Counsel use a five-year period to update depreciation rates for inflation affecting life and net salvage factors. Company believes that the five-year period is insufficient given that Staff/Public Counsel predict an average remaining life for some assets in the neighborhood of 40 years.

Company also opposes Staff/Public Counsel's method of calculating depreciation rates because Company believes that Staff/Public Counsel failed to evaluate the historical retirement experience in establishing life expectations and net salvage. Company contends that because of this alleged omission there is no assurance that Staff/Public Counsel's depreciation rates are applicable to Company's property. Finally, Company opposes Staff/Public Counsel's method of calculating depreciation rates because Company believes that the whole life technique employed by Staff/Public Counsel uses a vintage group procedure known as generation arrangement which causes inaccuracies requiring the use of two sets of lives and dispersion patterns, one applicable prior to 1961 and the other applicable after 1988. Company contends that when past experience has been different from what the future is expected to be, the life used for rate calculations will be different from both sets of data and the booked reserve will diverge more and more from these parameters.

Staff/Public Counsel counter that they have not recommended that accrual accounting be eliminated for net salvage but rather that the magnitude of the accrual be reduced to match the experience of the past and to eliminate the gross up of income taxes on the excess accrual which would occur if Company's method were adopted. Staff/Public Counsel respond to Company's charge that their proposed depreciation rates do not match the underlying assets by pointing out that in all probability the use of Sibley Units 1 and 2 will increase in 1994 as purchased power becomes more expensive relative to the cost of fuel to run Sibley 1 and 2. Staff/Public Counsel contend that the increase at each recalculation of their proposed depreciation rates would, therefore, match these underlying assets.

Staff/Public Counsel maintain that their choice of a five-year period to update depreciation rates for changes in life and net salvage values is reasonable. Further, Staff/Public Counsel maintain that their depreciation method, contrary to Company's assertion, does include a study measuring the historical trend experienced in the lives of Company's assets. Staff/Public Counsel contend that they conducted this study in order to establish an average life and curve dispersion for the future remaining life of Company's surviving investment.

Finally, Staff/Public Counsel defend their generation arrangement from Company's claim that it introduces inaccuracies into the depreciation study and increases the time and effort needed to conduct it. Staff/Public Counsel contend that their generation arrangement is necessary in computing the average lives of Company's property by calculating the past realized lives of each vintage using actual account experience and estimating the remaining life expectancy of this property using the experience of the past to predict the future. Staff/Public Counsel point out that they have used this generation arrangement for telephone, electric, gas and water utilities in studies presented to the Commission over the past years and that the Commission has permitted this method.

The Commission determines that Staff/Public Counsel's method for calculating depreciation rates should be adopted in this case for setting Company's depreciation rates except as discussed hereinafter. The depreciation rates proposed by Company would increase the annual amount of accrual for electric property from $18,249,792 to $24,470,957 and would raise the composite depreciation rate from 3.13 percent to 4.20 percent based on April 30, 1990 jurisdictional depreciable balances. Company has the burden of proof to show that its proposed rate increase is just and reasonable and that the expenses which comprise the proposed rate increase are reasonable. Section 393.150, RSMo 1986. *General Telephone Company of the Midwest vs. Public Service Commission*, 537 S.W.2d 655, 659 (Mo.App.1976). The method employed by Staff/Public Counsel is reasonable and consistent with methods utilized in previous rate cases. Company has failed to show that there is a reason to modify this approach.

2. *Future Additions*

Staff/Public Counsel also object to Company's inclusion of future additions in depreciation rates. Staff/Public Counsel point out that in the state of Missouri no charge for electrical service is permitted which is based on the cost of construction in progress or any other cost associated with owning, operating, maintaining or financing any property before it is fully operational and used for service. Section 393.135, RSMo 1986. Staff/Public Counsel note that the Commission has previously determined that future additions are subject to this prohibition and should not be reflected in depreciation rates. *In re Kansas City Power & Light Company*, 28 Mo.P.S.C. (N.S.) 228, 391-392, 75 PUR4th 1 (1986). Staff/Public Counsel further note that the Commission has stated that future additions are irrelevant to the setting of depreciation rates since depreciation is a method of measuring the consumption of an asset and future additions have yet to begin their service. *Id.*

Company counters that the inclusion of future additions are important to reflect the capital replacements and additional assets placed in service after commercial operation of the asset begins, especially given the Sibley life extension project. Company contends that although Staff/Public Counsel exclude from depreciation rates the estimated costs of future additions, they include in depreciation rates the effect of the future additions on the life projections for steam production plant which is particularly harmful in relation to the Sibley refurbishment. Company asserts that accounting principles require either the inclusion or the exclusion of both the cost and the resulting life.

The Commission determines that future additions should not be reflected in depreciation rates. The Commission concludes that Staff/Public Counsel are correct in stating that such inclusion would be a violation of section 393.135, RSMo 1986. Further, the Commission agrees with the point made by Staff/Public Counsel that future additions, which have yet to be placed in service, are irrelevant to the setting of depreciation rates which reflect the consumption of an asset.

The Commission finds that Company is incorrect in stating that Staff/Public Counsel have included future additions in their calculation of the life expectancy portion of their depreciation rates. Staff/Public Counsel have included in their calculation, only plant which is in service. However, Staff/Public Counsel have included in their calculation of life expectancy the effect of plant placed in service through April 30, 1990, while reflecting in the calculation of the cost, plant on the Company's books as of December 31, 1988. There is a difference of a year and four months between the plant reflected in the cost element of the depreciation rate calculation and the plant reflected in the life expectancy element of that calculation.

The Commission finds that Company is correct in stating that there is a principle of attempting to match the cost and life expectancy elements of plant considered in the setting of depreciation rates. However, the evidence indicates that this principle is a goal that is not always perfectly achieved since a Company's books are normally only updated yearly to reflect the cost of these plant additions. Therefore, the cost element of plant already in service, extending the useful life of a plant, might not yet be reflected in Company's books. A perfect match of these elements might not be possible. The question at issue in this case is whether there is an unacceptable mismatch.

The Commission determines that this difference between the elements of cost and life expectancy is acceptable. Since these costs had not been finally reflected in Company's books at the time Staff/Public Counsel calculated the depreciation rates, Staff/Public Counsel were unable to include these costs in their calculation. At this late date in the proceedings and without a true-up proceeding, there is insufficient time to generate cost figures in which the Commission can have confidence. These figures would need to be addressed by the parties after time for review of their validity. The Company could have requested a true-up hearing to update these cost figures in a reasonable fashion but chose not to do so. In the hearing memorandum (Joint Exhibit 1) signed by Company's counsel, Company indicated it was no longer proposing a true-up.

3. *Decommissioning*

Staff/Public Counsel object to Company's inclusion in depreciation rates as negative net salvage the cost of demolishing the Jeffrey and Sibley plants. Staff/Public Counsel state that such costs should be excluded because they are not known and measurable. Staff/Public Counsel contend that Company has no decommissioning studies for Jeffrey Units 1-3 or other power production sites owned solely by MPS nor has Company established a plan to demolish Sibley. Staff/Public Counsel contend that complete demolition of these plants is unlikely. Staff/Public Counsel observe that steam units under construction today are no more powerful than their immediate predecessors. Therefore, Staff/Public Counsel argue that sites that are being used for present steam plants today will be adequate for the next generation of steam plants. If the Commission chooses to recognize these decommissioning costs in depreciation rates, Staff/Public Counsel recommend that the Commission direct Company to establish an external fund subject to refund, so that Company may not use the monies collected for purposes other than decommissioning.

Company counters that it does have current plans to demolish the Clinton and Sedalia plants as soon as their asbestos has been removed. Company points out that asbestos removal has begun at Sedalia. Company contends that an obsolete unit may have to be demolished even if Company plans to reuse the site for the placement of a new unit.

The Commission determines that the decommissioning costs of fossil fuel plants should not be included in depreciation rates. The Commission permits decommissioning costs for nuclear plants because there are federal requirements to do so since nuclear plant sites cannot be reused and require special care when retired due to radioactive contamination. There are no requirements for the establishment of a decommissioning fund for fossil fuel plants. As pointed out by Staff/Public Counsel, fossil fuel plant sites can be reused for new fossil plants. Since these plant sites can be rehabilitated, the Commission considers the normal cost of removal which is calculated as part of the depreciation rates to be sufficient for these purposes and finds it unnecessary to reflect terminal cost of removal in these rates.

Based upon the preceding findings on the calculation of these rates, and the proper effect of future additions and decommissioning on the depreciation rates to be set, the Commission determines that Staff/Public Counsel's depreciation rates should be adopted herein.

I. *UtiliCorp Corporate Office*

MPS has included in the rates they propose 41 percent of the costs incurred by UtiliCorp's corporate office. These costs allocated to MPS by UtiliCorp total approximately $2.5 million. UtiliCorp charges these expenses to MPS to pay for management services.

Staff/Public Counsel oppose including these costs in rates because they believe these costs are excessive, duplicative and unnecessary to providing safe and adequate service. More specifically, Staff/Public Counsel state that MPS's administrative and general (A&G) expenses have increased 182 percent since 1980, making MPS's A&G costs among the highest compared to other Missouri electric utilities. Secondly, Staff/Public Counsel contend that these management services rendered by UtiliCorp duplicate the services rendered by MPS's own executives. Finally, Staff/Public Counsel maintain that these services rendered by UtiliCorp consist, to a large degree, of merger and acquisition (M&A) activities which serve the corporate goals of UtiliCorp but do not help MPS to render its ratepayers safe and adequate service.

Staff/Public Counsel conclude that, if these expenses were reflected in rates, MPS's ratepayers would be subsidizing UtiliCorp's diversification ventures. Staff/Public Counsel argue that these costs, therefore, would be detrimental to MPS's ratepayers and contrary to UtiliCorp's promise, made when it was formed, to shield MPS's ratepayers from any detriment arising from UtiliCorp's activities while permitting ratepayers to enjoy the benefits of UtiliCorp's activities.

Company counters that MPS's A&G costs are not excessive, noting that the most significant changes in costs occurred between 1982 and 1986 mostly prior to the time when UtiliCorp began allocating A&G costs to MPS. Company contends that these increases resulted from management decisions to improve customer services, productivity and safety and training programs, as well as from suggestions arising from a management audit conducted by the Commission. Company observes that its A&G costs per customer are lower than most other utilities in this region in 1989. Company maintains that such production variables as customers and sales volume are a more reasonable measure of management efficiency than comparing A&G costs to such input variables as number of employees and plant investment as Staff/Public Counsel have done.

Company maintains that these costs are not duplicative of costs incurred for MPS's own divisional management because the management of UtiliCorp serve as executive managers as opposed to the operational or middle managers handling MPS's divisional concerns. Company argues that these middle managers are freed, thereby, to devote their resources to the management of service and operations resulting in a reduction in customers' complaints of 52 percent since 1985.

Company does not account for its M&A activities separately because Company believes that the M&A activities benefit MPS's ratepayers. Company maintains, however, in an effort to avoid controversy, it removed from the A&G costs all significant M&A

expenses prior to filing this proposed rate increase. After Staff/Public Counsel's audit, Company discovered $70,280 of M&A costs in addition to the amounts Company originally excluded. Company has not removed the $70,280 from the total of $2.5 million in A&G costs. Company believes that this amount of $70,280 is de minimis. In addition, Company considers the amount identified by Staff/Public Counsel as related to M&A activities ($1.2 million) to have little effect on Company's cost of service. Company notes that when amounts are removed which occur outside the test year; are never included in cost of service by Company; are allocated to other divisions; are allocated to other jurisdictions; and are allocated to gas service, the net effect of the expenditures identified by Staff/Public Counsel is $54,543.22.

The Commission determines that the expenses allocated by UtiliCorp to MPS for the corporate office should be reflected in Company's cost of service with the exception of the $70,280 of additional M&A expenses found by Company. The Commission finds that these expenses, as adjusted, are not excessive since, when compared to the number of customers, Company's A&G costs are commensurate with the 1989 A&G costs of other companies located in this area. The Commission further finds that Company's A&G costs are not duplicative since the executive functions performed by UtiliCorp's management free MPS's management to attend to the conduct of MPS's operations. The Commission believes it is significant that customer complaints at MPS have dropped 52 percent since 1985. In addition, the commission finds that unifying management responsibility at the Utilicorp level has resulted in significant savings. Company estimates that over $1.8 million of savings have been realized in the areas of insurance, pensions and financing.

The Commission is not persuaded by the argument of Staff/Public Counsel that there is duplication of effort merely because there are similar job descriptions for management personnel at UtiliCorp and MPS or the incumbents of management positions at MPS might be capable of performing the functions performed by incumbents of management positions at UtiliCorp. However, the Commission does believe that it is good management policy for job descriptions to accurately describe the functions performed by incumbents of the corresponding positions. Therefore, the Commission encourages Company to modify its job descriptions to correspond to the functions intended for the positions they purport to describe.

The evidence indicates that Company has removed from its A&G costs most of the known expenses associated with M&A activities. The Commission believes that UtiliCorp's expenses for M&A activities should be removed from the expenses reflected in MPS's rates. When UtiliCorp was formed Company assured the Commission that the ratepayers would suffer no detriment from UtiliCorp's activities but would experience the benefits associated with UtiliCorp's activities. The Commission believes that it is inconsistent with this pledge to include M&A costs in the expenses reflected in MPS's rates. The Commission is of the opinion that it is inappropriate for MPS's ratepayers to pay for these activities which have little to do with MPS's goal of providing safe and adequate electric service in Missouri. Therefore, the Commission finds that the $70,280 of additional costs for M&A activities should be excluded from the cost of service. Finally, the Commission is concerned that Company has not been accounting for these costs separately. Accordingly, the Commission will direct Company to account for M&A costs separately so that they can be readily excluded in future rate cases from M&A costs reflected in MPS's rates.

IV. *RATE OF RETURN: Capital Structure/Return on Equity/Overall Revenue Requirement*

A. *Capital Structure*

In ratemaking it is necessary to establish a rate of return to be applied to a Company's rate base or facilities. This rate of return is an overall weighted cost of capital which is derived by establishing the relative amounts of various kinds of capital obtained by the company to finance its facilities and establishing the cost for Company to obtain these various kinds of capital. The relative amounts of various kinds of capital obtained by Company is called the Company's capital structure. Typically, this capital structure consists of common and preferred stocks, long-term debt and, sometimes, short-term debt. Once the relative amounts or ratios of these various forms of capital are established and the cost of each is fixed, the overall weighted cost of capital or rate of return can be ascertained.

MPS is a division of UtiliCorp and has no capital structure of its own. MPS proposes to use in this case a capital structure which has been assigned to it by UtiliCorp. UtiliCorp performed a study on the appropriate capital structure to be assigned to each of its divisions including MPS. This capital structure is reflected on MPS's books as of December 31, 1989. Company's proposed capital structure is as follows:

	Amount	*Ratio*
Long-term Debt	$163,415,000	44.17%
Preferred Stock	25,000,000	6.76%
Common Equity	181,534,744	49.07%
Total	$369,949,744	100.00%

Company asserts that the capital structure assigned to MPS by UtiliCorp reflects the amount of capital needed to support the MPS net plant investment less certain noninvestor capital supplied items, i.e., the amount of capital liability assigned was closely related to the asset size of MPS. Company maintains that UtiliCorp assigned MPS the debt and preferred stock which MPS had prior to UtiliCorp's acquisitions plus any issuances of debt or equity necessary to complete MPS's capital structure. Company further argues that its proposed capital structure is very similar to what MS would have had if UtiliCorp had not acquired other properties and represents the capital actually available to MS for the purpose of financing its Missouri properties.

Staff/Public Counsel oppose Company's proposed capital structure as arbitrary and self-serving. Staff/Public Counsel argue that Company's proposed capital structure serves to increase Company's rate of return and does not represent the capital structure considered by investors in making investment decisions. Staff/Public Counsel contend that it is UtiliCorp that obtains financing for MPS and, therefore, UtiliCorp's capital structure must be considered in establishing MPS's rate of return.

Staff/Public Counsel point out that Company's proposed capital structure has an equity ratio of 49.07 percent which is significantly above the target equity ratio of 45 percent assigned MPS by UtiliCorp as a result of its capital structure study. Staff/Public Counsel criticize this upward drift away from Company's target equity ratio and state that Value Line's estimates of common equity ratios for the electric utility industry in 1989 in the central United States averages 43 percent. Staff/Public Counsel point out that long-term debt is the type of capital with the lowest cost and equity is the form of capital with the highest cost. Staff/Public Counsel note that, in 1989, MPS had the highest net profit margin among any of UtiliCorp's divisions and subsidiaries. Staff/Public Counsel contend that UtiliCorp, by assigning an excessive ratio of common equity to MPS, is subsidizing its riskier, unregulated subsidiaries which have been assigned much lower ratios of common equity.

Company counters that its equity ratio will fall to 45 percent with a long-term debt financing Company plans to issue in November, 1990.

Staff/Public Counsel recommend the following capital structure for Company.

Capital Component	*Amount (000)*	*Ratio*
Short-term Debt	$ 52,102	5.41%
Long-term Debt	436,428	45.30%
Preference Stock	97,362	10.11%
Common equity	377,503	39.18%

Total	$ 963,395	100.00%

This is UtiliCorp's capital structure as of December 31, 1989. Staff/Public Counsel state that they have included short-term debt in this capital structure because UtiliCorp's short-term debt outstanding as of December 31, 1989, exceeds its construction work in progress (CWIP) by the amount of $52,102,000. Staff/Public Counsel explain that short-term debt is not generally included in the capital structure since it is typically completely accounted for by the amount spent for CWIP. Staff/Public Counsel have included short-term debt in their recommended capital structure because UtiliCorp is using the short-term debt exceeding CWIP for purposes other than CWIP.

Company opposes Staff/Public Counsel's capital structure as nonrepresentative because MPS has a different risk profile than the other divisions and subsidiaries comprising UtiliCorp. Company contends that a consolidated capital structure will not shield MPS's ratepayers from risk as promised by MPS at the time UtiliCorp was formed. Company maintains that the capital included in the consolidated capital structure is not available to finance MPS's construction and is a hypothetical capital structure which is merely the sum of the capital structures assigned to the various divisions and subsidiaries of UtiliCorp. Further, Company argues that Staff/Public Counsel's capital structure improperly includes short-term debt. Company states that this is a departure from the Commission's usual practice which recognizes that short-term debt will shortly be refinanced into long-term debt which will be part of the capital structure during the time when the new rates are in effect.

Finally, Company argues that the equity ratio chosen by Staff/Public Counsel is too different from the median common equity ratio for the 98 electric utilities followed by Value Line in 1989 (45.7 percent) as well as the median equity ratio forecasted by Value Line for these companies for 1990 (45.8 percent).

The Commission determines that the capital structure proposed by Staff/Public Counsel, as modified hereinafter, should be adopted in this case. In ratemaking, establishing the correct capital structure is part of the process of setting the rate of return on the Company's facilities. The goal of selecting a rate of return is to attract sufficient capital for the company's needs in financing its facilities. It is important that the rate of return established realistically reflect the assessment of prospective investors in that Company. The Commission finds that it is more reasonable to use the consolidated capital structure for MPS than it is to assign a hypothetical capital structure to MPS. As noted by Staff/Public Counsel, MPS has no capital structure of its own and its stock is not traded on the stock market. Investors cannot invest in MPS but can invest in UtiliCorp. It is the capital structure of UtiliCorp that prospective investors will examine when contemplating an investment. It is UtiliCorp which must attract capital for the use of its divisions and subsidiaries including MPS.

The Commission determines that the use of a consolidated capital structure in this instance will not, per se, expose MPS's ratepayers to any adverse consequences arising from UtiliCorp's other activities any more than the use of a hypothetical, assigned capital structure will insulate them from these consequences. As stated by Staff/Public Counsel's witness, the present capital structure of UtiliCorp is not harmful to MPS's ratepayers. However, an adjustment would need to be made in future rate cases should UtiliCorp develop a capital structure that would subject MPS's ratepayers to adverse consequences arising from UtiliCorp's other activities.

The Commission further determines that it is not germane to the establishing of an appropriate rate of return that the consolidated capital structure is unavailable to finance MPS's future construction. As pointed out by Staff/Public Counsel's witness, only new capital is available to MPS for new construction. Since UtiliCorp raises the capital for MPS's use, it is UtiliCorp's capital structure which is the more important in raising capital from investors to finance MPS's construction program.

The commission finds that it is inappropriate to include short-term debt in Company's capital structure. The Commission notes that it is the nature of short-term debt that it will soon be converted into long-term debt. Since rates are set prospectively, the Commission finds that it is unreasonable to base these rates in part on a capital structure which will not be representative of Company's future capital structure. Therefore, the Commission determines that short-term debt should be removed from the capital structure suggested by Staff/Public Counsel and that the effect of that removal should be distributed equally among the other forms of capital. The Commission finds that this will result in the following capital structure for Company.

Capital Component	*Amount (000)*	*Ratio*
Long-Term Debt	$436,428	47.89%
Preference Stock	97,362	10.68
Common Equity	377,503	41.42
Total	$911,293	100.00%

Finally, the Commission determines that the equity ratio represented in Staff/Public Counsel's modified capital structure is reasonably within the range of ratios for common equity in comparable companies. Staff/Public Counsel's ratio for common equity is 41.42 percent when adjusted for the removal of short-term debt. Company proposes a common equity ratio of 49.07 percent. Ninety-eight electric utilities followed by Value Line had an average equity ratio in 1989 of 44.9 percent. Therefore, the Commission concludes that the capital structure proposed by Staff/Public Counsel, as modified above, should be used in establishing Company's rate of return in this case.

B. *Return on Equity*

In order to establish the appropriate rate of return for Company it is necessary to estimate the appropriate cost of common equity for Company. The rate of return is established by estimating the cost of common equity and combining it with the costs for debt and preferred stock to establish the rate of return. Both Staff/Public Counsel and Company have used the discounted cash flow (DCF) method of estimating the cost of common equity. These parties differ, however, on which values should be used in the formula and how those values should be established. These parties also differ as to whether the return on equity arrived at should be adjusted to reflect forces not reflected in the DCF formula.

In the DCF formula the return on equity equals the sum of the yield term, determined by dividing the dividend per share by the stock price per share, and the growth rate in dividends. Typically, with the DCF formula it is assumed that the Company's stock is traded on the stock market and that the Company pays a dividend to the shareholder. Staff/Public Counsel used the average price of UtiliCorp's stock from February 13, 1990 to May 14, 1990, as the denominator of the yield term. Staff/Public Counsel used $1.50 as the numerator of the yield term, i.e., the dividend per share. On May 2, 1990, UtiliCorp's board of directors declared a quarterly dividend of 36 cents per share which would result in, if repeated each quarter, a yearly dividend of $1.44. Value Line estimated a dividend on common equity for UtiliCorp in 1990 of $1.50.

Staff/Public Counsel used a range of growth rates from 5.20 percent to 5.53 percent. These are the median and average values derived from UtiliCorp's actual and projected earnings and dividends per share since 1985. The projected values were garnered from estimates published in Value Line. Using these values in the DCF formula, Staff/Public Counsel established a return on equity for UtiliCorp of 12.51 percent to 12.84 percent which Staff/Public Counsel deemed applicable to MPS.

To test the validity of this result Staff/Public Counsel calculated the return on equity for comparable companies. The range of return on equity for the 13 surrogate companies examined by Staff/Public Counsel is 10.81 percent to 13.31 percent. Staff/Public Counsel also note that the quarterly benchmark return on equity specified by the FERC for determining rates in wholesale electric rate cases filed between May 1, 1990 and July 31, 1990, is 11.85 percent.

Staff/Public Counsel used the above-described return on equity and the costs of debt and preference stock ascertained by Staff/Public Counsel (cost of short-term debt: 9.04 percent; cost of long-term debt: 9.87 percent; cost of preference stock: 8.97 percent) in conjunction with the capitalization ratios set forth above to arrive at a range for rate of return of 10.77 percent to 10.90 percent. Staff/Public Counsel recommend that this rate of return be applied to the jurisdictional original cost rate base of MPS.

Company opposes Staff/Public Counsel's return on equity for three reasons. First, Company believes it is inappropriate to apply to MPS a return on equity developed from an analysis of UtiliCorp's capital structure and common stock since UtiliCorp is a Company with 14 percent of its consolidated net income arising from nonregulated operations. Second, Company maintains that the return on equity is too low for the ratio of common equity recommended by Staff/Public Counsel for MPS's capital structure. Company states that the lower the equity ratio the higher the financial risk and, therefore, the higher the cost of equity and vice versa. Company points out that the surrogate utilities used by Staff/Public Counsel to test the validity of their return on equity had a median common equity ratio for 1989 of 46.9 percent. Therefore, Company argues that, in order to have a comparable rate of return to these surrogate companies, MPS should have either a higher return on equity or a higher equity ratio.

Third, Company contends that the use of UtiliCorp's capital structure and stocks to establish MPS's rate of return has diluted the impact of the risk associated with MPS's construction program. Company maintains that electric companies involved in construction programs are exposed to greater risks. Company notes that MPS's construction program represents about 30 percent of MPS's rate base but only 10 percent of UtiliCorp's plant investments.

Staff/Public Counsel counter that it is appropriate to apply to MPS the return on equity established by analyzing UtiliCorp because investors can only invest in UtiliCorp and not MPS. Staff/Public Counsel maintain that any stress associated with MPS's construction program is reflected in UtiliCorp's cost of equity. In support of this point, Staff/Public Counsel quote from Standard & Poor's (S&P) review of UtiliCorp which addresses the amount of risk faced by UtiliCorp due to MPS's construction program. S&P indicates that the Sibley life extension project and the continuing policy of UtiliCorp to purchase power will mitigate construction stress for UtiliCorp. Finally, Staff/Public Counsel point out that they have raised the cost of equity for UtiliCorp to compensate for its lower equity ratio. Staff/Public Counsel note that the average cost of equity for the surrogate electric companies used by Staff/Public Counsel to check the validity of their cost of equity was 11.92 percent compared to Staff/Public Counsel's recommended cost of equity herein ranging from 12.51 percent to 12.84 percent.

Company advocates a cost of equity of 13.75 percent. Company employs the DCF method to arrive at a cost of equity which Company then adjusts to reflect other influences. To develop the values to be inserted into the DCF formula, Company analyzed two groups of utilities which Company felt were comparable to MPS. As a result of its analysis of the historic and prospective growth in dividends, earnings and book value per share of these comparable companies, Company estimated a dividend growth rate for MPS ranging from 5.75 percent to 6.00 percent.

Company analyzed the dividends currently being paid by the two groups of comparable companies and made an estimate of the expected increase in the dividends based upon their historic patterns of dividend increases to arrive at a dividend yield of 7.3 percent to 7.4 percent. These results establish the annual amount of yield expected for the first year of ownership following October 20, 1989. Using these values in the DCF formula resulted in an estimate for cost of equity of 13.05 percent to 13.40 percent. Company adjusted this result to a range of 13.50 percent to 14.00 percent to reflect two differences between the groups of comparable companies and MPS. First, Company states that its targeted equity ratio of 45 percent (Company recommends an actual equity ratio in this case of 49.07 percent) is lower than the equity ratios of the two groups of comparable companies used by Company to develop its cost of equity. These two groups have equity ratios of 49 percent and 51 percent, respectively. Second, Company wishes to reflect in this cost of equity the higher risk to which Company feels MPS is currently exposed due to its construction program.

In calculating its recommended overall weighted cost of capital or rate of return, Company used a cost of equity of 13.75 percent to arrive at a rate of return of 11.85 percent as of September 30, 1989. This rate of return was calculated by considering the cost of long-term debt and preferred stock ascertained by Company as well as the above-described cost of equity, all in relation to the capital structure advocated by Company.

The Commission determines that the cost of equity proposed by Staff/Public Counsel should be adopted in this case. The commission finds that it is more reasonable to base the values in the DCF formula on the stock performance of UtiliCorp than the stock performance of companies deemed to be comparable to MPS since a prospective investor will consider the performance of UtiliCorp's stock in making investment decisions. MPS's stock is not publicly traded.

The Commission further finds that the range of cost of equity established by Staff/Public Counsel is reasonable. The comparable utilities selected by Staff/Public Counsel to check the validity of their DCF findings have a range of cost of equity from 10.81 percent to 13.31 percent. The average cost of equity for these comparable utilities is 11.92 percent. The Commission finds that it is reasonable that Staff/Public Counsel recommend a range for cost of equity that is higher than the average for these comparable companies since the average equity ratio of these comparable companies is higher than the equity ratio in the capital structure established by Staff/Public Counsel for MPS. The Commission is not persuaded by Company that this range for cost of equity is unreasonable because it has not been adjusted upward to account for Company's construction program. The Standard & Poor's review of the effect on UtiliCorp of MPS' construction program adjudges it to be mitigated by MPS's life extension project and continued power purchases. Exhibit 76, Schedule 10.

Furthermore, Staff/Public Counsel's recommended range for return on equity is 59 to 92 basis points higher than the average DCF return on equity (11.92 percent) of the comparable utilities used by Staff/Public Counsel to check the validity of their return on equity. However, the Commission determines that the top end of Staff/Public Counsel's recommended range for return on equity (12.84 percent) should be adopted in order to insure that Company has sufficient capital available to complete its construction program. The Commission finds that the rate of return of 11.00 percent should be adopted herein for application to MPS's Missouri net original cost rate base. This rate of return is consistent with Staff/Public Counsel's recommended return on equity.

C. *Overall Revenue Requirement*

1. *Company's Concerns*

Company asserts that, if the Commission confines the rate increase in this case to that proposed by Staff/Public Counsel (initially $5.5 million, now $5.85 million), MPS will not come close to earning the rate of return which Staff/Public Counsel have recommended. In support of this statement Company has contended that it has analyzed Staff/Public Counsel's proposals in terms of Company's 1990 and 1991 budget models and concluded that the rate of return recommended by Staff/Public Counsel could not be achieved. Company maintains that, if the Commission adopts Staff/Public Counsel's disallowance for certain Sibley expenditures deferred pursuant to the Commission's accounting authority order and Staff/Public Counsel's reclassification of certain Sibley expenditures from capital to maintenance, MPS will be required to write off approximately $5 million net of tax in 1990. Company contends that this write-off will nearly eliminate the entire rate increase and negate the small portion of the rate increase received in 1990.

Staff/Public Counsel counter that they have been unable to audit Company's proposed 1990 and 1991 budgets which are not yet final budgets by Company's own admission. However, Staff/Public Counsel do have certain criticisms of these budgets based upon a cursory examination of them. Staff/Public Counsel point out that the budget calculations include $2.7 million in costs which MPS has agreed not to recover through increased rates. Staff/Public Counsel also point out that it will take a full 12 months following the effective date of the new rates to achieve Company's authorized rate of return. Staff/Public Counsel state that Company fails to cite the offsetting benefits in years subsequent to 1990 arising from the write-off of the $5 million complained of by Company. Staff/Public Counsel point to flawed methodologies in the preparation of these budgets leading to the understating of numbers, the overbudgeting of plant and the including of disallowed expenses.

The Commission determines that Company's criticism of Staff/Public Counsel's overall revenue requirement is ill-founded. The Commission finds there is ample evidence arising from Staff/Public Counsel's criticisms that Company's analysis of the effect of Staff/Public Counsel's recommended revenue requirement on Company's budgets for 1990 and 1991 is flawed. The

Commission further determines that Company's arguments are redundant. The ratemaking process involves examining the test year to predict a reasonable match of investment, revenue and expenses for the future to arrive at the revenue requirement necessary. Company has, in effect, grafted a second process on top of the ratemaking process. If adopted, this second process would occur after Staff/Public Counsel's audit was concluded and, therefore, would lack the safeguards of the primary process which arise from the full application of the adversarial proceeding.

2. *Rate Base and Revenue Requirement*

The effect on Company's revenue requirement of the Commission's decisions are as follows:

Issue	*Revenue Effect*
Fuel Inventory	$ 225,795
Line Extension Fee Waivers	$ 5,140
Advertising	$ 533,624
John Knox Village	$ 121,211
Unbilled Revenue	$ 1,332,045
Jurisdictional Allocations	$ 1,044,089
Sibley Deferral	$ 572,222
Sibley Inspection Costs	$ 663,382
Cost of Removal	$ 513,354
Depreciation	$10,727,045
UtiliCorp Corporate Office	$ 2,439,545
Rate of Return	$ 1,594,994

The Commission finds that the rate base used for purposes of setting the rates at issue herein should be the Company's jurisdictional net original cost rate base valued at $405,753,634. This value for rate base was arrived at by adding to the amount of rate base agreed to by the parties, the effect on rate base of the Commission's findings set forth herein affecting the amount of rate base. Applying to this rate base the rate of return found reasonable in this case of 11.00 percent produces an operating income requirement of $44,649,153. The net operating income available is $36,827,400 thereby requiring additional operating income of $7,821,753. Based upon the foregoing, the Commission finds that Company's gross revenue requirement is $12,395,805. This gross revenue requirement includes a gross revenue conversion factor of 1.584786. These calculations are based upon Late-Filed Exhibit 129, as updated.

V. *RATE DESIGN*

Rate design is the process by which a change in rates is distributed among the classes of customers taking Company's service such as industrial, residential and commercial customers. This allocation should reflect the relative cost to serve these classes of customers. Company proposes that the current rate design be retained in allocating among all classes of customers any rate increase approved. This would be accomplished by collecting an equal percentage increase from every rate class by applying a uniform percentage increase to all elements of the existing rate schedules. Company reasons that this is the most equitable approach in the absence of a current cost of service study upon which to base new allocations of any rate increase. Staff and Public Counsel agree with Company's position.

Company has not submitted in this case a study examining the cost of serving each of its classes of customers. The last cost of service study submitted by Company was filed in December, 1983. Company is currently in the process of performing a cost of service study which will be submitted in a rate design docket.

The Industrial Intervenors agree with the other parties that the current allocation of revenue responsibilities should be maintained in the absence of a current cost of service analysis. However, the Intervenors disagree with the other parties on how this can be accomplished. The Intervenors contend that, since fuel and variable purchased power expenses per kilowatt hour have decreased while fixed costs have increased, the revenue contribution of each class must be adjusted in order to preserve the present cost responsibility of the classes. Intervenors argue that the effect of retaining the current rate design without adjustment is to overallocate responsibility for additional fixed costs to those customers currently contributing more revenue to variable costs than the average. To avoid this perceived distortion, Intervenors recommend that the decrease in variable costs should be spread among the classes in proportion to kilowatt hour sales while any increase in rates authorized in this case should be spread among the classes in proportion to current contributions of the classes to recovery of fixed costs.

Staff and Public Counsel argue that the adjustment proposed by the Intervenors is invalid because it is based upon faulty assumptions and could result in a distortion in the allocation of any rate increase approved. Public Counsel points to three major problems with the Intervenors' approach. First, the Intervenors' approach allocates any increase among customers using only a single factor. Second, the Intervenors have not verified the validity of the current allocation of nonfuel costs. Third, the Intervenors' approach does not follow the method for allocating nonfuel costs which has previously been approved by this Commission. Under the Intervenors' approach, only costs for fuel and purchase power are categorized as variable and all other costs are categorized as fixed. Public Counsel states that in past decisions this Commission has recognized additional costs as variable such as certain nonfuel production operation and maintenance costs and, to some extent, production plant built to supply economical energy as well as peak demands.

Staff notes that the Intervenors' approach, as originally proposed, could result in distortions in the allocation of any rate increase approved. Staff points out that the rate increase requested by Company would result in a system/customer class average increase of 12.72 percent. Staff notes that the Intervenors' approach, as originally proposed, would result in an increase of 19.34 percent for the small general service class (SGSC) customers while the high tension power and light service (HTPL) customers would experience an increase of only 6.1 percent. The Intervenors are members of this latter class of customers.

Staff points out that the SGSC should have a rate that is slightly higher than the large general service rate and slightly lower than the residential rate to reflect the relative sensitivity of these classes of customers to weather. The more weather sensitive residential classes should pay more to reflect the greater cost of serving their greater demands on the system at the peak of demand while the SGSC customers should pay less to reflect the lower cost of serving their more even demand curve. The large general service class of customers should pay the least of these three classes of customers per kilowatt hour to reflect the even lesser cost of serving their even flatter demand curve.

Staff states that, under the Intervenors' approach, the SGSC customers could be charged significantly more per kilowatt hour than even the highest residential rate class of customers. Staff points out that this could seriously distort the rate allocation so that customers could be paying rates that are further removed from the costs required to serve them than would be the case under the approach advocated by Company, Public Counsel and Staff.

In surrebuttal testimony, the Intervenors altered their rate design figures in response to some of the criticism of the other parties. Staff and Public Counsel pointed out that the fuel cost figures used by the Intervenors in their original rate design calculations were seriously dated. The Intervenors decided to use the cost of fuel recognized in 1987 when the present rates went into effect.

This change modified the percentage allocations to each class of customers so that they more nearly resembled those of the other parties. For example, the percentage increase allocated to the SGSC customers dropped from 19.4 percent to 15.3 percent and the percentage increase allocated to the HTLP customers, including Intervenors, increased from 6.1 percent to 11 percent. These new percentages are closer to the percentage increases proposed by the other parties.

The Commission determines that the rate design method proposed by Company and supported by Staff and Public Counsel should be adopted herein. As all parties agree, it is reasonable to employ the current rate design in the absence of a cost of service study. The approach advocated by Company, Staff and Public Counsel allocates any proposed rate increase more in line with the current allocations.

As pointed out by Staff, the Intervenors' approach could result in more distorted allocations with classes of customers known to be less costly to serve paying even higher charges per kilowatt hour than classes of customers known to be more costly to serve. The Intervenors have altered the current rate design in a way which benefits themselves. A cost of service study could illustrate the need to adjust other factors which, upon adjustment, might moderate the allocation percentages proposed by the Intervenors. The evidence in this record already demonstrates that the results of the Intervenors' method are moderated by taking into account more current fuel costs.

This Commission cannot alter the current rate design of Company based upon the adjustment of only some of the relevant factors which, when manipulated, benefit the parties suggesting the adjustment. The evidence indicates that Company is currently performing a cost of service study which will be filed with this Commission in a cost of service docket. The Commission will direct Company to file its rate design study with the Commission on or before December 31, 1990. Until the cost of service study is received, the Commission concludes it is reasonable to retain the current rate design by allocating any rate increase approved to the customer classes by means of an equal percentage increase to every rate class thereby avoiding the distortions possible under the Intervenors' approach.

Conclusions of Law

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

Company is a public utility subject to the jurisdiction of this Commission pursuant to Chapters 386 and 393, RSMo 1986, as amended. Company's tariffs herein were suspended pursuant to authority vested in this Commission by Section 393.150, RSMo 1986, which places upon Company the burden of proof to show that the proposed increase in rates is just and reasonable. Pursuant to Section 393.240, RSMo 1986, the Commission may determine the proper and adequate rates of depreciation of the several classes of property of a public utility.

Pursuant to Section 393.270(4), RSMo 1986, the Commission will consider all facts which in its judgment have any bearing upon a proper determination of the price to be charged for electrical service with due regard, among other things, to a reasonable average return upon capital actually expended.

Based upon the revenue requirement found reasonable herein the Commission concludes that Missouri Public Service, a division of UtiliCorp United, Inc., should be allowed to file revised tariffs designed to increase its revenues exclusive of gross receipts and franchise taxes by $12,395,805 or 6.47 percent on an annual basis. Since the rate increase approved herein does not exceed seven percent, the provisions of Section 393.275, RSMo 1986, do not apply.

IT IS THEREFORE ORDERED:

1. That pursuant to the findings and conclusions in this Report and Order the proposed tariffs filed by Missouri Public Service, a division of UtiliCorp United, Inc., in this case, be disapproved hereby and Missouri Public Service be authorized hereby to

file in lieu thereof, for the approval of this Commission, tariffs designed to increase gross revenues exclusive of gross receipts and franchise taxes by the amount of $12,395,805 on an annual basis over the currently effective rates.

2. That the tariffs authorized herein shall reflect the rate design adopted in this Report and Order.

3. That the tariffs to be filed pursuant to this Report and Order shall become effective for service rendered on and after October 17, 1990.

4. That Missouri Public Service, a division of UtiliCorp United, Inc., be directed hereby to keep transmission services schedule logs by the hour for all transmission services performed for other utilities as suggested by the Commission's Staff and the Office of the Public Counsel. Missouri Public Service shall begin keeping these logs on or before November 5, 1990.

5. That Missouri Public Service, a division of UtiliCorp United, Inc., be directed hereby to file with the Commission on or before December 31, 1990, a cost of service/rate design study.

6. That Missouri Public Service, a division of UtiliCorp United, Inc., be directed hereby to provide the Commission's Staff and the Office of the Public Counsel the actual deferred costs associated with the Sibley life extension and coal conversion projects from June through September 30, 1990, and to calculate these costs consistently with the findings made in this Report and Order. The Company shall provide this information so that it may be included in the rates approved herein before their effective date of October 17, 1990.

7. That Exhibits 20, 21 and Late-Filed Exhibits 126 through 132, both inclusive, be received hereby into evidence. These exhibits are described in Appendix A attached hereto and incorporated herein by reference.

8. That any objections not heretofore ruled upon be overruled hereby and any outstanding motions be denied hereby.

9. That this Report and Order shall become effective on the 17th day of October, 1990.

Appendix A

Exhibits Received Into Evidence By This Report And Order

Exhibit 20	Company's annual capacity factors at Sibley
Exhibit 21	Company's annual capacity factors at Sibley in graphic display
Late-Filed Exhibit 126	Company's crisis communication documents
Late-Filed Exhibit 127	Stipulation concerning cost of removal/flow-through tax issue and exhibit re unbilled revenue/flow-through tax issue plus Exhibit 19 revised from Case No. 16,569 and pro forma 1968 taxes from Case No. 16,569
Late-Filed Exhibit 128	Memorandum from Examiner O'Donnell dated September 27, 1990, requesting updated reconciliation based upon a hypothetical decision on the issues
Late-Filed Exhibit 129	Response of Staff/Public Counsel on October 2, 1990, to Late-Filed Exhibit 128 as updated October 5, 1990
Late-Filed Exhibit 130	Response of Company to Late-Filed Exhibit 128

Late-Filed Exhibit 131	Response of Staff/Public Counsel to Late-Filed Exhibit 130
Late-Filed Exhibit 132	Response of Company and Staff/Public Counsel to the Commission's request of October 4, 1990, for a computation of the revenue effect of computing the cost element of the depreciation rate calculation for the Sibley life extension steam production plant through April 30, 1990 to match the previous computation of the life expectancy element of that calculation

Before Mueller, Rauch, McClure, and Letsch-Roderique, commissioners.

By the COMMISSION:

ORDER APPROVING TARIFFS AND MODIFYING AND CORRECTING REPORT AND ORDER

On October 12, 1990, Missouri Public Service, a division of UtiliCorp United, Inc. (MPS), filed tariffs to increase its electric rates by $12,395,805 pursuant to the Report and Order issued in this case October 5, 1990. The tariffs bear an effective date of October 17, 1990, as authorized by the Report and Order. In addition, the tariffs provide for a late payment charge on delinquent customer bills as proposed in Case No. ER-90-268 which was consolidated with this case addressing MPS's proposed general rate increase. No party to this case opposes the late payment charge. The language in the tariffs concerning the late payment charge was changed by MPS from that of the original filing to clarify the situations to which the late payment charge would be applicable. This language makes the tariff consistent with laws governing the late payment of accounts by state agencies, the Commission's rule governing the termination of service during cold weather, and provides that the late payment charge not apply to amounts paid pursuant to a deferred payment plan.

The tariffs also reflect the rate design found reasonable by the Commission in the Report & Order. The Commission notes that in the cover letter filed by MPS with these tariffs, MPS states its intent to book the depreciation rates adopted by the Commission in the Report and Order.

On October 15, 1990, the Commission's Staff (Staff) filed a memorandum herein stating that it had reviewed the tariffs filed by MPS and found them in compliance with the Commission's Report and Order issued herein. The Commission determines, therefore, that these tariffs filed by MPS on October 12, 1990, should be approved for service on and after October 17, 1990.

Several late-filed exhibits were submitted to the Commission too late to be addressed in the Commission's Report and Order issued October 5, 1990. At the time of the hearing held in July, 1990, the Staff sponsored two highly confidential exhibits of prefiled testimony designated and received by the Commission as Exhibits 88HC and 113HC. Subsequently, Staff was able to designate some of the material contained in those exhibits as either public or as less sensitive thereby requiring only a proprietary designation.

On October 5, 1990, Staff submitted to the Commission a nonproprietary version of Exhibit 88 for which the designation, Exhibit 88NP, had been reserved at the hearing. Staff also submitted a new version of Exhibit 88HC reflecting the redesignation of some of the material as public. In addition, on October 5, 1990, Staff submitted nonproprietary and proprietary versions of Exhibit 113 which had been reserved at the hearing as Exhibits 113NP and 113P. Staff also submitted a new Exhibit 113HC reflecting the redesignation of some of the material as less sensitive or public.

The Commission further notes that on October 5, 1990, MPS submitted an update to Exhibit 130. This exhibit corrects the originally submitted Exhibit 130 as to the appropriate revenue conversion factor. Exhibits 88HC, 113HC and Late-Filed Exhibit 130 have already been received into the record either at the hearing held July, 1990, or in the Report and Order issued herein. The Commission will receive into evidence by this order Exhibits 88NP, 113NP and 113P.

Through an oversight the Commission neglected in its Report and Order issued herein to direct MPS to account for merger and acquisition costs separately from the other administrative and general costs associated with the allocation to MPS of the expenses of the UtiliCorp corporate office. The Commission will so direct MPS in this order consistent with its findings and decision in the Report and Order.

Finally, the Commission notes that the Report and Order issued herein should be corrected at the bottom of [original] page 39 (118 PUR4th at 226). The first sentence in the last incomplete paragraph on that page should be corrected to read as follows:

The Commission determines that Staff/Public Counsel's method for calculating depreciation rates should be adopted in this case for setting Company's depreciation rates.

IT IS THEREFORE ORDERED:

1. That the tariffs filed with the Commission for its approval by Missouri Public Service, a division of UtiliCorp United, Inc., pursuant to the Report and Order issued in this case be approved hereby for service on and after October 17, 1990.

2. That Missouri Public Service, a division of UtiliCorp United, Inc., be directed hereby to account for merger and acquisition costs separately from those administrative and general costs associated with Missouri Public Service's allocated share of the costs of the corporate office of UtiliCorp United, Inc.

3. That Late-Filed Exhibits 88NP, 113P and 113NP be received into evidence hereby.

4. That the Report and Order issued in this case October 5, 1990, be modified and corrected hereby as set forth herein.

5. That this order shall become effective on the 17th day of October, 1990.

End of Document