

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

Case No. ER-82-52

In the matter of Union Electric Company  
of St. Louis, Missouri, for authority  
to file tariffs increasing rates for  
electric service provided to customers  
in the Missouri service area of the  
Company.

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APPEARANCES: Paul Agathen, Attorney at Law, and William E. Jaudes, Attorney at  
Law, Union Electric Company, P. O. Box 149, St. Louis, Missouri 63166,  
for Union Electric Company.

Robert C. McNicholas, Associate City Counselor, 314 City Hall, St.  
Louis, Missouri 63103, for the City of St. Louis and Joseph R.  
Niemann.

Robert M. Lee, Attorney at Law, 720 Olive Street, St. Louis, Missouri  
63101, for Laclede Gas Company.

George J. Bude, Attorney at Law, 130 South Bemiston, Clayton,  
Missouri 63105, for Consolidated School District No. 6, Jefferson  
County.

Robert C. Johnson, Attorney at Law, 314 North Broadway, St. Louis,  
Missouri 63102, for Industrial Intevenors, Monsanto, et al.

Gary Mayes, Attorney at Law, One Mercantile Center, St. Louis,  
Missouri 63101, for Metropolitan Sewer District.

Herman Barken, Attorney at Law, and Susan Pippa, Attorney at Law,  
41 South Central, Clayton, Missouri 63105, for St. Louis County,  
Missouri.

George Weible, Attorney at Law, City Hall, 200 North Second Street,  
St. Charles, Missouri 63301, for the City of St. Charles, Missouri.

Daniel S. Ochstein, Attorney at Law, P. O. Box 300, Holts Summit,  
Missouri 65043, for Missouri Public Interest Research Group.

Michael C. Pendergast, Assistant Public Counsel and Richard W.  
French, Assistant Public Counsel, 1014 Northeast Drive, Jefferson  
City, Missouri 65101, for the Office of the Public Counsel and the  
Public.

William C. Harrelson, Assistant General Counsel, and Eric K. Banks,  
Assistant General Counsel, P. O. Box 360, Jefferson City, Missouri  
65102, for the Staff of the Missouri Public Service Commission.

### SUPPLEMENTAL AND CORRECTION ORDER

On July 2, 1982, the Missouri Public Service Commission issued its Report and Order in this matter. During post-hearing proceedings, including a rehearing on October 22, 1982, and in the briefs filed on rehearing, the Office of Public Counsel (PC) contends that the Commission's Report and Order inadequately addressed one of the issues. As a part of its decision in this matter, the Commission made an allocation, to the respective customer classes, of the percentage of the rate increase resulting from fixed costs. PC contends, however, that the Commission has failed to determine the proper amount of fixed costs to be allocated.

The Commission, in its Report and Order After Rehearing being issued concurrently, has determined that the issue of the amount of fixed costs, not being the subject of a motion or petition for rehearing, is not properly before the Commission in that regard. The Commission is of the opinion, however, that its Report and Order of July 2, 1982, is deficient in that regard and should be supplemented. Moreover, its July 13, 1982, order approving the Company's compliance tariffs should be corrected.

### Findings of Fact

Variable costs are generally described as those costs that increase or decrease with kwh production. Variable costs are contrasted with fixed costs which do not vary significantly with production.

The Commission Staff's position throughout this case was that the only variable expenses are fuel costs, purchased power and interchange sales. The Company originally classified several other items as variable, but during the proceedings, it abandoned its position in favor of that of the Staff's. As a result, the Company and Staff ultimately agreed that, for the purpose of this case, variable costs should be limited to fuel cost, purchased power and interchange sales.

It is the position of the Company, and certain industrial intervenors, that, while the final rate order did not specifically address that issue, the Company's compliance tariffs applied the same fixed/variable split agreed to by the

Company and Staff.

During the original hearing, two Company witnesses stated that they believed the variable cost components should be comprised of fuel costs, purchased power expense, fuel handling expense, and other variable production expenses such as water purification materials, lubricants, pumping supplies and maintenance expenses which vary with energy output. PC supported that method of calculating variable costs in its original brief and in its briefs after rehearing.

One Company witness stated in the original hearing that maintenance expenses which he proposed to include in the variable cost component depended primarily on the hours of generation and the use of power plant equipment so that the maintenance expenses included were directly related to the output of the plants. Another of the Company witnesses testified in the original hearing that fuel handling expense should be included in the variable component since it takes labor and equipment to move fuel into the bulkers of the Company's production plants to generate kilowatt hours, and the amount of fuel handling increase as the amount of kilowatt hours generated increases. The Staff witness on this issue did not review the accounts concerning those variable production expenses and did not know how the Company allocated expenses between fixed and variable. The Staff witness based his judgment not to include additional variable production expenses on statements from members of the Accounting Staff of the Commission and those variable production expenses have not historically varied significantly by kilowatt hour usage.

In the Commission's opinion there is no competent and substantial evidence to support the Staff's determination of variable costs and that position cannot be maintained. The only competent and substantial evidence on this issue has been presented by Company witnesses Wucher and Kovach. The variable expenses described by Wucher and Kovach, enumerated above, should be included in the variable costs to be allocated. That result is consistent with the Commission's Report and Order in the Missouri Public Service Company case, ER-82-39, in which the Commission found that all increases in production operation and maintenance expense should be spread on a

kwh basis since those costs increase as production increases.

It is recognized that the Company, in filing its tariffs in compliance with the Commission's Report and Order, designed the tariffs incorporating as variable costs only the cost of fuel, purchased power and interchange sales. Since the Commission's Report and Order did not resolve the issue of the composition of variable costs, it is deficient in that matter and the Company's tariff filing was based on a material factual omission in the Report and Order.

In the Commission's opinion, the tariffs to be filed as a result of this Supplemental and Correction Order and the concurrent Report and Order After Rehearing shall be based on an inclusion in variable costs of the total production operation and maintenance expenses as well as increases in fuel and purchased power expenses and the net of interchange sales. Those increases shall be spread on a per kilowatt hour basis.

#### Conclusions

The Missouri Public Service Commission has arrived at the following conclusions:

Orders of the Commission must be based on competent and substantial evidence and must address all disputed factual issues.

When the Commission's Order appears to be deficient in any respect, the Commission has an obligation to respond to request to correct that deficiency. The additional findings of fact contained herein are necessary to supplement the Commission's Report and Order of July 2, 1982, and to correct the Order Approving Rate Sheets issued on July 13, 1982.

It is, therefore,

ORDERED: 1. That Union Electric Company of St. Louis, Missouri, be, and is, hereby directed to file, for Commission approval, revised tariffs consistent with the findings and conclusions in the Commission's Report and Order effective July 14, 1982, its orders herein and orders in the concurrently issued Report and Order After Rehearing.

ORDERED: 2. That this Order shall become effective on the 21st day of December, 1982.

BY THE COMMISSION

*Harvey G. Hubbs*

Harvey G. Hubbs  
Secretary

(S E A L)

Fraas, Chm., Dority, Shapleigh  
and Musgrave, CC., Concur. and  
certify compliance with the  
provisions of Section 536.080  
RSMo, 1978.  
McCartney, C., Not Participating

Dated at Jefferson City, Mo.  
this 10th day of December, 1982.