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Missouri Public Service Commission

FAXED 6-19-91 J. Sawaya

PM

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 14th day of June, 1991.

In the matter of the application of St. Joseph Light & Power Company for the issuance of an accounting order relating to its electrical operations.) CASE NO. EO-91-247

ORDER GRANTING APPLICAT~~N FOR ACCOUNTING ORDER

On January 9, 1991, St. Joseph Light & Power Company (SJLP or Company) filed an application with the Commission seeking an accounting order authorizing the deferral and amortization of labor costs associated with possible implementation of an Automated Mapping/Facilities Management (AM/FM) System. As a part of its process of considering an implementation of the system, SJLP seeks permission to amortize labor costs over a period of six years and include the unamortized balance of labor costs in rate base for purposes of calculating revenue requirements.

The system is designed to improve the Company's planning capability, engineering and transformer load management and is expected to result in fewer and shorter service interruptions. By the use of the automated system engineering technicians will no longer be required to manually update maps showing the location of transmission and distribution facilities.

On May 21, 1991, the Commission Staff filed its recommendation for denial of the application. The Commission's Energy Department is of the opinion that the system will work to reduce costs and provide better control of the Company's facilities and operations, however, it has deferred to the Commission's Accounting Department for specific recommendations relating to the accounting treatment.

Exhibit No. 152
Case No(s). ER-2004-0034
Date 2/23/04 Rptr KF

The Company estimates the cost of the AM/FM project to be approximately $1.4 million consisting of $400,000 for hardware and software and $1 million in labor expended over a five-year period. The Company's application acknowledges that the type of labor costs involved have historically been expensed in the year incurred, however, the Company contends that those labor costs are a significant outlay for a project that will benefit the Company's customers for many years.

After its analysis the Accounting Staff contends that of the total amount of $857,916 for labor, only an estimated $140,400 will result from temporary personnel hired specifically for the project. The remaining $717,516 is for labor costs for existing Company personnel. Although the Staff concedes the probable reasonableness of deferral and amortization of the temporary labor costs, it is only 16 percent of the total project labor costs and a very minimal percentage of the Company's current operations. It is the Accounting Staff's opinion that the total labor cost is not significant enough to have a material reduction on the Company's financial condition if charged to expense as incurred in the customary manner. The total labor cost for the project is depicted by the following table.

Year	Total Labor Costs	Temporaries	Existing Personnel
1	$178,579	$ 11,700	$166,879
2	211,750	46,800	164,950
3	211,750	46,800	164,950
4	170,028	35,100	134,928
5	85,809	0	85,809
	$857,916	$140,400	$717,516

The Accounting Staff also examined the effect of the project on the Company's earnings. Staff states the Company's last authorized rate of return of 11.23 percent was set in Case No. ER-81-43. Employing the surveillance data applying to the Company, the Staff has ascertained that the Company's rate of return for the twelve months ending December, 1990, was above that rate of return. Assuming all of the other aspects of the Company's operations to remain the same, the Accounting Staff has projected only the effect of the AM/FM project on the Company's financial results for the next several years. Regardless of whether the subject expenses are booked as the Company advocates, or under the traditional method, the Company's rate of return should not fall below 11.23 percent solely because of the proposed expenditures for the AM/FM project.

The Accounting Staff also examined the effect of expensing the labor costs in the years incurred on the Company's earnings per share on common stock. For calendar year 1990 Company's earnings per average common share were $2.48. Under the largest expenditures for labor costs in years two and three, in the amount of $211,750, the labor costs would reduce the Company's earnings by five cents per share or approximately two percent. It is the contention of the Accounting Staff that the conditions have not been met for the granting of an authority order consistent with past recommendations, specifically in Case No. EO-90-126.

The basic criteria that should be met for the issuance of an accounting authority order, according to the Staff, is the occurrence of an extraordinary event of a non-recurring nature or, at a minimum, an unusual or unique event that is not considered part of the routine activities of a utility, either of which have a material impact on the Company's financial condition, and would justify a deviation from normal accounting practices. The Staff finally expresses the opinion that the instant application does not demonstrate these conditions are met due to the immateriality of the labor costs in question in relation to the Company's operations as a whole.

On May 31, 1991, SJLP filed a reply to the Staff's recommendation. It is the Company's contention that the Staff's recommendation fails to recognize that the work requirements of the current employees will continue, and the Company will either have to hire additional personnel to cover their jobs during the term of the involved project or pay additional overtime. Further, it is contended that some of the existing personnel presently charge a portion of their time directly to job orders, therefore, their time is not included in SJLP's cost of service.

The Company agrees with Staff concerning the conditions justifying the issuance of an authority order as stated in Case No. EO-90-126, but contends that the conditions have been met. In addition, the Company contends that the effect on the Company's earnings per share which could amount to as much as 21 cents per share over the life of the project is material. The Company finally responds that the benefits of this project will extend years into the future and the customers benefitting from this project should be the ones expected to pay for it, not current customers receiving no benefit. It is the Company's opinion that the project should be examined as a whole, both as to tangible and intangible benefits, and urges the Commission to grant the requested authority.

(2) The Commission is of the opinion and finds that the merits of the Company's position justifies a grant of the requested authority. The Commission is of the opinion that the subject project is of such a long-term duration that it is an extraordinary event of a non-recurring nature. It certainly is unusual enough to be considered not a part of the routine activities of the Company. It is, however, an innovative method of eliminating routine activities.

The Commission also agrees with the Company's contention that the life of the system and the substantial benefit to future ratepayers justifies the proposed treatment. Due to the long-term benefits it is more proper to defer the cost to future ratepayers who will receive the benefits rather than having the items expensed to be paid for by present ratepayers receiving little or no benefit.

To a lesser extent we agree with the Company's contention concerning the materiality of the project's effect on its earnings. The amount of erosion on the

Company's earnings, taken alone, would not justify granting the proposed authority, however, in conjunction with the other reasons recited, it is persuasive.

IT IS THEREFORE ORDERED:

1. That the Application filed herein on January 9, 1991, by St. Joseph Light & Power Company be granted and the Company is authorized to account for the expenses associated with the proposed Automated Mapping/Facilities Management System in Account 186. Pursuant thereto St. Joseph Power & Light Company may defer and accumulate labor costs including appropriate overheads and carrying costs associated with the project, and to amortize the balance to the appropriate transmission and distribution accounts over the same six-year period used to depreciate the project's hardware and software costs. The Company is also authorized to include the unamortized balance of Account 186 in rate base for purposes of calculating revenue requirements.

2. That nothing in this Order shall be considered as an acceptance by the Commission of the estimates herein involved nor as an acquiescence in the value of the property involved. The actual ratemaking treatment will be considered in subsequent proceedings after verification of amount and reasonableness.

3. That this Order shall become effective on June 24, 1991.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Rauch, McClure,
and Perkins, CC., Concur.
Mueller, C., Dissents.