

*Exhibit No.:*  
*Issues:* *Regulatory Plan Amortizations*  
*Witness:* *Mark L. Oligschlaeger*  
*Sponsoring Party:* *MoPSC Staff*  
*Type of Exhibit:* *Surrebuttal Testimony*  
*Case No.:* *ER-2010-0130*  
*Date Testimony Prepared:* *April 23, 2010*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**MARK L. OLIGSCHLAEGER**

**THE EMPIRE DISTRICT ELECTRIC COMPANY**

**CASE NO. ER-2010-0130**

*Jefferson City, Missouri*  
*April, 2010*

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**OF**  
**MARK L. OLIGSCHLAEGER**  
**THE EMPIRE DISTRICT ELECTRIC COMPANY**  
**CASE NO. ER-2010-0130**

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1 for the reflection in rates of “amortizations” based on certain financial ratios. Where Empire  
2 fails to meet these financial ratios in Empire’s general electric rate cases until, and including,  
3 the rate case where the Iatan 2 generating unit is reflected in Empire’s rates as fully  
4 operational and used for service, these “amortizations” are available. For the reasons outlined  
5 in my direct testimony in this proceeding, the Staff is including an amount for regulatory plan  
6 amortizations as part of its recommendation for Empire’s revenue requirement in this case.

7 Q. What does Empire witness Mr. Sager say in his rebuttal testimony concerning  
8 the Staff’s calculation of the regulatory plan amortizations, attached as Appendix 3 to the  
9 Staff’s Cost of Service Report filed on February 26, 2010?

10 A. At page 2, lines 4-6 of this rebuttal testimony, Mr. Sager acknowledges that the  
11 format of the Staff’s calculation of the amortizations appears to be generally consistent with  
12 that agreed to by the parties in Empire’s previous Missouri rate proceedings. However, based  
13 upon his discussions with a Standard & Poors’ (“S&P”) ratings analyst, Mr. Sager goes on to  
14 recommend that two modifications be made to the Staff’s calculation of the regulatory plan  
15 amortizations. Mr. Sager characterizes his discussion with the S&P rating analyst as  
16 suggesting these proposed modifications are more consistent with S&P’s actual approach to  
17 assessing the credit-worthiness of companies being rated than the approaches used in the Staff  
18 regulatory plan amortization calculation.

19 Q. Why is what a Standard & Poors’ ratings analyst says relevant to the  
20 calculation of regulatory plan amortizations?

21 A. S&P is one of the agencies that periodically provide credit ratings for Empire.  
22 The Staff believes that the regulatory plan amortization process that is part of the regulatory  
23 plan agreed to in Case No. EO-2005-0263 is intended, at least in general terms, to model the

1 credit rating process S&P uses to analyze Empire’s creditworthiness. However, as discussed  
2 by Mr. Sager at page 3, lines 21-22 of his rebuttal testimony, Empire and other participants in  
3 the regulatory process here do not in all instances know the exact approaches and calculations  
4 S&P uses in the credit rating process it uses to rate Empire’s creditworthiness.

5 Q. Does Empire’s regulatory plan obligate parties to incorporate new S&P  
6 approaches or better understandings of its existing approaches to rating Empire’s  
7 creditworthiness when calculating the amount of Empire’s regulatory plan amortizations in  
8 one of its general electric rate cases?

9 A. No, it does not.

10 Q. What modifications to the Staff’s calculation of Empire’s regulatory plan  
11 amortizations does Empire witness Sager propose in his rebuttal testimony?

12 A. Mr. Sager recommends including an imputed “proxy capacity charge” for  
13 Empire’s two current wind purchased power agreements in the calculation of the  
14 amortizations. He also suggests applying a 50% “risk factor” to all of Empire’s purchased  
15 power agreements for purposes of calculating Empire’s regulatory plan amortizations.  
16 Neither of these approaches was used by any party for calculating Empire’s regulatory plan  
17 amortizations in Empire’s last two Missouri electric rate cases, Nos. ER-2006-0315  
18 and ER-2008-0093.

19 Q. What impact would incorporating these two proposals into the Staff’s  
20 calculation of Empire’s regulatory plan amortizations have?

21 A. The Staff’s believes the net effect of these two changes would be to reduce  
22 slightly the Staff’s calculation of the amount of the regulatory plan amortizations.

1           Q.     What is the Staff's response to Empire witness Mr. Sager's proposals to  
2 modify the calculation of Empire's regulatory plan amortizations?

3           A.     On the advice of counsel, and in my own non-legal opinion, the language of  
4 the Stipulation and Agreement in Case No. EO-2005-0263, including its attachments, does not  
5 clearly require or prohibit the modifications Empire suggests; i.e., imputation of capacity  
6 charges for wind purchased power agreements and use of a 50% "risk factor" for all  
7 purchased power agreements. Therefore, it is the Staff's opinion that the use of these  
8 approaches would not violate Empire's Regulatory Plan. Because Mr. Sager's suggested  
9 modifications to the Staff's regulatory plan amortizations calculation arguably may conform  
10 better with the actual credit rating agency practices of S&P than those used in Empire's prior  
11 general electric rate cases, the Staff does not oppose the modifications Mr. Sager proposes to  
12 the Staff's regulatory plan amortizations calculation in this case that he sets forth in his  
13 rebuttal testimony.

14           Q.     Does this conclude your surrebuttal testimony?

15           A.     Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

In the Matter of The Empire District Electric )  
Company for Authority to File Tariffs Increasing ) Case No. ER-2010-0130  
Rates for Electric Service Provided to Customers )  
in the Missouri Service Area of the Company )

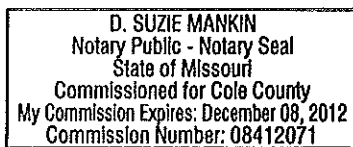
**AFFIDAVIT OF MARK L. OLIGSCHLAEGER**

STATE OF MISSOURI )  
 ) ss.  
COUNTY OF COLE )

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 4 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Mark L. Oligschlaeger  
Mark L. Oligschlaeger

Subscribed and sworn to before me this 22<sup>nd</sup> day of April, 2010.



D. Suzie Mankin  
Notary Public