Exhibit No.:	
Issues:	*Tracker Proposals;*
	Use of Projected Expenses;
	Expense Trackers in Rate Base
Witness:	*Mark L. Oligschlaeger*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Rebuttal Testimony*
Case No.:	*ER-2016-0285*
Date Testimony Prepared:	*December 30, 2016*

MISSOURI PUBLIC SERVICE COMMISSION

COMMISSION STAFF DIVISION

AUDITING DEPARTMENT

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2016-0285

Jefferson City, Missouri
December 2016

NP

** **Denotes Highly Confidential Information** **

TABLE OF CONTENTS OF

REBUTTAL TESTIMONY OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2016-0285

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2016-0285

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, MO 65102.

Q. Please describe your educational background and work experience.

A. I attended Rockhurst College in Kansas City, Missouri, and received a Bachelor of Science degree in Business Administration, with a major in Accounting, in 1981. I have been employed by the Missouri Public Service Commission ("Commission") since September 1981, within the Auditing Department.

Q. What is your current position with the Commission?

A. In April 2011, I assumed the position of Manager of the Auditing Department within the Commission Staff Division.

Q. Are you a Certified Public Accountant (CPA)?

A. Yes, I am. In November 1981, I passed the Uniform Certified Public Accountant examination and, since February 1989, have been licensed in the state of Missouri as a CPA.

Q. Have you previously filed testimony before this Commission?

A. Yes, numerous times. A listing of the cases in which I have previously filed testimony before this Commission, and the issues I have addressed in testimony in cases from 1990 to current, is attached as Schedule MLO-r1 to this rebuttal testimony.

Q. What knowledge, skills, experience, training, and education do you have in the areas of which you are testifying as an expert witness?

A. I have been employed by this Commission as a Regulatory Auditor for approximately 35 years and have submitted testimony on ratemaking matters numerous times before the Commission. I have also been responsible for the supervision of other Commission employees in rate cases and other regulatory proceedings many times. I have received continuous training at in-house and outside seminars on technical ratemaking matters since I began my employment at the Commission.

Q. Have you participated in the Commission Staff's ("Staff") review of the application filed by KCPL in Case No. ER-2016-0285 to increase its customer rates?

A. Yes, I have, with the assistance of other members of Staff.

EXECUTIVE SUMMARY

Q. Please summarize your rebuttal testimony in this proceeding.

A. In this testimony, I address from a policy perspective the proposals discussed by KCPL witnesses Darrin R. Ives and Tim M. Rush in their direct testimonies seeking authorization to include a projected level of costs in rates for transmission expense[1] and property tax expense or, alternatively, to implement certain special regulatory mechanisms, called "trackers," to account for these items. I will first address in my rebuttal testimony KCPL's alternative tracker proposal, and then turn to KCPL's proposed use of projected expense levels. Regarding each alternative, the Staff recommends that the Company's request be denied.

[1] This recommendation by KCPL only applies if the Commission rejects its request to include transmission expenses and revenues in the fuel adjustment clause ("FAC").

I will also respond to the direct testimony filed by The Office of the Public Counsel ("OPC") witness Charles R. Hyneman regarding the issue of whether certain unamortized tracker mechanism balances should be included in utility rate base.

Q. Are other Staff witnesses addressing KCPL's proposed trackers and use of forecasted values for transmission expense and property tax costs?

A. Yes. Staff witness Karen Lyons also addresses these aspects of KCPL's transmission and property tax ratemaking proposals in her rebuttal testimony.

TRACKER PROPOSALS

Q. What is a "tracker"?

A. The term "tracker" refers to rate mechanisms under which the amount of a particular cost of service item actually incurred by a utility is "tracked" and compared to the amount of that item currently included in a utility's rate levels. Any over-recovery or under-recovery of the item in rates compared to the actual expenditures made by a utility is then booked to a regulatory asset or regulatory liability account, and would be eligible to be included in the utility's rates set in its next general rate proceeding through an amortization to expense.

Q. Should use of trackers be a common occurrence in Missouri rate regulation of utilities?

A. No. Rates are normally set in Missouri to allow a utility an opportunity to recover its cost of service, measured as a whole, on an ongoing basis from the utility's customers. However, under this approach, neither utilities nor utility customers are allowed to be reimbursed through the rate case process for any prior under or over-recovery of costs experienced by the utility in rates, either measured for its cost of service as a whole or for individual cost of service components. For this reason, use of trackers in order to provide reimbursement in rates to utilities or customers of any over or under-recovery of individual rate component items is rare and should be dependent on unique and unusual circumstances.

Q. Under what criteria might Staff consider the use of trackers to be justified?

A. Use of trackers may be justified under the following circumstances: (1) when the applicable costs demonstrate significant fluctuation and up-and-down volatility over time, and for which accurate estimation is difficult; (2) new costs for which there is little or no historical experience, and for which accurate estimation is accordingly difficult; and (3) costs imposed upon utilities by newly promulgated Commission rule. In addition, the costs should be material in amount.

Q. Why are trackers sometimes justified by significantly fluctuating and volatile costs?

A. If a utility's cost levels for a particular rate item over time demonstrate significant up-and-down volatility, it can be appropriate to implement a tracker mechanism for this type of item to reduce the amount of risk associated with a material inaccuracy in estimating the particular cost for purposes of setting the utility's rates.

Q. What is an example of a Commission authorized tracker for a volatile cost?

A. All major utilities operating in Missouri, including KCPL, have tracker mechanisms in place, at the present time, for their pension and other post-employment benefit (OPEB) expenses. (The term "OPEBs" generally refers to retiree medical benefits.) Annual pension and OPEB expense amounts have at times been subject to significant annual volatility, primarily because pension and OPEB funding amounts are impacted by investment outcomes in equity and debt markets that, of course, can swing upward or downward based upon trends in the general economy.

Q. Are there other unusual aspects to pension and OPEB expense that justify using tracking mechanisms?

A. Yes. In Missouri, utilities place amounts intended for later payment to retired employees for pensions and OPEBs into external trust funds to help ensure that such funds are available when due to utility employees.[2] It is good policy for utilities to keep as current as possible on funding of pension and OPEB amounts. In this respect, authorizing tracker mechanisms for these expense items encourages utilities to stay current on pension and OPEB funding levels, by ensuring that utilities are ultimately made whole for their contributions, even in the event such contributions exceed the amount of pension and OPEB expense allowances currently included in their rate levels. Of course, if pension or funding amounts turn out to be less than the amounts for these items currently included in a utility's rate level, use of trackers also ensure that the funding/rate differential would ultimately be flowed back to its customers.

Q. Are there other instances where trackers may be justified?

A. In rare circumstances, utilities will incur significant new expenses for which they have little or no history to aid in determining an appropriate ongoing level for these expenses for setting rates. In those circumstances, it may be appropriate to authorize a tracker to protect both the utility and its customers from over- or under-recovery in rates of these expenses due to erroneous estimates.

[2] Federal law requires prefunding of pension amounts. In Missouri, under state law utilities must prefund OPEB amounts in order to be eligible for rate recovery of this item on an accrual basis in advance of actual payment to retirees.

Q. Has Staff agreed to use of a tracker for this reason?

A. Yes. When KCPL's Iatan II generating station went into service in 2010, Staff agreed to a tracker applicable to the O&M expenses associated with this power plant for KCPL and its affiliate, GMO, given the lack of prior history for these expenses. However, Staff only intended for the agreement to use this tracker for the initial years of operation of the Iatan II unit, until an adequate history of the unit's O&M expenses existed. This tracker was discontinued for KCPL in Case No. ER-2014-0370, KCPL's previous general rate proceeding in Missouri.

Q. Are there any other instances where the Commission has used trackers?

A. In some circumstances, the Commission has established, within the rules it promulgates, provisions for tracking and recovery of incremental costs caused by utility compliance with new rules. This was the case with the Commission rules requiring electric utilities to take certain actions regarding vegetation management and infrastructure inspection activities, which became effective in 2008.

Q. Are cost deferrals resulting from use of trackers any different from cost deferrals resulting from use of accounting authority orders?

A. Yes. In Missouri, when someone refers to an "accounting authority order," also known as an AAO, it is understood that person is referring to a Commission order that allows a utility to defer certain costs on its balance sheet, for potential recovery of the deferred costs in rates through amortizations to expense in general rate proceedings. This is similar to how deferrals resulting from trackers may be treated in general rate proceedings. However, the nature of the costs to which AAOs are normally granted, and the nature of the costs to which tracking treatment is normally granted, are quite different.

Q. Would you explain the major differences in how AAOs and trackers have been used in Missouri?

A. Typically, AAOs have been used to allow utilities to capture certain unanticipated and "extraordinary" costs that are not considered to be included in their ongoing rate levels. The term "extraordinary costs" has been defined as costs associated with an event that is unusual, unique, and non-recurring in nature. The classic example of an extraordinary event is the occurrence of a natural disaster, such as a wind or ice storm, or major flood that affects a utility's service territory.

In contrast, trackers have been used in Missouri to track certain costs that are ongoing to a utility, and for which some allowance has been built into the company's existing rate levels. For this reason, while costs subject to trackers exhibit some highly unusual or unique attributes which justify the use of a tracker, these costs are not "extraordinary" in the sense that this term is commonly applied to costs covered by AAOs.

Q. Why would widespread use of trackers in setting utility rates not be in the public interest?

A. There are at least two reasons. First, excessive use of trackers would tend to unreasonably skew ratemaking results either in favor of the utility or in favor of its customers. Secondly, broad use of trackers would inevitably dull the incentives a utility has to operate efficiently and productively under the rate regulation approach employed in Missouri.

Q. Why would the widespread use of trackers tend to unreasonably skew the ratemaking results for a utility?

A. With certain exceptions, the policy in Missouri has been to set a utility's rates based upon measurement of "all relevant factors," taking into accounts levels of revenues, expenses, rate base, and rate of return that are calculated at or about the same point in time. Use of an "all relevant factors" approach is necessary in order to ensure that a utility's rate levels are based upon an accurate measurement of its cost of service at a particular point in time.

When trackers are used as part of setting rates, certain cost factors inevitably receive different and inconsistent treatment compared to other cost factors. For example, if a utility tracks expenses that tend to increase in amount over time, but does not track cost of service factors that may reduce its cost of service (factors such as revenue growth, or increases in the rate base offsets for accumulated depreciation or deferred taxes), the utility will have the potential of receiving retroactive dollar-for-dollar recovery of certain cost increases in its customer rates through the operation of its trackers, while pocketing for itself any beneficial changes in other cost of service components that occur over the same period. In this manner, inappropriate use of trackers can lead to skewed and unfair ratemaking results.

Q. How do trackers affect a utility's incentives to operate efficiently?

A. An inevitable byproduct of the Missouri ratemaking approach is "regulatory lag." "Regulatory lag" is simply the passage of time between when a utility experiences a change in its cost of service, and when that change is reflected in its rate levels. While the utilities often portray regulatory lag as a phenomenon that is entirely negative or harmful, the existence of regulatory lag does provide utilities with incentive to be as efficient and cost-effective over time as they can. Excessive use of trackers can serve to eliminate or weaken these beneficial incentives.

Q. Would you explain your point further?

A. The operation of regulatory lag as part of the normal ratemaking process exposes a utility to the prospect of lower earnings if its cost of service increases between general rate proceedings, but it also allows the utility to experience higher earnings after a general rate proceeding, if it is able to reduce its cost of service. The use of trackers would damage this "penalty/reward" aspect of current Missouri ratemaking policy, if applied to normal and ongoing utility costs. A company that experiences an increase in an expense that is being tracked will experience no reduction in earnings related to that increased cost (because the cost increase will be captured on its balance sheet and not on its income statement) and, therefore, will have less incentive to attempt to minimize any such cost increase. On the other hand, a company that experiences a reduction in an expense that is being tracked will experience no increase to its ongoing earnings levels as a result of the decreased cost (again, because the cost decrease will be captured on its balance sheet and not on its income statement). Therefore, the utility would have less incentive to attempt to produce the lower cost levels in the first place.

Q. For what cost of service items is KCPL seeking authority to implement new tracking mechanisms?

A. In this rate case, KCPL is seeking authority to implement trackers for property tax expenses and transmission expenses. I briefly address each of these requests, and explain why they do not meet appropriate criteria for when to use a tracker.

Q. Is it generally appropriate to track property taxes?

A. No. All major utilities incur property taxes on a routine annual basis, as an ongoing cost of service item. In the last 30 years, they have been a component of utility cost of service in all general rate cases in which I have been involved. . Utilities incur these costs according to a regular schedule and a set process in which they are intimately familiar. Moreover, increases in property tax expense incurred by utilities are usually associated with increases to their plant-in-service balances included in rate base, and can be planned for inclusion in rates in the same manner that other revenue requirement changes associated with plant additions are included.

Q. KCPL witnesses Mr. Tim M. Rush and Mr. Darrin R. Ives emphasize in their direct testimony that property taxes are "almost entirely" outside of utility's control, as part of their justification for requesting tracker treatment of this item. Does Staff have a response to this claim?

A. Simply being partially or totally out of a utility's direct control is not a sufficient justification to track a particular cost. In any event, KCPL's witnesses who address this issue under-emphasize KCPL's ability to take steps to control the level of the property taxes it pays over time. To cite a pertinent example, I am aware of at least two utilities that appealed property assessment decisions made by taxing authorities, and achieved reductions in the amount of property taxes paid as a result. These two utilities are Missouri Gas Energy (rate treatment of property tax refunds at issue in Case No. GR-2006-0422), and Union Electric Company d/b/a Ameren Missouri (rate treatment of property tax refunds at issue in Case No. ER-2012-0166). In addition, Staff is aware that Ameren Missouri is currently in the process of appealing some of its property tax assessments related to its natural gas business.

It is hard to imagine why a utility that received authority to track property tax expense amounts would choose to undergo the work and expense of appealing property tax increases when the operation of the tracker would insulate it from financial harm associated with the increase in the first place.

Q. Is it generally appropriate to track transmission expenses?

A. No. All major utilities incur transmission expenses on a routine basis, as a normal ongoing cost of service item. These expenses are not volatile or unusually hard to predict; KCPL has based its requests for tracker treatment of these costs in the recent past on detailed budgets for transmission expenses that go out years into the future. In fact, because of its predictability, KCPL and other electric utilities have the ability to plan their general rate proceedings, to some degree, in order to capture these changes in transmission expense on a timely basis.

Q. Has GMO and KCPL sought authority to track SPP transmission expenses and property tax costs in the past?

A. Yes, KCPL and GMO sought authority to track transmission expense in Case Nos. ER-2012-0174 and ER-2012-0175; previous KCPL and GMO rate cases, respectively. The Commission denied KCPL's and GMO's request for tracker authority for this cost item, noting at page 31 of the Report and Order for those cases that, "Transmission is an ordinary and typical, not an abnormal or significantly different, part of the Applicants' activities."

KCPL sought authority to implement trackers for transmission expense and property tax costs in a subsequent rate case, Case No. ER-2014-0370. The Commission denied these requests.

In addition, both KCPL and GMO sought an AAO to obtain authority to defer SPP transmission expenses in Case No. EU-2014-0077. The Commission also rejected this request.

Q. Has Staff observed any attribute common to KCPL's proposed trackers for transmission expense and property tax costs in this proceeding?

A. Yes. KCPL has either experienced recent cost increases for each of the costs it seeks to track, and/or KCPL expects that cost to increase in the near future.

Q. What is your understanding of the underlying reason for why KCPL is requesting trackers at this time?

A. Based upon a review of KCPL's direct testimony filed in this proceeding, pertinent to its tracker requests, it is clear to me that these requests are premised as a whole upon claims that the current Missouri ratemaking process cannot provide KCPL with a realistic opportunity to actually earn at or near the authorized return set by the Commission without approval of these tracker requests.

Q. Are general concerns regarding the nature of the Missouri ratemaking process relevant when considering whether to authorize trackers?

A. In Staff's opinion, no. As I previously testified, any request to track individual cost of service items should be considered on the basis of whether there are highly unusual considerations present that would make this this type of special accounting treatment justified. Generic complaints regarding the current Missouri rate process are not an adequate justification.

Q. At page 5 of his rebuttal testimony, KCPL witness Rush states that, without enactment of various rate proposals in this case, including the tracker requests, "KCPL will not have a reasonable opportunity to earn its authorized return on equity now or in the foreseeable future." What is Staff's response?

A. Staff does not believe the available evidence supports this claim. Missouri electric utilities apparently have a reasonable opportunity to earn near or at their authorized returns on equity (ROE), because several of them have earned at or above their authorized ROEs in the recent past. As the Commission is aware, the FAC surveillance earnings results of Ameren Missouri, that have been declassified since 2012, show that it has earned near or above its authorized return on equity during those applicable periods from 2012 on. ** __

____

____

____

____

____ **

Q. Does any electric utility in Missouri currently have a transmission expense tracker, or has had one in the past?

A. No.

Q. Does any electric utility in Missouri have a property tax tracker, or has had one in the past?

A. No.

Q. Did you participate in the preparation of the *Staff Report* ("Report") in Case No. EW-2016-0313, *A Working Case to Consider Policies to Improve Electric Utility Regulation*?

A. Yes, I did.

NP

Q. What was the conclusion in the Report regarding recent earnings trends for Missouri electric utilities?

A. The Report stated, at page 68, “Based upon the available information, Staff is not convinced that Missouri utilities have, as a whole, systematically under-earned in recent years due to regulatory lag, even after taking into account the trend of declining sales experienced by Missouri electric utilities.”

Q. Hasn’t KCPL reported lower earnings, in its FAC surveillance reports, than the other Missouri electric utilities in recent years?

A. Yes. However, it is important to note that until last year, and unlike all other Missouri electric utilities, KCPL was not able to utilize an FAC mechanism that would have allowed it to eliminate almost all earnings impacts of changes in its net fuel and purchased power expense on an ongoing basis, and also would have allowed it to recover these changes in customer rates more quickly than possible using the general rate case process.

Q. Why didn’t KCPL have use of an FAC until 2015?

A. As part of the “Regulatory Plan” that was approved for KCPL in 2005 in Case No. EO-2005-0329, the Company voluntarily entered into a stipulation and agreement prohibiting it from seeking use of an FAC mechanism any earlier than in 2015.

Q. What has been the recent trend in KCPL earnings since the FAC was implemented last year?

A. As discussed in the rebuttal testimony of Staff witness Majors in this case, ** ____
______ **

NP

Q. What is the significance of KCPL's recent earnings results?

A. ** ____ ____ ____________________ ** Before considering whether the Company should be allowed to use any additional regulatory measures that are intended to prop up its earnings, Staff urges the Commission, at the very least, to wait a longer length of time to monitor KCPL's actual earnings results to determine whether ** ____ __________ **

Q. Must the Commission grant authority for KCPL to implement transmission expense and/or property tax expense trackers or other special ratemaking treatment in this case to provide KCPL with a reasonable opportunity to earn the ROE the Commission authorizes it to earn in this case?

A. No. As I testified, other Missouri electric utilities have recently been able to earn at or near the ROEs the Commission authorized them to earn, without the benefit of special ratemaking procedures for transmission expense or property tax expense.

<u>USE OF PROJECTED EXPENSES</u>

Q. How do KCPL witnesses Ives and Rush justify their alternative position that the rate allowance set in this proceeding for transmission expenses and property tax expenses be set using forecasted values, and not based upon historical values, as is generally the norm in Missouri ratemaking?

A. Mr. Ives and Mr. Rush again suggest that the increasing trend over time in these two cost categories will make it very difficult or impossible for KCPL to earn its authorized return on equity unless these two expenses are allowed recovery on a projected basis. Mr. Ives states on page 17, line 22 to page 18, line 2 of his direct testimony that, "It is essential that the Commission make use of forecasted expenses where appropriate to help close this gap and provide KCP&L a realistic opportunity to achieve its Commission-authorized return."

Q. Are rates in Missouri often based on projected levels of revenue, expense, or rate base items?

A. No. With very rare exceptions, ratemaking in Missouri is based, as a starting point, upon actual recorded levels of revenue, expense, and rate base, with all significant cost of service items adjusted to the most current incurred level at the time rates are set through annualization and normalization adjustments. The long-standing ratemaking policy of this Commission is to rely only on "known" and "measurable" data to set customer rates. In this proceeding, KCPL is proposing to use values for transmission expenses and property tax costs that are neither "known" or "measurable."

Q. Why is use of known and measurable data to set rates the standard practice in Missouri?

A. Use of actual, recorded data as the starting point of the ratemaking process avoids the inherent uncertainty and speculation associated with use of forecast or budgeted data to set rates.

Q. Would use of projected values on a selective basis in setting rates, as KCPL is proposing, also conflict with another Commission ratemaking policy?

A. Yes, it would violate the "matching principle." A utility's cost of service, at any point in time, is a product of its current revenue, expense, rate base, and rate of return variables ("all relevant factors"), all inter-related and acting in tandem. The matching principle holds that the major components of a utility's cost of service should be measured at a consistent point in time in order to ensure that a utility's revenue requirement is accurately calculated as of the end of the test year, update period, or true-up period applicable in the rate proceeding.

Q. How does KCPL's projected expense ratemaking proposal in this case violate the matching principle?

A. In this case, KCPL is proposing that rate values for transmission expense and property tax expense be set using an average of these items' forecasted values for 2017 and 2018, while valuing every other cost of service item at no later than end-of-year 2016 levels. This is a clear and direct violation of the matching principle.

Q. Why should the matching principle be adhered to?

A. The Company structurally premised its rate increase request in this case upon the underlying assumption that future increases in transmission expenses and property tax costs will occur in 2017 and 2018 and should be captured in this case, while all other cost of service components should be fixed at 2016 levels. In reality, all of the elements of a utility's revenue requirement will undergo fluctuations over time. It is very likely that changes in other discreet elements of KCPL's revenue requirement will result in increased earnings in 2017 and 2018, with these changes potentially offsetting all or a portion of the negative earnings impact of any increases incurred for transmission expenses and property tax costs in the same period.

Q. KCPL's proposal for projected treatment of transmission expenses and property tax expenses is purported to be "one-sided" in nature by Mr. Rush[3] in that future refunds to customers are promised in KCPL's next rate case if KCPL over-collects for transmission expense and property tax costs, but that KCPL will absorb the differential if it under-collects for these items in the event the actual costs are higher than the forecasted levels. Does this feature mitigate in any respect Staff's opposition to KCPL's proposed treatment of these costs?

A. No. The "one-sided" nature of KCPL's proposal actually illustrates very well the inherent problem with single-issue and "non-matched" ratemaking schemes. As proposed, KCPL's rate treatment of these items could lead to possible customer refunds, even in a situation where KCPL is concurrently under-earning on an overall basis. Conversely, KCPL could retain the full amount of its rate recovery of these items even in a situation where it is concurrently over-earning on an overall basis.

<u>EXPENSE TRACKERS IN RATE BASE</u>

Q. At pages 18 - 24 of his direct testimony, OPC witness Hyneman opposes in general terms the practice of including tracker balances in utility rate base, and specifically opposes inclusion of the unamortized balances of Iatan "construction accounting" deferrals in KCPL's rate base. Does Staff agree with Mr. Hyneman on this issue?

A. No. In general, Staff believes the question of rate base treatment of tracker balances is best determined on a case-by-case basis by the Commission. Further, Staff

[3] *In the Matter of Kansas City Power & Light Company's Request for Authority to Implement a General Rate Increase for Electric Service*, Case No. ER-2016-0285 (*Direct Testimony of Tim M. Rush*, filed July 1, 2016) Page 4, line 22 through page 5, line 2.

supports inclusion in rate base of the unamortized balances of KCPL's Iatan construction accounting deferrals.

Q. What are the practical ramifications of including or excluding tracker balances from rate base?

A. As previously discussed, tracker mechanisms are used in unusual instances to quantify the ongoing difference between the amounts of certain costs incurred by the utility and the amount of the cost recovered in rates by the utility. Utilities or their customers are typically given rate recovery of those amounts through a multi-year amortization to expense. However, unless rate base treatment is given to the unamortized balance of tracker regulatory assets/liabilities, either the utility or its customers will not be made fully "whole" for the tracked cost differential as either party would lose the "time value of money" associated with the expense outlay. Therefore, allowing rate base treatment of unamortized tracker balances gives full rate recovery of the cost differential to utilities or their customers; not allowing rate base treatment of these balances will only provide partial recovery of the tracked cost differential.

Q. Is the Commission obligated to provide full recovery of tracker balances in rate proceedings in the sense discussed above?

A. No, not to my knowledge. There may be instances in which the Commission adopts the position that only partial recovery of tracker balances is appropriate; a result which denying rate base treatment of the tracker balance would accomplish.

Q. What is "construction accounting?"

A. "Construction accounting" is the practice of allowing a utility to defer the financial impact of depreciation expense and a return associated with a particular plant-in-service item between the time that the item was determined to be in-service and the point that the item was reflected in the utility's rates. The Commission has approved this treatment in the past on infrequent occasions when the financial impact of the plant rate-base addition was shown to be significant to the utility. One of those occasions was in the 2009 and 2010 KCPL rate cases in which the Commission approved the use of construction accounting for costs associated with improving KCPL's existing Iatan One generating unit and for constructing the new Iatan 2 unit. The Commission subsequently allowed rate recovery of these construction accounting deferrals through amortizations to expense in succeeding KCPL general rate proceedings, with the unamortized balances included in rate base.

Q. Over what periods are KCPL's Iatan construction assets being amortized?

A. The two construction accounting regulatory assets related to Iatan I and common Iatan facilities are being amortized over 26.0 years and 24.3 years, respectively. The two construction accounting regulatory assets related to Iatan II are being amortized over 47.7 years and 46.0 years, respectively.

Q. Why are these deferrals being amortized over such long periods of time?

A. Most deferrals of expenses, once approved for ratemaking, are amortized over a period of three to ten (10) years. However, deferrals related to capital items, such as KCPL's Iatan deferrals, are customarily amortized over a much longer period of time, often corresponding to the estimated life of the asset giving rise to the deferral.

Q. What is the significance of the length of a deferral amortization period to the question of rate base treatment?

A. The longer the amortization period, the more the economic value of the deferral will be lost to the utility or to the customer if the unamortized balance of the deferral is not included in utility rate base.

Q. What has been Staff's position on inclusion of construction accounting balances in rate base in prior proceedings?

A. To my knowledge, Staff has always or almost always supported rate base inclusion of these items.

Q. At pages 19 – 20 of his direct testimony, Mr. Hyneman discusses the consistent position of Staff that costs associated with "acts of God" previously deferred through the AAO mechanism should be excluded from rate base. Please comment.

A. While Mr. Hyneman discusses this Staff position in his direct testimony, he does not address the rationale Staff has used in support of this position. Extraordinary expenses of the sort commonly addressed through AAOs occur very infrequently, and there is no ongoing amount for this type of cost included in utility rates. Therefore, when unfortunate natural disaster events occur, Staff has consistently maintained that the public interest argues for recovery of any repair and restoration costs incurred by the utility to restore service to customers. However, Staff has also argued that utilities should bear a portion of the risk of such events occurring to shield customers from total cost responsibility. Accordingly, Staff has advocated for, and the Commission has agreed,[4] that the utility and its customers share the cost of natural disaster events through the mechanism of allowing the utility to recover the nominal dollar amount of repair/restoration costs in rates, but excluding the unamortized balance of the deferred repair/restoration costs from utility rate base.

[4] Page 21 of the Commission's *Report and Order*, issued September 19, 1995, in File No. WR-95-145.

Unlike costs associated with "acts of God" events, the types of expenses that KCPL currently tracks relate to ongoing and recurring construction and operation activities of the utility that are normally included in rates. Staff does not believe that the regulatory policy applied in the past to extraordinary and nonrecurring costs should be automatically applicable to construction accounting deferral costs.

Q. Mr. Hyneman urges that the Commission apply the standards used by the Commission in a prior KCPL proceeding (Case No. ER-2006-0314) to reject rate base treatment of certain management training costs to, in turn, deny rate base treatment to GMO's Iatan unrecovered tracker balances. Does Staff agree with OPC's contention?

A. No. In essence, Mr. Hyneman appears to be arguing that only tangible assets, such as "possessions" or "property," should be eligible for rate base inclusion. Staff believes this criterion for rate base inclusion is unduly narrow. While Staff generally agrees that only true utility assets and liabilities should be included in rate base, "regulatory assets" and "regulatory liabilities" are valid assets and liabilities in the financial and regulatory accounting senses and should be eligible for rate base inclusion. Again, Staff holds that decisions regarding rate base treatment of these items are best made on a case-by-case basis by the Commission, based upon the evidence presented and the arguments made by parties to rate proceedings.

Q. Did the Iatan deferrals arise from KCPL's ongoing operation and maintenance activities, for which costs are normally charged to expense, or from its construction activities, for which costs are normally capitalized?

A. These deferrals clearly arose from KCPL's construction activities and, even if Mr. Hyneman's argument is accepted that expense deferrals should be excluded from rate base, construction accounting deferrals would still appear to be eligible for rate base inclusion.

Q. Do the types of costs included in the Iatan deferrals consist entirely of expense items?

A. No. As previously mentioned, if the Commission authorizes use of construction accounting, a return value is applied to the plant-in-service items in question and then deferred. For ratemaking purposes, a return is normally allowed only on capital items in rate base, not on expense items.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light Company's Request for Authority to Implement A General Rate Increase for Electric Service	))))	Case No. ER-2016-0285

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

COMES NOW MARK L. OLIGSCHLAEGER and on his oath declares that he is of sound mind and lawful age; that he contributed to the foregoing Rebuttal; and that the same is true and correct according to his best knowledge and belief.

Further the Affiant sayeth not.

Mark L. Oligschlaeger

MARK L. OLIGSCHLAEGER

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 30th day of December, 2016.

D. SUZIE MANKIN
Notary Public - Notary Seal
State of Missouri
Commissioned for Cole County
My Commission Expires: December 12, 2020
Commission Number: 12412070

D Suzie Mankin

Notary Public

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
Missouri Gas Energy and Laclede Gas Company	GO-2016-0332 and GO-2016-0333	**Rebuttal:** ISRS Updates; Capitalized Incentive Compensation; Hydrostatic Testing
KCP&L Greater Missouri Operations Company	ER-2016-0156	**Rebuttal:** Tracker Proposals; Use of Projected Expenses; Tracker Balances in Rate Base; Deferral Policy
Laclede Gas Company and Missouri Gas Energy	GO-2016-0196 and GO-2016-0197	**Rebuttal:** ISRS True-ups
Missouri-American Water Company	WR-2015-0301	**Rebuttal:** Environmental Coast Adjustment Mechanism; Energy Efficiency and Water Loss Reduction Deferral Mechanism Tracker
Laclede Gas Company	GO-2015-0178	**Direct:** ISRS True-ups
Kansas City Power & Light Company	EU-2015-0094	**Direct:** Accounting Order – Department of Energy Nuclear Waste Fund Fees
Union Electric Company d/b/a Ameren Missouri	EO-2015-0055	**Rebuttal:** Demand-Side Investment Mechanism
Kansas City Power & Light Company	ER-2014-0370	**Rebuttal:** Trackers **Surrebuttal:** Trackers; Rate Case Expense
Kansas City Power & Light Company	EO-2014-0255	**Rebuttal:** Continuation of Construction Accounting
Union Electric Company d/b/a Ameren Missouri	EC-2014-0223	**Rebuttal:** Complaint Case – Rate Levels
Kansas City Power & Light Company	EO-2014-0095	**Rebuttal:** DSIM
Union Electric Company d/b/a Ameren Missouri	ET-2014-0085	**Surrebuttal:** RES Retail Rate Impact
Kansas City Power & Light Company & KCP&L Greater Missouri Operations Co	EU-2014-0077	**Rebuttal:** Accounting Authority Order
Kansas City Power & Light Company	ET-2014-0071	**Rebuttal:** RES Retail Rate Impact **Surrebuttal:** RES Retail Rate Impact
KCP&L Greater Missouri Operations Company	ET-2014-0059	**Rebuttal:** RES Retail Rate Impact **Surrebuttal:** RES Retail Rate Impact
Missouri Gas Energy, A Division of Laclede Gas Company	GR-2014-0007	**Surrebuttal:** Pension Amortizations

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
The Empire District Electric Company	ER-2012-0345	**Direct (Interim):** Interim Rate Request **Rebuttal:** Transmission Tracker, Cost of Removal Deferred Tax Amortization; State Income Tax Flow-Through Amortization **Surrebuttal:** State Income Tax Flow-Through Amortization
KCP&L Greater Missouri Operations Company	ER-2012-0175	**Surrebuttal:** Transmission Tracker Conditions
Kansas City Power & Light Company	ER-2012-0174	**Rebuttal:** Flood Deferral of off-system sales **Surrebuttal:** Flood Deferral of off-system sales, Transmission Tracker conditions
Union Electric Company d/b/a Ameren Missouri	ER-2012-0166	**Responsive:** Transmission Tracker
Union Electric Company d/b/a Ameren Missouri	EO-2012-0142	**Rebuttal:** DSIM
Union Electric Company d/b/a Ameren Missouri	EU-2012-0027	**Rebuttal:** Accounting Authority Order **Cross-Surrebuttal:** Accounting Authority Order
KCP&L Greater Missouri Operations Company	EO-2012-0009	**Rebuttal:** DSIM
Missouri Gas Energy, A Division of Southern Union	GU-2011-0392	**Rebuttal:** Lost Revenues **Cross-Surrebuttal:** Lost Revenues
Missouri-American Water Company	WR-2011-0337	**Surrebuttal:** Pension Tracker
The Empire District Electric Company	ER-2011-0004	**Staff Report on Cost of Service: Direct:** Report on Cost of Service; Overview of the Staff's Filing **Surrebuttal:** SWPA Payment, Ice Storm Amortization Rebasing, S02 Allowances, Fuel/Purchased Power and True-up
The Empire District Electric Company, The-Investor (Electric)	ER-2010-0130	**Staff Report Cost of Service: Direct** Report on Cost of Service; Overview of the Staff's Filing; Regulatory Plan Amortizations; **Surrebuttal:** Regulatory Plan Amortizations
Missouri Gas Energy, a Division of Southern Union	GR-2009-0355	**Staff Report Cost of Service: Direct** Report on Cost of Service; Overview of the Staff's Filing; **Rebuttal:** Kansas Property Taxes/AAO; Bad Debts/Tracker; FAS 106/OPEBs; Policy; **Surrebuttal:** Environmental Expense, FAS 106/OPEBs
KCP&L Greater Missouri Operations Company	EO-2008-0216	**Rebuttal:** Accounting Authority Order Request

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
The Empire District Electric Company	ER-2008-0093	Case Overview; Regulatory Plan Amortizations; Asbury SCR; Commission Rules Tracker; Fuel Adjustment Clause; ROE and Risk; Depreciation; True-up; Gas Contract Unwinding
Missouri Gas Utility	GR-2008-0060	Report on Cost of Service; Overview of Staff's Filing
Laclede Gas Company	GR-2007-0208	Case Overview; Depreciation Expense/Depreciation Reserve; Affiliated Transactions; Regulatory Compact
Missouri Gas Energy	GR-2006-0422	Unrecovered Cost of Service Adjustment; Policy
Empire District Electric	ER-2006-0315	Fuel/Purchased Power; Regulatory Plan Amortizations; Return on Equity; True-Up
Missouri Gas Energy	GR-2004-0209	Revenue Requirement Differences; Corporate Cost Allocation Study; Policy; Load Attrition; Capital Structure
Aquila, Inc., d/b/a Aquila Networks-MPS-Electric and Aquila Networks-L&P-Electric and Steam	ER-2004-0034 and HR-2004-0024 (Consolidated)	Aries Purchased Power Agreement; Merger Savings
Laclede Gas Company	GA-2002-429	Accounting Authority Order Request
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Gateway Pipeline Company	GM-2001-585	Financial Statements
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
The Empire District Electric Company	ER-2001-299	Prudence/State Line Construction/Capital Costs
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
KLM Telephone Company	TT-2001-120	Policy
Holway Telephone Company	TT-2001-119	Policy
Peace Valley Telephone	TT-2001-118	Policy
Ozark Telephone Company	TT-2001-117	Policy

CASE PARTICIPATION OF

MARK L. OLIGSCHLAEGER

Company Name	Case Number	Issues
IAMO Telephone Company	TT-2001-116	Policy
Green Hills Telephone	TT-2001-115	Policy
UtiliCorp United & The Empire District Electric Company	EM-2000-369	Overall Recommendations
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
Missouri-American Water	WM-2000-222	Conditions
Laclede Gas Company	GR-99-315 (remand)	Depreciation and Cost of Removal
United Water Missouri	WA-98-187	FAS 106 Deferrals
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
The Empire District Electric Company	ER-97-82	Policy
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
St. Louis County Water	WR-96-263	Future Plant
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-95-145	Policy
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
Generic Electric	EO-93-218	Preapproval
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Missouri Public Service	EO-91-358 and EO-91-360	Accounting Authority Order
Missouri-American Water Company	WR-91-211	True-up; Known and Measurable
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs

CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER

Cases prior to 1990 include:

COMPANY NAME	CASE NUMBER
Kansas City Power and Light Company	ER-82-66
Kansas City Power and Light Company	HR-82-67
Southwestern Bell Telephone Company	TR-82-199
Missouri Public Service Company	ER-83-40
Kansas City Power and Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power and Light Company	EO-84-4
Kansas City Power and Light Company	ER-85-128 & EO-85-185
KPL Gas Service Company	GR-86-76
Kansas City Power and Light Company	HO-86-139
Southwestern Bell Telephone Company	TC-89-14