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Mechanism
Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
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Case No.: EO-2015-0055
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MISSOURI PUBLIC SERVICE COMMISSION
REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING

SUPPLEMENTAL DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

UNION ELECTRIC COMPANY
d/b/a AMEREN MISSOURI

CASE NO. EO-2015-0055

Jefferson City, Missouri
July 2015

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4 **UNION ELECTRIC COMPANY**
5 **d/b/a AMEREN MISSOURI**

6 **CASE NO. EO-2015-0055**

7 Q. Please state your name and business address.

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

9 Q. Are you the same Mark L. Oligschlaeger who previously submitted rebuttal
10 testimony in this proceeding?

11 A. I am.

12 Q. What is the purpose of this supplemental direct testimony?

13 A. I will provide support for certain provisions within the Non-Unanimous
14 Stipulation and Agreement (“Non-Utility Stipulation”) filed on July 7, 2015, and as
15 amended on July 8, 2015, concerning Union Electric Company’s d/b/a Ameren Missouri
16 (“Ameren Missouri” or “Company”) application for approval of its second cycle of Missouri
17 Energy Efficiency Investment Act (MEEIA) programs.

18 **EXECUTIVE SUMMARY**

19 Q. Please summarize your supplemental direct testimony in this proceeding.

20 A. I will describe and support the provisions within the Non-Utility Stipulation
21 pertaining to Ameren Missouri’s recovery of amounts in rates intended to compensate it for
22 the “throughput disincentive” impacts of the Company’s MEEIA demand-side program

1 offerings. I will also make a brief comment regarding the provisions within the Non-Utility
2 Stipulation regarding the “Performance Incentive” mechanism.

3 **NTD MECHANISM**

4 Q. What is the “Net Throughput Disincentive” (NTD) Mechanism contained
5 within the Non-Utility Stipulation?

6 A. The NTD mechanism is one part of the proposed Demand-Side Investment
7 Mechanism (DSIM), which is designed to allow Ameren Missouri rate recovery of the
8 financial impacts of its MEEIA demand-side program offerings. The NTD is the mechanism
9 under which Ameren Missouri will be allowed reimbursement for foregone electricity sales
10 (also referred to as “throughput disincentive”) due to its MEEIA demand-side program
11 offerings. Staff witness Sarah L. Kliethermes will also address the NTD mechanism in her
12 supplemental direct testimony in this proceeding. The other component of the DSIM
13 discussed within the Non-Utility Stipulation is the “Performance Incentive,” which will be
14 primarily addressed by other witnesses filing supplemental direct testimony in support of the
15 Non-Utility Stipulation.

16 Q. Please provide a brief summary of how the NTD mechanism would work
17 under the terms of the Non-Utility Stipulation.

18 A. On a monthly basis, Ameren Missouri will be compensated for its throughput
19 disincentive on a per measure installed basis attributable to MEEIA program offerings.
20 Ameren Missouri will be allowed to bill to customers 66.67% (two-thirds) of the calculated
21 throughput disincentive amount each month as part of its MEEIA rate rider mechanism.
22 Following each MEEIA program year, Evaluation, Measurement and Verification (EMV)
23 and Net Savings in ratio to Gross Savings (NTG) analyses will be performed to determine the

1 realized amount of kWh savings actually achieved by Ameren Missouri in the past program
2 year. If the results of these analyses indicate that the amount of actual throughput
3 disincentive incurred by Ameren Missouri as a result of its MEEIA programs exceeds the
4 amount of throughput disincentive previously billed by Ameren Missouri, the Company will
5 be allowed to bill its customers for the remainder of its throughput disincentive through the
6 MEEIA rider mechanism, up to a maximum of 133.33% of its previous estimate. However,
7 if Ameren Missouri incurs less than the amount of throughput disincentive previously billed,
8 no refund of previous billed amounts to customers will be required.

9 Q. What is normally the Staff's policy regarding true-ups of forecasted values
10 used to set utility rates?

11 A. In the rare circumstances in which forecast values are used to set rates in
12 Missouri, such within the Purchased Gas Adjustment rate process, Staff supports application
13 of full retrospective true-up procedures to update and correct any estimated values used to
14 initially set customer rates, to ensure that customer rates are ultimately based as much as
15 possible on actual costs incurred by utilities. There is a risk to both the utility and its
16 customers that rates will not be set accurately if they are based entirely or in part on forecasts
17 of future events.

18 However, Ameren Missouri has consistently argued for full "deeming" (i.e., use of
19 forecasts without retrospective true-ups) of the present-value of its throughput disincentive
20 for a period of time, based on a series of assumptions used in setting its rate recovery
21 amounts for MEEIA financial impacts, in regard to setting the rate allowance for MEEIA
22 throughput disincentive. A primary reason for this position taken by Ameren is a claim that
23 use of true-ups in the normal manner employed in this jurisdiction would trigger certain

1 negative accounting consequences to the Company. These accounting concerns will be
2 discussed later in this testimony.

3 Q. Why does Staff oppose full deeming of throughput disincentive values, as
4 advocated by Ameren Missouri?

5 A. When used to set rates, the approach of full deeming of throughput
6 disincentive impacts in essence insulates Ameren Missouri from the risks associated with
7 achieving MEEIA-related kWh savings on which its deemed recovery amounts are based. In
8 other words, full deeming would allow Ameren Missouri a more or less guaranteed level of
9 throughput disincentive reimbursement, even if actual throughput disincentive amounts were,
10 for any reason, less than the present-valued forecasted amount. Under those circumstances,
11 Ameren Missouri would profit financially from achieving less kWh savings from its MEEIA
12 program offerings than what was originally forecast. Ameren Missouri may also profit
13 financially if the period during which kWh savings occurred differed from the period
14 assumed when the present-value calculation was performed, or if the level of net throughput
15 per kWh differed from what that value was assumed to be when the present-value calculation
16 was performed. In this respect, full deeming of MEEIA program savings would provide
17 Ameren Missouri perverse incentives to achieve a lesser amount of kWh savings than
18 projected, as well as to vary the time period under which those savings are experienced, and
19 the per-kWh rate at which those savings impact the Company's revenues.

20 Q. Given the above considerations, why does the Non-Utility Stipulation not
21 provide for a full retrospective true-up of throughput disincentive amounts included in
22 customer rates?

1 A. As previously referenced, Ameren Missouri has made a claim that that it will
2 suffer unfavorable accounting consequences if a retrospective true-up is performed regarding
3 its throughput disincentive rate recovery amounts. Stated briefly, Ameren Missouri
4 interprets certain provisions of current generally accepted accounting principles (GAAP) as
5 prohibiting a utility from booking revenues associated with rate recovery of throughput
6 disincentive amounts unless certain requirements are met. One of these requirements, in the
7 Company's interpretation, is that amounts collected by a utility for the purpose of throughput
8 disincentive reimbursement cannot be subject to a retrospective true-up process. If such a
9 process is employed, Ameren Missouri's position is that it will not be able to record
10 throughput disincentive revenues until after the true-up process is completed.¹ According to
11 Ameren Missouri, this could lead to a lag between the time when MEEIA program offerings
12 result in the throughput disincentive, and when Ameren Missouri can record the revenues it
13 receives from customers to compensate it for the revenue loss. If Ameren Missouri's
14 interpretation of GAAP requirements is correct, the result would be a temporary reduction in
15 the Company's earnings in the amount of its incurred throughput disincentive, all other
16 things being equal.

17 Q. To what degree should regulatory policy be driven by accounting
18 considerations?

19 A. Generally, it should not. Reasonable ratemaking policies should be enacted
20 that appropriately balance the interests of utility customers and shareholders, and approved
21 accounting methodologies should be employed by utilities to accurately record the financial
22 results of those policies. It is entirely inappropriate to select ratemaking approaches for a

¹ Please refer to the surrebuttal testimony filed in this proceeding by Ameren Missouri witnesses Lynn Barnes and Clifford Hoffman.

1 utility that would otherwise be considered to be unreasonable based upon the accounting
2 consequences of those approaches. To authorize deeming of an assumed present-value of
3 throughput disincentive values for ratemaking purposes for Ameren Missouri would be
4 unreasonable, as that would inappropriately shift risk associated with the Company's MEEIA
5 programs from the utility to its customers. For that reason, it is Staff's opinion that
6 reasonable true-up procedures should be applied to Ameren Missouri's MEEIA throughput
7 disincentive rate collections based upon forecasted values, in order to appropriately
8 balance the interests of the Company and its customers, regardless of the accounting
9 consequences of that approach.

10 Q. What is the basis for Ameren Missouri's expressed accounting concerns put
11 forward in this MEEIA application regarding throughput disincentive recovery?

12 A. Ms. Barnes and Mr. Hoffman make broad assertions in their surrebuttal
13 testimony concerning their understanding of GAAP accounting for throughput disincentive
14 recovery. However, to date, these assertions are unsupported. In this proceeding, Ameren
15 Missouri has presented no evidence from accounting literature or from the orders of public
16 utility commissions in other jurisdictions that provide any support for its interpretation of the
17 GAAP pronouncements it relies upon.

18 Q. In Staff's opinion are Ameren Missouri's accounting concerns regarding lost
19 revenue rate collections valid?

20 A. Ameren Missouri has not presented the Staff with sufficient evidence
21 supporting its accounting allegations to make a final judgment on that question at this time.
22 In any event, the Staff does not believe that these accounting concerns are of primary
23 relevance to the decision of how best to allow Ameren Missouri rate recovery of throughput

1 | disincentive. The more relevant concerns are to balance the interests of the Company's
2 | customers and shareholders and to provide Ameren Missouri with appropriate incentives to
3 | maximize the success of its MEEIA programs.

4 | Q. Please explain why it is reasonable to deem Ameren Missouri's throughput
5 | disincentive revenue recovery amount up to two-thirds of its monthly projected levels, as
6 | provided for in the Non-Utility Stipulation.

7 | A. As previously stated, the normal and optimal approach in Missouri ratemaking
8 | would be to implement full retrospective true-ups of any projected throughput disincentive
9 | values included in customer rates. However, as a concession to Ameren's claimed
10 | accounting concerns, the Staff is willing to stipulate to an approach that deems Ameren
11 | Missouri's recovery of lost revenues up to two-thirds of the forecasted level. Deeming two-
12 | thirds of the estimated throughput disincentive amount provides for an acceptable sharing of
13 | risk between Ameren Missouri and its customers associated with the throughput disincentive
14 | impacts of the Company's MEEIA programs in the context of this proceeding. Of course,
15 | the Staff and other parties to the Non-Utility Stipulation are not in any way bound to this
16 | particular approach in any future MEEIA application dockets.

17 | Q. Under the NTD mechanism approach contained within the Non-Utility
18 | Stipulation, is it possible that Ameren Missouri may experience a temporary reduction in
19 | earnings due to kWh savings attributable to MEEIA programs?

20 | A. Yes, but utilities' risk of suffering reduced earnings for a myriad of reasons is
21 | inherent in the current regulatory process in Missouri. There is no rule or requirement that
22 | the Staff is aware of that requires Ameren Missouri be completely insulated from any
23 | financial risk associated with its demand-side initiatives.

1 Q. The Non-Utility Stipulation contains a footnote at page 7 outlining a possible
2 alternative approach to the NTD structure. Please explain the content of this footnote.

3 A. The structure of the NTD mechanism in the Non-Utility Stipulation would
4 allow Ameren Missouri to collect an amount upfront for throughput disincentive recovery
5 (at 66.67% of expected amounts) which would not be subject to later true-up and customer
6 refund. If Ameren Missouri would prefer to collect 100% of its estimated MEEIA
7 throughput disincentive upfront, but with up to one-third of that amount subject to
8 retrospective true-up and customer refund if 100% of the forecasted kWh savings are not
9 achieved, that approach would also be acceptable to the Staff.

10 Q. Why does the Non-Utility Stipulation contain a “cap” on the total amount of
11 throughput disincentive recovery Ameren Missouri can obtain through the NTD mechanism?

12 A. Because the NTD mechanism contains a “floor” value of throughput
13 disincentive recovery that is effectively guaranteed to Ameren Missouri, equity suggests
14 that a “cap” value on total rate recovery associated with throughput disincentive be included
15 as well.

16 **PI MECHANISM**

17 Q. In her supplemental direct testimony filed in this proceeding, Staff witness
18 Kliethermes discusses the partial basis for one of the components of the stipulated
19 PI calculation as relating to an assumed early retirement date for Ameren Missouri’s
20 Meramec generating station. Do you wish to add anything to that discussion?

21 A. Yes. Early retirement of the Meramec generating station should have
22 beneficial impacts on Ameren Missouri shareholders relating to recovery of depreciation
23 expense for that plant asset. Under the “lifespan” method that I understand is currently being

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1 used to depreciate Ameren Missouri's generating stations, reflection of an earlier retirement
2 date for Meramec than currently assumed in the depreciation rate authorized for that unit
3 should ultimately result in higher depreciation rates applicable to this asset. In turn, these
4 higher depreciation rates would result in accelerated recovery of depreciation expense by
5 the Company and enhancement of cash flows.

6 Q. Does this conclude your supplemental direct testimony?

7 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

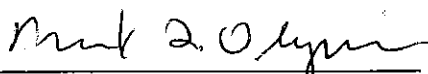
In the Matter of Union Electric Company)
d/b/a Ameren Missouri's 2nd Filing to) Case No. EO-2015-0055
Implement Regulatory Changes in)
Furtherance of Energy Efficiency as allowed)
by MEEIA)

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

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 Supplemental Direct Testimony; and that the same is true and correct according to his best knowledge and belief.

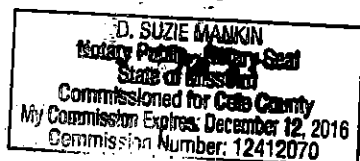
Further the Affiant sayeth not.

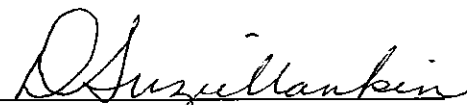


Mark L. Oligschlaeger

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 9th day of July, 2015.





Notary Public