

FILED³

MAY 21 2012

**Missouri Public
Service Commission**

Exhibit No.:

Issue: Accounting Authority Order

Witness: Mark L. Oligschlaeger

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

File No.: EU-2012-0027

Date Testimony Prepared: March 14, 2012

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

FILE NO. EU-2012-0027

Jefferson City, Missouri

March 2012

Staff Exhibit No. 3

Date 5-03-12 Reporter KF

File No. EU-2012-0027

**TABLE OF CONTENTS OF
REBUTTAL TESTIMONY**

OF

MARK L. OLIGSCHLAEGER

**UNION ELECTRIC COMPANY
d/b/a Ameren Missouri**

FILE NO. EU-2012-0027

EXECUTIVE SUMMARY.....	2
ACCOUNTING AUTHORITY ORDER	4

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

UNION ELECTRIC COMPANY

d/b/a Ameren Missouri

FILE NO. EU-2012-0027

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 Unit.

Q. What is your current position with the Commission?

A. In April 2011, I assumed the position of Acting Manager of the Auditing Unit, Utility Services Department, Regulatory Review Division, of the Commission.

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 1 to this rebuttal testimony.

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

3 A. I have been employed by this Commission as a Regulatory Auditor for over
4 30 years, and have submitted testimony on ratemaking matters numerous times before the
5 Commission, including a number of cases that dealt with accounting authority orders (AAO). I
6 have also been responsible for the supervision of other Commission employees in rate cases and
7 other regulatory proceedings many times. I have received continuous training at in-house and
8 outside seminars on technical ratemaking matters since I began my employment at the
9 Commission.

10 Q. Have you participated in the Commission Staff's ("Staff") audit of Union Electric
11 Company d/b/a Ameren Missouri ("UE" or "Company") concerning its request for an AAO in
12 this proceeding?

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

14 **EXECUTIVE SUMMARY**

15 Q. Please summarize your rebuttal testimony in this proceeding.

16 A. As set forth in its Application in this proceeding, as well as in the direct
17 testimonies of UE witnesses Lynn M. Barnes and Steven M. Wills, UE is requesting an AAO to
18 allow it to defer certain "fixed costs" it allegedly failed to recover in the years 2009-2010 in
19 relation to an ice storm that struck its service territory in January 2009. This testimony will
20 explain the reasons for Staff's recommendation that the Commission reject the Company's
21 request.

22 First, while UE's Application may appear to be similar to other AAO requests filed by
23 utilities experiencing damages related to extraordinary events, in reality UE's Application is

1 truly anomalous in the nature of the relief that it seeks. This testimony will demonstrate that the
2 financial impacts of the January 2009 ice storm sought to be deferred by UE have already been
3 fully reflected in the Company's 2009 and 2010 published financial statements, and are no
4 longer eligible for deferral. What UE seeks through this Application is authorization for a
5 deferral designed to offset the financial effect of the Commission's decision in early 2011 in the
6 *Report and Order* in Case No. EO-2010-0255 concerning treatment of off-system sales margin in
7 the Company's fuel adjustment clause (FAC). Staff argues in this testimony that the
8 Commission should not permit UE to use an AAO to attempt to effectively overturn the
9 Commission's adverse regulatory decision in Case No. EO-2010-0255 which UE has appealed.

10 Second, even if the Commission accepts the Company's argument that this request does
11 directly pertain to the January 2009 ice storm, Staff recommends that the AAO still not be
12 granted as UE is actually seeking to defer "lost revenues," or "lost profits," associated with the
13 ice storm. UE is not seeking to defer "fixed costs" or, for that matter, any other type of expense.
14 In its January 25, 2012 Report and Order in Case No. GU-2011-0392, the Commission rejected a
15 similar in concept request by a Missouri utility, Southern Union Company d/b/a Missouri Gas
16 Energy ("MGE"), to defer the financial impact of "lost revenues" following a natural disaster.

17 Q. Are other members of Staff also submitting rebuttal testimony in this proceeding?

18 A. Yes. Staff witness Lena M. Mantle of the Energy Unit is also submitting rebuttal
19 testimony on the nature of the January 2009 ice storm, the FAC rate design then in effect, and the
20 background for the Commission's decision in Case No. EO-2010-0255 as it affects this
21 proceeding. Staff witness Jason D. Carter of the Energy Unit is submitting rebuttal testimony
22 on the correct quantification of the "lost fixed costs" / "lost revenues" associated with the
23 January 2009 ice storm.

ACCOUNTING AUTHORITY ORDER

Q. What does UE request in its Application in File No. EU-2012-0027?

A. UE requests that the Commission issue an AAO authorizing the Company to “undertake certain accounting procedures in connection with its electrical operations related to the Company’s failure to recover its fixed costs, occasioned by an extraordinary, unanticipated, and unusually severe ice storm that struck Southeast Missouri in January, 2009.” (*Verified Application for Accounting Authority Order (Application)*, page 2).

Q. What is an AAO?

A. An AAO is an authorization by the Commission for a utility to account for a cost in a different manner than is normally prescribed in the Uniform System of Accounts (USOA) which the Commission has adopted for accounting purposes. The most common example of AAOs in this jurisdiction are orders from the Commission allowing a company to defer on its books costs associated with “extraordinary events,” such as natural disasters (or so-called “acts of God”) or other extraordinary events involving utility infrastructure. Staff counsel advises me that a Missouri appellate court case respecting an AAO is *State ex rel. Public Counsel v. Public Serv. Comm’n*, 858 S.W.2d 806 (Mo.App. W.D. 1993) respecting the Sibley 1 and 2 generating units rebuild and coal conversion to burn low-sulfur coal.

Q. What is a “deferral?”

A. In the context of an AAO request, a “deferral” is the booking of a particular cost, normally charged to expense on a utility’s income statement in the current period, to the company’s balance sheet as an asset. For financial reporting purposes, a deferral allows a utility to avoid taking a charge against earnings in the amount of that cost in the current period. For ratemaking purposes, a deferral allows a utility to seek subsequent rate recovery of the deferred

1 cost, even if it was incurred outside of a test year, test year update period, or true-up period of a
2 general rate proceeding.

3 Q. Does it benefit a utility to defer costs associated with an extraordinary event?

4 A. Yes. Under normal accounting practices, a utility would charge to expense on its
5 income statement all costs associated with an extraordinary event as it incurs them. If deferral of
6 those costs is authorized through an AAO, the utility treats the costs associated with an
7 extraordinary event as a regulatory asset and records them on its balance sheet to be amortized
8 over some period of time. In that manner, an AAO gives the utility an opportunity to obtain rate
9 recovery of extraordinary costs even if the costs were not actually incurred within an ordered test
10 year, test year update period, or true-up period of a general rate proceeding.

11 Q. Is it the Commission's general practice to allow a utility to preserve deferrals on
12 its balance sheet until such time that an amortization of the deferred costs can be included in the
13 company's rates?

14 A. No. In most cases, utilities have agreed, or the Commission has ordered, that
15 deferred costs begin to be amortized to expense a short time after the extraordinary event
16 triggering the deferral has occurred, even if the company does not have a rate application on file.
17 However, utilities still benefit from the deferral and amortization process in the absence of
18 immediate rate recovery because they can spread the financial impact of the extraordinary event
19 over a number of years rather than reflecting the entire impact in the year the extraordinary event
20 occurred. This practice improves the earnings picture of the affected utility in the year the
21 extraordinary event occurred.

1 Q. What is a "regulatory asset?"

2 A. A regulatory asset is a cost booked by a utility as an asset on its balance sheet
3 based upon a reasonable probability that regulatory authorities will agree to allow rate recovery
4 of the cost at a later time.

5 Q. What standard has the Commission used to determine whether it should authorize
6 a utility to deviate from normal USOA accounting rules?

7 A. Generally, the Commission in prior cases has stated that the standards for granting
8 the authority to a utility to defer costs incurred outside of a test year as a regulatory asset are:
9 1) that the costs pertain to an event that is extraordinary, unusual and unique, and not
10 recurring; and 2) that the costs associated with the event are material.

11 Q. Does the Commission make ratemaking findings in the context of AAO
12 applications?

13 A. No. The Commission has traditionally held that AAO applications are for the sole
14 purpose of determining the accounting treatment to be afforded to certain costs. Any decisions
15 regarding rate recovery of deferred costs have always been reserved by the Commission for
16 subsequent general rate proceedings.

17 Q. What types of costs associated with extraordinary events has the Commission
18 traditionally allowed utilities to defer through the AAO mechanism?

19 A. The Commission has most often granted utilities authority to defer
20 incremental costs incurred to repair and restore the utilities' infrastructure from significant
21 damage caused by floods, tornadoes and other wind storms, and ice storms; extraordinary
22 mechanical failure not involving operator negligence; and costs associated with Commission
23 or other governmental mandates.

1 Q. Is UE seeking authority at this time to defer incremental expenses incurred to
2 repair and restore utility infrastructure from damage associated with the January 2009 ice storm?

3 A. No. My understanding is that Ameren has recovered the costs of damage to its
4 infrastructure from the January 2009 ice storm in its general rate case filings made since that
5 storm. Rather, this Application is purportedly intended to allow UE to defer the financial impact
6 associated with a loss of sales to one customer, Noranda Aluminum, Inc. ("Noranda") in New
7 Madrid, MO, caused by the ice storm.

8 Q. Why did the Company wait until mid-year 2011 to request an AAO associated
9 with a loss of sales that allegedly occurred in 2009 and 2010?

10 A. As explained in the direct testimony of Company witness Barnes, UE sought to
11 replace the reduction in sales revenues from Noranda in 2009 and 2010 with revenues from
12 off-system sales of power to American Electric Power Operating Companies ("AEP") and
13 Wabash Valley Power Association, Inc. ("Wabash"). According to Ms. Barnes, on page 4 of her
14 direct testimony, the revenues from these "replacement" transactions were sufficient to replace
15 the revenues not received from Noranda due to the ice storm. Given this fact, UE chose not to
16 request an AAO to defer the financial impact of the reduction in revenues from Noranda in 2009-
17 2010 since the financial gain to the Company associated with the AEP and Wabash transactions
18 offset the reduction in sales revenue from Noranda.

19 In its Report and Order in Case No. ER-2008-0318 in January 2009, however, the
20 Commission granted UE's request that it be allowed to operate under an FAC mechanism in
21 Missouri and approved and ordered the *Stipulation and Agreement as to All FAC Tariff Rate*
22 *Design Issues* entered into by UE and other parties. Evidently, UE did not think that Staff and
23 other parties would successfully argue to the Commission that the language in UE's FAC tariff

1 mandated flowing through 95% of the sales margin from the AEP and Wabash transactions to
2 customers as part of the operation of its FAC. In April 2011, in its Report and Order in Case No.
3 EO-2010-0255, the Commission agreed with Staff and other parties and ordered that UE's
4 revenues and expenses associated with the AEP and Wabash transactions be flowed through
5 UE's FAC mechanism. The instant AAO Application was filed by the Company in July 2011.

6 The sequence of events concerning the January 2009 ice storm and the subsequent
7 treatment of AEP and Wabash sales margin in UE's FAC cases is addressed in more detail in
8 Staff witness Mantle's rebuttal testimony.

9 Q. On page 5 of its Application, UE states that as a consequence of the
10 Commission's decision in Case No. EO-2010-0255, "the Company has now experienced an
11 extraordinary, unanticipated, and nonrecurring loss of sales due to the ice storm..."
12 Do you agree?

13 A. No, not at all. As previously explained, the Company did not apply for an AAO
14 to defer or remove the impact of its reduced Noranda sales from its financial statements in 2009
15 and 2010. Therefore, that particular financial impact of the storm was fully reflected in the
16 Company's published financial results for those years. This result was presumably acceptable to
17 UE because, as explained, the proceeds from the AEP and Wabash sales offset the loss of
18 Noranda sales on the Company's financial statements, restoring UE to a status quo earnings
19 situation. In any event, it is not correct to assert that a temporary loss of sales to a major
20 customer in 2009 and 2010 that is accurately and timely recorded on a utility's financial
21 statements at the time of the sales reduction can somehow also cause an adverse effect on the
22 utility's 2011 and 2012 financial statements. Stated simply, there are no current direct effects of
23 the ice storm on UE's sales to Noranda for the Company to "defer."

1 What has changed from the time of the reduction in sales to Noranda is that UE has not
2 been able to retain the full benefit of the AEP and Wabash sales as it initially had planned, and
3 was instead ordered to flow 95% of those benefits to customers through the FAC mechanism in
4 2011. What will be reflected in UE's financial statements during 2011, 2012 and possibly
5 succeeding years is the financial consequences caused by UE's flow through of benefits from the
6 AEP and Wabash transactions to customers in the FAC mechanism as a result of the
7 Commission Report and Order in Case No. EO-2010-0255. What UE seems to be attempting is
8 to avert through an AAO current recognition of the financial effect of that Commission decision
9 on its books. UE is, in effect, attempting to defer an amount of income approximately equal to
10 the financial effect resulting from the Commission's decision in Case No. EO-2010-0255, and
11 then seek future recovery of the deferrals in a general rate proceeding.

12 Q. But isn't UE actually seeking to defer a quantification of the reduction in Noranda
13 sales revenues through this AAO Application, not a quantification of the negative impact of the
14 Commission's decision in Case No. EO-2010-0255?

15 A. Yes, but by UE's own admission the financial impact of these two events are
16 similar. In other words, by granting UE an AAO to "defer" Noranda "lost revenues," the
17 Company will be allowed to offset in approximate terms on its financial statements the negative
18 consequences of the Commission's decision in Case No. EO-2010-0255.

19 Q. Does the Company make the tie between this AAO request and the Commission's
20 Report and Order in Case No. EO-2010-0255 clear in its Application?

21 A. Yes. On the footnote on page 5 of its *Application*, UE states that if the
22 Commission reverses its decision in Case No. EO-2010-0255 in subsequent FAC cases, or the
23 Report and Order in Case No. EO-2010-0255 is overturned by the courts, then it will not seek

1 recovery in rates of the associated amount of any deferral of Noranda "lost revenues" (or what it
2 calls "lost fixed cost recovery" because of lost Noranda revenues) that might be authorized by
3 the Commission in this proceeding.

4 Q. Should issuance by the Commission of its *Report and Order* in Case No.
5 EO-2010-0255 be considered in any respect an extraordinary event, justifying issuance of
6 an AAO?

7 A. No. In fact, if UE had filed an Application for an AAO prior to Case No.
8 EO-2010-0036, Staff's response would have been the same as now; i.e., a recommendation that
9 the Commission deny the Company's Application on the grounds that it is not appropriate to
10 defer "lost revenues."

11 Q. Is it appropriate to issue an AAO with the intent of offsetting projected financial
12 consequences of a Commission decision?

13 A. No. In fact, this position was recently in essence anticipated by the Commission
14 in its denial of an AAO request in an FAC case of KCP&L Greater Missouri Operations
15 Company ("GMO"), Case No. EO-2008-0216. The Commission issued its *Report and Order on*
16 *Remand* in Case No. EO-2008-0216 in August 2011. That case concerned GMO's request that,
17 among other things, the Commission allow it to defer the amount of any customer refunds the
18 Commission might order in that same case so that GMO would obtain the opportunity to recoup
19 the refunded monies in a subsequent general rate proceeding. The Commission denied that
20 request in its *Report and Order on Remand*, stating on page 21 that "[a]n adverse ruling is not an
21 unusual, infrequent, abnormal or extraordinary event."

1 Q. You earlier stated that there are no current impacts of the January 2009 ice storm
2 on UE's books to defer at this time. Why is that an important consideration for the
3 Commission's attention?

4 A. It is my understanding that the ratemaking process is required to be prospective
5 (forward-looking) in nature, and provide utilities an opportunity to recover their reasonable and
6 prudently incurred ongoing costs of providing service. For this reason, a focus of every general
7 rate proceeding is a review of the company's booked expenses and rate base investment for the
8 ordered test year, test year update period, and (if applicable) true-up period in that proceeding,
9 with an objective of proposing adjustments to the utility's historical financial results as necessary
10 to restate those results to an appropriate prospective level. Under this approach, it is
11 inappropriate to allow reflection in rates of events that happened in the past but are not expected
12 to recur again in the future.

13 A partial exception to this approach is this Commission's policy of allowing utilities to
14 defer extraordinary costs, such as expenses association with major storms and floods. As
15 explained previously, by allowing utilities to spread these costs over several periods on their
16 financial statements, the companies are then able to seek subsequent rate recovery of all or part
17 of the extraordinary costs while those costs remain on the utilities' balance sheets. However,
18 that opportunity for subsequent rate recovery of extraordinary costs is dependent upon the
19 utilities making a timely request for the necessary deferral treatment of the costs. Without a
20 timely request to defer extraordinary costs, those costs will then be charged to net income on the
21 utility's income statement in the period incurred. Once recorded on "closed" (final) annual
22 financial statements, non-recurring costs of an extraordinary nature should not be included in
23 rates set prospectively. To do so may constitute "retroactive ratemaking."

1 Q. What is “retroactive ratemaking?”

2 A. My understanding of “retroactive ratemaking” is that it is the setting of rates in
3 order for a utility to recover the specific financial impacts of past events incurred by the utility so
4 as to make utility’s shareholders “whole” for the utility’s past financial under-recovery or,
5 conversely, make the utility’s customers “whole” for the utility’s past financial over-recovery.
6 Staff counsel advises me that retroactive ratemaking is prohibited in this jurisdiction.

7 Q. Have there been several rate cases filed by UE since the time of January 2009
8 ice storm?

9 A. Yes, Case Nos. ER-2010-0036 and ER-2011-0028. In both of those cases, the
10 Company had an opportunity to seek rate treatment in some manner of the impact of the
11 January 2009 ice storm on its sales of electricity to Noranda.

12 Q. Assuming the Commission disagrees with your arguments presented in this
13 testimony thus far, are there additional reasons for Staff’s recommendation that the Company’s
14 Application be denied?

15 A. Yes, as discussed below.

16 Q. UE refers to “lost fixed costs.” What do you understand UE to mean by “lost
17 fixed costs?”

18 A. “Lost fixed costs” is the way UE refers to the reduction in revenues it received
19 from Noranda in the aftermath of the ice storm. Instead of clearly addressing the fact that the
20 Company is seeking to defer the financial impact of failure to receive the normal level of
21 revenues from Noranda during the period after the ice storm occurred, UE’s chosen terminology
22 focuses on its characterization of the costs that it argues were intended to be reimbursed by the
23 foregone revenues. The Commission should not be confused by UE’s chosen terminology.

1 The Company is seeking authorization here to defer a quantification of revenues it never
2 received from Noranda, not a deferral of capital related expenses or operating expenses, as is
3 normally the basis of almost all AAO applications in this jurisdiction.

4 Q. What kinds of costs are normally included in a utility's cost of service in Missouri
5 and charged to customers in utility bills?

6 A. A utility in Missouri is normally allowed to recover in its rates prudently incurred
7 expenses that are necessary for it to provide utility service to its customers. Those expenses
8 can be divided into two categories; "variable" expenses and "fixed" expenses. Variable expenses
9 are incurred in direct relationship to the amount of sales a utility makes to its retail customers
10 or the amount of customers the utility has. Fixed expenses do not vary in amount with the
11 volume of sales made by the utility or its customer numbers.

12 In addition to these expenses, a utility in Missouri is also allowed to recover through
13 customer bills a rate of return on its prudent rate base investment. Rate base is a measurement of
14 the value of a utility's net asset investment, plant in service for example, made to provide utility
15 service. Rate of return (ROR) is usually made up of two components; a return on debt
16 component that is intended to allow a company to recover the costs of paying the required
17 interest on its issued debt (for example, bonds, notes, and commercial paper), and a return on
18 equity (ROE) component that is intended to allow a company to recover in rates amounts
19 sufficient to pay dividends to its shareholders or to reinvest in the utility business, or both.
20 A utility's ROE allowance can be generally thought of as equivalent to the concept of "profit" as
21 measured for non-regulated business entities.

22 Q. Is UE contending that it is not able to recover its variable expenses of serving
23 Noranda due to the ice storm?

1 A. No. To the extent UE sold a reduced level of electricity to Noranda due to the
2 ice storm, it was also incurring a reduced level of variable costs associated with serving
3 that customer.

4 Q. Is UE contending that it was not able to recover its fixed costs associated with
5 serving Noranda due to the ice storm?

6 A. Yes. The Company is asserting that while the amount of fixed costs it incurred to
7 provide service to Noranda did not change due to the ice storm, the amount of revenues it
8 received from Noranda did decrease. The Company's implicit assumption is that each dollar of
9 revenue it receives from customers is intended in part to allow it to recover a portion of its fixed
10 costs. Under UE's argument, any reduction in revenues received from a customer must result in
11 a failure to recover all of its fixed costs to serve that customer.

12 Q. Does Staff agree that the ice storm resulted in a situation where UE failed to
13 recover all of its fixed costs from Noranda or from its customers in total?

14 A. No. UE's claim is not consistent with conventional regulatory accounting
15 practices. These conventions call for any reduction in a company's revenues to be first measured
16 against the company's earned ROE results, and then against its overall earned ROR results.
17 A company that is earning a positive ROR is fully recovering all of its expenses, both fixed and
18 variable. A company that is earning a positive ROE is fully recovering all of its expenses as well
19 as its required interest payments to bondholders. As I will demonstrate below, UE fully
20 recovered its fixed costs at the time of its reduction in sales to Noranda.

21 Another way of presenting the same concept is to state that a utility's ROE is measured as
22 the residual amount remaining after the enterprise has charged all of its fixed and variable
23 expenses against revenues, and also deducted its interest payments to debt holders.

1 This regulatory accounting convention is appropriate because a utility's equity holders are
2 "last in line" in terms of the priority of receiving compensation from the utility for their
3 investment in the enterprise, behind the utility's employees, vendors and bondholders.

4 Q. Would you illustrate the above point using a simple example?

5 A. Yes. Assume a utility's annual revenues of \$100 are exactly equal to its cost of
6 service as measured for regulatory purposes in the following manner:

7 Revenues \$100

8 Less:

9 Fixed Expenses \$40

10 Variable Expenses \$20

11 Interest Payments \$20

12 Residual:

13 **Return on Equity/Profit \$20**

14 Then, assume that the utility experiences a \$10 reduction in revenues, with a
15 proportionate \$2 decrease in variable expenses, but that its fixed expense and interest expense
16 obligations do not change. In this case, the utility's financial results will be as follows:

17 Revenues \$90

18 Less:

19 Fixed Expense \$40

20 Variable Expense \$18

21 Interest Expense \$20

22 Residual:

23 **Return on Equity/Profit \$12**

1 In the above example, the reduction in the utility's margin (revenues less fixed and
2 variable expenses) of \$8 resulted in an equal reduction in the utility's earned ROE of \$8. Please
3 note, that even after taking into account the reduction in revenues experienced by the utility in
4 the above example, the company's total revenues exceed the amount of its fixed costs and some
5 amount of ROE/profit is realized. The hypothetical utility financial results presented above show
6 a company that is fully recovering its fixed costs, but that has experienced a reduction in its
7 profit levels due to a decrease in its revenues.

8 Q. Is the above hypothetical example consistent with UE's financial condition
9 following the ice storm?

10 A. Yes. The information provided in its Application and in Company data request
11 responses show that UE's total revenues easily exceeded its total fixed costs, even after the
12 impact of the ice storm on UE's revenues are taken into account. Exhibit B to the Company's
13 Application in the instant case clearly shows that the Company experienced a positive ROE in all
14 months in 2009 and 2010 allegedly impacted by the reduced sales from Noranda. Further, in
15 Staff Data Request No. 0009, Staff asked the Company to restate its earnings analysis contained
16 in Exhibit B by eliminating 95% of the margin booked in relation to the AEP and Wabash
17 transactions in those months (i.e., as if UE had assumed at that time that the margin from the
18 AEP and Wabash transactions would flow through the FAC). The response to this Staff Data
19 Request again shows that UE would have booked a positive ROE for the same months in
20 2009 and 2010 even if the beneficial impact of the AEP and Wabash transactions is eliminated
21 from the financial results for those years. In other words, the revenues received by UE in total
22 from its customers in the aftermath of the ice storm were more than sufficient to allow recovery
23 of all variable and fixed expenses, as well as its interest costs, and still leave a residual amount of

1 profit for its equity investors. UE's response to Staff Data Request No. 0009 is attached as
2 Schedule 2 to this testimony.

3 Q. Since UE recovered all of its fixed expenses in rates following the ice storm,
4 is it correct to characterize UE's AAO request in this proceeding as seeking a deferral of "lost
5 fixed costs?"

6 A. No. UE's request to defer "lost revenues" through an AAO is actually intended to
7 allow it an opportunity to earn higher profit levels in the future to offset the lower profit levels
8 in the past due to (depending on your perspective) the impact of either the 2009 ice storm, the
9 ER-2008-0318 FAC, or the 2011 Report and Order in Case No. EO-2010-0255. In other words,
10 future customers would pay higher rates to compensate the Company for a prior reduction in its
11 earned rate of return that can be considered to have been caused either by a prior natural disaster,
12 a prior decision by UE to seek an FAC, or a prior adverse regulatory Order.

13 Q. Should the Commission allow deferral treatment of the financial impact of
14 reduced return levels associated with losses in revenue?

15 A. No, for several reasons.

16 First, this approach violates fundamental regulatory principles that the amount of a
17 utility's profits should never be guaranteed, either in whole or in part. Through regulation, a
18 utility should be given the opportunity to earn a reasonable return, but not be guaranteed that it
19 will earn a certain level of return.

20 Second, and a related point, Staff contends that revenue levels from a particular customer
21 or group of customers should not be guaranteed in whole or in part to a utility. A customer's
22 usage of utility service may fluctuate significantly, or even end permanently, for many reasons
23 other than effects of a natural disaster. A utility should be presumed to be at risk for deviations

1 in a customer's usage level compared to the level of sales from that customer previously
2 assumed in setting rates, whether that customer is a large industrial customer or a typical
3 residential customer.

4 Q. Isn't it possible that a reduction in revenues associated with an extraordinary
5 event could result in adverse financial consequences to a utility that may require regulatory
6 action?

7 A. That is theoretically possible. However, in its Application UE has not alleged that
8 the reduction in its revenues due to the ice storm (or the impact of the flow through of AEP and
9 Wabash sales margin in the FAC) were of such a magnitude that it materially impaired its
10 financial viability or negatively affected its ability to provide safe and adequate service to its
11 customers. If a utility's loss of sales/customers was sufficient to damage its financial viability
12 and ability to provide safe and adequate service, Staff suggests the appropriate course of action
13 would be for the utility to file for interim ("emergency") rate relief.

14 Q. Is there any precedent in Missouri for deferral of "lost revenues?"

15 A. No. In fact, the Commission recently rejected a request for an AAO by MGE
16 seeking to defer "lost revenues" caused by a catastrophic tornado in Joplin, MO (Case No.
17 GU-2011-0392). MGE's request was premised upon the reduction in sales from customers that
18 could not take any service from that company due to damage or destruction caused by the
19 tornado. The reasons given in the *Report and Order* in Case No. GU-2011-0392 for denying
20 MGE's request to defer "lost revenues" are equally applicable in this situation.

21 Q. UE's Application shows that the Company may be only alleging that it failed to
22 recover the fixed costs to serve Noranda specifically (see Barnes Direct, page 4, line 17 through

1 page 5, line 2), not necessarily its overall fixed costs to serve all customers. Please comment on
2 this distinction.

3 A. Because Noranda is the sole customer in its rate class, and accordingly has its
4 rates designed to recover a specific level of costs, UE appears to believe it is significant to assert
5 that the Company failed to recover all of the fixed costs associated with service to Noranda
6 following the ice storm. This argument fails because it is improper to base an AAO request on
7 financial results for a single customer or even a single rate class. Any deficiency in earnings for
8 a single customer or rate class that might trigger an AAO request may well be offset by excess
9 earnings from another customer or rate class. For this reason, any decision to authorize an AAO
10 by the Commission should only be based upon an examination of the total company financial
11 picture at the point in time in question. As previously discussed, an examination of UE's overall
12 financial results for the years 2009 and 2010 show that UE fully recovered all of its fixed costs
13 during that period.

14 Q. Please summarize Staff's position in this proceeding concerning UE's request to
15 defer "lost revenues" allegedly associated with the January 2009 ice storm.

16 A. Staff believes UE's request for an AAO in this Application is in essence intended
17 to offset the financial impact on the Company of the Commission's recent Report and Order in
18 Case No. EO-2010-0255. It is entirely improper to seek an AAO for this purpose, as has been
19 previously recognized by the Commission.

20 If the Commission accepts the Company's assertions that this request is directly premised
21 upon the reduction in sales to Noranda following the January 2009 ice storm, the Application
22 should still be denied because the impact of the Noranda sales reduction has already been
23 reflected in UE's financial statements for the years 2009 and 2010. Therefore, there are no

1 | current impacts of this revenue reduction to “defer.” Further, attempts by utilities to prop up
2 | their profit margins through proposed deferrals of “lost revenues” should be rejected.

3 | Q. In the event the Commission approves UE’s Application in this case, does Staff
4 | recommend that any conditions be placed upon that approval?

5 | A. Yes. If the Company’s Application is approved, Staff recommends that the
6 | Commission include in its order its standard language reserving all findings concerning rate
7 | treatment of the deferred items to subsequent general rate proceedings.

8 | Q. Does this conclude your rebuttal testimony?

9 | A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Application of Union)
Electric Company d/b/a Ameren Missouri for) File No. EU-2012-0027
the Issuance of an Accounting Authority Order)
Relating to its Electrical Operations.)

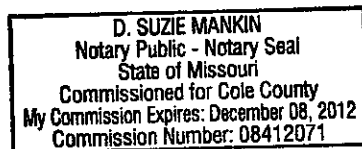
AFFIDAVIT OF MARK L. OLIGSCHLAEGER

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 Rebuttal Testimony in question and answer form, consisting of 20 pages to be presented in the above case; that the answers in the foregoing Rebuttal 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 14th day of March, 2012.



D. Suzie Mankin
Notary Public

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
Western Resources	GR-90-40 and GR-91-149	Take-Or-Pay Costs
Missouri-American Water Company	WR-91-211	True-up; Known and Measurable
Missouri Public Service	EO-91-358 and EO-91-360	AAO
Generic Telephone	TO-92-306	Revenue Neutrality; Accounting Classification
Generic Electric	EO-93-218	Preapproval
Western Resources & Southern Union Company	GM-94-40	Regulatory Asset Transfer
St. Louis County Water	WR-95-145	Policy
Union Electric Company	EM-96-149	Merger Savings; Transmission Policy
St. Louis County Water	WR-96-263	Future Plant
Missouri Gas Energy	GR-96-285	Riders; Savings Sharing
The Empire District Electric Company	ER-97-82	Policy
Missouri Public Service	ER-97-394	Stranded/Transition Costs; Regulatory Asset Amortization; Performance Based Regulation
Western Resources & Kansas City Power & Light	EM-97-515	Regulatory Plan; Ratemaking Recommendations; Stranded Costs
United Water Missouri	WA-98-187	FAS 106 Deferrals
Laclede Gas Company	GR-99-315 (remand)	Depreciation and Cost of Removal
Missouri-American Water	WM-2000-222	Conditions
UtiliCorp United & St. Joseph Light & Power	EM-2000-292	Staff Overall Recommendations
UtiliCorp United & The Empire District Electric Company	EM-2000-369	Overall Recommendations
Green Hills Telephone	TT-2001-115	Policy
IAMO Telephone Company	TT-2001-116	Policy
Ozark Telephone Company	TT-2001-117	Policy

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
Peace Valley Telephone	TT-2001-118	Policy
Holway Telephone Company	TT-2001-119	Policy
KLM Telephone Company	TT-2001-120	Policy
Missouri Gas Energy	GR-2001-292	SLRP Deferrals; Y2K Deferrals; Deferred Taxes; SLRP and Y2K CSE/GSIP
The Empire District Electric Company	ER-2001-299	Prudence/State Line Construction/Capital Costs
Ozark Telephone Company	TC-2001-402	Interim Rate Refund
Gateway Pipeline Company	GM-2001-585	Financial Statements
Missouri Public Service	ER-2001-672	Purchased Power Agreement; Merger Savings/Acquisition Adjustment
Union Electric Company	EC-2002-1	Merger Savings; Criticisms of Staff's Case; Injuries and Damages; Uncollectibles
Laclede Gas Company	GA-2002-429	AAO Request
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
Missouri Gas Energy	GR-2004-0209	Revenue Requirement Differences; Corporate Cost Allocation Study; Policy; Load Attrition; Capital Structure
Empire District Electric	ER-2006-0315	Fuel/Purchased Power; Regulatory Plan Amortizations; Return on Equity; True-Up
Missouri Gas Energy	GR-2006-0422	Unrecovered Cost of Service Adjustment; Policy
Laclede Gas Company	GR-2007-0208	Case Overview; Depreciation Expense/Depreciation Reserve; Affiliated Transactions; Regulatory Compact
Missouri Gas Utility	GR-2008-0060	Report on Cost of Service; Overview of Staff's Filing

**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
KCP&L Greater Missouri Operations Company	EO-2008-0216	Rebuttal AAO Request
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
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
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
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

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Cases prior to 1990 include:

<u>COMPANY NAME</u>	<u>CASE NUMBER</u>
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

Missouri Public Service Commission

Respond Data Request

Data Request No.	0009
Company Name	Union Electric Company-Investor(Electric)
Case/Tracking No.	EU-2012-0027
Date Requested	8/15/2011
Issue	General Information and Miscellaneous - AAO
Requested From	Mary L Hoyt
Requested By	Steve Rackers
Brief Description	Earned ROE
Description	If UE had originally treated the transactions with Wabash and AEP as OSS subject to the FAC, how would Exhibit B to the Company's application change. Please provide a revised calculation and all supporting workpapers and unprotected excel spreadsheet files with formulas.
Response	See the attached response.
Objections	NA

The attached information provided to **Missouri Public Service Commission** Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the **Missouri Public Service Commission** if, during the pendency of Case No. **EU-2012-0027** before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information. If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the **Union Electric Company-Investor(Electric)** office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies or data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control or within your knowledge. The pronoun "you" or "your" refers to **Union Electric Company-Investor (Electric)** and its employees, contractors, agents or others employed by or acting in its behalf.

Security :	Public
Rationale :	NA

Ameren Missouri
Response to MPSC Data Request
MPSC Case No. EU-2012-0027
Application of Ameren Missouri for an AAO Relating to its Electrical Operations

Data Request No.: MPSC 0009 – Steve Rackers

If UE had originally treated the transactions with Wabash and AEP as OSS subject to the FAC, how would Exhibit B to the Company's application change. Please provide a revised calculation and all supporting workpapers and unprotected excel spreadsheet files with formulas.

RESPONSE

Prepared By: Gary S. Weiss
Title: Manager Regulatory Accounting
Date: August 24, 2011

Yes, Exhibit B would change if Wabash and AEP were treated as OSS. Please see the attached file.

AmerenUE
 Earned Regulatory Return on Equity
 Missouri Electric with Wabash and AEP Treated as Off-System Sales
 January 2009 Through May 2010

Month	Year	Mo. Electric Rate Base	Mo. Electric Operating Income	Return on Rate Base	Return on Equity	Allowed ROE	Variation
January	2009	6,169,143,105	382,758,987	6.20%	6.88%	10.20%	-3.32%
February		6,224,863,979	361,752,402	5.81%	6.13%	10.20%	-4.07%
March (1)		6,019,494,000	352,427,598	5.85%	5.99%	10.76%	-4.77%
April		6,019,642,000	333,861,083	5.55%	5.39%	10.76%	-5.37%
May		6,037,599,000	337,401,101	5.59%	5.47%	10.76%	-5.29%
June		6,038,441,000	346,497,716	5.74%	5.76%	10.76%	-5.00%
July		6,083,856,000	335,117,976	5.51%	5.32%	10.76%	-5.44%
August		6,091,596,000	345,170,911	5.67%	5.62%	10.76%	-5.14%
September		5,940,022,000	343,204,943	5.78%	5.84%	10.76%	-4.92%
October		5,940,577,000	365,352,231	6.15%	6.55%	10.76%	-4.21%
November		5,944,307,000	372,356,915	6.26%	6.77%	10.76%	-3.99%
December		5,930,950,000	354,059,728	5.97%	6.21%	10.76%	-4.55%
January	2010	5,847,204,000	385,640,049	6.60%	7.41%	10.76%	-3.35%
February		5,855,130,000	396,832,585	6.78%	7.76%	10.76%	-3.00%
March		5,828,584,000	383,148,472	6.57%	7.37%	10.76%	-3.39%
April		5,981,975,000	368,389,738	6.16%	6.57%	10.76%	-4.19%
May		5,988,850,000	369,468,824	6.17%	6.59%	10.76%	-4.17%
Average					6.33%	10.69%	-4.36%

Capitalization Per Order

	ER-2007-0002		ER-2008-0318	
	Percent	Weighted Cost	Percent	Weighted Cost
Equity	52.224%	5.330%	52.010%	5.596%
Preferred Stock	2.017%	0.110%	1.740%	0.090%
Long-Term Debt	44.964%	2.460%	45.530%	2.627%
Short-Term Debt	0.795%	0.040%	0.720%	0.024%
Total	100.000%	7.940%	100.000%	8.337%
Total Excluding Equity		2.610%		2.741%

Notes:

The Rate Base and Operating Income are per the filed Monthly MPSC Surveillance Reports.

The Regulatory Return On Equity is calculated using the capitalization and weighted cost from MPSC Case No. ER-2007-0002 through February 2009 and the capitalization and weighted cost from MPSC Case No. ER-2008-0213 starting in March 2009.

(1) The March 2009 Surveillance Report is the new Quarterly Surveillance Report filed since the Company's FAC became effective on March 1, 2009. The Total is now only Total Electric.