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Issue: ISRS Cap; Regulatory Asset  
Witness: Mark L. Oligschlaeger  
Sponsoring Party: MoPSC Staff  
Type of Exhibit: Rebuttal Testimony  
File No.: WO-2015-0211  
Date Testimony Prepared: May 20, 2015

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DEPARTMENT

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WO-2015-0211

Jefferson City, Missouri  
May 2015

~~Staffs~~ Exhibit No. 4  
Date 6/3/15 Reporter AT  
File No. WO-2015-0211

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OF  
MARK L. OLIGSCHLAEGER**

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1 I will also address briefly the request made in Ms. Tinsley's direct testimony that the  
2 Commission authorize the Company to record a regulatory asset for certain ISRS costs if it  
3 adopts the Staff's position on the ISRS cap calculation.

4 **ISRS "CAP"**

5 Q. On page 4 of her rebuttal testimony, Ms. Tinsley states "The current ISRS of  
6 \$25,637,873 is made up of both recovery of revenues associated with MAWC's investment in  
7 plant and "true-up," or revenue reconciliation, amounts associated with prior under-recovery."  
8 Do you agree with this characterization?

9 A. No. Contrary to the implication in Ms. Tinsley's statement, the entire amount of  
10 an ISRS rate is set in order to provide the utility with recovery of costs associated with its  
11 investment in ISRS plant, including return on rate base, depreciation expense and property  
12 tax expense. However, as previously discussed in my direct testimony, there may be two  
13 components that make up the single ISRS charge shown on customer bills. The distinction  
14 between these two components is that one is established in order to allow recovery of these costs  
15 based upon an initial assumption regarding customer usage, and the other component is a  
16 subsequent adjustment to the ISRS rate if the utility either over-collects or under-collects its  
17 ISRS revenue requirement due to actual usage being different from the estimated usage assumed  
18 in developing the initial rate. The second component is the "true-up" part of the rate referenced  
19 by Ms. Tinsley. Both components are set in order to allow the utility to recover a specified  
20 amount of ISRS plant-related costs.

21 Q. Does the amount reflected in MAWC's ISRS rates to address prior ISRS  
22 under-recoveries the result of a "deficiency" in the ISRS rate design process, as alleged by  
23 Ms. Tinsley at page 4 of her direct testimony?

1           A.     No, not if the implication being made by MAWC is that an under-recovery  
2 situation would be something unusual. Any time utility rates are set based on an estimate of  
3 customer usage, it is expected that there may be differences between actual and assumed usages,  
4 with a resulting under or over-collection of revenues by the utility. After rates are set in a  
5 general rate proceeding, utilities face the risk of collecting less revenue than initially authorized  
6 by the Commission if customer usage of their service is less than, for any reason, the assumed  
7 volumes used in setting current customer rates, all else being equal. Utilities eligible for ISRS  
8 rate treatment do not face this same risk, because their ISRS rates will be adjusted upward if their  
9 initial ISRS revenue levels show an overall under-recovery from customers in rates for this item.  
10 Because the ISRS statute and rule lower the risk faced by utilities in this manner of  
11 under-collecting revenues, the Staff believes it to be particularly inappropriate to exclude the  
12 additional revenue reconciliation amounts MAWC receives from customers through the ISRS  
13 rate in the determination of the revenue cap level that sets a "ceiling" on the overall amount of  
14 ISRS revenues that can be collected from customers between general rate proceedings.

15           Q.     On page 7 of her direct testimony, Ms. Tinsley provides a chart showing the  
16 derivation of the total amount of revenues that are currently being authorized for collection from  
17 MAWC customers in ISRS rates (\$25,637,872). Does the Staff agree that MAWC's current  
18 ISRS rates are designed to collect approximately \$25.6 million annually from its customers?

19           A.     Yes.

20           Q.     If MAWC's ISRS request in this proceeding is granted in total, what amount of  
21 revenues should MAWC expect be collected from ISRS charges as a result?

22           A.     That total would be \$27,557,863 (\$25,637,872 plus MAWC's requested  
23 additional recovery amount of \$1,919,991). Please note that this amount is considerably in

1 excess of the ISRS revenue cap level agreed to by MAWC at page 3 of Ms. Tinsley's direct  
2 testimony of \$25,892,662.

3 Q. Why would collection of approximately \$27.5 million annually in ISRS charges  
4 from MAWC customers be inappropriate?

5 A. The Staff believes it is in accord with both the intent and the language of the  
6 provisions in the ISRS statute and rule limiting the total amount of ISRS revenues that the ISRS  
7 cap be measured based upon total customer rate impact from ISRS applications. Based upon the  
8 Staff's reading of the ISRS statute and rule language, the appropriate way to measure that impact  
9 is to compare the total amount of ISRS revenues that would result from an ISRS application to  
10 the total amount of base revenues the utility was authorized in its last general rate proceeding.  
11 There is no factual dispute in this case that granting MAWC its full amount of requested rate  
12 relief would lead to it collecting more from the ISRS than 10% of the base revenue level that  
13 resulted from its last general rate proceeding (Case No. WR-2011-0337). In the Staff's view,  
14 such a result would be contrary to the language and intent of the rule and statute, and should not  
15 be authorized.

16 **REGULATORY ASSET**

17 Q. At page 8 of her rebuttal testimony, Ms. Tinsley presents an excerpt from the  
18 language in the Commission's ISRS rule that purports to support MAWC's request for  
19 regulatory asset treatment of any amount of ISRS costs incurred by MAWC above the revenue  
20 cap level determined by the Commission in this proceeding, if the Staff's position on calculation  
21 of the ISRS cap is adopted. Please comment.

22 A. As can be seen from the quote in MAWC's rebuttal testimony, that section of the  
23 rule concerns treatment within ISRS applications of the amount of any under or over-collection

1 of ISRS revenues that may remain when the overall ISRS rate is “zeroed-out” in a general rate  
2 proceeding. It does not concern and does not prescribe any action by the Commission in the  
3 event a utility’s total ISRS costs exceed the amount that can be recovered through an ISRS  
4 because of operation of the ISRS cap provisions in the statute and rule. For this reason, the Staff  
5 asserts that there is no inherent authorization within the statute and rule to allow MAWC to book  
6 a regulatory asset for the amounts it seeks recovery of in this proceeding above the amount of the  
7 Commission-determined ISRS cap. For the reasons stated in my direct testimony, the Staff  
8 opposes authorization of a regulatory asset in the circumstances of this case, as that action would  
9 seem to allow utilities the opportunity for “back-door” single-issue recovery of ISRS costs in  
10 customer rates once they have been denied direct recovery through the ISRS process.

11 Q. Does this conclude your rebuttal testimony?

12 A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Petition of Missouri- )  
American Water Company for Approval to ) Case No. WO-2015-0211  
Change its Infrastructure System Replacement )  
Surcharge (ISRS) )

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

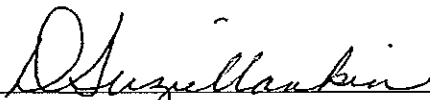
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

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 5 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

Subscribed and sworn to before me this 19<sup>th</sup> day of May, 2015.

D. SUZIE MANKIN Notary Public - Notary Seal State of Missouri Commissioned for Cole County My Commission Expires: December 12, 2016 Commission Number: 12412070
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Notary Public