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Service Commission**

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Issue: ISRS Cap; Regulatory Asset

Witness: Mark L. Oligschlaeger

Sponsoring Party: MoPSC Staff

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Date Testimony Prepared: May 13, 2015

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DEPARTMENT

DIRECT TESTIMONY

OF

MARK L. OLIGSCHLAEGER

MISSOURI-AMERICAN WATER COMPANY

CASE NO. WO-2015-0211

*Jefferson City, Missouri
May 2015*

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

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DIRECT TESTIMONY
OF
MARK L. OLIGSCHLAEGER**

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DIRECT TESTIMONY

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MISSOURI-AMERICAN WATER COMPANY

CASE NO. WO-2015-0211

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6 Q. Please state your name and business address.

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

8 Q. Please describe your educational background and work experience.

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

13 Q. What is your current position with the Commission?

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

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

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

19 Q. Have you previously filed testimony before this Commission?

20 A. Yes, numerous times. A listing of the cases in which I have previously filed
21 testimony before this Commission, and the issues I have addressed in testimony in cases from
22 1990 to current, is attached as Schedule MLO-d1 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. I have also been responsible for the supervision of other Commission employees
6 in rate cases and other regulatory proceedings many times. I have received continuous training
7 at in-house and outside seminars on technical ratemaking matters since I began my employment
8 at the Commission.

9 Q. Have you participated in the Commission Staff's ("Staff") review of the
10 application filed by Missouri-American Water Company (MAWC or "Company") in Case No.
11 WO-2015-0211?

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

13 **EXECUTIVE SUMMARY**

14 Q. Please summarize your testimony in this proceeding.

15 A. In this testimony, I will provide support for the Staff's position that approval of
16 the full amount of MAWC's current Infrastructure Surcharge Replacement Mechanism (ISRS)
17 rate request, if granted by the Commission, would allow the Company to collect more in ISRS
18 revenues than allowed under the provisions of the ISRS statutes and rules that set a "cap" on
19 total ISRS collections from customers. For this reason, the Staff recommends that the
20 Commission limit MAWC's incremental increase in ISRS revenues to \$254,789 in this
21 proceeding, in order to stay within the ISRS cap limit.

22 **ISRS "CAP"**

23 Q. What is the ISRS?

1 A. ISRS is a single-issue ratemaking tool authorized by the Missouri General
2 Assembly which allows certain water utilities (Section 393.1000 to 393.1006 RSMo.) and
3 natural gas utilities (Section 393.1009 to 393.1015 RSMo.) to recover the costs associated with
4 qualifying plant-in-service additions outside of the context of general rate applications. The
5 Commission has promulgated rules setting forth the ISRS filing requirements and procedure for
6 natural gas utilities at 4 CSR 240-3.265 and for water utilities at 4 CSR 240-3.650. Through
7 filed ISRS applications, qualifying utilities can recover the depreciation expense and net return
8 associated with eligible net plant additions, as well as an amount associated with property taxes
9 on those additions.¹

10 Q. What is the issue you are addressing in this testimony?

11 A. The ISRS statute and rule² set out a number of conditions under which qualifying
12 utilities can lawfully collect ISRS revenues from customers. One of those conditions is that the
13 total amount of ISRS revenues cannot exceed 10% of the base revenues ordered by the
14 Commission in the requesting utility's last general rate case. Staff's position in this proceeding
15 is that MAWC's total ISRS revenues, when measured on an annualized basis, will exceed the
16 ISRS cap level set out in the statute and rule if the full amount of its requested ISRS rate increase
17 in this proceeding is granted. The relevant language from the rule reads as follows:

18 Notwithstanding any provision of chapter 386 and this chapter to
19 the contrary, as of August 28, 2003, a water corporation providing
20 water service in a county with a charter form of government and
21 with more than one million inhabitants may file a petition and
22 proposed rate schedules with the commission to establish or
23 change ISRS rate schedules that will allow for the adjustment of
24 the water corporation's rates and charges to provide for the
25 recovery of costs for eligible infrastructure system replacements

¹ The property taxes on eligible plant additions must be due within 12 months of the ISRS application date to be recoverable through an ISRS.

² From this point onward in this testimony, I will refer specifically to the ISRS statute (Section 393.1000 to 393.1006 RSMo.) and the ISRS rule (4 CSR 240-3.650) applicable to qualifying water utilities.

1 made in such county with a charter form of government and with
2 more than one million inhabitants; provided that an ISRS, on an
3 annualized basis, must produce ISRS revenues of at least one
4 million dollars **but not in excess of ten percent of the water**
5 **corporations' base revenue level approved by the commission**
6 **in the water corporations' most recent general rate proceeding.**
7 (emphasis added).

8 Q. What is MAWC's base revenue level established in its most recent general rate
9 proceeding (Case No. WR-2011-0337)?

10 A. By the Staff's calculation, the base level is \$258,926,618. The Staff's
11 understanding is that MAWC concurs with this quantification.

12 Q. What is 10% of the amount of base revenues resulting from MAWC's last general
13 rate case?

14 A. Ten percent of the base level is \$25,892,662.

15 Q. As a result of the previous ISRS applications made by MAWC since the
16 conclusion of its last general rate proceeding, what is the annualized value of MAWC's current
17 level of ISRS revenues?

18 A. By the Staff's calculation, the annualized amount of ISRS revenue that has
19 previously been authorized for MAWC through a number of ISRS applications since its last
20 general rate proceeding is \$25,637,873. That leaves \$254,789 as the amount that MAWC can
21 further increase its ISRS revenues on an annual basis without exceeding the ISRS cap amount
22 (i.e., \$25,892,662 minus \$25,637,873).

23 Q. Why does MAWC disagree that it is limited to an amount of additional ISRS rate
24 recovery at this time equal to \$254,789?

25 A. Based upon a review of the *Response and Objection to Staff Recommendation,*
26 *Request for Regulatory Asset, and Motion to Establish Procedural Schedule ("Response")* filed

1 by the Company on May 4, 2015 in this docket, MAWC asserts that one component of its ISRS
2 revenues, pertaining to "reconciliation" of previously authorized ISRS revenues, should be
3 excluded from the ISRS cap calculation. If its position is accepted, MAWC would be entitled to
4 an additional ISRS revenue increase in this proceeding of \$1,665,202.

5 Q. Please explain.

6 A. Under the ISRS statute and rule, the ISRS charged to customers at any point may
7 consist of a combination of two separate components: (1) the component initially established to
8 allow an opportunity to recover ISRS costs (depreciation, return, property taxes), as defined in
9 the statute and rule; and (2) the component periodically established to adjust the ISRS rate so as
10 to allow MAWC to recover no more than or no less than the amount of its ISRS costs previously
11 allowed by the Commission. This second component is a result of the so-called ISRS
12 "reconciliation" process.

13 Q. What is the purpose of the reconciliation process?"

14 A. In Missouri, when single-issue rate mechanisms such as the fuel adjustment
15 clause or the ISRS mechanism have been authorized, these authorizations have included
16 provisions requiring that reconciliation procedures be used within the mechanism to "true-up"
17 the utility's rate collections for the applicable single-issue item so that the utility does not
18 ultimately under or over-collect from customers for this item in rates.

19 Q. Under the ISRS statute and rule, how does the reconciliation process work?

20 A. Every 12 months, qualifying utilities are required to submit evidence of any
21 differential between the amount of ISRS revenues authorized by the Commission and amount of
22 ISRS revenues actually collected by the utility. That differential, either resulting from ongoing
23 under-collections or over-collections of ISRS revenues by utilities, is factored into the ISRS rate

1 on an ongoing basis in order to refund any ISRS over-collections by utilities back to customers,
2 or to add an additional amount to ISRS revenues order to compensate the utility for past ISRS
3 under-collections.

4 Q. Are the two components of the ISRS rate, described above, combined within a
5 single ISRS rate on customer bills?

6 A. Yes.

7 Q. Are both components of the ISRS designed to allow a utility recovery of the
8 authorized level of qualifying ISRS costs?

9 A. Yes.

10 Q. Since its last general rate case, has MAWC under or over-collected its authorized
11 level of ISRS revenues?

12 A. It has experienced a net under-collection of ISRS revenues, for which it has been
13 compensated for through the ISRS reconciliation process.

14 Q. Why does MAWC disagree with the Staff's calculation of the ISRS cap amount at
15 this time?

16 A. Based upon its *Response*, MAWC asserts that it was intended that the ISRS cap
17 calculation not take into account the reconciliation component of its authorized ISRS revenues.
18 Within the *Response*, MAWC makes various inferences to support its assertion as to how the
19 ISRS cap is to be calculated; however, exclusion of the reconciliation component of ISRS
20 revenues is nowhere explicitly or implicitly called for in the language of the statute and rule
21 regarding calculation of the cap amount. In contrast, the Staff believes the language in the rule
22 (previously quoted) supports use of a straight-forward approach to calculation of the ISRS cap of

1 comparing the annualized level of ISRS revenues as a whole to 10% of the base revenues
2 resulting from MAWC's last general rate case.

3 Q. Has the Staff always calculated ISRS cap amounts in the manner described
4 above?

5 A. Yes, it has.

6 Q. Why was an ISRS cap mandated within the ISRS statute and rule?

7 A. The Staff interprets the ISRS cap requirement as establishing a reasonable limit
8 on the amount of single-issue rate recovery utilities can obtain as a result of the ISRS process.
9 This limitation is appropriate due to the inherent problem of utility's obtaining single-issue rate
10 relief over a period of time when all other components of its cost of service have not been subject
11 to comparable audit and review.

12 Q. Has the issue of appropriate calculation of the ISRS cap been raised before in
13 prior ISRS proceedings?

14 A. No, because to the Staff's knowledge no other qualifying utility has ever
15 approached the 10% cap level in the past. The fact that this has become an issue in this
16 proceeding is the combined result of the amount of ISRS investment made by MAWC since its
17 last general rate proceeding, and passage of time since MAWC's last rate case. (The Report and
18 Order for Case No. WR-2011-0337 was issued in March 2012.)

19 Q. At page 3 of its *Response*, MAWC complains that the Staff's position on
20 calculation of the ISRS cap would cause it to forfeit approximately \$1,665,000 in ISRS recovery
21 in this case. Please comment.

22 A. Given the magnitude of MAWC's single-issue ISRS rate recovery at this time, the
23 Staff believes it is an entirely reasonable result to condition any further ISRS-related rate

1 recovery above the Staff's calculated cap amount on evidence concerning the appropriateness of
2 MAWC's current general rate levels compared to its current cost of service, with all relevant
3 factors taken into account. In other words, there is no reason to presume that failure by MAWC
4 to recover the full amount of ISRS revenue requirement at issue in this proceeding would cause it
5 to under-earn materially compared to its current authorized rate of return. A full cost of service
6 review would be necessary in order to make any such determination. It is the Staff's belief that
7 the statute and rule intended and presumed that such review would take place in the context of a
8 general rate proceeding before a qualifying utility would be allowed to recover ISRS costs in
9 excess of the ISRS cap level.

10 Q. Will the Staff's position on calculation of the ISRS rate cap always be detrimental
11 to utilities, if the Staff prevails on this matter?

12 A. No. In fact, if a utility over-collects its ISRS charges over time, excluding the
13 reconciliation revenue component from the ISRS cap calculation (as MAWC argues for in this
14 proceeding) would mean that a utility in that situation would have its ISRS recovery cut off at a
15 lower dollar value than if the Staff position in this proceeding is adopted.

16 Q. If the Commission were to order the full amount of MAWC's requested ISRS rate
17 increase to be implemented in this proceeding, would that mean that the resulting ISRS would, in
18 fact, be expected to produce ISRS revenues in excess of 10% of MAWC's base revenue level
19 approved by the Commission in the Company's last general rate proceeding?

20 A. Yes.

21 **REGULATORY ASSET**

22 Q. In its *Response*, does MAWC make a request for creation of a regulatory asset in
23 relation to its ISRS cost recovery?

1 A. Yes, it does. In the event the Commission rules in the Staff's favor in regard to
2 the ISRS cap calculation issue, at page 4 of its *Response* MAWC requests that the Commission
3 authorize it to record the amount of revenues its seeks above the ISRS cap amount as a
4 regulatory asset. MAWC cites to section 4 CSR 240.3.650(17) of the ISRS rule in support of
5 this deferral request.

6 Q. Does the ISRS rule support creation of a regulatory asset in this manner?

7 A. No. 4 CSR 240.3.650(17) deals with treatment of any unreconciled over or under
8 collections of ISRS revenue that may exist at the time the utility's ISRS rate is reset to zero
9 within a general rate proceeding. This section does not concern in any way accounting or rate
10 treatment of ISRS costs incurred by a utility in excess of the ISRS revenue cap amount.

11 Q. Notwithstanding the lack of support for MAWC's deferral request in the rule,
12 what is the Staff's position regarding MAWC's deferral request?

13 A. The Staff recommends this request be denied. The Staff asserts that it is not
14 appropriate to allow utilities to "get around" the ISRS cap provisions by deferring ISRS costs in
15 excess of the ISRS cap level to a regulatory asset account, in order to afford the companies an
16 opportunity to obtain subsequent rate recovery of these deferred costs in a later ISRS proceeding
17 or general rate case.

18 Q. Does this conclude your direct testimony in this proceeding?

19 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

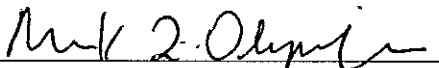
In the Matter of the Petition of Missouri-)
American Water Company for Approval to)
Change its Infrastructure System Replacement)
Surcharge (ISRS))

Case No. WO-2015-0211

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

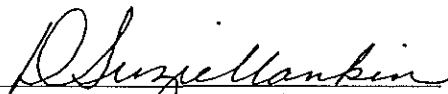
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 9 pages to be presented in the above case; that the answers in the foregoing Direct 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 13th 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


Notary Public

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
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
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
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

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
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, SO2 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
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

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
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
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

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

Company Name	Case Number	Issues
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

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

**CASE PARTICIPATION OF
MARK L. OLIGSCHLAEGER**

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