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Witness: Mark L. Oligschlaeger
Sponsoring Party: MoPSC Staff
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Case No.: ET-2014-0071
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MISSOURI PUBLIC SERVICE COMMISSION

**REGULATORY REVIEW DIVISION
UTILITY SERVICES - AUDITING**

SURREBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ET-2014-0071

*Jefferson City, Missouri
September 2013*

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SURREBUTTAL TESTIMONY OF
MARK L. OLIGSCHLAEGER
KANSAS CITY POWER & LIGHTCOMPANY
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1 **SURREBUTTAL TESTIMONY OF**
2 **MARK L. OLIGSCHLAEGER**
3 **KANSAS CITY POWER & LIGHTCOMPANY**
4 **CASE NO. ET-2014-0071**

5 Q. Please state your name and business address.

6 A. Mark L. Oligschlaeger, P.O. Box 360, 200 Madison Street, Suite 440,
7 Jefferson City, MO 65102.

8 Q. Have you previously filed testimony in this proceeding?

9 A. Yes, I have previously filed rebuttal testimony in this proceeding.

10 Q. What is the purpose of your surrebuttal testimony?

11 A. The purpose of this testimony is to respond to the rebuttal testimony of Renew
12 Missouri witness Patrick J. Wilson, the rebuttal testimony of Missouri Solar Energy Industries
13 Association (MOSEIA) witness Ezra D. Hausman, PhD, and the rebuttal testimony of
14 Brightergy LLC witness Adam Blake concerning the issue of the appropriate way to account
15 for solar rebate payments. I also briefly address Dr. Hausman on the issues of the costs of
16 future assumed RES wind additions and the forward-looking nature of the retail rate impact
17 (RRI) calculation.

18 **EXECUTIVE SUMMARY**

19 Q. Please summarize your surrebuttal testimony.

20 A. I provide Staff's position concerning appropriate accounting for solar rebate
21 payments made by electric utilities to qualifying customers under the RES statute and rule.
22 As of August 28, 2013 (the effective date of House Bill No. 142, 393.1030), Staff believes

1 that accounting for solar rebates through a ten-year amortization to expense is an acceptable
2 alternative to the current utility practice of charging the solar rebates to expense as incurred.

3 I also address the section of Dr. Hausman's testimony where he states that
4 assumptions within the RRI regarding the cost of future planned wind additions years into the
5 future should not affect the payment of solar rebates in the short-term.

6 Finally, I briefly address the comments of Dr. Hausman in his rebuttal testimony
7 regarding the forward-looking nature of the retail rate impact limit calculation.

8 **ACCOUNTING FOR SOLAR REBATES**

9 Q. What are solar rebates?

10 A. Solar rebates are payments made by electric utilities to customers installing
11 new or expanded solar electric systems that become operational after December 31, 2009.
12 Under Proposition C and the RES Rule, the minimum amount of the rebate was to be \$2.00
13 per installed Watt up to a maximum of 25 kW per retail account. (Section 393.1030.3,
14 RSMo; 4 CSR 240-20.100(4)).

15 Q. How are electric utilities in Missouri currently accounting for solar rebates on
16 their books and records?

17 A. To my knowledge, all Commission regulated electric utilities are charging
18 solar rebates to expense as they are incurred; that is, they are treated as a current expense and
19 not as an asset of the utility for which the costs should be spread over a number of future
20 periods.

21 Q. In their rebuttal testimonies, do intervener witnesses Wilson, Hausman and
22 Blake advocate a different accounting treatment for solar rebate costs incurred by Missouri
23 electric utilities?

1 A. Yes. These witnesses recommend that solar rebates be, in effect, accounted for
2 as assets on the utility balance sheets and have their associated costs spread out over ten years
3 through an amortization on the utility income statements.

4 Q. Before beginning an analysis of these witnesses' recommendations, please
5 provide a simple explanation of what the accounting terms "asset" and "expense" mean.

6 A. An asset is a company expenditure that results in probable future economic
7 benefits to that company. As an example, payments made by a utility to construct a
8 generating station should be capitalized as an asset on the utility's balance sheet, as the station
9 will be presumed to provide economic benefits to the utility for many years in the future
10 through the production of electricity, once the unit is in service. The capital costs of the
11 generation station will then be charged to expense on the utility's income statement over time
12 through charging of depreciation expense over the number of years the station is expected to
13 be in operation.

14 An expense is a company expenditure that is not expected to result in future probable
15 economic benefits to the company. As an example, salary payments to utility employees
16 involved in current utility operations (and not construction activities) are charged to expense
17 as they are incurred because payment of salaries by the utility usually in no way commits the
18 employee to remain employed by the utility in the long-term. Because there is no probable
19 future benefit accruing to the utility for this type of payment, such costs should be charged to
20 expense on the utility income statement as they are incurred.

21 Q. Until recently, did solar rebate payments result in a probable future benefit to
22 the utilities making the payment?

1 A. No. While payment of solar rebates is mandated under certain conditions
2 under the RES Rule and statute, such payments had no effect on the utilities' ability to meet
3 the RES portfolio requirements. All renewable energy credits (RECs) associated with
4 customers' solar installations were retained by the customer and did not belong to the utility,
5 absent an agreement to the contrary by the customer with the electric utility. Under these
6 circumstances, consistent with generally accepted accounting principles, the costs of solar
7 rebates are properly recorded as a current expense.

8 Q. Has Staff's opinion changed recently regarding the appropriate accounting for
9 solar rebate payments?

10 A. Yes. House Bill 142, which became law on August 28, 2013, provides that all
11 RECs associated with photovoltaic installations for which solar rebate payments are made by
12 electric utilities will be transferred by the customers installing the facilities to the electric
13 utilities for a period of ten years from the date the electric utility confirmed that the solar
14 electric system was installed and operational (Section 393.1030.3, RSMo (Supp. 2013)).
15 Retirement of RECs obtained by electric utilities through solar rebate payments are now
16 available as a means of complying with RES requirements from August 28, 2013 on.

17 Q. In view of the provisions of House Bill 142, is it now Staff's view that it would
18 be acceptable for the electric utilities to account for solar assets as an asset, and amortize them
19 to expense over a maximum of ten years?

20 A. Yes, but only for solar rebate payments made on or after August 28, 2013.

21 Q. Would a Commission decision to account for solar rebate payments made on
22 or after August 28, 2013 as assets subject to a ten-year amortization affect the issue in this

1 proceeding of whether Kansas City Power & Light Company (KCPL) has exceeded its RRI
2 limit for 2013 as a result of the amount of solar rebate payments it has made?

3 A. Yes. Based on the projected amounts of KCPL's 2013 solar rebate payments
4 shown on Schedule TMR-1, attached to the direct testimony of KCPL witness Tim M. Rush,
5 accounting for solar rebates paid on or after August 28, 2013 through a ten-year amortization
6 would suggest that KCPL's 2013 solar rebate payments will not exceed its RRI cap if use
7 of KCPL's recommended RRI cap calculation methodology is assumed. However, even
8 with ten-year amortization accounting treatment of solar rebate payments, based on the
9 amounts shown on Schedule TMR-1 KCPL will have exceeded its 2013 RRI cap in
10 late August or early September of 2013 if Staff's recommended RRI cap calculation
11 methodology is assumed.

12 Q. Does Staff have any concerns with the possible consequences of accounting for
13 solar rebates as an asset to be amortized over ten years?

14 A. Yes. It is obvious that part of the intervener witnesses' rationale for
15 advocating the ten-year amortization accounting treatment of solar rebates is that such
16 treatment would create more "headroom" for paying additional solar rebates under the
17 RES Rule within the constraints of the RRI limit. (Refer to the rebuttal testimony of
18 MOSEIA witness Hausman, pages 6-7.) As was discussed in the rebuttal testimony of
19 Staff witness Claire M. Eubanks, even with the recent changes codified in House Bill 142,
20 payment of solar rebates is a more uneconomic means for Missouri utilities to comply with
21 the RES portfolio requirements than by other alternatives. Therefore, if the Commission is to
22 consider ordering electric utilities to account for solar rebate payments through a ten-year
23 amortization to expense, Staff recommends that this only be done if Staff's recommended

1 methodology for calculating the RRI is adopted. Use of Staff's RRI calculation approach
2 would help ensure that payments of solar rebates as an RES compliance strategy are incurred
3 in appropriate amounts, considering the relative economics of alternative RES portfolio
4 requirement compliance approaches over a forward-looking ten-year period.

5 **TREATMENT OF FUTURE WIND PROJECTS**

6 Q. On pages 9-11 of his rebuttal testimony, MOSEIA witness Hausman expresses
7 the view that near-term expenditures on solar rebates should not be restrained by future
8 estimates of the costs of wind farms to be installed years in the future. Does Staff agree?

9 A. No. Staff views one purpose of the RRI calculation as the encouragement of
10 future planning by electric utilities to ensure the most cost-effective strategy to meeting the
11 RES portfolio requirements set by statute is adopted as is possible. To the extent that a
12 utility's analysis of future RES portfolio requirements over the ten-year planning horizon set
13 out in the RRI shows that the RES requirements can be met most economically by
14 expenditures in the later years of that period, and not near-term expenditures for such items
15 a solar rebates, then that is presumptively the prudent and appropriate strategy for the
16 utility to employ. If a party believes that a utility's long-term RRI assumptions are
17 unreasonable or inaccurate, then such assumptions can be challenged in the utility's annual
18 RES compliance filing.

19 **FORWARD-LOOKING NATURE OF THE RRI CALCULATION**

20 Q. At page 7 of his rebuttal testimony, Dr. Hausman states that "I agree that this
21 makes the use of a forward-looking average impractical and inconsistent with the legislature's
22 apparent intention with regard to the 1% RRI limitation." Please comment.

Surrebuttal Testimony of
Mark L Oligschlaeger

1 A. In this section of his rebuttal testimony, Dr. Hausman was addressing the
2 contention KCPL witness Burton L. Crawford made in his direct testimony that application of
3 the RRI on a ten-year forward-looking basis may lead to actual customer rate impacts from
4 RES compliance well in excess of the 1% RRI limit. As previously addressed in my rebuttal
5 testimony, Staff believes the forward-looking nature of the RRI calculation is essentially
6 mandated by Proposition C and the RES Rule. However, in regard to payment of solar
7 rebates, care should be taken to ensure that the level of these payments not be allowed to
8 exceed by a material amount the intended 1% annual rate increase limitation. In a worst case
9 scenario, a mechanical application of the RRI calculation approach could lead to the
10 unintended result that the full amount of a utility's RRI cap, as measured over a ten-year
11 period, could be repeatedly paid out by the utility on an annual basis. In this regard, Staff
12 believes that reasonable constraints on payment of solar rebates should be employed to
13 prevent excessive rate recovery of RES compliance costs from customers, which may require
14 a new rulemaking – possibly an emergency rulemaking.

15 Q. Does this conclude your surrebuttal testimony?

16 A. Yes, it does.

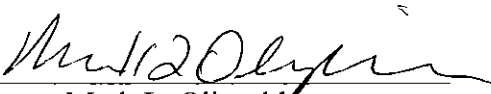
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Kansas City Power & Light)
Company's Application For Authorization To) Case No. ET-2014-0071
Suspend Payment of Certain Solar Rebates)

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

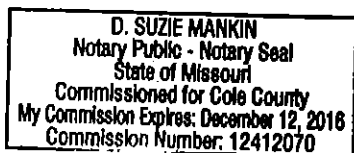
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)


Mark L. Oligschlaeger, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing Surrebuttal 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 30th day of September, 2013.





Notary Public