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REGULATORY REVIEW

UTILITY SERVICES - AUDITING

SURREBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

KANSAS CITY POWER & LIGHT COMPANY

CASE NO. ER-2014-0370

NP

Jefferson City, Missouri
June 5, 2015

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OF
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1 **TRACKER PROPOSALS**

2 Q. Under what criteria might Staff consider the use of trackers is justified?

3 A. As explained in my rebuttal testimony previously filed in this case, use of
4 trackers may be justified under the following circumstances: (1) when the applicable costs
5 demonstrate significant fluctuation and up-and-down volatility over time, and for which
6 accurate estimation is difficult; (2) new costs for which there is little or no historical
7 experience, and for which accurate estimation is accordingly difficult; and (3) costs imposed
8 upon utilities by Commission rule. In addition, the costs in question should be material
9 in nature.

10 Q. What criteria does KCPL propose to justify approval of its tracker requests in
11 this case?

12 A. As stated in Mr. Ives' rebuttal testimony on page 14, lines 16 – 20:

13 Tracker requests made during rate cases should be granted if it is
14 determined that basing the rate allowance for such costs on historical
15 levels, with no ability to account for changes in those cost levels likely
16 to occur in the future, is likely to lead to a mismatch of costs and
17 revenues with resulting earnings impacts during the future period when
18 rates will be effective.

19 Q. What is the Staff's assessment of KCPL's proposed tracker criteria?

20 A. KCPL's proposed criteria apparently calls for the parties to a rate case, and
21 ultimately the Commission, to speculate as to which cost of service items reflected in current
22 rates are most likely to vary from historical levels in the future, and for trackers to be
23 implemented to account for any fluctuations associated with these costs on an ongoing basis.
24 The guesswork associated with this approach is demonstrated by the repeated use of the word
25 "likely" by Mr. Ives in setting out these criteria.

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1 Q. Does the fact that a discrete cost of service item may materially fluctuate
2 upward or downward compared to the level reflected in rates necessarily mean that a utility's
3 rates will be unreasonable?

4 A. No. The only way to adequately measure the reasonableness of a utility's
5 rates, at a point in time, is to rely upon an "all relevant factors" analysis of its current earnings
6 levels.

7 Q. In this proceeding, has KCPL adequately justified its tracker proposals for
8 property taxes, vegetation management, cyber-security costs, transmission expenses, and
9 Clean Charge Network operations and management (O&M) expenses as requiring deviation
10 from the normal "all relevant factors" rate analysis?

11 A. No. KCPL selected certain expense items that have shown recent increases, or
12 are expected to increase in the future, for special rate treatment. However, further upward
13 trends in the cost of these items, if they occur at all, may be offset in whole or in part by
14 favorable trends in other cost of service areas, such as increasing revenues, declining total rate
15 base, reductions in debt or equity costs, changes in capital structure, and a myriad of other
16 possible changes. KCPL's tracker proposals in this case would allow it to collect from
17 customers in the future any increases it may incur in the areas of property taxes, vegetation
18 management costs, cyber-security costs, transmission expenses, and Clean Charge Network
19 O&M expenses, while keeping for itself any offsetting declines in its cost of service. This
20 would not result in equitable or balanced ratemaking.

21 Q. On page 48 of his rebuttal testimony, Dr. Overcast expresses an opinion that
22 the materiality of the costs for which KCPL seeks tracker treatment should be assessed in the
23 aggregate, not individually. Does the Staff agree?

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1 A. No. Again, KCPL's position on this matter seems to be based upon an
2 assumption that extraordinary ratemaking measures should be triggered by an actual or
3 projected material shortfall in a utility's earnings. Under KCPL's approach, tracker proposals
4 could be structured either to cover one or more large-dollar cost of service items expected to
5 increase or to cover a multitude of smaller-dollar cost of service items expected to increase to
6 bridge some or all of the projected gap in future earnings claimed by a utility.

7 Staff believes this approach is fundamentally misguided. The driver of tracker
8 requests should not be a speculative assumption of inadequate utility earnings in the future;
9 instead, any such requests should be driven by an analysis of the individual cost of service
10 items themselves. Specifically, the question should be whether there are unusual or unique
11 characteristics associated with a particular cost item which would justify the extraordinary
12 rate treatment of tracking. The Staff's position is that none of the items at issue in this
13 proceeding for which tracking treatment is requested by KCPL meet that test.

14 Q. Dr. Overcast states on page 41 of his rebuttal testimony, "Failure to match
15 prudently incurred costs is simply a way to ensure that the utility has no reasonable chance to
16 earn its allowed return." Is he correct?

17 A. No. Dr. Overcast is mistaken if he believes that Missouri rates are set in order
18 for utilities to recover a set amount of any given expense or cost item in the future. Instead,
19 rates are set based upon a relationship established between the revenues, expenses, rate base,
20 and rate of return levels for a utility at a set point in time. Any changes in the revenue
21 requirement to a utility in any of those areas may be offset in whole or in part by concurrent
22 changes in the other areas. KCPL's approach to implementing trackers in this proceeding is
23 based upon speculative assumptions that some elements of cost of service should be presumed

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1 to increase in the future, while other elements are presumed not to change. Granting special
2 ratemaking treatment to some of the normal items included in utility rates, but not to others, is
3 a recipe for flawed and inequitable ratemaking.

4 Q. Is it a goal of the ratemaking process to allow a utility to recover all of its
5 "prudent" costs?

6 A. No, not directly. It is very common that the normalization/annualization
7 adjustment process, in rate cases, will lead to a utility recovering more or less in rates than the
8 prudent level of costs incurred within a test year. Nor is it a direct goal of the ratemaking
9 process in Missouri that a utility be able to recover all prudent costs it may incur in a future
10 period.

11 First, of course, rates are set based on a reasonable revenues/expenses/rate base/rate of
12 return relationship, and are not normally set to allow recovery of a specific dollar value of
13 individual cost of service elements.

14 Secondly, it is impossible to set prospective rates to allow recovery of all prudently
15 incurred projected costs of a utility, since it cannot be determined what levels of cost a utility
16 will incur in the future, nor whether such costs would be "prudently" incurred.

17 Q. At several places in his rebuttal testimony, Dr. Overcast opines that regulatory
18 lag is not a good incentive for efficiency by a utility. Does Staff agree?

19 A. Absolutely not. As previously discussed in my rebuttal testimony, regulatory
20 lag is inherent as part of the Missouri ratemaking process. It ensures that a utility suffers a
21 loss when its cost of service increases between general rate proceedings, and that it enjoys a
22 financial gain when its cost of service decreases between general rate proceedings. To the
23 extent a utility's management is concerned about its earnings level over time, as KCPL asserts

1 that it is, regulatory lag should act as a major incentive for a utility to strive to maintain its
2 profitability as high as it can. Under the current ratemaking system in Missouri, Staff believes
3 that the impact of regulatory lag is the primary incentive mechanism in place for utilities to
4 keep their costs low and their service quality high.

5 Q. In terms of regulatory lag, what would be the impact of adopting KCPL's
6 tracker proposals in this proceeding?

7 A. There should be no dispute that adopting new tracker mechanisms to the
8 degree advocated by KCPL would materially reduce its incentives to act in an efficient and
9 productive manner, which is one reason why Staff opposes use of trackers and similar
10 mechanisms unless clearly justified by unusual and unique circumstances.

11 Q. Can you provide an example of how use of trackers might potentially serve as
12 a disincentive for efficiency by utilities?

13 A. Yes. As discussed previously in my rebuttal testimony in this proceeding,
14 Staff has been recommending that KCPL and other major utilities use tracker mechanisms for
15 pension and OPEB costs for 10 years or more. In KCPL's last general rate case
16 No. ER-2012-0174, the Staff submitted evidence showing ** _____

17 _____ **¹ While Staff does not believe
18 that implementation of these trackers for KCPL directly caused the high expenses, Staff was
19 concerned that existence of the pension tracker mechanism might serve as a disincentive for
20 KCPL to address its high pension costs on a going-forward basis, because of the enhanced
21 potential for automatic rate recovery of high and increasing pension expense levels.

22 Q. Has KCPL recently made changes to its employee pension plans?

¹ Refer to the rebuttal testimony of Staff witness Charles R. Hyneman, pages 8-10, Case No. ER-2012-0174.

1 A. Yes. Since the last rate case, KCPL has proposed changes designed to
2 moderate future pension costs over the long-term. These changes will make KCPL's pension
3 plans more comparable to those offered by other major Missouri utilities.

4 Q. In its rebuttal testimony, is KCPL proposing any new tracker mechanisms not
5 previously addressed in this proceeding?

6 A. Yes. In the rebuttal testimony of Mr. Rush, on page 13, he advocates that a
7 tracker be set up on a stand-alone basis for certain of KCPL's transmission expenses that are
8 allocated or assigned to KCPL by the Southwest Power Pool, as an alternative to its initial
9 proposal to track these expenses through KCPL's proposed fuel adjustment clause (FAC). In
10 this proceeding, Staff opposes KCPL's alternative proposal for a stand-alone transmission
11 expense tracker. Other Staff witnesses will address KCPL's proposed treatment of
12 transmission expenses as part of its FAC proposal.

13 On page 48 of KCPL witness Ives' rebuttal testimony, he suggests the use of a tracker
14 for O&M costs associated with the electric vehicle charging stations KCPL proposes for rate
15 recovery in Missouri. While other Staff witnesses will address KCPL's proposal for the
16 charging stations, Staff opposes a tracker for O&M costs associated with these electric vehicle
17 charging stations.

18 Q. Is it generally appropriate to track transmission expenses?

19 A. No. Transmission expenses are a normal ongoing cost of service item that is
20 incurred on a routine basis by all major electric utilities. These expenses are not volatile or
21 unusually hard to predict; KCPL based its requests for extraordinary treatment of these costs
22 in the recent past on detailed budgets that go out years into the future. In fact, because of its
23 predictability, KCPL and other electric utilities have the ability to plan their general rate

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1 proceedings, to some degree, in order to capture these changes in transmission expense on a
2 timely basis.

3 Q. Has KCPL sought authority to track SPP transmission expenses in the past?

4 A. Yes, this authority was sought in Case No. ER-2012-0174, KCPL's last
5 general rate case. The Commission denied KCPL's request for tracker authority for this cost
6 item, noting at page 31 of the Report and Order that, "Transmission is an ordinary and typical,
7 not an abnormal or significantly different, part of the Applicant's activities."

8 Q. Is any other Staff witness addressing KCPL's stand-alone transmission tracker
9 proposal?

10 A. Yes. Staff witness Karen Lyons discusses this issue in her surrebuttal
11 testimony as well.

12 Q. Why is Staff opposed to KCPL's proposed electric vehicle charging station
13 O&M expense tracker?

14 A. As discussed in the testimony of other witnesses, Staff opposes KCPL's Clean
15 Charge Network proposal in entirety. In the event the Commission approves this proposal,
16 Staff would still recommend against approval of the Clean Charge Network O&M tracker, as
17 the Clean Charge Network is a voluntary initiative of KCPL, and its customers should not be
18 asked to guarantee recovery of the costs associated with this proposal.

19 Q. Is any other Staff witness addressing KCPL's O&M costs associated with
20 electric vehicle charging stations tracker proposal?

21 A. Yes. Staff witness Keith Majors discusses this issue in his surrebuttal
22 testimony as well. Additionally, he, and Staff witnesses Byron Murray and Michael Stahlman,

1 address the rebuttal testimony of other parties' witnesses regarding other aspects of the
2 Clean Charge Network.

3 **RATE CASE EXPENSE**

4 Q. What is the Staff's recommendation in this case for rate treatment of KCPL's
5 rate case expense?

6 A. As discussed in the Staff's Cost of Service/Revenue Requirement Report, Staff
7 recommends that KCPL's normalized level of rate case expense be shared 50/50 between the
8 KCPL's shareholders and customers.

9 Q. Based upon a review of KCPL's rebuttal testimony, does KCPL oppose this
10 proposal?

11 A. Yes, for the various reasons stated by Mr. Ives in his rebuttal testimony.
12 Mr. Ives' arguments on this issue are addressed by Staff witness Keith Majors in his
13 surrebuttal testimony.

14 Q. In the event that the Commission finds any of KCPL's arguments against a
15 50/50 sharing of rate case expense persuasive, are there non-traditional approaches to
16 treatment of rate case expense that the Commission could consider as alternatives?

17 A. Yes. I will discuss these alternatives later in my surrebuttal.

18 Q. Are you familiar with the *Review of Rate Case Expense Matters* Staff Report
19 ("Report"), filed in Case No. AW-2011-0330 in September 2013?

20 A. Yes, I am. I was the primary Staff author of the Report.

21 Q. Is a 50/50 sharing of rate case expense for purposes of ratemaking one of the
22 options the Staff recommended that the Commission consider in future rate proceedings?

23 A. Yes, it was.

1 Q. Were other options for ratemaking treatment of rate case expense discussed
2 within the Report?

3 A. Yes. Of the several options listed, the following two may be of particular
4 interest to the Commission as possible alternatives to the Staff's recommended 50/50 sharing
5 proposal: (1) starting the sharing point for this expense at a higher dollar value; and (2)
6 splitting rate case expense based upon a comparison of the ordered rate increase to the
7 original amount requested by the utility.

8 Q. Please discuss how the first option would work.

9 A. Instead of commencing a sharing at the first dollar of rate case expense
10 incurred by KCPL, the Commission could adopt a policy that, for example, KCPL be allowed
11 to fully recover all prudently incurred rate case expenses up to the first \$500,000 with all
12 prudently incurred amounts above that level shared on an equal basis between KCPL and its
13 customers. Another approach would be to allow KCPL to recover all prudent rate case
14 expenses up to a level of \$2.50 of expense per customer, with all prudently incurred amounts
15 above that level shared on an equal basis between KCPL and its customers.²

16 Q. What is a rationale for this type of rate treatment?

17 A. This approach would recognize that some amount of rate case expense must be
18 incurred by a utility in support of a general rate application, but that the utility also has more
19 discretion over the amount spent in total as that amount increases.

20 Q. Please discuss the second option for handling rate case expense.

21 A. Under this approach, KCPL would receive rate recovery of rate case expenses
22 in proportion to the amount of rate relief it is granted compared to the amount of its rate

² This approach would allow KCPL recovery of approximately \$685,000 of rate case expense before sharing would begin.

1 increase request. As a simple example, assume a utility files for a \$50 million rate increase,
2 and spends \$1 million as part of the rate case process. If the Commission ultimately decides
3 that utility should be awarded a \$25 million increase (i.e., half of what it sought), the
4 Company's allowed rate case expense recovery would be \$500,000, or half of its actual rate
5 case related expenditures. Total allowed recovery would be capped at 100% of its actual
6 prudent expenditures, in the event the utility was awarded all of its rate increase request, or
7 more than its total rate increase request.

8 Q. What is the rationale for this type of rate treatment?

9 A. Use of this approach would directly tie a utility's recovery of rate case expense
10 to the reasonableness of its issue positions and the dollar value sought from customers.

11 Q. Under either of the two options discussed above, would there still be a need to
12 normalize the amount of rate case expense prior to applying any sharing percentage?

13 A. Yes.

14 Q. What are the drawbacks of using either of the above approaches as compared
15 to a flat 50/50 sharing of all rate case expense?

16 A. The Staff asserts that utilization of a 50/50 sharing approach from the first
17 dollar of rate case expense incurred provides stronger incentives for the utility to limit its rate
18 case expenses to the lowest reasonable amount. It also recognizes the fact that rate case
19 expenses separately benefit both customers and shareholders from different perspectives.

20 Q. What is the Staff's recommendation regarding treatment of KCPL's rate case
21 expense in this proceeding?

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1 A. The Staff's recommendation continues to be that the Commission should order
2 a 50/50 sharing of KCPL's normalized rate case expense associated with processing of this
3 case.

4 Q. Does this conclude your surrebuttal testimony?

5 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

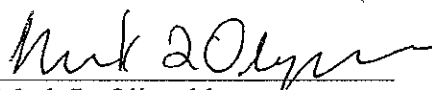
In the Matter of Kansas City Power & Light)
Company's Request for Authority to)
Implement a General Rate Increase for Electric)
Service)

Case No. ER-2014-0370

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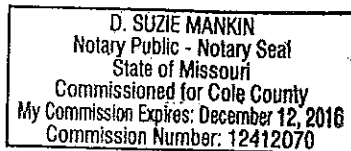
COMES NOW Mark L. Oligschlaeger and on his oath declares that he is of sound mind and lawful age; that he contributed to the attached Surrebuttal Testimony; and that the same is true and correct according to his best knowledge and belief.

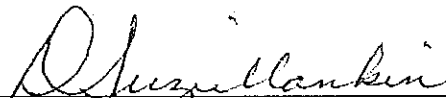
Further the Affiant sayeth not.


Mark L. Oligschlaeger

JURAT

Subscribed and sworn before me, a duly constituted and authorized Notary Public, in and for the County of Cole, State of Missouri, at my office in Jefferson City, on this 4th day of June, 2015.




Notary Public