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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DEPARTMENT

RESPONSIVE TESTIMONY

OF

MARK L. OLIGSCHLAEGER

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

CASE NO. ER-2012-0166

Jefferson City, Missouri
September 2012

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**UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI
CASE NO. ER-2012-0174**

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RESPONSIVE TESTIMONY

OF

MARK L. OLIGSCHLAEGER

UNION ELECTRIC COMPANY d/b/a AMEREN MISSOURI

CASE NO. ER-2012-0166

Q. Please state your name and business address.

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

Q. What is your present position with the Missouri Public Service Commission (“Commission”)?

A. I am the Manager of the Auditing Unit, Utility Services Department,
Regulatory Review Division.

Q. Are you the same Mark L. Oligschlaeger who provided input into the Commission Staff's ("Staff") Cost of Service Report, filed July 6, 2012?

A. Yes, I am.

Q. What is the purpose of this responsive testimony?

A. The purpose of this testimony is to respond to the sur-surrebuttal testimony of Ameren Missouri (“Company” or “Ameren”) witness Jaime Haro concerning his alternative proposal for a “transmission cost and revenue tracker” found on pages 23 – 27 of his testimony. In its *Order Denying Motion to Strike, But Offering an Opportunity to Respond*, dated September 24, 2012, the Commission allowed other parties to Ameren Missouri’s rate proceeding to file additional testimony addressing Ameren Missouri’s alternative request for a transmission tracker.

1 **EXECUTIVE SUMMARY**

2 Q. Please summarize your testimony on this issue.

3 A. Staff recommends that the Commission reject Ameren Missouri's request for a
4 transmission cost and revenue tracker as set forth in Mr. Haro's sur-surrebuttal testimony. If
5 the Commission ultimately determines that a transmission tracker mechanism for the
6 Company should be approved in this case, the Staff recommends that conditions be attached
7 to that approval.

8 **TRANSMISSION TRACKER**

9 Q. Please explain the background for this issue, and why it is being addressed at
10 such a late stage of this proceeding.

11 A. In Staff's Cost of Service Report filed in this case, Staff witness Lena M.
12 Mantle of the Commission's Energy Unit recommended that certain clarifying language be
13 included within the Company's Fuel Adjustment Clause (FAC) tariffs, to better define what
14 revenue and expense elements should be included within the FAC. In rebuttal testimony
15 responding to Ms. Mantle, Company witness Haro objected to some of Staff's suggested
16 language modifications on the grounds that the changes might preclude inclusion in Ameren
17 Missouri's FAC of certain transmission expense charges. The transmission expenses in
18 question are billed to Ameren Missouri by the Midwest Independent System Operator
19 ("MISO"). In a response to Mr. Haro, in her surrebuttal testimony Ms. Mantle stated that
20 Staff was not previously aware that Ameren Missouri was flowing these particular MISO
21 transmission charges through the FAC and, further, that Staff was opposed to inclusion of
22 these items in the FAC. In its *Order Granting Ameren Missouri's Alternative Motion to File*
23 *Sur-Surrebuttal Testimony* dated September 13, 2012, the Commission allowed Ameren

1 Missouri to respond to Staff's recommended exclusion of these transmission charges from the
2 FAC in sur-surrebuttal testimony. Mr. Haro filed such testimony on September 19, 2012.

3 Q. What does Mr. Haro recommend on this issue in his sur-surrebuttal testimony?

4 A. Mr. Haro recommends that MISO transmission expenses continue to be
5 recovered by Ameren Missouri through its FAC. However, he also offers the alternative of
6 the Company being allowed to recover such expenses (and associated revenues) in base rates
7 through a "tracker mechanism." As Ameren Missouri had not presented the tracker alternative
8 to the Commission prior to filing its sur-surrebuttal testimony, the Commission subsequently
9 allowed parties to respond to the Company's tracker proposal in a further responsive
10 testimony filing.

11 It remains Staff's position that it is inappropriate to flow transmission costs through
12 the FAC. It is especially inappropriate to include such costs in the FAC while not also
13 including transmission revenues which offset a majority, if not all, of the transmission costs.
14 In its current FAC, Ameren has included transmission revenues within it but not
15 transmission revenues.

16 Q. What is a "tracker mechanism?"

17 A. A "tracker mechanism," frequently referred to simply as a "tracker," is a
18 regulatory mechanism that allows a direct comparison to be made between the amount of a
19 utility's ongoing expenditures for a particular cost of service item and the amount of its rate
20 recovery for that item. Any differential between the amount of the cost of service item and its
21 rate recovery by the utility is booked to a regulatory asset or regulatory account on the
22 utility's balance sheet. Then, in a subsequent rate case following establishment of the tracker,
23 the utility or other parties can seek inclusion in its rates of the regulatory asset or regulatory

1 liability balance associated with the cost of service element being tracked, usually through an
2 amortization to expense over a multi-year period. In Missouri, many utilities are using
3 trackers for pension/OPEB expenses, for costs incurred to comply with Commission rules,
4 and other items.

5 Q. Are trackers a tool that should be used as a regular course of action in
6 rate regulation?

7 A. No. By design, trackers measure under or over recovery of individual cost of
8 service elements; thus, reducing the risk of recovery by the utility and transferring that risk to
9 its customers. However, under normal circumstances, review of a utility's earnings levels for
10 purposes of determining the need for rate relief is and should be based upon examination of
11 all relevant factors (rate base, rate of return, expenses). A tracker singles out an individual
12 rate element for possible special rate treatment without examination of other, potentially
13 offsetting, changes in a utility's revenue requirement caused by fluctuations in its rate base,
14 expenses, required rate of return and revenues. For this reason, use of trackers to set rates
15 should be authorized sparingly, if at all.

16 Q. Has Staff recommended the use of trackers for transmission expenses and
17 revenues for other electric utilities?

18 A. Yes. In Case Nos. ER-2010-0355 and ER-2010-0356, Kansas City Power &
19 Light Company (KCPL) and KCPL – Greater Missouri Operations (GMO), respectively, Staff
20 recommended a tracker be used for those companies' transmission expenses and transmission
21 revenues. However, KCPL and GMO ultimately agreed not to implement trackers for
22 transmission costs in their 2010 rate cases.

1 Q. Why did Staff recommend use of a tracker for KCPL and GMO in their 2010
2 rate cases?

3 A. In those cases, KCPL and GMO requested that tracker mechanisms for
4 their transmission expenses be authorized by the Commission. In response, Staff witness
5 Daniel I. Beck of the Energy Unit recommended trackers for these costs on the basis of:
6 (1) the historical growth in and current high level of KCPL's and GMO's transmission
7 expenses; (2) the future uncertainty in the level of their future transmission expenses; and
8 (3) because those utilities had less control over the level of transmission expenses assigned to
9 it from the Southwest Power Pool than over most of their other expenses. Mr. Beck also
10 recommended that KCPL's and GMO's transmission revenues also be included in their
11 trackers as an offset to the transmission expenses.

12 Q. Does Mr. Haro likewise agree to inclusion of MISO transmission revenues in
13 any tracker ordered by the Commission in this case?

14 A. Yes, he does.

15 Q. Is inclusion of transmission revenues in the tracker consistent with Ameren
16 Missouri's current treatment of transmission revenues in the FAC?

17 A. No. The Company has not included any transmission revenues in its
18 current FAC.

19 Q. Does Mr. Haro express the opinion in his sur-surrebuttal testimony that
20 Ameren Missouri has met the same three criteria for implementation of a transmission tracker
21 that KCPL and GMO did when Staff recommended approval of their requests for transmission
22 trackers in the 2010 rate cases?

23 A. Yes, he does.

1 Q. Does Staff agree?

2 A. No. In particular, Staff asserts that Ameren Missouri has failed to demonstrate
3 that it has met the first and second tests laid out in the KCPL and GMO 2010 rate cases; i.e.,
4 that its current level of net transmission expense is high and that its future level of net
5 expenses is uncertain and likely to increase significantly. Crucially, in this regard, in its
6 sur-surrebuttal testimony and supporting workpapers Ameren Missouri has failed to provide
7 any evidence of its expected level of future transmission revenues.

8 Q. What is the significance of the level of Ameren's current and future
9 transmission revenues?

10 A. In the same manner as Ameren Missouri is assigned transmission expenses by
11 MISO, the Company also receives transmission revenues on an ongoing basis from that entity
12 for the Ameren Missouri facilities used by MISO to provide transmission service. The
13 MISO transmission charges paid by Ameren Missouri are intended to reimburse other MISO
14 members for use of their transmission facilities. Ameren Missouri pays a portion of its costs
15 associated with use of its facilities for MISO transmission service, but receives all of the
16 related revenues. Ameren Missouri's revenue requirement associated with membership in
17 MISO is obviously dependent upon the ongoing relationship of its assigned MISO
18 transmission revenues to its assigned MISO transmission expenses.

19 Q. What is Ameren Missouri's current level of MISO transmission revenues
20 and expenses?

21 A. For the twelve months ended July 2012, the true-up period for this case,
22 information provided to Staff by Ameren Missouri reflects the Company's level of MISO
23 transmission expenses as being ** \$25,697,875 ** and the level of MISO transmission

1 revenues in Staff's case is ** \$24,820,274; i.e., essentially, the revenues offset the
2 expenses. ** Accordingly, MISO transmission revenues and expenses are not a significant
3 driver of Ameren Missouri's cost of service or its need for rate relief at this time. This would
4 indicate that the need for use of a tracker for these rate elements is not currently justified.

5 Q. What evidence does Mr. Haro present regarding Ameren Missouri's future
6 level of transmission revenues and expenses?

7 A. At page 8 of his sur-surrebuttal testimony, Mr. Haro presents the Company's
8 current projections of its MISO transmission expenses for the years 2013-2016. However, his
9 testimony is silent on the expected future level of MISO transmission revenues. Accordingly,
10 the Company has presented no valid evidence concerning its future MISO transmission
11 revenue requirements in this case. ** In fact, Ameren Missouri's sur-surrebuttal testimony is
12 misleading in this respect, as it ignores the existence of offsetting transmission revenues and
13 creates the impression that the Company incurred \$25.7 million of transmission expenses to
14 be recovered in rates charged to customers, while in fact the current differential between
15 MISO transmission expenses and revenues is less than a million dollars. **

16 Shortly before noon of September 28, the day this testimony was required to be filed,
17 Staff received a data request response from Ameren Missouri concerning its projection of the
18 amount of MISO transmission revenues for the next few years. Due to time constraints, Staff
19 has not had time to analyze this information prior to this filing.

20 Q. Examined in isolation, do Ameren Missouri's projected levels of MISO
21 transmission expenses through 2016 suggest the need for a tracker at this time?

22 A. As stated previously, Ameren Missouri's projected level of transmission
23 expenses should not be examined in isolation for this purpose without consideration of

1 potentially offsetting projected transmission revenues. Even considered in isolation, however,
2 the expected annual increases in transmission expenses shown in Mr. Haro's testimony are
3 not of a sufficient magnitude to suggest that use of extraordinary ratemaking measures, such
4 as a tracker, is justified in this instance.

5 Q. Are there any other concerns Staff has regarding Ameren Missouri's future
6 level of transmission revenues?

7 A. Yes. Ameren Corporation has established several non-regulated affiliated
8 companies, Ameren Transmission Company (ATX) and Ameren Transmission Company of
9 Illinois (ATXI), to engage in construction of transmission projects in the MISO footprint and
10 possibly elsewhere. It is expected that Ameren Missouri in the future will no longer own all
11 of the transmission facilities in its service territory. Staff understands that either ATX or
12 ATXI will be the owner of some transmission facilities in Ameren Missouri's service territory
13 and thus will receive MISO transmission revenues instead of Ameren Missouri. Prior to
14 creation of these affiliates, Ameren Missouri would have been the entity expected to construct
15 any MISO required new transmission projects in the Ameren Missouri's service territory, and
16 be provided revenues from other MISO members concerning their use of the transmission
17 facilities. With ATX and ATXI now expected to perform this role, Ameren Missouri will still
18 be charged a percentage of the expenses associated with these projects, but will not receive
19 any revenues associated with the projects. Instead, the affiliated companies will.

20 Q. Should the earnings impact of any shortfall in MISO transmission revenues
21 experienced by Ameren Missouri resulting from a corporate decision to divert those revenues
22 to an unregulated affiliate be flowed through a tracker mechanism?

1 A. No. This revenue requirement increase would be the result of a corporate
2 decision to transfer a portion of the transmission revenues associated with transmission
3 facilities in Ameren Missouri's service territory from the Ameren Missouri regulated utility to
4 an unregulated affiliate. All other things being equal, this action will increase Ameren
5 Missouri's cost of service to be recovered from its customers. Staff opposes authorization of
6 a tracker mechanism that would be designed to defer for future recovery from customers the
7 increase in transmission revenue requirement caused by transfer of transmission revenues to
8 an unregulated affiliate.

9 Q. In the event the Commission disagrees with Staff's position on this matter and
10 approves Ameren Missouri's request for a transmission tracker in this proceeding, are there
11 any conditions that should be attached to that approval?

12 A. Yes. If a transmission expense and revenue tracker is approved for the
13 Company in this case, the Commission should also order:

14 1) That the tracker be set up as a two-way mechanism; i.e., than both
15 over collections and under collections in rates of Ameren Missouri's actual net transmission
16 expenses (i.e., MISO transmission expenses less MISO transmission revenues) be booked by
17 the Company as a regulatory asset or liability for potential reflection in Ameren
18 Missouri's rates;

19 2) That Ameren Missouri will provide to all parties in this case on a monthly
20 basis copies of billings from MISO for all MISO rate schedules that contain charges and
21 revenues that will be included in the tracker and will report, per its general ledger, all
22 expenses and revenues included in the tracker by month by FERC USOA account and
23 Ameren Missouri minor account. Ameren shall also provide, on no less than a quarterly

1 basis, the internally generated reports it relies upon for management of its ongoing levels of
2 transmission expenses and revenues. Ameren Missouri should also commit to notify the
3 parties to this case of any changes to its existing reporting or additional internal reporting
4 instituted to manage its transmission revenues and expenses;

5 3) That all ratemaking considerations regarding transmission revenue and
6 expense amounts deferred by the Company pursuant to a tracker be reserved to the next
7 Ameren Missouri rate proceeding, including examination of the prudence of the revenues
8 and expenses;

9 4) That Ameren Missouri must impute the level of transmission revenues
10 earned by ATX, ATXI or other unregulated affiliate for facilities in Ameren Missouri's
11 service territory into its tracker mechanism, so that no financial loss from Ameren
12 Corporation's decision to transfer responsibility for transmission construction activity from
13 Ameren Missouri's regulated business is passed on to retail customers through the tracker;

14 5) That nothing in any order authorizing Ameren Missouri's use of a
15 transmission tracker is intended to modify or supersede any previous Commission
16 order or agreement concerning Ameren Missouri's involvement in MISO or treatment of
17 MISO transmission revenues and expenses. In addition, the provisions of sections 10.c,
18 "Incentive Adders" and 10.j, "Rate Treatment – Affiliate Owned Transmission" within the
19 Non-Unanimous Stipulation and Agreement filed in case No. EO-2012-0128 on
20 November 17, 2011 and approved by the Commission on April 19, 2012 shall be extended
21 through Ameren Missouri's next general rate proceeding.

22 6) That deferrals resulting from the transmission tracker mechanism cease
23 under certain circumstances depending upon Ameren's reported return on equity (ROE) level.

1 Q. Please explain the last proposed condition in more detail.

2 A. Staff believes that tracker mechanisms such as that proposed for transmission
3 costs by Ameren Missouri are primarily intended as earnings protection measures for both the
4 utilities and their customers. From that perspective, there is no reason for Ameren Missouri to
5 defer the impact of under collections in rates of one cost of service element when it is earning
6 in excess of its authorized ROE on an overall basis. Conversely, there is no reason for
7 Ameren Missouri to defer over collections in rates of one cost of service element when it is
8 earning below its authorized ROE on an overall basis. For that reason, Staff proposes that if
9 the Company reports it is earning at or in excess of its authorized ROE on a twelve-month
10 rolling forward average basis in its FAC “surveillance” reporting, any tracker deferrals of
11 under collections in net transmission costs should cease from that point forward, and only
12 resume on a prospective basis if this FAC surveillance reporting shows it is now earning
13 below its authorized ROE. Likewise, tracker deferrals of over collection of net transmission
14 costs should cease from the point that FAC surveillance shows it is earning below its
15 authorized ROE.

16 Q. Does this conclude your responsive testimony?

17 A. Yes, it does.