

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Affiliate Transactions/
Capital Structure

Schallenberg/Rebuttal

Public Counsel

GR-2019-0077

REBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

Submitted on Behalf of the Office of the Public Counsel

UNION ELECTRIC COMPANY
D/B/A AMEREN MISSOURI

FILE NO. GR-2019-0077

June 7, 2019

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

In the Matter of Union Electric)
Company d/b/a Ameren Missouri's)
Tariffs to Increase Its Revenues for)
Natural Gas Service)

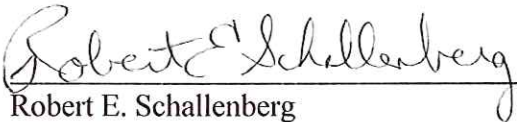
File No. GR-2019-0077

AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Robert E. Schallenberg, of lawful age and being first duly sworn, deposes and states:

1. My name is Robert E. Schallenberg. I am a Director of Policy for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.




Robert E. Schallenberg
Director of Policy

Subscribed and sworn to me this 7th day of June 2019.



JERENE A. BUCKMAN
My Commission Expires
August 23, 2021
Cole County
Commission #13754037



Jerene A. Buckman
Notary Public

My Commission expires August 23, 2021.

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REBUTTAL TESTIMONY
OF
ROBERT E. SCHALLENBERG
UNION ELECTRIC COMPANY (UEC) d/b/a AMEREN MISSOURI
CASE NO. GR-2019-0077

1 **Q. Please state your name and business address.**

2 A. My name is Robert E. Schallenberg. My business address is Post Office Box 2230,
3 Jefferson City, Missouri, 65102.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am the Director of Policy at the Office of the Public Counsel (“OPC”).

6 **Q. Please describe your educational background, professional credentials, and**
7 **work experience.**

8 A. I have worked in Missouri utility regulation both at the state and federal level for forty-
9 two years. I also worked in Kansas on utility regulation for eight months. My
10 educational background, professional credentials, and work experience are contained
11 in Schedule RES-R-1 and Schedule RES-R-2.

12 **Q. What is the purpose of your rebuttal testimony?**

13 A. The purpose of my rebuttal testimony is to identify and support OPC’s position
14 regarding two specific areas in Ameren Gas’ (UEC’s) cost of service study as
15 described in the portions of the Company’s direct testimony in this case.

16 **Q. What are the specific areas in UEC’s cost of service study that will be**
17 **addressed in your rebuttal testimony?**

1 A. I will be addressing two (2) specific areas of UEC's cost of service (COS) study.
2 First, I discuss affiliate transaction costs included in the Company's study. The
3 second section of my testimony addresses the Company's capital structure included
4 in the Company's COS study. In terms of capital structure, I note that Ameren
5 Corporation (AMC) is the owner of UEC. I will show that all the equity recorded
6 at UEC is financed directly by AMC shareholders. I will address the premise that
7 using AMC's cost of equity is the appropriate rate for determining the cost of equity
8 at UEC.

9 **Affiliate Transactions**

10 **Q. Do you have specific experience relative to these matters?**

11 A. Yes. Regarding the issues of Affiliate Transactions and Capital Structure I have
12 specific experience as shown on RES-R-1 and RES-R-2.

13 **Q. What is OPC's position regarding the area of affiliate transactions?**

14 A. OPC's position is that UEC is participating in affiliate transactions that are not
15 compliant with the Commission's Affiliate Transaction Rule 4 CSR 240-20.015
16 (electric rule) for electric utilities and or the Affiliate Transaction Rule (4 CSR 240-
17 40.015) for gas utilities. UEC is a Missouri regulated electric utility. The electric
18 rule affects this natural gas rate case because the UEC gas operations is a line of
19 business within the UEC corporate entity. Thus, some of UEC's costs are common
20 to both its electric and gas operations. These costs are assigned or allocated to

1 UEC's gas utility and I am addressing the concern that the electric customers are
2 subsidizing UEC's gas customers.

3 **Q. What is the basis for your concern?**

4 A. I am referring to the Stipulation filed in EO-2017-0176 and cited in UEC's direct
5 testimony in this case as a factor providing assurance of the prudence of UEC's
6 largest affiliate transactions and costs. See RES-R-3. The Stipulation has not been
7 approved by the Commission and is not supported by substantial and competent
8 evidence explaining why the Stipulation should be approved by the Commission.
9 It is premature for Ms. Moore to assert that the Stipulation provides any assurance
10 as to the prudence or appropriateness and reasonableness of UEC's affiliate
11 transaction costs charged or assigned to its Missouri natural gas distribution
12 operations.

13 **Q. What comments do you have about this Stipulation?**

14 A. OPC opposes Commission approval of this Stipulation. The Stipulation and OPC's
15 opposition do not resolve the prudence or imprudence of UEC's affiliate
16 transactions in this case. The Rule is not intended to assure that affiliate
17 transactions are prudent. An effectively enforced Rule is intended to provide
18 regulated customers the assurance that their rates were not adversely impacted by
19 the utilities' non-regulated activities.

20 **Q. Can you give some examples?**

1 A. Yes. For example, the Commission's Rule specifies that regulated utilities cannot
2 participate in affiliate transactions where the utility purchases goods and services
3 from an affiliate when the goods or services are above the cost for the utility to
4 provide the good or service itself or the fair market price for the good or service.
5 While the utility can request the Commission grant it relief from the Rule's
6 requirements by showing good cause, it cannot participate in any non-compliant
7 affiliate transactions until the Commission approves the variance request.

8 The resolution of the stipulation and the difference of opinion of UEC's
9 Rule compliance will not happen in this rate case This rate case is not the best or
10 even a good forum to resolve the issues and concerns regarding UEC's affiliate
11 transactions with AMS.

12 **Q. Does your testimony to date capture the full scope of OPC's concerns for this**
13 **natural-gas rate case?**

14 A. No. I remain concerned about two specific affiliate transactions affecting the costs
15 in this case. My first concern involves UEC being charged a significant portion of
16 the costs to service AMC shareholders and to satisfy AMC's requirement for
17 outside board members to serve on AMC's board of directors.

18 **Q. Why do you object to including these costs in this case?**

19 A. These costs should have been directly charged to AMC with no allocation to UEC.
20 AMC owns UEC. UEC does not have any shareholders or a board of directors,

1 while AMC is the only Ameren entity with external shareowners and the
2 requirement for external board members to serve on its board.

3 **Q. Does UEC have a contract with AMS to provide services?**

4 A. Yes. UEC's current contract with the Ameren Services Corporation (AMS) states
5 that: "Direct costs are defined as costs that can be identified as being applicable to
6 products or services provided to a single Client Company to which Service
7 Company provides products and services. Costs applicable to a single Client
8 Company will be directly charged to that Client Company." This supports my
9 position that the AMS costs to provide these two services to AMC should be
10 charged directly to AMC with no allocation to UEC.

11 **Q. How do you propose to treat these AMC costs?**

12 A. I recommend that these costs be removed from the cost of service used to determine
13 the rates in this case. I recommend that the adjustments be the true-up amount of
14 these costs included in UEC's true-up filing. I have estimated that these
15 adjustments would be approximately \$180,000 and \$69,000 for removal of UEC's
16 cost to service AMC shareholders and pay AMC required board members
17 respectively.

18 **Capital Structure**

19 **Q. Where in the UEC's direct testimony was the Company's position identified**
20 **and supported regarding the capital structure that should be included in**
21 **UEC's cost to provided service study?**

1 A. UEC witness Brenda L. Weber's Direct Testimony on page 2, lines 6-18 provides
2 the Company's position and UEC's recommendation regarding UEC's capital
3 structure for ratemaking as well as Ms. Weber's suggestion for an overall fair rate
4 of return for the Company's gas utility business. The recommended capital
5 structure is initially based on Ameren Missouri's forecasted debt, preferred stock,
6 and common stock balances as of May 31, 2019. The actual balances for these items
7 as of that date will be provided by UEC with its true-up data, which is due on June
8 20.

9 **Q. What is OPC position regarding UEC's capital structure proposal?**

10 A. There are two issues at this time. Data discrepancies between the amount shown
11 for UEC's June 30, 2018 Long-term debt (\$3,866,644,691) in the Company's direct
12 testimony and the Long-term debt of \$3,668,000,000 and \$534,000,000 reported to
13 the Security and Exchange Commission (SEC) in the Ameren 2018 2nd Quarter 10
14 Q filing.

15 The other issue is whether the UEC equity reflects an element of AMC debt funding
16 and equity funding or if it is 100% AMC equity funding. To the extent AMC is
17 using debt to fund AMC's equity investment in UEC, the actual cost of this debt,
18 with its tax deductibility needs to be identified in order to determine the true costs
19 of this portion of UEC's equity.

20 **Q. How do you plan to resolve your first concern with data discrepancies?**

1 A I anticipated this matter can be resolved through meetings with AMS and or data
2 request responses.

3 **Q. Have you taken any steps to confirm your concern with your second issue?**

4 A. Yes. I tested whether I could trace Ameren consolidated equity to the subsidiary
5 equity balances using SEC 10Q and 10K information. At this time the equity
6 balances of UEC and Ameren Illinois Company (AIC) exceed the Ameren-
7 consolidated equity balances, while the Ameren consolidated debt exceeds UEC
8 and AIC debt balances. This fact indicates that some Ameren debt may be
9 supporting UEC's equity balances.

10 **Q. How do you plan to address this issue?**

11 A. The Company's true-up filing with its capital structure information will be the
12 actual data that will determine customer rates in this case. Once that data is
13 available, I will examine the financials for the Ameren entities to determine whether
14 Ameren debt is funding UEC equity. If this assumption proves to be true, I will
15 develop separate Equity – Ameren Debt and Equity – Ameren Equity costs.

16 **Q. Does this conclude your rebuttal testimony on these matters?**

17 A. Yes.

Schedule RES-D-1

Schedule RES-D-1

Q. Please describe your educational background, professional credentials, and work experience.

A. I have worked in Missouri utility regulation both at the state and federal for forty-two years. I worked in Kansas utility regulation for eight months. My educational background, professional credentials, and work experience are contained in Schedule RES-D-1. I am a 1976 graduate of the University of Missouri at Kansas City with a Bachelor of Science degree and major emphasis in Accounting. In November 1976, I successfully completed the Uniform Certified Public Accountant ("CPA") examination and subsequently received the CPA certificate. In 1989, I received my CPA license in Missouri. I began my employment with the Missouri Public Service Commission (MoPSC) as a Public Utility Accountant in November 1976. I remained on the Staff of the MoPSC until May 1978, when I accepted the position of Senior Regulatory Auditor with the Kansas State Corporation Commission (KCC). In October 1978, I returned to the Staff of the MoPSC. I held auditor and management positions with the Staff of the MoPSC for the period of October 2018 through May 15, 2018, when I accepted my current position with OPC.

Q. What specific work experiences assisted you most in the preparation of this testimony?

A. My auditing experience with the MoPSC as an Audit Supervisor/Regulatory Auditor V and my management experience with the MoPSC's auditing, financial analysis, and management services. Throughout my career I have interacted with legal groups representing the full range of parties in the utility industry. During my career as an auditor,

I was involved in a direct role in processing the cases listed in my Schedule RES-D-1. In October 1997, I was named Division Director of the Utility Services Division of the MoPSC placing me in a management role with the auditing, financial, and management analysis groups. In November 2011, my group became the Auditing, Accounting and Financial Analysis Department. During my term in senior management, I was involved in the strategic aspects of cases listed in Schedule RES-D-2 during this period as well as performing management activities for the MoPSC. My work activities as a Regulatory Auditor V is the primary background that I rely upon to create this testimony as well as my involvement in the preceding Kansas City Power and Light Greater Missouri Operations (GMO) rate case.

Q. Please describe your responsibilities and experience while employed at the MoPSC as a Regulatory Auditor V?

A. As a Regulatory Auditor V for the MoPSC, I had several areas of responsibility. I was required to have and maintain a high degree of technical and substantive knowledge in utility regulation and regulatory auditing. Among my various responsibilities as a Regulatory Auditor V were:

1. To conduct the timely and efficient examination of the accounts, books, records and reports of jurisdictional utilities;
2. To aid in the planning of audits and investigations, including staffing decisions, and in the development of Staff positions in cases to which the Accounting Department of the MoPSC was assigned, in cooperation with Staff management as well as other Staff;
3. To serve as lead auditor, as assigned on a case-by-case basis, and to report to the Assistant Manager-Accounting at the conclusion of the case on

the performance of less experienced auditors assigned to the case, for use in completion of annual written performance evaluations;

4. To assist in the technical training of other auditors in the Accounting Department;

5. To prepare and present testimony in proceedings before the MoPSC, the Federal Communications Commission ("FCC") and the Federal Energy Regulatory Commission ("FERC"), and aid MoPSC Staff attorneys and the MoPSC's Washington, D.C. counsel in the preparation of pleadings and for hearings and arguments, as requested; and

6. To review and aid in the development of audit findings and prepared testimony to be filed by other auditors in the Accounting Department.

The Regulatory Auditor V position was utilized to present and defend positions both in filed testimony and orally at hearing. I have on many occasions presented testimony before the MoPSC on issues ranging from the development of a lead-lag study to determine the cash working capital component for rate base to the appropriate method of calculating the interest deduction related to the determination of the amount of income taxes to be used for ratemaking purposes. I have worked in the area of telephone, electric and gas utilities. I have taken depositions on behalf of the MoPSC in FERC dockets. Attached as Schedule RES-R-2, is a listing of cases and issues on which I have worked at the MoPSC. At times, my responsibilities were expanded to assist in federal cases involving the MoPSC as assigned. These assignments consisted of my serving as the primary person assigned to certain FERC cases working with DC or Staff counsel. My assignments encompassed special and unique work responsibilities. Examples of these special assignments include Staff's investigation of organized crime involvement in two Missouri telephone companies, Cass County Telephone and New Florence Telephone companies. I was

assigned to help prepare a MoPSC's commissioner's presentation to Judge Greene in the oversight of the American Telephone and Telegraph (AT&T) divestiture consent decree. I was involved in the development of the utilization of totally budgeted rate cases to address post-divestiture rates for Southwestern Bell Telephone. I was involved in the evolution of Staff filed complaint cases for previous federal income rate reductions in the mid to late 80's as well as the introduction of data requests into rate case audits and review of external auditor work papers.

Q. Have you previously submitted testimony in proceedings before the FERC?

A. Yes. I submitted testimony in Docket Nos. RP94-365-000, RP95-136-000, RP96-173-000, et al. These dockets were cases involving Williams Natural Gas Company ("WNG"). WNG provided gas transportation and storage services for local distribution companies serving the western portion of Missouri. WNG provides service to Missouri Gas Energy which served the Kansas City area. My testimony in Docket No. RP94-365-000 involved a prudence challenge of the costs that WNG sought to recover in that case. I also filed testimony regarding certain cost of service issues in Docket No. RP95-136-000, WNG's rate case before the FERC. These issues included affiliated transactions between WNG and its parent. I also conducted depositions on this Commission's behalf regarding affiliated transactions between WNG and its parent company consistent with provisions in FERC rules. I filed testimony in Docket No. RP96-173-000, et al., on the issue of whether the costs in question met FERC's eligibility criteria for recovery under FERC Order No. 636.

I submitted testimony in Docket No. RP96-199-000. That case was a Mississippi River Transmission Corporation ("MRT") rate case. MRT provided gas transportation and

storage services for local gas distribution companies serving the eastern portion of Missouri. MRT provided service to Laclede Gas Company ("Laclede") which serves the St. Louis area. My testimony in Docket No. RP96-199-000 involved cost of service issues. These issues included affiliated transactions between MRT and its parent company.

Q. Have you had other experiences with federal regulatory entities as a representative if the MoPSC?

A. Yes. I participated in joint audits with FERC regarding compliance with the Uniform System of Accounts (USOA) involving FERC audits of Missouri utilities. I also participated in joint audits with the Federal Communication Commission regarding compliance with affiliate transactions and property records requirements. I also participated in joint state regulatory body, utility, and the FCC (3-way) meetings to establish depreciation rates for the utility in question.

Q. What expertise do you have relative to Missouri's affiliate transactions rules as applied to electric and gas utilities, 4 CSR 240-20.015 and 4 CSR 240-40.015 (Rules)?

A. I helped draft the affiliate transactions rules which were to be applied to the Missouri electric and natural gas corporate utilities. Steam utilities were impacted by some statutory or rule connection to the electric utilities. At the time the federal rules for their Uniform System of Accounts (USOA) (PART 32) addressed how the accounting for transactions with affiliates and nonregulated activities for the telecommunications industry. The telephone utilities operation contained a significant portion of both state and federal jurisdictional activities.

The Missouri affiliate rules were developed based on Commission initiative and commitment. The Commission wanted greater administrative efficiency for its rate cases

as affiliate transactions were playing a greater role in Southwestern Bell Telephone Company ("SWBT") rate cases. The number of affiliate transaction issues were increasing in SWBT rate cases and lack of documentation of key information (e.g., time reporting of executive and non-executive personnel, determination and charging of costs, determination of and charging at market value, etc.) made the affiliate issues increasingly more difficult to address and resolve. The Commission's affiliate transactions rules were influenced by the affiliate transactions rules developed and applied by the Federal Communications Commission (FCC). Joint Audits staffed with the employees of FCC and impacted state agencies were conducted as a component of the enforcement of the FCC rules and regulations. FERC would also conducted compliance audits inviting impacted state staff. I participated in several of these joint audits of SWBT and General Telephone as well as A FERC audit at Saint Joseph Power and Light Company.

As competition increased in the telephone industry, utility competitors raised concerns that the telephone utilities were subsidizing their competitive services with cost assignment to services needed by competitors needed from the utilities to provide their competing services. I was familiar with the SWBT implementation of its affiliate transactions protections as well as those of General Telephone Company.

Q. Was it thought that affiliate transactions rules were needed only for the telephone/telecommunications industry?

A. No. Among other things, at the time of the divestiture of the Bell System there was increased deregulation of the state telephone/telecommunications industry in Missouri, electric and gas utilities were increasing their involvement with holding companies, non-regulated activities and affiliates causing increased attention being devoted to affiliate

transactions in rate cases. Affiliate transactions rules that were needed for the telephone/telecommunications industry were used as the starting point basis for development of affiliate transaction rules for the state regulated electric, gas and steam heat industries.

CASE PROCEEDING PARTICIPATION

ROBERT E. SCHALLENBERG

<u>COMPANY</u>	<u>CASE NO.</u>
Kansas City Power & Light Co.-Greater Missouri Operations	EC-2019-0200
Spire-Missouri Inc.	GO-2019-0115 GO-2019-0116
Kansas City Power & Light Co.	ER-2018-0145
Kansas City Power & Light Co.-Greater Missouri Operations	ER-2018-0146
Laclede Gas Company	GO-2016-0332 GO-2016-0333 GO 2017-0201 GO-2017-0202 GO-2018-0309 GO-2018-0310
Grain Belt Express Clean Line, LLC	EA-2016-0358
Spire, Inc.	GM-2016-0342
EnergySouth, Inc.	
Great Plains Energy, Inc.	EM-2016-0324
Westar Energy, Inc.	
Kansas City Power & Light Company	ER-2016-0285
The Empire District Electric Company, Liberty Utilities (Central) Co. and Liberty Sub Corp.	EM-2016-0213
Laclede Gas Company	GF-2015-0181
The Empire District Electric Company	AO-2012-0062
KCP&L Greater Missouri Operations Company	ER-2010-0356
Kansas City Power & Light Company	ER-2010-0355
Great Plains Energy Incorporated, Kansas City Power & Light Company	ER-2009-0090

CASE PROCEEDING PARTICIPATION

ROBERT E. SCHALLENBERG

Great Plains Energy Incorporated, Kansas City Power & Light Company	ER-2009-0089
Great Plains Energy Incorporated, Kansas City Power & Light Company, Aquila, Inc.	EM-2007-0374
Union Electric Company, d/b/a AmerenUE	ER-2007-0002
Missouri Pipeline Company	GC-2006-0491
Aquila, Inc.	ER-2005-0436
Union Electric Company, d/b/a AmerenUE	EA-2005-0180
Union Electric Company, d/b/a AmerenUE	EC-2002-1
Mississippi River Transmission	RP96-199-000
Williams Natural Gas Company	RP96-173-000
Williams Natural Gas Company	RP95-136-000
Williams Natural Gas Company	RP94-365-000
Laclede Gas Company	GR-94-220
Western Resources	GM-94-40
<u>COMPANY</u>	<u>CASE NO.</u>
Western Resources	GR-93-240
St. Joseph Light & Power Company	ER-93-41
Southwestern Bell Telephone Company	TC-93-224
St. Joseph Light & Power Company	EC-92-214
Kansas Power & Light Company	GR-91-291
Kansas Power & Light Company	EM-91-213
Arkansas Power & Light Company	EM-91-29
Missouri Public Service Company	ER-90-101
Southwestern Bell Telephone Company	TR-90-98

CASE PROCEEDING PARTICIPATION

ROBERT E. SCHALLENBERG

General Telephone	TR-89-182
Southwestern Bell Telephone Company	TO-89-56
Southwestern Bell Telephone Company	TC-89-14
Union Electric Company	EC-87-114
General Telephone	TC-87-57
General Telephone	TM-87-19
General Telephone	TR-86-148
Southwestern Bell Telephone Company	TR-86-84
Kansas City Power & Light Company	EO-85-185
Kansas City Power & Light Company	ER-85-128
Southwestern Bell Telephone Company	TR-83-253
Kansas City Power & Light Company	ER-83-49
Southwestern Bell Telephone Company	TR-82-199
Kansas City Power & Light Company	HR-82-67
Kansas City Power & Light Company	ER-82-66
Southwestern Bell Telephone Company	TO-82-3
Southwestern Bell Telephone Company	TR-81-208
Kansas City Power & Light Company	ER-81-42
<u>COMPANY</u>	<u>CASE NO.</u>
Southwestern Bell Telephone Company	TR-80-256
United Telephone Company of Missouri	TR-80-235
Kansas City Power & Light Company	ER-80-204
Kansas City Power & Light Company	ER-80-48
Kansas City Power & Light Company	ER-80-48

CASE PROCEEDING PARTICIPATION

ROBERT E. SCHALLENBERG

Southwestern Bell Telephone Company	TR-79-213
Gas Service Company	GR-79-114
Missouri Public Service Company	ER-79-60
Missouri Public Service Company	ER-79-61
Kansas City Power & Light Company	ER-78-252
Missouri Public Service Company	GR-78-30
Missouri Public Service Company	ER-78-29
Gas Service Company	GR-78-70
Kansas City Power & Light Company	ER-77-118

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Kansas City Power & Light Co.-Greater Missouri

Case No. EC-2019-0200

Date: April 23, 2019

Area: Accounting Order

Spire Missouri Inc.

Case No. GO-2019-0115 and GO-2019-0116

Date: March 29, 2019

Areas: Cost Recovery Mechanism

Kansas City Power & Light Co. and Kansas City Power & Light Co.-Greater Missouri
Operations

Case No. ER-2018-0145 and ER-2018-0146

Date: June 19, 2018 (Direct); July 27, 2018 (Rebuttal); and September 4, 2018 (Surrebuttal)

Areas: Policy, Productivity, Affiliate Transactions, Capital Structure

Laclede Gas Company

Case Nos. GO-2016-0332; GO-2016-0333; GO-2017-0201; GO-2017-0202; GO-2018-0309;
GO-2018-0310

Date August 22, 2018

Areas: Cost Recovery Mechanism, Infrastructure System Replacement Surcharge (ISRS)

Grain Belt Express Clean Line, LLC

Case No. EA-2016-0358

Date: January 24, 2017 (Rebuttal Report)

Areas: Public Comments

Spire, Incorporated

EnergySouth, Inc.

Case No. GM-2016-0342

Date: September 1, 2016 (Investigation Report)

Areas: Affiliated Transactions

Great Plains Energy Incorporated

Westar Energy, Inc.

Case No. EM-2016-0324

Date: July 25, 2016 (Investigation Report)

Areas: Affiliated Transactions

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Kansas City Power & Light Company

Case No. ER-2016-0285
Date: January 27, 2017 (Surrebuttal)
Areas: Affiliate Transactions

The Empire District Electric Company,
Liberty Utilities (Central) Co. and Liberty Sub Corp.

Case No. EM-2016-0213
Date: July 20, 2016 (Rebuttal)
Areas: Affiliated Transactions

Laclede Gas Company
Case No. GF-2015-0181
Date: June 18, 2015 (Affidavit)
Areas: Finance Authority

The Empire District Electric Company
Case No. AO-2012-0062
Date: September 9, 2016 (Direct)
Areas: Affiliated Transactions; Cost Allocation Manual

KCP&L Greater Missouri Operations Company
Case No. ER-2010-0356
Date: November 4, 2010 (Report)
Areas: Construction Audit and Prudence Review

Kansas City Power & Light Company
Case No. ER-2010-0355
Date: November 4, 2010 (Report)
Areas: Construction Audit and Prudence Review

Great Plains Energy Incorporated,
Kansas City Power & Light Company
Case No. ER-2009-0090
Date: April 9, 2009 (Surrebuttal)
Areas: Iatan Prudence Review

Great Plains Energy Incorporated,
Kansas City Power & Light Company
Case No. ER-2009-0089
Date: April 7, 2009 (Surrebuttal)
Areas: Iatan Prudence Review

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Great Plains Energy Incorporated,
Kansas City Power & Light Company, Aquila, Inc.
Case No. EM-2007-0374
Date: October 12, 2007 (Rebuttal and
Staff Report of Evaluation and Recommendations)
Areas: GPE Acquisition of Aquila

Union Electric Company, d/b/a AmerenUE
Case No. ER-2007-0002
Date: February 28, 2007 (Surrebuttal)
Areas: EEInc.
Date: January 31, 2007 (Rebuttal)
Areas: EEInc. and 4 CSR 240-10.020

Missouri Pipeline Company
Case No. GC-2006-0491
Date: September 6, 2006 (Direct)
November 17, 2006 (Surrebuttal)
Areas: Affiliate Transactions, Tariff Violations and Associated Penalties;
Transportation Tariffs

Aquila, Inc.
Case No. ER-2005-0436
Date: October, 14 2005 (Direct)
December 13, 2005 (Surrebuttal)
Areas: Unit Ownership Costs

Union Electric Company, d/b/a AmerenUE
Case No. EA-2005-0180
Date: October 15, 2005 (Rebuttal)
Areas: East Transfer

Union Electric Company d/b/a AmerenUE
Case No. EC-2002-1
Date: June 24, 2002 (Surrebuttal)
Area: Overview, 4 CSR 240-10.020, Alternative Regulation Plan

Laclede Gas Company
Case No. GR-94-220
Date: July 1, 1994 (Direct)
Areas: Property Taxes, Manufactured Gas Accruals, Deregulated Cost Assignments

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Western Resources, Inc.,
dba Gas Service, a Western Resources Company
Case No. GM-94-40
Date: November 29, 1993 (Rebuttal)
Areas: Jurisdictional Consequences of the Sale of Missouri Gas Properties

Kansas Power & Light Company
Case No. EM-91-213
Date: April 15, 1991 (Rebuttal)
Areas: Purchase of Kansas Gas & Electric Company

Arkansas Power & Light Company and Union Electric Company
Case No. EM-91-29
Date: 1990-1991
Areas: No pre-filed rebuttal testimony by Staff before non-unanimous stipulation and agreement reached.

General Telephone Company of the Midwest
Case No. TM-87-19
Date: December 17, 1986
Areas: Merger

Union Electric Company
Case No. EC-87-114
Date: September 9, 1987 (Surrebuttal)
Date: April 24, 1987 (Direct)
Areas: Elimination of Further Company Phase-In Increases, Write-Off of Callaway I to Company's Capital Structure

General Telephone Company of the Midwest
Case No. TC-87-57
Date: December 22, 1986
Areas: Background and Overview, GTE Service Corporation, Merger Adjustment, Adjustments to Income Statement

Southwestern Bell Telephone Company
Case No. TR-86-84
Date: 1986
No prefiled direct testimony by Staff - case settled before Staff direct testimony filed.

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Kansas City Power & Light Company

Case Nos. EO-85-185 and ER-85-128

Date: April 11, 1985

Areas: Phase I - Electric Jurisdictional Allocations

Date: June 21, 1985

Areas: Phase III - Deferred Taxes Offset to Rate Base

Date: July 3, 1985

Areas: Phase IV - 47% vs. 41.5% Ownership, Interest, Phase-In, Test Year/True-Up, Decision to Build Wolf Creek, Non-Wolf Creek Depreciation Rates, Depreciation Reserve

Southwestern Bell Telephone Company

Case No. TR-83-253

Date: September 23, 1983

Areas: Cost of Divestiture Relating to AT&T Communications, Test Year, True-Up, Management Efficiency and Economy

Kansas City Power & Light Company

Case No. ER-83-49

Date: February 11, 1983

Areas: Test Year, Fuel Inventories, Other O&M Expense Adjustment, Attrition Adjustment, Fuel Expense-Forecasted Fuel Prices, Deferred Taxes Offset to Rate Base

Kansas City Power & Light Company

Case Nos. ER-82-66 and HR-82-67

Date: March 26, 1982

Areas: Indexing/Attrition, Normalization vs. Flow-Through, Deferred Taxes as an Offset to Rate Base, Annualization of Amortization of Deferred Income Taxes, Cost of Money/Rate of Return, Allocations, Fuel Inventories, Iatan AFDC Associated with AEC Sale, Forecasted Coal and Natural Gas Prices, Allowance for Known and Measurable Changes

Southwestern Bell Telephone Company

Case No. TR-82-199

Date: August 27, 1982

Areas: License Contract, Capitalized Property Taxes, Normalization vs. Flow-Through, Interest Expense, Separations, Consent Decree, Capital Structure Relationship

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Generic Telecommunications
Straight Line Equal Life Group and Remaining Life Depreciation Methods
Case No. TO-82-3
Date: December 23, 1981
Areas: Depreciation

Southwestern Bell Telephone Company
Case No. TR-81-208
Date: August 6, 1981
Areas: License Contract, Flow-Through vs. Normalization

Kansas City Power & Light Company
Case No. ER-81-42
Date: March 13, 1981
Areas: Iatan (AEC Sale), Normalization vs. Flow-Through, Allocations, Allowance for
Known and Measurable Changes

Southwestern Bell Telephone Company
Case No. TR-80-256
Date: October 23, 1980
Areas: Flow-Through vs. Normalization

United Telephone Company of Missouri
Case No. TR-80-235
Date: December 1980
Areas: Rate of Return

Kansas City Power & Light Company
Case Nos. ER-80-48 and ER-80-204
Date: March 11, 1980
Areas: Iatan Station Excess Capacity, Interest Synchronization, Allocations

Southwestern Bell Telephone Company
Case No. TR-79-213
Date: October 19, 1979
Areas: Income Taxes, Deferred Taxes

Gas Service Company
Case No. GR-79-114
Date: June 15, 1979
Areas: Deferred Taxes as an Offset to Rate Base

**CASE SUMMARY OF INVOLVEMENT
OF
ROBERT E. SCHALLENBERG**

Missouri Public Service Company
Case Nos. ER-79-60 and GR-79-61
Date: April 9, 1979
Areas: Depreciation Reserve, Cash Working Capital

Missouri Public Service Company
Case Nos. ER-78-29 and GR-78-30
Date: August 10, 1978
Areas: Fuel Expense, Electric Materials and Supplies, Electric and Gas Prepayments,
Electric and Gas Cash Working Capital, Electric Revenues

While in the employ of the Kansas State Corporation Commission in 1978, Mr. Schallenberg worked on a Gas Service Company rate case and rate cases of various electric cooperatives.

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

In the Matter of a Union Electric Company d/b/a)
Ameren Missouri's Cost Allocation Manual (CAM).) File No. EO-2017-0176

STIPULATION AND AGREEMENT

COME NOW Union Electric Company d/b/a Ameren Missouri (“Ameren Missouri” or “Company”) and the Staff of the Missouri Public Service Commission (“Staff”) (Ameren Missouri and Staff are collectively referred to herein as the “Signatories” or individually as a “Signatory”), pursuant to 4 CSR 240-2.115, and hereby request Commission approval of this Stipulation and Agreement (“Stipulation”), as follows:

I. Background

1. The Commission opened this docket by issuing its December 21, 2016, *Order Approving Stipulation and Agreement Regarding Cost Allocation Manual and Affiliate Transactions* in File No. ER-2016-0179.¹ That stipulation provided, among other things, for the creation of a separate docket to address the development and approval of a Cost Allocation Manual (“CAM”) for Ameren Missouri’s electric operations, and to address other matters respecting the Commission’s electric Affiliate Transactions Rule (4 CSR 240-20.015).

2. As requested in that stipulation, the Commission adopted a procedural schedule in this docket which, among other things, called for Ameren Missouri to develop a draft CAM, for comments thereon to be provided by Staff and OPC, and for a series of technical conferences. The procedural schedule also established a deadline of July 21, 2017, for the Company, Staff and OPC to either file an agreed-upon CAM or, absent agreement, direct testimony, which would

¹ The Signatories to that stipulation were the Company, Staff, and the Office of the Public Counsel (“OPC”). It was treated by the Commission as unanimous under 4 CSR 240-2.115.

then be followed by additional rounds of testimony and a hearing to occur September 26-28, 2017.

3. The Company prepared and circulated a draft CAM as required, and several conferences were promptly held at the Commission's offices in Jefferson City to discuss it as well as to discuss related Affiliate Transactions Rule issues. By Order dated July 3, 2017, the Commission (at the parties' request) cancelled the procedural schedule, afforded the parties additional time to see if a resolution of this docket could be reached, and required the filing of a status report by October 31, 2017.

4. Thereafter, the parties continued to meet to discuss the CAM and a resolution of this docket. After these additional meetings, the Staff then filed a status report on October 31, 2017, which reflected the parties' request that they be afforded additional time for further discussions. The Commission granted that request and required that another status report be filed by March 1, 2018. The parties exchanged additional drafts of a proposed CAM that accounted for the items they had discussed in the series of meetings occurring during the preceding months, followed by the Staff's filing of a second status report on March 1, 2018. The March 1, 2018 status report indicated the Staff's recommendation that the parties continue to work together toward agreement on a CAM and that another status report be required by May 31, 2018.

5. Thereafter, the parties met again and continued to exchange information and drafts. On May 31, 2018, Staff filed a third status report in which it indicated that Staff and OPC were in the process of reviewing the latest draft of a proposed CAM and most appendices. The Staff further indicated that it was its opinion that the best course of action was for the parties to continue to work toward an agreed upon CAM. The Commission extended the date for a further status report to July 31, 2018.

6. The parties met again on June 21, 2018, and continued their exchange of information and ideas clarifying and narrowing remaining issues. Ameren Missouri and Staff were by then also working on a Stipulation. On July 31, 2018, Staff filed a fourth status report requesting that the Commission issue an Order directing the parties to file an agreed upon CAM with the Commission by September 30, 2018, or, alternatively, file with the Commission, by that date, a further status report respecting the progress made by the parties in this docket and a proposed revised procedural schedule to resolve any outstanding and necessary CAM issues remaining. The Commission extended the date for a further status report to October 1, 2018. On October 1, 2018, the parties filed a fifth status report with the Commission requesting that the Commission issue an Order directing the parties to file an agreed upon CAM with the Commission by October 31, 2018, and/or a recommendation what further course of action they suggest the Commission to direct.

7. On October 31, 2018, the parties filed a sixth status report with the Commission requesting that the Commission issue an order directing the parties to file at least a non-unanimous agreed upon CAM based on the all parties' (Ameren Missouri, Staff, and the Office of the Public Counsel's) opinion that the best course of action was for all parties to continue to work at producing an agreement on a CAM and report back on November 30, 2018. The Commission granted the request by order dated November 2, 2018.

8. The Signatories have now reached agreement on resolving this docket, including on a specific CAM for Ameren Missouri's operations, which is attached hereto as Exhibit A.

II. Terms of the Ameren Missouri CAM

9. The agreed-upon CAM is substantially more detailed and specific than the CAMs Ameren Missouri has submitted each year since the Affiliate Transactions Rules first became effective in 2003. It contains specific provisions covering all aspects of Affiliate Transactions

Rules compliance, and outlines certain variances from portions of both the electric and gas Affiliate Transactions Rules (4 CSR 240-20.015 and 4 CSR 240-40.015, respectively) which the Signatories support for good cause shown, as addressed later in this Stipulation. If approved by the Commission as requested by this Stipulation, it will replace the CAMs for the Company's electric and gas operations filed by the Company on March 15, 2018 (which reported information for calendar year 2017).

10. Among other things, the agreed-upon CAM:
 - a. Requires any affiliate marketing materials and advertisements that an Ameren Missouri affiliate might utilize to sell goods or services to Missouri residents to be made available to Staff prior to their use;
 - b. Codifies recordkeeping and access to records requirements, including documentation of affiliate transactions, and the continued provision of detailed affiliate transaction reporting for all products and services provided by Ameren Missouri's affiliate, Ameren Services Company ("Ameren Services") not just to Ameren Missouri, but to all Ameren Missouri affiliates;
 - c. Codifies certain detailed reporting requirements;
 - d. Requires that all affiliate transactions be conducted under a written contract between Ameren Missouri and the affiliate;
 - e. Requires extensive training respecting Affiliate Transactions Rules compliance, and sharing of training materials with Staff prior to their use so that they may provide their input (training to be in place by March 1, 2019);
 - f. Requires the formation and implementation of an Ameren Missouri CAM Team (by February 1, 2019) to aid in Ameren Missouri's compliance with the Affiliate Transactions Rules, subject to approved variances;

- g. Requires annual audits by the CAM Team in conjunction with the Internal Audit Department respecting compliance with the CAM and the Affiliate Transactions Rules, with the audit results to be provided to Staff within 30 days of finalization; and
- h. Reflects specific provisions to ensure the effective enforcement of Ameren Missouri's responsibilities under the Affiliate Transactions Rules, subject to approved variances.

III. Specific Approvals Sought

11. The Signatories agree that the Commission should issue an Order in this docket that:

- a. Approves this Stipulation, and specifically:
 - i. Approves the CAM attached hereto as Exhibit A, subject to item iii below;
 - ii. Grants the variances from the electric and gas Affiliate Transactions Rules (4 CSR 240-20.015 and 4 CSR 40.015) reflected in Tab G of the CAM for good cause shown; and
 - iii. Makes the following requirements reflected in the CAM effective on the following dates:
 - 1. Training requirements to be in place by February, 2019;
 - 2. CAM Team to be in in place by February, 2019;
 - 3. General Office Building ("GOB") space study completed and rentals based on the same by January 1, 2019;
 - 4. Annual audit requirements to commence in 2020 (for calendar year 2019);

5. Purchasing rate costs and inventory handling loading studies completed by December 31, 2019 (and results implemented in 2020); and
6. Contracts with affiliates other than Ameren Services to be in place and effective by January 1, 2019, subject, however, to any required approvals by the Illinois Commerce Commission for contracts with affiliates subject to Illinois Commerce Commission jurisdiction (transactions covered by approved variances or otherwise in compliance with the Affiliate Transactions Rules can occur in the absence of such contracts until the same become effective).²

IV. Good Cause for Variances

11. The CAM, in Tab G, sets forth the terms of variances from certain provisions of the Affiliate Transactions Rules. Exhibit B hereto outlines Ameren Missouri's support for a determination by the Commission that good cause exists to grant the requested variances, as contemplated by 4 CSR 240-20.015(10) and 4 CSR 240-40.015(10). The Staff agrees that good cause exists to grant the requested variances.

By expressing this stance, Staff is not expressing an opinion regarding the reasonableness of any costs incurred or revenues received by Ameren Missouri, or an opinion about the allocation of any costs, and reserves the right to challenge such costs, revenues, or allocations in a proper proceeding respecting Ameren Missouri's rates. Also, as in Tab G page 5 of its CAM, Ameren Missouri has agreed that if it employs an alternative allocation or pricing methodology

² Transactions with affiliates not covered by a written contract pending such approvals shall be reported on Tab Q, Appendix 9.

which it contends will be in the best interests of its customers receiving regulated utility service, such alternative methodology, among other things, will be subject to review and adjustment in any subsequent MoPSC case proceeding, similarly a variance granted by the MoPSC in one proceeding will be subject to review for prospective purposes in any subsequent Ameren Missouri CAM proceeding.

V. Fully Distributed Cost (“FDC”) Study

12. The Signatories agree that it would be beneficial for Ameren Missouri to complete a study (which the Signatories refer to as an “FDC Study”), to evaluate whether the current costing methods applicable to affiliate transactions between Ameren Missouri and Ameren Services are the most appropriate methods, and to also evaluate the current and future allocation of Ameren Services costs that cannot be direct charged to a single affiliate.

13. Such a study is not, however, strictly a component of the CAM and its design and completion is not necessary to finalize the CAM. The Signatories have agreed, however, on a process so that such a study can be designed and implemented, as follows:

- a. The parties will collaborate on the design of such a study and report back to the Commission within 90 days of approval of this Stipulation on whether they have reached agreement as to how the study should be conducted, and on a timeline for completion of the study and finalization of its results.
- b. If agreement has been reached, the study will proceed as agreed.
- c. If agreement has not been reached, the Signatories will refer any disagreement to the Commission for resolution.
- d. Pending completion of the study (whether on an agreed-upon timeline or while the Commission resolves any disagreement) Staff will not (a) claim in any Commission proceeding that the Company’s calculation of FDC for the services it receives from

Ameren Services are in violation of or otherwise inconsistent with the requirements of the Affiliate Transactions Rules, or (b) that the allocation of Ameren Services costs not directly charged to a given affiliate is in violation of or otherwise inconsistent with the requirements of the Affiliate Transactions Rules; provided, that Staff's agreement in this subparagraph d shall not affect its ability to claim in a general rate proceeding that some portion of Ameren Services costs charged to Ameren Missouri are unreasonable.

VI. Gas Operations

14. At the present time, in lieu of a separate Ameren Missouri gas CAM, the Signatories agree that Ameren Missouri will utilize one CAM and shall continue to supply to Staff CAM reports in the format itemized in the Stipulation and Agreement in File No. ER-2014-0258, with the data that is provided further split by gas and electric utility costs. Although the data in CAM reports is on a monthly basis, the data is supplied quarterly, which is acceptable. Also, Ameren Missouri shall submit the information for Appendix 4 to the CAM disaggregated between electric and gas affiliate transactions. (The amounts should tie to the general ledgers.) Furthermore, if Ameren Missouri decides to utilize a natural gas marketing, pipeline, or storage affiliate entity, Ameren Missouri agrees to implement Commission approved Gas Supply and Transportation Standards of Conduct ("SOC") prior to conducting affiliate transactions which impact Ameren Missouri's PGA/ACA costs. The Signatories' agreement for Ameren Missouri to utilize one CAM and provide the above-referenced data in lieu of a separate gas CAM does not limit any right to additional information Staff has respecting information/data such as that contained in the Ameren Missouri 2016 and 2017 gas CAMs that were submitted by Ameren Missouri in EFIS. Also, the Signatories agree that the Fully Distributed Cost ("FDC")

Study provided for herein shall consider gas affiliate transactions in addition to electric affiliate transactions.

VII. General Provisions

15. This Stipulation is being entered solely for the purpose of settling this docket. Except as explicitly agreed otherwise herein, none of the Signatories shall be deemed to have approved or acquiesced in any question of Commission authority, ratemaking or procedural principle, valuation methodology, cost of service methodology or determination, depreciation principle or method, rate design methodology, cost allocation, cost recovery, or prudence that may underlie this Stipulation or for which provision is made in this Stipulation. Except as explicitly provided herein, none of the Signatories shall be prejudiced or bound in any manner by the terms of this Stipulation in this or any other proceeding.

16. If the Commission does not unconditionally approve this Stipulation without modification, and notwithstanding its provision that it shall become void thereon, neither this Stipulation nor any matters associated with its consideration by the Commission shall be considered or argued to be a waiver of the rights that any Signatory has to a hearing on the issues presented by the Stipulation, regarding cross-examination or a decision in accordance with Section 536.080.1 RSMo. 2016 or Art. V, Section 18 Mo. Const. The Signatories shall retain all procedural and due process rights as fully as though this Stipulation had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that may have been offered or received in support of or in opposition to this Stipulation shall thereupon become privileged as reflecting the substantive content of settlement discussions, and shall be stricken from and not be considered as part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

17. To assist the Commission in its review of this Stipulation, the Signatories also request that the Commission advise them of any additional information that the Commission may desire from the Signatories related to the matters addressed in this Stipulation, including any procedures for furnishing such information to the Commission.

18. If requested by the Commission, the Staff shall submit to the Commission a memorandum responsive to the Commission's request. Each Signatory shall be served with a copy of any memorandum and shall be entitled to submit to the Commission within five (5) days of receipt of the Staff's memorandum, a responsive memorandum which shall also be served on all Parties. The contents of any memorandum provided by any Signatory are its own and are not acquiesced in or otherwise adopted by the other Signatory to this Stipulation, whether or not the Commission approves and adopts this Stipulation.

19. The Staff also shall provide, at any agenda meeting at which this Stipulation is noticed to be considered by the Commission, whatever oral explanation the Commission requests. The Staff shall, to the extent reasonably practicable, provide the other Signatories with advance notice of when the Staff shall respond to the Commission's request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any Protective Order issued in this case.

20. Except as specified herein, the Signatories to the Stipulation shall not be prejudiced, bound by, or in any way affected by the terms of this Stipulation: (a) in any future proceeding; (b) in any proceeding currently pending under a separate docket; and/or (c) in this proceeding, should the Commission decide not to approve the Stipulation or in any way condition its approval of the same, except as stated herein. Because this is a Stipulation for the purpose of settling matters in this case, it shall not be cited as precedent or referred to in

testimony in any subsequent or pending judicial or administrative proceeding, except that this shall not be construed to prohibit reference to its existence in future proceedings, including proceedings to enforce compliance with its terms.

21. The provisions of this Stipulation have resulted from extensive discussions and negotiations among the Signatories and are interdependent and non-severable. If the Commission does not approve this Stipulation unconditionally and without modification, or if the Commission approves the Stipulation with modifications or conditions to which a Signatory objects, then this Stipulation shall be void and none of the Signatories shall be bound by any of the agreements or provisions hereof.

22. In the event the Commission accepts the specific terms of this Stipulation, the Signatories waive their respective rights: a) to cross-examine witnesses pursuant to Section 536.070(2) RSMo.; b) to present oral argument and written briefs pursuant to Section 536.080.1 RSMo.; c) to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo.; and d) to judicial review pursuant to Section 386.510 RSMo. This waiver applies only to a Commission Order respecting this Stipulation issued in this proceeding approving this Stipulation unconditionally and without modification, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation.

23. This Stipulation contains the entire agreement of the Signatories concerning the issues addressed herein.

24. This Stipulation does not constitute a contract with the Commission. Acceptance of this Stipulation by the Commission shall not be deemed as constituting an agreement on the part of the Commission to forego the use of any discovery, investigatory powers or other statutory powers which the Commission presently has. Thus, nothing in this Stipulation is intended to

impinge or restrict in any manner the exercise by the Commission of any statutory right, including the right to access information.

WHEREFORE, the Company and Staff respectfully request that the Commission issue its order approving this Stipulation and, specifically granting the approvals outlined in Section III hereof.

Respectfully submitted,

/s/ James B. Lowery

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**Attorneys for the Staff of the
Missouri Public Service Commission**

CERTIFICATE OF SERVICE

The undersigned certifies that true and correct copies of the foregoing have been e-mailed or mailed, via first-class United States Mail, postage pre-paid, to the service list of record of this case on this 30th day of November, 2018.

James B. Lowery
James B. Lowery