

Exhibit No.:
Issue: Metro-East Condition
Witness: Robert E. Schallenberg
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: EA-2005-0180
Date Testimony Prepared: January 31, 2005

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY
OF
ROBERT E. SCHALLENGER

UNION ELECTRIC COMPANY
d/b/a AMERENUE

CASE NO. EA-2005-0180

Jefferson City, Missouri
January 2005

TONI M. CHARLTON
Notary Public - State of Missouri
My Commission Expires December 28, 2008
Cole County
Commission #04474301

CASE NO. EA-2005-0180

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

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

7 1. To conduct the timely and efficient examination of the accounts, books,
8 records and reports of jurisdictional utilities;

9 2. To aid in the planning of audits and investigations, including staffing
10 decisions, and in the development of Staff positions in cases to which the Accounting
11 Department of the MoPSC was assigned, in cooperation with management and other Staff;

12 3. To serve as lead auditor, as assigned on a case-by-case basis, and to report to
13 the Assistant Manager-Accounting at the conclusion of the case on the performance of less
14 experienced auditors assigned to the case, for use in completion of annual written
15 performance evaluations;

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

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

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

1 The MoPSC relies on the Regulatory Auditor V position to be able to present and
2 defend positions both in filed testimony and orally at hearing. I have presented testimony on
3 many occasions before the MoPSC on issues ranging from the prudence of building power
4 plants to the appropriate method of calculating income taxes for ratemaking purposes. I have
5 worked in the areas of regulation of telephone, electric and gas utilities. I even have taken
6 depositions on behalf of the MoPSC in an FERC natural gas pipeline case. Attached as
7 Schedule 1, is a listing of cases and issues on which I have worked at the MoPSC. As
8 indicated above, my responsibilities were expanded to include assisting in rate proceedings
9 and other public utility regulatory matters at the federal level on behalf of the MoPSC as
10 assigned.

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

12 A. Yes. I submitted testimony in Docket Nos. RP94-365, RP95-136, RP96-173,
13 et. al. These were cases involving Williams Natural Gas Company (WNG). WNG provides
14 gas transportation and storage services for local gas distribution companies serving the
15 western portion of Missouri. WNG provides service to Missouri Gas Energy, a division of
16 Southern Union Company which serves the Kansas City area. My testimony in Docket No.
17 RP94-365 involved a prudence challenge of the costs that WNG sought to recover in that
18 case. I also filed testimony regarding certain cost of service issues in WNG's FERC rate case,
19 Docket No. RP95-136. These issues included affiliated transactions between WNG and its
20 parent. I filed testimony in Docket No. RP96-173, et. al., on the issue of whether the costs in
21 question met FERC's eligibility criteria for recovery under FERC Order No. 636.

22 I submitted testimony in Mississippi River Transmission (MRT) Corporation's rate
23 case, Docket No. RP96-199. MRT provides gas transportation and storage services for local

1 distribution companies serving the eastern portion of Missouri. MRT provides service to
2 Laclede Gas Company, which serves the St. Louis area. My testimony in Docket No.
3 RP96-199 involved cost of service issues. These issues included affiliated transactions
4 between MRT and its parent.

5 Q. During your career have you been involved in the negotiation and drafting of
6 agreements between the MoPSC Staff and the utilities under the jurisdiction of the MoPSC?

7 A. Yes. I have been involved in negotiations in practically every case in which I
8 have been involved. I have been involved in either the actual drafting of language or the
9 review of language of each stipulation and agreement in these cases related to revenue
10 requirement issues. This experience began with my first rate case involving Kansas City
11 Power & Light Company, in Case No. ER-77-118. In addition, I have participated in FERC
12 settlement conferences on behalf of the MoPSC. Currently, I have performed significant
13 work in Kansas City Power & Light Company's Iatan 2 generating station regulatory plan
14 workshop, Case No. EW-2004-0596.

15 Q. What is the purpose of your testimony?

16 A. Given how AmerenUE has structured its Metro East Transfer case (Case No.
17 EO-2004-0108) and Noranda Load case (Case No. EA-2005-0180), the purpose of my
18 testimony is to briefly present the Staff's position regarding the question of whether or not
19 completion of the Metro East Transfer as a necessary condition for AmerenUE serving the
20 Noranda Load is or is not detrimental to the public interest. In addition to the previously
21 identified issues related to AmerenUE transferring its Metro East Load as a necessary
22 condition of taking on the Noranda Load, there is now a reliability issue specifically
23 addressed in the prepared direct testimony of Staff witness Dr. Michael S. Proctor that is

1 being filed concurrent with my testimony. Dr. Proctor and/or I may file additional testimony
2 in this case based on Scenario 2 that AmerenUE is filing on Monday, January 31, 2005 in the
3 Metro East Transfer case, Case No. EO-2004-0108.

4 Q. What is the Staff's position regarding the question of whether or not
5 completion of the Metro East Transfer as a necessary condition for AmerenUE serving the
6 Noranda Load is or is not detrimental to the public interest?

7 A. It is Staff's position that the Metro East Transfer as proposed by Ameren as a
8 necessary condition for AmerenUE serving the Noranda Load is detrimental to the public
9 interest. This detriment is caused by: 1) the probability that the Metro East Transfer will
10 have a negative economic impact on the AmerenUE cost structure, and 2) Ameren requiring
11 that AmerenUE's Missouri customers, not Ameren, absorb this negative impact, as a
12 condition of the transfer for AmerenUE to take on the Noranda Load. Ameren has failed
13 show that its Metro East Transfer proposal for serving the Noranda Load is not detrimental to
14 the public.

15 Q What is the basis for the conclusion that the Metro East Transfer will have a
16 negative economic impact on AmerenUE's cost structure?

17 A. The basis for this position is Ameren's January 24, 2005 filing in the Case No.
18 EO-2004-0108. It is difficult to even characterize the proposed Metro East Transfer that
19 Ameren contends is a necessary condition for serving the Noranda Load as marginally
20 economic. This filing shows that going forward with the proposed Metro East Transfer,
21 without consideration of the proposed Noranda transaction, results in lower costs of
22 \$0.11/MWh, over a 20-year study period, than not going forward with the Metro East
23 Transfer, without consideration of the proposed Noranda transaction. This result is only

1 barely economic as the result of assumptions and study methodology that cause the
2 calculations to favor the Metro East Transfer. The marginal economic results of this Ameren
3 analysis will not be realized in the actual costs that will be used to set rates for Missouri
4 consumers in the future. The analysis filed on January 24, 2005 indicates that the Metro East
5 Transfer as proposed by Ameren will be detrimental to AmerenUE customers in Missouri, but
6 beneficial to Ameren's results in Illinois and ultimately beneficial to Ameren's earnings.

7 Q. What did you rely upon to reach this conclusion?

8 A. I relied upon my review of the narrative in the January 24, 2005 filing in Case
9 No. EO-2004-0108 entitled Union Electric Company's d/b/a AmerenUE's Third Response To
10 The Commission's December 30, 2004 Order Directing Filing, the work papers supporting
11 that filing, and discussions with Dr. Proctor. In part, I relied upon my discussions with
12 Dr. Proctor because of the very short time (i.e., several days) that I had to review the
13 information supporting this filing and satisfy the filing date in this case. Subsequent to the
14 filing of this testimony, I will continue to examine this and other material to ensure that the
15 Staff position reflected in my testimony is still appropriate and attempt to quantify Staff's
16 position regarding the amount of detriment contained in Ameren's proposed Metro East
17 Transfer. I will attempt to determine if Ameren has performed any risk analysis that identifies
18 the key assumptions with the related range that could show a different result. It would be
19 reasonable and prudent to conduct such an analysis before the Metro East Transfer decision
20 was finalized.

21 Q. What are the specific factors that you identified that cause you to disagree with
22 Ameren's quantification of the impact of its proposed Metro East Transfer on AmerenUE?

1 A. I note six factors in Ameren's latest analysis filed in Case No. EO-2004-0108
2 on January 24, 2005 respecting Scenario 1 that cause the results to marginally favor the Metro
3 East Transfer. First, Ameren uses a high discount rate, 9.4%, that places greater value on
4 early year cost differentials, compared to later year cost differentials, than would result from a
5 lower discount rate.

6 Second, the high discount rate gives great weight to the additional administrative and
7 general (A&G) expense that Ameren adds to its no Metro East Transfer scenario relative to its
8 Metro East Transfer scenario, especially in the early years of the analysis. The incremental
9 administrative and general expense is overstated to the extent that there would be any material
10 increase in these expenses at all under the no Metro East Transfer scenario. Incremental
11 administrative and general expense is not directly proportional to each MW of capacity, as
12 was assumed by Ameren in its study, but would vary based on the type of capacity used.
13 Incremental administrative and general expense would be different for a coal plant than for a
14 gas combustion turbine generator. Ameren's calculation assumes that there is no economy or
15 productivity from the existing administrative and general function that supports AmerenUE's
16 current generation fleet. This assumption is not valid.

17 Third, the Ameren study assumes no increase in fixed operations and maintenance
18 (O&M) expense over the twenty (20) year horizon of the study. Thus, the Ameren study does
19 not consider the impact of any increase to the fixed operations and maintenance expense on its
20 current generation fleet.

21 Fourth, Ameren's study does not consider the impacts of capital expenditures to its
22 existing generation fleet for environmental compliance purposes. Ameren is currently

disclosing in its required public reports to the Securities and Exchange Commission projections of substantial environmental compliance costs.

Fifth, Ameren uses a fixed rate of return based on a 13.5% return on equity that is higher than what is likely to be found to be Ameren's actual cost of equity.

Sixth, Ameren uses a four-month coincident peak (4 CP) methodology as the starting point for the allocation of investment and costs among the Missouri, Illinois and FERC jurisdictions before consideration of the Metro East Transfer. The Staff, AmerenUE and the Commission in prior Union Electric Company rate cases have not used this methodology, except AmerenUE did so most recently in Case No. EC-2002-1. In prior rate cases, the Staff, AmerenUE and the Commission have used a twelve-month coincident peak (12 CP) methodology, i.e., until Case No. EC-2002-1 when AmerenUE used the 4 CP methodology. Case No. EC-2002-1 ended in a negotiated settlement with no specification that the settlement was based on a particular jurisdictional allocation methodology. The Commission has not set AmerenUE's rates on a 4 CP methodology. The 4 CP methodology assigns more investment and costs to Missouri than using the 12 CP methodology. By AmerenUE's use of the 4 CP methodology as the starting point in its analysis rather than the 12 CP methodology, more investment and costs are already shifted to Missouri retail customers than under the 12 CP methodology so the proposed Metro East Transfer results in less investment and costs being shifted to Missouri retail ratepayers than if Ameren had started with the 12 CP methodology. By Ameren using the 4 CP methodology, it transfers a portion of the Metro East generation investment and costs to Missouri for rate recovery before it receives Commission approval to do so. Thus, this allocation change understates the actual costs being transferred to AmerenUE's Missouri customers by the Metro East Transfer.

1 Q. Do you have other comments regarding the Metro East Transfer that Ameren
2 has placed in this case?

3 A. Yes. The purpose of my testimony is not to attempt to re-litigate the Metro
4 East Transfer case in the Noranda case. This case is the fourth time Ameren has sought
5 Commission approval for a Metro East Transfer of its Illinois retail electric and natural gas
6 operations. The Staff would not mention the Metro East Transfer in this proceeding if
7 Ameren did not make it a condition to serving the Noranda Load. The Staff is merely
8 attempting to make the record in this case complete. I am aware of no party, including the
9 Staff, which would not support a Metro East Transfer that would not result in greater costs to
10 Missouri ratepayers. Opposition to the Metro East Transfer has been, and continues to be,
11 based on the concern that Ameren's proposal will result in greater costs to AmerenUE's
12 Missouri customers. Lack of data from Ameren or disagreements over study approaches and
13 assumptions have created the current opposition to the Metro East Transfer.

14 This Noranda case has added to the Staff's Metro East Transfer concerns since the
15 data, as presented by Ameren, indicates that it is beneficial to AmerenUE to add the Noranda
16 Load. Since AmerenUE contends that it is beneficial to AmerenUE to add load (i.e., the
17 Noranda Load), it is questionable that it can be beneficial to AmerenUE to lose load (i.e., the
18 Metro East Load). If one considers the environmental costs discussed in Dr. Proctor's
19 rebuttal testimony in this case, the customer impact is mitigated with a greater number of
20 retail customers and an increased native load.

21 Ameren states in its January 24, 2005 filing in Case No. EO-2004-0108 that it is trying
22 to provide Missourians power that they need. Ameren's concern for Missouri is not reflected
23 in Ameren's Missouri retail regulated operations' subsidy of Ameren's Illinois regulated

1 operations through the proposed Metro East Transfer and in Ameren's Missouri retail
2 regulated operations subsidy of Illinois non-regulated generating operations through the
3 current Joint Dispatch Agreement.

4 Q. Does this conclude your rebuttal testimony?

5 A. Yes it does.

RATE CASE PROCEEDING PARTICIPATION

ROBERT E. SCHALLENBERG

<u>COMPANY</u>	<u>CASE NO.</u>
Southwestern Bell Telephone	TR-79-213
Southwestern Bell Telephone	TR-80-256
Southwestern Bell Telephone	TR-81-208
Southwestern Bell Telephone	TR-82-199
Southwestern Bell Telephone	TR-83-253
Southwestern Bell Telephone	TR-86-84
Southwestern Bell Telephone	TC-89-14
Southwestern Bell Telephone	TO-89-56
Southwestern Bell Telephone	TR-90-98
Southwestern Bell Telephone	TC-93-224
Southwestern Bell Telephone	TO-82-3
Kansas City Power & Light Company	ER-77-118
Kansas City Power & Light Company	ER-78-252
Kansas City Power & Light Company	ER-80-48
Kansas City Power & Light Company	ER-81-42
Kansas City Power & Light Company	ER-82-66
Kansas City Power & Light Company	HR-82-67
Kansas City Power & Light Company	ER-83-49
Kansas City Power & Light Company	EO-85-185
Kansas City Power & Light Company	ER-85-128
Missouri Public Service	ER-78-29
Missouri Public Service	GR-78-30
Missouri Public Service	ER-90-101
General Telephone	TM-87-19
General Telephone	TR-86-148
General Telephone	TC-87-57
General Telephone	TR-89-182
Gas Service Company	GR-78-70

Gas Service Company	GR-79-114
Union Electric	EC-87-114
Kansas Power & Light Company	GR-91-291
Kansas Power & Light Company	EC-91-213
Western Resources	GR-93-240
Western Resources	GM-94-40
United Telephone Company of Missouri	TR-80-235
St. Joseph Light and Power Company	EC-92-214
St. Joseph Light and Power Company	ER-93-41
Kansas Power and Light Company	EM-91-213
Laclede Gas Company	GR-94-220
Williams Natural Gas Company	RP94-365-000
Williams Natural Gas Company	RP95-136-000
Mississippi River Transmission	RP96-199-000
Union Electric	EO-96-14
Laclede Gas Company	GT-2001-329
Union Electric	EC-2002-1

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

Gas Service Company

Case No. GR-79-114

Date: June 15, 1979

Areas: Deferred Taxes as an Offset to Rate Base

Missouri Public Service Company

Case Nos. ER-78-29 and ER-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

Missouri Public Service Company

Case Nos. ER-79-60 and GR-79-61

Date: April 9, 1979

Areas: Depreciation Reserve, Cash Working Capital

Southwestern Bell Telephone Company

Case No. TR-79-213

Date: October 19, 1979

Areas: Income Taxes, Deferred Taxes

Kansas City Power & Light Company

Case Nos. ER-80-48 and ER-80-204

Date: March 11, 1980

Areas: Iatan, Interest Synchronization, Allocations

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

Southwestern Bell Telephone Company

Case No. TR-81-08

Date: August 6, 1981

Areas: License Contract, Flow-Through vs. Normalization

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

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. EO-85-185 and ER-85-28

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, Phase-In, Test Year/True-Up, Decision to Build Wolf Creek, Non-Wolf Creek Depreciation Rates, Depreciation Reserve, Jurisdictional Steam Allocation/Grand Avenue Station

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

Generic - Straight Line Equal Life Group and Remaining Life Depreciation Methods

Case No. TO-82-3

Date: December 23, 1981

Areas: Depreciation

General Telephone Company of the Midwest

Case No. TM-87-19

Date: December 17, 1986

Areas: Merger

General Telephone Company of the Midwest

Case No. TC-87-57 (TR-86-48)

Date: December 1986

Areas: Background and Overview, GTE Service Corporation, Merger Adjustment, Adjustments to Income Statement

Southwestern Bell Telephone Company

Case No. TR-86-4

Date: None

No prefiled direct testimony

Union Electric Company

Case No. EC-87-114

Date: April 27, 1987

Areas: Elimination of Further Company Phase-In Increases, Write-Off of Callaway I to Company's Capital Structure.

Western Resources

Case No. GM-94-40

Date: November 1993

Areas: Jurisdictional Consequences of the Sale of Missouri Gas Properties

Kansas Power & Light Company

Case No. EM-91-213

Date: April 1991

Areas: Purchase of Kansas Gas & Electric Company

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

Williams Natural Gas
Docket No.: RP94-365
Date: November 9, 1995
Areas: Imprudence of pipeline decisions that led to the incurrence of gas supply realignment costs.

Williams Natural Gas
Docket No.: RP-95-136
Date: November 30, 1995 and June 14, 1996
Areas: Depreciation and amortization expenses and the Administrative & General (A&G) expenses, including expenses relating to affiliate transactions.

Mississippi River Terminal Corporation
Docket No.: RP96-199
Date: January 3, 1997 and March 26, 1997
Areas: Rate base, expenses and capital structure issues.

Union Electric Company
Case No. EO-96-14
Date: April 1999
Areas: Alternative Regulation Plan Agreements

Laclede Gas Company
Case No. GT-2001-329
Date: May 30, 2001
Areas: Gas Supply Incentive Plan

Union Electric Company
Case No. EC-2002-1
Date: June 24, 2002
Areas: Overview: 4 CSR 240-10.020; and Alternative Regulation Plan.

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.