

*Exhibit No.:*

*Issue: Unit Ownership Costs*

*Witness: Robert E. Schallenberg*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Surrebuttal Testimony*

*Case No.: ER-2005-0436*

*Date Testimony Prepared: December 13, 2005*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**ROBERT E. SCHALLENBERG**

**AQUILA, INC.**

**d/b/a AQUILA NETWORKS-MPS-ELECTRIC AND**

**AQUILA NETWORKS-L&P-ELECTRIC**

**CASE NO. ER-2005-0436**

**Jefferson City, Missouri**

***December 2005***

**\*\*Denotes Highly Confidential Information\*\***

**NP**

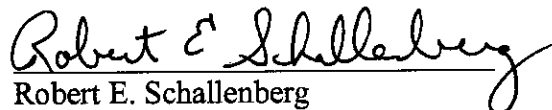
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Tariff Filing of Aquila, Inc.,	)	
to Implement a General Rate Increase for	)	Case No. ER-2005-0436
Retail Electric Service Provided to Customers	)	Tariff No. YE-2005-1045
in Its MPS and L&P Missouri Service Areas.	)	

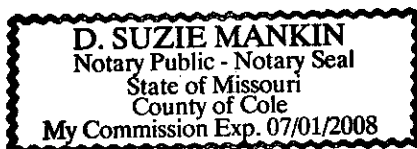
AFFIDAVIT OF ROBERT E. SCHALLENBERG

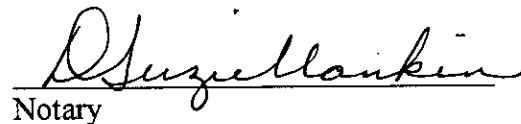
STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Robert E. Schallenberg, being of lawful age, on his oath states: that he has participated in the preparation of the following Surrebuttal Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the following Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
Robert E. Schallenberg

Subscribed and sworn to before me this 12<sup>th</sup> day of December 2005.



  
Notary



Surrebuttal Testimony of  
Robert E. Schallenberg

1   \*\* \_\_\_\_\_ \*\* estimate should be used if any such approach is adopted by the Commission;  
2   3) the purchase of \*\* \_\_\_\_\_ \*\*  
3   will accomplish the lowest overall revenue requirement; and 4) the purchase of capacity in  
4   the short-term is a very reasonable response to the present uncertain environment for building  
5   generation in Missouri.

6         My surrebuttal testimony, in conjunction with Staff witness Cary G. Featherstone's  
7   surrebuttal testimony, shows that 1) the \*\* \_\_\_\_\_ \*\* used in my direct testimony is very  
8   comparable to prices at which Aquila is offering, to sell combustion turbine facilities to non-  
9   affiliated entities; 2) Aquila's \*\* \_\_\_\_\_ \*\* estimate is overstated and is premised on an  
10  imprudent course of action; 3) the purchase of \*\* \_\_\_\_\_  
11  \_\_\_\_\_ \*\* will not accomplish the lowest overall revenue requirement for  
12  Aquila consumers; and 4) the purchase of capacity in the short-term is not justified by the  
13  current environment for building generation in Missouri.

14         It should be noted that this issue is related to the Missouri Public Service (MPS)  
15  division's capacity needs beginning in the 2005 summer. The building of Iatan 2 will not  
16  eliminate this issue in 2010. The matter of the amount of Iatan 2 capacity, if any, that will be  
17  assigned to the MPS division will not be addressed until the Aquila Iatan 2 rate case or an  
18  L&P division sale case.

19         Q.     What is the basis for your assertion that the \*\* \_\_\_\_\_ \*\* used in your  
20  direct testimony is very comparable to the price at which Aquila is offering to sell  
21  combustion turbine facilities to non-affiliated entities?

22         A.     Mr. Korte notes on page 4, line 22 of his surrebuttal testimony that Aquila has  
23  publicly announced its intention to sell peaking facilities located in Illinois which are within

1 the MISO footprint. Mr. Featherstone, in his surrebuttal testimony details the price and  
2 status of the sale activities. His testimony shows that the \*\* \_\_\_\_\_ \*\* price I sponsor is  
3 greater than the value Aquila is likely to receive from the sale of its existing peaking facilities  
4 to non-affiliated entities at a time when its regulated operations in Missouri are deficit in  
5 regards to long-term capacity dedicated to meet their load requirements.

6 Q. Do you agree with Mr. Korte's rebuttal testimony beginning on page 4,  
7 line 15 through page 5, line 18 regarding the comparison of the \*\* \_\_\_\_\_ \*\* to Aquila's  
8 offer price for existing peaking facilities?

9 A. No. Since 1983, Aquila's non-regulated operations have been the only source  
10 of regulated generation capacity that Aquila has made available to its MPS division. The  
11 current generation units were not considered as regulated options to serve its MPS division  
12 load requirements until Aquila's non-regulated operations could not obtain a price at which it  
13 would sell the equipment to non-affiliated entities. The three South Harper turbines were  
14 initially purchased by Aquila through a non-regulated affiliate to be placed at the Aries site to  
15 serve the MPS division capacity needs through a purchased power agreement from non  
16 regulated capacity at market rates. After Aquila decided to abandon implementing this plan,  
17 the Company offered these units to unaffiliated non-regulated entities. Mr. Featherstone  
18 provides the details that further support these statements. Aquila, through unregulated  
19 affiliates, has acquired and built significant generation capacity far in excess of its MPS  
20 capacity needs. Most of this capacity has or will be sold to non-affiliated entities.

21 In Missouri regulated utilities have acquired generation capacity from both affiliated  
22 and non-affiliated non-regulated generation operations. AmerenUE has acquired generation  
23 capacity from its affiliated non-regulated generating company. Mr. Korte notes transmission

1 issues as an excuse for Aquila not evaluating the transfer of any of its non-regulated capacity  
2 to serve its MPS division. These transmission issues are concerns not raised until after the  
3 Staff highlighted that Aquila had decided buy capacity from the market without analyzing the  
4 economics of using its non-regulated capacity to serve its MPS division needs. The fact that  
5 Aquila made no serious evaluation of this option does not make the comparison initially  
6 presented in my direct testimony invalid.

7 Q. Has Aquila demonstrated the ability to overcome transmission issues to bring  
8 energy from any of its affiliated non-regulated generation facilities to serve its MPS division  
9 load?

10 A. Yes. Aquila has arranged to bring energy and capacity from its Crossroads  
11 facility to meet some of the MPS division load this summer. This facility is located in  
12 Mississippi. Aquila was able to acquire the transmission capability necessary to complete  
13 this transaction.

14 Q. Is there another approach that could use the affiliated non-regulated  
15 generation to serve the MPS division load even though the transmission capability is not  
16 available?

17 A. Yes. Generating equipment can be moved to a site that can be used to serve  
18 the MPS load. \*\* \_\_\_\_\_

19 \_\_\_\_\_ \*\* The same option could be applied to Aquila's non-regulated  
20 generating capacity.

21 Q. What is the basis for your assertion that the \*\* \_\_\_\_\_ \*\* estimate that  
22 Mr. Korte suggests should be used in lieu of the \*\* \_\_\_\_\_ \*\* is overstated and is premised  
23 on an imprudent course of action?

Surrebuttal Testimony of  
Robert E. Schallenberg

1           A.     Mr. Korte's estimate is based on the costs to build a new South Harper type  
2 facility scaled proportionately down from the 315 MW capacity at the South Harper site to a  
3 210 MW generating capacity. A new generating site is usually sized and built to  
4 accommodate future additional capacity. The South Harper facility was built to  
5 accommodate three additional combustion turbines comparable in size to the three it  
6 installed. Mr. Korte's scenario would ignore the cost advantages that exist from utilization of  
7 an existing site and result in a higher cost approach. Such a decision would be imprudent.  
8 Mr. Korte's use of the South Harper costs also includes costs that Aquila has already  
9 removed from its South Harper costs estimate. Mr. Featherstone's surrebuttal testimony  
10 addresses in greater detail the Staff's issues with the \*\* \_\_\_\_\_ \*\* estimate.

11           Q.     Do you attempt to estimate the cost of placement of 210 MW of capacity at an  
12 existing South Harper type site?

13           A.     Yes. This estimate amounted to approximately \*\* \_\_\_\_\_ \*\* each. This  
14 estimate is approximately \*\* \_\_\_\_\_ \*\* higher than the estimate determined by using the  
15 \*\* \_\_\_\_\_ \*\* estimate. Mr. Korte's \*\* \_\_\_\_\_ \*\* estimate results in approximately  
16 \*\* \_\_\_\_\_ \*\*. Staff will reflect the \*\* \_\_\_\_\_ \*\* estimate in its true-up case.

17           Q.     How did you construct the \*\* \_\_\_\_\_ \*\* estimate?

18           A.     I added two turbines at a cost of \*\* \_\_\_\_\_ \*\* each. This number was  
19 provided to me by Mr. Featherstone. The turbine costs were increased to reflect AFDC  
20 based upon actual costs at South Harper. I added \*\* \_\_\_\_\_ \*\* of construction costs for  
21 each turbine. The turbine construction costs are based on Aquila's actual costs to build the  
22 three combustion turbines at South Harper. I included \*\* \_\_\_\_\_ \*\* for transmission  
23 upgrades. This number was developed by Mr. Featherstone and provided to me. The

1 transmission upgrade costs were increased to reflect AFDC based upon actual costs at South  
2 Harper. I developed a \*\* \_\_\_\_\_ \*\* allowance for common plant modifications. I  
3 developed this number by applying the ratio of the 210MW to 315MW to the actual common  
4 plant costs at South Harper. I applied a fifty percentage (50%) downward adjustment factor  
5 to this result to recognize that incremental common costs would be greater than zero and less  
6 than the result of applying a ratio of the 210MW to 315MW to the actual common plant costs  
7 at South Harper.

8 Q. Does this estimate ignore certain options that could be more economic?

9 A. This estimate ignores the opportunities that would be brought to the  
10 Company's attention if it were to seriously pursue a self-build option. Vendors with existing  
11 equipment could offer alternatives that are more economic than the designed 210 MW  
12 approach. Aquila is aware that Empire experienced this situation. Mr. Featherstone provides  
13 details regarding this matter in his surrebuttal testimony.

14 Q. What is the basis for your assertion that the purchase of \*\* \_\_\_\_\_  
15 \_\_\_\_\_ \*\* will not accomplish the lowest  
16 overall revenue requirement for Aquila consumers?

17 A. Mr. Korte was unable to provide any documented analysis to support his  
18 assertion. The purchase of \*\* \_\_\_\_\_  
19 \_\_\_\_\_ \*\* is only for one year. The capacity from the building of peaking capacity will last  
20 25 years or longer. It is true that the capacity costs in the first year are less than the related  
21 costs from the building or acquiring regulated capacity. Mr. Korte does not indicate that  
22 Aquila will acquire this 210 MW of capacity at these cost levels for each of the next  
23 25 years. It is probable that Aquila will need to pay more for these capacity costs in the



1 future. The related capacity costs from a self build or acquire capacity approach will result in  
2 declining costs over the life of the asset and result in zero costs if the unit operates beyond its  
3 depreciable life.

4 Mr. Korte also fails to evaluate the change in the options that will be available to  
5 Aquila if it ever decides to build or acquire generating assets to meet its MPS division needs  
6 in the future. Staff's approach would reward the Company if it could actually pay capacity  
7 costs less than the self-build option.

8 Q. What is the basis for your assertion that the purchase of capacity in the short-  
9 term is not justified by the current environment for building generation in Missouri?

10 A. There is no indication that any other Missouri investor -owned utility cannot  
11 build or acquire regulated generation capacity in Missouri. AmerenUE has recently  
12 announced its intention to consider building a nuclear unit in Missouri. Empire is building a  
13 new peaking unit to add to its regulated mix. The problem of building capacity in Missouri is  
14 more of an Aquila specific issue related to the manner in which the Company deals with  
15 community issues when constructing a major facility.

16 Q. Does this conclude your surrebuttal testimony?

17 A. Yes.