

Exhibit No.:
Issues: Iatan Prudence Review
Witness: Robert E. Schallenberg
Sponsoring Party: MoPSC Staff
Type of Exhibit: Surrebuttal Testimony
Case No.: ER-2009-0090
Date Testimony Prepared: April 9, 2009

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

SURREBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

**Great Plains Energy, Incorporated
KCP&L GREATER MISSOURI OPERATIONS COMPANY
GMO-MPS AND GMO-L&P ELECTRIC**

CASE NO. ER-2009-0090

*Jefferson City, Missouri
April 2009*

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

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SURREBUTTAL TESTIMONY
OF
ROBERT E. SCHALLENBERG
Great Plains Energy, Incorporated
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. ER-2009-0090

Q. Please state your name and business address.

A. Robert E. Schallenberg, 200 Madison Street, Jefferson City, Missouri, 65102.

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

A. I am the Director of the Utility Services Division of the Missouri Public Service Commission (MoPSC).

Q. Please describe your educational background.

A. 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 as a Public Utility Accountant in November 1976. I remained on the Staff of the Missouri Public Service Commission 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 Missouri Public Service Commission. Most immediately prior to October 1997, I was an Audit Supervisor/Regulatory Auditor V. In October 1997, I began my current position as Division Director of the Utility Services Division of the MoPSC.

1 Q. Please describe your responsibilities and experience while employed at the
2 MoPSC as a 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
5 substantive knowledge in utility regulation and regulatory auditing. Among my various
6 responsibilities as a Regulatory Auditor V were:

- 7 1. To conduct the timely and efficient examination of the accounts,
8 books, records and reports of jurisdictional utilities;
- 9 2. To aid in the planning of audits and investigations, including
10 staffing decisions, and in the development of Staff positions in cases to
11 which the Auditing Department of the MoPSC was assigned, in
12 cooperation with Staff management as well as other Staff;
- 13 3. To serve as lead auditor, as assigned on a case-by-case basis, and to
14 report to the Assistant Manager-Auditing at the conclusion of the case
15 on the performance of less experienced auditors assigned to the case,
16 for use in completion of annual written performance evaluations;
- 17 4. To assist in the technical training of other auditors in the
18 Auditing Department;
- 19 5. To prepare and present testimony in proceedings before the MoPSC,
20 KCC, and the Federal Energy Regulatory Commission (FERC), and
21 aid MoPSC Staff attorneys and the MoPSC's Washington, D.C.
22 counsel in the preparation of pleadings and for hearings and
23 arguments, as requested; and
- 24 6. To review and aid in the development of audit findings and prepared
25 testimony to be filed by other auditors in the Auditing 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 had many occasions to
3 present testimony before the MoPSC on issues ranging from the prudence of building
4 power plants to the appropriate method of calculating income taxes for ratemaking purposes.
5 I have worked in the areas of regulation of telephone, electric and gas utilities. I have taken
6 depositions on behalf of the MoPSC in FERC dockets. Attached as Schedule 1, is a listing of
7 cases and issues on which I have worked at the MoPSC. My responsibilities were expanded
8 to assist in federal cases involving the MoPSC as assigned.

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

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

20 I submitted testimony in Docket No. RP96-199. This case is a Mississippi River
21 Transmission (MRT) Corporation rate case. MRT provides gas transportation and storage
22 services for local distribution companies serving the eastern portion of Missouri.

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

4 Q. Have you experience and education in other areas not specifically mentioned
5 previously in testimony?

6 A. During the pursuit of my Bachelor of Science degree I successfully completed
7 a business law course as an undergraduate. Business law is a section of the CPA test that
8 must be completed in order to successfully pass this test. I have audited other utility
9 mergers/acquisitions during my employment at the MoPSC since 1976-1978
10 and 1978-present. I audited Cooperative utilities in 1978 as an auditor for the KCC.
11 I assisted in Staff management of consultants related to the audits of Wolf Creek and
12 Callaway as well as provided advice and assistance to Staff conducting the audit when
13 requested. I have taken depositions on behalf of the MoPSC in FERC dockets. I have worked
14 on Commission rulemakings such as the Commission's Affiliate Transactions Rules.
15 I have reviewed and submitted testimony regarding due diligence documents, plans of
16 merger, proxy statements, transition agreements, purchase agreements, I submitted testimony
17 on the Electric Energy, Inc. (EEInc.) issue in the AmerenUE rate increase case,
18 ER-2007-0002, which involved issues respecting, among other items, corporate governance
19 and affiliate transactions. I have submitted testimony regarding errors of notable rate of
20 return witnesses regarding ratemaking principles.

21 Most recently, I have completed several project management and Six Sigma
22 on-line courses.

1 Q. What is the purpose of your surrebuttal testimony?

2 A. The purpose of this testimony is to identify the omissions and distortions
3 (factually incorrect statements) contained in the rebuttal testimony of
4 Mr. Chris B. Giles, and provide the facts regarding the matters raised in Mr. Giles' rebuttal
5 testimony. Events and the Company's conduct have worked to the Company's good fortune,
6 while it attempts to characterize itself as the aggrieved party.

7 Q. Can you provide a summary of your rebuttal testimony?

8 A. Yes. Mr. Giles rebuttal testimony contains certain distortions or omissions that
9 I will address. The areas that I will address are:

10 1) The Staff has proposed nothing in this case to impede the inclusion of the
11 Company's direct investment in the Iatan Air Quality Control System (AQCS)
12 investment unless the equipment is determined to not be fully operational and
13 used for service and inconsistent with the true-up process adopted by
14 Commission for this case.

15 2) Mr. Giles' testimony regarding the roles of the Utility Services Division
16 and the Utility Operations Division relative to a construction audit
17 are incorrect.

18 3) Mr. Giles inappropriately alleges agreements with Staff in the
19 KCPL Regulatory Plan that do not exist.

20 Q. On page 3, lines 1 through 8 of Mr. Giles' rebuttal testimony he states that
21 Staff is impeding the Commission's ability to include all of the Company's Iatan 1 AQCS
22 investment in rates. Is this testimony true?

1 A. No. First, the Staff has never expressed any intent to remove any of the
2 Company's Iatan 1 ACQS investment from its cost of service recommendation in this case
3 due to the fact it has not completed a prudence review of those expenditures. There are
4 outstanding issues related to the Company's proposal to transfer Iatan 2 costs to Iatan 1 but
5 this is a separate issue.

6 Aquila, Inc. (Aquila), the predecessor to KCP&L Greater Missouri Operations
7 Company (GMO or GMO-MPS and GMO-L&P), owned 18% of Iatan 1 through its
8 acquisition of St. Joseph Light & Power Company. Aquila did not have a regulatory plan
9 respecting the Iatan 1 AQCS and Iatan 2 construction projects but has a financing plan as a
10 result of Case No. EO-2005-0293 respecting the Iatan 1 and Iatan 2 projects.

11 Q. Mr. Giles testifies regarding the Utility Operations and Utility Services
12 Divisions of the Commission Staff relative to a construction or prudence audit of the
13 environmental expenditures for ACQS equipment at Iatan 1, Jeffrey Energy Center units 1
14 and 3, and the Sibley generating facility, unit 3. Does he accurately portray the roles of the
15 Divisions in such an audit?

16 A. No. A correct statement regarding the situation would be that the Staff did not
17 complete a prudence or construction audit of the environmental upgrades at Iatan 1,
18 Jeffrey Energy Center units 1 and 3, and the Sibley generating facility, unit 3. Staff does not
19 have anyone in its employ that will testify on its behalf that the expenditures being sought for
20 recovery from ratepayers are prudent and reasonable because an audit has not been
21 completed. At this time we do not know what the total of these expenditures are, let alone
22 whether the expenditures are prudent. Further, KCPL has alerted Staff that it intends to
23 transfer costs from its Iatan 2 project to the costs of Iatan 1, for costs of plant common to

1 both units. KCPL has refused to provide information for Iatan 2 during a majority of this case
2 on the basis that Iatan 2 was not relevant to this rate case. Such a position is contrary to the
3 Company's efforts to transfer costs from Iatan 2 to Iatan 1.

4 The Utility Services Division has no greater role in conducting construction audits
5 than the Utility Operations Division of the Staff. Schedule RES 2 to my surrebuttal
6 testimony is a copy of the Staff's coordination procedure. Each Division has addressed
7 its overall responsibilities consistent with its other responsibilities.

8 Each Division has its responsibilities in reviewing costs for prudence in each
9 particular construction audit. The Utility Operations Division is expected to participate in all
10 prudence audits with assistance from the Utility Services Division and the General Counsel's
11 Office as illustrated on the front page of Schedule RES 2 attached to this testimony.
12 Mr. Giles provides no documentation to support his testimony on this topic.
13 As Mr. Featherstone testifies, neither GMO nor Mr. Giles made any effort to understand
14 these matters before he filed his rebuttal testimony in this case.

15 Q. Mr. Giles on page 3, lines 16 through 18 of his rebuttal testimony testifies that
16 the Utility Services Division has known for several years about the timing, complexity, or
17 magnitude of this case. Is this statement accurate?

18 A. It is not a complete or accurate statement of the situation. Mr. Giles omits any
19 role the Utility Operations Department has in the planning and preparation for this rate case
20 in his statement. Further, Mr. Giles omits any information regarding the Utility Services
21 Division's other activities during this period. More importantly, Mr. Giles fails to note the
22 participation of the Staff, including the Utility Services Division, in other KCPL activities,

1 | which included two rate cases before the present case, financing cases, and a service center
2 | sale case.

3 | Great Plains Energy's acquisition of Aquila has resulted in increased work activities
4 | relative to operational and customer service issues stemming from the integration of KCPL's
5 | operations with those of the former Aquila Missouri operations.

6 | In addition, Mr. Giles fails to note that the KCPL Regulatory Plan specifically states
7 | that KCPL is not required to file Rate Filing #2 or Rate Filing #3,¹ thus providing no
8 | certainty that this case would be filed. The timing of this case is different than the dates
9 | identified for Rate Filing #3 in the KCPL Regulatory Plan. The complexity of having the
10 | Aquila AQCS projects required to be reviewed at the same time of KCPL's Iatan investment
11 | was not known for several years. It should be noted that Empire District Electric Company is
12 | a partner in the Iatan 1 project and does not have a current rate case pending before the
13 | Commission. The magnitude of the dollars at issue have not been known for several years as
14 | the Iatan 1 project exceeded its definitive estimate and missed its scheduled
15 | completion dates. In addition, the transfer of Iatan 2 common costs to Iatan 1 is not an issue
16 | that has been known about for several years as KCPL only recently has provided the amount
17 | it proposes to transfer to Iatan 1 and only recently has allowed access to Iatan 2 information.

18 | The Staff has many other responsibilities and could not focus solely on GMO's
19 | construction projects to the exclusion of its other responsibilities over the last several years.

20 | Q. Can you identify factors or events that would need to be overcome in order to
21 | complete a review of the construction costs of the environmental equipment additions at
22 | Iatan 1, Jeffrey Energy Center Units 1 and 3, and the Sibley generating facility Unit 3 at
23 | this time?

¹ KCPL Regulatory Plan paragraph III.B.3., page 29.

1 A. Yes. The Iatan 1 cost and schedule slippage and the failure to complete the
2 project consistent with previously indicated dates create uncertainty regarding the amount
3 Staff is to audit to determine that the prudence of that level of expenditures. Currently this
4 amount is not expected to be known until the Company's next rate case. The Company has
5 indicated that only the amounts consistent with the Commission's true up order will be
6 included in this case. This uncertainty regarding the costs of the Iatan 1 AQCS is greatly
7 increased by KCPL's position that it intends to transfer an amount of monies from its Iatan 2
8 project to increase the level of Iatan 1 costs it seeks to recover in this case, while at the same
9 time denying Staff access to Iatan 2 information for a majority of the time that has elapsed in
10 this case. Mr. Featherstone will provide the details regarding the KCPL activities and the
11 timing of those activities relative to the shift of what were originally included as
12 Iatan 2 costs to Iatan 1 costs for common plant.

13 The consolidation of KCPL and Aquila operations has greatly increased the
14 work scope at this time as it has increased the number of generating plants to be reviewed
15 and the rate activities to be completed in the same time period, introduced new
16 learning requirements to complete the same tasks as prior KCPL and Aquila functions have
17 been and are modified, eliminated, and replaced with new data sources and supported by
18 individuals with less institutional knowledge of prior practices and arrangements.

19 Further, KCPL is more difficult to work with at this time, as its employees are
20 charged with more responsibilities resulting in the failure to satisfy commitments as
21 completely or as timely as it previously had done.

22 In addition, KCPL is a more difficult entity to deal with from a regulatory standpoint
23 than Aquila was before it was acquired by Great Plains Energy. KCPL is more prone to

1 choose the litigious approach than the Aquila regulatory group in place before Great Plains
2 Energy acquired Aquila.

3 Obtaining information from KCPL through discovery and otherwise has been difficult
4 as KCPL is less forthcoming with information than Aquila was before Great Plains Energy
5 acquired it and KCPL objects to data requests based on lack of relevance despite the fact that
6 the requested information is clearly related to items that KCPL and GMO seek to include in
7 their cases. Responses are withheld on the basis of general objections of attorney-client and
8 attorney work product privileges without providing any information to determine whether the
9 requested information exists or the information qualifies for such a privilege. Data that was
10 requested for review has never been provided. Reports mentioned in testimony are not
11 supplied in workpapers or in response to data requests. Documents are edited to eliminate
12 information previously provided in the GPE acquisition of Aquila case causing
13 additional time to be expended to compare data to determine what information is actually
14 available in a prior case that is sought to be protected in the pending case. Documents are
15 provided for review without identification of the data request(s) to which that information is
16 being provided as a response.

17 KCPL indicated that its Platte City and Liberty service center sale case was a priority
18 that needed to be addressed after the pending rate cases were filed. Staff accommodated the
19 request diverting attention from construction audit activity in this case. The Staff has more
20 resources than certain other non-utility parties that rely on the Staff performing audits, but
21 the Staff's resources are limited and the Staff cannot do an unlimited number of activities at
22 the same time.

1 Staff has experienced increased work load as customer complaints to the Commission
2 have increased due to the transition of KCPL operating the former Aquila properties in
3 unanticipated ways. An unanticipated problem is the fact that the companies can now deny
4 service based on unpaid balances owed to their affiliates, although they cannot give such
5 customers the benefit of “cold weather rule” payment plan arrangements.

6 The fact that the former Aquila MPS, Aquila L&P electric and Aquila L&P
7 steam operations and KCPL operate under the KCP&L logo causes confusion when dealing
8 with the Companies as to exactly what entity is being referred to by the Staff, customers,
9 and even the Companies’ personnel.

10 Q. What steps did Staff take for planning a construction or prudence audit for
11 costs of environmental equipment additions at Iatan 1?

12 A. An audit scope for a construction audit regarding the prudence of the
13 construction costs of the environmental equipment additions at Iatan and
14 the Sibley generating facility, Unit 3, was drafted. Audit plans for AmerenUE’s
15 Sioux SCR and Taum Sauk rebuild were drafted at the same time. The draft audit scope was
16 circulated to the Energy Department of the Utility Operations Division and the Auditing
17 Department of the Utility Services Division for comment as well as seeking input regarding
18 the areas the two Departments would commit to address. The Energy Department committed
19 to whatever areas could be addressed through an Engineering Review.
20 The Auditing Department committed to areas that could be addressed while fulfilling their
21 other expected audit commitments. At the time, I committed to draft initial data requests for
22 review designed to gather basic information regarding the management practices and
23 expertise being committed by the utilities to the building of these projects. Beginning in

1 September 2008, I experienced a personal situation that greatly reduced the amount of time
2 that I could commit to address Staff resource shortfalls such as this situation. The reduction
3 in time that I could devote to this audit in addition to a moving target to be audited, increase
4 in other work load activities and difficulties in acquiring information resulted in the
5 development of the Staff position in the Staff's direct case filing, which Mr. Giles finds
6 frustrating and confusing. The Staff's position on the construction projects is also addressed
7 in Mr. Featherstone's surrebuttal testimony.

8 Q. Is there a significant risk that certain expenditures charged to Iatan 1, which
9 are being charged to Iatan 1 from Iatan 2, are inappropriate?

10 A. Yes. Whenever a project fails to be successful in meeting its schedule and
11 definitive estimate, the risk of imprudent costs is enhanced. I agree with Mr. Giles that such
12 a fact is not conclusive, but the risk of inappropriate costs having been incurred is increased.
13 The Company developed the schedule and definitive estimate itself, and then failed to
14 manage the project to meet these objectives. The outstanding question is what really caused
15 this result. The failure to meet schedule and definitive estimate does not provide a level of
16 comfort that one can rely on the individuals involved in the project to simply state that all
17 their efforts were prudent, without performing a detailed investigation..

18 The level of risk of imprudence is increased when the entity does not provide
19 requested information or effectively withholds the information until such time as the Staff
20 has no time to evaluate or conduct inquiry regarding the information. Mr. Giles notes in his
21 KCPL rebuttal testimony on page 41, line 7 through 9, a Schiff Hardin May 5, 2008
22 presentation to the KCPL Executive Oversight Committee. No Schiff Hardin reports after
23 ** _____ ** have been provided to Staff.

1 Mr. Giles acknowledges at page 4, lines 2 through 5 of his rebuttal testimony that the
2 Kansas Corporation Commission (KCC) Staff was able to conduct a comprehensive
3 prudence audit of Iatan 1 project. Mr. Giles fails to mention as he did in his KCPL rebuttal
4 testimony that the KCC Staff “hired a well-qualified consultant to review the
5 Company’s management of the Iatan 1 AQCS project”. In addition, Mr. Giles fails to note
6 that this consultant recommended ** _____
7 _____ ** (See page 13, lines 21 and 22, and page 14, lines 3 through 5 of
8 Mr. Giles’ KCPL rebuttal testimony). Further, Mr. Giles fails to mention that the KCC Staff
9 did not have to address the Sibley Unit 3 or the Jeffrey Energy Center Units 1 and 3 AQCS in
10 its pending case. Nor did the KCC Staff have to deal with two additional rate case filings
11 with three additional revenue requirement calculations that they were responsible for MPS,
12 L&P and L&P steam operations. The KCC Staff did not have to deal with the testimony of
13 an outside consultant specifically hired to litigate jurisdictional allocation matters in Missouri
14 when the issue primarily concerns agreements reached by KCPL and the KCC Staff to the
15 detriment of Missouri customers.

16 Staff did not engage a consultant for the Missouri cases because the work required to
17 develop the Request for Proposal, determine a qualified vendor list, evaluate proposals,
18 award a contract, and perform contract administration with related support would require
19 more time than if Staff performed the work itself. The uncertainty regarding the
20 fully operational and used for service date for the Iatan 1 project created the risk that this
21 would not even be the case to consider the plant additions.

22 Q. Did Staff uncover any hint of inappropriate expenditures being charged to the
23 Iatan project?

1 A. Yes. Staff in its audit in this case found inappropriate charges that the KCPL
2 was charging to the Iatan 2 project. KCPL has in its rebuttal testimony removed from its case
3 relative to its expenses. I am aware of ** _____

4 _____
5 _____ ** KCPL has refused to provide further
6 information regarding the details of this expenditure as well as whether this expenditure is
7 included in the Iatan 2 costs that are being transferred to Iatan 1 or included in the
8 Accounting Authority Order the Company has indicated that it intends to seek in this case.
9 KCPL was asked if it would also remove these inappropriate charges from its plant or
10 construction projects. As of the time of this surrebuttal testimony, Staff has received no
11 response to this inquiry. Removal of these charges would reduce the costs with related
12 Allowance for Funds Used During Construction (AFDC) from GMO's plant costs.

13 This item indicates possible problems with the philosophy at the upper management
14 levels of KCPL regarding the type of expenditures that will be incurred, reimbursed, and
15 charged to the Iatan projects as well as allocated to GMO. The existence of the item noted
16 above was not discovered through a focused audit of costs charged to the Iatan projects.
17 It remains to be seen if this is an isolated charge or possibly an indication of significant
18 charges included in the cost of Iatan and other GMO plant that has been included in this case.
19 The facts are that 1) KCPL did not have adequate internal controls to prevent the
20 reimbursement and charge of this cost to GMO as an Iatan partner; 2) a consultant to the
21 KCC Staff has indicated a ** _____ **, see page 14, lines 3
22 through 5 of Mr. Giles' rebuttal testimony; and 3) KCPL has removed similar types of
23 charges from its expenses. Although KCPL has publicly announced that it is not seeking

1 recovery of this and similar type costs, the fact that KCPL has refused to provide additional
2 information regarding this and related matters does not adequately address the risk that
3 imprudent expenditures of this nature exist in GMO's Iatan 1 and 2 projects' costs.

4 Q. Mr. Giles testifies regarding the amount of Iatan information Staff received in
5 the GPE acquisition case (Case No. EM-2007-0374) and attaches Staff subpoenas as an
6 indication of the information provided to Staff. Were the scope of the subpoenas and
7 related depositions intended to acquire information for a construction prudence audit?

8 A. No. The primary purpose of these depositions was to verify whether the
9 KCPL Regulatory Plan information relating to the progress of the construction projects
10 provided to the debt rating agencies by Great Plains Energy/KCPL was accurate and current.
11 An issue in that case was what would be the impact of the proposed acquisition of Aquila
12 on the utility debt ratings of Great Plains Energy/KCPL. A March 10, 2008 "Answer of Staff,
13 Public Counsel, Praxair, AGP, and SIEUA to Procedural Schedule Proposed By Joint
14 Applicants" states that:

15 KCPKL/GPE contends that the Staff, Public Counsel and the
16 Industrial Intervenors seek to expand the scope of these
17 proceedings to include an investigation into KCPL/GPE's
18 performance under the Regulatory Plan. The Joint Applicants'
19 assertion is misleading and false. Although a thorough
20 investigation of the Regulatory Plan and the CEP may be called
21 for in a different case, such an expansion was not the intent of
22 Staff, Public Counsel and the Industrial Intervenors.

23 Staff represented in the acquisition case that its scope of inquiry was limited and not
24 expected to go into the same level of detail as depositions related to a Staff construction audit
25 of the KCPL Regulatory Plan projects alone. Schedule RES 3 attached to this testimony are
26 excerpts from Staff pleadings in Case No. EM-2007-0374 indicating Staff intent at the time
27 relative to the depositions and documents referenced in Mr. Giles' testimony.

1 Q. Mr. Giles mentions the amount of work performed by the Utility Operations
2 Division Staff relative to Iatan 1. Did you or anyone from the Utility Services Division
3 impede the ability of the Utility Operations Division Staff to render an opinion on behalf of
4 Staff that all expenditures that KCPL will be seeking to recover in this case relative to Iatan 1
5 are prudent?

6 A. No. My understanding is that the work of the Utility Operations Division
7 Staff is a product of an engineering review. The work the Utility Operations Division
8 performed was outside the purview of the Utility Services Division with members of the
9 Utility Services Division receiving information regarding the work of the Utility Operations
10 Division on an ad hoc basis, normally when forwarded from the Manager of the Energy
11 Department. The Utility Operations Division is largely responsible for determining whether
12 the construction projects are fully operational and used for service. The Utility Operations
13 Division visits to the site are conducted without any coordination with Utility Services
14 Division personnel because of the lack of involvement by Utility Services Division in their
15 work. Mr. Giles does not distinguish their activities in this area from construction
16 audit activities. Given the issues I have mentioned in this testimony, I did not expect
17 Staff members to be in a position to render a prudence determination given the nature of the
18 review performed, the uncertainty as to the amount of expenditures in question, the
19 information withheld, and the potential for imprudent charges.

20 Q. Does this conclude your surrebuttal testimony?

21 A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of KCP&L)
Greater Missouri Operations Company for) Case No. ER-2009-0090
Approval to Make Certain Changes in its)
Charges for Electric Service.)

AFFIDAVIT OF ROBERT E. SCHALLENBERG

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Robert E. Schallenberg, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 16 pages to be presented in the above case; that the answers in the foregoing 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.

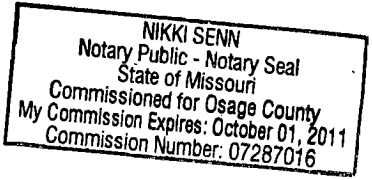
Robert E. Schallenberg

Robert E. Schallenberg

Subscribed and sworn to before me this 9th day of April, 2009.

Nikki Senn

Notary Public



RATE CASE PROCEEDING PARTICIPATION
ROBERT E. SCHALLENBERG

<u>COMPANY</u>	<u>CASE NO.</u>
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
Missouri Pipeline Company	GC-2006-0491
Aquila, Inc.	ER-2005-0436
Union Electric Company, d/b/a AmerenUE	EC-2002-1
Mississippi River Transmission	RP96-199-000
Williams Natural Gas Company	RP95-136-000
Williams Natural Gas Company	RP94-365-000
Western Resources	GM-94-40
Laclede Gas Company	GR-94-220
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	EC-91-213
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
Southwestern Bell Telephone Company	TC-89-14
Southwestern Bell Telephone Company	TO-89-56
General Telephone	TR-89-182
General Telephone	TM-87-19
General Telephone	TC-87-57
Union Electric Company	EC-87-114

RATE CASE PROCEEDING PARTICIPATION

ROBERT E. SCHALLENBERG

General Telephone	TR-86-148
<u>COMPANY</u>	<u>CASE NO.</u>
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
Kansas City Power & Light Company	ER-82-66
Kansas City Power & Light Company	HR-82-67
Southwestern Bell Telephone Company	TO-82-3
Southwestern Bell Telephone Company	TR-82-199
Southwestern Bell Telephone Company	TR-81-208
Kansas City Power & Light Company	ER-81-42
Kansas City Power & Light Company	ER-80-48
Southwestern Bell Telephone Company	TR-80-256
United Telephone Company of Missouri	TR-80-235
Gas Service Company	GR-79-114
Southwestern Bell Telephone Company	TR-79-213
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**

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

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

Union Electric Company, d/b/a AmerenUE
Case No. ER-2007-0002
Date: February 28, 2007 (Surrebuttal)
Areas: EEInc.

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

Missouri Pipeline Company
Case No. GC-2006-0491
Affiliate Transactions, Tariff Violations and Associated Penalties; Transportation Tariffs

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

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.: EC-2002-1
Date: June 24, 2002
Area: Overview, 4 CSR 240-10.020, Alternative Regulation Plan

Laclede Gas Company

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

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

Western Resources
Case No. GM-94-40
Date: November 29, 1993
Areas: Jurisdictional Consequences of the Sale of Missouri Gas Properties

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

Arkansas Power & Light Company and Union Electric Company
Case No. EM-91-29
Date: 1990-1991
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: April 27, 1987
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.
Kansas City Power & Light Company

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

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

Generic Telecommunications

Straight Line Equal Life Group and Remaining Life Depreciation Methods

Case No. TO-82-3

Date: December 23, 1981

Areas: Depreciation

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

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

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

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

United Telephone Company of Missouri

Case No. TR-80-235

Date: December 1980

Areas: Rate of Return

Southwestern Bell Telephone Company

Case No. TR-80-256

Date: October 23, 1980

Areas: Flow-Through vs. Normalization

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

Missouri Public Service Company

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

Date: April 9, 1979

Areas: Depreciation Reserve, Cash Working Capital

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

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

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.

Coordination Procedure-5
Construction Audits - Energy

1. Coordination¹ of this area will be the responsibility of:

Energy Department - Engineering Manager or Designate

2. Interaction required with:

Accounting Department
General Counsel's Office
Case Coordinator
Other staff members assigned

3. Guidelines and Parameters:

The coordinator shall develop procedures for identification and recording of new, rebuilt or refurbished plant construction costs. The procedure shall include an analysis of all factors necessary to insure proper treatment of such costs for rate-making purposes.

4. Staffing Changes:

None at this time.

5. Implementation Procedures:

- A. When the Energy Department is made aware of a construction project being initiated by a utility, a determination will be made as to whether or not a construction audit is necessary. This determination will be made on a case-by-case basis because of the uniqueness of each construction project. At that time the Energy Department Manager will designate a member of his department to act as a coordinator on that construction audit.

¹ The Coordinator is responsible for seeing that timely, appropriate action is taken by assigned staff members so that the project/issue is completed at the highest quality level possible within existing time and resource constraints. Coordination is defined as performing the overview function, combining the efforts of all departments and individuals assigned to or involved with the issue or project. Coordination does not include supervision or authority over individuals working on the project and does not include the authority to overrule the positions of others involved with the issue or project, nor does it include decision-making authority in the event of a disagreement among those involved. Any conflicts as to substance or procedure which cannot be resolved by the Coordinator should be taken up through upline management channels.

The depositions of GPE/KCPL personnel were limited and GPE/KCPL attempted to prevent the depositions of any GPE/KCPL personnel who did not otherwise file testimony in the acquisition case. GPE/KCPL attempted to keep the depositions as limited as possible. Counsel for GPE/KCPL threatened to terminate the Staff's deposition of Stephen Easley, KCPL Senior Vice President Supply (functioning as interim Vice President Construction Iatan Unit 2 and Iatan Unit 1 Projects), who is no longer with KCP&L, because it was taking longer than the four hours most other depositions had taken because of the open displeasure with being deposed that the deponent was displaying.

In paragraph 16, page 11 and in paragraph 17, pages 11-12 of the March 4, 2008 Response Of Staff, Public Counsel, Praxair, AGP, And SIEUA To Procedural Schedule Proposed By Joint Applicants in Case No. EM-2007-0374, the joint respondents stated that the Staff advised GPE/KCPL on February 28, 2008 that due to certain developments since the hearings in the acquisition case had been suspended, the Staff wanted to depose specific GPE/KCPL individuals and the Staff's pleading states that the scope of the depositions was much more limited than the scope of depositions for purposes of proceedings pursuant to the KCPL Regulatory Plan / Comprehensive Energy Plan (CEP):

16. At the prehearing conference on February 28, 2008, the Staff advised the Joint Applicants that because of the **developments regarding the costs and schedule of Iatan 1 and Iatan 2, the interrelationship between Iatan 1 and Iatan 2 and GPE's acquisition of Aquila**, questions respecting KCPL's procurement function and asserted merger savings estimates, and **questions respecting debt rating information and related debt ratings**, the Staff wants to depose and call as witnesses the following individuals

17. In a conference call on Monday, March 3, 2008, Counsel for GPE/KCPL made it clear that GPE/KCPL would only provide for depositions the three individuals whose testimony was filed on February 25, 2008 and would move to quash subpoenas/oppose the deposition of the other GPE/KCPL individuals for purposes of the GPE – Aquila acquisition case. In the same conference call, Aquila indicated that it would make available for depositions and testimony

before the Commission the two individuals identified above. Counsel for GPE/KCPL indicated the GPE/KCPL individuals who would not be provided for purposes of the GPE – Aquila acquisition case would be provided for depositions for purposes covered in the KCPL Regulatory Plan / CEP. **The scope of the Staff’s depositions of these GPE/KCPL individuals in Case No. EM-2007-0374 and calling them as witnesses in Case No. EM-2007-0374 is much more limited than would be the scope of depositions of these same individuals for purposes of proceedings relating to the KCPL Regulatory Plan / CEP.** [Emphasis added].

In paragraphs 1 and 2, on page 2; paragraph 4, on page 3; paragraph 6, on page 4; and paragraph 11, on page 7 of the March 10, 2008 Answer Of Staff, Public Counsel, Praxair, AGP And SIEUA To Procedural Schedule Proposed By Joint Applicants, the joint respondents state, in part, that although KCPL/GPE contends that the Staff, Public Counsel and the Industrial Intervenors seek to expand the scope of the acquisition case to include an investigation into KCPL/GPE’s performance under the KCPL Regulatory Plan / CEP, the intent of the Staff, Public Counsel and the Industrial Intervenors is to verify the accuracy and currency of the information on the KCPL Regulatory Plan / CEP projects that was provided by GPE/KCPL to the ratings agencies:

1. . . . **The primary purpose of these depositions is to verify the accuracy and currency of the information on the Regulatory Plan / Comprehensive Energy Plan (CEP) projects that was provided by the joint applicants to ratings agencies.**
2. On March 6, 2008, two of the three Joint Applicants (GPE and KCPL) filed a response in which they generally objected to the scope of the proposed depositions. **KCPL/GPE contends that the Staff, Public Counsel and the Industrial Intervenors seek to expand the scope of these proceedings to include an investigation into KCPL/GPE’s performance under the Regulatory Plan.² The Joint Applicants’ assertion is misleading and false. Although a thorough investigation of the Regulatory Plan and the CEP may be called for in a different case, such an expansion was not the intent of Staff, Public Counsel and the Industrial Intervenors.** In this case, Staff, Public Counsel and the Industrial Intervenors seek merely to verify that the assurances of the ratings agencies (referenced in the most recent testimony of Michael Cline and Terry Bassham) were based on accurate, up-to-date information.

² The Regulatory Plan is the agreement that was approved by the Commission in Case No. EO-2005-0329. The agreement includes the CEP.

* * * *

4. **This comparison of a current, realistic assessment of the costs and progress of the CEP projects to the information provided to the credit rating agencies is the focus of the proposed depositions. Depositions in this case are not expected to go into the same level of detail and same scope as depositions pursuant the CEP alone, but the parties and the Commission must reassure themselves in this case that the merger will not cause a downgrade. . . .**

* * * *

6. Throughout this case, the Joint Applicants have stressed the importance of maintaining the investment grade credit ratings of KCPL and GPE. It is disingenuous – and a bit alarming – for KCPL/GPE to now urge the Commission to foreclose investigation into whether or not credit rating firms Standard & Poor’s and Moody’s have current, accurate information on CEP projects. . . .

* * * *

11. . . . In actuality, **KCPL/GPE are seeking that the Commission rule that matters relating to: (1) whether KCPL’s Regulatory Plan / CEP is off-schedule and over-budget, and (2) if that is the case, whether GPE will be able to maintain its investment grade credit rating, while acquiring Aquila, are not relevant for this case. [Emphasis added].**

On March 11, 2008, counsel for the Staff submitted a letter to the Secretary to the Commission, and filed the letter in EFIS in Case No. EM-2007-0374, requesting that she issue subpoenas duces tecum as the Staff sought to gain information about the following items:

The documents sought and purpose of questioning these individuals is to gain information about **(1) the state of the financial health of Great Plains Energy; (2) whether, under current circumstances, there will be negative financial consequences to Great Plains Energy, Kansas City Power & Light Company and/or Aquila if Great Plains Energy acquires Aquila; (3) the consequences of the payment of the cash value of Aquila’s non-Missouri utility assets to Aquila’s shareholders instead of using those funds to finance Aquila’s current Missouri utility construction needs; (4) Great Plains Energy’s new position regarding the likelihood that Great Plains Energy can produce enough synergies while avoiding service deterioration and past experience in achieving savings; (5) how well Kansas City Power & Light Company actual results compare to prior commitments it has made to this Commission, including financial estimates made in those commitments; (6) how Great Plains Energy and Kansas City Power & Light Company actually conduct business in comparison to**

their codes of conduct, ethics, integrity, transparency and how that compares to how Aquila conducts business, in particular respecting third party vendors; and **(7) how construction at Iatan is affecting the financial health of Great Plains Energy and Kansas City Power & Light Company as well as their ability to execute all the merger/consolidation commitments they claim they will perform without detrimental results.** [Emphasis added].

In opening paragraph on pages 1-2 and in paragraph 12 on page 9 of the March 17, 2008 Staff Response In Opposition To Motion For Protective Order Of Great Plains Energy Inc. And Kansas City Power & Light Co. To Quash Deposition Subpoenas, the Staff again stated that the scope of the depositions and document discovery was financial related and would not go into the same level of detail and same scope as depositions and document discovery pursuant the KCPL Regulatory Plan / CEP:

. . . The subpoenas duces tecum, as will be related herein, are designed to receive documents and testimony from certain GPE / KCPL individuals to discover information, as quickly as possible, that is relevant to:

- (a) GPE / KCPL's financial condition and credit worthiness as a result of the proposed acquisition of Aquila by GPE and the construction of environmental enhancement of Iatan 1 and the construction of a second baseload coal-fired unit referred to as Iatan 2; . . .**

* * * *

12. This comparison of a current, realistic assessment of the costs and progress of the CEP projects to the information provided to the credit rating agencies is the focus of the proposed depositions. Depositions in this case are not expected to go into the same level of detail and same scope as depositions pursuant the CEP alone, but the parties and the Commission must reassure themselves in this case that the merger will not cause a downgrade. It would be disastrous to customers as well as to Joint Applicants to approve a merger that resulted in KCPL or GPE losing its investment grade ratings just as the largest CEP investments are approaching. In an ideal world, the Commission could simply say that any adverse effects of a downgrade would be borne solely by shareholders and ratepayers would be insulated. But given GPE/KCPL's required expenditures under the CEP, it would be almost impossible for shareholders to absorb all the negative effects of a downgrade; some detriment – likely significant detriment – would inevitably hit ratepayers as well. [Emphasis added].