

Exhibit No.:

Issue(s):

Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Accounting Order
Schallenberg/Surrebuttal
Public Counsel
EC-2019-0200

SURREBUTTAL TESTIMONY

OF

ROBERT E. SCHALLENBERG

Submitted on Behalf of the Office of the Public Counsel

FILE NO. EC-2019-0200

July 7, 2019

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

The Office of the Public Counsel and The Midwest)
Energy Consumers Group,)

Complainants,)

v.)

KCP&L Greater Missouri Operations Company,)

Respondent.)

Case No. EC-2019-0200

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 surrebuttal 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 8th day of July 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.

SURREBUTTAL TESTIMONY
OF
ROBERT E. SCHALLENGER
KCP&L GREATER MISSOURI OPERATIONS COMPANY
CASE NO. EC-2019-0200

1 **Q. What is your name and what is your business address?**

2 A. Robert E. Schallenberg, PO Box 2230, Jefferson City, Missouri 65102.

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

4 A. I am employed by the Missouri Office of the Public Counsel (“OPC”) as Director of Policy.

5 **Q. Are you the same Robert E. Schallenberg that filed direct testimony on behalf of the**
6 **OPC in this proceeding?**

7 A. Yes.

8 **Q. What is the purpose of your surrebuttal testimony?**

9 A. The purpose of this testimony is to reply to the rebuttal testimony filed by KCP&L Greater
10 Missouri Operations (GMO or Company) and the cross-rebuttal testimony filed by the Staff
11 of the Public Service Commission (Staff’s) in opposition to OPC’s request that the
12 Commission order GMO to defer the savings resulting from the inclusion of Sibley related
13 costs in GMO’s current rates. All these currently included costs are savings because GMO
14 has retired the Sibley Generating station, meaning that most, if not all, of these costs are
15 no longer being incurred by GMO. OPC has requested an accounting order to track these
16 savings so that they may be later considered as an offset to the amount of unrecovered costs
17 that GMO has charged and will be charging to its depreciation reserve for the retirement

1 and decommissioning of the Sibley Generating station. These retirement and
2 decommissioning costs are currently **not** included in GMO's rates.

3 **Q. What is a summary of your surrebuttal testimony?**

4 A. If the Commission does not grant OPC and MCEG's request, then it will be handicapping
5 its ability to accurately determine rates in a future rate case to account for the cost savings
6 GMO is currently enjoying. It is a fact that the rates being charged to GMO's customers
7 are designed to pay for the operation of the Sibley Generating station. It is also a fact that
8 from the first day that these rates became effective, GMO was no longer operating the
9 Sibley Generating station. (see GMO's responses to OPC data requests to 1046 and 1047
10 in Schedule RES-S-1).

11 **Q. What was the chronology of the events related to the issues raised in the rebuttal and**
12 **cross rebuttal filed in this case?**

13 A. In June of 2017, GMO issued a press release announcing the retirement of a portion of its
14 power plants. The Sibley units were included in this announcement. GMO met with Staff
15 on August 10, 2017, to discuss topics for its upcoming 2018 rate case. GMO and Staff also
16 discussed an upcoming Kansas City and Light Company (KCPL) and GMO steam rate
17 case. At this meeting, a retirement topic was brought up by GMO. The topic specially
18 addressed that most of the power plant retirements recently announced in the June 2017
19 press release would be occurring after the planned June 2018 true-up cutoff for GMO's
20 next rate case. (See Schedule RES-S-1) Sibley 1 was already retired except for some boiler
21 systems for support to Sibley 2 and 3. In the GMO rate case with the same true-up at issue,

1 OPC raised the issue of power plant retirements and their impact on the rates that would
2 be established. Repeatedly, GMO opposed the consideration of the retirement of the Sibley
3 units on the basis that the retirement was not certain to occur and was premature.
4 Ultimately, several of the parties reached a comprehensive settlement of the GMO rate
5 case. While the Sibley retirement was touched upon by settlement, it is importantly to
6 point out that OPC did not sign or oppose that Stipulation and Agreement.

7 **Q. When did OPC become aware that GMO had retired power plants that were included**
8 **in the rates being charged to its customers?**

9 A. OPC became aware on November 20, 2018.

10 **Q. Have you reviewed the rebuttal and cross-rebuttal testimony filed by GMO and Staff,**
11 **respectively?**

12 A. Yes.

13 **Q. Has GMO's rebuttal testimony identified the profit benefit that it will experience if**
14 **the requested accounting order is not granted?**

15 A. No. However, it is clear GMO knowingly timed its retirement to retain as savings all of the
16 money it is collecting from customers to operate and maintain the Sibley Generating
17 Station that is no longer providing any capacity or energy to GMO ratepayers. This
18 situation is exacerbated by GMO's intentions to charge its customers all costs related to
19 the retirement and decommissioning of the Sibley Generating station plant as well.

20 **Q. Does the rebuttal and cross-rebuttal testimony fail to recognize the benefits of**
21 **granting OPC's accounting order request?**
22

1 A. Yes. OPC's accounting request is necessary to balance the current situation by ensuring
2 that all of the costs collected in base rates for the operation of the Sibley generation station
3 will be recorded and thus made available to be considered in GMO's next general rate case
4 when GMO seeks recovery of its unrecovered plant and retirement/decommissioning costs.
5 The rebuttal and cross-rebuttal testimony further fails to mention that GMO's rates and
6 cash flow will be unchanged until the end of GMO's next rate case even if the OPC's
7 requested accounting order is approved.

8 In the next GMO rate case, the Commission may choose to adjust future rates as either
9 higher or lower based on the deferral of the Sibley savings. However, these decisions can
10 only be calculated most accurately by approving deferral accounting now. The certainty
11 OPC's request provides is that the Commission will have the information available
12 regarding over recovered cost when considering any future GMO request for higher rates
13 based in part on unrecovered costs for the Sibley power plant.

14 Ultimately this case is about determining the best means of measuring a current problem.
15 OPC and MEEG are seeking an order that will require GMO to record cost savings as they
16 are incurred, while GMO and Staff advocate for a position that would permit GMO to not
17 only retain all cost savings related to the retirement of Sibley but also seek full recovery of
18 the actual costs from the power plant retirement and decommissioning as well. Stated
19 differently, GMO and Staff are arguing for GMO having the best opportunity to double
20 collect for Sibley Generating station costs by reducing the determination of cost savings to
21 mere estimations.

1 **Q. Does the rebuttal and cross rebuttal testimony fail to address the need for the**
2 **accounting order request?**

3 A. Yes. The rebuttal and cross rebuttal testimony does not address the merits or need for an
4 Accounting Order to record costs customers are paying in their current rates to operate the
5 retired Sibley Generation station. Instead of addressing this need, GMO and Staff just assert
6 that the OPC's accounting order request should be denied because the event is not
7 extraordinary. However, this assertion is plainly untrue, which can easily be seen when
8 considering the Commission's past decisions related to accounting orders issued for the
9 Sibley Generating station. For example, the "extraordinary" criteria was a necessary
10 component for an accounting order to be granted for retro-fit of the Sibley 3 unit in EO-
11 91-358 and EO-91-360. In those cases the Commission found a Sibley 3 retrofit to be
12 extraordinary. If a Sibley 3 retrofit was extraordinary enough to justify the precedential
13 accounting authority order, then its final retirement (which is a onetime occurrence) must
14 be equally as extraordinary.

15 **Q. Are there other factors that show the extraordinary nature of the event disputed by**
16 **GMO and Staff?**

17 A. Yes. The fact that GMO's customers are paying for the operation of the Sibley Generating
18 station while it is permanently shut-down is an extraordinary event. The importance of
19 OPC's accounting order request was enhanced when GMO effectively took the position
20 that the Company can charge in future rates the costs of retiring and decommissioning the

1 Sibley Generating Station including over \$144 million dollars for undepreciated Sibley
2 plant investment.

3 I say “effectively” because although GMO may claim to have not taken a formal position,
4 its accounting for unrecovered Sibley 3 costs as a regulatory asset in account 182.3 clearly
5 shows the future intent to charge customers: 1) now for costs for the fictional operation of
6 the incapacitated Sibley power plants, and 2) in the future for the costs related to the
7 retirement and decommissioning costs GMO is actually incurring. Again, OPC’s position
8 will enable the Commission consider how the two offset each other.

9 **Q. Are there any other reasons why the Sibley retirement is extraordinary?**

10 A. Yes. It is further important to note that GMO had planned and implemented this condition
11 in its last rate case. GMO has already started to record its actual Sibley generating station
12 costs as a regulatory asset for expenditures alleged not to be currently recovered from its
13 Missouri ratepayers. In addition, these actual costs are being treated as being probable to
14 be recovered in futures rates charged to these customers and not from current customer
15 payments for operation of the Sibley plant. Therefore, while the company is preparing for
16 the recovery of retirement and decommissioning costs alleged not to be in rates, it is
17 simultaneously asserting that all savings resulting from collection of payments meant to
18 cover the costs to operate the now retired Sibley Generation Station should **not** be
19 considered as an offset to GMO’s future claim of unrecovered costs. In other words, the
20 Company is asserting that these savings belong to its holding company while all its actual

1 Sibley retirement and decommissioning costs are to be totally collected from its ratepayers
2 through future rates.

3 **Q. Mr. Ives rebuttal testimony says that the absence of a baseline in GMO's revenue**
4 **requirement makes accounting for a deferral "impossible." Do you agree?**

5 A. No. The baseline or cost objective is how much money was included in customer rates to
6 operate the Sibley Generating station. Thus there is a baseline, it is the amount of costs
7 customers are paying to operate the Sibley Generating station.

8 **Q. But Mr. Ives claims that the baseline is nonetheless immeasurable because of the**
9 **black-box nature of the settlement that set GMO's rates. Do you agree?**

10 A. No. The cost to operate the Sibley Station was not a contested issue in the prior rate case.
11 The numbers provided by GMO and Staff in that rate case are enough for the determination
12 of a baseline.

13 **Q. Mr. Ives also claims that it is "impossible to know" when a generating plant will retire**
14 **until the retirement actually occurs. In your experience, is this actually how public**
15 **utilities practically operate?**

16 A. It is not the way a public utility should operate. The public utility should be in control of
17 its system. The utility management must plan, organize, direct and control its organization.
18 A utility that conducts comprehensive specific management plans, called for by Mr.
19 Spanos, would not be in the position of not knowing when its generating plants will be
20 retired until the power plants are actually retired.

1 **Q. Mr. Oligschlaeger testifies that GMO primarily retired Sibley for “economic” reasons**
2 **based on Darrin Ives’ testimony. Do you agree?**

3 A. No. As economic decision certainly implies that GMO has engaged in some level of
4 analysis regarding the financial costs and revenues associated with the Sibley units. That
5 said, however, the documentation provided by GMO fails to support any notion that the
6 retirement was economic. I have not seen any data supporting the retirement of the Sibley
7 Generating station for economic reasons. Moreover, the GMO Board did not approve the
8 retirement and no documentation was produced from the Board’s status briefing on the
9 Sibley Generation station retirement in its October 29-30, 2018 meeting. (See response to
10 OPC Data Request No. 1040). The officer approval that does exist for the Sibley
11 Generating station retirement is informal (e.g. email, no explicit approval, etc.), and none
12 of these document include an overall economic basis to retire Sibley. The documents do
13 not include or cite any detailed studies of the economics of rehabilitation and continued
14 use versus retirement and decommissioning of the Sibley Generating station. (See response
15 to OPC Data Request 1039).

16 **Q. Will it be possible in GMO’s next rate case to accurately quantify the amount of Sibley**
17 **unit savings that GMO has incurred since the Sibley unit retirement if OPC’s request**
18 **accounting order is not granted?**

19 A. Without deferral accounting sought by MECG and OPC, it is incredibly difficult to quantify
20 the amount of money GMO will recover for the operation of the Sibley Generation Station.
21 An accounting order ensures that the amount of Sibley unit savings can be most accurately

1 quantified. Staff acknowledges that they “expect all parties will have the ability to submit
2 reasonable quantifications of these amounts in GMO’s next rate case, if those cost savings
3 are relevant to the issues raised in that proceeding.” I do not understand Staff’s hesitance
4 to start calculating the savings now, as all the information needed to start preparing for
5 Staff’s reasonable quantifications exist today but will only deteriorate as time passes and
6 personnel leave.

7 **Q. In his testimony, Ronald Klote remarks that there is disagreement as to the amount**
8 **of cost savings GMO is experiencing due to the Sibley units’ retirement. Is it your**
9 **understanding that all parties have to agree to the amount of cost savings for the**
10 **Commission to order accounting treatment?**

11 A. No.

12 **Q. Can you respond to Mr. Klote’s rebuttal of your labor cost estimates on page 11**
13 **through 13 of his rebuttal testimony?**

14 A. Yes. GMO is arguing that OPC needs a tracker to compare the cost level in rates to the
15 costs actually incurred. A tracker would be inappropriate since the matter in dispute will
16 not incur any actual costs. GMO will not incur any actual costs to operate the Sibley
17 Generating station since the plant has been retired. From day one of the existing rates, all
18 actual costs incurred related to Sibley Generating station will be retirement and
19 decommissioning costs, not the operational costs included in customers’ rates. There will
20 be no actual costs needed for the requested accounting order as no actual costs will be
21 incurred.

1 **Q. Mr. Klote describes the retirement of Sibley as being “anticipated and communicated**
2 **well in advance” and “was known by the Commission and parties to this proceeding,”**
3 **and Darrin Ives describes the retirement as “planned well in advance of its actual**
4 **retirement.” Does an event being planned make it more or less extraordinary?**

5 A. First, anticipation and advance communication does not disqualify an event from being
6 extraordinary. The recent total eclipse of the sun was anticipated with communication of
7 advanced precise details. I would say that the total lunar eclipse of the sun was
8 extraordinary. Second, planning does not disqualify an event from being extraordinary. I
9 have found that planning is at least neutral if not beneficial in the occurrence of
10 extraordinary events and achievements.

11 **Q. Mr. Klote attempts to differentiate Generally Accepted Accounting Principles**
12 **(GAAP) and Uniform System of Accounts (USOA) accounting. What is a utility**
13 **signaling when they accounting for something using GAAP principles for the Security**
14 **Exchange Commission (SEC)?**

15 A. GAAP accounting is required for SEC reporting. USOA reporting, on the other hand, is
16 required for FERC and Missouri reporting. A utility when using GAAP for SEC reporting
17 is addressing matters under the jurisdiction of the SEC, which includes predictions related
18 to future costs. Thus, GAAP regulatory assets for a public utility can include cost amounts
19 that are not currently being recovered in the utility’s rates but that the utility expects to
20 recover in the future.

21 **Q. Do you have anything in response to John Spanos’ testimony?**

1 A. I don't understand the relevance of his work to determine net book value of the Sibley
2 Generating station as of June 30, 2018, that was not used to establish the customer rates on
3 December 6, 2018 (see Mr. Spanos rebuttal testimony page 6, line 22 through page line 1).
4 Mr. Spanos' work was not included in the costs included in current rates to operate the
5 Sibley Generation station.

6 Mr. Spanos derives a \$145.7 million net book value for the Sibley Generating facility using
7 \$145 million as the service value of the Sibley facility that has yet to be recovered through
8 depreciation. (See Mr. Spanos rebuttal testimony page 10, line 10 through 13).
9 Depreciation continued until the November 2018 retirement, but is not considered in Mr.
10 Spanos' alleged unrecovered service value. The Sibley Generating station depreciation will
11 then be booked as a regulatory liability further reducing any unrecovered his alleged
12 service value at June 30, 2018.

13 **Q. Do you agree with any part of Mr. Spanos' rebuttal testimony?**

14 A. Yes. I agree with his rebuttal testimony on page 5, line 16 through page 6, line 1 where he
15 states that a retirement the size of the Sibley Generating station relative to the size of the
16 total GMO's generating power plants capacity would need a detailed management plan.
17 Mr. Spanos testifies that "At the appropriate time, detailed studies of the economics of
18 rehabilitation and continued use or retirement of the structure will be performed and the
19 results incorporated in the estimation of the facility's life span". However, GMO has
20 produced no such studies. In fact, GMO's rebuttal testimony devotes more mention to its

1 press releases than any detailed management study performed that justifies the decision to
2 retire the Sibley Generating station.

3 **Q. What is Schedule RES-S-1 and RES-S-2?**

4 A. These schedules contains the information I used to create this testimony. Schedule RES-S-
5 1 is the public material and Schedule RES-S-2 contains the confidential material.

6 **Q. Does this conclude your surrebuttal testimony?**

7 A. Yes.
8