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Issue: Unit Ownership Costs
Witness: Robert E. Schallenberg
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: ER-2005-0436
Date Testimony Prepared: October 14, 2005

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT 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
October 2005

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

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Case No(s) ER-2005-0436
Date 1-02-06 Rptr df

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Missouri Public
Service Commission

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

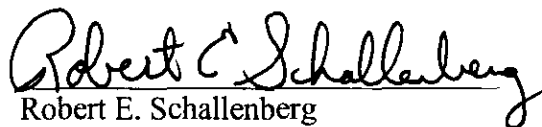
In the Matter of the Tariff Filing of Aquila, Inc.,)
to Implement a General Rate Increase for)
Retail Electric Service Provided to Customers)
in Its MPS and L&P Missouri Service Areas.)

Case No. ER-2005-0436
Tariff No. YE-2005-1045

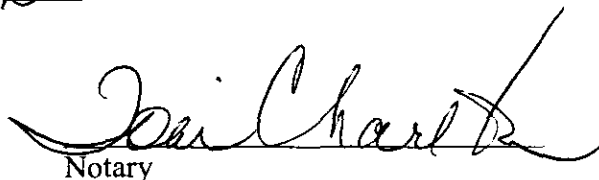
AFFIDAVIT OF ROBERT E. SCHALLENBERG

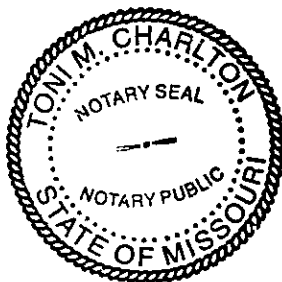
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Robert E. Schallenberg, being of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the following Direct 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 12th day of October 2005.


Notary



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

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DIRECT 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

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1
2 **DIRECT TESTIMONY**
3 **OF**
4 **ROBERT E. SCHALLENBERG**
5 **AQUILA, INC.**
6 **d/b/a AQUILA NETWORKS-MPS- ELECTRIC**
7 **AND AQUILA NETWORKS – L&P – ELECTRIC**
8 **CASE NO. ER-2005-0436**
9

10 Q. Please state your name and business address.

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

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

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

15 Q. Please describe your educational background.

16 A. I am a 1976 graduate of the University of Missouri at Kansas City with a
17 Bachelor of Science degree and major emphasis in Accounting. In November 1976, I
18 successfully completed the Uniform Certified Public Accountant (CPA) examination and
19 subsequently received the CPA certificate. In 1989, I received my CPA license in Missouri. I
20 began my employment with the Missouri Public Service Commission (MoPSC) as a Public
21 Utility Accountant in November 1976. I remained on the Staff of the Missouri Public Service
22 Commission until May 1978, when I accepted the position of Senior Regulatory Auditor with
23 the Kansas State Corporation Commission. In October 1978, I returned to the Staff of the
24 MoPSC. Most immediately prior to October 1997, I was an Audit Supervisor/Regulatory

1 Auditor V. In October 1997, I began my current position as Division Director of the Utility
2 Services Division of the MoPSC.

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

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

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

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

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

19 4. To assist in the technical training of other auditors in the Accounting
20 Department and other Staff;

21 5. To prepare and present testimony in proceedings before the MoPSC and the
22 Federal Energy Regulatory Commission (FERC), and aid MoPSC Staff attorneys and the

1 MoPSC's Washington, D.C. counsel in the preparation of pleadings and for hearings and
2 arguments, as requested; and

3 6. To aid in the development of audit findings and review: 1) the audit findings;
4 and 2) prepared testimony to be filed by other auditors in the Auditing Department and other
5 MoPSC departments.

6 The MoPSC relied on the Regulatory Auditor V position to be able to present and
7 defend positions both in filed testimony and orally at hearing. I have presented testimony on
8 many occasions before the MoPSC on issues ranging from the prudence of building power
9 plants to the appropriate method of calculating income taxes for ratemaking purposes. I have
10 worked in the areas of regulation of telephone, electric and gas utilities. I even have taken
11 depositions on behalf of the MoPSC in an FERC natural gas pipeline case. Attached as
12 Schedule 1, is a list of cases and issues on which I have worked at the MoPSC. In addition, I
13 have provided live testimony in several MoPSC proceedings, including the recent
14 experimental regulatory plans involving Aquila, Empire Electric District Company, and
15 Kansas City Power & Light Company. As indicated above, my responsibilities have
16 expanded over my years at the MoPSC to include, among other things, assisting in rate
17 proceedings and other public utility regulatory matters at the federal level on behalf of the
18 MoPSC, as assigned.

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

20 A. Yes. I submitted testimony in Docket Nos. RP94-365, RP95-136, RP96-173,
21 et. al. These were cases involving Williams Natural Gas Company (WNG). WNG provides
22 gas transportation and storage services for local gas distribution companies serving the
23 western portion of Missouri. WNG provides service to Missouri Gas Energy, a division of

1 Southern Union Company which serves the Kansas City area. My testimony in Docket No.
2 RP94-365 involved a prudence challenge of the costs that WNG sought to recover in that
3 case. I also filed testimony regarding certain cost of service issues in a WNG FERC rate case,
4 Docket No. RP95-136. The issues included affiliated transactions between WNG and its
5 parent. I filed testimony in Docket No. RP96-173, et. al., on the issue of whether the costs in
6 question met FERC's eligibility criteria for recovery under FERC Order No. 636.

7 I submitted testimony in Mississippi River Transmission (MRT) Corporation's FERC
8 rate case, Docket No. RP96-199. MRT provides gas transportation and storage services for
9 local distribution companies serving the eastern portion of Missouri. MRT provides service
10 to Laclede Gas Company, which serves the St. Louis area. My testimony in Docket No.
11 RP96-199 involved cost of service issues. These issues included affiliated transactions
12 between MRT and its parent.

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

15 A. Yes. I have been involved in negotiations in practically every case in which I
16 have been involved, from my earliest years as an Auditor I through my years in my present
17 position as a Division Director. I have been involved in either the actual drafting of language
18 or the review of language of each stipulation and agreement in these cases, in particular
19 respecting revenue requirement issues. These responsibilities began with my first rate case
20 involving Kansas City Power & Light Company, in Case No. ER-77-118. In addition, I have
21 participated in FERC settlement conferences on behalf of the MoPSC. Recently, I performed
22 significant work in Kansas City Power & Light Company's Iatan 2 generating station

1 experimental regulatory plan workshop, Case No. EW-2004-0596, and the subsequent Iatan 2
2 related cases that I have mentioned above.

3 **EXECUTIVE SUMMARY**

4 Q. Please provide an "executive summary" of your testimony.

5 A. My testimony will address the costs related to capacity needed to meet Aquila
6 Networks MPS (MPS) Division's load requirements. These costs were determined based upon
7 the Company owning physical assets to serve its customers. These costs were included in the
8 Staff's analysis of the Company's revenue requirement needs. Currently, Aquila does not
9 have rights to the capacity addressed by the adjustment discussed in my testimony.

10 **PURPOSE OF TESTIMONY**

11 Q. What is the purpose of your prepared direct testimony?

12 A. The purpose of my prepared direct testimony is to sponsor, support and explain
13 adjustment S-23.9 to Staff's cost of service schedules. The adjustment is designed to include
14 in Staff's revenue requirement analysis the costs the Staff has determined are required to
15 satisfy Aquila's Aquila Networks-MPS (MPS) division's current electric capacity shortfall
16 based on the expiration of the purchase power contract respecting power from the Aries unit.
17 Currently, the MPS division has a shortfall of ** ____ ** MW of capacity in meeting its
18 future load requirements in excess of the capacity currently maintained at the South Harper
19 facility. This shortfall is due primarily to Aquila's failure to fully replace all of the capacity it
20 was obtaining from the Aries capacity purchase power contract, which expired May 31, 2005.
21 In addition to the power from South Harper, the MPS division satisfied its 2005 capacity
22 needs with a short-term contract for ** ____ ** MW of capacity from a related Aquila

1 generating facility operation called the Crossroads facility in Clarksdale, Mississippi, which
2 was an exempt wholesale generator (EWG) under the recently repealed Public Utility Holding
3 Company Act of 1935. This capacity contract has expired. Aquila is evaluating and
4 negotiating new capacity purchases. Aquila has indicated that it will satisfy its 2006 capacity
5 needs through the purchase of capacity. At this time, these projected contracts are not known
6 and measurable. The costs reflected in adjustment S-23.9 are calculated based upon Aquila
7 owning sufficient generating units to satisfy this capacity shortfall.

8 Q. Why did the Staff calculate adjustment S-23.9 based upon Aquila owning
9 sufficient generating units to provide ** __ ** MW of capacity?

10 A. There are three reasons that Staff used an ownership option to calculate
11 adjustment S-23.9.

12 First, a prudent ownership option will produce the lowest overall cost approach for
13 Aquila to satisfy its Missouri jurisdictional ratepayers' electric needs. I emphasize the word
14 prudent because inappropriate actions in the building or acquiring capacity can lead to a
15 different result. Staff Witness Lena Mantle will discuss the information Aquila has provided
16 to the Staff in the past comparing the long-term cost implications of the build versus purchase
17 approaches.

18 Second, the build approach provides stability to a company's cost structure that does
19 not exist when a company is continually seeking to purchase capacity to satisfy its load
20 requirements.

21 Third, the perception that a company will build capacity or is prepared to take the
22 actions necessary to build capacity places it in a stronger negotiating position when it is

1 considering purchasing capacity or energy. I relied upon Staff Witnesses Cary G.
2 Featherstone and Lena Mantle in developing this Staff adjustment.

3 Q. Are there times when it is prudent for an electric utility to purchase capacity?

4 A. Yes. It would be prudent for an electric utility to purchase capacity when it is
5 anticipated on the basis of exacting analysis that such a purchase would result in a lower
6 overall revenue requirement in the long-run. It is important for an electric utility to
7 continually canvass the market so that it is aware of the options available to it whenever it
8 must decide whether to meet its load with a supply option or a purchase option. In
9 determining prudence, the revenue requirement impact of owned capacity should be evaluated
10 over the life of the generating plant, not just over a few years of its operation.

11 Q. How did you calculate adjustment S-23.9?

12 A. This adjustment is based on the premise of adding the needed capacity at an
13 existing site. A ** _____ ** estimate was used for a June 1, 2005, in-service date and
14 applied to the amount of needed capacity. This cost estimate is a matter of judgment. Given
15 how Aquila has proceeded with meeting its capacity needs, it is appropriate to make an
16 adjustment on the basis of an estimate, using the best information available. Staff is not
17 aware of any Aquila effort seeking to acquire capacity for ownership from a third party or
18 requesting third-party proposals for turbine generator options to support an Aquila build
19 option. Consequently, the information best suited to develop this estimate is not available.
20 Another Aquila operation, however, is offering to sell existing units that it owns to non-
21 affiliated entities, but apparently not to Aquila's MPS division. Staff has requested, but has
22 not received as yet, additional information on this Aquila offering. The ** _____ **
23 estimate will be re-evaluated in light of this data, as well as based on discussions with the

1 parties to this case. This Staff starting point will be adjusted if new information shows the
2 need to do so.

3 The ** _____ ** estimate was applied to the needed capacity balance to determine
4 a cost at June 1, 2005. This "invested amount" was applied to return and depreciation
5 components to derive an initial annual cost at June 1, 2005. The return components are based
6 on the testimony of Staff Witness David Murray and the depreciation component is based on a
7 30-year life under the build option.

8 Q. How would this amount be modified in the true-up phase in this case and in
9 future cases?

10 A. The June 1, 2005, balance would be adjusted for accumulated depreciation and
11 deferred income taxes as well as Commission decisions regarding Aquila's rate of return.
12 These adjustments would affect the return component of the adjustment. As mentioned
13 herein, the June 1, 2005, balance is subject to modification as new information is obtained.

14 Q. Does this conclude your prepared direct testimony?

15 A. Yes it does.
16

**CASE SUMMARY OF INVOLVEMENT
OF
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
Union Electric Company d/b/a AmerenUE	EA-2005-0180

**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.

Union Electric Company d/b/a AmerenUE
Case No. EA-2005-0180
Date: January 31, 2005
Area: Metro-East Conditions

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.