

Exhibit No.:
Issue: St. Joseph Light & Power
Company Business Strategy
Witness: Terry F. Steinbecker
Type of Exhibit: Direct Testimony
Sponsoring Party: St. Joseph Light & Power Company
and UtiliCorp United Inc.
Case No.:

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Terry F. Steinbecker

October 19, 1999

Exhibit No. 1
Date 7-10-00 Case No. EM-200-292
Reporter TJ

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF TERRY F. STEINBECKER
ON BEHALF OF ST. JOSEPH LIGHT & POWER COMPANY**

CASE NO.

1 Q. Please state your name and business address.

2 A. My name is Terry F. Steinbecker, 520 Francis, St. Joseph, Missouri 64502.

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

4 A. I am employed by St. Joseph Light & Power Company ("SJLP") as President and Chief
5 Executive Officer.

6 Q. On whose behalf are you testifying?

7 A. I am testifying on behalf of the Joint Applicants in this proceeding, UtiliCorp United Inc.
8 ("UtiliCorp") and SJLP.

9 Q. Please describe your educational background and business experience.

10 A. I attended the University of Missouri at Columbia and received a bachelor of science in
11 business administration degree with a concentration in accounting in 1968 and a master
12 of business administration degree in 1971. Upon graduation, I worked as an auditor for
13 Arthur Andersen & Co. in its Kansas City office. In 1975, I accepted a position at SJLP
14 as Chief Accountant. I was elected President and CEO in April 1986.

15 Q. What is the purpose of your direct testimony in this proceeding?

16 A. The purpose of my testimony is to describe the strategic rationale for the proposed merger
17 from the perspective of SJLP. The details of the transaction and its financial impacts will
18 be addressed by other witnesses.

1 Q. Please provide an overview of the business of SJLP.

2 A. SJLP is engaged in the business of a public utility and is subject to the jurisdiction of the
3 Missouri Public Service Commission ("Commission"). As a public utility, SJLP
4 provides electricity to the public in all or parts of 10 northwest Missouri counties, natural
5 gas in parts of its North Division and steam to five industrial customers in St. Joseph.
6 SJLP's electric operations include generation, transmission and distribution of electric
7 energy. SJLP serves more than 62,000 electric customers in a 3,400 square mile service
8 territory that encompasses 73 communities and a large rural area. It serves 6,400 natural
9 gas customers in 15 communities. SJLP does not provide natural gas to St. Joseph. In
10 addition to its regulated utility businesses, SJLP's wholly-owned unregulated subsidiary,
11 SJLP Inc., participates in affordable housing investments and venture capital
12 opportunities.

13 Q. Why did SJLP pursue a merger?

14 A. By way of background, prior to 1995, SJLP's board of directors, from time to time,
15 studied various strategies for maximizing shareowner value. These studies, which in
16 certain cases involved the retention of outside advisors, stemmed in part from concerns
17 relating to the ability of SJLP to continue to compete effectively given the relatively
18 small size of its operations compared with many other utility companies, including those
19 in its geographic region .
20 Thereafter, In 1995, SJLP retained a consulting firm to assist management in developing
21 a strategic plan in light of these concerns. Based upon the results of a report prepared by
22 the consulting firm and presented to the board on January 17, 1996, SJLP embarked upon
23 a diversification program by which it sought out private equity and certain convertible

1 debt investment opportunities, primarily in unregulated industries.

2 Q. Subsequently, did SJLP seek out additional strategic planning advice?

3 A. Yes. In early 1998, the Strategic Planning Committee of the board of directors retained
4 another consulting firm to provide strategic planning advice. On March 18, 1998, that
5 consulting firm delivered a report to the board in which it recommended that SJLP begin
6 exploring various strategic alternatives, including a potential merger or strategic alliance.

7 Q. What did the board do in response?

8 A. After considering the report and deliberating over the issues raised and the
9 recommendations contained in the report, on May 19, 1998 the board began to interview
10 potential financial advisors to assist in exploring strategic alternatives.

11 Q. What happened next?

12 A. After interviewing financial advisor candidates, the board, at its July 15, 1998 meeting,
13 authorized management to negotiate the engagement of an investment banking firm to
14 serve as SJLP's financial advisor. The investment banking firm was instructed to
15 commence a review of SJLP and its competitive position in the utility industry and to
16 begin developing potential strategic alternatives for maximizing shareholder value,
17 including a potential merger or strategic alliance.

18 Thereafter, on October 14, 1998, the investment banking firm outlined the strategic
19 challenges facing SJLP and recommended that SJLP explore a potential business
20 combination with a larger utility company as the best means of maximizing long-term
21 value for its shareowners while also benefiting customers and employees. Subsequently,
22 SJLP began a process of soliciting expressions of interest.

1 Q. Please describe the solicitation process.

2 A. The board's Strategic Planning Committee, management and SJLP outside advisors
3 identified potential strategic merger partners consistent with the goal of enhancing long-
4 term share value for SJLP's shareowners, while considering SJLP's other constituencies,
5 including its customers and employees. Consistent with this goal, the board and its
6 advisors identified a list of potential strategic merger partners, including UtiliCorp.
7 Seven companies from the list were contacted for the purpose of obtaining expressions of
8 interest in a potential business combination. On December 4, 1998, the investment
9 banking firm informed the board that another interested party had contacted it about
10 SJLP. Solicitation of an expression of interest from that party was directed by the board.

11 Q. What happened next?

12 A. Between December 16 and December 18, 1998, preliminary expressions of interest were
13 received from three companies including UtiliCorp. The financial and non-financial
14 aspects of these expressions of interest were reviewed and discussed by the board at a
15 meeting held on December 21, 1998.

16 Between January 12 and January 21, 1999, the three parties that had submitted
17 expressions of interest performed a due diligence review of SJLP, including discussions
18 with SJLP's management. On January 25, 1999, the Strategic Planning Committee met
19 to discuss the status of the due diligence procedures conducted by the interested parties.
20 The committee also reviewed a form of draft merger agreement to be distributed to the
21 interested parties. After the committee approved the form of the draft merger agreement,
22 it was delivered to the three interested parties and they were informed of a February 16,
23 1999 deadline for submitting final binding proposals. Between January 7 and February

1 17, 1999, SJLP's management conducted a due diligence review of the three interested
2 parties, including management interviews. On February 16, 1999, SJLP received final
3 binding proposals from two of the three interested parties.

4 Q. How were the final proposals evaluated?

5 A. On February 17-18, 1999, the Strategic Planning Committee and SJLP's financial and
6 legal advisors met to review the economic and other terms of the two proposals. The full
7 board reviewed and compared the two proposals at a meeting held on February 19, 1999.
8 At that meeting, SJLP's financial advisor discussed its preliminary assessment of the two
9 competing bids from a financial point of view. After this discussion, and based upon the
10 higher and fixed nature of the bid contained in UtiliCorp's proposal, the board directed its
11 investment banking firm to encourage UtiliCorp to increase its bid. In response,
12 UtiliCorp raised its bid to \$23.00 per share of SJLP common stock.

13 Q. What actions did SJLP's board then take?

14 A. Based upon the increase in price to \$23.00 per share and the more favorable structure of
15 UtiliCorp's bid, on February 22, 1999 SJLP's board of directors authorized management
16 and its legal advisors to continue negotiations of a definitive merger agreement with
17 UtiliCorp.

18 Q. When did the board consider the definitive merger agreement?

19 A. Late in the afternoon of March 4, 1999, the board held a special meeting to review and
20 approve the terms of the definitive merger agreement. The board was briefed by
21 management and SJLP's financial and legal advisors with respect to the final negotiations
22 and the terms and conditions contained in the definitive merger agreement. The board
23 received an opinion of its financial advisor that as of March 4, 1999, and based upon and

1 subject to the various considerations described in its opinion, the merger consideration
2 was fair, from a financial point of view, to holders of shares of SJLP's common stock.
3 After deliberating, the board unanimously approved the merger agreement and the
4 merger. The merger agreement was executed on the evening of March 4, 1999, and the
5 merger was publicly announced prior to the opening of trading on the New York Stock
6 Exchange on March 5, 1999.

7 Q. How do you characterize UtiliCorp as a merger partner?

8 A. Clearly, UtiliCorp is the right merger partner for SJLP.

9 Q. Why?

10 A. UtiliCorp has the financial strength, the size and the commitment to growth to better
11 provide competitive returns to SJLP shareowners and quality service at competitive
12 prices to our customers. UtiliCorp is a leader in energy marketing and distribution and
13 also an advocate for customer choice. This merger will provide benefits for SJLP's
14 customers, shareowners, employees and communities.

15 Q. How does the proposed merger benefit SJLP customers?

16 A. As I indicated earlier, SJLP's board of directors and officer group have, for some time,
17 been concerned about the ability of SJLP to continue to compete effectively and to
18 provide high quality service at low rates given the relatively small size of its operations.
19 This is of particular concern when it comes to the market for the generation of power.
20 Ultimately this size disadvantage will result in higher prices for our customers than would
21 otherwise have been the case. Additionally with respect to future deregulated markets,
22 SJLP is also at a disadvantage as it lacks the mass, scope or unique market niche which
23 will allow it to compete effectively in the evolving competitive environment on a long-

1 term basis. Ultimately these circumstances will translate into disadvantages for our
2 customers. Given all of this, SJLP customers will benefit in several ways as a result of
3 the merger. First, the merger will bring about price stability without sacrificing service.
4 In this regard, after the closing of the merger, UtiliCorp is proposing to implement a 5
5 year rate moratorium for SJLP's electric, gas and steam customers followed by a filing of
6 rate cases that will flow the benefits to the SJLP customers. Second, UtiliCorp's greater
7 resources and experience will allow it to better provide and maintain an adequate and
8 reasonably priced energy supply for our customers on a going forward basis. Third,
9 UtiliCorp is in a position to make available to our customers a broader range of products
10 and services. Fourth, the increase in size and market diversification will enhance the
11 overall financial strength of the merged entity which will ultimately benefit customers
12 and other stakeholders alike. Finally, from the day-to-day standpoint of the customers of
13 SJLP, the change should be transparent.

14 Q. What will SJLP shareowners receive for their SJLP stock?

15 A. When the merger is completed, SJLP shareowners will receive \$23.00 of UtiliCorp stock
16 for each share of SJLP common stock they hold immediately before the merger occurs.
17 The number of shares of UtiliCorp common stock to be issued in the merger will be
18 determined on the basis of its average trading price during the 20 trading days ending on
19 the fifth trading day prior to the closing of the merger. In addition to the attractive
20 premium, the merger offers SJLP's shareowners a more liquid market and most likely
21 some improvement in the dividend.

22 Q. How do you characterize this price for SJLP's stock?

1 A. It is reasonable. Our shareowners will become shareowners in a larger, much more
2 diverse company. SJLP's shareowners' ownership in UtiliCorp has a better potential for
3 growth, given UtiliCorp's financial strength and commitment to growth. Also, as I
4 mentioned previously, independent financial advisers conducted a thorough and detailed
5 review of the value of SJLP. Their opinion, which they presented to SJLP's Board, was
6 that the offer was fair to SJLP shareowners from a financial point of view.

7 Q. Have SJLP's shareowners approved the merger with UtiliCorp?

8 A. Yes. SJLP's shareowners approved the merger at a special meeting held on June 16,
9 1999. Of SJLP's total common shares entitled to vote, 68.6% voted for the merger, 2.1%
10 voted against the merger and .5% abstained. This met the required two-thirds approval
11 for the merger to proceed. Of the total shares voted, 96.3% voted for the merger.

12 Q. How will the merger impact SJLP's employees?

13 A. SJLP's employees will benefit because, as a large international company, UtiliCorp offers
14 greater opportunities for career advancement and personal growth. UtiliCorp also offers
15 an excellent compensation and benefits package, which is comparable to that offered by
16 SJLP.

17 Q. Will UtiliCorp continue to support the communities now served by SJLP?

18 A. In the merger agreement, UtiliCorp agreed, for a period of at least five years following
19 the completion of the merger, to provide charitable and civic support within SJLP's
20 service area at levels substantially comparable to and no less than what has been provided
21 by SJLP. Also in the agreement, UtiliCorp agreed, for a period of three years, to have an
22 advisory board of existing SJLP directors to consult with UtiliCorp regarding, among
23 other things, community matters.

1 Q. Do you have any comments with respect to Utilicorp's proposed "regulatory" plan?

2 A. UtiliCorp witnesses will speak to the details of the Plan. From the perspective of SJLP,
3 however, it is important for the Commission to recognize that all stakeholders will be
4 well served when this transaction is consummated. To do this, it is appropriate for the
5 Commission to find some means, such as approval of the Plan, to bring about a sharing
6 of the merger benefits. In this way the Commission will encourage companies, such as
7 UtiliCorp, to take actions, such as this merger, which will produce economies of scale
8 and other savings. Absent such an approach, there may be a disincentive for transactions
9 that produce net benefits for customers. In the final consideration, there must be some
10 incentive for an acquiring utility to enter into a transaction and thus create quantifiable
11 benefits through cost savings. That incentive, it seems to me, is a fair sharing of the
12 merger benefits between customers and shareowners.

13 Q. Does this conclude your direct testimony at this time?

14 A. Yes. It does.

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