

Exhibit No.:

Issues: Evaluation of Transaction,
Standard of Public Detriment

Witness: Roberta A. McKiddy

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: GM-2001-585

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

ROBERTA A. McKIDDY

FILED
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Missouri Public
Service Commission

GATEWAY PIPELINE COMPANY, INC., et al.

CASE NO. GM-2001-585

Jefferson City, Missouri
August 2001

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

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ROBERTA A. McKIDDY
GATEWAY PIPELINE COMPANY INC., ET. AL
CASE NO. GM-2001-585**

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Rebuttal Testimony of
Roberta A. McKiddy

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to address the transaction proposed by
3 Gateway Pipeline Company, Inc. ("Gateway") to purchase all of the issued and
4 outstanding shares of the capital stock of UtiliCorp Pipeline System, Inc. ("UPL") from
5 UtiliCorp United, Inc. ("UtiliCorp") from a financial and economic perspective.

6 **EVALUATION OF TRANSACTION**

7 Q. Please briefly describe the proposed transaction.

8 A. According to the Joint Applicants, "UtiliCorp has agreed to sell and
9 Gateway has agreed to buy all of the issued and outstanding shares of the capital stock of
10 UPL (the "Transaction"). After the Transaction, both MGC and MPC will continue to be
11 owned by their non-regulated parent, UPL, and both MGC [Missouri Gas Company] and
12 MPC [Missouri Pipeline Company] will continue to be regulated by the Commission as
13 provided by law. The essence of the Transaction is that the parent of UPL will be
14 changed from UtiliCorp to Gateway with no change in the ownership of MGC or MPC,
15 the regulated Missouri utilities" [Source: Original Application of Joint Applicants at
16 page 3].

17 Q. Please provide an organizational chart that illustrates the current corporate
18 structure along with how the corporate structure would change should the Commission
19 choose to approve the proposed transaction.

20 A. Attached as Schedule 5 are two diagrams, which illustrate the current
21 corporate structure and the corporate structure that will result should the Commission
22 choose to approve the proposed transaction.

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1 Q. Why is ** _____ ** shown on your diagram when
2 it is not shown on the diagrams of corporate structure contained in Appendix 6 attached
3 to Joint Applicants' original Application?

4 A. ** _____ ** will be the sole owner of Gateway's common stock and Staff
5 believes it is important to identify all parties of which Staff is aware that are involved in a
6 transaction. It is especially important to identify any entities that have the potential to
7 influence the level of risk to which the regulated assets of Missouri Pipeline Company
8 (MPC) and Missouri Gas Company (MGC) can be exposed.

9 Q. Please briefly describe the operations of ** _____ **

10 A. ** _____

11 _____
12 _____ **

13 [Source: Gateway's Response to Staff Data Request No. 3819.] ** _____ ** principal
14 investors are ** _____ **, an individual, ** _____ **, an individual,
15 and ** _____ **, a national provider of investment management services.

16 Q. Please briefly describe the operations of Gateway Pipeline Company, Inc.

17 A. Gateway is a Delaware corporation with offices located at 7662 David
18 Peak Road, Littleton, Colorado 80127. According to the Applicants, ** _____
19 _____ ** [Source: Gateway's Response to Staff Data Request
20 No. 3803] and incorporated on February 1, 2001, and received authority to conduct
21 business in the State of Missouri on April 17, 2001 [Source: Certificate of Good
22 Standing from Secretary of State's Office that was filed with the original Application].
23 Joint Applicant states in its original Application to the Commission that, "Gateway

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1 conducts no operations subject to the jurisdiction, control and regulation of the
2 Commission and therefore is not a "public entity" as that term is defined by
3 § 386.020(32), RSMo2000." [Source: Original Application of Joint Applicants at page 1
4 and 2.]

5 Q. Why was Gateway formed?

6 A. According to Gateway's response to Staff Data Request No. 3810,

7 **

8 **

9 Q. What is Gateway's relationship with ** **?

10 A. Gateway responded to Staff Data Request No. 3804 that, **

11 **

12 Q. Please briefly describe the operations of UPL.

13 A. UPL is a Delaware corporation and a wholly-owned subsidiary of
14 UtiliCorp. Joint Applicants state in the original Application to the Commission that,
15 "UPL conducts no operations subject to the jurisdiction, control and regulation of the
16 Commission and therefore is not a "public entity" as that term is defined by
17 Section 386.010(32), RSMo 2000." [Source: Original Application of Joint Applicants at
18 page 2]

19 Q. Please briefly describe the operations of MGC and MPC.

20 A. MGC and MPC are both Delaware corporations, in good standing, and
21 wholly-owned subsidiaries of UPL. Both MGC and MPC are engaged in owning and
22 operating natural gas transmission pipelines in the State of Missouri and are subject to the
23 jurisdiction of this Commission. MGC was incorporated on December 29, 1994. MGC's

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1 authority to conduct business in the State of Missouri was renewed on April 18, 2001
2 [Source: Certificate of Good Standing from Secretary of State's Office filed with
3 original Application]. Similarly, MPC was also incorporated on December 29, 1994, and
4 MPC's authority to conduct business in the State of Missouri was renewed on
5 April 18, 2001 [Source: Certificate of Good Standing from Secretary of State's Office
6 filed with original Application].

7 Q. Does Staff have concerns about this transaction from a financial
8 perspective?

9 A. Yes, it does. Before discussing the particulars of this proceeding, I would
10 like to provide a bit of procedural history supported by documentation filed in Case
11 No. GM-94-252. The direct testimony of Company witness, Dennis R. Williams, in that
12 case discusses the financial implications of UtiliCorp's purchase of MPC and MGC at
13 page 4, lines 5 through 23 and page 5, lines 7 through 9 and lines 16 through 25.
14 Beginning at page 4, Mr. Williams' direct testimony reads as follows:

15 Q. How has UtiliCorp planned to finance the new pipeline
16 companies?

17 A. UtiliCorp initially will finance the acquisition with short-
18 term debt. On a more permanent basis, UtiliCorp
19 tentatively plans to finance these entities with 50 percent
20 common equity. This is a tentative financial structure
21 because both entities are still in the developmental stage.
22 This developmental stage plus changes in the intrastate
23 pipeline business account for the equity ratio. As the
24 entities mature and the relationship between the interstate
25 and intrastate pipeline business becomes better defined, we
26 would expect that the equity ratio of each company would
27 decline somewhat perhaps to the range of 40 to 45 percent.

28 Q. Are there regulatory assets in these companies which may
29 be the subject of some controversy in this type of
30 proceeding?

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1 A. If regulatory assets are defined as deferred rate case
2 expense and other such regulatory authorizations, the
3 answer is no.

4 On page 5, at lines 7 through 9, Mr. Williams' direct testimony reads as follows:

5 Q. Is there a premium, i.e. purchase price in excess of book
6 value, associated with these properties?

7 A. No. The properties are being acquired at book value.

8 On page 5, at lines 16 through 25, Mr. Williams' direct testimony reads as
9 follows:

10 Q. Does the fact that MGC is currently transporting gas at
11 discounted rates mean that UtiliCorp will wait until
12 customers are connected to the system and then increase
13 transportation charges?

14 A. No, it does not. The transportation rates of MGC and MPC
15 will always be constrained to some degree by competitive
16 forces including the price of propane and the eagerness,
17 financial strength and competitive drive of future
18 competitors. For this market, there will never be a captured
19 or traditional utility customer base.

20 Q. Why is this information relevant to this proceeding?

21 A. As UtiliCorp did when it acquired these pipelines, Gateway proposes very
22 optimistic capital structures for the MPC and MGC. Gateway also provides some very
23 optimistic pro forma financial statements without providing much detail of either how
24 this financial information was derived or how the projected levels for revenue and
25 expense will be achieved by Gateway. In the Joint Application, Gateway claims that
26 rates will not increase. However, Staff believes one of the most likely ways for Gateway
27 to increase revenues to its projected levels, since Gateway has provided no specific plans
28 for customer growth, would be through an increase in rates.

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1 Q. In Case No. GM-94-252, UtiliCorp stated that it planned to finance the
2 acquisition of MPC and MGC with short-term debt. At what interest rate did UtiliCorp
3 project this financing would be secured?

4 A. UtiliCorp projected this short-term financing would be secured at an
5 interest rate of 3.56 percent.

6 Q. How does Gateway intend to finance the acquisition of MPC and MGC
7 from UtiliCorp?

8 A. Gateway indicates it intends to finance the acquisition of MPC and MGC
9 from UtiliCorp by securing ** _____ ** in the amount of
10 ** _____ ** at a projected interest rate of ** _____ ** percent to ** _____ ** percent
11 [Source: Gateway's response to Staff Data Request No. 3810]. In addition,
12 ** _____ ** contributed in excess of ** _____ ** to ** _____
13 _____ ** which funded Gateway's ** _____
14 _____ ** Staff does not know whether these funds
15 contributed by ** _____ ** were personal funds or funds secured through
16 institutional lenders by ** _____ **
17 _____ ** [Source: Gateway's response to
18 Office of Public Counsel's Data Request No. 2002].

19 Q. How would Staff compare the financing option proposed by Gateway in
20 the instant proceeding with that proposed by UtiliCorp in Case No. GM-94-252?

21 A. Staff's analysis shows that the option proposed by Gateway will be more
22 costly than that proposed by UtiliCorp in Case No. GM-94-252 due in part to Gateway's
23 proposal in the proposed transaction to use ** _____ ** to fund a portion of the

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1 purchase price. In this case, Gateway proposes long-term debt financing in the amount of
2 ** _____ ** at an approximate interest rate of ** ____ ** percent to ** ____ **
3 percent. Looking solely at amount of debt and applicable interest rate, a simple
4 calculation shows that Gateway's annual interest expense would be in the range of
5 ** _____ ** to ** _____ **
6 However, Gateway projects its interest expense at December 31, 2002, as
7 ** _____ ** In Case No. GM-94-252, UtiliCorp proposed to finance the purchase
8 price for MPC and MGC as short-term debt financing in the amount of \$56,748,800
9 secured at an approximate interest rate of 3.56 percent [See Schedule 4].

10 Gateway implies it will realize a total decrease in interest expense for the MPC
11 and MGC operations of approximately ** ____ ** million or ** ____ ** million for MPC
12 and ** ____ ** million for MGC by the period ending December 31, 2002. Since
13 Gateway has provided no definitive plans to show how this decrease in interest expense
14 will be accomplished, Staff can only assume Gateway intends to make decreases to
15 interest expense through a reduction in its liabilities. Staff witness Mark L. Oligschlaeger
16 will address the issue of Gateway's projected capital structure in his rebuttal testimony.

17 Q. How does Gateway propose to finance the remainder of the purchase
18 price?

19 A. Gateway proposes to finance the remainder of the purchase price with an
20 ** _____ ** that carries a projected ** _____ **
21 _____ ** In general, ** _____ ** is more costly than ** _____ **
22 If Gateway achieves its projected ** _____ ** the cost of
23 common equity would exceed that currently achieved by UtiliCorp at

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1 December 31, 2000, which was a negative 0.30 percent for the MPC operations and a
2 negative 10.20 percent for MGC.

3 Q. How do the actual financial results of MPC and MGC's operations
4 compare with the projections provided to the Commission by UtiliCorp in Case
5 No. GM-94-252?

6 A. The actual financial results of MPC and MGC have fallen short of
7 UtiliCorp's projections. UtiliCorp provided evidence of this in its response to Staff Data
8 Request No. 3808 in this case, saying quite candidly that:

9 The companies that are being sold in the subject transaction
10 were not considered strategic. Moreover, reported earnings
11 were not consistent with expectations. Based on these
12 factors, it was the desire of Seller to dispose of these assets
13 at as high a value as possible...

14 I have attached Schedule 1 to my rebuttal testimony. It compares the capital
15 structures envisioned by Mr. Williams in his direct testimony in Case No. GM-94-252
16 with the actual capital structures reported by UtiliCorp for MPC and MGC at
17 December 31, 2000. Mr. Williams envisioned capital structures for both MPC and MGC
18 consisting of common equity in the range of 40 to 45 percent. In actuality, the capital
19 structures of MPC and MGC consist of 28.86 percent common equity and 16.92 percent
20 common equity, respectively, at December 31, 2000. The achieved returns on common
21 equity associated with the common equity ratios reported for MPC and MGC are
22 (0.30) percent and (10.20) percent, respectively. Schedules 2 and 3 are based on
23 responses to data requests and illustrate the impact Gateway's proposed transaction will
24 have on the overall costs of capital for MPC and MGC. Under UtiliCorp ownership, the
25 costs of capital of MPC and MGC are 5.89 percent and 3.42 percent, respectively. Under
26 Gateway ownership, the costs of capital for MPC and MGC will rise to

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1 ** ____** percent, respectively. This is a ** _____** over UtiliCorp's
2 "achieved" cost of capital at December 31, 2000. For MGC, this is a ** _____
3 _____** over UtiliCorp's "achieved" cost of capital at December 31, 2000. An
4 increase in overall cost of capital will result in an increase to the cost of service for MPC
5 and MGC. An increase in cost of service (i.e., revenue requirement) might then translate
6 into higher rates charged to the consumer (only if Gateway files a rate case with this
7 Commission ** _____**). Staff would view such an increase as a detriment to
8 the public based on the fact that the increase would be a direct result of a management
9 decision related to return on equity rather than a direct increase in expenses related to
10 providing safe and adequate service. Such a decision by Gateway would provide no
11 benefit to the public.

12 Q. Will MPC and MGC issue their own debt or equity under Gateway's
13 ownership?

14 A. ** ____** Gateway indicated in its response to Staff Data Request
15 No. 3810 that, ** _____
16 _____
17 _____
18 _____
19 _____
20 _____**

21 [Source: Gateway's response to Staff Data Request No. 3810.]

22 Q. How will the prospective owners determine the capital structures of MPC
23 and MGC?

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1 A. In a discussion with Mr. David J. Ries, Staff was informed that the capital
2 structures of MPC and MGC would be allocated by Gateway similar to the way UtiliCorp
3 allocates the capital structure to its operating division, Missouri Public Service (MoPUB).
4 This means that ** _____ ** As a result,
5 Staff would determine the cost of capital applied to the rate base of MPC and MGC in
6 future rate proceedings ** _____

7 _____
8 _____ ** Ultimately, the determination of cost of capital will depend on the
9 availability of information as well as the methodology that is deemed most appropriate at
10 that time.

11 Q. How do the capital structures of MPC and MGC proposed by Gateway
12 compare with the current capital structures of MPC and MGC under UtiliCorp
13 ownership?

14 A. In Case No. GM-94-252, the projected capital structures were overly
15 optimistic. Similarly, the proposed capital structures in this case appear overly
16 optimistic. I have attached Schedule 2 to my rebuttal testimony to show the actual capital
17 structures reported by UtiliCorp for MPC at December 31, 2000, compared to that
18 proposed by Gateway on a pro forma basis at September 30, 2001. I have also attached
19 Schedule 3 to my rebuttal testimony to show the actual capital structure reported by
20 UtiliCorp for MGC at December 31, 2000, compared to that proposed by Gateway on a
21 pro forma basis at September 30, 2001. As I stated earlier in this testimony, the common
22 equity ratio under UtiliCorp ownership at December 31, 2000, for MPC was
23 28.86 percent with an "actual" cost of common equity approximated at (0.30) percent.

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1 Gateway, on the other hand, projects that MPC will have a common equity ratio of
2 ** ____ ** percent at September 30, 2001 with a return on common equity approximated
3 at ** ____ ** percent. Gateway has provided no definitive plans on how it will increase
4 the net income associated with the properties in order to achieve its projected return on
5 common equity. Therefore, Staff has been unable to determine how Gateway intends to
6 accomplish such a return on common equity for MPC when UtiliCorp has been unable to
7 do so even with its financial resources. The common equity ratio of MGC at
8 December 31, 2000 was 16.92 percent with an "actual" cost of common equity
9 approximated at (10.20) percent. Gateway projects a common equity ratio and return on
10 common equity for MGC that is identical to that projected for MPC. Similarly, Staff has
11 been unable to determine how Gateway intends to accomplish such a return on common
12 equity for MGC when UtiliCorp has been unable to do so with its financial resources.

13 Q. How has Gateway characterized its financial statements on a pro forma
14 basis?

15 A. In Staff's opinion, Gateway as UtiliCorp did in Case No. GM-94-252,
16 paints MPC and MGC's financial future in an overly optimistic light. UtiliCorp
17 generated approximately \$7.4 million dollars in revenue from the operations of MPC and
18 MGC or \$5.2 million and \$2.2 million, respectively, for the period ending December 31,
19 2000. After taking into account Operating and Maintenance Expense, Depreciation and
20 Interest Expense, UtiliCorp reported Earnings Before Income Taxes at approximately
21 \$3.0 million or \$2.0 million and \$1.0 million, respectively, for the operations of MPC and
22 MGC. Gateway projects the operations of MPC and MGC will generate approximately
23 ** ____ ** million and ** ____ ** million in revenues, respectively, for the period ending

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1 December 31, 2002. This is an approximate increase in revenues of **__** million
2 over those realized by UtiliCorp for the period ending December 31, 2000.

3 Q. In general, have MPC and MGC been profitable under UtiliCorp
4 ownership?

5 A. No. At December 31, 2000, MPC showed a net loss of \$27,333.
6 Likewise, MGC showed a net loss of \$349,738.

7 Q. Did this Commission address concerns about the financial viability of
8 MPC and MGC in Case No. GM-94-252?

9 A. Yes. In the Commission's Report and Order in Case No. GM-94-252, it
10 states the following:

11 The Commission has considered the arguments as put forth
12 by LGC regarding possible detriment to the public as the
13 result of the proposed sale. Evidence of record shows that
14 UCU, through its operating company, MPS, is already
15 regulated by this Commission and has provided utility
16 service in the State of Missouri successfully for a number
17 of years. No evidence was presented to indicate MPS has
18 had notable service or economic difficulties. Evidence
19 does exist to infer that the financial position of UCU is
20 much superior to that of Edisto Resources, indicating that
21 improved stability, capability, and commitment may result
22 from the proposed sale. There is no challenge on record as
23 to UCU's financial capability to absorb this proposed
24 transaction or its ability to successfully operate a
25 transportation pipeline efficiently and economically...

26 Q. Does Staff believe this Commission should address similar concerns in
27 this proceeding?

28 A. Yes. I will discuss the reasons why this Commission should address
29 Staff's concern for the financial viability of MPC and MGC in this proceeding.

30 Q. Does Gateway have a business plan or strategic plan that explains its plan
31 to achieve its projected results?

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A. ** ** Staff did request a copy of such plans to which Gateway responded as follows:

Q. Does Gateway provide any definitive plans for **_____

A. No.

Q. Does Gateway provide any definitive plans for **_____

A.	No.
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Q. Does Gateway provide any form of “market analysis” with its Joint Application in this proceeding?

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1 A. No.

2 Q. Does Gateway propose to increase rates of the MPC and MGC operations
3 in the near future?

4 A. Gateway makes no indication that it will seek a rate increase for the MPC
5 and MGC operations in the near future. In fact, Joint Applicants state that:

6 There will be no change in the operations of MGC or MPC.
7 MGC and MPC will continue to provide service to their
8 customers pursuant to the rates, rules, regulations and other
9 tariff provision of MGC and MPC currently on file with
10 and approved by the Commission until such time as they
11 may be modified according to law.

12
13 The existing customers of both MGC and MPC will
14 continue to experience quality day-to-day utility service at
15 approved rates and the transaction will be entirely
16 transparent to them.

17
18 The Commission will retain full authority to regulate the
19 rates and terms and conditions of service rendered by MGC
20 and MPC as provided by law.

21 Q. Does Gateway provide definitive plans on how the ** _____
22 _____ ** will be achieved?

23 A. No.

24 Q. Does Gateway provide definitive plans on how the ** _____
25 _____ ** will be achieved?

26 A. No.

27 Q. Does Staff consider definitive plans in these areas as being essential to
28 supporting the projected financial results set forth by Gateway as well as essential to
29 maintaining the financial viability of MPC and MGC into the future?

30 A. Yes. Without such supporting documentation, Staff believes the pro
31 forma financial statements provided by Gateway are nothing short of speculative. Staff

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1 believes this opinion is sufficiently supported by UtiliCorp's inability to meet its financial
2 projections and its own admission, "...Moreover, reported earnings were not consistent
3 with expectations..." referenced earlier in this testimony. [Source: UtiliCorp's response
4 to Staff Data Request No. 3808] Furthermore, Gateway is a newly established entity with
5 no proven track record in providing natural gas service. While Staff does not question
6 Mr. Ries' operational abilities, without definitive plans for ensuring the financial viability
7 of MPC and MGC, Staff is concerned about the impact this proposed transaction may
8 have on Missouri ratepayers should Gateway fail to be successful in its operation of MPC
9 and MGC. UtiliCorp, the current operator, has a successful track record in the State of
10 Missouri and sufficient financial resources necessary to provide safe and adequate service
11 to Missouri ratepayers and the incentive to continue operating these pipelines despite the
12 fact that reported earnings have been less than projected.

13 Q. How do the prospective owners intend to address material transactions and
14 the day-to-day operations should the Commission approve this transaction?

15 A. Gateway responded to Staff Data Request No. 3810 that, ** _____
16 _____
17 _____
18 _____ **

19 Q. What is a super majority vote?

20 A. There are apparently different definitions, which are usually set forth by
21 the board of directors of a corporation. Gateway's response to Staff Data Request
22 No. 3818 indicates that, ** _____
23 _____ ** In essence, a super majority vote

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1 will equal the voting rights of ** _____ ** since he will own ** _____
2 _____ ** of the stock in both Gateway and ** _____ ** as described above.

3 Q. Is ** _____ ** a party to this proceeding?

4 A. No.

5 Q. Is this a concern to the Staff?

6 A. Yes, it is a concern to Staff from a financial perspective. Staff's concern
7 is that ** _____ ** could potentially pledge UPL's common stock as collateral or security
8 for its own debt without Commission approval, thereby, placing the assets of MPC and
9 MGC at risk.

10 Q. Does Staff have additional concerns regarding the proposed transaction?

11 A. Yes. A review of Gateway's response to Office of the Public
12 Counsel's (OPC) Data Request No. R04, which was included with Gateway's response to
13 Staff Data Request Nos. 3817 – 3819, indicates a trend in that all of the companies in
14 which ** _____ ** acknowledges having a significant interest became FERC
15 jurisdictional in the late 1990s. Gateway's response to OPC's Data Request No. R04
16 provided the following information:

17 ** _____
18 _____
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20 _____
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35 A. Staff's concern is that **_____** by a "super majority vote" could
36 potentially circumvent the Commission's jurisdiction over the regulated assets of MPC
37 and MGC by taking action to bring them under **_____**

39 A. As part of the proposed transaction, UtiliCorp contemplates the sale of
40 certain unregulated assets commonly referred to as the **_____

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1 _____ ** [Source:
2 UtiliCorp's response to Staff Data Request No. 3812]. Mr. David J. Ries informed Staff
3 in an early case discussion and Staff's understanding is that Gateway has some intent to
4 ** _____ ** at some point in the future. ** _____

5 _____
6 _____ ** Should this occur, the potential exists for regulatory jurisdiction and
7 oversight of the pipelines, which are the subject of this proceeding, ** _____

8 _____ ** Staff views such a ** _____
9 _____ ** as a potential detriment to the public
10 interest. Staff witness Carmen Morrissey will discuss how ** _____ ** could
11 affect Missouri consumers.

12 Q. Did this Commission address a similar concern in Case No. GM-94-252?

13 A. Yes. The Commission did address a similar concern in Case
14 No. GM-94-252. ** _____

15 _____
16 _____ ** Based on evidence presented in Case No. GM-94-252, the Commission
17 imposed the following condition upon UtiliCorp as a condition of approval:

18 B. As to the physical separation of MPC's intrastate
19 pipeline from a portion of a pipeline which crosses the
20 Mississippi River, all parties agree that the prohibition
21 against connecting the intrastate system to the interstate
22 system is a condition which was imposed at the time the
23 certificate was issued to MPC in Case No. GA-89-126,
24 and that it will remain a condition of the certificate if
25 transferred.

1 **STANDARD OF PUBLIC DETRIMENT**

2 Q. What standard did Staff utilize to develop its recommendation regarding
3 the proposed transaction between UtiliCorp and Gateway?

4 A. Staff utilized the standard of "detriment to the public interest" as it has in
5 the other cases in which I have participated. If the Joint Applicants fail to show that the
6 proposed transaction between UtiliCorp and Gateway is not detrimental to the public
7 interest in Missouri; i.e., if it is demonstrated that the Missouri public will be harmed by
8 the proposed transaction, then the Commission should reject this application and not
9 approve the proposed transaction. Staff counsel has advised that the not detrimental to
10 the public interest standard is based on case law generally cited in Commission Orders as
11 State ex rel. City of St. Louis v. Public Serv. Comm'n, 73 S.W.2d 393 (Mo. banc 1934);
12 State ex rel. Fee Fee Trunk Sewer Co., Inc. v. Litz, 596 S.W.2d 466 (Mo. App. 1980).
13 Staff counsel also advises that the Commission has incorporated the not detrimental to
14 the public interest standard in its rules. 4 CSR 240-2.060(8)(D).

15 Q. How is Staff defining the term "public?"

16 A. Consistent with Staff's position in other cases, Staff views the members of
17 the "public" that are to be protected as those consumers taking and receiving utility
18 service from the MPC and MGC gas pipeline operations in the State of Missouri.

19 In this case, Staff would define "public interest" as referring to the nature and
20 level of the impact or effect that the proposed transaction between UtiliCorp and
21 Gateway will have on its Missouri customers. There is a fundamental concern in the
22 regulation of public utilities that the public being served will not be impacted adversely
23 or harmed by this proposed transaction. Public utilities in Missouri are charged with

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Roberta A. McKiddy

1 providing safe and adequate service at just and reasonable rates. If this transaction results
2 in adverse or negative impacts to MPC and MGC's gas pipeline customers, then the
3 Commission should not approve the Joint Applicants' Application or, in the alternative,
4 impose conditions sufficient to overcome the detriments of the proposed transaction.

5 In the merger case involving KPL and KGE, which occurred in 1991, the
6 Commission identified the "public" as Missouri ratepayers. At pages 12 to 13 of its
7 Report and Order (Case No. EM-91-213), the Commission stated the following:

8 The Commission has found no evidence in this record that
9 KPL would be unable to render safe and adequate service
10 to its Missouri ratepayers as a consequence of the proposed
11 merger. However, the Commission has found that the
12 savings sharing plan proposed by KPL as part of its merger
13 application has the potential of exposing Missouri
14 ratepayers to higher rates than would be the case without
15 the merger which would be detrimental to the public
16 interest

17
18 The Commission has also found that there is potential for a
19 detrimental effect on Missouri ratepayers from the merger
20 through increased A & G and capital costs

21 Although this case does not involve a merger as defined by the cited paragraphs
22 from Case No. EM-91-213, Staff believes the Standard of Public Detriment is still
23 applicable to this proposed transaction. Clearly, the Commission was identifying the
24 Missouri ratepayers as the relevant "public" in its Report and Order. This is the standard
25 that is being used by the Staff to evaluate the proposed transaction between UtiliCorp and
26 Gateway.

27 Q. What is your current recommendation regarding the proposed transaction
28 based on information you have received up to the date of this filing?

29 A. Based on information received during the course of discovery, Staff is of
30 the opinion that the proposed transaction would be detrimental to the public absent

Rebuttal Testimony of
Roberta A. McKiddy

1 certain financial conditions. However, based on the structure of this transaction and the
2 fact that the transfer of non-regulated assets are involved in the proposed transaction,
3 Staff does not know if any financial conditions proposed would be sufficient to remove
4 the detriment to the public. Unlike the recent proposed restructuring cases filed by
5 Kansas City Power and Light (Case No. EM-2001-464) and Laclede Gas Company
6 (GM-2001-342), this proposed transaction has the potential to place the assets of MPC
7 and MGC at risk, which will cause a detriment to the public. Given the fact that
8 **_____** is not a party to this case, Staff believes any financial conditions imposed
9 upon Gateway, MPC and/or MGC would be rendered null and void should **_____**
10 and/or Gateway choose to **_____** thereby potentially
11 making all pipeline operations (MPC, MGC and **_____**) **_____**
12 _____** via renewed **_____**
13 _____**

14 Q. Do you have other concerns?

15 A. Yes. Gateway provides no definitive plan of how it will make the
16 operations of MPC and MGC financial viable on a going forward basis. At best,
17 Gateway provides little more than speculation.

18 Q. Please summarize your concerns with this proposed transaction.

19 A. There are three primary reasons why, in Staff's opinion, this transaction
20 would be detrimental to the public interest. They are as follows:

- 21 1. The potential exists for higher financing costs and an overall
22 increase in cost of capital. An increase in overall cost of capital
23 will result in an increase to the cost of service for MPC and MGC.

Rebuttal Testimony of
Roberta A. McKiddy

1 An increase in cost of service (i.e., revenue requirement) might
2 then translate into higher rates charged to the consumer (only if
3 Gateway files a rate case with this Commission or at the FERC.)
4 Staff would view such an increase as a detriment to the public
5 based on the fact that the increase would be a direct result of a
6 management decision related to return on equity rather than a
7 direct increase in expenses related to providing safe and adequate
8 service. Such a decision would provide no benefit to the public.

9 2. Gateway provides no formal plans to support the pro forma
10 financial statements provided to Staff. Without supporting
11 documentation, Staff believes the pro forma statements provided
12 by Gateway are not credible, and nothing short of speculative.

13 3. The potential exists for regulatory jurisdiction and oversight of the
14 pipelines, which are the subject of this proceeding, ** _____

15 _____
16 ** Staff views such a ** _____
17 _____ ** as a potential detriment to the
18 public interest. Please refer to Staff witness Carmen Morrissey's
19 testimony, which discusses how ** _____ ** could
20 affect Missouri consumers.

21 Q. Does this conclude your rebuttal testimony?

22 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

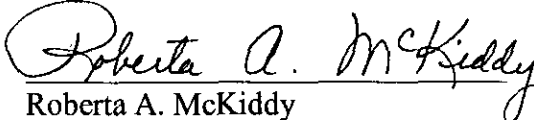
In the Matter of the Joint Application of)
Gateway Pipeline Company, Inc. Missouri)
Gas Company and Missouri Pipeline)
Company)

Case No. GM-2001-585

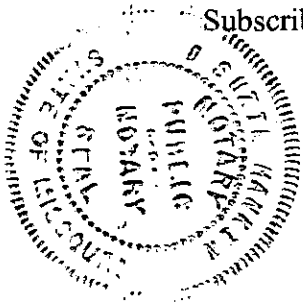
AFFIDAVIT OF ROBERTA A. MCKIDDY

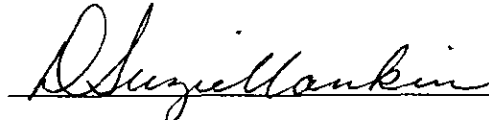
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

Roberta A. McKiddy, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 23 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Roberta A. McKiddy

Subscribed and sworn to before me this 13th day of August 2001.





**D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21, 2004**

SCHEDULE 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE 2

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

SCHEDULE 3

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION

UTILICORP UNITED
ACQUISITION OF
MISSOURI PIPELINE COMPANY AND MISSOURI GAS COMPANY

CASE NO. GM-94-252

DIRECT TESTIMONY
OF
DENNIS R. WILLIAMS

1 Q. ~~Please state your name, business address and position.~~

2 A. ~~My name is Dennis Williams. My business address is 911~~

3 ~~Main, Suite 3000, Kansas City, Missouri. I am Director,~~

4 ~~Regulatory Affairs for UtiliCorp United Inc. ("UtiliCorp").~~

5 Q. Mr. Williams, you have testified before this Commission
6 on several previous occasions, but for purposes of this
7 record, please briefly review your education, professional
8 designations, and business experience.

9 A. I was graduated from Central Missouri State University in
10 1974 with a Bachelor of Science degree in Business
11 Administration, majoring in accounting and finance. I am a
12 certified public accountant and member of the American
13 Institute of Certified Public Accountants and Missouri
14 Society of Certified Public Accountants.

15 From 1974 to 1978 I was employed in the regulated
16 industries division of Arthur Andersen & Co., an
17 international public accounting firm. As audit senior, I was
18 primarily responsible for supervising audits of electric,
19 gas, and water utilities.

Utilicorp United Inc.
Pro Forma Combined Income Statement
Year Ended December 31, 1993

	UTILICORP UNITED INC.	PRO FORMA ADJUSTMENTS		PRO FORMA COMBINED
		MISSOURI PIPELINE	MISSOURI GAS CO.	
Gross Operating Revenue				
Gas Sales and Transportation Revenue	\$681,534,000	\$4,727,700	\$1,431,507	\$687,693,207
Electric Revenue	546,853,000	-	-	546,853,000
Total Gross Revenue	1,228,387,000	4,727,700	1,431,507	1,234,546,207
Operating & Maintenance Expenses				
Gas Purchased for Resale	406,058,000	-	-	406,058,000
Other Operating & Maintenance	495,315,000	1,396,055	1,100,850	497,811,905
Total Operating & Maintenance Expenses	901,373,000	1,396,055	1,100,850	903,869,905
Depreciation & Amortization	73,164,000	1,155,757	525,774	74,845,531
Amortization of Acquisition Premium	1,357,000	-	-	1,357,000
Taxes Other Than Income	72,036,000	-	-	72,036,000
Utility Earnings Before Int & Inc. Taxes	180,457,000	2,175,888	(195,117)	182,437,771
Other Income (Expense)	35,044,000	4,212	-	35,044,000
Interest Expense	99,612,000	1,366,697 (1)	704,634 (1)	101,683,331
Income Taxes	29,541,000	313,160	(346,404)	29,507,756
Net Income (Loss)	\$86,348,000	\$500,243	(\$553,347)	\$86,294,896

(1) Assumes acquisition is accomplished through initial issuance of short-term debt at 3.65%.

SCHEDULE

Gateway Pipeline
Company Inc. et al
GM-2001-585

Pro Forma Combined Balance Sheet (Unaudited)
At December 31, 1993

	UTILICORP UNITED INC.	MISSOURI PIPELINE	MISSOURI GAS CO.	PRO FORMA COMBINED
Assets				
Utility Plant in Service	\$2,422,925,000	\$37,125,486	\$19,281,765	\$2,479,332,251
Construction Work in Progress	22,294,000			22,294,000
	<u>2,445,219,000</u>	<u>37,125,486</u>	<u>19,281,765</u>	<u>2,501,626,251</u>
Less Accumulated Depreciation	865,021,000	552,769	264,061	865,837,830
Total Utility Plant, Net	1,580,198,000	36,572,717	19,017,704	1,635,788,421
Non-Regulated Property, Net	681,575,000	-	-	681,575,000
Current Assets				
Cash and Cash Equivalents	70,273,000	-	-	70,273,000
Accounts Receivable	234,632,000	846,245	283,017	235,761,262
Inventories	101,775,000	-	-	101,775,000
Prepayments and Other	31,413,000	24,796	4,321	31,442,117
Total Current Assets	<u>438,093,000</u>	<u>871,041</u>	<u>287,338</u>	<u>439,251,379</u>
Deferred Charges and Other Assets	150,658,000	-	-	150,658,000
Total Utility Plant and Other Assets	<u>\$2,850,524,000</u>	<u>\$37,443,758</u>	<u>\$19,305,042</u>	<u>\$2,907,272,800</u>
Capitalization and Liabilities				
Common Stock	\$42,039,000	-	-	42,039,000
Premium on Capital Stock	722,420,000	-	-	722,420,000
Retained Earnings	87,244,000	-	-	87,244,000
Total Common Stockholders' Equity	851,703,000	-	-	851,703,000
Preferred and Preference Stock	83,916,000	-	-	83,916,000
Long-Term Debt	1,009,736,000	-	-	1,009,736,000
Current Liabilities				
Long-Term Debt - Current	1,791,000	-	-	1,791,000
Short-Term Debt	70,000,000	37,443,758 (1)	19,305,042 (1)	126,748,800
Accounts Payable and Other	474,012,000	-	-	474,012,000
Total Current Liabilities	<u>545,803,000</u>	<u>37,443,758</u>	<u>19,305,042</u>	<u>602,551,800</u>
Deferred Credits and Other	359,366,000	-	-	359,366,000
Total Capitalization and Liabilities	<u>\$2,850,524,000</u>	<u>\$37,443,758</u>	<u>\$19,305,042</u>	<u>\$2,907,272,800</u>

(1) Assumes acquisition is accomplished through initial issuance of short-term debt at 3.65%

SCHEDULE 5

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY