

Exhibit No.:

Issue: Sale of Capital Stock of UtiliCorp
Pipeline Systems

Witness: Richard C. Kreul

Type of Exhibit: Surrebuttal

Sponsoring Party: UtiliCorp United Inc., Missouri Gas
Company and Missouri Pipeline
Company

Case No.: GM-2001-585

Date Testimony Prepared: August 24, 2001

Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony

of

Richard C. Kreul

Exhibit No. 3
Date 9-05-01 Case No. GM-2001-585
Reporter Xf

1 Q. Please state your name and business address.

2 A. My name is Richard C. Kreul. My business address is 20 West Ninth Street,
3 Kansas City, Missouri, 64105.

4 Q. Have you previously filed testimony before the Missouri Public Service
5 Commission in this proceeding?

6 A. Yes. I filed direct testimony on July 10, 2001.

7 Q. What is the purpose of this surrebuttal testimony?

8 A. I will address the issues raised by witnesses for the Missouri Public Service
9 Commission Staff ("Staff"), the Office of the Public Counsel ("OPC"), and
10 intervenors Laclede Gas Company ("Laclede") and AmerenUE in their rebuttal
11 testimony. I will explain that none of the matters raised by any of those parties
12 have demonstrated the Commission's approval of the Joint Application would be
13 detrimental to the public interest.

14 STANDARD FOR APPROVAL

15 Q. What is your understanding as to the standard for approval by the Commission in
16 this case?

17 A. I do not believe there is any dispute about the legal standard for approval of the
18 Joint Application. The Commission is required to authorize the proposed
19 transaction in the absence of a showing of an immediate and definite adverse
20 impact on rates or the quality of customer service. In other words, the proposed
21 transaction should be approved as long as the status quo is maintained.

1 NO EVIDENCE OF PUBLIC DETRIMENT

2 Q. Has any party to this proceeding provided evidence that rates or customer service
3 would be adversely affected if the Commission were to approve this transaction?

4 A. No. Gateway has clearly and unequivocally stated that it will retain personnel and
5 will not change existing rate schedules without Commission approval.

6 Q. Has any witness offered testimony stating that the rate schedules of Missouri
7 Pipeline Company ("MPC") or Missouri Gas Company ("MGC") will be
8 modified as a result of this proceeding?

9 A. No. The Joint Application does not request a change in the level of rates to be
10 charged by MPC or MGC and Gateway has stated that it will not change rates
11 without a rate case. As I stated in my direct testimony, there will be no change in
12 the rate schedules or other tariffs of the two pipeline companies currently on file
13 with and approved by the Commission. It is important to remember that this is
14 simply a stock sale transaction involving the acquisition of the stock of UtiliCorp
15 Pipeline Systems ("UPL"), the unregulated parent company of MPC and MGC,
16 by Gateway. Consequently, the Joint Application makes no mention of, nor does
17 it contemplate, any change in the tariffs of the two regulated subsidiary
18 companies.

19 Q. Can Gateway modify its rate schedules without coming to the Commission for
20 approval to do so?

21 A. No.

22 Q. If Gateway acquires the stock of UPL, would MPC and MGC have the right to
23 file requests with the Commission for authority to modify their rate schedules?

1 A. Yes. However, this is no change from current circumstance. MPC and MGC
2 already have the right to file a request with the Commission to modify their rate
3 schedule. A change in ultimate ownership of the companies will not change this
4 situation. MPC and MGC will be the same regulated companies, with the same
5 employees, operating under the same tariffs, and subject to the same regulatory
6 oversight as they were before. Likewise, both companies will be doing the same
7 things and have the same opportunities following the close of the transaction.
8 There will be no change in the status quo.

9 Q. Staff witness Oligschlaeger and OPC witness Bolin have expressed concerns
10 about the possibility of Gateway seeking recovery of an acquisition adjustment.
11 How do you respond?

12 A. I have two observations. First, there is no acquisition adjustment associated with
13 the regulated assets, MPC and MGC. These were acquired by UtiliCorp at net
14 book value and are being sold at net book value. Second, recovery of an
15 acquisition adjustment, if any, is an issue that should only be addressed if and
16 when requested by MPC or MGC. The Joint Application contains no request for
17 recovery of an acquisition adjustment, so it is not an issue in this proceeding. To
18 my knowledge, Gateway has not evidenced any intention to seek recovery of an
19 acquisition adjustment in this case or in the future.

20 Q. OPC witness Bolin addresses the topic of affiliated transactions. How do you
21 respond?

22 A. It is my understanding that the Commission has adopted and put into effect an
23 affiliated transactions rule applicable to gas corporations (4 C.S.R. 240-40.015

1 and 4 C.S.R. 240-40.016). Gateway, MPC and MGC are subject to the applicable
2 provisions of these rules. I see no need or purpose to reexamine that topic in this
3 case. Any reconsideration or expansion of the principles addressed by those rules
4 should take place, if at all, in a generic rulemaking proceeding established for that
5 purpose.

6 Q. Staff witness Lock mentions the prospect of bypass of the local distribution
7 companies by MPC and MGC. Are the Line Certificates under which MPC and
8 MGC currently do business restricted to prohibit bypass of LDC's or
9 municipalities?

10 A. Yes.

11 Q. If the Commission approves the Joint Application, would those Certificate
12 restrictions still remain in place?

13 A. Yes. The Joint Application contains no request that these restrictions be waived
14 or removed.

15 Q. If the Commission approves the Joint Application, would MPC and MGC have
16 the right to request a waiver of that restriction from the Commission?

17 A. Yes.

18 Q. Do MPC and MGC currently have the right to file a request with the Commission
19 to waive that restriction?

20 A. Yes. Again, they are the same regulated companies, with the same employees,
21 operating under the same tariffs, and subject to the same regulatory oversight,
22 both before and after the transaction. A change in ultimate ownership of MPC
23 and MGC will not change this situation. Both companies will be doing the same

1 things and have the same opportunities following the sale of capital stock of UPL
2 to Gateway as they did before. There will be no change in the status quo.

3 Q. Does MPC's Certificate contain a restriction that there be no physical connection
4 with certain facilities crossing beneath the Mississippi River?

5 A. Yes. In its Case No. GA-89-126, the Commission required that MPC's
6 predecessor in interest maintain a physical separation of certain of its facilities
7 located beneath the Mississippi River. UtiliCorp did not dispute that condition
8 when it thereafter acquired the assets of that company pursuant to the
9 Commission's order in Case No. GM-94-252.

10 Q. Will that condition be removed by virtue of the Commission approving the Joint
11 Application in that case?

12 A. No. The restrictive language associated with the MPC Certificate would remain
13 after the close of the transaction.

14 Q. If the Commission approves the Joint Application, would MPC have the right to
15 request a waiver, elimination or clarification of that restriction from the
16 Commission?

17 A. Yes.

18 Q. Does MPC currently have the right to request from the Commission a waiver,
19 removal or clarification of that Certificate restriction?

20 A. Yes. The sale of UPL to Gateway changes none of these considerations. At the
21 risk of sounding repetitive, MPC will be the same regulated company, with the
22 same employees, operating under the same tariffs, and subject to the same
23 regulatory oversight as it was before. A change in the ultimate ownership of

1 MPC and MGC will not change this situation. MPC will be doing the same things
2 and have the same opportunities after the sale of UPL's stock as it does now.
3 There will be no change in the status quo.

4 Q. What name has been given to the pipeline assets crossing beneath the Mississippi
5 River?

6 A. The assets are called the TMP.

7 Q. What company owns TMP?

8 A. UPL owns TMP.

9 Q. Is the sale of TMP at issue in this proceeding?

10 A. No, TMP is not subject to the jurisdiction of the Commission. Consequently, the
11 Joint Application has not sought approval from the Commission for that specific
12 aspect of the transaction.

13 Q. Has anybody offered any evidence that would indicate that the MPC and MGC
14 pipelines would be operated unsafely or unreliably by its new owners?

15 A. No witness contends that Gateway cannot or will not operate the system safely.
16 As a matter of fact, Staff witness Kottwitz states in his rebuttal testimony that the
17 three safety conditions he identifies on page 3 of his testimony are agreeable to
18 Gateway. Laclede witness Pflaum identifies some reliability concerns. Those
19 will be addressed by Gateway in its surrebuttal testimony.

20 Q. Can conditions be imposed on the approval of the Joint Application which will
21 protect ratepayer interests?

22 A. The Commission has customarily imposed a condition that its approval of a
23 merger or acquisition is not binding for ratemaking purposes. This is an

1 appropriate condition, inasmuch as it leaves the Commission free in a subsequent
2 rate proceeding to consider all relevant factors in setting just and reasonable rates
3 and terms and conditions of service, including cost of capital and operational
4 expense. Ultimately, the Commission's ratemaking authority and general
5 authority over tariff revisions is the absolute ratepayer protection. I would expect
6 that this customary condition would accompany the Commission's approval of the
7 Joint Application.

8 Q. Can additional conditions be imposed by the Commission?

9 A. Generally speaking, yes. If the Commission identifies a specific concern about
10 the transaction that would result in an immediate adverse impact on rates or
11 quality of customer service, I believe it has the authority to impose appropriate
12 conditions to mitigate or eliminate that adverse impact. Of course, the nature of
13 any such conditions would depend on the circumstances being addressed by the
14 Commission.

15 Q. Has any party to this proceeding offered evidence that the Commission's approval
16 of the Joint Application would cause a present and direct adverse impact on rates
17 or the quality of customer service?

18 A. As I noted above in more detail, no one, to my knowledge, has identified any
19 circumstance that will come about that does not already currently exist if the
20 transaction should be approved by the Commission. This transaction will cause
21 no change in the status quo. No rate increase is being sought in this proceeding.
22 Additionally, there is absolutely no evidence that approval of the transaction will
23 have an adverse impact on the quality of customer service. Most of the concerns

1 raised by the various Staff, OPC and Laclede witnesses set forth theoretical and
2 remote scenarios with potential adverse consequences that may occur at some
3 indeterminent time in the future if the Commission takes further action. In my
4 view, these concerns are speculative, unreliable and do not provide a basis for the
5 Commission to conclude that approval of the Joint Application would cause a
6 present and direct detriment to the public interest.

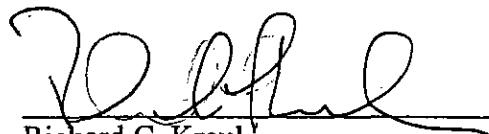
7 Q. Does this conclude your surrebuttal testimony?

8 A. It does.

AFFIDAVIT OF RICHARD C. KREUL

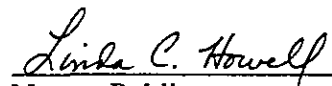
STATE OF MISSOURI)
) ss.
COUNTY OF JACKSON)

Richard C. Kreul, of lawful age, on his oath, states that he has participated in the preparation of the foregoing testimony in question and answer form and 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.


Richard C. Kreul

Subscribed and sworn before me this 22nd day of August, 2001.

Linda C. Howell
Notary Public-Notary Seal
State of Missouri
Jackson County
My Commission Expires: May4, 2004


Notary Public