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2 PUBLIC SERVICE COMMISSION

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6 TRANSCRIPT OF PROCEEDINGS

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Hearing

8 *Missouri* July 13, 2000
9 *Public Service Commission* Jefferson City, Missouri
Volume 7

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13 In the Matter of the Joint)
Application of UtiliCorp United,)
14 Inc., and St. Joseph Light & Power)
Company for Authority to Merge) Case No.
15 St. Joseph Light & Power Company with) EM-2000-292
and into UtiliCorp United, Inc., and,)
16 in Connection Therewith, Certain Other)
Related Transactions.)

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18
19 MORRIS L. WOODRUFF, Presiding,
REGULATORY LAW JUDGE.
20 M. DIANNE DRAINER,
21 CONNIE MURRAY,
ROBERT G. SCHEMNAUER,
COMMISSIONERS.

22 -----

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P R O C E E D I N G S

JUDGE WOODRUFF: Good morning, everyone. We're back for another day. And I believe we are on Corporate Allocations, and the next name on my list is Mr. Traxler.

Yes, Mr. Dottheim?

MR. DOTTHEIM: I distributed an envelope that is marked Exhibit No. 723 highly confidential, which contains St. Joseph Light and Power update to a data request No. 133. I mentioned yesterday that I would like to have an exhibit number reserved, and offer that document as an exhibit and move it into evidence. I provided counsel with copies and the court reporter and the Bench. And at this time I'd like to offer it again and move it into evidence.

JUDGE WOODRUFF: And Exhibit 723HC has been offered into evidence. Is there any objections to its receipt?

Hearing none, it will be received into evidence.

(EXHIBIT NO. 723 WAS MARKED FOR IDENTIFICATION BY THE REPORTER AND RECEIVED INTO EVIDENCE.)

JUDGE WOODRUFF: All right. Mr. Traxler,

1 I believe you have already been sworn so you're
2 still under oath. And is he tendered for
3 cross-examination?

4 MR. FREY: Yes.

5 JUDGE WOODRUFF: Okay. Thank you. Let's
6 try this new procedure then, does anyone have any
7 questions for cross-examination for Mr. Traxler?

8 All right. I don't hear any. I don't
9 have any from the Bench, so there should be no
10 recross or redirect.

11 MR. FREY: I'm sorry. I have a couple of
12 questions for Mr. Traxler, your Honor. I guess I
13 didn't understand your question.

14 JUDGE WOODRUFF: Okay. Oh, about
15 corrections or anything?

16 MR. FREY: Concerning corrections.

17 JUDGE WOODRUFF: Okay. Go ahead.

18 STEVE M. TRAXLER, previously sworn, testified as
19 follows:

20 DIRECT EXAMINATION BY MR. FREY:

21 Q. Are you here today to testify then,
22 Mr. Traxler, on the subject of corporate
23 allocations?

24 A. Yes, I am.

25 Q. During your previous appearance were you

1 asked to identify any corrections to the prefiled
2 testimony, that is your rebuttal and supplementary
3 pages of your rebuttal?

4 A. Yes, I was.

5 Q. And do you have any additional corrections
6 to your prefiled testimony?

7 A. Yes. I found a mathematical error on
8 Schedule SMT-5 and made the corrections, provided
9 those corrections and supporting work papers to the
10 Company before lunch yesterday afternoon. That
11 also impacts one page of my testimony.

12 MR. FREY: Your Honor, I'd like to mark an
13 exhibit, if I could. I believe it's No. 725; is
14 that correct?

15 JUDGE WOODRUFF: That would be the
16 corrections that you just handed us?

17 MR. FREY: Yes.

18 JUDGE WOODRUFF: You're right, that would
19 be 725.

20 (EXHIBIT NO. 725 WAS MARKED FOR
21 IDENTIFICATION BY THE REPORTER.)

22 BY MR. FREY:

23 Q. And do you have a copy of that exhibit now
24 which has been marked Exhibit 725 before you,
25 Mr. Traxler?

1 A. Yes, I do.

2 Q. And can you describe the exhibit and the
3 nature of the correction and corrections?

4 A. Yes. The exhibit reflects the actual
5 historical increase by year of UCU's total
6 corporate overhead cost, and then the allocated
7 amount of those same total costs to the Missouri
8 Public Service Division.

9 The numbers on the schedule for the
10 historical amounts are correct. The only
11 corrections that I'm making are the averages which
12 appear on lines 5, 6 and 7 and 12 and 13 of that
13 schedule. The original schedule failed to
14 represent the actual historical increase per year.
15 It's just a mathematical error.

16 What the averages represent, if you will,
17 if you look at 19 at line 12, the updated number
18 before your average is 45.7. The 45.7 represents
19 that in the years 1996, '97, '98 and '99, the
20 average increase in every year to Missouri Public
21 Service resulting from increased cost allocations
22 from UtiliCorp was 45.7 percent in every year. And
23 that's the percentage we're intending to
24 represent.

25 This changes page 29 of my testimony. On

1 lines 5 under the column it says, Total UCU, 87.7
2 percent should now be 45.7 percent. 28.9 percent
3 should now state 23.3 percent. 14.7 percent should
4 show 14.6 percent. In the next column, allocated
5 to MPS, 87.6 should now be 45.7. 24.4 should be 20
6 and 6.2 remains the same. And those are the only
7 changes.

8 Q. And did you share this corrected exhibit
9 with UtiliCorp, sir?

10 A. Yes. They received the exhibit and the
11 supporting work papers showing how those amounts
12 were calculated sometime before lunch yesterday.

13 MR. FREY: Thank you.

14 And with that, your Honor, I move for
15 admission of Exhibit 725 and tender the witness for
16 cross.

17 JUDGE WOODRUFF: Thank you.

18 Exhibit 725 has been offered into
19 evidence. Are there any objections to its
20 receipt?

21 MR. SWEARENGEN: I have no objection. I
22 do have one question when it's my turn.

23 JUDGE WOODRUFF: Sure.

24 Hearing no objections, it will be received
25 into evidence.

1 (EXHIBIT NO. 725 WAS RECEIVED INTO
2 EVIDENCE.)

3 JUDGE WOODRUFF: For cross-examination
4 then questions other than from UtiliCorp? Okay.
5 UtiliCorp?

6 MR. SWEARENGEN: Thank you.

7 CROSS-EXAMINATION BY MR. SWEARENGEN:

8 Q. Mr. Traxler, looking at that Exhibit 725,
9 line 11 percent increase by year of the first
10 percentage 160.2 percent increase for 1996; is that
11 right?

12 A. That's correct.

13 Q. What's the reason for that? Why is that
14 percentage that high in that year?

15 A. The only explanation I have is that the
16 fact that the costs went from 10 million to 27.

17 Q. Do you know why?

18 A. No. I'm not -- I don't know exactly what
19 individual cost increases occurred in that year.

20 Q. Do you know whether or not that was the
21 point in time that UtiliCorp consolidated its
22 operations in the headquarter's facilities?

23 A. That I'm not sure. I don't really know.

24 Q. You don't know the answer to that?

25 A. No, I don't.

1 Q. Have you asked anybody why that amount
2 increased so much that year?

3 A. No. I haven't attempted to determine in
4 every year what caused the increases. My only use
5 of the information is to determine appropriate
6 growth or inflation rate assumption for escalating
7 UCU's corporate overhead costs for purposes of the
8 ten-year analysis.

9 Q. And if there were some abnormal reason why
10 it increased more in one year than another, you
11 wouldn't know whether or not that should be taken
12 into account?

13 A. If I had information, if in every single
14 year, that's something I might have considered.

15 Q. And did you ask for that information?

16 A. I didn't attempt to analyze increases for
17 every single year, no.

18 Q. That's fine. Thank you.

19 That's all I have.

20 JUDGE WOODRUFF: Thank you.

21 MR. COMLEY: Your Honor?

22 JUDGE WOODRUFF: Yes.

23 MR. COMLEY: Parting from the past a
24 little bit, I have some separate questions for
25 Mr. Traxler concerning some revisions to his

1 testimony, if the Court will allow me to do that?

2 JUDGE WOODRUFF: You may.

3 CROSS-EXAMINATION BY MR. COMLEY:

4 Q. Mr. Traxler, on revisions to your
5 testimony, do you anticipate that you're going to
6 be sponsoring any revisions to your accounting
7 schedules in future?

8 A. Which specific accounting schedules are
9 you referring to?

10 Q. Well, I don't know exactly.

11 A. Oh, you're talking about the cost of
12 service calculation for St. Joe Light and Power?

13 Q. I think that may be the one. I think
14 recently we saw the revised schedule for that, and
15 will you be sponsoring that shortly?

16 A. Yes. We will -- let's see what's the --
17 we certainly intend to sponsor those changes, yes.
18 That hasn't been done yet, but we certainly intend
19 to provide an updated copy reflecting any changes
20 we made since direct testimony for the cost of
21 service calculation for St. Joe Light and Power.

22 Q. Do you know whether the final version may
23 be available for which we can expect to inspect
24 today?

25 A. The final version was supplied to

1 Mr. Clemmons Sunday.

2 Q. All right. So it is available?

3 A. Yes, it is.

4 Q. Okay. And these would include some
5 revisions perhaps that were part of
6 Mr. Broadwater's revisions?

7 A. Yes, they do.

8 MR. COMELY: All right. That's all I
9 have. Thank you.

10 JUDGE WOODRUFF: Commissioner Schemenauer,
11 do you have any questions?

12 COMMISSIONER SCHEMENAUER: No questions.

13 JUDGE WOODRUFF: Okay. Thank you. No
14 questions from the Bench, so there will be no
15 recross or redirect, so you may step down,
16 Mr. Traxler.

17 Next name on the list is Ted Robertson.

18 MR. MICHEEL: We would call Ted Robertson.

19 JUDGE WOODRUFF: Mr. Robertson, you are,
20 of course, still under oath.

21 MR. MICHEEL: We would tender
22 Mr. Robertson for cross-examination.

23 JUDGE WOODRUFF: Okay. Does anyone have
24 any cross-examination questions for Mr. Robertson
25 on this issue?

1 Hearing none, Commission Schemenauer, do
2 you have any questions?

3 COMMISSIONER SCHEMENAUER: No.

4 JUDGE WOODRUFF: There are no questions.
5 There's no recross or redirect, so you may step
6 down.

7 Mr. Brubaker has already been excused. So
8 we'll move onto the next issue of MPS Savings
9 Assignment and bring back Mr. McKinney.

10 Good morning, Mr. McKinney. You are still
11 under oath.

12 MR. SWEARENGEN: I would tender
13 Mr. McKinney at this time for cross-examination on
14 the MPS Savings Assignment issue.

15 JUDGE WOODRUFF: Okay. Does anyone have
16 any cross-examination for Mr. McKinney on this
17 issue?

18 MR. DOTTHEIM: Yes. The Staff has a few
19 questions.

20 JUDGE WOODRUFF: Anyone else?

21 Staff may proceed.

22 MR. DOTTHEIM: Thank you.

23 JOHN W. MCKINNEY, previously sworn, testified as
24 follows:

25 CROSS-EXAMINATION BY MR. DOTTHEIM:

1 Q. Good morning, Mr. McKinney.

2 A. Good morning.

3 Q. Mr. McKinney, under UtiliCorp's regulatory
4 plan, how much of the total ten-year estimate of
5 merger savings is intended to be assigned to
6 Missouri Public Service Division?

7 A. I don't have that number with me. I think
8 Mr. Siemek has got that spreadsheet, and he could
9 answer your questions on that.

10 Q. Do you know what category of savings that
11 would be that would be assigned to the Missouri
12 Public Service Division?

13 A. The savings are -- I would say are not
14 being assigned to Missouri Public Services. We
15 talked about earlier, we've consolidated all of the
16 cost and premium under St. Joe, and we are moving
17 the savings under St. Joe, and that's why this MPS
18 savings -- the only savings that's going to MPS, I
19 believe, is part of the capacity cost that was
20 testified earlier.

21 Q. The generation capacity savings?

22 A. That's correct. I think the rest of it
23 all is being allocated on the St. Joe divisional
24 books to match up with the cost to generate those
25 savings.

1 Q. And that is the reason why it's only the
2 generation past these savings that are being
3 attributed to the Missouri Public Service Division?

4 A. That's correct.

5 MR. DOTTHEIM: Thank you. I have no
6 further questions.

7 THE WITNESS: Thank you.

8 JUDGE WOODRUFF: Commission Schemenauer,
9 do you have any questions?

10 COMMISSIONER SCHEMENAUER: No questions.

11 JUDGE WOODRUFF: I have no questions.

12 MR. SWEARENGEN: No redirect.

13 JUDGE WOODRUFF: Then you may step down,
14 Mr. McKinney.

15 Next name on the list is
16 Mr. Oligschlaeger.

17 You are still under oath,
18 Mr. Oligschlaeger.

19 Is he tendered for cross-examination?

20 MR. DOTTHEIM: Yes. Mr. Oligschlaeger is
21 tendered for cross-examination on MPS savings.

22 JUDGE WOODRUFF: Okay. Does anyone have
23 any cross-examination questions for him?

24 MR. SWEARENGEN: I have a few.

25 JUDGE WOODRUFF: Anyone else?

1 You may proceed.

2 MARK L. OLIGSCHLAEGER, previously sworn, testified
3 as follows:

4 CROSS-EXAMINATION BY MR. SWEARENGEN:

5 Q. Mr. Oligschlaeger, I'm looking at page 8
6 of your rebuttal testimony. And there I think on
7 lines 14 and the following lines, you indicate that
8 under the proposed regulatory plan, only a small
9 portion of merger savings would be assigned to MPS
10 for rate purposes; is that correct?

11 A. That's correct.

12 Q. So the MPS customers would only benefit
13 from the proposed regulatory plan to a very limited
14 extent, would that be your understanding?

15 A. Looking just at savings without examining
16 merger costs, I would agree with that statement.

17 Q. I understand. And I think you have been
18 in the hearing room this week, and you've probably
19 heard Mr. John McKinney testify as to MPS's
20 rationale for his assignment of costs and savings
21 in connection with this merger, have you not?

22 A. Yes, I have.

23 Q. Okay. And just briefly, what is your
24 understanding of that rationale?

25 A. My understanding of that rationale is

1 because there is no intent to charge any of the
2 merger premium to the MPS Division, it would not be
3 appropriate to flow any savings or, I guess, any
4 material savings to MPS.

5 Q. Thank you.

6 Have you also heard Mr. McKinney say that
7 if somehow the regulatory plan is changed, if the
8 components of the plan are changed, which would
9 result in a shifting of costs and benefits, you
10 might have to change other components of the plan
11 so that the entire transaction is economically
12 feasible from UtiliCorp's standpoint?

13 A. Yes. I understand that that's UtiliCorp's
14 position.

15 Q. And I'm not going to ask you to say that
16 you think this plan is the greatest thing in the
17 world, because I know what your answer would be,
18 but do you agree with that type of thinking with
19 Mr. McKinney's rationale that in order to achieve
20 the goal that UtiliCorp has here, if you change one
21 component of the plan in any way, you may have to
22 change something else in another to make up that
23 difference?

24 A. Well, I would agree certainly that if
25 UtiliCorp has a specific financial goal of some

1 sort resulting -- or relating to this merger and
2 that is key to entering into the merger, as I
3 believe the Company is stating, that they would
4 look at the overall economics of the package and
5 make a decision over whether overall it would give
6 them what they need.

7 Q. Thank you. Now, what we're calling here
8 today the MPS savings assignment issue or proposal,
9 that's an element of their overall plan, is it
10 not?

11 A. Yes, it is.

12 Q. And I think you testified that -- well,
13 let me ask you this: In your mind is that element
14 of the plan fairly clear as to what they're
15 proposing? I mean, you understand what they're
16 proposing with respect to the MPS savings
17 assignment, do you not?

18 A. Relative to the St. Joe savings
19 assignment, yes, I understand their position.

20 Q. And as being a component of the whole plan
21 you understand how it fits in, right?

22 A. Yes, I do.

23 Q. And in your mind are the other elements of
24 the proposed regulatory plan fairly clear and
25 straight forward?

1 MR. DOTTHEIM: I object. I believe the
2 cross-examination is beyond the scope of the issue
3 at this point, which is MPS savings.

4 JUDGE WOODRUFF: I'm going to overrule the
5 objection.

6 Answer his question.

7 THE WITNESS: Is your question -- well,
8 let me ask you to repeat the question.

9 BY MR. SWEARENGEN:

10 Q. Yeah, let me ask you. Because my memory
11 is, is that with respect to the MPS savings plan
12 you said it was -- that was an implicit, I think
13 was the word you used, aspect of the regulatory
14 plan, as you understood it. Is that a fair
15 characterization of your testimony?

16 A. Well, I certainly believe I understand
17 it. There's nothing in UtiliCorp's direct
18 testimony that says, Here is what we intend for MPS
19 point, point, point. Okay. It's laid out
20 differently than it is for St. Joe, and that's why
21 I say that the intent for MPS is implicit not
22 explicit.

23 Q. Would you then say that the intent for the
24 rest of the plan is explicit?

25 A. As it relates to St. Joe, I would say it's

1 fairly clear. It's more clear from the direct
2 testimony at least why it is intended.

3 Q. Okay. Thank you.

4 Back on page 8 of your rebuttal at lines
5 15 to 21, I think you say that under the proposed
6 regulatory plan as you understand it with the
7 exception of these minimal savings in the
8 generation joint dispatch area, MPS should be
9 treated in future rate proceedings as essentially
10 being unaffected by this merger. That's your
11 testimony?

12 A. Yes, it is.

13 Q. So would you agree with me that UtiliCorp
14 has designed a regulatory plan to leave MPS
15 customers with the status quo in terms of rates?

16 A. I believe this plan, you could probably
17 reasonably characterize it that it should not lead
18 to specific rate increases in the future for MPS.
19 I would disagree, however, that it still may lead
20 to MPS customers having higher rates than they
21 otherwise would be without the merger.

22 Q. And the reason you say that is?

23 A. In the corporate allocations area in
24 particular, I think we have identified several
25 problems with the frozen corporate allocations

1 position, and also with the fact that freezing the
2 corporate allocator at the same time that you
3 leave -- that the pool of overall corporate costs
4 will be increasing mainly to higher corporate cost
5 allocations to MPS in the future that wouldn't have
6 occurred without the merger.

7 Q. And those allocations would result in rate
8 impacts only if the Commission approved them in
9 future MPS rate cases, correct?

10 A. That is correct.

11 Q. I guess the converse of the MPS savings
12 assignment is the SJLP's part of it. And as you
13 understand it, most of the benefits are assigned to
14 the SJLP operating unit and its customers; is that
15 correct?

16 A. I believe that's the intent, yes.

17 Q. And is that because under the plan the
18 costs are assigned to the SJLP unit?

19 A. I understand that is UtiliCorp's rationale
20 for assigning all the savings to St. Joe.

21 Q. Would you agree that in the first instance
22 UtiliCorp is paying these costs through the
23 acquisition of the SJLP stock?

24 A. It is paying the merger costs?

25 Q. Yes.

1 A. That certainly the primary merger cost is
2 the acquisition premium.

3 Q. And whatever they're paying for the stock
4 of SJLP is the cost here, the cost of acquiring the
5 Company?

6 A. The difference between -- okay. Yes, I
7 would agree.

8 Q. Okay. And if stated another way,
9 UtiliCorp is making an investment on the front end,
10 and they have chosen to assign that investment to
11 the SJLP and not the MPS unit?

12 A. Yes. That is their choice.

13 Q. And under the plan UtiliCorp would have
14 the risk of recovering that investment from the
15 SJLP unit; is that also correct?

16 A. I'm not sure I understand that question.

17 Q. Well, under the proposed regulatory plan
18 with the costs being assigned to the St. Joe Light
19 and Power unit and under the plan with the
20 five-year moratorium, and subsequent efforts to
21 recover the premium directly through rates in the
22 post-moratorium rate cases, that your understanding
23 is that's how the plan is to work generally?

24 A. Yes.

25 Q. And that's how UtiliCorp would attempt to

1 recover its costs of acquiring the stock; is that
2 not correct?

3 A. Through attaining savings --

4 Q. Yes.

5 A. -- related to the St. Joe acquisition or
6 the St. Joe Division?

7 Q. That's right.

8 A. That would be their means of recovering
9 the acquisition premium?

10 Q. Under the plan.

11 A. I think the plan actually works in a more
12 complicated fashion in that the plan would be to
13 recover in rates after year five, half of the
14 acquisition adjustment directly in rates with the
15 caveat that if some level of savings are not
16 demonstrated or proven that that recovery would be
17 backed off.

18 Q. And I think that is a more detailed
19 explanation. What I'm trying to get at is,
20 UtiliCorp would not be seeking to recover those
21 costs in that fashion from its MPS customers in MPS
22 rate cases?

23 A. That is not part of their proposal.

24 Q. And I think you just said, in those
25 post-moratorium rate cases involving the St. Joe

1 properties, UtiliCorp would have the burden and
2 risk of generating and improving those savings in
3 order to get the rate treatment of the 50 percent
4 of the premium?

5 A. I think the Company would certainly
6 characterize that it faces that risk, because we
7 obviously have concerns with how that mechanism
8 would work, in particular the minimum guaranteed
9 revenue requirement benefit, I think we would
10 disagree that the risk is entirely upon UtiliCorp.

11 Q. You would say that under that plan the
12 risk is not entirely upon UtiliCorp?

13 A. There is a risk that customers would face
14 an increase in rates associated with a short fall
15 in merger savings compared to merger costs.

16 Q. But I think you've also said that would
17 only happen if the Commission would allow it to
18 happen?

19 A. Well, that's true. But as I think we have
20 also previously discussed, there is no sure fire
21 way of demonstrating with certainty the existence
22 of a level of merger savings.

23 Q. And that spills over into this issue of
24 can you track and prove merger savings?

25 A. Yes.

1 Q. One or two final questions. There has
2 been some testimony about the St. Joe Light and
3 Power Company AAO application involving Lake Road
4 Unit 46. And my question is, would that have any
5 impact on the MPS savings assignment?

6 A. The St. Joseph Lake Road incident would
7 that have any impact?

8 Q. Impact on the MPS savings assignment.

9 A. I can't think of any.

10 Q. Okay. Well, let me ask you this question,
11 assuming that the merger closes, and that the
12 Commission has authorized some deferrals in
13 connection with that AAO application, and those
14 deferrals are then written off, is it your
15 understanding that that could have the effect of
16 increasing the premium which UtiliCorp would pay
17 you for St. Joe Light and Power Company?

18 A. As I understand how it works, and
19 Mr. Hyneman is really more versed in the accounting
20 details, booking the deferral in and of itself
21 because -- well, booking of the deferral in and of
22 itself will create a regulatory asset, which I
23 believe will increase the net book value of
24 St. Joe's assets. So creating the deferral will
25 reduce the amount of the premium.

1 If subsequently that deferral is then
2 written off, yes, that would increase the amount of
3 the premium. But all other things being equal, it
4 would probably bring the premium amount back to the
5 pre-deferral status quo, if you will.

6 Q. Let me ask this question, even if that
7 happens, though, you're saying that that would not
8 impact the MPS customers under the proposed plan,
9 right? I think you said earlier you didn't believe
10 that that issue could impact the MPS customers.
11 I'm just asking you to --

12 A. Well, without having the opportunity to
13 give it a lot of thought, I don't see that it
14 would.

15 MR. SWEARENGEN: Okay. Thanks. That's
16 all I have.

17 JUDGE WOODRUFF: Commissioner Murray,
18 Mr. Oligschlaeger's testimony on the MPS savings
19 assignment.

20 COMMISSIONER MURRAY: Okay. I pass.
21 Thank you.

22 JUDGE WOODRUFF: Commissioner Schemenauer,
23 do you have any questions?

24 COMMISSIONER SCHEMENAUER: Just a few.

25 QUESTIONS BY COMMISSIONER SCHEMENAUER:

1 Q. I want to follow up on the questions
2 you've just answered in the discussion with counsel
3 on the AAO. Currently acquisition paying is based
4 on the growth value or equity of St. Joe Power and
5 Light, and the difference between UtiliCorp paying
6 for the Company and what its value is; is that
7 right?

8 A. The acquisition adjustment is based on
9 that, yes.

10 Q. If the Lake Road plant that's no longer
11 there, I guess, or it's damaged extensively, those
12 repairs bring that back into operation whether or
13 not the AAO is granted, they won't be considered to
14 going to be deferred and recovered through rates
15 until the Commission would make a decision on that;
16 is that right?

17 A. Yes. Any deferral that might be granted
18 by the Commission in regard to the application for
19 an AAO, there would be no rate impact until some
20 future rate proceeding in which the Commission
21 might decide to allow rate recovery of the
22 deferrals.

23 Q. And you say the AAO increases the assets
24 of St. Joe in the rate base, wouldn't the asset of
25 that plant be decreased by that amount or would you

1 carry -- the Commission requires you to carry both
2 assets on the book?

3 A. As I understand it, the typical accounting
4 would be to carry both assets on the books.

5 Q. So if the AAO is deferred, even though
6 it's not improved to go into rate base, it would
7 increase the underlying assets and decrease the
8 acquisition premium?

9 A. That is my understanding.

10 Q. Okay. And then subsequently a year from
11 now or five years from now if the AAO was
12 disallowed in rate base, could they
13 retroactively -- could the Company retroactively go
14 back and increase acquisition premiums because of
15 the offset of the deferral?

16 A. That's an interesting question. While I
17 can't say I know the answer to that with certainty,
18 my assumption would be that at the time of closing,
19 whatever the amount -- the actual acquisition
20 adjustment will be based on whatever the amounts of
21 net book -- the net book value of St. Joe's assets
22 on its books at that time compared to the purchase
23 price, at that point from then on the acquisition
24 adjustment would be fixed.

25 Q. It would be written in stone and

1 unchangeable, right?

2 A. That's my assumption.

3 COMMISSIONER SCHEMENAUER: Okay. Thank
4 you. That's all I have.

5 JUDGE WOODRUFF: Commissioner Murray, do
6 you have any questions?

7 COMMISSIONER MURRAY: No. Thank you.

8 JUDGE WOODRUFF: Recross based on
9 questions from the Bench then? Anybody have any
10 questions? All right. Hearing none, any
11 redirect?

12 MR. DOTTHEIM: Yes.

13 REDIRECT EXAMINATION BY MR. DOTTHEIM:

14 Q. Mr. Oligschlaeger, if the allocation
15 factor used to allocate the UtiliCorp overhead cost
16 to Missouri Public Service is adjusted to exclude
17 the St. Joseph Light and Power impact, what is the
18 result on the UtiliCorp cost allocated to Missouri
19 Public Service?

20 A. There would be an increased level of
21 corporate costs allocated to MPS compared to the
22 scenario under which the impact of the St. Joseph
23 transaction would be reflected in the MPS corporate
24 allocators.

25 Q. Is that a mathematical certainty?

1 A. I believe it is.

2 MR. DOTTHEIM: No further questions.

3 JUDGE WOODRUFF: All right. Thank you.

4 You may step down then.

5 I believe Dr. Proctor is the next name on
6 the list.

7 Staff?

8 MR. DOTTHEIM: Yes. Staff would call
9 Dr. Proctor to the stand on the Missouri Public
10 Service savings assignment.

11 JUDGE WOODRUFF: Mr. Proctor, you are
12 still under oath.

13 JUDGE WOODRUFF: Is he tendered for
14 cross-examination?

15 MR. DOTTHEIM: Yes. Staff tenders
16 Dr. Proctor for cross-examination.

17 JUDGE WOODRUFF: Does anyone have any
18 questions for cross-examination?

19 MR. SWEARENGEN: I just wasn't clear what
20 part of his testimony dealt with this particular
21 subject. Maybe you can tell me?

22 THE WITNESS: I deal with it in the
23 section Roman Numeral 2B, the regulatory plan for
24 power supply cost, because that's where the
25 allocations between MPS and St. Joe occur.

1 MR. SWEARENGEN: Allocations. Okay.

2 Thanks.

3 JUDGE WOODRUFF: Did you have any
4 questions then other than that?

5 MR. SWEARENGEN: I have no questions, no.

6 JUDGE WOODRUFF: Any questions from the
7 Bench? Commission Murray?

8 COMMISSIONER MURRAY: Just one moment. No
9 questions. Thank you.

10 JUDGE WOODRUFF: Commissioner
11 Schemenauer?

12 COMMISSIONER SCHEMENAUER: No questions.

13 JUDGE WOODRUFF: No questions from the
14 Bench. No recross, no redirect. You may step
15 down.

16 That takes us into the next issue then of
17 Steam/Gas Service.

18 Mr. Pella?

19 MR. SWEARENGEN: I tender Mr. Pella.

20 JUDGE WOODRUFF: Any questions on
21 cross-examination for Mr. Pella? Okay. We'll give
22 Commissioner Murray a chance to find the testimony.

23 COMMISSIONER MURRAY: This is difficult
24 with so much switching of witnesses.

25 JUDGE WOODRUFF: Yes.

1 STEVE PELLA, previously sworn, testified as
2 follows:

3 QUESTIONS BY COMMISSIONER MURRAY:

4 Q. Mr. Pella, which portion of your testimony
5 deals with the Steam/Gas service?

6 A. The testimony is a broad one about
7 customer service as well as reliability, so the
8 issues around whether it be electric or gas are
9 carrying forward.

10 Q. Throughout?

11 A. Yes.

12 COMMISSIONER MURRAY: No questions. Thank
13 you.

14 JUDGE WOODRUFF: Commission Schemenauer.

15 COMMISSIONER SCHEMENAUER: I just have
16 one, your Honor. Thank you.

17 QUESTIONS BY COMMISSIONER SCHEMENAUER:

18 Q. There have been some discussions and
19 questions regarding retention of UtiliCorp to sell
20 off the excess of the steam generated facility. Is
21 that part of the overall plan of UtiliCorp, do you
22 know?

23 A. UtiliCorp has no plans to sell or get out
24 of the steam business at that time. Were that to
25 be the case, we would work with the customers at

1 that time on that issue.

2 COMMISSIONER SCHEMENAUER: Thank you.
3 That's all I have.

4 JUDGE WOODRUFF: Any recross based on
5 questions from the Bench? Any redirect?

6 MR. SWEARENGEN: No questions.

7 JUDGE WOODRUFF: All right. You may step
8 down then.

9 We're up to Electric Allocation Agreement,
10 Mr. DeBacker?

11 MR. SWEARENGEN: He has two pieces of
12 testimony. He has adopted the direct testimony of
13 Robert Holzwarth, which is Exhibit 14, and then he
14 has his own surrebuttal testimony, which is Exhibit
15 20, so I'll give the reporter three copies of
16 each.

17 (Witness sworn.)

18 (EXHIBIT NOS. 14 AND 20 WERE MARKED FOR
19 IDENTIFICATION BY THE REPORTER.)

20 MR. SWEARENGEN: And with that I would
21 tender Mr. DeBacker.

22 JUDGE WOODRUFF: All right. Thank you.
23 I'm sorry. Did you offer the two exhibits?

24 MR. SWEARENGEN: You know, I think I'll do
25 that. I'll offer Exhibits 14 and 20 and tender

1 Mr. DeBacker. Thank you.

2 JUDGE WOODRUFF: Okay. Thank you. Any
3 cross-examination questions for Mr. DeBacker?

4 MR. KRUEGER: I do, your Honor.

5 JUDGE WOODRUFF: AgP would come first, I
6 believe.

7 FRANK DeBACKER, being first duly sworn, testified
8 as follows:

9 CROSS-EXAMINATION BY MR. CONRAD:

10 Q. Just a quick clarification, Mr. DeBacker.
11 I had Mr. Holzwarth's testimony that you're
12 adopting as Exhibit 14, and then I also had direct
13 testimony from you that appears to have been filed
14 in April of 2000, and then I would also have your
15 surrebuttal testimony.

16 MR. SWEARENGEN: Oh, thank you, Stewart,
17 maybe I missed one.

18 JUDGE WOODRUFF: You filed supplemental, I
19 believe, didn't you?

20 MR. CONRAD: Well, his direct, your Honor,
21 is I think where he is adopting Mr. Holzwarth's
22 testimony that was filed as a separate piece. I
23 don't care how you want to handle it. If you want
24 to call that part of Exhibit 14.

25 MR. SWEARENGEN: I see what he's saying.

1 It's however you would like to handle that. Just
2 for simplicity, I identified that as Exhibit 14,
3 which was the Holzwarth testimony, which he is
4 adopting.

5 JUDGE WOODRUFF: Which is attached to the
6 beginning of that? That's the way I have it in my
7 book.

8 MR. SWEARENGEN: That would be fine. And
9 I appreciate Mr. Conrad pointing that out, and
10 that's probably also true with respect to a piece
11 of testimony for Mr. Dan Street, which I think was
12 adopted by Mr. Jerry Meyers, which we handled
13 yesterday. And I handled that in the same fashion
14 that I just did this without assigning any separate
15 number to it, and I hope that's agreeable to the
16 parties.

17 MR. CONRAD: We don't have an objection to
18 it. I just wanted to be --

19 JUDGE WOODRUFF: Clarify.

20 MR. SWEARENGEN: And I thank learned
21 counsel for pointing it out. It's been a long
22 week.

23 MR. CONRAD: And we thank learned counsel
24 for calling us learned counsel.

25 JUDGE WOODRUFF: Okay. Did you have any

1 questions, Mr. Conrad?

2 MR. CONRAD: No, that's all.

3 JUDGE WOODRUFF: Staff then?

4 MR. KRUEGER: Thank you, your Honor.

5 CROSS-EXAMINATION BY MR. KRUEGER:

6 Q. Good morning, Mr. DeBacker.

7 A. Good morning.

8 Q. My name is Keith Krueger. I'm an attorney
9 for the Staff. I want to ask you some questions
10 about your recommendations concerning capacity
11 margin requirements, which are covered by section
12 4.020 of the electric allocation agreement that was
13 included in Mr. Holzwarth's direct testimony. Do
14 you have that in front of you?

15 A. Yes, I do.

16 Q. Is it your testimony that MPS and SJLP
17 should belong to the same regional reliability
18 council and meet the capacity reserved requirements
19 of that regional reliability council?

20 A. To my knowledge that decision has not been
21 made. That they would both rely on the same
22 reliability council. But whichever reliability
23 council they reside within, they must meet their
24 reliability criteria of that liability council.

25 Q. And you don't have a recommendation on

1 whether they ought to belong to the same one or
2 not?

3 A. No.

4 Q. Now, calling your attention to page 10 of
5 your surrebuttal testimony at lines 13 to 18.

6 MR. SWEARENGEN: Do you have that in front
7 of you, Mr. DeBacker?

8 THE WITNESS: Yes.

9 BY MR. KRUEGER:

10 Q. Is it your testimony that 100 percent of
11 the on-system energy savings should be allocated to
12 St. Joe?

13 A. 100 percent of the additional on-system
14 energy savings should be allocated to St. Joe.

15 Q. And assume now for a moment that the
16 acquisition premium in this proposed merger case
17 was zero instead of \$92 million as I believe it is,
18 in that case would you make the same
19 recommendation?

20 A. No.

21 Q. Why not?

22 A. There's no cost that would be applied to
23 St. Joe, that is, no premium.

24 Q. But if there was an acquisition premium,
25 the savings should be allocated to St. Joe?

1 A. We're allocating the benefits what the
2 costs are.

3 Q. In other words, the MPS rate payer should
4 forego a share of the on-system energy savings from
5 the merger in order to pay the St. Joe
6 shareholders; is that right?

7 A. It's our position that there should be no
8 incremental benefit to the merger since there is no
9 cost to MPS since MPS is not absorbing any other
10 cost of the merger.

11 Q. Now, calling your attention to page 11 of
12 your surrebuttal testimony at lines 7 to 13.

13 A. Yes.

14 Q. Is it your testimony that 100 percent of
15 the profits from the incremental off-system sales,
16 that is those sales above what would have been made
17 by MPS and SJLP on a stand-alone basis, that 100
18 percent of the profits from those incremental
19 off-system sales should be allocated to St. Joe?

20 A. Yes.

21 Q. And, again, I'm going to ask you to assume
22 for a moment that the acquisition premium in this
23 proposed merger case was zero, in that case would
24 you make the same recommendation?

25 A. No.

1 Q. And why not?

2 A. Just, again, if there's no premium,
3 there's no cost.

4 Q. And your answer then to the similar
5 question I asked before, in other words, MPS
6 ratepayers should forego a share of the on-system
7 of the off-system sales savings from the merger in
8 order to pay St. Joe ratepayers?

9 A. Again, we're allocating the benefits,
10 incremental benefits to where the incremental costs
11 are, and that's with St. Joe.

12 MR. KRUEGER: That's all the questions I
13 have, your Honor.

14 JUDGE WOODRUFF: Thank you.

15 Questions from the Bench, Commissioner
16 Murray?

17 COMMISSIONER MURRAY: No questions. Thank
18 you.

19 JUDGE WOODRUFF: Commissioner
20 Schemenauer?

21 COMMISSIONER SCHEMENAUER: No questions.

22 JUDGE WOODRUFF: No recross. Then any
23 redirect?

24 MR. SWEARENGEN: No redirect. Thank you.

25 JUDGE WOODRUFF: Thank you. You may step

1 down.

2 Dr. Proctor is up again.

3 Welcome back again. Of course, you're
4 still under oath.

5 Is he tendered for cross-examination?

6 MR. KRUEGER: He is, your Honor.

7 JUDGE WOODRUFF: Does anyone have any
8 cross-examination questions for Mr. Proctor?

9 Hearing none, questions from the Bench
10 then, Commissioner Murray?

11 COMMISSIONER MURRAY: No questions.

12 JUDGE WOODRUFF: Commissioner
13 Schemenauer?

14 COMMISSIONER SCHEMENAUER: No questions.

15 JUDGE WOODRUFF: No questions from the
16 Bench, no recross, no redirect. You may step
17 down.

18 Everyone has a smile when I say that.
19 Okay. Moving on to Estimated Merger Savings.

20 MR. SWEARENGEN: Mr. Siemeck.

21 JUDGE WOODRUFF: And, Mr. Siemeck, you
22 have also been sworn before so you're still under
23 oath.

24 MR. SWEARENGEN: I tender Mr. Siemek.

25 JUDGE WOODRUFF: Okay. Does anyone have

1 any cross-examination questions for Mr. Siemek?

2 MR. JOYCE: Yes, Staff does.

3 JUDGE WOODRUFF: Anyone else?

4 Proceed, Staff.

5 VERN SIEMEK, previously sworn, testified as
6 follows:

7 CROSS-EXAMINATION BY MR. JOYCE:

8 Q. Good morning, Mr. Siemek.

9 A. Morning.

10 Q. I'd like to start with a question
11 that was referred to you or directed to you by
12 Mr. McKinney. If the whole of UtiliCorp's proposed
13 regulatory plan is adopted by the Commission, how
14 much of that acquisition adjustment does UtiliCorp
15 expect to recover through direct and indirect means
16 for the period of the regulatory plan?

17 A. I'm referring to Schedule VJS-1.

18 MR. SWEARENGEN: Just for clarification
19 what's that attached to?

20 THE WITNESS: To my direct testimony.

21 MR. SWEARENGEN: Thank you.

22 THE WITNESS: During the first five years
23 of the moratorium, the recovery of the premium cost
24 would be approximately \$4.2 million per year. That
25 is the difference between the line Roman Numeral 7,

1 which is the SJLP share of premium cost of six
2 million seven, and the projected shortfall of
3 synergies on line Roman Numeral 8, two million
4 five. The difference between those is \$4.2
5 million. And that is not all the actual recovery
6 of the premium itself. It also reflects the
7 carrying cost of the return on the premium
8 investment.

9 The premium itself, and you would look at
10 the amortization of premium on line Roman Numeral
11 6, line 2, which is \$2.3 million. And depending on
12 how you consider the recovery shortfall to be
13 handled, you would recover some or none. You would
14 recover either none, some or all of that
15 amortization.

16 In years six through ten, the projected
17 recovery of the premium is, again, Roman Numeral 7,
18 which is \$6.1 million on an average annual basis.
19 And during that period, the projected synergies
20 exceed the costs, so we would assume a recovery of
21 that entire amount. Again that assumes that we are
22 able to achieve the synergies that we are
23 projecting, and that we are able to prove to this
24 Commission that we have achieved those synergies so
25 that we are allowed to recover that \$6.1 million.

1 That is what I believe you would call the direct
2 recovery from the St. Joe customers.

3 The indirect recovery, I would refer you
4 to schedules VJS-5 of my surrebuttal. And on page
5 1 of 2, the indirect recovery for the MPS
6 allocation factor on enterprise support cost can be
7 found by looking at line No. 1, the Missouri cost
8 impacts under the St. Joseph column is 1,349,000,
9 which is the expected recovery or projected
10 recovery as a result of keeping the allocation
11 factors for MPS as if the merger had not occurred.

12 On page 2, again, on line 1, the similar
13 recovery projected would be, again, in the
14 St. Joseph column of 1,045,000. This is for
15 internal business unit departments and, again,
16 reflects the impact of keeping the MPS allocation
17 factors as if there were no merger. And I might
18 point out at this point that these differences are
19 based on the original -- the original projections
20 of costs for the internal business units and also
21 the enterprise support units on page 1, which is
22 before any incremental costs that are added to
23 handle St. Joseph transactions.

24 I believe Mr. Traxler, earlier this week,
25 had questioned how that would work, and was

1 concerned that the incremental cost added for
2 St. Joseph transactions would somehow be charged to
3 MPS. I believe these schedules would illustrate
4 that that does not occur.

5 Q. All right. Is that all?

6 A. Yes.

7 Q. Just a moment.

8 Mr. Siemek, what about the indirect impact
9 on premium recovery of the frozen capital
10 structure?

11 A. Well, personally I don't consider that to
12 be part of the recovery of the premium direct or
13 indirectly, and the reason is because of the
14 structure of the transaction. The equity structure
15 for the equity investments of St. Joe Light and
16 Power is in effect being taken over and replaced by
17 an equity investment by UtiliCorp. The debt of
18 St. Joe Light and Power is assumed by UtiliCorp as
19 part of the transaction.

20 And so the way I view it, you really are
21 substituting UtiliCorp equity for the existing
22 St. Joe equity. So there is no -- in my mind, no
23 additional indirect recovery of the premium as a
24 result, because we are stepping into St. Joe's,
25 SJLP's shoes.

1 Q. Under UtiliCorp's regulatory plan, how
2 much of the total ten-year estimate of merger
3 savings is intended to be assigned to MPS? This is
4 a question also that Mr. McKinney deferred to you
5 on.

6 A. I'm sorry. I didn't understand the
7 question.

8 Q. Under the regulatory plan, how much of the
9 total ten-year estimate of merger savings is
10 intended to be assigned to MPS?

11 A. To my knowledge there is approximately \$3
12 million from the capacity savings that Mr. DeBacker
13 has included in his generation synergies. I
14 believe that's the extent.

15 Q. All right. Have you performed any studies
16 of potential non-regulated synergies that would be
17 associated with the merger?

18 A. I have looked as part of the due diligence
19 process at the non-regulated operations, current
20 non-regulated operations and investments of St. Joe
21 Light and Power. I'm not sure whether my
22 examination would be considered a study. They do
23 have, I believe, four investments. One of them, I
24 believe, in our taxing visit is a Missouri Housing
25 Authority investment. They have an investment in

1 Percy Kent, which is a corrugated box and paper bag
2 manufacturer. They have an investment and I forget
3 the name of the company, but one that manufactures
4 a specific kind of pipe, and they also had an
5 investment in Ex Op.

6 Q. Well, if you say you haven't performed
7 what you would call a study, are you aware of
8 anyone from the company from UCU performing such a
9 study with respect to the non-regulated synergies?

10 A. Well, to the extent that I reviewed those
11 operations during the due diligence investigation,
12 there was very little value that we saw in the
13 investments in the Missouri Housing Authority
14 because there are tax limitations that make the
15 investment of very little value to UtiliCorp. The
16 investments in Percy Kent and in the -- and in the
17 pipe manufacturer were both of limited value,
18 because of the market -- the presumed market value
19 of those businesses from looking at some summary
20 financial information.

21 What I saw of the Ex Op operation was that
22 it was in a start-up phase, and most of the
23 projections at that time were unproven, and it was
24 in a period of where considerable investment was
25 needed to bring it even to a break-even status.

1 Q. So basically you really didn't see any
2 utility and proceeding further along that line?

3 A. I did not, that's correct.

4 Q. All right. Let me move on. Just a
5 moment.

6 Mr. Siemek, have you performed any studies
7 of potential merger benefits to UtiliCorp from
8 future sale of St. Joseph generating assets?

9 A. No, I have not.

10 Q. All right. As part of the regulatory
11 plan, UCU states that they will guarantee a \$1.6
12 million revenue requirement benefit from the merger
13 to St. Joe customers in years six to ten that's
14 shown on the schedule that we just discussed; is
15 that correct?

16 A. Yes.

17 Q. That 1.6 figure?

18 Is the 1.6 figure subject to change as
19 UtiliCorp's estimated merger savings amounts
20 change?

21 A. Well, the 1.6 million in actual impact
22 would change depending on what savings are actually
23 affected. If you're asking about the guaranteed
24 element, I don't believe that element of the
25 regulatory plan would change, because that was

1 designed to be a guarantee that would provide a
2 minimum benefit at least to the customers of
3 St. Joe. So the regulatory plan says that there's
4 a \$1.6 million benefit as a minimum. And if
5 synergies are developed that would result in a
6 higher benefit or if some of the costs to achieve
7 are actually less, then those savings would be
8 passed on to the customers in year six or ten also.

9 Q. Would you then characterize the 1.6
10 million as a floor or a ceiling on guaranteed
11 benefits?

12 A. I would call it the floor, because there's
13 a minimum of that 1.6 million that would be
14 returned to St. Joe customers or flowed through to
15 St. Joe customers as a result of our projections.

16 Q. And this would be regardless of any future
17 change in the estimated merger savings?

18 A. Yes. That's my understanding.

19 Q. Are you aware that the Commission has
20 disallowed a portion of UtiliCorp's corporate
21 allocations from Missouri Public Service rates in
22 several rate cases?

23 A. Yes.

24 Q. Do the estimates contained in your
25 schedule VJS-1 reflect the impact of those, any

1 Commission disallowances?

2 A. No. We did not go -- we did not look at
3 the disallowances in preparing these estimates. So
4 to the extent that those costs are disallowed, it
5 would actually increase the synergies in years six
6 through ten, and thus increase all other things
7 being equal. Increase the 1.6 million.

8 Q. Does the 1.6 million guaranteed benefit
9 amount -- so I guess from the answer it doesn't
10 reflect any impact of any Commission disallowances,
11 because you've previously answered that they have
12 not been reflected in the schedule?

13 A. It does not reflect the disallowances,
14 right.

15 Q. Do you have your surrebuttal testimony in
16 front of you?

17 A. Yes, sir.

18 Q. Please turn to page 15. See the question
19 beginning on line 4, refresh your memory. With
20 respect to that question, Staff made
21 recommendations with respect to cost to achieve.
22 And you responded beginning on line 7 of your
23 testimony, Since almost all of the transition costs
24 will be incurred in the first three years all
25 during the rate moratorium, the practical effect of

1 that recommendation is to deny any recovery of the
2 transaction costs. Did I accurately repeat your
3 statement?

4 A. Actually line 9 refers to transition
5 costs, but otherwise, yes.

6 Q. Okay. Transition costs. I'm sorry.

7 Now, you refer in your answer to rate
8 moratorium. The Staff is not recommending such a
9 rate moratorium for St. Joseph, is it?

10 A. The details of the Staff's recommendation
11 escape me at the moment, but I don't believe they
12 are.

13 Q. Mr. Siemek, would you agree that St. Joe
14 will incur a higher level of A and G costs as a
15 result of the merger than it did prior to the
16 merger due to its inclusion in the UtiliCorp
17 corporate allocation system?

18 A. No, I don't believe that's true.

19 Q. Would you please explain.

20 A. Well, if you refer to schedule VJS-1 on my
21 direct testimony.

22 Q. You may proceed.

23 A. I think for one thing it's very difficult
24 to make a conclusion about whether the A and G
25 costs will be higher or lower. We did not

1 specifically examine that, and so I perhaps was too
2 strong when I said I disagree. Because we haven't
3 done a function-by-function comparison of G and A
4 costs on a comparable basis and that's somewhat
5 difficult to do, because there are differences
6 between the organizations as far as how they are
7 organized, and there also are differences,
8 differences that have to be reflected as far as
9 what costs are included in allocations and what
10 costs are not.

11 For example, Mr. Traxler's testimony, I
12 believe, attempts to draw that conclusion, but as I
13 pointed out in my surrebuttal, he has not included
14 all of the costs in order -- that I am aware of
15 anyway -- in order to draw that conclusion. He's
16 left out certain costs, like the benefits costs,
17 which are part of the allocations back from
18 UtiliCorp, but are not included in the comparable
19 costs that he tries to make that comparison with.

20 And he's also isolated, I think, on
21 section 4 of the schedule VJS-1, which is not an
22 apples to apples comparison, because we have
23 eliminated some entire departments of the St. Joe
24 organization, which savings are reflected not in
25 section 4, Roman Numeral 4, but in section Roman

1 Numeral 1 as an entire eliminated department. So
2 it's not appropriate to draw that conclusion from
3 anything that we've developed.

4 Q. Did I hear you to say in your response
5 that you did not specifically look at that issue
6 and you couldn't state for certain that that
7 wouldn't happen?

8 A. I cannot say that specifically, because I
9 did not study that.

10 Q. Thank you. Mr. Siemek, what inflation
11 factor was assumed for UCU's corporate costs that
12 are allocated to SJLP?

13 A. 2.5 percent.

14 Q. And what was that based on?

15 A. Well, it was roughly based on what -- on
16 the CPIU projections and historical experience, and
17 it was also based somewhat on my own judgment as to
18 what an appropriate inflation factor would be for
19 UtiliCorp enterprise support costs and internal
20 business unit costs, which are the allocations back
21 to St. Joe.

22 Q. And which consumer price index
23 specifically did you refer to?

24 A. Consumer price index or dash U for urban.

25 Q. CPIU?

1 A. CPIU.

2 Q. Did you do any historical analysis of the
3 CPIU for a number of years?

4 A. Well, I do have the Bureau of Labor
5 statistic CPIU listing for, I think, the last 30
6 years. I believe that was supplied in response to
7 a data request by the Staff.

8 Q. And you utilized that?

9 A. That was one factor that influenced the
10 choice that I made. I might point out that the
11 exact inflation factor that's used is a factor that
12 will be updated in the post-moratorium rate case.
13 So that the actual impact of inflation and other
14 costs on the enterprise support allocations to
15 St. Joe Light and Power will be corrected or
16 updated at that point so that the use of the
17 estimate is less -- is not -- the use of the
18 estimate at this point is not determinative, if
19 that's clear.

20 Q. Are you saying less reliable?

21 A. No. I'm saying that it will be trued up
22 in a post-moratorium case, so that we'll have the
23 actual impacts at that point, so we don't need to
24 use a 2.5 percent estimate.

25 Q. Do you know what the CPIU inflation rate

1 was that you used for the years 1996, '97, '98 and
2 '99?

3 A. Well, I didn't have to use one for those
4 years, because we had actual experience.

5 Q. Okay. Do you know what they were?

6 A. I believe I have the work paper here. For
7 what years was that?

8 Q. '96 through 99.

9 A. '96 through '99, the December to December
10 increases were respectively 3.3 percent, 1.7
11 percent, 1.6 percent, 2.7 percent.

12 MR. JOYCE: Thank you. No further
13 questions.

14 JUDGE WOODRUFF: Thank you.

15 No questions from the Bench. No recross.
16 Any redirect?

17 MR. SWEARENGEN: I don't think so.

18 JUDGE WOODRUFF: All right. You may step
19 down then.

20 Mr. DeBacker is next.

21 And, Mr. DeBacker, you have been
22 previously sworn so you're still under oath.

23 THE WITNESS: Yes.

24 MR. SWEARENGEN: I tender Mr. DeBacker.

25 JUDGE WOODRUFF: Thank you.

1 Any questions for cross-examination of
2 Mr. DeBacker?

3 MR. KRUEGER: I do, your Honor.

4 JUDGE WOODRUFF: Okay. Go ahead.

5 FRANK DeBACKER, previously sworn, testified as
6 follows:

7 CROSS-EXAMINATION BY MR. KRUEGER:

8 Q. Hello again.

9 A. Hello.

10 Q. Please turn to schedule RWH-12 of
11 Mr. Holzwarth's direct testimony.

12 A. Yes.

13 Q. What is the purpose of that schedule?

14 A. To show the impact of the merger with
15 Empire on the synergies available to St. Joe.

16 Q. Does that schedule show that \$107 million
17 in synergies related to the power supply cost from
18 the merger with St. Joe, \$55 million are allocated
19 to the merger with Empire?

20 A. That's correct.

21 Q. Okay. Were the allocations of power
22 supply synergies between the two mergers designed
23 in order to balance the regulatory plans for the
24 two mergers?

25 A. No, it wasn't my intent. What we did when

1 we analyzed the three-way merger, is we took the
2 increased synergies and allocated them to St. Joe
3 and Empire. But if you're asking was it designed
4 to get to a certain result, no.

5 Q. Was it designed for the purpose of
6 balancing the regulatory plans for the two mergers?

7 A. No.

8 Q. Does the inclusion of power supply
9 synergies and the regulatory plan for the St. Joe
10 merger proposed by UtiliCorp include any provisions
11 for non-approval of the Empire merger, that is the
12 possibility that this merger could be approved, and
13 the Empire merger not approved by the Commission?

14 A. It would -- you lost me.

15 Q. Okay. We have two separate cases here,
16 two applications for mergers, and there's a
17 possibility that this one could be approved and the
18 other one would not be approved.

19 Now, does the inclusion of the power
20 supply synergies in the regulatory plan for the
21 St. Joe merger that you have proposed, include any
22 provisions for the non-approval of the Empire
23 merger?

24 A. I believe Mr. Siemek in his analysis
25 assumed that the Empire merger would take place

1 when he did his schedules and determined in his
2 work. My work was to show the impact on the
3 synergies available to St. Joe if we do the Empire
4 merger. And in the Empire application we see the
5 flip of that.

6 Q. Now, if the Commission would approve the
7 regulatory plan for this merger, but denied the
8 other one, would the \$55 million that we talked
9 about a little earlier, go to either MPS or St. Joe
10 ratepayers?

11 A. My assumption is that it would go to
12 St. Joe.

13 Q. Okay. Now, I would like to call your
14 attention to your surrebuttal testimony, page 5.

15 A. Yes.

16 Q. At lines 6 and 7 on that page you state,
17 The wholesale emergency market is not perfect, and
18 the abilities and opportunities of each of the
19 market participants are not equal. Did I read that
20 correctly?

21 A. Yes, you did.

22 Q. And you discuss that in more detail on the
23 following lines 7 to 12; is that correct?

24 A. Yes.

25 Q. Now, am I correct to understand from your

1 statement there that you disagree with
2 Dr. Proctor's assumption that St. Joe will be able
3 to make off-system sales of its available energy at
4 the same market price as MPS receives when it makes
5 off-system sales of its available energy?

6 A. That is correct. And the reason for that
7 assumption or projection on our part is that, I
8 believe, Mr. Steinbecker elucidated on Monday that
9 St. Joe has no desire to get into the marketing to
10 the extent that MPS is to take on those risks.
11 St. Joe is a small utility. They have not taken
12 the necessary steps for it to do this. They
13 haven't staffed to do this.

14 And I quite honestly cannot think of in a
15 competitive world where any general history in my
16 mind is that small competitors get squeezed out.
17 And the reason you can just consider Wal-Mart
18 versus the hardware store that used to be in
19 probably downtown Jeff City. It's not there
20 anymore. Wal-Mart is here. The neighborhood
21 grocery store is gone. You have giant grocery
22 stores now. And it takes size and the ability to
23 absorb this to succeed in a widely-competitive
24 market.

25 Q. So are you saying then that St. Joe would

1 not be able to receive the same sales price on its
2 available energy on its off-system sales of
3 available energy because they would choose not to
4 compete for that?

5 A. I think they would choose to not compete,
6 because they do not feel they would be successful.
7 And I do not believe they would be successful.

8 Q. I guess my question was directed to why
9 would the price that they receive if they make
10 off-system sales be different than the price that
11 MPS would receive?

12 A. One reason currently is they did not have
13 permission to sell at market-base rate.

14 Q. Okay. Now, I'm going to ask you a series
15 of questions about the assumptions that you used in
16 your model. First of all, with respect to the
17 purchase of energy from the off-system market, what
18 assumptions did you make regarding the purchase of
19 energy by St. Joe and MPS on a stand-alone basis?

20 A. That they would make economic decisions on
21 whether to generate or buy and make the appropriate
22 decision.

23 Q. Did you also assume that each company
24 would be able to purchase whatever it needs at the
25 market price?

1 A. Based on the cost of its own generation at
2 that time, yes, that's true.

3 Q. But if they make a purchase from the
4 off-system market, they would purchase at the
5 off-system price?

6 A. That's correct.

7 Q. And that price would be the same for
8 St. Joe as for MPS?

9 A. That's correct.

10 Q. Now, did you make the same assumptions
11 with regard to purchases by St. Joe and MPS after
12 the merger, that is, that they will be able to
13 purchase whatever they need at the market price?

14 A. That's correct.

15 Q. Next with regard to the sale of energy to
16 the off-system market, what assumptions did you
17 make regarding the sale of energy by St. Joe and by
18 MPS on a stand-alone basis to the off-system
19 market?

20 A. As far as volumes, they would both
21 continue to sell approximately the same volumes as
22 they do today. As for revenue, St. Joe would sell
23 at cost plus, which is their current tariff, and
24 that MPS would sell at market rates.

25 Q. And so that you were assuming then that

1 they that would continue approximately the way they
2 have done in recent years?

3 A. That's correct.

4 Q. And with regard to sales by St. Joe and
5 MPS to the off-system market after the market --
6 after the merger, what assumptions did you make?

7 A. I assumed that the combined company would
8 sell higher volumes at market rates.

9 Q. Okay. Thank you.

10 Now, I want to talk a little bit about the
11 ability and opportunities that you have discussed,
12 the differing abilities and opportunities of the
13 two companies. You referred to that on page 5 of
14 your surrebuttal testimony, lines 6 and 7. What do
15 you mean by the unequal abilities of the two
16 companies?

17 A. UtiliCorp has what -- I wouldn't call it
18 large, but more than adequate regulated marketing
19 group that provides services to all three of our
20 regulated operations, Colorado, Kansas and
21 Missouri. We have the skills to market, to buy and
22 sell. We also have a risk management ability, and
23 we have separated our generation marketing group
24 from our transmission group that is required and
25 have permission to sell at market-base rates.

1 Q. Okay. I was asking about the inequality,
2 how does St. Joe differ from that then?

3 A. St. Joe on the other hand sells power in a
4 small region. To my knowledge they have not
5 separated their transmission and generation
6 groups. They have not invested in the back office
7 systems as UtiliCorp has to manage that function.
8 They do not have the resources. By that I mean
9 they do not have the generation base. They are a
10 very small company, so they are not equal to. They
11 do not have the ability or the desire to do what
12 UtiliCorp has done in this area.

13 Q. Thank you.

14 From a regulatory perspective, do you
15 agree that profits from off-system sales are used
16 to offset the cost of energy to ratepayers?

17 A. Certainly. That's a view of Staff. My
18 personal view, if that's what you're asking?

19 Q. I'm actually asking about how the
20 Commission views.

21 A. In the past they have assigned the margins
22 received from off-system sales as a credit back to
23 the cost of service to the regulated customers.

24 Q. Do you also agree that in setting rates,
25 the Commission must determine the appropriate level

1 at which to set rates, set profits from off-system
2 sales in performing this?

3 MR. SWEARENGEN: Excuse me. Was the
4 question must, Commission must?

5 MR. KRUEGER: That's what I said, yes.

6 THE WITNESS: I'm not a regulatory person,
7 so I really can't answer that question.

8 BY MR. KRUEGER:

9 Q. If the Commission does what we talked
10 about in the answer to the last question that is
11 offset with off system, the profits from off-system
12 sales, they have to determine -- they have to
13 somehow determine what the profits are; is that not
14 correct?

15 A. On a historical basis, I assume, yes, they
16 do.

17 Q. Now, consider a hypothetical situation
18 where there are two companies that have equal
19 opportunities, but unequal abilities. In this
20 situation would it be appropriate for the
21 Commission to set the higher ability as a standard
22 provided that it also takes into account the cost
23 of achieving this higher ability?

24 MR. SWEARENGEN: Your Honor, I think --
25 let me object to the form of the question. The

1 question on the basis that it's unclear what the
2 standard -- what the purpose of the standard is.

3 JUDGE WOODRUFF: Clarify your question.

4 MR. KRUEGER: Your Honor, the purpose of
5 the standard is to determine what level of profits
6 should be included in this analysis when the
7 Commission sets rates.

8 JUDGE WOODRUFF: With that clarification,
9 do you understand the question?

10 THE WITNESS: I can answer it from the
11 assumptions that have been made is that the
12 synergies will flow back to, in this case, an
13 increase synergies, incremental synergies back to
14 St. Joe to offset the premium cost, and the flow
15 back is a benefit to the customer.

16 MR. KRUEGER: I don't believe he answered
17 the question, your Honor.

18 JUDGE WOODRUFF: Thank you.

19 BY MR. KRUEGER:

20 Q. The question was, would it be appropriate
21 for the Commission to set the higher ability as the
22 standard?

23 MR. SWEARENGEN: Well, now I'm going to
24 object. You just said that the witness answered
25 the question. Now, he's re-asking it. So asked

1 and answered.

2 JUDGE WOODRUFF: I thought that's what you
3 said also, Mr. Krueger. Did I misunderstand you?

4 MR. KRUEGER: I said I don't believe he
5 answered the question. That's what I intended to
6 say.

7 JUDGE WOODRUFF: Go ahead and ask your
8 question again.

9 MR. SWEARENGEN: Do you understand the
10 question?

11 THE WITNESS: Not yet.

12 BY MR. KRUEGER:

13 Q. In making this determination in a rate
14 case, would it be appropriate -- whether the
15 Commission has to determine what the rates are and
16 what is the proper amount to include in this
17 analysis for the profits from off-system sales,
18 would it be appropriate for the Commission to set
19 the higher ability as the standard provided that it
20 also takes into account the cost of achieving this
21 higher ability?

22 MR. SWEARENGEN: I'm going to object,
23 again, to the form of the question, because it's
24 unclear what -- we're talking about a rate case for
25 who, UtiliCorp, St. Joe Light and Power or the

1 Empire District Company? It's unclear from the
2 question.

3 JUDGE WOODRUFF: Clarify.

4 MR. KRUEGER: This a follow-up to the
5 question that I asked about the hypothetical
6 situation where there's two companies that have
7 equal opportunities but have unequal abilities.

8 JUDGE WOODRUFF: This is just a
9 hypothetical question now?

10 MR. KRUEGER: That's correct.

11 MR. SWEARENGEN: The rate case involving
12 either company?

13 MR. KRUEGER: Correct.

14 THE WITNESS: I believe, again, I'm not a
15 regulatory expert or don't pretend to be one, but
16 historically the Commission has looked at what has
17 happened, and they have not looked at the ability
18 of the Company or how successful it has been in
19 maximizing its ability and off-system sales or -- I
20 think you're asking a question about prudence here,
21 perhaps.

22 BY MR. KRUEGER:

23 Q. Did your --

24 A. But I don't know the Commission has said
25 utility X has the ability to make a million dollars

1 in margins and off-system sales, but they only made
2 800,000, therefore we're going to disallow
3 200,000. I don't think they have done that.

4 Q. Did your surrebuttal testimony include an
5 estimate of the cost for St. Joe to achieve the
6 same level of ability in the wholesale market that
7 MPS already possesses?

8 A. I believe we --

9 Q. I'm calling your attention to page 8,
10 lines 8 to 20.

11 A. Yes. 8 to 20.

12 Q. And did you state there that St. Joe's
13 trading operation would be somewhat smaller than
14 UtiliCorp's?

15 A. Yes.

16 Q. But due to the separation of a dispatching
17 transmission function and the obtaining of
18 comparable trading would possibly cost St. Joe in
19 the area of \$1 million plus per year?

20 A. That's correct.

21 Q. So they could acquire the ability to
22 compete in this market at an expenditure of a
23 million dollars plus premiums; is that correct?

24 A. If they have the desire to do so.

25 Q. Correct.

1 A. But that does not mean that they would be
2 successful.

3 Q. Next, I want to talk about the unequal
4 opportunities that you have just discussed in your
5 testimony. Calling your attention to page 7 of
6 your surrebuttal testimony, at lines 6 to 9 you
7 said, The operations of the combined company with
8 its enhanced transmission capabilities will allow
9 it to expand its efforts in the wholesale market
10 much more efficiently than either of the companies
11 could do separately. Did I read that correctly?

12 A. Yes, you did.

13 Q. Now, when you referred to enhanced
14 transmission capabilities, did that include the
15 elimination of pancake transmission rates?

16 A. I was referring to the fact that St. Joe
17 has interconnections to the north and to map that
18 MPS currently does not have.

19 Q. Would the elimination of pancake
20 transmission rates be one of the enhanced
21 transmission capabilities that would be covered by
22 that?

23 A. Could be, yes.

24 Q. Would increased access to bulk power
25 markets because of additions and upgrades to a

1 transmission system also be included in the
2 enhanced transmission capabilities?

3 A. Yes.

4 Q. Would increased control by the merged
5 entity of a portion of the regional transmission
6 system be included in the enhanced transmission
7 capability?

8 A. No, I don't believe so. We would have
9 access across that transmission system, but when
10 you say control, I guess automatically I think that
11 perhaps you're talking about restriction of access
12 to other people, and I don't believe that that
13 would happen.

14 Q. Now, with regard to the elimination of
15 pancake transmission rates, have you or anyone in
16 UtiliCorp estimated what level of sales would be
17 foregone by the stand-alone entities because of
18 transmission rates?

19 A. Not to my knowledge.

20 Q. Are you familiar with FERC Order No. 2000?

21 A. Not really, sir. I have not read it.

22 Q. In your surrebuttal page 3 at lines 16 to
23 19 -- are you there?

24 A. Yes, I am.

25 Q. You appear to agree with the conditions

1 recommended by Staff witness, Tom Lin, regarding
2 both information provided under rule 4 CSR
3 240-20.080 and Commission access to UtiliCorp's
4 accounts, books, contracts, records, documents,
5 memoranda, papers and employees; is that correct?

6 A. Yes.

7 Q. And you state that MPS and St. Joe should
8 be held to the same reporting standards as other
9 utilities under the Missouri Commission's
10 jurisdiction?

11 A. Yes, I do.

12 Q. If the merger is completed, the power
13 supplier resources will be jointly dispatched to
14 meet the combined loads of the two divisions. And
15 in your opinion, would this require keeping
16 different records than would be required for the
17 two companies of stand-alone companies?

18 A. No. We intend to keep records on the
19 individual division so that we can tell what the
20 production cost is to serve that load. So my
21 opinion is, no, it would not.

22 Q. So the records that you now keep would be
23 sufficient to make the allocations that you propose
24 to make under this regulatory plan?

25 A. The records that are kept by St. Joe plus

1 the records kept by UtiliCorp together should be
2 sufficient.

3 Q. Don't you need additional records about
4 how the costs are allocated under the electric
5 allocation agreement?

6 A. I was referring to the basic information.
7 How you work that data would be different,
8 obviously. But actual base data is there today.
9 It's how you -- I won't use the word massage.
10 That's a bad connotation -- but how you analyze
11 that data and put it together to determine the cost
12 for each of the individual divisions. But what I
13 was referring to was the basic data, the cost of
14 production on an hourly basis, the interchange
15 data, the load data, all of that stuff is there
16 today.

17 Q. Is it your testimony then that the
18 Commission should have access to all of the data
19 that's necessary to make the allocations between
20 St. Joe and MPS?

21 A. Certainly.

22 MR. KRUEGER: Okay. That's all the
23 questions I have.

24 JUDGE WOODRUFF: Okay. I have a couple of
25 questions.

1 QUESTIONS BY JUDGE WOODRUFF:

2 Q. First of all to clarify, a term that's
3 been used frequently in the testimony, and I have
4 no idea other than it makes me hungry, and that is
5 pancake transmission rates. Can you explain what
6 that is?

7 A. In the old days, okay, 10 years ago --
8 actually before FERC Order opened access to move
9 power from one utility to another, basically
10 utilities only dealt with each other, neighbors.
11 And if utility C over here or D over here could not
12 buy power from utility A, you had to buy, sell, buy
13 sell, buy, sell. FERC said everybody has to open
14 their transmission so companies B, C and D now have
15 transmission rates. So now company D can buy from
16 company A, but they have to pay the transmission
17 rate of all the intervening utilities, so it
18 pancakes. Utilities B plus C plus C, however many
19 I had, to basically add up the transmission costs.

20 Q. So if you have more than one intervening
21 utility, then the transmission costs are going to
22 be lower; is that generally true?

23 A. That is correct. But that is rapidly
24 changing as the RTOs, regional transmission
25 organizations, come into being and which eliminate

1 pancake rates. Depending on how they do it, there
2 will be one tariff that everyone will pay to buy
3 the power.

4 Q. Well, thank you for that clarification. I
5 have another question also involving FERC.

6 It was mentioned that St. Joseph Light and
7 Power doesn't have FERC approval to sell energy at
8 market rates. They have to sell it by cost plus.
9 Can you explain that a little bit further?

10 A. The cost in generation, they can mark it
11 up, I believe it's 10 percent.

12 Q. St. Joseph can?

13 A. Right. That's the tariff under which they
14 sell in the wholesale market to a neighboring
15 utility.

16 Q. Now, if they were at market rates, they
17 can just sell to whatever market there is?

18 A. That's correct.

19 Q. So all these hot days when the capacity is
20 short and there's these price spikes, St. Joseph's
21 would be selling at their 10 percent markup?

22 A. And UtiliCorp would be selling at market.

23 Q. Which could be much, much higher?

24 A. Much, much higher, yes.

25 JUDGE WOODRUFF: That's all the question I

1 had then.

2 Any recross based on those questions?

3 Hearing none, any redirect?

4 MR. SWEARENGEN: No redirect. Thank you.

5 JUDGE WOODRUFF: Thank you.

6 It looks a good time to take a break.

7 Let's come back at 10:30.

8 (A BREAK WAS TAKEN.)

9 JUDGE WOODRUFF: I believe Mr. Browning is
10 the next name on the list?

11 MR. COOPER: Thank you, your Honor. We
12 need to mark two pieces of testimony for
13 Mr. Browning. His direct testimony, I believe, is
14 Exhibit 15, and his surrebuttal testimony is
15 Exhibit 16.

16 JUDGE WOODRUFF: That's what I have.

17 (EXHIBIT NOS. 15 AND 16 WERE MARKED FOR
18 IDENTIFICATION BY THE REPORTER.)

19 (Witness sworn.)

20 JUDGE WOODRUFF: You may proceed.

21 MR. COOPER: Your Honor, I believe that
22 we've done away with the direct testimony portion
23 of the proceeding as customary?

24 JUDGE WOODRUFF: Does he have any
25 corrections or anything to his testimony?

1 MR. COOPER: Mr. Browning does not have
2 any corrections to his testimony. Thus, we would
3 offer Exhibits 15 and 16 into evidence and tender
4 Mr. Browning for cross-examination.

5 JUDGE WOODRUFF: Thank you. Will he be
6 testifying again later on other issues?

7 MR. COOPER: One more issue, I believe,
8 your Honor.

9 JUDGE WOODRUFF: All right. Then are
10 there any cross-examination questions for
11 Mr. Browning?

12 Hearing none, there are no questions from
13 the Bench, so there would be no recross and no
14 redirect, and you can step down.

15 THE WITNESS: Thank you.

16 JUDGE WOODRUFF: Richard Kreul, I believe,
17 is the next name.

18 (Witness sworn.)

19 JUDGE WOODRUFF: You may sit down.

20 MR. COOPER: Your Honor, we have the
21 direct testimony of Richard C. Kreul, which is
22 Exhibit 12, as well as the surrebuttal testimony of
23 Richard C. Kreul, which is Exhibit 13, which I am
24 now providing to the court reporter.

25 (EXHIBIT NOS. 12 AND 13 WERE MARKED FOR

1 IDENTIFICATION BY THE REPORTER.)

2 JUDGE WOODRUFF: Will he also be
3 testifying in other matters later?

4 MR. COOPER: Yes, he will.

5 JUDGE WOODRUFF: And are you going to
6 offer 12 and 13?

7 MR. COOPER: We would offer Exhibits 12
8 and 13 and -- actually, let me back up here.

9 RICHARD C. KREUL, being first duly sworn, testified
10 as follows:

11 DIRECT EXAMINATION BY MR. COOPER:

12 Q. Mr. Kreul, do you have some changes that
13 need to be made to your testimony?

14 A. There may be a couple of minor changes.
15 Let me look here real quick. Just a couple of
16 minor changes.

17 Q. Why don't you go ahead and go through
18 those for us.

19 A. Okay. On page --

20 JUDGE WOODRUFF: On direct?

21 THE WITNESS: I'm sorry. On my direct.

22 Really not much of a correction. It's on
23 page 6, line 9 it's where I'm describing the
24 UtiliCorp system. I mention the West Virginia
25 properties. Since this testimony we have sold

1 those properties, and they are no longer a part of
2 the UtiliCorp operation.

3 JUDGE WOODRUFF: Okay.

4 THE WITNESS: Page 11, line 2 there's a
5 typo. Instead of two miles, it should read, Which
6 is within four miles rather than two miles.

7 JUDGE WOODRUFF: Go back to your first
8 correction, you have a question and answer about
9 WVPS and that's West Virginia Power?

10 THE WITNESS: That's correct.

11 JUDGE WOODRUFF: Do you want to entirely
12 delete that question and answer?

13 MR. COOPER: I think that Mr. Kreul just
14 wants to note for the record that those properties
15 are no longer owned by UtiliCorp.

16 JUDGE WOODRUFF: Proceed.

17 THE WITNESS: I think that's it.

18 JUDGE WOODRUFF: Okay.

19 MR. COOPER: With those changes, your
20 Honor, we would now offer Exhibits 12 and 13 and
21 tender Mr. Kreul for cross-examination.

22 JUDGE WOODRUFF: Does anyone have any
23 cross-examination questions for Mr. Kreul?

24 MR. KRUEGER: I do, your Honor.

25 JUDGE WOODRUFF: All right. Go ahead.

1 CROSS-EXAMINATION BY MR. KRUEGER:

2 Q. Good morning, Mr. Kreul.

3 A. Good morning.

4 Q. I'm Keith Krueger. I'm an attorney for
5 the Staff.

6 A. Nice to meet you.

7 Q. You testified in your surrebuttal
8 testimony about RTOs and ISOs and power pools and
9 so forth. Are you familiar with the provisions of
10 FERC Order No. 2000?

11 A. I'm familiar with FERC Order 2000. I have
12 not read the order, but I am familiar with it.

13 Q. Would you agree that in that order that
14 FERC reached a conclusion that the implementation
15 of RTO's can rectify the engineering and economic
16 inefficiencies in the regional transmission grid --

17 A. Yes.

18 Q. -- at MP, the growth of fully competitive
19 full power markets?

20 A. Yes.

21 Q. Now, according to the FERC, does the
22 source of these inefficiencies include pancaking of
23 transmission access charges?

24 A. I don't recall that being in Order 2000.

25 MR. SWEARENGEN: Your Honor, I guess the

1 order speaks for itself. I guess if he wants to
2 have the Commission take notice of it, that would
3 be fine. Mr. Kreul said he hadn't read it. He
4 heard or was somewhat familiar with it.

5 JUDGE WOODRUFF: Mr. Krueger, what do you
6 want to do with --

7 MR. KRUEGER: Your Honor, I'd like these
8 to be part of the record. I don't want to
9 introduce the entire FERC Order 2000, but the
10 excerpts that pertain to the subjects that I want
11 to address, I'd like to have marked as exhibits and
12 introduced into the record.

13 MR. SWEARENGEN: Well, I think you ought
14 to put the whole order in. It's only 800 pages.

15 MR. KRUEGER: I don't mind if the
16 Commission takes official notice of the entire
17 order, but I do not want to distribute copies of
18 the entire order.

19 MR. SWEARENGEN: I was just kidding.

20 JUDGE WOODRUFF: I thought you were. We
21 are moving to new quarters, but we are short on
22 space even so.

23 MR. SWEARENGEN: We would have no
24 objection to that. That's fine.

25 JUDGE WOODRUFF: Okay. That's fine then.

1 Is it all one exhibit?

2 MR. KRUEGER: I'm making it three exhibits
3 since it comes from different portions of the
4 order.

5 JUDGE WOODRUFF: That would be 726, 727
6 and 728.

7 (EXHIBIT NO. 726 WAS MARKED FOR
8 IDENTIFICATION BY THE REPORTER.)

9 JUDGE WOODRUFF: This first one you handed
10 me will be 726. The second one you handed me will
11 be 727, that's the Commission conclusions on
12 Section 3A.

13 (EXHIBIT NO. 727 WAS MARKED FOR
14 IDENTIFICATION BY THE REPORTER.)

15 JUDGE WOODRUFF: This new one will be 728,
16 and that's Commission conclusions on Section 3B.

17 (EXHIBIT NO. 728 WAS MARKED FOR
18 IDENTIFICATION BY THE REPORTER.)

19 JUDGE WOODRUFF: You may proceed.

20 MR. KRUEGER: May I approach the witness,
21 your Honor?

22 JUDGE WOODRUFF: Yes, you may.

23 BY MR. KRUEGER:

24 Q. I'm going to hand you a copy of what's
25 been marked for identification Exhibit Nos. 726,

1 727 and 728. Do you recognize that as portions of
2 the FERC Order No. 2000?

3 A. Yes. According to your title sheet, the
4 title page here they are portions of FERC Order
5 2000, yes.

6 Q. You don't have any reason to doubt that
7 those are accurate copies of FERC Order 2000?

8 A. I do not.

9 Q. I'm calling your attention specifically to
10 Exhibit No. 727. The first page that's copied
11 there is page 62. Are you there?

12 A. Yes, I am.

13 Q. Calling your attention to the last
14 paragraph near the bottom of that page, FERC
15 discusses engineering and economic inefficiencies.
16 Do you agree with that?

17 A. Yes, it does.

18 Q. And the last full sentence there begins on
19 about the fourth line of text. And it says, The
20 source of these inefficiencies involve, and then it
21 lists a number of things. Do you agree with that?

22 A. Yes.

23 Q. Do you agree that one of the things that's
24 listed there is pancaking of transmission access
25 charges?

1 A. That's what it reads, yes.

2 Q. And does it also listed in there planning
3 and investing in new transmission facilities?

4 MR. SWEARENGEN: Judge, I'm going to
5 object to the line of questioning. I think the
6 order speaks for itself. The only problem we're
7 going into evidence that I don't see any purpose
8 for asking this witness what it says. It says what
9 it says. And go on to evidence.

10 JUDGE WOODRUFF: I'm going to sustain the
11 objection. If you can move along a little bit
12 faster, I'd appreciate it, Mr. Krueger.

13 MR. KRUEGER: Okay. Your Honor, I'd move
14 the admission of Exhibits 726, 727 and 728.

15 MR. CONRAD: No objection.

16 JUDGE WOODRUFF: Exhibits 726, 727 and 728
17 have been offered into evidence. Are there any
18 objections to their admission?

19 Hearing none, they will be received.
20 Thank you.

21 (EXHIBIT NOS. 726, 727 AND 728 WERE
22 RECEIVED INTO EVIDENCE.)

23 MR. KRUEGER: I have no other questions,
24 your Honor.

25 JUDGE WOODRUFF: All right. Thank you. I

1 have no questions from the Bench, and there will be
2 no recross. Is there any redirect?

3 MR. SWEARENGEN: No redirect.

4 JUDGE WOODRUFF: You may step down then.

5 THE WITNESS: Thank you.

6 MR. SWEARENGEN: Can we go off the record
7 a second, please?

8 JUDGE WOODRUFF: Yes.

9 (OFF THE RECORD.)

10 JUDGE WOODRUFF: We're still on estimated
11 merger savings and the next witness is Ms. Fisher.
12 All right.

13 Ms. Fisher, I believe you testified
14 yesterday, so you are still under oath.

15 THE WITNESS: Yes.

16 JUDGE WOODRUFF: Is she tendered for
17 cross-examination?

18 MR. JOYCE: Yes, your Honor.

19 JUDGE WOODRUFF: Does anyone have any
20 questions for her on cross-examination?

21 Hearing none, I have no questions from the
22 Bench, so there will be no recross or redirect, and
23 you may step down. Thank you.

24 Next witness is William Harris.

25 MR. JOYCE: Staff calls Mr. Harris to the

1 stand.

2 JUDGE WOODRUFF: Is this the first time
3 you've testified, Mr. Harris?

4 MR. HARRIS: In this proceeding, your
5 Honor.

6 (Witness sworn.)

7 JUDGE WOODRUFF: You may sit down.

8 MR. JOYCE: I'll provide the court
9 reporter with Mr. Harris's testimony, which has
10 been premarked as Exhibit No. 706 and 706HC.

11 (EXHIBIT NOS. 706 AND 706HC WERE MARKED
12 FOR IDENTIFICATION BY THE REPORTER.)

13 V. WILLIAM HARRIS, being first duly sworn,
14 testified as follows:

15 DIRECT EXAMINATION BY MR. JOYCE:

16 Q. Mr. Harris, do you have copies of your
17 testimony that is marked Exhibit 706 and 706HC?

18 A. Yes, I do.

19 Q. Do you have any corrections?

20 A. No, I don't.

21 MR. JOYCE: Pursuant to the agreement
22 between the parties earlier this week, I offer
23 Exhibits 706 and 706HC into evidence. And since
24 this is the only time that Mr. Harris is scheduled
25 to testify, I ask that it be received into

1 evidence.

2 JUDGE WOODRUFF: All right. Thank you.

3 Exhibit 706 and 706HC have been offered
4 into evidence. Are there objections to its
5 receipt?

6 Hearing none they will be received into
7 evidence.

8 (EXHIBIT NOS. 706 AND 706HC WERE RECEIVED
9 INTO EVIDENCE.)

10 MR. JOYCE: I tender Mr. Harris for
11 cross-examination.

12 JUDGE WOODRUFF: Thank you.

13 Does anyone have any questions on
14 cross-examination for Mr. Harris?

15 Hearing none, there are none for the
16 Bench, no recross or redirect and you may step
17 down. Thank you.

18 THE WITNESS: Thank you.

19 JUDGE WOODRUFF: Mr. Traxler. You were
20 previously sworn so you're still under oath.

21 THE WITNESS: Thank you.

22 STEVE M. TRAXLER, previously sworn, testified as
23 follows:

24 DIRECT EXAMINATION BY MR. FREY:

25 Q. Could you state your name again for the

1 record, sir?

2 A. Steve Traxler.

3 MR. FREY: Thank you. I tender the
4 witness for cross.

5 JUDGE WOODRUFF: Okay. Does anyone have
6 any cross-examination questions for Mr. Traxler?
7 Hearing none, there are none from the Bench, so no
8 recross and no redirect, and you may step down.

9 THE WITNESS: Can I make one statement?

10 JUDGE WOODRUFF: No. Unless someone asks
11 you a question.

12 MR. COOPER: Your Honor, I think that
13 perhaps -- let's back up.

14 I think that perhaps we're going to
15 memorialize an agreement between the parties on
16 pension condition so --

17 THE WITNESS: In response to this
18 gentleman's question earlier whether how we would
19 introduce a new updated cost of service runs, I
20 thought this was the appropriate time.

21 MR. COMLEY: Oh, good.

22 JUDGE WOODRUFF: Is there a question on
23 the record here?

24 MR. CONRAD: I'll ask one.

25 JUDGE WOODRUFF: All right. Would you ask

1 him a question.

2 CROSS-EXAMINATION BY MR. CONRAD:

3 Q. Mr. Traxler, is it true that you have an
4 update to the Staff's EMS runs?

5 A. Let me check. Yes, sir, we do have an
6 updated run, which reflects the changes in the rate
7 of return recommended by Mr. Broadwater.

8 MR. CONRAD: That concludes my
9 cross-examination. Perhaps on redirect now you --
10 the exhibits can be --

11 JUDGE WOODRUFF: Any other
12 cross-examination?

13 MR. COMLEY: Your Honor?

14 JUDGE WOODRUFF: Yes.

15 CROSS-EXAMINATION BY MR. COMLEY:

16 Q. With respect to the cost of service, were
17 those the only changes you have made in your EMS
18 run?

19 A. The only other change was a classification
20 adjustment. Initially we had a \$3,000 adjustment
21 to revenue category for known and eventual
22 changes. That adjustment has now been transferred
23 to a five-year normalization adjustment that I'm
24 recommending for 10923, which is outside services.
25 It's been transferred from a revenue production to

1 an expense increase.

2 Q. Do the rate base change at all?

3 A. I'm not aware of any recommended change in
4 rate base, no.

5 MR. COMLEY: That's all I have.

6 JUDGE WOODRUFF: Okay. Any redirect?

7 REDIRECT EXAMINATION BY MR. FREY:

8 Q. Mr. Traxler, I think you said \$3,000. Was
9 that --

10 A. 300,000.

11 Q. So that would be a correction if you said
12 3,000 before?

13 A. That's correct. It's 300,000.

14 MR. FREY: Thank you. No further
15 questions.

16 JUDGE WOODRUFF: You may step down.

17 MR. COMLEY: Just a question, would that
18 be offered as a separate exhibit at some point or
19 is it just going to be part of Mr. Traxler's
20 revised schedules?

21 MR. DOTTHEIM: Yes. It will be -- copies
22 will be made. We hope to have those available this
23 afternoon, and we would then offer them -- ask that
24 they be marked and offer them into evidence. And
25 if the parties would prefer, we could -- if

1 everyone hasn't had an opportunity, and I know
2 everybody hasn't, we can provide copies this
3 afternoon, give everyone an opportunity to look at
4 it and address it tomorrow.

5 JUDGE WOODRUFF: However you want to do it
6 is fine with me.

7 You may step down.

8 I believe Tom Lin is the next name on the
9 list.

10 (Witness sworn.)

11 MR. DOTTHEIM: I'm sorry. At this time I
12 don't appear to have three copies of Mr. Lin's
13 rebuttal testimony, unless that's already been
14 marked, which I'm not --

15 JUDGE WOODRUFF: It's marked as 709.

16 MR. DOTTHEIM: It's premarked?

17 JUDGE WOODRUFF: Premarked as 709.

18 MR. DOTTHEIM: Unfortunately I don't have
19 the three copies to provide the court reporter, but
20 I --

21 JUDGE WOODRUFF: You can provide those
22 later then. That would be fine.

23 TOM Y. LIN, being first duly sworn, testified as
24 follows:

25 DIRECT EXAMINATION BY MR. DOTTHEIM:

1 Q. Would you please state your name for the
2 record?

3 A. Tom Y. Lin.

4 Q. And your place of employment?

5 A. It's 301 West High Street, Jefferson City,
6 Missouri 65101.

7 Q. Mr. Lin, do you have a copy of your
8 rebuttal testimony?

9 A. Yes.

10 Q. Do you have any corrections to make --

11 A. No, I don't.

12 Q. -- to that testimony?

13 MR. DOTTHEIM: At this time I would tender
14 Mr. Lin for cross-examination.

15 JUDGE WOODRUFF: Okay. And are you
16 offering 709?

17 MR. DOTTHEIM: Yes. Excuse me. I'm
18 offering Exhibit 709, Mr. Lin's rebuttal testimony.

19 JUDGE WOODRUFF: Is this the only time?
20 He'll be testifying again later, won't he?

21 MR. DOTTHEIM: Yes.

22 JUDGE WOODRUFF: All right. Does anybody
23 have any cross-examination questions for Mr. Lin?
24 All right.

25 Hearing none, then there are no questions

1 from the Bench, no recross and no redirect, and
2 Mr. Lin, you can step down.

3 I believe Dr. Proctor is next.

4 MR. DOTTHEIM: Staff calls to the stand
5 Dr. Proctor on the issue of estimated merger
6 savings. Excuse me. It appears that Dr. Proctor
7 isn't in the hearing room at the moment.

8 JUDGE WOODRUFF: Do you want to skip him
9 and go on to the next one?

10 MR. DOTTHEIM: Yes. Why don't we do
11 that.

12 JUDGE WOODRUFF: We can come back to him
13 later.

14 MR. DOTTHEIM: We call Ms. Pyatte, and
15 Ms. Pyatte isn't in the hearing room either.

16 JUDGE WOODRUFF: I don't see them listed
17 under Estimated Merger Savings.

18 MR. DOTTHEIM: Excuse me. I'm sorry. I
19 was looking at Savings Tracking and Benchmarking.

20 MR. COFFMAN: Public Counsel can go ahead.

21 JUDGE WOODRUFF: Let's go ahead with
22 Public Counsel.

23 MR. COFFMAN: We'd call Mr. Robertson to
24 the stand. I would offer Ted Robertson for
25 cross-examination on this issue.

1 JUDGE WOODRUFF: Okay. Does anyone have
2 any cross-examination questions for Mr. Robertson?

3 Hearing none, then there are no questions
4 from the Bench, so no recross and no redirect. You
5 may step down.

6 MR. COFFMAN: We now call Ryan Kind to the
7 stand on this issue of Estimated Merger Savings.

8 JUDGE WOODRUFF: And, Mr. Kind, you have
9 also been previously sworn and you're still under
10 oath.

11 I assume he's tendered for
12 cross-examination?

13 MR. COFFMAN: Yes. We would offer
14 Mr. Kind for cross-examination.

15 JUDGE WOODRUFF: Does anyone have any
16 cross-examination questions for Mr. Kind? All
17 right.

18 Hearing none, there are no questions from
19 the Bench, no recross, no redirect. You may step
20 down. Thank you.

21 I see Dr. Proctor is back in the room.

22 MR. DOTTHEIM: Yes. I also have three
23 copies of Tom Lin's rebuttal testimony.

24 JUDGE WOODRUFF: Why don't you go ahead
25 and give her the copies.

1 MR. DOTTHEIM: And I'll provide those to
2 the court reporter at this time.

3 JUDGE WOODRUFF: Okay.

4 (EXHIBIT NO. 709 WAS MARKED FOR
5 IDENTIFICATION BY THE REPORTER.)

6 JUDGE WOODRUFF: And Dr. Proctor, you are
7 still under oath.

8 Is he tendered for cross-examination?

9 MR. DOTTHEIM: The Staff tenders
10 Dr. Proctor on the issue of Estimated Merger
11 Savings.

12 JUDGE WOODRUFF: Does anyone have any
13 cross-examination questions? All right.

14 Hearing none, no questions from the Bench,
15 so no recross or redirect. You may step down.

16 I believe that completes the Estimated
17 Merger Savings issue, which brings us to Pension
18 Funds Condition.

19 MR. DOTTHEIM: It's my understanding, and
20 counsel for UtiliCorp can verify this, and
21 Mr. Cooper can verify that it appears that we have
22 a resolution settlement of that issue, but it would
23 be necessary to call Mr. Traxler to the stand to,
24 we think, put into the record what that
25 understanding is.

1 JUDGE WOODRUFF: Okay. Please do so.

2 MR. DOTTHEIM: Staff would call Steve M.
3 Traxler to the witness stand on the issue of
4 Pension Funds Condition.

5 JUDGE WOODRUFF: You also have already
6 testified, so you're still under oath.

7 THE WITNESS: Thank you.

8 STEVE M. TRAXLER, previously sworn, testified as
9 follows:

10 DIRECT EXAMINATION BY MR. WILLIAMS:

11 Q. Please state your name.

12 A. Steve M. Traxler.

13 Q. Has there been a settlement reached with
14 the companies regarding the pension plan issue?

15 A. Yes. From a conceptual standpoint -- and
16 I'll try to be brief as I can in terms of
17 explaining what the agreement is -- the issue
18 involved was whether or not on a post-merger basis
19 the pre-funded status of St. Joe Light and Power's
20 pension fund would be maintained regarding the
21 expected rate of return assumption used in
22 calculated FASB 87.

23 It was the Staff's recommended condition
24 that an order eliminate any detrimental impact and
25 increase pension cost to St. Joe Light and Power,

1 that the pre-merger funded status be maintained.
2 It is the agreement at this point that from a
3 conceptual standpoint the company is agreeing in
4 cases involving St. Joe Light and Power in the
5 future after the merger to maintain the pre-merger
6 funded status.

7 And let me be clear that doesn't mean that
8 the assets of St. Joe Light and Power have to be in
9 a separate account. The agreement is that you can
10 combine the assets and still maintain a pre-merger
11 funded status by an accounting calculation, if you
12 will. From the Staff's point of view, the
13 expectation is that calculation should start with a
14 market value of assets evaluation done by the
15 company's current actuarial firm at the time of
16 merger closing. That would be the starting point
17 of the pre-merger funded status.

18 On a going-forward basis to maintain that
19 pre-merger funded status could be accomplished by
20 using the net rate of return on the combined
21 pension assets of UtiliCorp. By net rate of
22 return, I mean the actual earned return income
23 earned on the assets during the year less benefits
24 made is the definition of the net return or impact
25 on the fund.

1 That percentage, let's assume that's 10
2 percent, would then be applied to the pre-merger
3 funded status previously discussed on a
4 going-forward basis. That in effect would
5 maintain, in our view -- my view, that pre-merger
6 funded status for purposes of calculating the
7 expected rate of return assumption for the St. Joe
8 Light and Power division.

9 We still have to talk to the Company's
10 actuary to show what I'm stating is somewhat of an
11 over simplification to make sure we understand how
12 that should be accomplished, but conceptually we
13 have an agreement.

14 Q. You just said in future cases, are those
15 certain types of cases or any case?

16 A. Rate cases involving St. Joe Light and
17 Power.

18 Q. And you also mentioned the company's
19 actuarial at the time of the merger. Which company
20 were you referring to?

21 A. I'm sorry. Could you repeat that
22 question?

23 Q. You said to use the numbers of the
24 company's actuarial at the time of the merger,
25 which company were you referring to when you said

1 that?

2 A. I think it would be appropriate for --
3 because we're trying to reflect a stand-alone
4 assumption prior to the merger, that the market
5 value, valuation of the assets at the time of the
6 merger closing should be done by the company's
7 existing firm.

8 Q. Are you --

9 A. The DeFrain Mayer.

10 Q. Are you talking about St. Joe Light and
11 Power?

12 A. Yes, I am.

13 MR. WILLIAMS: No further questions.

14 JUDGE WOODRUFF: Is there any
15 cross-examination questions?

16 Yes, Mr. Coffman?

17 MR. COFFMAN: Just a second.

18 CROSS-EXAMINATION BY MR. COFFMAN:

19 Q. So if I'm understanding what the
20 settlement is you're describing it, Mr. Traxler,
21 would this be a determination about how a future
22 combined company would be treated in a rate case or
23 simply the
24 St. Joe Light and Power division in a future rate
25 case?

1 A. The agreement here is strictly related to
2 one division and one division only and that's
3 St. Joe Light and Power Company. The normal
4 calculation which applies to the other divisions is
5 different than what I've just described. We're
6 talking about a unique calculation just for this
7 division.

8 Q. And do you know if it's the Staff's intent
9 to reduce this settlement to writing and file it
10 any way in this case?

11 A. I would -- I can't speak for our attorney,
12 but that would certainly make sense to me.

13 MR. COFFMAN: Okay. Those are all the
14 questions I have. Thanks.

15 JUDGE WOODRUFF: Any other cross?

16 MR. COOPER: Your Honor, before I waive
17 any other cross, I think it would be helpful if we
18 could go off the record for a moment to let our
19 witness talk to Mr. Traxler just momentarily and
20 make sure we have something straight.

21 JUDGE WOODRUFF: We're off the record
22 then.

23 (OFF THE RECORD.)

24 MR. COOPER: One question, your Honor, for
25 Mr. Traxler.

1 CROSS-EXAMINATION BY MR. COOPER:

2 Q. Earlier you mentioned a calculation that
3 was going to be made by DeFrain Mayer, which
4 calculation was it that you were referring to?

5 A. The only calculation that DeFrain Mayer
6 would make would be the the market value evaluation
7 of the pension fund assets for St. Joe Light and
8 Power at the time of merger closing. At all
9 subsequent evaluations, that would be done by the
10 UtiliCorp actuarial firm.

11 MR. COOPER: That's the only question I
12 have.

13 JUDGE WOODRUFF: Any other questions?

14 MR. CONRAD: Judge, this is just really
15 kind of following up on this.

16 CROSS-EXAMINATION BY MR. CONRAD:

17 Q. Mr. Traxler, you're aware there's another
18 pending application by UtiliCorp with respect to
19 Empire, aren't you?

20 A. Yes, I am.

21 Q. If I understood your testimony just a
22 moment ago, this settlement would have no
23 implications for the Empire situation, would it?

24 A. We have the same issue in that case.
25 However, this settlement -- the only discussion for

1 purposes of this settlement was the St. Joe Light
2 and Power case.

3 Q. And my concern is one of process in that
4 my understanding is I don't know whether this has
5 been ruled on. I saw a vote had been taken, but I
6 haven't seen an order on it yet. There was a group
7 of Empire pensioners, retirees that had sought
8 intervention in the Empire case. So I guess I
9 would be just insofar as the Commission's process
10 here, concerned that we're not creating precedence
11 here. We're not, from your view, are we?

12 A. I only state from the Staff's position
13 that our point of view is the same in both cases.
14 My recommendation is the same, and we plan to
15 proceed. In any event we don't get a settlement
16 similar to what we're talking about here, we'll
17 proceed to trial on this issue.

18 MR. CONRAD: I understand. Thank you.

19 JUDGE WOODRUFF: All right. Thank you.

20 Any other questions for
21 cross-examination? Okay.

22 No questions from the Bench, so no
23 recross. Any redirect?

24 MR. WILLIAMS: No, your Honor.

25 JUDGE WOODRUFF: Mr. Browning is also