

1 scheduled to testify in the Pension Funds
2 Condition. I assume that's not necessary at this
3 point?

4 MR. COOPER: I believe it's not necessary,
5 and I believe that was the last issue that he was
6 scheduled to testify on. So at this time I would
7 again offer Exhibits 15 and 16 into evidence.

8 JUDGE WOODRUFF: 15 and 16 have been
9 offered into evidence. Are there any objections to
10 their receipt?

11 Hearing none, they will be received into
12 evidence.

13 (EXHIBIT NOS. 15 AND 16 WERE RECEIVED INTO
14 EVIDENCE.)

15 JUDGE WOODRUFF: Which then moves us on to
16 Savings Tracking and Benchmarking. Mr. Myers can
17 be the first if you want.

18 Mr. Myers, I believe you have testified
19 before and so you're still under oath.

20 MR. SWEARENGEN: I'll tender the witness.

21 JUDGE WOODRUFF: Thank you.

22 And are there any cross-examination
23 questions for Jerry Myers on this issue?

24 MR. DOTTHEIM: Yes. The Staff has
25 questions for Mr. Myers.

1 JUDGE WOODRUFF: You may proceed.

2 MR. DOTTHEIM: Thank you.

3 JERRY D. MYERS, previously sworn, testified as
4 follows:

5 CROSS-EXAMINATION BY MR. DOTTHEIM:

6 Q. Good morning, Mr. Myers.

7 A. Good morning.

8 Q. Would it be accurate to state that some of
9 the details of the UtiliCorp proposed system for
10 tracking future merger savings have yet to be
11 developed?

12 A. They have conceptually been developed, but
13 they have not been formally documented.

14 Q. Do you know why they haven't been formally
15 documented yet?

16 A. First of all, the transactions have not
17 been approved. Secondly, the changes that would be
18 necessary to track the incremental cost component,
19 but not be that significant. It can be implemented
20 at a very short time frame.

21 Q. So it was not viewed as being important to
22 have the tracking system for merger savings
23 formally documented for purposes of the hearings in
24 this case?

25 A. We do believe they are important. We have

1 not documented.

2 Q. Has there ever been a schedule for the
3 formal documentation that would have permitted them
4 to have been presented in the context of these
5 hearings?

6 A. I missed the first part of your question.

7 Q. Has there ever been a schedule such that
8 the formal documentation of the merger savings
9 tracking system would be available for presentation
10 in these proceedings?

11 A. In terms of scheduling, you mean time
12 line?

13 Q. Yes, time line.

14 A. No, there has not.

15 Q. And at the present time what is the time
16 line that they are on?

17 A. Upon approval of the transaction, we will
18 be able to implement those procedures, document and
19 implement those procedures, communicate those.

20 Q. They will not be formally documented prior
21 to the approval of the transaction?

22 A. They could be formally documented and
23 communicated prior to the transaction.

24 Q. Is that the present plan?

25 A. There is not a present plan.

1 Q. I'd like to ask you to direct your
2 attention to your surrebuttal testimony. In
3 particular, I'd like to direct you to the schedule
4 on your surrebuttal testimony, JDM-1, and I'd also
5 like to direct you to page 5 of your surrebuttal
6 testimony.

7 You state on page 5 of your surrebuttal
8 testimony that this schedule is, quote, an example
9 of a process to be used by UtiliCorp in identifying
10 merger and non-merger savings, closed quote. What
11 do you mean by the term example of the process?

12 A. Schedule JDM-1 was prepared as an example
13 of how the savings would be determined. It
14 includes assumptions made by me in presenting this
15 example. The numbers do not portray numbers that
16 if you went back to a particular department, you
17 would see these relationships. Just an example.

18 Q. Does schedule JDM-1 D, in fact, constitute
19 a proposal of UtiliCorp as to how the tracking
20 will occur for purposes of future rate proceedings?

21 A. It sets forth the methodology that will be
22 used.

23 Q. Does your schedule JDM-1 indicate that all
24 amounts relating to the line items that are shown
25 can be filled in after the base year or baseline

1 use for tracking is determined when the remaining
2 years' numbers will then be escalated on an annual
3 basis?

4 A. I'm not sure I fully understand your
5 question.

6 Q. Your schedule JDM-1 shows the methodology
7 that is going to be used or a methodology that
8 might be used?

9 A. The methodology.

10 Q. And as part of that methodology, is there
11 an escalation that occurs as is shown for each of
12 the line items, 1, 2 and 3?

13 A. As I indicated earlier, for example, my
14 inflation percentage of 3 percent was my assumption
15 for purposes of preparing this example. It is my
16 understanding that the baseline issue has been
17 agreed upon between the Staff and the Company. And
18 I believe the 2 1/2 percent inflation factor, I
19 believe, was the agreed upon inflation rate -- if I
20 stand corrected. I see Mr. Traxler shaking his
21 head, so . . .

22 Q. It's my understanding that that factor has
23 not been agreed to?

24 A. Okay. I stand corrected.

25 Q. I think what you're referring to is

1 another item that the Staff has accepted, but not
2 specifically the escalation factor for the purposes
3 of the merger savings tracking system.

4 What you're showing in lines 1, 2 and 3 on
5 your schedule JDM-1 is an escalation factor that
6 will be used?

7 A. No. No. This inflation factor was used
8 for purposes of this example. When the five-year
9 moratorium is up, and we go back and look at the
10 actual activity, actual information will be
11 inserted, in the use in line 3 line. Line 1 and
12 line 2, the assumption is that the Staff and the
13 Company will agree on a baseline or the Commission
14 will order a baseline for which we can start.

15 Q. Once a baseline is established, will there
16 be an escalation factor that is utilized?

17 A. That will have to be a component of the
18 agreement.

19 Q. And I think if I understand what you're
20 indicating is that 3 percent is just an example?

21 A. Yes.

22 Q. It's not necessarily the actual escalation
23 factor?

24 A. That is correct.

25 Q. And if I understand correctly how that

1 escalation factor will be determined has not been
2 resolved at this point?

3 A. Initially I thought it had, but it
4 apparently hasn't been.

5 Q. Does UtiliCorp have a proposal for how
6 that escalation factor should be determined?

7 A. I believe as I indicate on page 4 of my
8 surrebuttal, we've indicated that we have
9 recommended using St. Joe's '99 budget as the
10 baseline in the merger application, and that the
11 Staff has it's own suggestion of using the 1998
12 actual information as adjusted.

13 Q. But that deals with the baseline, does it
14 not?

15 A. Okay.

16 Q. Or does that also deal with the escalation
17 factor? I'm asking about the escalation factor,
18 which you had thought had been agreed to as 2.5
19 percent?

20 A. Correct.

21 Q. Which is not the case?

22 A. Okay.

23 Q. Does the Company have in its direct or
24 surrebuttal testimony a proposal as to what should
25 be the basis for the escalation factor?

1 A. I believe it would be in Vern Siemek's
2 testimony, but I cannot answer that for certain.

3 Q. And if it is in Mr. Siemek's testimony,
4 you're not aware of what the methodology is for
5 that escalation factor?

6 A. I am not aware of what that percent was.
7 Although, I recall earlier he mentioned 2 1/2.

8 Q. Looking at line item 5, which is labeled
9 Portion Allocated to SJLP, how would this factor be
10 determined?

11 A. This factor would be determined based upon
12 a formula which the Staff is familiar with, the
13 Massachusetts formula. It's a three-factor formula
14 based upon payroll sales and property.

15 Q. Would the factor be updated every year?

16 A. It is updated sometimes more than
17 annually, but generally we like to update it on an
18 annual basis.

19 Q. If UtiliCorp were to enter into additional
20 merger and acquisition activities in future years,
21 do you believe that SJLP's overall corporate
22 allocation factor would decrease?

23 A. If those three factors increase as the
24 result, their portion of the factor should
25 decrease.

1 Q. Should any increases over time in
2 St. Joseph Light and Power's overall corporate
3 allocation factor due to additional UtiliCorp
4 merger and acquisition activity be reflected on
5 line 5 of your schedule JDM-1?

6 MR. SWEARENGEN: I'm going to object to
7 the form of that question, because it assumes
8 events in the future coming back to impact a
9 schedule that's been prepared, as I understand the
10 question.

11 JUDGE WOODRUFF: I'm not sure I understand
12 the question either. Can you clarify?

13 MR. DOTTHEIM: I will attempt to do that.
14 I believe Mr. Myers has indicated already that
15 St. Joseph Light and Power's overall allocation
16 factor would decrease if there were additional
17 UtiliCorp merger and acquisition activities in
18 future years. And I'm asking whether the decrease
19 in St. Joseph Light and Power's overall corporate
20 allocation factor would be reflected in any manner
21 in line item 5 on the going-forward basis.

22 JUDGE WOODRUFF: You can answer, if you
23 can.

24 THE WITNESS: Generally in that five-year
25 period there may be several factors that will need

1 to be evaluated in light of this schedule and the
2 impact on line 5.

3 BY MR. DOTTHEIM:

4 Q. And beyond the five-year period?

5 A. I guess I don't see the significance of
6 beyond the five-year period, so . . .

7 Q. Okay. All other things being equal, would
8 decreasing St. Joseph Light and Power's overall
9 corporate allocation factor increase the amount
10 shown for line 6 of your schedule JDM-1?

11 A. Would you repeat that, please?

12 Q. Certainly. All other things being equal,
13 will decreasing St. Joseph Light and Power's
14 overall corporate allocation factor increase the
15 amount that would be shown on line 6 of your
16 schedule JDM-1?

17 MR. SWEARENGEN: Could I ask just for
18 purposes of clarification, do you mean on the
19 going-forward basis?

20 MR. DOTTHEIM: Yes.

21 MR. SWEARENGEN: Thank you.

22 THE WITNESS: As I indicated there that
23 particular situation would have to be evaluated
24 when determining the impact of those type of events
25 on line 5, which in turn affect line 6.

1 BY MR. DOTTHEIM:

2 Q. I'd like to refer you to page 3 of your
3 surrebuttal testimony where you state that
4 non-merger savings result, for example, from
5 improvements in technology or reduced regulatory
6 requirements. Does your use of the words for
7 example in that statement indicate that
8 improvements in technology and reduced regulatory
9 requirements are not the only possible types of
10 non-merger savings?

11 A. That would be a safe assumption.

12 Q. Could you at this time identify any other
13 non-merger savings that might be possible?

14 A. Not right off.

15 Q. I'd like to direct you back to your
16 schedule, JDM-1, line 3 UCU incremental. What type
17 of cost would be included in that line item?

18 A. The basic premises is, for example, in
19 this department example there would be if you
20 compare what UtiliCorp's -- let's use head count.
21 Head count is today to perform the activities of
22 this department are -- and in order to absorb the
23 increase in activity related to St. Joe Light and
24 Power coming on into the UtiliCorp organization,
25 there would be costs that are incremental to what

1 exists today.

2 Q. Would line 3 include both labor and
3 non-labor costs?

4 A. Yes, it could.

5 Q. Is it intended by UtiliCorp that the cost
6 denoted by line 3 on your schedule will be directly
7 charged to the St. Joseph Light and Power division?

8 A. Line 3 represents the incremental cost --
9 let's use, you know, the HR department. The
10 incremental cost of absorbing the St. Joe
11 operations increases their total cost and therefore
12 increases the cost pool that gets allocated.
13 Okay. That cost pool then becomes subject to the
14 allocation factors, which go out to the various
15 business units.

16 Q. Would any part of line 3 be charged to the
17 Missouri Public Service division?

18 A. As I understand the regulatory plan,
19 adjustments would be made so that in future
20 ratemaking purposes for Missouri Public Service
21 that that did not occur.

22 Q. For cost allocation purposes, will any
23 cost in line 3 be charged to the Missouri Public
24 Service Commission?

25 A. You're talking outside the ratemaking

1 process?

2 Q. Yes.

3 A. Two things would happen. A portion of
4 line 3 by virtue of being included in the total on
5 line 4 would be allocated out to MPS for general
6 ledger purposes. However, for general ledger
7 purposes those -- the percentage most likely would
8 for cost allocation purposes be somewhat less
9 because St. Joe is included in the formula. If
10 upon coming in for a ratemaking process after the
11 five-year moratorium, the adjustments would be made
12 so that Missouri Public Service would be kept to
13 its pre-merger status.

14 Q. Mr. Myers, I'm going to hand you Staff
15 Data Request No. 230 and the response of UtiliCorp,
16 and I'd like to ask you to review that document.

17 A. Okay. Are items 1, 2 and 3 the same as 1,
18 2 and 3 on the second page?

19 Q. They should be.

20 A. Okay.

21 Q. Mr. Myers, I'm going to read into the
22 record each question and answer, and I would like
23 to ask you if you would tell me whether the answer
24 provided in the data request is consistent with
25 your surrebuttal testimony that's been filed in

1 this proceeding.

2 Question 1 in data question No. SJLP-230
3 states, Please identify and describe any plan
4 changes to UCU's current method for allocating
5 corporate overhead cost to its divisions, paren,
6 that is use of ESS and IBUs for the allocation of
7 corporate costs, closed paren, that will be put
8 into effect as a result of the SJLP and Empire
9 mergers if these transactions are implemented.

10 And the answer to that is shown for
11 question one is, No plan changes. Have I read that
12 accurately?

13 A. Yes, you have.

14 Q. Mr. Myers, can you tell me whether that
15 answer to question 1, that is no plan changes, is
16 consistent with your surrebuttal testimony?

17 A. I think it's key to say no plan changes in
18 the current method. We do not intend to change the
19 method of allocating costs.

20 Q. Question 2 states, Will the remaining
21 level of current SJLP ANG costs that will still be
22 incurred after the merger with UCU be placed in the
23 ESF and IBU cost pool systems to be spread among
24 the UCU divisions. If no, will these SJLP costs be
25 directly assigned to the SJLP division, please

1 explain.

2 The answer that is provided in the data
3 request is yes. Is the answer yes to question
4 No. 2 consistent with your surrebuttal testimony?

5 A. Would you please define remaining level of
6 current SJLP ANG costs?

7 Q. Incremental costs resulting from the
8 merger.

9 A. So these would be the costs incurred by
10 UtiliCorp to bring the St. Joe operation on board?

11 Q. Correct.

12 A. The response is correct.

13 Q. And finally, I'd like to read the last
14 question and the answer. 3, will the remaining
15 level of current SJLP ANG cost that will still be
16 incurred after the merger with UCU be separately
17 identified within UCU's financial reporting system
18 after the merger is implemented. If yes, why does
19 UCU believe it necessary or appropriate to
20 separately identify and track these costs.

21 The answer in the data request is
22 indicated as no. Have I read that correctly?

23 A. Yes, you have read that correctly.

24 Q. Again, I'd like to ask you whether the
25 answer to question 3 that's provided in the data

1 request which is no, is consistent with your
2 surrebuttal testimony?

3 A. Would you define separately identify?

4 Q. Track as what is meant by separately
5 identify.

6 A. I interpret that to mean being able to
7 identify that that cost in the group of other costs
8 as separately, correct.

9 Q. Let me ask you this: Do the costs that
10 are identified in line 3 of your schedule JDM-1,
11 would they be required to be separately identified?

12 A. If you're referring to incremental costs,
13 we will be able to separately identify those costs.

14 MR. DOTTHEIM: Thank you, Mr. Myers.

15 JUDGE WOODRUFF: No questions from the
16 Bench, so no recross. Any redirect?

17 MR. SWEARENGEN: Just a couple, your
18 Honor.

19 REDIRECT EXAMINATION BY MR. SWEARENGEN:

20 Q. Mr. Myers, Mr. Dottheim asked you about
21 your surrebuttal testimony and the issue of
22 non-merger savings. Do you recall that question?

23 A. Yes, I do.

24 Q. In looking at your schedule JDM-1 that he
25 inquired about, JDM-1 to your surrebuttal

1 testimony, are non-merger savings shown on there?

2 A. They are not separately identified.

3 Q. Are they included in line 6 merger --

4 A. Yes, they are.

5 Q. They are?

6 A. Yes.

7 Q. And how would that be determined?

8 A. As I indicated in the surrebuttal, we
9 would have to review after the fact, after the five
10 year or during the five-year period items that have
11 taken place during that period or events that would
12 be considered non-merger savings. I mentioned two
13 technology advancements and regulatory requirements
14 as examples. So we would have to estimate the
15 dollar impact of those amounts and reduce the
16 savings line by that amount.

17 Q. Thank you. Also I think in response to a
18 question about schedule JDM-1, you indicated that
19 the Public Service Commission would have to order a
20 baseline. Do you recall that response?

21 A. Yes, I do.

22 Q. Is that something that the Commission
23 would need to do in the context of this proceeding
24 assuming that that issue could not be resolved
25 among the parties?

1 A. Assuming it could not be resolved between
2 the Staff and the Company --

3 Q. And the other parties.

4 A. -- and the other parties involved, they
5 would have to provide a guidance in developing a
6 baseline.

7 Q. Finally, I want to make sure that the
8 record is clear. Mr. Dottheim asked you about
9 developing procedures regarding the tracking
10 proposal, and he asked you if they had been reduced
11 to writing. Why have no written procedures been
12 developed regarding your tracking proposal?

13 A. As I indicated to Staff counsel, the first
14 reason is that a transaction has not been approved,
15 and in some respects the documentation contained in
16 this in my direct and my surrebuttal can be --
17 could be a starting point for that documentation.

18 Secondly, the impact it is going to have
19 on the current system would not be that significant
20 and could be implemented upon approval of the
21 transaction fairly quickly.

22 MR. SWEARENGEN: That's all I have. Thank
23 you.

24 JUDGE WOODRUFF: Okay. You may step
25 down.

1 Let's start with Mr. DeBacker.

2 MR. SWEARENGEN: I don't think this
3 witness is scheduled to reappear, so I would offer
4 his testimony.

5 JUDGE WOODRUFF: Exhibits 18 and 19, I
6 believe?

7 MR. SWEARENGEN: You're right, 18 and 19.

8 JUDGE WOODRUFF: Exhibits 18 and 19 have
9 been offered into evidence. Are there any
10 objections to the receipt?

11 Hearing none, they will be received into
12 evidence.

13 (EXHIBIT NOS. 18 AND 19 WERE RECEIVED INTO
14 EVIDENCE.)

15 JUDGE WOODRUFF: Mr. DeBacker, you've
16 testified before so you're still under oath.

17 THE WITNESS: Yes.

18 MR. SWEARENGEN: I would tender
19 Mr. DeBacker on the Savings Tracking and
20 Benchmarking issue.

21 JUDGE WOODRUFF: Are there any
22 cross-examination questions?

23 Hearing none, then there are no questions
24 from the Bench, so no recross or redirect, and you
25 may step down.

1 MR. SWEARENGEN: And I think it would be
2 appropriate to offer into evidence Mr. DeBacker's
3 testimony. He's not scheduled to reappear.

4 JUDGE WOODRUFF: That would be No. 20?

5 MR. SWEARENGEN: Exhibit 20 also Exhibit
6 14 in which was Mr. Holzwarth's which was adopted
7 by Mr. DeBacker.

8 JUDGE WOODRUFF: Okay. Exhibits 14 and 20
9 have been offered into evidence. Are there any
10 objections to their receipt?

11 Hearing none, then they will be received
12 into evidence.

13 (EXHIBIT NOS. 14 AND 20 WERE RECEIVED INTO
14 EVIDENCE.)

15 MR. SWEARENGEN: Mr. Siemek is on the
16 stand.

17 JUDGE WOODRUFF: And you've been
18 previously sworn.

19 And I assume you're tendering him for
20 cross-examination?

21 MR. SWEARENGEN: I am. Thank you.

22 JUDGE WOODRUFF: Are there any
23 cross-examination questions for Mr. Siemek?

24 MR. DOTTHEIM: No questions.

25 JUDGE WOODRUFF: All right. Hearing none,

1 then there are no questions from the Bench, so no
2 recross and no redirect, and you may step down.

3 MR. SWEARENGEN: I think he's scheduled to
4 come back later, so . . .

5 JUDGE WOODRUFF: Okay.

6 MR. SWEARENGEN: Mr. Stoll.

7 MR. COMLEY: Your Honor, the surrebuttal
8 testimony of Larry Stoll has been premarked as
9 Exhibit 21.

10 JUDGE WOODRUFF: I believe this is your
11 first time testifying in this proceeding?

12 MR. COMLEY: He has not been sworn.

13 (Witness sworn.)

14 LARRY J. STOLL, being first duly sworn, testified
15 as follows:

16 DIRECT EXAMINATION BY MR. COMLEY:

17 Q. I know that we have waived the customary
18 questions for direct examination, but Mr. Stoll,
19 would you state your full name for the record,
20 please?

21 A. Larry J. Stoll.

22 Q. Do you have any additions or corrections
23 to your testimony?

24 A. No, I do not.

25 MR. COMLEY: Your Honor, because of the

1 stipulation, we offer his surrebuttal testimony,
2 which has been premarked as Exhibit 21 into the
3 record and tender Mr. Stoll for cross-examination.

4 JUDGE WOODRUFF: This is the only issue he
5 will be testifying on?

6 MR. COMLEY: Yes, it is.

7 JUDGE WOODRUFF: Exhibit 21 has been
8 offered into evidence. Are there any objections to
9 its receipt?

10 Hearing none, it will be received into
11 evidence.

12 (EXHIBIT NO. 21 WAS RECEIVED INTO
13 EVIDENCE.)

14 JUDGE WOODRUFF: All right. Mr. Stoll has
15 been tendered for cross-examination. Are there any
16 questions for him?

17 MR. KRUEGER: I do, your Honor.

18 JUDGE WOODRUFF: You may proceed.

19 MR. KRUEGER: Thank you, your Honor.

20 CROSS-EXAMINATION BY MR. KRUEGER:

21 Q. Good morning, Mr. Stoll. My name is Keith
22 Krueger. I'm an attorney for the Staff in this
23 case.

24 You testified at page 3 of the surrebuttal
25 testimony that Mr. Broadwater, Staff Witness David

1 Broadwater, used Staff's calculation of the cost of
2 equity from a prior case, Case No. ER-99-247 as the
3 starting point for its cost of equity determination
4 in this case; is that correct?

5 A. That's correct.

6 Q. And you testified that that was
7 inappropriate?

8 A. That's correct.

9 Q. Now, were you a witness in that case?

10 A. Yes, I was.

11 Q. Are you familiar with the testimony that
12 Staff Witness Ron Bible, the direct testimony that
13 he filed in that case?

14 A. Yes.

15 Q. Are you familiar with his cost of equity
16 analysis from that case, Case No. ER-99-247?

17 A. Yes.

18 Q. Are you also familiar with the discounted
19 cash flow method that Mr. Bible used as part of
20 that case?

21 A. Yes.

22 Q. So you understand or you will agree with
23 me that there are two parts to the DCF model
24 dividend yield and growth rate; is that correct?

25 A. That's correct.

1 Q. In fact, as part of your surrebuttal
2 testimony didn't you make adjustments to
3 Mr. Bible's dividend yield?

4 A. Yes, I did.

5 Q. And didn't those adjustments increase
6 Mr. Bible's dividend yield by 12 basis points from
7 5.66 percent to 5.78 percent?

8 A. Yes.

9 Q. Did you make any changes to Mr. Bible's
10 growth rate in your surrebuttal testimony?

11 A. No, I did not.

12 Q. Are you familiar with what Mr. Bible's --
13 what growth rate Mr. Bible used in the testimony
14 that he filed in that prior case?

15 A. In general, yes. It's been awhile since I
16 looked at that.

17 Q. Would you accept that the growth rate that
18 he recommended in that case was in a range of 3.26
19 percent to 4.50 percent?

20 A. I honestly don't remember.

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

23 JUDGE WOODRUFF: You may.

24 BY MR. KRUEGER:

25 Q. I'm going to show you a copy of a document

1 that the front page indicates that it's the direct
2 testimony of Ronald L. Bible, Case No. ER-99-247
3 and EC-98-573, and call your attention to schedule
4 13 in that document. Does that refresh your
5 recollection on that?

6 A. And your question again was?

7 Q. That he proposed a range of growth for
8 St. Joe in that case of 3.26 percent to 4.50
9 percent.

10 A. That's what he proposed at that time. I
11 proposed something different.

12 Q. Okay. Now, to arrive at the cost of
13 equity that's established from the DCF discounted
14 cash flow model, isn't it correct that you add the
15 results of the dividend yield to the growth rate?

16 A. In general, that's correct.

17 Q. Now, if we do that, if we add the results
18 of Mr. Bible's growth rate to his dividend yield,
19 as you adjusted it in this case by adding the 12
20 basis points, what would the DCF cost of equity be
21 determined from that calculation?

22 A. I don't know. As I recall Mr. Bible did
23 not accept his own DCF calculation in that case and
24 adjusted it to a level in which he recommended in
25 the case, that he felt that those numbers were

1 inappropriate.

2 Q. But in your surrebuttal testimony you're
3 making an adjustment to the rates that he used in
4 his calculation; is that not right?

5 A. That is correct. Because Staff witness in
6 that -- in this case used the last case as the
7 basis for his determination in this one.

8 Q. And so you said that the dividend yield
9 should have been adjusted by 12 basis points?

10 A. Yes.

11 Q. So you're using that as a point of
12 departure as well?

13 A. The dividend yield is something that's not
14 arbitrary.

15 Q. Now, if you add that range of growth that
16 was included in Mr. Bible's testimony in that prior
17 case of 3.26 to 4.50 percent, add that to the
18 dividend yield that you calculated in this case of
19 5.78 percent, what does -- what do you come up with
20 then for a DCF analysis of the range?

21 A. The range at which you would get when
22 you're comparing apples and oranges such as that
23 with a dividend yield that's on the current basis
24 and the growth factors that are based on over a
25 year ago, you would end up with 9.04 and 10.28.

1 Q. And the Staff's recommended range in this
2 case was 9.27 to 10.51 percent, is that right, in
3 this case?

4 A. Which is the amount that was recommended
5 in the old case.

6 Q. But it's also what was recommended in this
7 case?

8 A. That is correct.

9 Q. So am I correct in saying then that the
10 Staff's recommended range in this case is higher
11 than the range that you have obtained by adjusting
12 the dividend yield by adding the 12 basis points?

13 A. I adjusted the dividend yield portion to
14 bring it up to current to reflect what
15 Mr. Broadwater said was appropriate in terms of
16 eliminating the effect of our merger on the value
17 of the dividend yield. In that case Mr. Bible did
18 not do that. I corrected that in Mr. Bible's case
19 in order to reflect what he said was appropriate in
20 this case. And I would have assumed that because
21 that increased that much, that Mr. Bible would have
22 increased his effective recommendation in that case
23 accordingly.

24 Q. Now, as part of your surrebuttal
25 testimony, you also adjusted the Staff's return on

1 equity range by 100 basis points based on the
2 comparable Company analysis performed by Staff; is
3 that correct?

4 A. Yes, it is.

5 Q. Didn't Mr. Broadwater do a DCF model and a
6 Cap M model as part of the comparable Company
7 analysis?

8 A. As part of the comparable Company
9 analysis, yes.

10 Q. And wasn't the result of the comparable
11 Company DCF 10.41 percent.

12 A. 10.41 in this case, that's correct.

13 Q. And isn't that consistent with a high end
14 of the range that Staff is proposing in this case,
15 the high end of the range being 10.51 percent?

16 A. The high end. This is the average.

17 Q. Is it not correct that the Staff
18 recommended a range in this case of 9.27 percent to
19 10.51 percent?

20 A. Yes.

21 Q. And the high end of that range would be
22 10.51 percent?

23 A. Yes.

24 Q. And the result of the comparable Company
25 analysis of DCF was 10.41 percent, correct?

1 A. That was the average, not the high end of
2 that calculation.

3 Q. I'm sorry. I didn't mean to indicate that
4 that was the high end of the calculation.

5 On Mr. Broadwater's schedule 18 he shows
6 an estimated cost of common equity using the DCF
7 estimate of 10.41 percent, that being an average of
8 the five comparable companies; is that right?

9 A. Yes.

10 Q. And that average is consistent with the
11 high end of the range that the Staff is proposing
12 in this case?

13 A. Well, again, the high end versus the
14 average is the only difference that I'm referring
15 to. You're trying to say the average is the same
16 as the high-end number.

17 Q. Well, I'm not trying to say that the
18 average is the same as the high-end number. What
19 average are you talking about?

20 A. The 10.41 is an average of the peer
21 group. It's not a high end. If you look at the
22 high number on that peer group, I believe it will
23 be higher than 10.41.

24 Q. Okay. But the average that is shown on
25 there, 10.41, is consistent with the high end of

1 the Staff's recommendation in this case?

2 A. I would compare the 10.41 to the midpoint
3 of Staff's recommendation, because that is the
4 average of their recommendation to compare apples
5 and apples.

6 Q. Now, wasn't the result of the comparable
7 company Cap M analysis that Mr. Broadwater did 9.37
8 percent in this case?

9 A. I don't have his testimony in front of
10 me.

11 MR. KRUEGER: May I approach, your Honor?

12 JUDGE WOODRUFF: You may.

13 BY MR. KRUEGER:

14 Q. I'm going to show you a copy of
15 Mr. Broadwater's prefiled rebuttal testimony in
16 this case, schedule 19.

17 Will you agree with me that that's a Cap M
18 analysis that Mr. Broadwater prepared for this case
19 where it's analyzing comparable companies?

20 A. Under his scenario, yes, it is.

21 Q. It's his analysis, it's not yours?

22 A. It is his analysis.

23 Q. And that he recommended -- or that as a
24 result of this analysis he shows that the average
25 of the five comparable companies under the Cap M

1 analysis is 9.39 percent; is that correct?

2 A. That's correct.

3 Q. And is that consistent with the low end of
4 the range that the Staff is proposing in this case
5 of 9.27 percent?

6 A. Well, again, there's an average versus an
7 end of the grouping, but it is in the range of the
8 low end proposed.

9 MR. KRUEGER: Okay. Thank you. That's
10 all the questions I have, your Honor.

11 JUDGE WOODRUFF: Thank you.

12 There are no questions from the Bench, so
13 there will be no recross.

14 Is there any redirect?

15 MR. COMLEY: Yes, your Honor. Thank you
16 very much.

17 REDIRECT EXAMINATION BY MR. COMLEY:

18 Q. Mr. Stoll, Mr. Krueger directed you to
19 page 3 of your testimony and visited with you about
20 the approach taken by Mr. Broadwater in preparing
21 the return on equity. Why do you think it was
22 inappropriate for him to use that approach?

23 A. Well, first of all, the calculations that
24 are made under DCF formulas are based on a point in
25 time given the economic conditions that exist at

1 that point in time, cost of interest, things of
2 that nature. And to go back in time to a
3 calculation that was made over a year ago and use
4 that at this point in time with different economic
5 conditions and interest rates that are
6 significantly higher than they were when those were
7 performed is inappropriate.

8 Q. He also discussed with you the range of
9 growth that was used by Mr. Bible in the previous
10 case. Would it be appropriate to use those ranges
11 of growth in connection with the calculations used
12 today?

13 A. I don't believe so. And I didn't at that
14 time. There was a disagreement between Staff and
15 the Company at that time in terms of what the
16 growth rates should be, and that was a contended
17 issue. And as a result we ended up stipulating the
18 case, so the Commission did not rule upon our
19 disagreements.

20 Q. Would you disagree with -- in other words,
21 do you disagree with the ranges of growth that
22 Mr. Bible used in his testimony?

23 A. Yes, I do.

24 Q. Also there was some discussion about the
25 ranges that were recommended by Mr. Broadwater in

1 use of, I think, his schedule 18, which sets out an
2 estimated cost of common equity average of 10.41
3 percent. And you mentioned that Mr. Krueger's
4 question was comparing apples to oranges. What did
5 you mean by that?

6 A. Well, he was referencing the high end of
7 the range that was recommended by Staff in the case
8 and comparing it to the average of that peer
9 group. If you want to compare high ends to high
10 ends, averages to averages, so that you're
11 comparing apples and oranges, I think if you look
12 at the high end of the range of that peer group, it
13 will be a higher number.

14 Q. Is that high end also in your schedule?
15 Let me direct you to schedule LJS-3.

16 A. Yes.

17 Q. And could you tell the Commission what the
18 high end is on the schedule that you have marked as
19 LJS-3?

20 A. 11.68.

21 Q. Just a moment. In your testimony what
22 recommended rate of return on equity have you made
23 for purposes of the benchmarking in this case?

24 A. For purposes of the benchmark, I had
25 adjusted the Staff's numbers to reflect a range of

1 10.39 to 11.63.

2 Q. Can you tell the Commission how this
3 compares to other rates of return for other
4 comparable companies in Missouri?

5 A. I think it's on the -- in terms of what
6 has been approved?

7 Q. Yes, sir.

8 A. To my knowledge it's on the low side of
9 what's been approved.

10 Q. And what are you using in terms of the
11 comparable rates of return, which companies?

12 A. Union Electric is an example.

13 Q. Do you know what the authorized return of
14 equity is for Union Electric?

15 A. I believe it's 12.6 percent.

16 MR. COMLEY: I have no other questions.

17 JUDGE WOODRUFF: Okay. Thank you. You
18 may step down.

19 And it's a good time for a break for
20 lunch. Let's come back at 1:15.

21 (A LUNCH BREAK WAS TAKEN.)

22 (EXHIBIT NO. 729 WAS MARKED FOR
23 IDENTIFICATION BY THE REPORTER.)

24 JUDGE WOODRUFF: Before we came on the
25 record we had some discussions about pension fund

1 conditions, and it was agreed that Mr. Traxler
2 would take the stand to explain some changes that
3 were made to some schedules. If you would like to
4 explain those, what's going on with Staff.

5 MR. WILLIAMS: Basically Staff earlier put
6 on the record an agreement of principle that its
7 reached with the companies regarding the treatment
8 of pension benefits in future cases. And
9 subsequent to that testimony, Staff has had the
10 opportunity to work the impact of that agreement
11 through its schedules, and we'd like at this time
12 to put into evidence or put on the record the
13 impact on Staff schedules of the results of that
14 agreement.

15 JUDGE WOODRUFF: Steve Traxler is on the
16 stand now so you may inquire of him.

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

19 DIRECT EXAMINATION BY MR. WILLIAMS:

20 Q. Mr. Traxler, subsequent to your testimony
21 earlier regarding the agreement in principle with
22 UtiliCorp and St. Joe on the pension benefit
23 impact, have you had the opportunity to translate
24 that impact into numbers on your schedules?

25 A. Yes. The primary impact is on schedule

1 SMT-3, which you have now labeled as SMT-3A to the
2 revised schedule. That schedule represents the
3 summary of the Staff's projection, 10-year analysis
4 on the cost benefit analysis of the merger.

5 The line that changed was line No. 5 under
6 Roman Numeral 1, conversion of UtiliCorp benefits.
7 That line was changed to represent the same amount
8 of savings as determined by the joint applicant's
9 witness, Mr. Browning. And that changes flow
10 through the entire schedule.

11 Q. That schedule that you referred to, has
12 that been marked as Exhibit 729 for this
13 proceeding?

14 A. That's my understanding.

15 Q. And three copies have been provided to the
16 court reporter, and I've also provided copies for
17 the Bench.

18 I'd offer for the admission of Exhibit 729
19 at this time.

20 JUDGE WOODRUFF: Exhibit 729 has been
21 offered into evidence. Are there any objections?

22 Hearing none, it will be received into
23 evidence.

24 (EXHIBIT NO. 729 WAS RECEIVED INTO
25 EVIDENCE.)

1 MR. WILLIAMS: I have no further questions
2 of this witness.

3 JUDGE WOODRUFF: Anyone wish to
4 cross-examine? Okay. I don't believe there will
5 be any questions from the Bench, so you may step
6 down.

7 MR. WILLIAMS: Thank you.

8 JUDGE WOODRUFF: All right.

9 MR. JOYCE: Staff calls Janis Fisher to
10 the stand on the issue of Savings Tracking.

11 MR. JOYCE: Your Honor, this is the last
12 issue for which she will be testifying, and I offer
13 into evidence Exhibit No. 705 and 705HC and move
14 that it be received into evidence.

15 JUDGE WOODRUFF: Okay. And, Ms. Fisher,
16 you were previously sworn.

17 THE WITNESS: Yes.

18 JUDGE WOODRUFF: Exhibit 705 and Exhibit
19 705HC have been offered into evidence. Are there
20 any objections?

21 Hearing none, they will be received into
22 evidence.

23 (EXHIBIT NOS. 705 AND 705HC WERE RECEIVED
24 INTO EVIDENCE.)

25 JUDGE WOODRUFF: She is tendered for

1 cross-examination. Is there any cross examination
2 of Ms. Fisher?

3 Hearing none, we'll move to the Bench.

4 Commissioner Murray, do you have any
5 questions for Ms. Fisher?

6 COMMISSIONER MURRAY: I pass.

7 JUDGE WOODRUFF: Commissioner
8 Schemenauer?

9 COMMISSIONER SCHEMENAUER: No questions.

10 JUDGE WOODRUFF: I'll give you a few
11 moments.

12 COMMISSIONER MURRAY: If you pause for a
13 moment. Thank you. No questions.

14 JUDGE WOODRUFF: No questions from the
15 Bench, so there will be no recross and no recross
16 so no redirect. You may step down.

17 (Witness excused.)

18 MR. JOYCE: Staff next calls Mark
19 Oligschlaeger to the stand to testify on the issue
20 of Savings Tracking. And, again, this is
21 Mr. Oligschlaeger's last issue for which he will be
22 presented for testimony. So I again offer into
23 evidence Exhibit No. 713, his rebuttal testimony.

24 JUDGE WOODRUFF: Okay. Mr. Oligschlaeger,
25 you've previously been sworn so you're still under

1 oath.

2 Exhibit 713 has been offered into
3 evidence. Are there any objections to its
4 receipt?

5 Hearing none, it will be received into
6 evidence.

7 (EXHIBIT NO. 713 WAS RECEIVED INTO
8 EVIDENCE.)

9 JUDGE WOODRUFF: Okay. And he's been
10 tendered for cross-examination. Are there any
11 cross-examination questions for him? Hearing none,
12 then we'll move up to the Bench.

13 Commissioner Murray?

14 COMMISSIONER MURRAY: I believe I asked
15 him the questions I had. Thank you.

16 JUDGE WOODRUFF: Commissioner Schemenauer.

17 COMMISSIONER SCHEMENAUER: I'm all
18 finished with him.

19 JUDGE WOODRUFF: I have no questions, so
20 there will be no recross, no redirect. You may
21 step down.

22 MR. JOYCE: Staff now calls
23 Mr. Featherstone to the stand, again, on the issue
24 of Savings Tracking. This is Mr. Featherstone's
25 last scheduled testimony, and I offer Exhibit 704

1 and 704HC, his rebuttal testimony and ask that it
2 be received into evidence.

3 JUDGE WOODRUFF: Okay. Mr. Featherstone,
4 you've been previously sworn, so you're still
5 under.

6 I had crossed out 704HC of
7 Mr. Featherstone's rebuttal. I believe there was
8 an indication that there was no highly confidential
9 filed.

10 MR. JOYCE: Is that right? I'll check.
11 Just a second.

12 JUDGE WOODRUFF: It's marked as a
13 premarked, but I believe Mr. Dottheim indicated
14 that it's not highly confidential.

15 MR. JOYCE: All right. I missed that.
16 704 then.

17 JUDGE WOODRUFF: Okay. 704 has been
18 offered into evidence. Are there any objections?

19 Hearing none, it will be received into
20 evidence.

21 (EXHIBIT NO. 704 WAS RECEIVED INTO
22 EVIDENCE.)

23 JUDGE WOODRUFF: And is he tendered for
24 cross?

25 MR. JOYCE: Yes, he is, your Honor.

1 JUDGE WOODRUFF: Are there any
2 cross-examination questions?

3 Hearing none, Commission Murray, do you
4 have any questions?

5 COMMISSIONER MURRAY: No questions.

6 JUDGE WOODRUFF: Commissioner
7 Schemenauer?

8 COMMISSIONER SCHEMENAUER: No questions.

9 JUDGE WOODRUFF: Okay. And no questions
10 from the Bench and no recross and no redirect. You
11 may step down.

12 (Witness excused.)

13 THE WITNESS: Thank you.

14 MR. JOYCE: Staff now calls Steve Traxler
15 back to the stand. I show that this is
16 Mr. Traxler's last scheduled appearance, and I
17 would offer Exhibit 718 into evidence and tender
18 him for cross-examination.

19 JUDGE WOODRUFF: Thank you.

20 Mr. Traxler, you were previously sworn
21 also.

22 THE WITNESS: Yes, sir.

23 JUDGE WOODRUFF: Okay. Exhibit 718 has
24 been offered into evidence. Are there any
25 objections?

1 Hearing none, it will be received into
2 evidence.

3 (EXHIBIT NO. 718 WAS RECEIVED INTO
4 EVIDENCE.)

5 JUDGE WOODRUFF: And are there any
6 cross-examination questions?

7 MR. COMLEY: I have a few.

8 JUDGE WOODRUFF: Go right ahead.

9 MR. COMLEY: Your Honor, I have another
10 Exhibit to mark. By my reckoning it would be
11 Exhibit 28.

12 (EXHIBIT NO. 28 WAS MARKED FOR
13 IDENTIFICATION BY THE REPORTER.)

14 MR. COMLEY: I need to approach
15 Mr. Traxler for a moment.

16 JUDGE WOODRUFF: You may. Did you have
17 copies for the Bench?

18 MR. COMLEY: I'm sorry. I sure do.

19 JUDGE WOODRUFF: This is Exhibit No. 28.
20 You may proceed.

21 MR. COMLEY: Thank you, Judge.

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

24 CROSS-EXAMINATION BY MR. COMLEY:

25 Q. For purposes of my cross-examination,

1 Mr. Traxler, I'm going to be referring to what the
2 court reporter has marked as Exhibit 28. Do you
3 have a copy there in front of you?

4 A. Yes, sir.

5 Q. Can you identify that document for me,
6 please?

7 A. That was a schedule I prepared to estimate
8 the impact in the difference between the ROE
9 recommendation used by the Company as five-year
10 forecasting in relationship to Mr. Broadwater's
11 current recommended ROE for St. Joe Light and
12 Power.

13 Q. So this is a document that was prepared by
14 you?

15 A. That's correct.

16 Q. All right. Now, with respect to the SJLP
17 forecast for capital component there, I guess it's
18 in the top right-hand corner, I'm going to caution
19 you that is still a highly confidential figure, but
20 I don't intend to discuss it and give that figure
21 out, but I just wanted to mention it to you that
22 it's still considered a highly confidential
23 figure. It's derived from the St. Joseph Light and
24 Power forecast, isn't it?

25 A. That's correct.

1 Q. Now, with respect to the findings on this
2 schedule, as I understand it looking on line 13 of
3 the schedule --

4 A. Yes, sir.

5 Q. -- if I am reading the correctly, if we
6 are to use St. Joseph Light and Power's forecast
7 for return on equity above the Staff's high end for
8 return on equity, there is a revenue requirement
9 for St. Joseph Light and Power of \$645,519?

10 A. What the \$645,000 number represents is the
11 difference --

12 Q. I see.

13 A. -- between your recommended high end and
14 Mr. Broadwater's recommended high end of 10.51
15 percent. That would be the impact on the forecast
16 had Mr. Broadwater's 10.51 percent return on equity
17 been used instead of the highly confidential number
18 in the forecast.

19 Q. I see revenue requirement. Now, that
20 would be the impact? That is a figure showing a
21 revenue requirement figure?

22 A. Yes. In respect to the forecast there
23 were two rate cases expected. One in 2002 and one
24 in 2004 for 2 million apiece. The 645,000
25 represented a reduction in those two forecasted

1 amounts had Mr. Broadwater's return on equity of
2 10.51 been used.

3 Let me state that that was an estimate
4 based on the Staff's rate base in this case, not
5 necessarily the rate base used in your forecast.

6 Q. So we have the Staff's rate base, not
7 St. Joseph Light and Power's forecasted rate base?

8 A. I'm not -- I'm not sure what rate base
9 assumption was used for purposes of the forecast.
10 I wasn't clear, so I used the most current rate
11 base calculation we have for St. Joseph Light and
12 Power.

13 Q. You have in your revised schedules have
14 put in a revenue requirement, have you not, for
15 your Traxler Schedule 1-1, as I recollect? Do you
16 happen to have that handy?

17 A. SMT-1 is a list of the previous cases.

18 Q. I'm thinking about another -- is it 12-1
19 your accounting schedules?

20 A. Oh, are you talking about the updated cost
21 of service calculations --

22 Q. Yes, sir.

23 A. -- that we provided earlier?

24 Q. Yes, sir.

25 A. Yes.

1 Q. Do you have those handy?

2 A. No. I don't have a copy of that with me.

3 Q. Can we get those very quickly for you?

4 A. Somebody was supposed to be making some
5 copies is all I know.

6 Q. Let me ask you this?

7 A. Sure.

8 Q. From what we have seen of that document,
9 there is, according to your revised 12-1, is that
10 correct, the cost of service run?

11 A. Correct.

12 Q. And we'll have to identify that later if
13 we can locate it. It's accounting schedule 1-1
14 revised. If I handed you this once you identify
15 it, would that help refresh your recollection a
16 little bit?

17 A. Sure. Yes. This represents the updated
18 calculation for the electric operations of St. Joe
19 Light and Power based on no measurable changes
20 through December 31st, 1999.

21 Q. Now, let's try to link that up with
22 Exhibit 28. You're showing a revenue deficiency on
23 your schedule --

24 A. That's correct.

25 Q. -- 1-1?

1 If I read line 13, are you saying that
2 based upon the material that's in line 13 that that
3 would be \$645,000 more than what's on your schedule
4 in terms of revenue requirement?

5 A. Yes, sir. That's correct. If an 11 --
6 excuse me -- if the forecasted ROE by St. Joe Light
7 and Power was reflected in this calculation, that
8 negative amount would increase -- or it would be
9 positive by the difference between that amount and
10 645,519. You're talking about a positive revenue
11 requirement of roughly \$70,000.

12 Q. I'm confused. Let me . . .

13 A. Excuse me. That's incorrect. We're
14 talking about the high end. I was talking about
15 the midpoint.

16 Q. Okay.

17 A. That's correct.

18 Q. All right.

19 A. That change, would the positive revenue
20 requirement on the high end on the accounting
21 exhibit schedule 1-1 of 233,686 would be increased
22 by 645,519.

23 Q. So that's the line 13 figure?

24 A. That's correct.

25 Q. All right. Let's go to line 20. There's

1 a figure shown of \$1,445,962 on line 20?

2 A. That's correct.

3 Q. And am I correct in saying that this
4 figure as well would be added to the positive
5 revenue requirement on your revised accounting
6 schedule?

7 A. Now, the proper comparison there would be
8 the midpoint amount which is a negative 565,601.
9 You would subtract that from the 1,445,962. That
10 would be the result in the Staff's EMS run at the
11 midpoint rate of return to reflect your recommended
12 return on equity, which is approximately \$900,000.

13 Q. On my line 20 it says, Staff high end
14 again. Revenue requirement SJLP forecast ROE above
15 Staff high end?

16 A. Okay. That's incorrect. If you will look
17 on line 16, the 9.09?

18 Q. Yes, sir.

19 A. And up above you'll see that the midpoint
20 rate of return recommendation is 9.09 in the cost
21 capital calculation at the top of the schedule.

22 Q. Yes, I see it.

23 A. Okay. That's the midpoint
24 recommendation. That also ties to the midpoint
25 recommendation on the accounting schedule, times

1 the rate base 9.09.

2 Q. I see it.

3 A. So the reference on line 20 is a mistake.
4 It should be midpoint instead of high end.

5 MR. COMLEY: Thank you very much.

6 Your Honor, I'd like to offer into
7 evidence Exhibit 28. This helps explain some of
8 the recommendations made by St. Joseph Light and
9 Power and Mr. Stoll's testimony, and I think also
10 helps explain some of the thought processes behind
11 Mr. Broadwater's testimony and Mr. Traxler's
12 schedule.

13 JUDGE WOODRUFF: Okay. You have marked it
14 as 28. Would you like it to be 28HC?

15 MR. COMLEY: Yes, I think so. I'm glad
16 you pointed that out. There is one section of it
17 that is highly confidential.

18 JUDGE WOODRUFF: Okay.

19 MR. SWEARENGEN: Could I ask a question
20 about it before you rule? I want to make sure I
21 understand.

22 JUDGE WOODRUFF: Sure.

23 CROSS-EXAMINATION BY MR. SWEARENGEN:

24 Q. That line 20, Mr. Traxler, on Exhibit
25 28HC, are you saying that it should say instead of

1 above Staff high end, it should be above Staff
2 midpoint?

3 A. That's correct.

4 Q. So you're changing line 20 of Exhibit 28HC
5 strike high end and add midpoint?

6 A. That's correct.

7 MR. SWEARENGEN: Okay. Thank you very
8 much.

9 JUDGE WOODRUFF: Exhibit 28HC has been
10 offered into evidence. Is there any objections?

11 Hearing none, it will be received.

12 (EXHIBIT NO. 28HC WAS RECEIVED INTO
13 EVIDENCE.)

14 (CHANGED EXHIBIT NO. 28 TO 28HC BY THE
15 REPORTER.)

16 MR. COMLEY: That concludes my questions.
17 Thanks.

18 JUDGE WOODRUFF: Moving up to the Bench,
19 Commissioner Murray, do you have any questions?

20 COMMISSIONER MURRAY: No questions.

21 JUDGE WOODRUFF: Commission Schemenauer?

22 COMMISSIONER SCHEMENAUER: No questions.

23 JUDGE WOODRUFF: Since there was no
24 questions from the Bench, there will be no
25 recross. Is there any redirect?

1 MR. JOYCE: I have one question, your
2 Honor.

3 JUDGE WOODRUFF: Go ahead.

4 REDIRECT EXAMINATION BY MR. JOYCE:

5 Q. Mr. Traxler, do you consider St. Joseph's
6 highly confidential return on equity to be
7 reasonable in light of recent Commission reports
8 and orders?

9 A. No. The purpose of this schedule that was
10 presented was to challenge the -- what appears to
11 be, in our opinion, an excessive ROE recommendation
12 supporting the Company's assertion that St. Joe
13 Light and Power will experience two rate cases in
14 the next five years. And, No, I don't. I think
15 that's -- the amounts that I have referenced in
16 line 13 and line 20 represent the amounts that I
17 think those \$2 million revenue requirements are
18 excessive, which is simply due to the ROE
19 recommendation included in the forecast.

20 In other words, if Mr. Broadwater's ROE
21 for midpoint and high end were used in that
22 forecast, that forecast of two million will go down
23 645,519. Using the Staff's high end, it would go
24 down 1,445,962 using the Staff's midpoint. That
25 was the purpose of the schedule.

1 MR. JOYCE: Thank you.

2 JUDGE WOODRUFF: All right. You may step
3 down.

4 (Witness excused.)

5 MR. KRUEGER: Staff calls Dr. Michael
6 Proctor.

7 JUDGE WOODRUFF: And, Mr. Proctor, you
8 have also been previously sworn. You are still
9 under oath.

10 MR. KRUEGER: I tender the witness for
11 cross-examination.

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

14 Hearing none, we'll come up to the Bench.

15 COMMISSIONER MURRAY: I have none.

16 JUDGE WOODRUFF: Commissioner
17 Schemenauer?

18 COMMISSIONER SCHEMENAUER: No questions.

19 JUDGE WOODRUFF: No questions, no recross
20 and no redirect.

21 Thank you. You may step down.

22 MR. KRUEGER: Staff calls David
23 Broadwater.

24 JUDGE WOODRUFF: And, Mr. Broadwater, you
25 have already been previously sworn. You're still

1 under oath.

2 MR. KRUEGER: Your Honor, this is
3 Mr. Broadwater's last appearance, and so we offer
4 Exhibits 703HC, 703NP, 724HC and 724NP and tender
5 the witness for cross-examination.

6 JUDGE WOODRUFF: Okay. 724NP and HC were
7 his replacement pages; is that right?

8 MR. KRUEGER: That's correct, your Honor.

9 JUDGE WOODRUFF: Exhibit 703 and 703HC and
10 724NP and 724HC have been offered into evidence.
11 Are there any objections?

12 Hearing none, they will be received into
13 evidence.

14 (EXHIBIT NOS. 703, 703HC, 724NP AND 724HC
15 WERE RECEIVED INTO EVIDENCE.).

16 JUDGE WOODRUFF: All right. And
17 Mr. Broadwater has been tendered for
18 cross-examination. Are there any cross-examination
19 questions? Okay. Looks like we've got a handful
20 here, so -- a couple. Let's see. We'll start with
21 AgP then.

22 DAVID BROADWATER, previously sworn, testified as
23 follows:

24 CROSS-EXAMINATION BY MR. CONRAD:

25 Q. Mr. Broadwater, where would I find a list

1 of comparable companies that you had used for your
2 DCF? I'm having trouble finding it.

3 A. That would be on schedule 14. There's a
4 list of five companies there.

5 Q. We've had other things that have sought to
6 compare Empire, and I think UtiliCorp's own,
7 obviously you wouldn't use UtiliCorp to find
8 UtiliCorp's. For example, why would you not use
9 Union Electric in this list since it's a Missouri
10 utility?

11 A. Several reasons. I was comparing these to
12 St. Joe, and my criteria used to determine the list
13 size was one of the criteria I used, and Union
14 Electric is much larger than St. Joe. And also
15 nuclear operations, as well as credit rating.
16 There are several -- most of my criteria I used to
17 eliminate companies. Union Electric or Ameren,
18 excuse me, would fall under, so they were -- that
19 company was eliminated as well as the fact that
20 they had Missouri operations.

21 Q. Same thing would really cover KCPL then, I
22 guess?

23 A. Yes. They are not as big as Ameren, but
24 the nuclear.

25 MR. CONRAD: That's it. Thank you.

1 JUDGE WOODRUFF: Public Counsel?

2 MR. COFFMAN: Thank you.

3 CROSS-EXAMINATION BY MR. COFFMAN:

4 Q. Mr. Broadwater, you were here earlier, I
5 assume, and heard the testimony of Company Witness
6 Mr. Stoll?

7 A. Yes.

8 Q. And did you hear him discuss that his, I
9 guess, review of other authorized rate of returns
10 in Missouri was part of his analysis?

11 A. I heard his testimony to that effect.

12 Q. And you heard him refer to a return for
13 AmerenUE?

14 A. Yes.

15 Q. Do you think it's appropriate -- and I
16 believe he stated 12.6; is that -- or 12.61?

17 A. I believe 12.61 was the number he used.

18 Q. And is that an appropriate number to
19 analyze in determining comparable -- or let me
20 ask: Was that an authorized rate of return that
21 this Commission approved for AmerenUE?

22 A. No, it was not.

23 Q. What was that number?

24 A. 12.61 was the stipulated number, first of
25 all, that came about as part of an incentive

1 regulation plan, and 12.61 is the point at which
2 sharing begins in their plan. And as part of those
3 plans, there is almost always a dead-band region,
4 and it's Staff's opinion that in this case there is
5 a dead-band region which refers to a number between
6 what would be an authorized return and where
7 sharing begins. So there's some amount of return
8 that is inbetween those two numbers. And 12.61
9 wasn't an authorized number by this Commission. It
10 was a product of stipulation. And even at that it
11 was the point at which sharing begins and not a
12 return that even the Staff would have authorized at
13 that point in time, which if I may, was in 1995
14 when that point was determined, which was -- it was
15 in the summer of '95, which was almost five --
16 well, was five years ago.

17 Q. Okay. Has this Commission authorized any
18 rate of returns in contested electric rate cases
19 since 1995?

20 A. Yes.

21 Q. Can you list those or do you remember
22 them?

23 A. The only one I am aware of is Missouri
24 Public Service Company. And to be honest, I don't
25 remember how long ago, but it was in the last

1 couple of years is my recollection, and this
2 Commission authorized a return to them of 10.75
3 percent. That was a return on equity, not an
4 overall return.

5 Q. And that's the only return on equity you
6 remember this Commission authorizing for an
7 electric company?

8 A. For an electric company. There have been
9 gas cases since then. Just last summer or last
10 fall Commission authorized 10 and a half for
11 Laclede. That was a gas company.

12 MR. COFFMAN: That's all I have. Thank
13 you.

14 JUDGE WOODRUFF: St. Joseph Light and
15 Power?

16 MR. COMLEY: Thank you, Judge.

17 CROSS-EXAMINATION BY MR. COMLEY:

18 Q. First, Mr. Broadwater, I'm not going to
19 prove any great skill on this subject, so if I
20 should ask you any questions that you don't
21 understand, you may snicker, but don't laugh out
22 loud.

23 Let's go first to your testimony on page
24 3, and I wanted to confirm with you so that I have
25 kind of a basis to follow from. Your objective was

1 to produce a revenue benchmark for St. Joseph Light
2 and Power that could be used to measure or what
3 savings UtiliCorp would generate as a result of the
4 merger. Is that a fair assessment of your
5 testimony on page 3?

6 A. Yes, it is. The Staff was -- the purpose
7 of the whole revenue requirement run was to come up
8 with a benchmark to be used in future cases. And
9 as part of that to develop a run they need an
10 overall rate of return to do that with.

11 Q. So that's the return on equity, return on
12 common equity you have to prepare that figure in
13 order to come up with the revenue benchmark?

14 A. We have to come up with a return on equity
15 as well as an overall rate of return, capital
16 structure.

17 Q. Now, as I understand it, in order for you
18 to do what you did, you used the current and
19 projected economic conditions?

20 A. That is part of what I said. It isn't the
21 extent of it, but I take those into account.

22 Q. You take those into account. You didn't
23 use them exclusively, I understand?

24 A. Yes.

25 Q. So you decided not to use current or

1 projected economic conditions for some of your
2 calculations?

3 A. What I was trying to say there is, I
4 used -- I didn't want it to be construed that the
5 only thing I looked at was the current economic
6 condition. I also look at other factors in there.
7 The economic condition may affect those other
8 factors as well, but that is one part of what goes
9 into my analysis, one thing that I look at, yes.

10 Q. Could we go so far as to say that it's a
11 very important criteria for your analysis, that
12 current economic conditions are important to your
13 analysis?

14 A. Yes.

15 Q. You gave a very extensive history of the
16 elevations that we have experienced in interest
17 rates -- well, elevations and the reductions in
18 interest rates over several years. Do you know
19 whether in February of this year the Federal
20 reserve increased interest rates?

21 A. Do you want me to look that up? I believe
22 it's in my testimony.

23 Q. I think you discussed it in your
24 testimony, and I don't know exactly what page it
25 is.

1 A. Excuse me. I believe you're talking about
2 the discount rate?

3 Q. Yes. And that would be the discount rate
4 would be the rate that's charged by the Fed to
5 depository institutions --

6 A. Yes.

7 Q. -- for loans?

8 A. (Witness nods head.)

9 Q. And then there's another rate. I think
10 it's the Fed funds rate?

11 A. Yes.

12 Q. And that is the rate that's charged
13 between banks overnight?

14 A. Yes.

15 Q. So we'll talk about the discount rate.
16 Now, on February 2nd you confirmed that the Federal
17 reserve increased the discount rate?

18 A. Yes. Those changes are listed on my
19 schedule 2-1 and the graph of those is on schedule
20 2-2, and I go up through March of this year.

21 Q. Let me get there very quickly.

22 A. Okay. And you were right, February 2nd,
23 they did increase the discount rate.

24 Q. So we have -- it went up 25 basis points
25 from 5 percent to 5.25 percent on that date?

1 A. Correct.

2 Q. And then again on March 21 it went up
3 apparently another 25 basis points; is that
4 correct?

5 A. Yes.

6 Q. Is it also true that we had an interest
7 rate hike on May 16th?

8 A. That was after --

9 Q. After your testimony?

10 A. Right. And I don't have that in front of
11 me. That sounds correct. I don't know if it was
12 on that specific day and that type of information,
13 but I do believe you are correct.

14 Q. What is the present discount rate, do you
15 know?

16 A. I apologize, no, I don't. I could look it
17 up given the Wall Street Journal, but --

18 Q. You don't have that available now?

19 A. No. I didn't bring a copy of it with me.

20 Q. So I'm trying to think of -- let's go to
21 your cost of -- the imbedded cost for short-term
22 debt that you used in your schedules.

23 A. Yes.

24 Q. Am I right in saying that in computing
25 that imbedded cost for short-term debt, you did not

1 consider the interest rate elevations that we have
2 experienced since March?

3 A. Correct. That is correct.

4 Q. Did you consider in the cost of short-term
5 debt the increase that we had in February or March
6 in your cost?

7 A. No. The cost that is reflected here as
8 far as the embedded cost of short-term debt --
9 excuse me -- is the Company's cost of short-term
10 debt -- it's their actual cost of short-term debt
11 for the month of December 1999. And we decided to
12 use that amount because that was -- there had been
13 a slight trend and we knew it had been going up, so
14 we looked at the most -- you know, the highest
15 number within the test year that was used for this
16 case, which ended December 31st of '99.

17 Q. Wouldn't you agree with me, though, that
18 the imbedded cost of short-term debt is highly
19 influenced by those interest rate increases; isn't
20 that correct?

21 A. The company's cost of short-term debt?

22 Q. Yes.

23 A. Excuse me. Short-term debt costs are
24 influenced by the discount rate, very much so. The
25 extent to which those increases in a discount rate

1 are now affected have been included in the
2 Company's cost of short-term debt. I'm not sure,
3 because to qualify as short-term debt, it has to
4 come due within 12 months, and I'm not sure of the
5 maturity schedule that they used. For all I know
6 nothing is matured or all of it's matured. So it
7 could be 6.32 or something higher than that
8 currently, I'm not aware.

9 Q. But to the extent the Company has entered
10 into new debt obligations after the first of the
11 year, they are definitely seeing an increase in the
12 embedded cost of their short-term debt because of
13 the interest rates?

14 A. It would be reasonable that -- what you're
15 saying sounds reasonable. Again, I haven't
16 examined and haven't looked at their credit
17 agreement, their short-term debt agreements to see
18 how those amounts are actually determined, but what
19 you are saying does appear reasonable, the
20 relationship.

21 Q. In sum on this, you're saying what you
22 would elect to do is adopt for the purposes of your
23 calculation, the embedded cost of short-term debt
24 as of December 31, 1999?

25 A. Yes.

1 Q. And that's the basis of your calculations
2 thereafter?

3 A. For short-term debt?

4 Q. Yes.

5 A. Yes.

6 Q. All right. On page 19 of your testimony
7 you talked about the value of the St. Joseph Light
8 and Power stock, and I'm looking at the midpart of
9 the page here. You assumed that St. Joseph stock
10 was currently trading based on the anticipated \$23
11 in value it would receive as a result of the
12 merger. Now, as a result of that, how did that
13 work into your DSF analysis, as a result of what
14 you just said there? How did that work into your
15 DSF analysis?

16 A. Because of that assumption, that being
17 that the stock is trading on the anticipation of
18 \$23 and not the ongoing operations of the Company,
19 I chose and believed it would be appropriate not to
20 do a DCF analysis on St. Joe specifically, because
21 the history of the stock price had been prior to
22 the merger announcement the Company stock was
23 trading at something around \$17 in that general
24 area. And there's been a run up in its price. So
25 if I would have used the Company's actual stock

1 price, it would have made -- the results of the DCF
2 analysis would have been much lower.

3 And I thought it would be more appropriate
4 to use the stock prices to go back prior to that --
5 or well, I don't want to get too far down the road,
6 but I didn't think that would be appropriate to use
7 the current stock prices.

8 Q. Let me drive down that road just a little
9 bit with you.

10 A. I thought you were going there, so --

11 Q. Okay. We'll get to that point.

12 Instead of using that price, you decided
13 to use -- well, and that price and the other
14 calculations you make on that, I think, yield and
15 other things like that that goes into your
16 calculation, dividend yield, you decided to use the
17 return on common equity range that the Staff
18 developed in the Company's last rate case; isn't
19 that correct?

20 A. I used that range as a starting point,
21 yes.

22 Q. Now, that range in the last rate case,
23 didn't it use the stock price at \$23 that was in
24 March of 1999 as part of the calculation?

25 A. In the DCF analysis that was done as part

1 of that rate case, Staff looked at four months'
2 worth of historical stock price information. March
3 1999 was the last of the four months, and did
4 include some of that -- some of the merger -- I
5 mean, the merger was announced in March.

6 Q. Right. So you had one month of the
7 trading price at \$23 apparently went into the
8 calculation Mr. Bible used in coming up with a
9 return on equity range in that case?

10 A. That is correct.

11 Q. Okay. But in this case you're not going
12 to consider that price; is that your testimony?

13 A. It was included in there. The results of
14 his DCF analysis that he did in the previous rate
15 case, even if you exclude March like Mr. Stoll did
16 in his testimony --

17 Q. Yes.

18 A. -- that increases the results of the DCF
19 analysis. But in the context of that, the entire
20 analysis he did and the range he came up with,
21 which was not solely based upon that DCF analysis,
22 the 9.27 -- I believe 9.27 10.51 was still -- that
23 range was still supported by his analysis even once
24 you threw out March and didn't take into account
25 that effect.

1 Q. Well, I'm sure that Mr. Stoll would debate
2 you about that, but we'll go on to another question
3 for you.

4 You don't feel as if your equity range in
5 this case should be adjusted at all, I gather, even
6 though there has been the use of this \$23 trading
7 value in the Staff's previous case?

8 A. Correct. Even when throwing out that
9 month worth of stock prices in total, the results
10 of the DCF analysis came up with, I believe, was
11 9.04 to 10.28 or right in that area, which is still
12 less than the amount -- the range we're supporting
13 in this case of 9.27 to 10.51. So the low end of
14 the DCF analysis is lower than the low end we're
15 proposing here, and the high end of the DCF
16 analysis is lower than the high end we're
17 supporting now. Did I say that correctly?

18 Q. Okay. Let's let that lay a minute and
19 we'll come back to it.

20 A. Okay.

21 Q. Let's talk about the peer group you worked
22 on in the cost of equity in St. Joseph Light and
23 Power's last rate case.

24 A. The one that Mr. Bible used in the last
25 rate case or in this case?

1 Q. In the last rate case. It would be
2 ER-99-247.

3 A. Okay.

4 Q. And since you're adopting the return on
5 range, return on equity range that's in that case,
6 I think I'll ask you about this as well, but it's
7 true, isn't it, that the peer group that Mr. Bible
8 used is the one that determined the rate of return
9 range that you're recommending for St. Joseph Light
10 and Power in this case; isn't that correct?

11 A. Sounds about right. I mean, I've got his
12 testimony here.

13 Q. Oh, you do. Well, he had a peer group of
14 how many? Was it six companies?

15 A. Let me take a look. Yes. Yes, it was six
16 companies.

17 Q. And the estimated cost of common equity
18 for those companies was how much?

19 A. The average of the six companies was 9.41.

20 Q. Now, you did a peer group study for this
21 case, did you not?

22 A. Yes.

23 Q. And there were five companies in your peer
24 group study?

25 A. Yes.

1 Q. Several of those were the same companies
2 that Mr. Bible used, I remember -- as I recall; is
3 that correct?

4 A. Several of them are the same, yes. I
5 mean, there's some that are different. Obviously,
6 we had different numbers, so --

7 Q. Now, tell the Commission what the
8 estimated cost of equity is for your new peer
9 group?

10 A. The DCF cost of equity analysis that I did
11 or the Cap M?

12 Q. I think it was the estimated cost of
13 common equity that you computed there for your peer
14 group. It would be the DCF.

15 A. Okay. I did do two different analyses.
16 The DCF estimated cost of common equity for the
17 five comparable companies I used had an average of
18 10.41 percent.

19 Q. 10.41?

20 A. Yes.

21 Q. Now, what's the difference between the DCF
22 analysis you just quoted and the one that was used
23 in St. Joseph's last rate case, the difference
24 between the estimates?

25 A. Okay.

1 Q. The average estimates.

2 A. You want the difference between 9.41 and
3 10.41?

4 Q. That's it.

5 A. One percent.

6 Q. All right. And that would be 100 basis
7 points, wouldn't it?

8 A. Yes.

9 Q. You had some replacement pages for your
10 testimony, and I think that's been marked
11 separately?

12 A. Yes.

13 Q. I think those are marked as Exhibit 724NP
14 and HC?

15 A. Yes.

16 Q. Let's go to page 15 of your corrected
17 pages.

18 A. Okay.

19 Q. Now, I'm seeing that you corrected the
20 capital structure figures. You have capital
21 structure figures now 54.92 percent for common
22 stock equity, 38.17 percent for long-term debt, and
23 6.91 percent for short-term debt?

24 A. That is correct.

25 Q. And why did you make those corrections?

1 A. I had -- the amount of short-term debt I
2 used in my capital structure was high. I believe
3 we missed some construction work in progress
4 inventory that we usually subtract out. Excuse
5 me. And so the short-term debt number I used in my
6 original calculation was higher than it should have
7 been, so when reducing it by this amount, that's
8 what falls out. And I believe in my cost of debt
9 calculation, the losses on reacquired debt and the
10 unamortized -- if the unamortized portion of debt
11 issue and expense and losses on reacquired debt in
12 my original schedules were put in there as a
13 positive number when they should have been put in
14 as a negative number, and once that got factored in
15 as well, I believe both of those had an effect on
16 the percentages in the capital structure.

17 Q. Could we give a little credit to Mr. Stoll
18 for bringing some of these to your attention?

19 A. You can if you want to.

20 Q. All right. I have a question about
21 capital structure. And we've heard a lot about the
22 acquisition premium in this case, and would you
23 have to consider in determining the capital
24 structure for St. Joseph Light and Power the fact
25 that UtiliCorp United is going to be paying for the

1 equity portion of the Company? And I'm thinking
2 there's a \$90 million figure representing the
3 amount over book value that's involved. Wouldn't
4 that in some way increase the capital structure for
5 common equity for St. Joseph Light and Power if
6 it's considered as a unit?

7 A. I'm not sure if I follow exactly where
8 you're going with that. I apologize.

9 Q. I'm seeing whether it's important to your
10 analysis and it may not be. However, UtiliCorp
11 United is going to buy the stock of St. Joseph
12 Light and Power at a rate of \$23 per share, and
13 would that have an effect of influencing the
14 capital structure, at least from the point of view
15 for common stock equity once that purchase of
16 equity is booked?

17 A. I'm not an accountant, and so I'm not sure
18 if I am the best person to answer this question.
19 Excuse me. But the fact that someone is willing to
20 pay \$23 a share for their outstanding common stock,
21 even though their book value is 11 or \$12 or
22 whatever it is, that doesn't -- the price of their
23 stock on the open market doesn't affect their
24 capital structure as it's stated here. The fact
25 that it was trading at 17 or 20 or 50 wouldn't be

1 necessarily reflected on this, on my capital
2 structure, unless in the event they did issue new
3 common equity and that would increase their
4 additional paid in capital account at that higher
5 number. But I don't see where just the fact that
6 it's being -- someone is willing to pay that price
7 would affect their book to capital structure, it
8 may be. If I'm following your question.

9 Q. Maybe looking at it from this point of
10 view, will UtiliCorp then have an additional
11 investment to account for and will that \$90 million
12 be an additional investment for that?

13 A. For UtiliCorp?

14 Q. Yes.

15 A. Once this is booked on their books, there
16 will be an accounting entry to an account for the
17 acquisition premium, but that's on UtiliCorp's
18 books. Well, as I understand it, St. Joe is going
19 to cease to exist as an independent entity, so I
20 don't believe they will have a capital structure at
21 that point.

22 Q. Well, technically, I guess, they would
23 not. At the same time there's the idea about
24 continuing in capital structure for them, for
25 St. Joseph; isn't that correct?

1 A. I believe UtiliCorp has proposed a frozen
2 capital structure. Staff is not supporting that.
3 We believe you should use the actual capital
4 structure of the entity that issues the capital.

5 Q. Let's go to page 25 of your replacement
6 pages. At the bottom of the page, line 23, you set
7 out the St. Joseph's current capital structure is
8 approximately 58.37 common equity and 41.63 percent
9 long-term debt excluding, I think the --

10 A. Short-term debt.

11 Q. -- short-term debt. Are those numbers
12 still correct?

13 A. I'm sorry. I do not know.

14 Q. You don't know. Okay.

15 How would you check to confirm whether
16 those are correct or not?

17 A. I would have to look at the current
18 financial statements of St. Joe to find out.

19 Q. Do any of your other figures that you've
20 corrected influence these numbers?

21 A. Excuse me. I don't think those numbers
22 were affected by that.

23 Q. All right. You used the return on common
24 equity to come up with the rate of return for the
25 Company; is that correct?

1 A. Yes.

2 Q. And then those figures were in turn used
3 by Mr. Traxler in arriving at the revenue benchmark
4 or the cost of service run in his accounting
5 schedule 1-1, I think that's what it is; is that
6 correct?

7 A. Yes.

8 Q. Now, with respect to accounting schedule
9 1-1, it's in the accounting schedules as revised,
10 is it true that there is now a gross revenue
11 requirement for St. Joseph Light and Power using
12 the high end of your recommendation of
13 approximately \$232,000?

14 A. I apologize. I don't put the revenue
15 requirement run together, and I haven't seen the
16 most recent copy of that.

17 Q. You have not seen it?

18 A. No. I apologize. I don't know what it
19 is.

20 Q. Let me show you what has been the revised
21 schedule for Mr. Traxler. And in looking at the
22 bottom of that schedule, would you agree with me
23 that using the high end of your recommendation and
24 given the corrections that you've made to your
25 testimony, isn't there showing on the schedule now,

1 a revenue deficiency for the Company presently?

2 A. Not at the -- the way I read it, not at
3 the high end. I think at the high end that shows a
4 positive 233,686.

5 Q. Meaning that -- it means that -- doesn't
6 this mean that the Company is entitled to a
7 positive revenue requirement?

8 A. I'm sorry. I misunderstood. Yes, it
9 does. I thought you were meaning -- never mind.
10 My mistake.

11 Q. What it means to me is, based upon your
12 figures, the Company would be justified in
13 increasing its rates to recover another \$233,000;
14 is that correct?

15 A. Yes.

16 Q. You had several questions from Public
17 Counsel concerning the rate of return for Union
18 Electric and how that was approved. As I
19 understand it that was in a stipulation?

20 A. 12.61, correct, was a number in a
21 stipulation and agreement.

22 Q. And that stipulation was approved by the
23 Commission, was it not?

24 A. Yes. The stipulation in its entirety,
25 yes.

1 Q. And has that rate -- and has that now been
2 extended again by the Commission?

3 A. By extended again --

4 Q. Has it been reapproved and that rate
5 extended by the Commission?

6 A. I believe the incentive regulation plan of
7 Union Electric was extended in '97.

8 Q. It was originally approved in 1995, as I
9 recall from your testimony?

10 A. Yes. It was approved by the Commission
11 July 21, 1995.

12 Q. Mr. Broadwater, do you regularly -- do you
13 track equity returns allowed in other
14 jurisdictions?

15 A. Not regularly. I mean, sometimes I hear
16 of them, but I don't keep a database or anything of
17 that nature.

18 Q. But do you try to monitor them from time
19 to time and see whether or not your calculations
20 are in line with others in other jurisdictions?

21 A. I have discussions with other financial
22 analysts, rate of return analysts in other
23 jurisdictions. Excuse me. And discuss what's been
24 recommended in various states.

25 Q. Let me ask you this: Do you know what the

1 specific gas and electric was just authorized?

2 A. No.

3 Q. Do you know what UtiliCorp was authorized
4 recently in Kansas as a return on equity?

5 A. It's going from memory, but I thought it
6 was 10.75, which they adopted from Missouri, I
7 believe.

8 Q. 10.75?

9 A. Yes. I could be wrong. I saw a part of
10 that order months ago, so --

11 Q. I just thought I'd ask. I think I'm about
12 done.

13 Your Honor, I have one more question, but
14 it deals with a highly confidential portion of his
15 testimony. And I was going to ask when it would be
16 convenient if we could convene in-camera to do
17 that.

18 JUDGE WOODRUFF: Now is as good of time as
19 any.

20 MR. COMLEY: All right. Thank you. It
21 should be very brief.

22 JUDGE WOODRUFF: Okay. We will be going
23 into in-camera session. Anyone who needs to leave
24 at this point, please do so. And if the attorneys
25 could look around and make sure that no one is here

1 that's not supposed to be here.

2 (At this time, an in-camera session was
3 held, which is contained in Volume No. 8, Pages
4 1044 through 1046 of the transcript.)
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1 JUDGE WOODRUFF: All right. Questions
2 from the Bench then, Commissioner Murray?

3 COMMISSIONER MURRAY: No questions. Thank
4 you.

5 JUDGE WOODRUFF: Commissioner
6 Schemenauer?

7 COMMISSIONER SCHEMENAUER: Just a few.

8 QUESTIONS BY COMMISSIONER SCHEMENAUER:

9 Q. Mr. Broadwater, you were having a
10 conversation with counsel about the difference
11 between UtiliCorp's price of stock, and that they
12 were paying for stock and where it would be in the
13 St. Joe's equity statement. And does the price of
14 the stock show up anywhere on any company's
15 financial statements?

16 A. I do not believe it does.

17 Q. And the money that a shareholder receives
18 when he sells his shares of stock, whose pocket
19 does that go into?

20 A. The shareholders.

21 Q. It doesn't see it?

22 A. Correct.

23 Q. This isn't related at all to the company's
24 equity statement or the price of stock has nothing
25 to do with that?

1 A. Correct.

2 Q. Okay. Then you had some questions on
3 page 15, I think, relating to the capital structure
4 and debt of cost. Were those based on -- I mean,
5 when did you get those numbers? You didn't seem to
6 be -- were they based on the last annual financial
7 statement that the Company filed or . . .

8 A. December 31st, 1999.

9 Q. Okay. So they aren't really current
10 today? They are the last financial accounting
11 period?

12 A. Yes. That's the -- excuse me -- that is
13 the test year we were using, and I used those as my
14 period for calculating the capital structure.

15 Q. In this case was -- if everything was
16 approved as UtiliCorpo asked for, was there an
17 updated test year, updated accounting period to
18 reflect a starting point for all these accounts?
19 Was that proposed anywhere?

20 A. No. And if I may, I want to point out the
21 reason this analysis was done, again, was for like
22 we discussed for the benchmarking study and the
23 return on equity. The main reason it was done was
24 for the cost components that are contained within
25 the revenue requirement calculation that will be

1 actually used to benchmark against. The return on
2 equity at the time of the year five rate case, all
3 that will go through and calculate a new return on
4 equity, new capital structure, all that type of
5 information. The financial part will be redone. I
6 mean, I guess the Company has a proposal to freeze
7 the capital structure, but depending on how this
8 order comes out, we will calculate a new capital
9 structure and return on equity at that time.

10 Q. But we're to base our decision on capital
11 structure as of December 31st, 1999? I mean, when
12 we're considering all of these items that the
13 Company is asking?

14 A. Yes.

15 COMMISSIONER SCHEMENAUER: I think that's
16 all I have. Thank you.

17 JUDGE WOODRUFF: Thank you.

18 Recross based on questions from the
19 Bench? Does anyone have any questions?

20 Hearing none, then redirect?

21 MR. KRUEGER: Thank you, your Honor.

22 REDIRECT EXAMINATION BY MR. KRUEGER:

23 Q. Mr. Broadwater, is it possible that the
24 Company has experienced some revenue growth beyond
25 December 31, 1999?

1 A. Yes.

2 Q. Could that help offset any cost increases
3 that result from changes in the short-term debt
4 interest rate?

5 A. Yes.

6 Q. Could the Company have also experienced
7 some decreases in expenses such as from employee
8 reductions that would also offset the interest
9 charges that are paid based on changes in
10 short-term debt interest rate?

11 A. Yes.

12 Q. For the cost of capital analysis that you
13 presented to the Commission in that case, did you
14 use Mr. Bible's parameters from the last St. Joe
15 electric case or did you update those of
16 Mr. Bible's analysis?

17 A. I used Mr. Bible's analysis from the
18 previous case as a starting point, and then I did
19 my own analysis to verify if that was an
20 appropriate range or if it needed to be adjusted or
21 moved in any way. And based on my analysis that I
22 did, I determined there wasn't a need to make any
23 adjustments to it. So I left the range the same,
24 but I did do an analysis to just -- or to ensure
25 that.

1 Q. Was your analysis more recent than
2 Mr. Bible's analysis?

3 A. Yes. The time frame in which I used to
4 conduct my analysis was the first part of this
5 year, used stock prices from December, January,
6 February and March of '99 and 2000. So the update
7 I performed captured stock price information
8 through March of 2000.

9 Q. And do you know when Mr. Bible's analysis
10 was prepared?

11 A. It was filed with the Commission May 12 of
12 1999, so it was prepared shortly before that.

13 Q. Thank you. Mr. Comley asked you some
14 questions about the high end of your return on
15 equity range. Does the Commission always make
16 findings of the high end return on equity should be
17 used in setting rates?

18 A. No.

19 MR. KRUEGER: That's all the questions I
20 have, your Honor.

21 JUDGE WOODRUFF: Thank you.

22 You may step down.

23 (Witness excused.)

24 JUDGE WOODRUFF: Next witness?

25 MR. KRUEGER: Staff calls Tom Lin.

1 JUDGE WOODRUFF: Mr. Lin, you were
2 previously sworn so you are still under oath.
3 Please be seated.

4 MR. KRUEGER: Your, Honor this is the last
5 time that Mr. Lin is appearing to testify in this
6 hearing, so we would at this time reoffer Exhibit
7 709 and tender the witness for cross-examination.

8 JUDGE WOODRUFF: 709 has been offered into
9 evidence. Are there any objections to its
10 reception?

11 Hearing none, it will be received into
12 evidence.

13 (EXHIBIT NO. 709 WAS RECEIVED INTO
14 EVIDENCE.)

15 JUDGE WOODRUFF: And he's been tendered
16 for cross-examination, are there any questions for
17 Mr. Lin?

18 Hearing none, then Commissioner Murray, do
19 you have any questions?

20 COMMISSIONER MURRAY: No questions.

21 JUDGE WOODRUFF: Commission Schemenauer?

22 COMMISSIONER SCHEMENAUER: No questions.

23 JUDGE WOODRUFF: No recross and no
24 redirect. You may step down, Mr. Linn.

25 (Witness excused.)

1 JUDGE WOODRUFF: Next witness then?

2 MR. KRUEGER: Staff calls Janice Pyatte.

3 JUDGE WOODRUFF: I believe this is your
4 first time up here.

5 (Witness sworn.)

6 JUDGE WOODRUFF: Thank you. You may be
7 seated.

8 MR. KRUEGER: Ms. Pyatte, do you have --
9 I'm sorry. I'll hand the reporter testimony that
10 has been prefiled and marked as Exhibit 716,
11 rebuttal testimony of Janice Pyatte.

12 (EXHIBIT NO. 716 WAS MARKED FOR
13 IDENTIFICATION BY THE REPORTER.)

14 JANICE PYATTE, being first duly sworn, testified as
15 follows:

16 DIRECT EXAMINATION BY MR. KRUEGER:

17 Q. Do you have any corrections or additions
18 to that testimony?

19 A. No, I do not.

20 MR. KRUEGER: I would offer Exhibit 716.

21 JUDGE WOODRUFF: Is this the only time she
22 will be testifying?

23 MR. KRUEGER: Yes, your Honor.

24 JUDGE WOODRUFF: Exhibit 716 has been
25 offered into evidence. Are there any objections to

1 its receipt?

2 Hearing none, it will be received into
3 evidence.

4 (EXHIBIT NO. 716 WAS RECEIVED INTO
5 EVIDENCE.)

6 MR. KRUEGER: And I tender the witness for
7 cross-examination.

8 JUDGE WOODRUFF: Ms. Pyatte has been
9 offered for cross-examination. Are there any
10 questions for her?

11 Hearing none, then we'll go up to the
12 Bench. Commissioner Murray?

13 COMMISSIONER MURRAY: No questions. Thank
14 you.

15 JUDGE WOODRUFF: Commissioner
16 Schemenauer?

17 COMMISSIONER SCHEMENAUER: No questions.

18 JUDGE WOODRUFF: No questions from the
19 Bench, no recross and no redirect. You may step
20 down.

21 (Witness excused.)

22 JUDGE WOODRUFF: Next witness?

23 MR. KRUEGER: Staff calls Lena Mantle.

24 (Witness sworn.)

25 MR. KRUEGER: Your Honor, I'm unable to

1 find the copies of the witness's testimony for the
2 reporter.

3 JUDGE WOODRUFF: 710. I believe it was
4 premarked as Exhibit 710.

5 MR. KRUEGER: Could we have a recess for a
6 just a couple of minutes while I locate that?

7 JUDGE WOODRUFF: Yes. This would be a
8 good time for a break. Let's come back at 2:45.

9 (A BREAK WAS TAKEN.)

10 (EXHIBIT NO. 710 WAS MARKED FOR
11 IDENTIFICATION BY THE REPORTER.)

12 MR. KRUEGER: Your Honor, I have
13 previously handed the reporter a document, the
14 prefiled rebuttal testimony of Lena M. Mantle,
15 which has been marked as Exhibit 710.
16 LENA M. MANTLE, being first duly sworn, testified
17 as follows:

18 DIRECT EXAMINATION BY MR. KRUEGER:

19 Q. Ms. Mantle, do you have any corrections or
20 changes to your prefiled testimony?

21 A. I have a couple of small corrections. On
22 page 8, line 9 I left out a verb in a sentence.
23 Areas that St. Joe excels in are timeliness and
24 quality. I left out the word are.

25 And then page 9, line 10, the sentence

1 toward the end of that line, This made it necessary
2 for me to change the method instead of met.

3 Q. With those changes is your testimony
4 accurate?

5 A. Yes.

6 MR. KRUEGER: I would then offer -- she's
7 going to be testifying again later so I'll offer
8 the exhibit later, but I'll tender the witness for
9 cross-examination.

10 JUDGE WOODRUFF: Okay. Are there any
11 cross-examination questions?

12 AgP?

13 MR. CONRAD: I just have one.

14 CROSS-EXAMINATION BY MR. CONRAD:

15 Q. I was drawn by your counsel's question to
16 page 9. In looking at line 5, what is a sanity
17 check?

18 A. A sanity check is looking at the data as I
19 need to use it and seeing if it looks correct. If
20 the hourly data showing a peak in the right way, if
21 some of the loads is less than that system, those
22 type.

23 Q. A similar phrase might be sniff test or
24 something like that?

25 A. Yeah. Reasonable checks.

1 MR. CONRAD: Thank you. That's all.

2 JUDGE WOODRUFF: Any other
3 cross-examination questions?

4 Hearing none, we'll come up to the Bench.
5 Commissioner Schemenauer, do you have any questions
6 for Ms. Mantle?

7 COMMISSIONER SCHEMENAUER: Ms. Mantle will
8 be up for the load research issue.

9 JUDGE WOODRUFF: Yes.

10 COMMISSIONER SCHEMENAUER: I do have some
11 questions on that. Thank you.

12 JUDGE WOODRUFF: Thank you. No questions
13 from the Bench, so no recross. Any redirect?

14 MR. KRUEGER: No redirect, your Honor.

15 JUDGE WOODRUFF: Thank you. You may step
16 down.

17 Then I believe the next witness is
18 Mr. Robertson. We don't have a counsel available?

19 MR. ROBERTSON: I could be counsel if you
20 want me to.

21 JUDGE WOODRUFF: Well, Mr. Robertson, why
22 don't you just wait until your counsel is here.
23 Does anybody have any questions for him?

24 MR. SWEARENGEN: No.

25 MR. COMLEY: No.

1 MR. CONRAD: No.

2 JUDGE WOODRUFF: We'll pass the witness.

3 MR. CONRAD: Are you up again?

4 MR. ROBERTSON: Yes, I am.

5 JUDGE WOODRUFF: Let's move on to the next
6 issue then, Customer Service Indicators Condition.

7 MR. SWEARENGEN: Mr. Pella.

8 He's been previously sworn, so I would
9 tender Mr. Pella on this issue.

10 JUDGE WOODRUFF: And, of course, you are
11 still under oath.

12 Any cross-examination for Mr. Pella on
13 this issue?

14 MR. BATES: Yes, your Honor.

15 JUDGE WOODRUFF: Go ahead.

16 STEVE PELLA, previously sworn, testified as
17 follows:

18 CROSS-EXAMINATION BY MR. BATES:

19 Q. Good afternoon, Mr. Pella.

20 A. Good afternoon.

21 Q. I'm Bruce Bates, attorney for the Staff.
22 I have several questions for you this afternoon.

23 I'd like you to refer to your surrebuttal
24 testimony, if you would, page 3 beginning on
25 line 10.

1 A. Yes.

2 Q. And going through line 13, I believe you
3 testified that you believe that UtiliCorp can
4 strengthen the overall customer service capability
5 by joining together and implementing UtiliCorp's
6 customer care program, which focuses on the
7 following: Customer values -- excuse me -- the
8 following customer values, access, image,
9 performance and results. Have I paraphrased you
10 correctly?

11 A. Yes, you have.

12 Q. Would you define those four customer
13 values access, image, performance and results for
14 the Commission?

15 Q. Yes. On access, it describes the
16 philosophy of convenient access for customers as
17 quick and as simple as possible. And in that light
18 demonstrated by capability we would be putting in
19 place with 24 hours, seven days a week call centers
20 to make it accessible for customers having access
21 locally, having payment outlets, those sorts of
22 things.

23 To allow the access image references the
24 pleasant professional handling by our personnel of
25 various company matters.

1 Performance has to do with the aspiration
2 of being as accurate in as much of a single
3 appointment contact as possible. Results is an
4 aspiration of commitments made, doing it right the
5 first time approach to service.

6 Q. Referring you back to line 9 on page 3,
7 you refer to the phrase, Customer Information
8 System or CIS, would you define that for the
9 Commission, please?

10 A. Customer information system represents a
11 cornerstone system for most utilities where the
12 record of a customer has kept all the way through
13 the reads and the billing and the tracking of
14 collections that follow, so it encompasses a system
15 that handles, tracks and supports the most -- many
16 of the customer activities of the utility.

17 Q. I believe, and correct me if I'm wrong,
18 that you testify there that UtiliCorp is interested
19 in developing a more robust CIS. What does
20 UtiliCorp mean by that?

21 A. That is made by comparison to the existing
22 customer system at St. Joseph Light and Power. So
23 more robust has to do with the amount of
24 information that would be kept on line and
25 accessible, the maintenance on it, capability of

1 it --

2 Q. How would you --

3 A. -- by comparison.

4 Q. I'm sorry. How would you go about
5 collecting and compiling that information?

6 A. Clarify what information you reference.

7 Q. The information you were referring to is
8 in billing more robust CIS.

9 Q. This would have been an outcome of
10 features that employees from both companies would
11 have used as they examine the systems of each
12 company and the features that each provides, and
13 from that would have yielded a view about
14 capability.

15 Q. Regarding the four customer values I asked
16 you about a moment ago, did UtiliCorp do any sort
17 of a survey to determine that those particular
18 values were particularly important to its customers
19 or was some other system used?

20 A. These values were derived by some work
21 done in the mid '90s at UtiliCorp that attempted to
22 derive what drivers of customer satisfaction might
23 most relate to. So that as we thought about
24 guiding our actions and building our programs we
25 would have a chance to address the issue that would

1 be of most consequence. So it was a combination of
2 some research, reading, if you will, about
3 satisfaction from generally available market
4 research as well as some work by internal teams.

5 Q. Was that also done for your Missouri
6 operations as well?

7 A. That was done in the backdrop of all of
8 UtiliCorp's utility operations including Missouri.

9 Q. Okay. I'm not sure what you mean by
10 backdrop. I'm sorry. Or background.

11 A. The work was intended to represent all
12 utility operations within UtiliCorp one state of
13 which is Missouri. So it wasn't intended to be
14 restricted to Missouri is what I'm trying to say.

15 Q. Are you certain that you did include data
16 for Missouri in that?

17 A. It was -- okay. Let me clarify. The
18 derivation of the work was done from -- excuse
19 me -- from external sources and by internal teams
20 with our representative knowledge, some of which
21 would have been employees who would have utility
22 knowledge of Missouri. So in that context it would
23 have considered Missouri.

24 Q. Okay. But as far as you know there was no
25 actual survey done of Missouri?

1 A. I'm not aware of any actual survey of
2 Missouri customers.

3 Q. I wonder, beginning on line 14 you refer
4 to your customer care program. Has the Company set
5 any quantifiable indicators for your customer care
6 program?

7 A. The customer care program has many
8 features which are outlined in the balance of that
9 answer. And in the course of conducting that work,
10 the management of the Company, as part of their
11 responsibility as managers of the business, do have
12 measurements that we identify, track and monitor
13 and help guide action over time.

14 Q. Can you describe more specifically what
15 monitoring is conducted?

16 A. In what area?

17 Q. In the area of the customer care program.

18 A. The customer care program would cover all
19 areas of customer service, and I can go through
20 that. It will take a bit of time. The first part
21 of the customer care program that we talk about
22 access. Again, it's an ability to provide access
23 to customers through our service centers through 24
24 by seven service and talks about the local offices
25 that can receive customers and talk to their

1 issues.

2 In each part of the operation in our
3 customer service center as managers, for example,
4 of that service facility, we would monitor most
5 every aspect of a facility like that would have in
6 terms of the number of calls you would receive into
7 the center of the number of calls actually taken by
8 a representative, the length of those calls and so
9 forth.

10 In terms of a local office operation, it
11 would have a number of records that would be kept
12 on any number of dimensions from the customers'
13 payments taken, calls received, and so forth. I'll
14 stop there. I can continue to go on if you wish,
15 but I mean, that's the track I would step through
16 as I look through the various metrics that we would
17 use.

18 Q. Let me ask you this: Are there any other
19 penalties or incentives connected to any of these
20 specific indicators?

21 A. To whom.

22 Q. To the Company.

23 A. For the Company employee to have
24 measurements is to guide the organization to
25 provide the proper level of service to the

1 customers. By looking at the individual elements,
2 the biggest benefit is by giving some guideline
3 that we can look to to make sure that we as
4 operators of the business are receiving and
5 performing in the way that best provides the
6 service result we're looking for.

7 Q. In addition to that, and it's certainly
8 that the Company would want to do that, is are
9 there any other penalties or incentives either to
10 the Company or to individual employees of the
11 Company or to the customer?

12 A. In terms of if I were to -- as in most of
13 these cases, these are based on usually an intent
14 and a balance to view of life in terms of the
15 customer impact. I think this provides guidance
16 and general direction to the work they are asked to
17 undertake. I don't have complete recall, but in
18 the customer service center I know there are
19 aspects built into performance relative to the
20 amount of time people are productive. There would
21 be performance aspects into what we would call
22 their goals.

23 And for the customer the benefit, again,
24 should be more in the performance of our personnel
25 in conducting the service and providing the

1 services being requested.

2 Q. Okay. I'd like to take you to, again, on
3 page 3 of your surrebuttal, beginning on lines 17
4 you state that the Company offers 24-hour customer
5 service through your call center in Raytown,
6 Missouri. And you go on to detail some of the
7 services that are available to your customers
8 through that call center. Is that staffed 24 hours
9 a day by people or is it automated during the
10 24-hour cycle?

11 A. There is staffing 24 hours a day, seven
12 days a week.

13 Q. Can any of this business be transacted --
14 let me rephrase that.

15 Obviously, some of this business can be
16 transacted by telephone, am I correct in that by
17 definition?

18 A. Business being when a customer would call
19 into a service center --

20 Q. Yes.

21 A. Yes.

22 Q. Thank you.

23 When a customer calls the call center in
24 Raytown, will the customer always be answered by a
25 live human or will it be a recording device?

1 A. The call will be answered by a prompter,
2 which will give one of, I believe, it's three
3 choices of whether or not they can handle that
4 directly follows that. So, for instance, a
5 customer would call up, and if they have a payment
6 arrangement request, they would hit one of the
7 keys, and it would direct them to the pool of
8 employees best equipped and more trained in that
9 activity to give them better service once the call
10 is received.

11 If they would happen to push a bill
12 inquiry, then they would be routed to a pool of
13 people best equipped to handle that call, thereby
14 allowing our facility to customize the kinds of
15 capability necessary to handle certain unique kinds
16 of inquiries. Once the menu is completed, they
17 would be connected to any of our service personnel
18 to respond to their questions.

19 Q. So do I understand from what you said that
20 the term prompter, you're referring to an automated
21 answering machine?

22 A. Yes. It's an automated menu selection.

23 Q. Does the Company see any value in having
24 every call answered if possible by a live operator
25 or service representative?