STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 13th day of September, 1991.

In the matter of the application of UtiliCorp United Inc. ("UtiliCorp"), and Colorado Transfer Company ("CTC"), for authority for UtiliCorp to acquire all of the issued and outstanding shares of stock of CTC and thereafter to merge CTC with and into UtiliCorp, and to acquire certain debt obligations of Centel Corporation ("Centel").	CASE NO. EM-91-290

ORDER APPROVING MERGER

On March 7, 1991, UtiliCorp United Inc. (UtiliCorp) and Colorado Transfer Company (CTC) filed an Application requesting authority for UtiliCorp to acquire all of CTC's issued and outstanding shares of stock and thereafter to merge CTC with and into UtiliCorp. UtiliCorp also seeks authority to acquire certain debt obligations of Centel Corporation (Centel). On June 4, 1991, UtiliCorp and CTC filed their First Amended Application. On August 1, 1991, the Commission Staff (Staff) filed a memorandum recommending the Commission approve the application with certain conditions. On August 26, 1991, UtiliCorp and CTC filed their Second Amended Application. On September 6, 1991, Staff filed a memorandum indicating there was no need to amend Staff's original recommendation.

UtiliCorp conducts business in Missouri through its Missouri Public Service (MPS) operating division which is engaged in providing electrical and natural gas service to Missouri customers. CTC, a subsidiary of Centel, is a Kansas corporation engaged in generating, transmitting, and distributing electricity in Kansas and Colorado. UtiliCorp and Centel have entered into an agreement

> [w]hereby Centel proposes to sell and transfer to UtiliCorp and UtiliCorp proposes to acquire the electric business of Centel located in the states of Kansas and Colorado. The transaction

> will be accomplished through one or more of a combination of means including the sale and purchase of Centel's assets relating to its electric operations in Kansas and Colorado; the transfer of some or all of the subject assets from Centel to a subsidiary corporation or corporations and the purchase by UtiliCorp of the stock of said subsidiary or subsidiaries and subsequent merger of said subsidiary or subsidiaries with and into UtiliCorp or the purchase of the assets of said subsidiary or subsidiaries by UtiliCorp; the lease of certain assets to UtiliCorp; and the sale and transfer of certain assets including, without limitation, a portion or all of Centel's interest in the Jeffrey Energy Center to a third party and subsequent lease of those assets to UtiliCorp. In addition, UtiliCorp may assume certain Centel debt obligations.

Based on Staff's analysis of financial data prepared by UtiliCorp, the merger would have a minimal effect on UtiliCorp's overall capital structure. UtiliCorp's data indicates that the acquisition will be financed with 40 percent equity and 60 percent long-term debt, which is in line with UtiliCorp's present capital structure. Staff also reviewed the relevant financial ratios and indicated that the merger would not overly strain UtiliCorp's earnings to cover debt service. According to Staff, the Times Interest Earned ratio shows a modest decrease from 3.43 to 3.32 basis points.

Staff examined the acquisition price and concluded that it was reasonable based on the minimal premium paid as compared to the average market to book value ratio for electric utilities. Staff indicated that according to Salomon Brothers *Electric Utilities Stock Research* dated May 1991, the market to book value ratio for 100 electric utilities has ranged from 0.32x to 3.50x with a mean value of 1.38x. Based on UtiliCorp's estimated purchase price of $210,427,000, Staff determined that UtiliCorp will be paying approximately 1.07x book value.

Staff has indicated that it believes UtiliCorp's merger with CTC will, in and of itself, have minimal impact on MPS' Missouri jurisdictional operations. However, Staff has also expressed concerns about UtiliCorp's merger and acquisition activities and their impact on Missouri ratepayers. Although UtiliCorp has assured the Commission in the past that Missouri ratepayers would suffer no detriment from its merger activities (See: *Re: Missouri Public Service Company*, Case No. ER-90-101, Report and Order, October 5, 1990, p. 46), it has produced no documentation to date concerning the effect on Missouri jurisdictional operations of its merger activities, including the proposed acquisition in question in this case.

Because of its concerns, Staff has recommended that the Commission put UtiliCorp on notice that future approval of acquisitions will be subject to a showing of no detriment to Missouri ratepayers based on a state-specific jurisdictional analysis. Staff has also recommended that future merger applications be subject to the following conditions:

1. All documentation generated relative to the analysis of the merger and acquisition in question must be maintained.
2. The company must present an estimate of the impact of the merger on its Missouri jurisdictional operations.
3. The company must provide an assessment of the relative risk regarding items that impact its Missouri operations.
4. The company must propose assurances or conditions that will address the overall merger components that pose the risk of being detrimental to the Missouri public interest.

Staff has further recommended that the Commission reserve ruling on the question of ratemaking treatment.

The Commission finds that the minimal changes in UtiliCorp's capital structure, the adjustments in UtiliCorp's coverage ratios, and the proposed purchase price are all reasonable. The Commission also finds that UtiliCorp's merger with CTC will have minimal impact of MPS' Missouri jurisdictional operations. Therefore, the Commission finds that the merger of UtiliCorp with CTC is not detrimental to the public interest and should be approved.

Nonetheless, the Commission is of the opinion that future decisions on acquisitions should be based on a Missouri jurisdictional analysis as such an analysis is needed to fully evaluate the possible impact on Missouri ratepayers. The Commission finds that the conditions proposed by Staff are reasonable and should be adopted.

IT IS THEREFORE ORDERED:

1. That UtiliCorp United, Inc. and Colorado Transfer Company be hereby authorized to merge in accordance with the application and the terms and conditions of this Order.

2. That UtiliCorp United Inc. and Colorado Transfer Company be hereby authorized to sell and transfer from Colorado Transfer Company to UtiliCorp United, Inc., all of the issued and outstanding stock of Colorado Transfer Company in accordance with the application and the terms and conditions of this Order.

3. That UtiliCorp United, Inc. be hereby authorized to acquire certain debt obligations of Centel Corporation in accordance with the application and the terms and conditions of this Order.

4. That UtiliCorp United, Inc. be hereby authorized to lease certain realty involving the Jeffrey Energy Center in accordance with the application and the terms and conditions of this Order.

5. That UtiliCorp United, Inc. be hereby authorized to take any and all other actions necessary to effectuate the stock and bond acquisitions, the related merger, the lease, and other transactions contemplated by the application and this Order.

6. That nothing in this Order shall be considered as a finding by the Commission of the value for ratemaking purposes of the properties herein involved, nor as an acquiescence in the value placed upon said property by the applicants.

Furthermore, the Commission reserves the right to consider the ratemaking treatment to be afforded these transactions in any later proceeding.

7. That future applications involving acquisitions and mergers shall be subject to the four conditions outlined in this Order.

8. That this Order shall become effective on September 24, 1991.

BY THE COMMISSION

Brent Stewart

Brent Stewart
Executive Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
and McClure, CC., Concur.
Perkins, C., Absent.