Exhibit No.:
Issues: *Corporate Overhead Allocations*
Advertising, Dues & Donations
Employee Benefits Conversion
St. Joseph Light & Power's Electric, Gas & Steam Cost of Service
Proposed Regulatory Plan
Projected Merger Cost & Benefit Analysis
Witness: *STEVE M. TRAXLER*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Replacement Pages for Rebuttal Testimony*
Case Nos.: *EM-2000-292*

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REPLACEMENT PAGES

FOR

REBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

UTILICORP UNITED INC.
AND
ST. JOSEPH LIGHT & POWER COMPANY

CASE NO. EM-2000-292

Jefferson City, Missouri
May, 2000

Associates (DBA) in Lee's Summit, Missouri as a Regulatory Consultant. I left DBA in April 1988. I was self-employed from May 1988. I came back to the Commission in December 1989. My current position is Auditor V.

Q. What is the nature of your duties while in the employ of this Commission.

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the State of Missouri.

Q. Have you previously testified before this Commission?

A. Yes, I have. A list of cases in which I have filed testimony is shown on Schedule SMT-1-1 of this testimony.

Q. Please summarize the Joint Applicants' Merger Application in this case.

A. The merger application filed by UtiliCorp United Inc (UCU) and St. Joseph Light & Power Company (SJLP) has two specific requests:

(1) Based upon a 10-year analysis of projected merger costs and savings, UCU/SJLP are requesting rate base treatment and amortization of 50% of the Merger Acquisition Premium beginning in year 6 following merger approval.

The UCU/SJLP projected benefit analysis for years 6-10, purport to show merger savings sufficient to cover merger costs, a return of and return on 50% of the merger acquisition premium and additional savings of $1.6 million per year which will be used as a cost of service reduction for SJLP ratepayers.

(2) The Joint Applicants are requesting approval of a Regulatory Plan for ~~specific~~ regulatory treatment <u>for</u> specific savings

expected from the merger. Cost reductions for Missouri Public Service, (MPS) in the UCU Corporate Overhead Allocation area as a result of the addition of SJLP are to be "ignored" by the Commission in rate proceedings involving MPS during the 10-year period following merger approval.

The cost reduction to SJLP resulting from an improved equity ratio after the merger is also to be "ignored" by the Commission in setting rates for the SJLP division in years 6-10 following merger approval.

Finally, the Regulatory Plan assigns 100% of the energy savings expected from the joint dispatch of the merged company's generating facilities after the merger to SJLP. MPS ratepayers are to receive no benefit from joint dispatch of the MPS and SJLP generating facilities.

Q. Provide a brief summary of the Staff's position and recommendation regarding whether savings from the merger will exceed the costs from the merger and whether the proposed Regulatory Plan should be adopted.

A. After analyzing the assumptions used by UCU/SJLP in projecting merger costs and savings, the Staff position is that there are serious flaws in three areas:

(1) The growth rate/inflation rate used in projecting the annual increase in UCU's Corporate Overhead costs is too low based upon historical experience. Understanding the growth rate for these costs has resulted in an understatement of the impact of UCU's Corporate Overhead costs on SJLP after the merger.

(2) The Joint Applicants' project <u>joint dispatch</u> savings of approximately $60 million over the 10-year period following merger approval. Staff witness Dr. Michael Proctor's position is that approximately <u>89%</u> of these savings can be achieved by SJLP on a "stand alone" no merger assumption basis and, therefore, should not be used to offset merger costs in a cost/benefit analysis for this merger.

(3) In the projected savings from the conversion of SJLP Employee Benefit Plans to those of UCU, UCU/SJLP witness Browning has made the assumption that the pre-merger Funded Status of the SJLP Pension Plan will remain unaffected by the merger.

This assumption contradicts the UCU plan to consolidate the SJLP Pension Plan Assets with those of UCU after the merger. Because SJLP's Pension Plan is a much better funded position than the UCU plan, 257% compared to 165% at December 31, 1999, combining the pension assets will result in a <u>combined</u> funded level of 165% for all plan participants after the merger, resulting in a significant increase in SJLP's pension cost and corresponding reduction in the pension cost of all UCU's other regulated and non-regulated members of the plan. Staff estimates the detrimental impact on SJLP to be approximately <u>$25</u> million over the 10-year period following the merger approval.

In summary, I will explain in my testimony that after adjustments are made to the UCU/SJLP projected benefit analysis, merger costs <u>exceed</u> merger savings by a significant amount which must be addressed by UCU and SJLP in order to eliminate the detrimental impact on SJLP's cost of service.

Q. What is the Staff's position regarding the proposed Regulatory Plan requested by the Joint Applicants?

A. The Regulatory Plan, in the Staff's view, was developed in an effort to have MPS and SJLP ratepayers subsidize merger costs and the merger acquisition premium which cannot be recovered from projected merger savings.

The inequity of the Regulatory Plan is addressed in my testimony as well as the testimony of Staff witnesses Mark Oligschlaeger, Dr. Michael Proctor and David Broadwater.

If the Commission "ignores" for ratemaking purposes, cost reductions from the merger in the form of lower cost of capital for SJLP and lower Corporate Overhead cost allocations to MPS, as requested by the Regulatory Plan, MPS and SJLP will subsidize merger costs and the merger acquisition premium by approximately $34 million over the 10-year period following merger approval.

The Regulatory Plan is intended to result in forced subsidization of merger costs and the merger acquisition premium and is, therefore, detrimental to the ratepayers of both SJLP and MPS.

Q. What is the purpose of your rebuttal testimony in this proceeding?

A. My testimony will address the following areas:

- Detrimental aspects of proposed Regulatory Plan
- Overview of the Staff's determination of St. Joseph Light & Power's (SJLP's) Cost of Service as of December 31, 1999;

amounts are separated between expected financial results for years 1-5 and 6-10 respectively. Line 21 reflects that projected savings will exceed projected transition, transaction and consolidation costs by $21.3 million in the first five years and $38.4 million in the second five years.

However, when recovery of the acquisition premium is considered, the Joint Applicants' project a ($46.3 million net loss) in years 1-5 and a ($22.6 million net loss) in years 6-10. A total net loss is expected of ($68.9) million during the first 10 years following approval of the merger.

	UCU/SJLP Projected Merger Costs/Savings	
	Years 1-5	**Years 6-10**
Operation & Maintenance Consolidation Savings	$81,385	$102,882
Additional Capital Costs to Implement Consolidation	(13,267)	($11,916)
Total Savings, Net of Costs to Achieve	$68,118	$ 90,966
Increase in Operation & Maintenance Expense - UCU Allocations	($46,842)	($52,560)
Total Savings Less Costs Excluding Premium Amount	$21,276	$38,406
Amortization of Total Acquisition Premiums	($67,582)	($61,040)
Net Loss – Years 1-5	($46,306)	
Net Loss – Years 6-10		($ 22,634)
Net Loss – Years 1-10		($68,940)

Q. Referring to the Joint Applicants' projected net loss from the merger of ($68.9) million during the initial 10 years after the merger closing, how can UCU and SJLP justify moving forward on a merger which is expected to cost shareholders ($68.9) million during the first 10 years following the merger closing?

from the merger, referred to previously, which results because projected merger savings are insufficient to cover all merger costs and the acquisition premium.

The Commission is being asked to "make believe" that the acquisition of SJLP and/or Empire did not happen regarding any UCU overhead allocation reduction to MPS for the next 10 years.

Using UCU's own projections, MPS's allocated share of Corporate Overhead Costs would be reduced by an average $3.5 million annually as soon as SJLP began absorbing its allocated share of these costs. Schedule SMT-8 reflects the additional cost to MPS ratepayers from this proposal. The Regulatory Plan requires the Commission to "ignore" this cost reduction and increase rates for UCU's existing MPS ratepayers by an average of $3.5 million annually as a result. It is my understanding that a MPS rate case is expected to be filed within the next two years. Assuming that the Commission adopted the proposed Regulatory Plan, MPS's Missouri ratepayers will be forced to subsidize the merger acquisition premium and merger costs by approximately $28 million during the 10-year period being used to project merger costs and savings by UCU/SJLP. Schedule SMT-8 reflects the calculation of the subsidy by MPS ratepayers during the eight-year period after MPS's next expected rate case.

The fact that UCU is even considering such an unfair plan for its existing Missouri ratepayers is a clear indication of the insufficient level of merger savings expected from this merger.

(2) A similar "make believe" assumption is being propounded regarding rate cases involving SJLP during the first 10 years following the merger closing. The Regulatory Plan includes a request that the Commission "make believe"

other company involved in a proposed merger with another company, experienced a significant loss of employees who voluntarily left the company in 1999. As a result, adjustments were made to the Electric, Gas and Steam cases to increase annualized payroll cost to reflect normal, pre-merger operations. The Electric, Gas and Steam cases include adjustments to increase payroll cost by approximately $850,000 on a total company basis.

Q. Do the results of the Staff's Cost of Service EMS runs reflect any material need for rate relief or excess earnings respecting SJLP?

A. No. The revenue requirement and/or (excess) as reflected on the Electric, Gas and Steam cost of service EMS runs are as follows:

- Electric ($565,601)
- Gas ($ 49,857)
- Steam ($ 1,337)

Q. Are you the only Accounting witness sponsoring adjustments in the updated, Cost of Service EMS runs for SJLP's Electric, Gas and Steam operations filed in this case?

A. Yes. Due to the fact that no recommendation is being made regarding a change in rates based upon the results of Staff's updated Cost of Service calculations, I am the only Accounting witness. I have either prepared the adjustments reflected in the cost of service EMS runs or have supervised those who did and can answer questions regarding any Accounting adjustments in the runs.

autonomously and are assumed to have little impact on the allocation of UCU's corporate overhead costs to the regulated and non-regulated operations in the United States.

Enterprise Support Functions (ESF) refers to departments such as Executive, Treasury, Finance, Accounting at UCU which support all of the domestic divisions and subsidiaries, both regulated and non-regulated.

IntraBusiness Unit (IBU) Departments consolidate functions on a ~~nine~~ lines of business basies at UCU. As an example, management functions for the Electric Transmission Function for all states is consolidated at UCU's corporate headquarters. The executive management cost for Production Facilities in Missouri, Kansas and Colorado is consolidated at UCU headquarters as another example.

Q. How many separate non-regulated operations in the United States are also included in the allocation of ESF overhead costs?

A. The allocation model, used by both the Staff and the Joint Applicants to estimate the impact of UCU corporate overhead allocations, on the cost of service of SJLP includes the following non-regulated operations/activities:

- UtilCo. Group, Inc.
- Aquila Energy Corporation
- Aquila Energy Marketing Corporation
- GSS Min Continent
- PNG Pipeline
- Global Securities Resources
- Service Today-General
- CL-General
- Missouri Pipeline
- Missouri Gas Pipeline
- Regulated Utilities – non-regulated activity
- Omega Pipeline

Q. How are UCU's corporate ESF and IBU overhead costs allocated to its numerous domestic regulated and non-regulated operations?

involving the SJLP and Empire divisions, post-merger, are costs which do not exist for SJLP and Empire ratepayers today.

Q. Earlier in your testimony you identified the functional cost areas that are impacted by UCU's Corporate Overhead allocations. How will the allocation of depreciation and carrying costs (rate of return) related to UCU's General Plant facilities impact SJLP's cost of service?

A. The allocation of UCU's numerous corporate headquarters facilities and significant investment in infrastructure necessary to consolidate its non-regulated and regulated operations in seven states, will increase SJLP's cost of service significantly.

Q. Have you calculated the increase to SJLP's cost of service resulting from UCU's allocation of General Plant investment and related depreciation costs to SJLP?

A. Yes. Schedule SMT-2 reflects that SJLP's current cost of depreciation and carrying costs (rate of return) related to its investment in General Plant is $3,188,986 annually, reflected on line 20 of Schedule SMT-2. Line 25 reflects the increase in General Plant depreciation expense and carrying costs based upon the projected cost increases sponsored by Joint Applicants' witness Vern Siemek. Line 25 reflects that SJLP's cost of service will increase $2.3 million annually as a result of being allocated a share of UCU's General Plant and Infrastructure Costs. Line 26 illustrates that a $2.3 million increase represents a 71.5% increase over SJLP's current cost of service for General Plant and related Depreciation expense.

Q. In your opinion, do SJLP's ratepayers need to pay an additional $2.3 million annually for UCU' General Plant investment costs in order to continue to receive safe and adequate service at just and reasonable rates?

The projected merger costs and savings resulting from consolidating of some of SJLP's current operations is summarized below and is also reflected on Schedule SMT-3. Lines 12, 13 and 14 of Schedule SMT-3 reflect the increase in SJLP's cost of service resulting from consolidating existing functions at SJP and the allocation of UCU's Corporate Overhead costs back to SJLP.

Schedule SMT-3 Line No.		**10-Year Projections UCU/SJLP 000's**	**10-Year Projections Staff 000's**
2	A&G/Customer Service Savings	$ 60,926	$ 60,926
3	Distribution Savings	$ 20,371	$ 20,371
4	Transmission Savings	$ 5,771	$ 5,771
5	Total Merger Savings	$ 87,068	$ 87,068
12	SJLP Direct Costs Transferred to ESF Depts.	$ 25,683	$ 25,683
13	SJLP Direct Costs Transferred to IBU Depts.	$ 13,561	$ 13,561
14	ESF & IBU Depts. **Allocated Back to SJLP**	($138,646)	($163,341)
15	SJLP Cost Increase from UCU Allocations	($ 99,402)	($124,097)
16	Net Cost **Increase** to SJLP	($ 12,334)	($ 37,029)
17	Average Cost **Increase** Per Year	($ 1,233)	($ 3,703)

Q. Do the amounts summarized in your last answer indicate that both the Joint Applicants and the Staff expect a significant increase in SJLP's post-merger cost of service due to the net impact of consolidation and allocating UCU's Corporate Overhead costs to SJLP?

A. Yes. UCU/SJLP are projecting a $12.3 million **net** increase to SJLP's cost of service during the first 10 years after the merger closes which amounts to $1.2 million annually.

The Staff is projecting a $37 million **net** increase in SJLP's cost of service which amounts to $3.7 million annually during the 10-year period immediately following the merger closing.

Q. What assumption differences account for the approximate $25 million difference between the Staff and UCU/SJLP projected cost increase from UCU's Corporate Overhead allocations and consolidation of existing SJLP operations?

A. There ~~are only two~~ is one assumption difference~~s~~ which account for the Staff's projected cost increase being $25 million higher over the 10-year period following the merger closing.

UCU/SJLP witness Vern Siemek has assumed a 2.5% annual inflation rate in projecting the annual increase in: 1) savings; 2) costs transferred from SJLP to UCU; and 3) UCU Corporate Overhead costs allocated back to SJLP after the merger. I do not consider the 2.5% inflation factor appropriate for ~~SJLP or~~ UCU.

~~Q. Why do you disagree with using a 2.5% inflation rate for the existing stand-alone costs of SJLP which are expected to be transferred to UCU and then allocated back to all of UCU's divisions/subsidiaries?~~

~~A. In order to test the reasonableness of a 2.5% inflation factor for existing SJLP costs expected to be transferred to UCU, I analyzed SJLP's annual growth in the functional expense areas subject to consolidation. The results of this analysis are reflected on Schedule SMT-4.~~

~~Q. What growth rate (inflation rate) has SJLP experienced since 1995 in the functional expense areas subject to consolidation under a merger assumption?~~

~~A. Schedule SMT-4 reflects an analysis of the following functional expense areas subject to the greatest level of consolidation under a merger assumption with UCU:~~

- ~~Transmission Expense~~
- ~~Distribution Expense~~
- ~~Customer Accounts Expense~~
- ~~Customer Service and Information Expense~~

- ~~Sales Expense~~
- ~~Administrative and General Expense~~
- ~~Payroll Tax Expense~~

~~Line 3 of Schedule SMT-4 reflects a three year average growth rate of .6% per year. A .6% annual growth rate is essentially no growth during the three year period ending December 31, 1998.~~

~~Q. What inflation rate did you use to estimate the annual growth in SJLP costs to be transferred to UCU in the consolidation process under a merger assumption?~~

~~A. Since the costs being transferred to UCU are SJLP's existing costs, the inflation rate should reflect SJLP's actual experience. I increased SJLP's actual three-year average growth rate of .6% to 1% annually for my analysis. A 1% inflation rate is more reflective of SJLP's proven ability to control its costs than the 2.5% assumed by UCU/SJLP witness Vern Siemek.~~

Q. In your opinion, should the inflation rate assumption for the UCU overhead costs allocated back to SJLP, under a merger assumption, also be representative of UCU's actual historical experience?

A. Yes. UCU's and SJLP's current historical experience provides the best source of information for determining an appropriate growth/inflation rate for the costs subject to consolidation.

Q. Did you also prepare a historical analysis of UCU's growth rate for Corporate Overhead costs?

A. Yes. In response to Staff Data Request 594, UCU provided Staff with total ESF and IBU Department costs for 1995-1999 and the amount that was allocated to

~~However, by assuming a 5% inflation rate for both merger costs and savings, from consolidation, I have **increased** the projected savings over the 10 year period by \$15.6 million as reflected on page 22, Line 22 of this rebuttal testimony.~~

Q. Does the Staff have any motivation for making a negative recommendation regarding a SJLP/UCU merger other than whether the SJLP and MPS ratepayers will experience rate increases as a direct result of the merger with UCU (merger costs exceed savings excluding the acquisition premium)?

A. No. The goal of the Staff's analysis of the projected impact of a UCU/SJLP merger on SJLP and MPS ratepayers is to use assumptions which can be supported by historical experience and which **allocate** merger costs and merger savings **fairly** between SJLP and MPS ratepayers.

As stated previously, the Regulatory Plan being proposed by the Joint Applicants will, with certainty, result in higher rates for both SJLP and MPS ratepayers if adopted. The detrimental impacts of the proposed Regulatory Plan are also addressed in the testimony of Staff witnesses Mark L. Oligschlaeger, Dr. Michael Proctor and David Broadwater. I will estimate the approximate detrimental impact on SJLP and MPS ratepayers later in this testimony.

Q. Please summarize the analysis performed by both the Joint Applicants and the Staff regarding the impact on SJLP's cost of service of consolidating some existing SJLP Transmission, Distribution, Customer Service, Administrative & General, and General Plant/Depreciation functions at UCU after the merger.

A. Referring to page <u>26</u> of this rebuttal testimony, both the Joint Applicants and the Staff expect a significant increase to SJLP's Cost of Service a result of consolidating existing SJLP functions and allocating UCU's Corporate Overhead costs to SJLP. The Joint Applicants reflect a 10-year increase of $12.3 million. My calculation results in a 10-year increase of $37 million based upon more reasonable inflation rate assumptions for ~~SJLP costs to be transferred and~~ UCU Overhead Costs to be allocated to SJLP.

Q. Is it not true that the Joint Applicants are not assuming a rate increase, under the Proposed Regulatory Plan, during the first five years after the closing of the merger?

A. Yes. Under the Joint Applicants' Proposed Regulatory Plan, SJLP's ratepayers are not at risk of paying higher rates, as a result of the merger, until years 6-10 following the approval of the merger.

Q. What are the projected increases in SJLP's cost of service in years 6-10, under the Staff and UCU/SJLP assumptions for consolidation and UCU Corporate Overhead/Cost Allocations?

A. The projected merger costs and savings for years 6-10 are also reflected as follows on Schedule SMT-3.

Schedule SMT-3

Line No.		**Years 6-10 UCU/SJLP 000's**	**STAFF 000's**
2	A&G Customer Savings	$ 32,484	$32,484
3	Distribution Savings	$ 11,122	$11,122
4	Transmission Savings	$ 3,180	$ 3,180
5	Total Savings from Consolidation	$ 46,786	$46,786
12	SJLP Direct Costs Transferred to ESF Depts.	$ 13,633	$13,633
13	SJLP Direct Costs Transferred to IBU Depts.	$ 7,404	$ 7,404
14	ESF & IBU Depts. Allocated to SJLP	($ 73,597)	($91,583)

15	Total Costs from Consolidation	($ 52,560)	($70,546)
16	Net Cost **Increase** to SJLP	($ 5,775)	($23,760)
17	Average Cost Increase Per Year – Years 6-10	($ 1,155)	($ 4,752)

Q. Referring to your last answer, are both the Joint Applicants and the Staff also projecting an increase to SJLP's cost of service resulting from consolidation and allocation of UCU's Overhead Costs for Years 6-10 following the closing of the merger?

A. Yes. The Joint Applicants are projecting a $5.8 million net cost increase for Years 6-10. Staff is projecting a $23.8 million cost increase for the Years 6-10.

Q. Given that both the Joint Applicants and the Staff are projecting a cost increase in SJLP's cost of service as a result of consolidation and allocation of UCU's Corporate Overhead Costs, how does UCU/SJLP address this negative impact in their merger application?

A. UCU/SJLP are proposing a Regulatory Plan which results in the **forced subsidization** of merger costs and the acquisition premiums by both MPS and SJLP ratepayers during the 10-year period following the merger closing. The detrimental impact of this proposed Regulatory Plan is addressed in this rebuttal testimony beginning on page 3 and in the rebuttal testimonies of Staff witnesses Mark Oligschlaeger, David Broadwater and Dr. Michael Proctor.

Q. In summary, will UCU/SJLP's projected merger savings in the Joint Dispatch and Benefits Conversion areas offset the detrimental impact on SJLP's cost of service resulting from consolidation of existing SJLP functions and allocation of UCU's Corporate Overhead costs back to SJLP?

A. Certainly not. UCU/SJLP's projected savings in the Joint Dispatch and Benefits Conversion areas are significantly overstated and, therefore, will not offset the admitted negative impact on SJLP's cost of service resulting from functional consolidation of existing SJLP operations and the allocation of UCU's Corporate Overhead costs to SJLP. The projected savings in the Joint Dispatch and Benefits Conversion areas are grossly overstated for the reasons addressed in Dr. Proctor's testimony on projected Joint Dispatch savings and in my testimony regarding UCU/SJLP's projected savings from Benefits Conversion.

Overstatement of Merger Savings from Benefits Conversion

Q. What merger savings are being projected by UCU/SJLP as a result of converting existing SJLP benefit plans to UCU benefit plans?

A. Referring to Schedule SMT-3, Line 5, Column C, UCU/SJLP are projecting $37.2 million in merger savings as a result of converting existing SJLP benefit plans to those of UCU over the 10-year period following the merger closing.

Q. Do you consider $37.2 million in projected savings from Benefits Conversion to be realistic?

A. No. The merger savings from Benefits Conversion is significantly overstated as a result of including $25 million in Pension Cost reductions which **accrue** to **all** of UCU's **other** divisions/subsidiaries as a result of **combining** the pension assets of SJLP and UCU after the merger.

Q. What specific assumptions by USU/SJLP witness Browning have resulted in an overstatement of merger savings related to the conversion of the SJLP pension plan to the UCU plan?

significant increase in pension cost that must be recovered in rates from SJLP ratepayers while all of UCU's <u>other</u> regulated and non-regulated plan members are experiencing a windfall profit at the expense of SJLP ratepayers. My testimony in this case quantifies the financial <u>detriment</u> to SJLP ratepayers under such an assumption.

Q. Briefly explain why <u>combining</u> the UCU and SJLP pension assets after the merger results in lower pension costs for UCU's other divisions/subsidiaries at the **expense** of SJLP ratepayers.

A. Schedule SMT-6, attached to my rebuttal testimony, reflects the Funded Status for the SJLP and UCU Pension Plans as of January 1, 1999. The Funded Status is calculated by dividing the market value of the Pension Fund Assets by the Accumulated Benefit Obligation (ABO) which represents the liability for pension benefits earned to date. The January 1, 1999 Funded Status for SJLP Pension Plan was the assumption used by UCU/SJLP witness Browning.

Schedule SMT-6 reflects the following Funded Status calculations:

Funded Status – SJLP Pension Plan	222.3%
Funded Status – UCU Pension Plan	<u>139.7%</u>
Funded Status – Combined SJLP/UCU	<u>153.1%</u>

The Funded Status of a pension plan has a direct impact on Annual Pension Expense calculated under Financial Accounting Standard (FAS) No. 87. FAS 87 is used for determining pension cost for ratemaking purposes for both MPS and SJLP.

The **reduction** in the funded status of SJLP's pension plan from 222.3%, on a stand-alone basis, to <u>153.1%</u> on a **combined** basis will result in a **significant** increase in Pension Cost in SJLP's cost of service under a UCU/SJLP merger assumption. However, all of UCU's regulated and non-merger plan participants will experience a **reduction** in pension costs at the expense of SJLP ratepayers.

UCU/SJLP witness Browning has overstated merger savings expected from converting SJLP's existing pension plan, by not reflecting the significant increase in pension cost for SJLP ratepayers resulting from consolidating the pension assets of SJLP and UCU after the merger.

Q. Why is it a valid assumption that UCU will combine SJLP pension assets with those of UCU after the merger in contrast to Mr. Browning's "stand alone" assumption for calculating merger savings?

A. There are two incentives for doing so, neither of which considers the significant detrimental impact on SJLP's ratepayers resulting from pension asset consolidation.

(1) As Mr. Browning explains in his direct testimony, UCU's plans to convert SJLP's benefit plans, including the pension plan, to UCU's plan by July 1, 2001. Under such an assumption, it would logically follow that UCU plans to combine the assets of the UCU and SJLP pension plans after conversion.

(2) The most important reason for assuming that UCU will combine the SJLP and UCU pension assets is UCU's historical experience involving its other regulated utility divisions. If UCU is permitted to combine the pension assets of SJLP and UCU, the earnings for its other divisions/subsidiaries participating in the UCU plan will increase approximately $2.5 million annually resulting from lower allocated pension costs. Conversely, SJLP's pension cost

will increase an average of $3.1 million annually and would result in revenue recovery from SJLP ratepayers.

Q. What has UCU's historical experience been regarding pension plan conversion for its other regulated acquisitions?

A. UCU has the following regulated divisions, which were previous acquisitions of existing utility companies similar to the situation regarding SJLP:

- Kansas Public Service
- Michigan Gas Utilities
- Peoples Natural Gas – Colorado
- Peoples Natural Gas – Iowa
- Peoples Natural Gas – Kansas
- Peoples Natural Gas – Minnesota
- Peoples Natural Gas – Nebraska
- Northern Minnesota Utilities
- West Plains Energy – Colorado
- West Plains Energy – Kansas
- West Virginia Power - Sold 12/31/99

Without exception, the pension fund assets for these regulated acquisitions were **combined** with the UCU pension fund assets at some date following the acquisition by UCU.

Q. Please illustrate how the difference in the funded status of the SJLP and UCU pension plans impact pension costs for SJLP under a merger assumption with UCU.

A. Schedule SMT-7 reflects the impact on SJLP's pension cost for 1999 resulting from reducing the actual funded status at January 1, 1999, of 222.3% (Schedule SMT-6) to the combined SJLP/UCU funded status of 153.1% (Schedule SMT-6).

Line 9 of Schedule SMT-7 reflects that SJLP's Pension Cost for 1999 would increase $1,890,697 in 1999 based on an assumed Funded Status for the Combined Pension Assets of SJLP and UCU after the merger, 153.1%.

Q. How did you calculate the total value of UCU/SJLP witness Mr. Browning's overstated merger savings from benefit plan conversion during the 10-year period following the merger?

A. In response to Staff Data Request 588, Mr. Browning provided his annual growth assumptions used in calculating the merger savings for pension plan conversion. I used Mr. Browning's growth rates for each year. I applied Mr. Browning's growth rates to the increase in pension cost calculated on Schedule SMT-7 of $1,890,697. The result was an increase in Pension Cost to SJLP of approximately $25 million over the 10-year period.

Q. But isn't it true that UCU's other regulated and non-regulated divisions/subsidiaries would, in fact, be the recipients of $25 million in savings under a merger assumption for UCU and SJLP?

A. Absolutely and that is the problem. Mr. Browning has failed to reflect the detrimental impact on SJLP's ratepayers resulting from a pension asset combination in a merger with UCU.

UCU/SJLP are required under the not detrimental to the public interest statute in Missouri to demonstrate that the proposed merger will not result in increased rates for the MPS and SJLP ratepayers as a direct result of the merger. The UCU/SJLP Merger Application does not reflect the $25 million increase in pension cost to SJLP ratepayers as a result of consolidating the SJLP and UCU pension assets.

Q. Is the Staff recommending, as a condition to the merger, that UCU be required to maintain SJLP's pre-merger pension plan funded status in order to eliminate the significant increase to SJLP's cost of service for pension cost resulting solely from a post-merger decision to combine SJLP's pension assets with those of UCU?

A. Yes. The detrimental impact of a post-merger decision to combine SJLP's pension assets with those of UCU must, in the Staff's view, be addressed now as a condition to the merger.

Additionally, UCU/SJLP's projected merger savings in its Application must be reduced by <u>$25</u> million in order to reflect the increase in pension cost to SJLP ratepayers.

<u>Results of Staff's Analysis of Projected Merger Costs/Savings</u>

Q. Are you the Staff witness responsible for summarizing the financial impact of the Staff's recommended adjustments to the UCU/SJLP net benefits analysis?

A. Yes. UCU/SJLP witness Vern Siemek summarized the Applicants' 10-year projected merger costs and savings on Schedule VJS-1 attached to his direct testimony.

I have duplicated Mr. Siemek's summary schedule on Schedule SMT-3 attached to this rebuttal testimony.

Q. Briefly explain how the UCU/SJLP and Staff results regarding projected merger costs and savings are reflected on your Schedule SMT-3.

A. The organization of Schedule SMT-3 was set up to mirror Mr. Siemek's Schedule VJS-1 for ease of presentation and comparability. Columns (A) and (B) reflect the same projected USU/SJLP amounts for merger costs and savings reflected on Siemek Schedule VJS-1. Column (C) simply adds Mr. Siemek's two, five-year totals to get the 10-year total of UCU/SJLP projected merger savings and merger costs.

(3) Whether the costs should be recoverable in rates (Transition Costs and Acquisition Premium); and

(4) Whether UCU/SJLP's projected savings could be accomplished by SJLP on its own under a no merger assumption. Savings which would occur on their own, without the merger, are <u>non-merger</u> savings and should not be assumed to offset <u>merger</u> costs. Dr. Proctor's primary disagreement in the area of Joint Dispatch savings is that the projected savings can be achieved by SJLP on a "stand alone" basis without the merger.

Q. Referring to Line 16, Columns (C) and (D), the 10-year difference in projected net merger savings and merger costs is as follows:

	$ 000's
UCU/SJLP Net Merger Savings/Costs, Years 1-10	$59,682
Staff Net Merger Savings/Costs, Years 1-10	($38,246)
10-Year Difference between Staff & UCU/SJLP	$97,928

Q. How can you explain such a monumental difference in the 10-year projected amounts reflected in your last answer?

A. There are four issues which account for such a significant difference in the 10-year projections of the Staff and UCU/SJLP summarized below:

	Years 1-10 ($000s)
UCU/SJLP Net Merger Savings/Costs	$ 59,682
Proper Allocation of Joint Dispatch Savings to MPS & SJLP	($57,679)
Increase in Consolidation/UCU Overhead Allocations due To use of Appropriate Growth/Inflation Rate	($24,695)
Disallowance of Transaction Costs Assigned to Shareholders	$ 9,859
Overstatement of Pension Benefits Conversion	($25,413)
Staff Excess of Merger Costs over Merger Savings	($38,246)

Q. Are any of the significant differences identified in your last answer related to the proper mathematical calculation of specific amounts?

A. No. In every instance the Staff is challenging the validity of UCU/SJLP assumptions as they relate to:

(1) **Fairness** to both SJLP and MPS's ratepayers - Joint Dispatch allocations should result in fair assignment of savings from joint dispatch to MPS and SJLP ratepayers.

(2) **Accuracy** based upon historical experience, growth/inflation rate – UCU Corporate Overhead allocations;

(3) **Validity** as to whether the cost is something that ratepayers should be paying for in rates – Acquisition Premium, Specific Transition Costs assignable to shareholders or amounts for non-merger savings which should be excluded from a merger cost/benefit analysis. Dr. Proctor considers approximately 89% of witness Holzmarth's Joint Dispatch Energy Savings to be non-merger savings available to SJLP on a "stand alone" assumption.

UtiliCorp United, Inc.\St. Joseph Light and Power Company Merger
EM -2000-292

Analysis of General Plant Depreciation - December 31, 1999

Line No.	Account Number	Total Company Plant-in-Service December 31, 1999		Staff Total Company Adjustments		Staff Adjusted Total Company Plant December 31, 1999		Depreciation Rate		Depreciation Expense
1	389.000	$	733,546	$	-	$	733,546	0.00%	$	-
2	390.000	$	10,682,757	$	(10,167)	$	10,672,590	3.10%	$	330,850
3	391.000	$	1,174,769	$	25,393	$	1,200,162	7.00%	$	84,011
4	391.100	$	5,787,154	$	78,155	$	5,865,309	0.00%	$	-
5	391.200	$	357,436	$	(18,273)	$	339,163	11.60%	$	39,343
6	391.300	$	1,890,024	$	214,475	$	2,104,499	14.30%	$	300,943
7	392.000	$	5,461,845	$	190,230	$	5,652,075	6.20%	$	350,429
8	393.000	$	253,933	$	-	$	253,933	5.00%	$	12,697
9	394.000	$	1,107,393	$	12,832	$	1,120,225	4.40%	$	49,290
10	395.000	$	302,042	$	6,543	$	308,585	3.40%	$	10,492
11	396.000	$	574,072	$	(1,960)	$	572,112	3.90%	$	22,312
12	397.000	$	2,629,809	$	61,854	$	2,691,663	4.90%	$	131,891
13	398.000	$	161,695	$	17,402	$	179,097	3.60%	$	6,447
14	Total	$	31,116,475	$	576,484	$	31,692,959	**4.22%**	$	1,338,706

Line No.	Description			
15	SJLP - Investment in General Plant at December 31, 1999	$	31,692,959	
16	Less Accumulated Reserve for Depreciation	$	(17,478,624)	
17	Net Investment in General Plant	$	14,214,335	
18	Carrying Cost based upon Rate of Return in Case No. ER 99-247		13.0170%	
19	Annual Revenue Requirement on SJLP's Investment in General Plant			$ 1,850,280
20	Total Annual Cost - Depreciation and Rate of Return on General Plant			$ 3,188,986
21	UCU Investment in General Plant allocated to SJLP (Siemek Workpaper I - 2 D)	$	16,005,000	
22	Estimated Depreciation Expense allocated to SJLP from UCU - DR 297		1.42%	
23	Estimated Annual Depreciation Expense - Response to DR 297, EM 2000-292	$	227,000	
24	Rate of Return on SJLP's Share of UCU's General Plant (Siemek WP I -2 D)	$	2,052,000	
25	Total Increase in SJLP's Cost of Service - UCU's General Plant Allocation			$ 2,279,000
26	Percent Increase in SJLP's Cost of Service			**71.46%**

Schedule SMT - 2

Utilicorp/Saint Joseph Light and Power
Summary of Synergy Benefits, net of Costs to Achieve

UCU/SJLP Projected Merger Cost / Benefit Analysis

	UCU/SJLP Projected Merger Cost / Benefit Analysis	UCU/SJLP Total Years 1 - 5 000's (A)	UCU/SJLP Total Years 6 - 10 000's (B)	UCU/SJLP Total All 10 Years 000's (C)	Staff Total All 10 Years 000's (D)	Difference All 10 Years 000's (E) (D)-(G)	Staff Total Years 6 - 10 000's (F)
I	**Operating Costs - Current Dollars**						
	1 Dispatch / Generation Savings	$26,082	$33,883	$59,965	$2,286	($57,679)	$ 1,829
	2 General & Administrative / Customer Accounts Savings	$28,442	$32,484	$60,926	$60,926	$0	$32,484
	3 Distribution Savings	$9,249	$11,122	$20,371	$20,371	$0	$11,122
	4 Transmission Savings	$2,591	$3,180	$5,771	$5,771	($0)	$3,180
	5 Conversion to Utilicorp Benefits	$15,021	$22,213	$37,234	$11,821	($25,413)	$ 7,587
	6 Total O & M Savings	$81,385	$102,882	$184,267	$101,175	($83,092)	$56,202
II	**Capital Savings (Costs)**						
	7 Depreciation - Interconnect / SCADA / T&D	($1,570)	($1,525)	($3,095)	($3,095)	$0	($1,525)
	8 Amortization of Transaction / Transition Costs	($7,545)	($7,537)	($15,082)	($5,223)	$9,859	$0
	9 Return on Interconnect SCADA / T&D	($4,152)	($2,854)	($7,006)	($7,006)	$0	($2,854)
	10 Return on Transaction / Transition Costs	$0	$0	$0	$0	$0	$0
	11 Total Capital Savings (Costs)	($13,267)	($11,916)	($25,183)	($15,324)	$9,859	($4,379)
III	**Total Synergies, net of Costs to Achieve**	$68,118	$90,966	$159,084	$85,851	($73,233)	$51,823
IV	**Net Enterprise Support Functions Allocated to SJLP**						
	12 SJLP Direct Costs transferred to ESF Departments	$12,050	$13,633	$25,683	$25,683	$0	$13,633
	13 SJLP Direct Costs transferred to IBU Departments	$6,157	$7,404	$13,561	$13,561	($0)	$7,404
	14 ESF and IBU Departments **Allocated Back to SJLP**	($65,049)	($73,597)	($138,646)	($163,341)	($24,695)	($91,583)
	15 Net UCU Corporate Overhead Depts. Allocated to SJLP	($46,842)	($52,560)	($99,402)	($124,097)	($24,695)	($70,546)
V	16 **Total Synergies, net of Costs to Achieve and Allocated Costs**	$21,276	$38,406	$59,682	($38,246)	($97,928)	($18,722)
VI	**Premium Costs**						
	17 Return on Premium	($48,399)	($41,857)	($90,256)	$0	$90,256	$0
	18 Amortization of Premium	($11,510)	($11,510)	($23,020)	$0	$23,020	$0
	19 Reflect non-tax deductibility of Premium	($7,673)	($7,673)	($15,346)	$0	$15,346	$0
	20 Total Premium Cost	($67,582)	($61,040)	($128,622)	$0	$128,622	$0
VI	21 **SJLP Share of Premium Costs - 50 %**	($33,791)	($30,520)	($64,311)	$0	$64,311	$0
VII	22 **Synergies, net of 50 % of Premium**	($12,515)	$7,886	($4,629)	($38,246)	($33,617)	($18,722)
	23 **Average per Year**	($2,503)	$1,577	($463)	($3,825)	($3,362)	($3,744)

24 Inflation Rate - UCU ESF / IBU Dept. Costs **5.0%**
25 Inflation Rate - SJLP Costs Transferred to UCU & Savings Estimates **2.5%**

Utilicorp / SJLP Merger
Case No. EM 00-292

Analysis of UCU and SJLP Pension Plans - Funded Status

Line No.		SJLP Bargaining	SJLP Non Bargaining	SJLP Total	Funded Status %
1	Market Value of Assets - Jan. 1, 1999	$34,943,039	$32,512,829	$67,455,868	**222.3%**
2	Accumulated Benefit Obligation	$13,959,646	$16,386,377	$30,346,023	
3	Excess of Assets over ABO	$20,983,393	$16,126,452	$37,109,845	

		Utilicorp	
4	Market Value of Assets - Jan. 1, 1999	$220,468,431	**139.7%**
5	Accumulated Benefit Obligation	$157,764,000	
6	Excess of Assets over ABO	$62,704,431	

		Utilicorp/SJLP Combined	
7	Market Value of Assets - SJLP & UCU Combined	$287,924,299	**153.1%**
8	Accumulated Benefit Obligation	$188,110,023	
9	Excess of Assets over ABO	$99,814,276	

Source: 1999 Actuarial Reports - DR 165, EM 00-292

Utilicorp / SJLP Merger Case EM 00-292

Increase in Annual **Pension Cost** to **SJLP** Customers
Resulting from Dillutive effect of **Combining** Pension Fund Assets

Line No.			
1	SJLP Pension Asset Balance - Jan 1, 1999		$67,455,868
2	Expected Rate of Return Assumption		9.00%
3	Reduction to Pension Cost - **SJLP Stand Alone**		$6,071,028
4	SJLP Pension Asset Balance - Jan 1, 1999		$67,455,868
5	Dillutive Impact of Combining Pension Fund Assets with UCU		($21,007,745)
6	SJLP Assets adjusted to reflect **Combined UCU / SJLP** funded status of	153.06%	$46,448,123
7	Expected Rate of Return Assumption		9.00%
8	Reduction to Pension Cost - **SJLP/UCU combined**		$4,180,331
9	**Increase in Annual Pension Cost to SJLP Customers**		**$1,890,697**

Source: DR 165 EM 00-292
DR 579 EM 00-292

Schedule SMT- 7

Utilicorp / St. Joseph Light & Power Merger

Merger Case No. EM 2000-369

Additional Revenue collected from MPS Ratepayers under the Proposed Regulatory Plan

Line No.			Year	Annual Reduction UCU Allocated Costs to MPS
1	Projected Reduction in ESF Department Costs allocated to MPS - SJLP Merger			$ (1,349,000)
2	Projected Reduction in IBU Department Costs allocated to MPS - SJLP Merger			$ (1,045,000)
3	Total Projected Reduction in Corporate Overhead Costs allocated to MPS		1999	$ (2,394,000)
4	Growth Rate assumption for UCU Corporate Overhead Costs	5.0%	2000	$ (2,513,700)
5		Merger Approval	2001	$ (2,639,385)
6			2002	$ (2,771,354)
7		MPS - New Rates	2003	**$ (2,909,922)**
8			2004	**$ (3,055,418)**
9			2005	**$ (3,208,189)**
10			2006	**$ (3,368,598)**
11			2007	**$ (3,537,028)**
12			2008	**$ (3,713,880)**
13			2009	**$ (3,899,574)**
14			2010	**$ (4,094,552)**
15	Reduction in UCU Costs allocated to MPS - due to the **SJLP Merger**			**$ (27,787,162)**
16	Additional Revenue collected from MPS - due to **"Ignoring"** MPS cost reduction			**$ 27,787,162**
17	Avg. **Annual** Increase in MPS Rates			**$ 3,473,395**