

Exhibit No.:

Issues: Merger Savings
Tracking of Merger Savings
Acquisition Adjustment

Witness: Janis E. Fischer

Sponsoring Party: MoPSC Staff

Type of Exhibit: Rebuttal Testimony

Case No.: EM-2000-292

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

JANIS E. FISCHER

FILED

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**Missouri Public
Service Commission**

UTILICORP UNITED INC.

AND

ST. JOSEPH LIGHT & POWER COMPANY

CASE NO. EM-2000-292

**Jefferson City, Missouri
May, 2000**

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REBUTTAL TESTIMONY

OF

JANIS E. FISCHER

UTILICORP UNITED INC.

AND

ST. JOSEPH LIGHT AND POWER COMPANY

CASE NO. EM-2000-292

Q. Please state your name and business address.

A. Janis E. Fischer, 3675 Noland Road, Suite 110, Independence, Missouri

Q. By whom are you employed and in what capacity?

A. I am a Regulatory Auditor with the Missouri Public Service Commission
mission).

Q. Please describe your educational background.

A. I graduated from Peru State College, Peru, Nebraska and received a Bachelor of Science degree in Education (Basic Business) and Business Administration. In May 1985 I completed course work and earned a Bachelor of Science degree in Accounting. I passed the Uniform Certified Public Accountant examination in May 1994 and received my license to practice in March 1997. Prior to my employment at the Commission, I worked over six years as the office and accounting supervisor for the Falls City, Nebraska Utilities Department (Utilities Department).

While with the Utilities Department, I completed water and electric rate reviews developed procedures for PCB monitoring and disposal, implemented a program to verify

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1 the accuracy of remote water meters, supervised office staff and handled customer
2 complaints. I assisted with the acquisition of Falls City's natural gas distribution system
3 from Kansas Power and Light Company, predecessor company of Western Resources,
4 Inc., by compiling asset records, nominating gas supplies for the municipal power plant
5 and monitoring gas transportation customer loads. I was appointed by the Board of
6 Public Works to the Nebraska Public Gas Agency (NPGA) Board and later elected Vice
7 Chairperson of the Board. NPGA is comprised of members from municipal natural gas
8 systems who collectively purchase natural gas and acquire natural gas wells to supply gas
9 to municipal gas systems and power plants at reduced costs.

10 I also was employed as a staff accountant with the accounting firm of Cuneo,
11 Lawson, Shay and Staley, PC, in Kansas City, Missouri, for approximately two years.
12 While employed as a staff accountant, I assisted in various audits, compilations and
13 reviews of corporations and prepared individual and corporate state and federal tax
14 returns. I researched tax issues, assisted with compliance audits and interacted with
15 various clients.

16 Q. What has been the nature of your duties with the Commission?

17 A. I have directed and assisted with various audits and examinations of the
18 books and records of public utilities operating within the state of Missouri under the
19 jurisdiction of the Commission.

20 Q. Have you previously filed testimony before this Commission?

21 A. Yes. I testified in Case No. ER-97-81, The Empire District Electric
22 Company (Empire), Case No. GR-97-393, Union Electric Company (Union Electric);

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1 and Case No. EM-97-515, the Western Resources, Inc. (Western)/Kansas City Power &
2 Light Company (KCPL) merger.

3 Q. What was your involvement in the KCPL merger with Western
4 Resources?

5 A. My area of responsibility was the review of the merger savings estimates
6 developed by KCPL and Western. I also addressed the recovery treatment of the merger
7 transaction costs and the "costs to achieve" the merger, also referred to as transition costs.

8 Q. Have you made an examination of the Application filed by UtiliCorp
9 United Inc. (UtiliCorp or UCU) and St. Joseph Light and Power Company (St. Joseph or
10 SJLP) (collectively Companies or Joint Applicants) in regard to Case No. EM-2000-292?

11 A. Yes. I performed an examination of the Application with the assistance of
12 other Commission Staff (Staff) members.

13 Q. What is the purpose of your rebuttal testimony?

14 A. I will address certain aspects of the Company's estimated merger savings,
15 including savings in labor costs, and the concept of calculating merger savings based on a
16 "current dollar" basis. My testimony will also include comments on the proposed
17 tracking of merger savings, and the use of the St. Joseph 1999 budget as the baseline for
18 savings calculations. Testimony addressing additional savings related to employee
19 benefits will be submitted by Staff Accounting witness Steve M. Traxler and
20 generation/joint dispatch savings by Staff witness Dr. Michael S. Proctor of the Electric
21 Department. I will also present information on how other state jurisdictions have
22 addressed acquisition premiums in utility mergers/acquisitions and how the proposed
23 merger savings regulatory plan offered by UtiliCorp contrasts with the other states. The

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“acquisition adjustment” issue will be addressed in more detail in the rebuttal testimony of Staff Accounting witnesses Mark L. Oligschlaeger, Cary G. Featherstone and Charles R. Hyneman, as well as in the testimony of Staff witness David P. Broadwater of the Financial Analysis Department and Dr. Proctor.

MERGER SAVINGS

Q. Do the Joint Applicants expect any merger savings to occur because of the merger of St. Joseph into the UtiliCorp corporate structure?

A. Yes. UtiliCorp witness Vern J. Siemek identifies the estimated merger savings in his direct testimony and attached schedules. UtiliCorp claims the merger with St. Joseph will result in total estimated savings of \$184.3 million over a ten-year period. UtiliCorp believes these merger savings will occur as follows:

<u>Year</u>	<u>Amount in \$</u>
1	\$ 12,709,000
2	15,348,000
3	16,437,000
4	17,894,000
5	18,997,000
6	20,594,000
7	19,777,000
8	21,079,000
9	20,870,000
10	<u>20,561,000</u>
Total	\$184,267,000

[Source: Response to Staff Data Request No. 1]

The Companies’ response to Staff Data Request No. 1 provides the support for the calculation of estimated savings of approximately \$184.3 million over ten years.

Based on Mr. Siemek’s testimony and that of other Joint Applicant witnesses, UtiliCorp believes it will be able to achieve significant savings from the merger with

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1 St. Joseph. Furthermore, UtiliCorp claims that it will be able to identify and quantify
2 actual merger synergies to demonstrate in future rate proceedings that these savings
3 exceed the costs relating to the merger.

4 Q. How is UtiliCorp proposing to treat these merger savings and merger costs
5 in future rate cases?

6 A. UtiliCorp is proposing a "regulatory plan" identified in the direct
7 testimony of Company witness John W. McKinney that the merger costs be recovered in
8 rates from the customers of St. Joseph beginning approximately six years after the merger
9 is completed. This is dependent upon when a planned St. Joseph rate case is filed during
10 the last year of the moratorium. UtiliCorp proposes to retain all merger savings for the
11 first five years through a rate moratorium. Supporting documents for the regulatory plan
12 provided by the Company in response to Staff Data Request No. 1 show that these
13 savings are proposed to be recovered net of the amortization of the transaction costs and
14 costs to achieve. The Company proposes to amortize transaction costs and costs to
15 achieve over ten years.

16 After the moratorium period, UtiliCorp believes it is appropriate to include the
17 amortization of all transaction costs and costs to achieve (transition costs) in the revenue
18 requirement for St. Joseph. UtiliCorp further expects that St. Joseph's customers will pay
19 for one-half of the merger premium (acquisition adjustment) associated with the merger
20 transaction in rates. UtiliCorp proposes to reflect in the revenue requirement at least an
21 approximate \$1.6 million of net merger savings in Years 6-10 following the close of the
22 merger, even if the merger does not actually generate savings at this level.

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1 To put this all in perspective, according to the Companies' response to Staff Data
2 Request No. 1, the Companies' estimated savings over ten years amounts to
3 \$184.3 million. When additional allocations to cover UtiliCorp overheads (\$99.4 million)
4 are deducted from the savings, remaining merger savings are reduced to \$84.9 million.
5 The total costs of the merger (100% of the acquisition premium, transaction costs and
6 costs to achieve) are estimated to be \$107.5 million and, according to the regulatory plan
7 proposed by UtiliCorp, St. Joseph customers in Years 6-10 will be "guaranteed" the
8 benefit of \$7.9 million in total (\$1.577 million x 5 years). Under the regulatory plan,
9 St. Joseph customers will be given approximately 4.28% of the total \$184.3 million
10 projected merger savings during the first ten years following the merger's close.

11 Q. Has the Staff reviewed the estimated merger savings presented by the
12 Companies?

13 A. Yes. The Staff has reviewed the direct testimony of Mr. Siemek and the
14 Companies' response to Staff Data Request No. 1. This data request response contains
15 the documents and supporting workpapers to Mr. Siemek's Schedules attached to his
16 testimony that identify the merger savings that UtiliCorp believes will result from the
17 merger of these two companies. The Staff also asked questions of Mr. Siemek in the
18 March 2, 2000 transcribed interview to gather additional information concerning how the
19 estimated savings were calculated.

20 Q. Has the Staff reached any conclusions about the estimated merger savings
21 projected by the Joint Applicants?

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1 A. Yes. The Staff contends that the estimated merger savings calculated by
2 the Joint Applicants should not be relied upon in determining whether the Commission
3 should approve the merger.

4 Q. Why does Staff believe UtiliCorp estimates of merger savings should not
5 be relied on?

6 A. Estimating or projecting any future event is difficult. Predicting what the
7 merged organization will look like and how it will operate is extremely difficult. The
8 combining of St. Joseph and, ultimately, Empire into the UtiliCorp corporate structure
9 will result into a completely different organization than exists today for each of these
10 pre-merger entities. Stating with certainty what the merger impacts will have on the
11 processes of providing utility services to post-merger customers is nearly impossible.
12 Procedures and processes will dramatically change in these post-merger organizations,
13 particularly at St. Joseph and Empire.

14 The elimination of any redundancy of the three separate entities once the mergers
15 are completed is an important consideration of planning for the mergers but is highly
16 speculative in nature. How much and to what level merger savings will actually
17 materialize is guesswork. Projecting merger savings for a ten-year period is well beyond
18 a utility's normal planning horizon. To identify and quantify merger savings for an
19 organization that is yet to exist is beyond the practical limits of utilities and regulators to
20 be able to use for rate purposes. The analysis of the impact of St. Joseph and Empire
21 together combining with UtiliCorp has not even been done by UtiliCorp except on a
22 limited basis. Mr. Richard C. Green, Jr., Chairman and CEO of UtiliCorp, has publicly

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1 stated that UtiliCorp sees a lot of potential for savings with all three of the companies
2 together. This will be discussed in more detail later in my rebuttal testimony.

3 Q. Has the Commission previously allowed rates to be set based on budgets,
4 forecasts or estimates?

5 A. No. The Commission generally requires that rates be set on known and
6 measurable costs. It could be said that budgets, forecasts and estimates all have a place in
7 planning future expected results for companies. Companies prepare budgets based on
8 expected events and past historical data. Budgets are made for the next year and are used
9 as a planning tool and as performance measurements. Budgets may extend out in time
10 past one year. Forecasts may go out five years and beyond. Companies often revise
11 budget and forecast projections annually and sometimes even monthly as circumstances
12 change. Companies monitor budget-to-actual variances. Budgets are not infallible even
13 though considerable effort goes into developing them. The merger estimates that
14 UtiliCorp is asking the Commission to rely on are based on an analysis that was not as
15 detailed as the budget process followed by UtiliCorp or St. Joseph. The Staff does not
16 believe that the Commission should rely on projected estimates of savings to substantiate
17 the inclusion of 50% of the acquisition premium into rate base for the customers of
18 St. Joseph to pay for.

19 Q. Please describe the first attempt made by UtiliCorp to estimate the merger
20 savings that would result from the acquisition of St. Joseph.

21 A. UtiliCorp developed an initial estimate of merger savings during its due
22 diligence phase of the bidding process. This state of the merger review allows the bidder
23 to examine public and selected internal confidential information so they can make a

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1 valuation determination of the merger candidate, in this case St. Joseph. The due
2 diligence analysis began with review of the St. Joseph's Federal Energy Regulatory
3 Commission (FERC) Form 1, which is the same document provided to the Missouri
4 Commission as the Annual Report of the utility. UtiliCorp may also have used other
5 public documents.

6 According to answers of Mr. Siemek given at the transcribed interview, payroll
7 related estimates were established after review of organizational charts of St. Joseph and
8 the FERC Form 1 (pages 354 and 355) that show the breakout of actual St. Joseph
9 payroll expenses between various categories. On the non-payroll expense side, UtiliCorp
10 had even less information and relied almost entirely on the FERC Form 1 for actual
11 expenses by account and some of the outside services.

12 Q. Did the Joint Applicants later perform additional analysis of estimated
13 merger savings?

14 A. Yes. Once UtiliCorp's offer was selected by the St. Joseph Board of
15 Directors and a merger agreement was completed, UtiliCorp and St. Joseph started
16 working on identifying and quantifying merger savings on a joint basis using what is
17 known as "transition teams". Transition teams formed by the Joint Applicants "validated"
18 the initial due diligence estimated merger savings. There were a total of seven teams
19 formed. The teams centered on various scopes of operation: Human Resources,
20 Finance/Accounting, Regulatory/Legislative Services, Distribution, Transmission,
21 Supply/Generation/Steam and Information Technology. The teams began meeting in
22 July of 1999 and continued to meet through November of 1999, when their initial
23 validation reports were presented to the Transition Team Steering Committee. Since that

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1 time the teams have met less frequently. The transition teams' analyses led to the merger
2 savings estimates included in Mr. Siemek's direct testimony.

3 The direct testimony of Company witness Vicki M. Heider, the Transition Team
4 Leader, describes the functions of the transition teams. Ms. Heider emphasizes that the
5 teams will assist her and the Steering Committee, which is made up of higher level
6 management of UtiliCorp and St. Joseph, in making an orderly transition of St. Joseph
7 into UtiliCorp. She goes on to say that use of the transition team process aids in the
8 successful integration of the two companies with the least amount of disruption. While
9 validating the due diligence estimated merger savings was a task of the teams, I believe
10 their emphasis was clearly on the seamless transition of the merger from an operational
11 standpoint. Documentation provided by the Joint Applicants in response to Staff Data
12 Request No. 109, which consisted of transition team reports detailing the transition in
13 work processes, also supports my belief.

14 Q. What do you mean when you say the transition teams validated the due
15 diligence estimated merger savings?

16 A. The transition teams were to determine if the due diligence estimates were
17 reasonable. The analyses of the transition teams were used to support the due diligence
18 estimates and also to identify any major discrepancies, particularly if the estimated
19 savings had been over estimated they were to notify management.

20 Q. Is the work of the transition teams ongoing?

21 A. Yes. The teams are working on final reports to the Steering Committee.
22 According to the Companies' response to Staff Data Request No. 170, the Steering
23 Committee will approve the final reports of the transition teams. The reports will then be

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1 used as a roadmap to ensure that expected costs and savings materialize. As of April 27,
2 2000, these reports have not been approved by the Steering Committee. UtiliCorp, in
3 response to Staff Data Request No. 168 states that the integration plan is still in process
4 and the reconciliation of the plan should be completed by August 1, 2000. Without the
5 final approval of these reports, the Staff does not have a completed analysis from
6 UtiliCorp/St. Joseph of the estimated savings or the integration process.

7 Q. Have there been any changes made to the estimated merger savings
8 presented in the direct testimony of UtiliCorp/St. Joseph?

9 A. Yes. In the transcribed interview of Mr. Siemek on pages 9-11, several
10 changes were mentioned. The distribution transition team found its departments would
11 require additional estimated transition costs of \$293,000 for staffing during the customer
12 information system conversion. The generation transition team found that an estimated
13 \$489,000 reduction in severance costs would be realized because of anticipated personnel
14 retirements in their departments. The finance/accounting transition team found a need for
15 additional estimated transition costs of \$172,000. These were the only changes identified
16 by Mr. Siemek. It is possible that additional changes may occur since the projected
17 savings are only estimates.

18 Q. Does the Proxy Statement of St. Joseph Light & Power Company and the
19 Prospectus of UtiliCorp United Incorporated (Proxy/Prospectus) dated May 6, 1999
20 contain any information as to the accuracy of the Companies' estimated merger savings?

21 A. Yes, it does. On page 54 of the Proxy/Prospectus, it states:

22 In this document, UtiliCorp and St. Joseph each have made
23 forward-looking statements that are subject to risks and
24 uncertainties. Forward-looking statements include statements
25 concerning possible or assumed future results of operations and

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1 cost savings...Various risks and uncertainties may cause actual
2 results to differ materially from the results that these statements
3 express or imply...Please do not place undue reliance on these
4 forward-looking statements, which speak only as of the date of this
5 proxy statement/prospectus.
6

7 Q. Was there a detailed description of the estimated merger savings included
8 in the Proxy/Prospectus?

9 A. No, UtiliCorp/St. Joseph did not include any specific language or schedule
10 to describe the estimated savings that they anticipate will occur as a result of the merger
11 in the Proxy/Prospectus. The transition teams performed their due diligence synergy
12 validation after the Proxy/Prospectus was issued. The due diligence estimation of merger
13 savings was not included in the Proxy/Prospectus.

14 Q. Does the Proxy/Prospectus explain the rationale behind the merger?

15 A. Yes, the Proxy/Prospectus is directed towards the shareholders of the
16 respective companies, UtiliCorp and St. Joseph. The reasons for the merger clearly state
17 that the merger is for the benefit of the shareholders. Any savings resulting from the
18 merger are anticipated to provide recovery of the acquisition premium.

19 Q. Have other public utility commissions raised concerns over the achieving
20 of the merger savings?

21 A. Yes. Other jurisdictions in which electric utility mergers have occurred
22 have also raised concerns about estimated merger savings. In Docket No. 98-7023,
23 before the Public Utilities Commission of Nevada, in the Reapplication of Nevada Power
24 Co., Sierra Pacific Power Co. and Sierra Pacific Resources for approval of agreement and
25 plan of merger, a Compliance Order was issued:

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The joint application includes a multi-part regulatory rate plan described by the Joint Applicants as being designed to hold utility customers harmless from any adverse impact on rates associated with the costs of the merger and a proposal for an incentive mechanism through which net merger and related benefits are to be shared between customers and investors.

...The Commission finds that the merger savings are estimates...merger cost savings can neither be precisely quantified nor accurately tracked and that the Commission should not rely upon the estimates of merger savings provided by the Joint Applicants. (Emphasis added.)

The Board of Public Utilities (BPU) for the state of New Jersey, Docket No. EM98070433, in the Orange & Rockland Utilities (RECo) merger stated their concern about estimated merger savings:

We HEREBY DIRECT that RECo file an appropriate Cost Allocation Manual by January 1, 2000 for the Board's consideration.

The primary area of controversy in this proceeding is the estimate of the net merger savings and the method and timing of the sharing of said savings with RECo's ratepayers. In deciding this issue, the Board is mindful of the similarities of the characteristics of this issue in this case and the recently concluded Conectiv merger case. Both mergers produce merger savings primarily via labor reductions and the streamlining of utility operations. The net-savings are estimated over 10-year periods in both cases and similar categories of costs to achieve the merger were identified. We are however mindful in the instant proceeding of the substantial windfall which will accrue to O&R shareholders by reason of a 38.5% appreciation in the value of their investment traceable directly to the consummation of this merger resulting in an approximate \$200 million premium, which situation is unique to the instant merger vis a vis Conectiv.
(Emphasis added)

Public utility commissions have questioned the validity of estimated merger saving because they are merely estimates and shouldn't be relied on for setting rates.

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1 Commissions also recognize because utilities tie premium recovery to merger savings,
2 that tracking and differentiating merger savings from non-merger savings is crucial.

3 Q. How does UtiliCorp propose to use these estimates in its regulatory plan?

4 A. UtiliCorp witness John W. McKinney in his direct testimony explains that
5 the rate filings during the fifth year following the close of the merger will include an
6 accounting of the synergies realized during the five-year moratorium. Mr. McKinney
7 goes on to say, "Included in these rate filings will be the complete flow-through of all
8 test-year operation and maintenance (O&M) synergies, adjusted to the forward average
9 level of savings for years six through ten of the regulatory plan, net of the costs to
10 achieve the synergies, resulting from the merger." The regulatory plan "guarantees"
11 approximately \$1.6 million in savings to St. Joseph customers in years six through ten
12 following the merger close.

13 Mr. McKinney also says that the savings resulting from the merger need to be
14 greater than the premium paid for the property so that there will be benefits for
15 customers. UtiliCorp is depending on the amount of the estimated savings to persuade
16 the Commission to allow the recovery of fifty percent of the acquisition premium from
17 ratepayers.

18 Q. Have the personnel reductions used in calculating the estimated merger
19 savings been determined by the Joint Applicants?

20 A. No. Actual personnel reductions will not begin until after closing
21 according to timelines included in the Companies' response to Staff Data Request No.
22 109. Actual determinations of the number of employee reductions have not been made.

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1 Q. Accepting the fact that the estimates are purely speculative, does the Staff
2 have additional concerns about omissions from the Companies' analysis of projected
3 merger savings?

4 A. Yes. There are two omissions that the Staff believes should have been
5 included in order to provide essential information to the Commission. Without this
6 information, the Commission is placed in a position of having to guess:

- 7 • What result the combined merger of UtiliCorp, St. Joseph and
8 Empire will have on savings and
9
- 10 • how savings will be allocated between the electric, gas and
11 steam operations of St. Joseph
12

13 Q. Do UtiliCorp's estimated merger savings assume a three-way combination
14 of UtiliCorp, St. Joseph and Empire?

15 A. Only in relationship to generation/joint dispatch projected savings and in
16 the allocated corporate cost scenarios. Both Mr. Siemek (pages 36-40) and Mr. Jerry D.
17 Myers, March 1, 2000 (pages 68-69) commented in transcribed interviews with the Staff
18 that they had not combined the three companies together for any of their merger savings
19 calculations. Ms. Heider also commented in her initial interview with Staff on
20 January 25, 2000 that the transition teams were distinctly separate for St. Joseph and
21 Empire and that the teams had not done a combined three-company analysis.

22 Q. Does the Staff believe that an examination of merger savings for the
23 St. Joseph transaction should include impacts from the proposed Empire merger?

24 A. Yes. In considering St. Joseph's merger savings, one should assume the
25 Empire merger will also take place. Consequently, in reviewing two mergers and the
26 impact of merger savings, an assumption must be made that both mergers will be

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1 completed. Certainly any subsequent merger of Empire will affect the degree of the
2 merger savings of the St. Joseph merger.

3 Q. What influence does the Staff believe the three-way combination will have
4 on the savings that may accrue through the merger of UtiliCorp, St. Joseph and Empire?

5 A. The Staff believes that there is a possibility that additional economies of
6 scale may be generated when the three companies are merged. The separate analyses
7 performed for UtiliCorp/St. Joseph and UtiliCorp/Empire would not capture these
8 additional savings and therefore the estimated merger savings purported by Mr. Siemek
9 in his direct testimony may actually be understated as they relate to St. Joseph.

10 Q. What types of additional savings could be realized from the three-way
11 merger?

12 A. Any savings that arises from an economy of scale; for example,
13 purchasing larger quantities, sharing project costs for Missouri specific activities, sharing
14 personnel instead of outsourcing, etc. Without an analysis of the three-way merger, it is
15 unknown what actual savings could be realized.

16 Q. How will UtiliCorp/St. Joseph separate merger savings between electric,
17 natural gas and steam operations?

18 A. The Joint Applicants have not provided the Staff with any analysis that
19 separates merger savings for electric, natural gas and steam operations. It is not known at
20 this time how this will be done. The question was asked in the transcribed interview of
21 UtiliCorp witness Siemek:

22 Question by Staff: It's my understanding that the amounts on
23 Schedule 1 of your St. Joseph testimony are all total company.
24 There is no attempt to segregate electric, gas, or steam heat
25 numbers within the schedule, correct?

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1
2 Answer by Mr. Siemek: That's correct.
3

4 Question: At some point in the transition team and savings
5 estimation process, would you expect a more formalized attempt to
6 segregate savings, and perhaps—or certainly costs as well,
7 between those functions of St. Joseph Light and Power?
8

9 Answer: I'm not certain that I could say that would be done as part
10 of the transition team reports.
11

12 Question: And for rate purposes, at some point this number [net
13 merger benefit to St. Joseph customers] will have to be divided
14 into electric, gas, and steam proponents—or components? I'm
15 sorry.
16

17 Answer: Yes.
18

19 Question: But you're not sure when that will be done; it may not
20 be done, for purposes of the merger proceeding, that may be
21 somewhere down the road?
22

23 Answer: Right.
24

25 St. Joseph operating and capital budgets are developed with a clear separation of
26 electric, natural gas and steam operations, which is necessary in determining cost of
27 service and rates specific for each group of energy customers. The transition teams have
28 not separated out savings or costs between electric, natural gas and steam.

29 Q. What is the essential information necessary to assess the merger's impact
30 on a business function/operating unit basis, which is not included in UtiliCorp's filing?

31 A. The essential pieces of information are:

- 32 1. Savings by function
33 2. Costs by function
34

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1 The financial information in UtiliCorp's direct case does not address the impact of
2 the merger on the various operating units of the merged Company (UCU/SJPL). The
3 business functions of the merged Company are:

- 4 • Missouri Gas Operations – SJLP & Missouri Public Service
5 (MPS)
- 6 • Missouri Electric Operations – SJLP & MPS
- 7 • Missouri Steam Operations – SJLP
- 8

9 UtiliCorp's direct filing is based on the implicit assumption that if the acquisition
10 and merger is beneficial on a total merged Company basis, then it must be beneficial to
11 the individual operating units of the merged Company. UtiliCorp's case does not show
12 the impacts of the acquisition and merger on the cost of service of any of the above
13 individual operating units. Mr. McKinney discusses the Regulatory Plan and allocations
14 for St. Joseph and MPS but does not give any indication of how the expenses will be
15 divided between electric, gas and steam.

16 Q. Why do allocations need to be considered in this case?

17 A. Allocations are the basis for distributing the assets and expenses of a
18 multi-operating unit utility to each business function to determine the respective business
19 function's cost of service. Without use of allocations, one can only examine the
20 acquisition and merger on a total company basis and not determine the merger impacts on
21 specific operating units.

22 Q. Is it possible that some merger costs and savings can be directly assigned
23 to the electric, gas and steam functions of St. Joseph and MPS?

24 A. Yes. There are some costs and savings specific to business functions that
25 can be assigned separately to the electric, gas and steam operations.

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1 Q. Is it a valid assumption that a merger that is beneficial on a total company
2 basis, will then be beneficial to all operating units in which a company operates?

3 A. It is possible that a merger that is beneficial at the total company level can
4 in fact, be detrimental to one or more of the operating units of the company. A total
5 company analysis only purports to show that the overall benefit exceeds the overall cost.
6 Items that appear to be insignificant on a total company basis may be significant to an
7 operating unit, especially if the item is largely assigned or allocated to one business
8 function. With the change of size that will occur with the mix of costs the three-way
9 merger, if the mergers are authorized, it is possible that the resulting allocation changes
10 will result in shifts of costs among the various operating units. A shift in allocations may
11 create a detriment to the ratepayers of an operating unit of the merged Companies.
12 Without a separation of the three business functions one cannot determine if there is a
13 detriment to the public interest for customers of particular functions of St. Joseph and
14 MPS.

15 Q. Does the Staff have any other concerns about the estimated merger
16 savings?

17 A. Yes. The Staff will site several examples of flaws in the assumptions and
18 calculations of the Joint Applicants' estimated merger savings. Since the merger savings
19 presented by UtiliCorp/St. Joseph are merely estimates, it can be argued that one estimate
20 is as good as another based on what assumptions are applied. Staff would argue that some
21 assumptions made by UtiliCorp are in error and should be changed to better reflect
22 merger savings that can occur after the merger is completed.

1 Q. Please explain your concerns related to specific areas of the estimated
2 merger savings.

3 A. I will address my concerns about several areas identified in Mr. Siemek's
4 and Mr. Myers' direct testimony in the following sections of my rebuttal testimony. Staff
5 Accounting witnesses V. William Harris will also address Iatan fuel savings as it relates
6 to the merger savings issue.

7
8 **BUDGET DEVELOPMENT VS. ESTIMATED SAVINGS**

9 Q. Does UtiliCorp place importance on the development of their annual
10 budget?

11 A. Yes, it does. Employees are indirectly rewarded for budget performance.
12 In response to Staff Data Request No. 154, UtiliCorp witness Robert B. Browning
13 explained that "Ultimately, managing the budget becomes an important step in achieving
14 earnings per share targets." While employees are not directly rewarded for performance
15 against budgets, all employees are rewarded for the company achieving or exceeding its
16 earnings per share goal for each year. Mr. Browning also stated that management does
17 not plan to establish goals for achieving expected merger savings.

18 Q. Do employees of UtiliCorp devote considerable time in developing
19 budgets?

20 A. Yes they do. UtiliCorp's response to Staff Data Request No. 149 provided
21 information pertaining to the budget process. The management of UtiliCorp devotes a
22 considerable amount of time to develop budgets that are used to forecast earnings.
23 Attaining budgeted revenues and holding expenses to budgeted amounts enhances the

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1 financial position of UtiliCorp. According to Mr. Myers transcribed interview,
2 pages 46-49, each project manager is responsible for the coding of expenses and the
3 outcome of the project. Managers devote time in analyzing the expense requirements and
4 the revenue projections for their projects/departments. The process of developing the
5 budget is time consuming and input from many individuals bring the final budget
6 numbers together. Changes in actual activity to the budgeted estimated revenues and
7 expenses are measured monthly.

8 Q. Did UtiliCorp follow the same level of detailed analysis in arriving at the
9 estimated merger savings?

10 A. No. The merger savings have been approached in a different way by using
11 a starting point of the St. Joseph 1999 budget. Employees from both St. Joseph and
12 UtiliCorp were assigned as members of the transition teams. During the March 15, 2000
13 interview of Ms. Heider, Mr. Robert Browning and Ms. Kris Paper, Information
14 Technology team member, difficulties in matching up business functions of St. Joseph to
15 similar functions within UtiliCorp was mentioned when questions were asked about the
16 transition team validation process. While the budget of a company becomes one single
17 coordinated document, the transition teams have struggled to coordinate all the functions.
18 Each company had a different approach and cost areas at St. Joseph were not all easily
19 assignable to transition teams for inclusion into the due diligence savings validation
20 process. Coordination of the seven transition teams has been difficult and is an ongoing
21 process.

22

MERGER SAVINGS-LABOR

Q. Please describe the Companies' analysis of alleged merger savings related to labor.

A. The Joint Applicants provided workpapers and reports issued by the transition teams in response to Staff Data Request Nos. 1 and 109. Each of the seven transition teams was responsible for review of a portion of the St. Joseph 1999 budget during the dual diligence validation process. The analyses concentrated on the labor expenses of St Joseph. Some teams started with the St. Joseph budget and then deducted positions that they believed would duplicate existing UtiliCorp positions. Other teams took the approach of starting at zero dollars and then adding back positions that would be needed. The teams looked at St. Joseph direct labor costs associated with their specific team's department functions.

Q. Do projected labor reductions account for a large portion of the estimated merger savings?

A. Yes. A large portion of the alleged savings created by the merger come from reductions in St. Joseph personnel. Mr. Siemek describes these types of estimated savings in his direct testimony starting on page 11. Many of the reductions in direct costs to St. Joseph arise from the fact that the positions and job duties to be eliminated are duplicative of positions and job duties already being performed by personnel at UtiliCorp i.e., supervisory and management positions. St. Joseph positions that are considered as overhead will be eliminated with those job duties absorbed by UtiliCorp. In turn, the post-merger St. Joseph operating unit will be allocated a portion of UtiliCorp's corporate overheads, through the Enterprise Support Functions (ESF) and Intra-Business

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1 Unit (IBU) allocations. In the case of the St. Joseph merger, most of the incremental
2 support costs assigned to St. Joseph will be payroll in nature.

3 Q. Did the transition teams provide details to support their labor reductions?

4 A. Unfortunately, the transition team workpapers contain few concrete
5 explanations to explain position reductions in the various departments. Most of the
6 workpapers, especially in the areas of transmission and distribution, contain only the
7 results of decisions reached regarding the numbers of positions to be reduced and no
8 documentation of why each reduction is thought to be reasonable.

9 Q. Were all positions eliminated based on similar analyses?

10 A. No. In some cases teams were subjective in their decisions and made
11 assumptions that tended to increase the number of positions to be eliminated. Both
12 Mr. Myers and Mr. Siemek supported this "conservative" view. In his transcribed
13 interview, when asked about the elimination of positions Mr. Siemek gave an example of
14 personnel in accounts payable being able to process 10,000 invoices per person:

15 So, in my case, and the example that I used, we started
16 with, I think, 36,000 combined invoices from the two companies,
17 which would have been three-and-a-half people at UtiliCorp. And
18 we ended up adding three, and assuming that some of those 36,000
19 would go away. And I think that was generally the approach that
20 was taken by each of the transition teams...we were fairly
21 conservative in trying to decide what additional staff we needed to
22 add.

23
24 Q Please explain the Staff's concerns about the projected merger savings
25 generated from reductions in labor costs.

26 A. The Staff has two concerns with the projected labor savings. One concern
27 is that the structure of the combined three utilities, UtiliCorp, St. Joseph and Empire and

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1 the effect the combination will have on labor is not known. UtiliCorp has not looked at a
2 three-way combination as it pertains to most areas of labor savings.

3 In addition, the Staff believes some of the labor savings included in the
4 Companies' proposed merger savings are actually attainable by the Companies without
5 the merger, so attributing the savings solely to the merger is misleading.

6 Q. Have both Companies been successful at reducing employee levels and/or
7 labor costs in the past?

8 A. Yes. UtiliCorp and St. Joseph have both been able to reduce employee
9 levels through reorganizations and downsizing. UtiliCorp's response to Staff Data
10 Request No. 26 (see attached Schedule 1) illustrates personnel reductions related to re-
11 engineering. The response to this Staff Data Request is discussed in further detail later in
12 my testimony.

13 Q. What is the relationship between St. Joseph's and UtiliCorp's past
14 employee reductions and this merger application?

15 A. The Companies allege that labor savings through employee reductions are
16 a merger benefit and are predicated on the assumption that a merger triggers these
17 savings. Both UtiliCorp and St. Joseph have been able to attain employee reductions on a
18 stand-alone basis through re-engineering at UtiliCorp and on a smaller scale through
19 reorganization at St. Joseph. The Staff believes that these reductions would continue
20 absent the merger.

21 The Staff believes that both UtiliCorp and St. Joseph still have opportunities to
22 reduce employee counts on a stand-alone basis. However, the Staff also believes that the
23 proposed merger between St. Joseph and UtiliCorp may allow some additional labor

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1 savings that would not have occurred absent the merger. I will include examples of
2 stand-alone labor reductions later in my testimony.

3 Q. Are there opportunities today for St. Joseph to reduce employee counts
4 and/or labor costs on a stand-alone basis?

5 A. Yes. Opportunities for St. Joseph to downsize employee counts on a
6 stand-alone basis exist. Part of UtiliCorp's analysis of St. Joseph, according to a
7 statement made by Ms. Heider in her Staff interview, documented the fact that about
8 80 employees of St. Joseph will be eligible for early retirement within the next two years.
9 This was later verified with UtiliCorp's response to Staff Data Request No. 200. The
10 potential exists for St. Joseph to use early retirement as a tool to reorganize jobs at St.
11 Joseph on a stand-alone basis.

12 Q. What changes in labor requirements could the analysis of the combined
13 merger of UtiliCorp, St. Joseph and Empire have uncovered?

14 A. The duties that UtiliCorp personnel will assume when their counterparts at
15 St. Joseph are terminated may be manageable. The UtiliCorp controller may be able to
16 assume all the duties of the St. Joseph controller. The UtiliCorp supervisor of the
17 accounts payable clerks may be able to supervise the additional staff required to process
18 St. Joseph invoices. The termination of similar counterparts at Empire may create a
19 workload for the Controller or the supervisor of accounts payable that requires additional
20 employees or increased salaries for personnel that are willing to take on additional duties.
21 It is not known at this time what effects the combined mergers may have. There could be
22 more savings or there could be less.

1 Without a thorough analysis on the impact of a three-way merger, the
2 Commission can only guess the effects the combined merger of UtiliCorp, St Joseph and
3 Empire will have on labor savings or costs.
4

5 **MERGER SAVINGS – DISCOUNTED PRESENT VALUE**

6 Q. Please explain why a present value adjustment should be made to the
7 estimated merger savings.

8 A. The costs to achieve the merger are largely current costs, while the
9 estimated savings are projected to occur out into the future over the next ten years and
10 beyond. Dollar inflows and outflows that occur at significantly different dates cannot
11 simply be aggregated in a meaningful way; rather they must be restated at a common date
12 to reflect the time value of money by applying the concepts of present value.
13 Recognizing that all cost savings estimates have been “escalated” for assumed inflation
14 for all future years, it would be appropriate to discount the estimates to a common point
15 in time to derive a present value of estimated savings. The Company does not address
16 the issue of present value for the savings that are projected out to the year 2010.

17 Q. One of the Company’s merger savings assumptions is the use of a
18 2.5% escalation rate. Why is this assumption important to the Staff’s analysis?

19 A. The 2.5% escalation factor is multiplied by the estimated merger savings
20 each year with a cumulative affect. The use of an escalation factor to inflate the merger
21 savings over the next ten-years creates a favorable comparison of merger savings to
22 merger costs.

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1 Q. How does the present value adjustment that the Staff is proposing compare
2 to the escalation factors proposed by UCU/SJLP?

3 A. While the use of an escalation factor when projecting the estimated merger
4 savings out into the future tends to inflate the savings, the use of a present value
5 adjustment to bring future merger savings in line with current dollar values would
6 discount the merger savings. To include the escalation factor, and not present value
7 adjustments, skews merger savings estimates so that they can not be compared to current
8 dollar merger costs.

9 Q. Have you completed a present value analysis of the UCU/SJLP estimated
10 merger savings?

11 A. Yes. I have completed a present value analysis of the UCU/SJLP estimated
12 merger savings that uses a weighted cost of capital interest rate and extends through the
13 year 2010. Present value is the current value of a sum of future dollars discounted back
14 from a specified future date to the present date at a given rate of compound interest, the
15 weighted cost of capital.

16 Q. Why did you choose to use UtiliCorp's weighted cost of capital interest
17 rate in your present value analysis?

18 A. The weighted cost of capital for UtiliCorp is an appropriate rate of
19 compound interest to use in the present value computation of the value of estimated
20 future merger savings. If savings are generated from the merger, the resulting cash flow
21 will be available for UtiliCorp to use and will allow them possibly to avoid financing
22 through the debt and equity markets. The weighted cost of capital represents the cost of

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1 money that UtiliCorp would be required to pay if they financed through the debt and
2 equity markets.

3 Q. How did you determine the weighted cost of capital to use in your present
4 value analysis?

5 A. I reviewed several sources to determine the appropriate interest rate for
6 this analysis. The 11.37% rate is an estimate of UtiliCorp's pre-tax cost of capital as
7 determined by UtiliCorp and provided to Staff in response to Data Request No. 1. Staff
8 witness David Broadwater has also developed a pre-tax cost of capital for UtiliCorp as
9 of December 31, 1999 of 11.99%. Since the purpose of my analysis is to demonstrate
10 that the merger savings are overstated without a present value adjustment, use of the
11 more conservative interest rate (11.37%) is adequate to demonstrate my point.

12 Q. What were the results of your present value analysis?

13 A. My calculations of net present value computed the present value of the
14 savings at a discount rate of 11.37% for the savings each year out from 2001 through
15 2010. I did not apply a discount rate to 2000. The net present value of savings from
16 2001 through 2010 at an 11.37% discount rate is \$102.3 million, compared to
17 UtiliCorp/St. Joseph's total merger savings of \$184.3. (See attached Schedule 2) In
18 addition, Schedule 2 shows that the net present value of the total estimated savings to be
19 provided to customers in Years 6-10 is only \$3.4 million in total. This is approximately
20 3.34% of the total estimated savings on a net present value basis of \$102.3 million.

21 The Staff's position is that the merger savings estimated by UCU/SJLP are
22 overstated because they have not been discounted to current 2000 dollars. The use of a

1 discount rate of 11.37% shows that the merger savings are overstated by at least \$81.94
2 million.

3
4 **MERGER SAVINGS – TRACKING**

5 Q. Has Staff reviewed the savings tracking proposal of the Joint Applicants?

6 A. Yes, the Staff has read the direct testimony of Company witness Myers
7 who provides testimony to support UtiliCorp's ability to track the synergies resulting
8 from the merger of UtiliCorp and St. Joseph. The Staff also interviewed Mr. Myers to
9 gather additional information related to the savings tracking proposal of UtiliCorp.

10 Q. What is meant by tracking?

11 A. Tracking is a post-merger process where it is asserted that specific
12 transactions relating to the merger can be identified, verified and the amount quantified
13 so that a determination can be made if the merger is successful from a savings/synergies
14 perspective. The differences between these post-merger transactions when compared to
15 the pre-merger baseline of the stand-alone pre-merger companies are the "purported"
16 merger savings.

17 Q. How does UtiliCorp propose to "track" the merger savings?

18 A. Under UtiliCorp's proposal, it will attempt to "track" merger savings
19 generated by the acquisition of St. Joseph by using PeopleSoft accounting software.
20 UtiliCorp uses PeopleSoft for its current accounting system. PeopleSoft is an accounting
21 software application used by many utilities to capture the costs and revenues of the
22 operations of the companies specific to the different business units and the different lines
23 of business. UtiliCorp also uses this accounting system to tabulate incremental support

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1 costs that are allocated to the operating units through ESF and IBU allocations. In
2 essence, PeopleSoft is nothing more than a sophisticated bookkeeping system. The
3 PeopleSoft system will be addressed again later in this testimony.

4 Q. Why is it important for UtiliCorp to have the Commission believe it is
5 possible to track merger savings?

6 A. UtiliCorp believes having a "tracking" mechanism in place will
7 demonstrate to the Commission that proven merger savings will be sufficient to justify
8 the recovery of the merger premium (acquisition adjustment) in rates. This is a very
9 critical element to UtiliCorp's overall regulatory plan presentation as described in
10 Mr. McKinney's direct testimony.

11 Q. Does UtiliCorp have an incentive to identify as much merger savings as
12 possible under any tracking system?

13 A. Yes. The more merger related savings UtiliCorp can identify, the better it
14 will be able to justify recovery of the acquisition adjustment under its own regulatory
15 plan.

16 Q. Has UtiliCorp presented a detailed proposal for tracking of merger savings
17 in its testimony?

18 A. No. This situation is further address in the rebuttal testimony of Staff
19 Accounting witness Mr. Oligschlaeger.

20 Q. Did Mr. Myers provide additional information about UtiliCorp's tracking
21 proposal when interviewed to explain the tracking process?

22 A. Yes, Mr. Myers, while not a member of a transition team, is familiar with
23 the PeopleSoft software and its capabilities. Starting on page 44 of his transcribed

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1 interview, Mr. Myers explains his understanding of the PeopleSoft accounting system.
2 He provided a document to the Staff during his transcribed interview that illustrates his
3 understanding of how the merger savings will be identified by UtiliCorp (see attached
4 Schedule 3). This schedule was apparently developed for informational purposes to
5 discuss merger savings tracking during the transcribed interview of Mr. Myers.

6 Q. What was the purpose of Mr. Myers' document illustration?

7 A. The intent of Mr. Myers in providing the schedule was to demonstrate
8 with the use of a simple model, how the "tracking" process would work conceptually
9 using the PeopleSoft coding. When asked in the transcribed interview, pages 38-43,
10 about specific details related to the schedule, such as how the process of determining the
11 St. Joseph functions being absorbed into the incremental line of the document, Mr. Myers
12 was less knowledgeable about how the "tracking" process would be implemented.

13 According to his direct testimony, transition teams will identify payroll and
14 nonpayroll costs that will become incremental costs of UtiliCorp post-merger.
15 Procedures will be communicated to key UtiliCorp departments regarding the proper
16 tracking of these incremental costs. To date, these are no written procedures that have
17 been given to Staff to support that the coding process needed for tracking merger savings
18 has been determined. The Staff and the Commission have been asked to take UtiliCorp's
19 word that it can be done and will be done. Without an analysis of concrete procedures
20 that demonstrate coding and allocations of St. Joseph costs into the UtiliCorp accounting
21 system, Staff cannot rely on what UtiliCorp has presented. UtiliCorp in actuality doesn't
22 have a concrete tracking proposal.

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1 Q. Please summarize the contents of Mr. Myers' tracking document,
2 Schedule 3 of your rebuttal testimony.

3 A. Mr. Myers' document illustrates the line item components in the merger
4 savings equation: the St. Joseph and UtiliCorp 1999 budget baselines, and the UtiliCorp
5 incremental costs, all with an inflation (escalation) rate added each year out. The
6 St. Joseph 1999 budget baseline represents the expenses that St. Joseph budgeted for
7 1999. The UtiliCorp 1999 budget baseline represents the expenses that UtiliCorp
8 budgeted for 1999. The UtiliCorp incremental costs represent the St. Joseph overhead
9 costs that will become part of UtiliCorp's ESF and IBU allocations that are distributed
10 throughout the UtiliCorp organization.

11 The UtiliCorp baseline and incremental will be added together. A portion of the
12 sum of the UtiliCorp baseline and incremental will be allocated to St. Joseph and
13 deducted from the St. Joseph baseline. This difference represents the alleged merger
14 savings. The UtiliCorp baseline and incremental will be coded by UtiliCorp employees
15 using the PeopleSoft accounting system. The St. Joseph baseline will not be coded to
16 PeopleSoft. The actual savings will not be coded either, since they represent the
17 difference between the uncoded St. Joseph baseline and St. Joseph portion of the sum of
18 the UtiliCorp baseline and incremental.

19 Q. Does Staff believe that the "tracking" method described by Mr. Myers will
20 be able to distinguish between merger and non-merger savings?

21 A. No. The Staff believes that the Myers document does not support a
22 "tracking" system that will be able to distinguish between merger and non-merger
23 savings. Non-merger savings from what was included in the St. Joseph and UtiliCorp

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1 1999 budgets will not be discernable from merger savings. The changes in costs as the
2 companies move out in time from when the 1999 budgets were determined will be
3 indistinguishable from merger savings. In essence, the Myers tracking document shows
4 that "merger" savings will be calculated as the difference between an escalated pre-
5 merger St. Joseph budget and post-merger costs allocated to the St. Joseph division.
6 Changes brought about from additional acquisitions, additional technological efficiencies,
7 and increased productivity among employees will become in effect the total costs
8 allocated by UtiliCorp to the St. Joseph division and will be undistinguishable from
9 merger savings according to the method outlined in the Myers document. Using this
10 approach, UtiliCorp will be able to take "credit" for savings that were unrelated to the
11 merger.

12 Q. Mr. Myers used numbers in his document for illustration only. Does he
13 have more definitive numbers for the actual merger savings calculations?

14 A. No. According to Mr. Myers on pages 38 through 41 of the interview, the
15 percentage of UtiliCorp Baseline and Incremental to be allocated to St. Joseph has not
16 been calculated. Mr. Myers did not know if adjustments would be made to the 1999
17 St. Joseph Baseline to eliminate nonrecurring expenses and other elements not related to
18 merger savings. He didn't know, when asked about the use of an inflation factor, if
19 UtiliCorp's or St. Joseph's actual costs had ever gone down as opposed to always
20 increasing. The following questions were posed to Mr. Myers in the transcribed
21 interview, pages 40-41:

22 Question to Mr. Myers: What I'm getting at conceptually, I
23 don't understand why you are inflating the baseline year by year
24 from 1999 to the year 2004. I'm just trying to understand
25 conceptually why the company is proposing to do that.

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1 Answer by Mr. Myers: I will tell you my understanding.
2 My understanding is that we're trying to take a snapshot of what
3 the St. Joe operation would have been before the merger, without
4 the merger taking place. Their costs would have been assumed to
5 go up, and I picked three percent for purposes of this illustration.
6

7 Question: Do costs ever go down?
8

9 Answer: Yes, they do.
10

11 Question: Has UtiliCorp's cost ever gone down, actual cost
12 ever gone down?
13

14 Answer: I can not answer that.
15

16 Question: Do you know if St. Joe Light and Power's costs
17 were increasing or decreasing?
18

19 Answer: I don't know that.
20

21 Question: Do you know if St. Joe Light and Power's costs
22 were increasing at a three- percent inflationary factor?
23

24 Answer: I don't know that.
25

26 When asked how the savings to St. Joseph could be assigned to St. Joseph
27 specifically for financial reporting purposes, Mr. Myers on pages 69 through 73 of the
28 interview stated that the system could do that, but that he hadn't looked at how it would
29 be done. When asked if Mr. Myers was familiar with the terms "non-merger" and
30 "merger related" savings, he said, "vaguely". When asked how non-merger savings
31 would be distinguished from merger savings in the PeopleSoft system, Mr. Myers stated
32 "...I would guess from time to time there would have to be reviews made of some of that
33 information."

34 Individuals would make judgments about the adjustments that would be made to
35 the UtiliCorp Baseline and Incremental amounts. When asked, "Will it (the PeopleSoft

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1 accounting system) be able to and is it planned to be able to track the non-merger related
2 savings and make a distinction between those that are merger related. Has that been
3 discussed?" Mr. Myers responded that it had not been discussed, but the system would
4 have the capability of "tracking" those costs. In other words, if someone could make the
5 distinction between non-merger related and merger related savings and tell PeopleSoft
6 where to capture it, UtiliCorp's accounting system could "track" the savings. Of course,
7 PeopleSoft will not make the distinction, UtiliCorp employees will.

8 Q. Have utility companies in Missouri attempted to track merger savings in
9 the past?

10 A. Yes, in the Kansas Power and Light Company (KPL) merger with Kansas
11 Gas and Electric Company (KGE), Case No. EM-91-213, KPL requested that the
12 Commission approve the merger and institute a program of sharing the merger savings
13 between shareholders and ratepayers with each receiving 50 percent as stated in the
14 Commission's Report and Order in that proceeding:

15 The Commission is not opposed to the concept of the
16 savings sharing plan provided that only merger-related
17 savings are shared. The Commission does not wish to
18 discourage companies from actions, which produce
19 economies of scale and savings, which can benefit
20 ratepayers and shareholders alike. However, the
21 commission wishes to ensure that savings, which would
22 have been offset against the cost of service without the
23 merger, benefit ratepayers one hundred percent.

24
25 That the parties to this case be directed hereby to meet for
26 the purpose of attempting to devise a merger savings
27 tracking plan (MSTP) which will ensure that all non-
28 merger savings can be excluded from the merger savings to
29 be shared between ratepayers and shareholders.
30

31 Q. Was KPL successful in tracking merger savings?

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1 A. No. The parties to the case were not able to reach an agreement on how to
2 track the merger savings separately from the non-merger savings. The Commission
3 directed KPL to place this issue in their next case.

4 Q. Did KPL, which became Western Resources, Inc., address the cost
5 tracking system in their next rate case?

6 A. Yes, they did. In Western's Case No. GR-93-240, but it was concluded
7 that the cost of maintaining the tracking system out weighed the benefits. For further
8 discussion, please see the testimony of Staff witness Featherstone.

9 Q. Did the subsequent Western/KCPL Merger Stipulation and Agreement
10 direct Western to track merger savings after the merger closing?

11 A. No. The Order in the Western/KCPL merger Case No. EM-97-515 states:

12 The parties further agreed that it is unnecessary to develop
13 a post-merger savings quantification tracking mechanism
14 with respect to the instant merger and that none shall be
15 proposed in future proceedings in Missouri.
16

17 Q. Please describe the different types of savings that can be generated from a
18 merger.

19 A. In the Case No. EM-97-515, Mr. Thomas J. Flaherty, partner in the
20 Deloitte & Touche Consulting Group LLC, filed direct testimony on behalf of Western
21 describing three types of savings that can arise from a merger:

- 22 1. Created savings – These are savings that are related directly
23 to the completion of a merger and can not be obtained
24 absent the merger.
25
26 2. Enabled savings – These savings result from the
27 acceleration or unlocking of certain events that can give
28 rise to savings.
29

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- 1 3. Developed savings – Reductions in cost due to
2 management decisions that could have been made on a
3 stand-alone basis are unrelated to the merger.
4

5 In Mr. Flaherty's Schedule TJF-2, page 36 of 75, the following was stated
6 concerning estimated merger savings in that case:

7 Potential areas of benefit, and subsequently, the resulting
8 cost savings, are determined to be merger-related if they are not
9 attainable by any action that management of either company could
10 practically initiate on an independent basis. For example,
11 management of either company could reduce labor costs by
12 eliminating positions as part of a resource and function analysis.
13

14 Q. Do you believe that there are opportunities for UtiliCorp and St. Joseph on
15 a stand-alone basis to create "developed" savings without the merger?

16 A. Yes, I do. I will provide examples of developed savings later in my
17 testimony.

18 Q. Please describe the PeopleSoft system that will be used by UtiliCorp in an
19 attempt to "track" merger savings.

20 A. PeopleSoft's web page provides promotional information describing the
21 benefits and capabilities of the system. PeopleSoft has a specialized software package to
22 aid utilities in measuring performance. The software is part of the financial system
23 designed to enhance decision-making and organizational performance. It is also an
24 activity based costing system, which allows companies to analyze costs, revenues and
25 determine profitability. PeopleSoft touts itself to be an accounting system that can help
26 utilities in a deregulated world with branding, bundling and predatory pricing. The
27 system is designed for deregulated functions. UtiliCorp has been using PeopleSoft since

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1 September 1997 and has incorporated its use into the Company's analysis of business
2 unit costs and revenues for all United States domestic business operations.

3 Q. Does the PeopleSoft accounting system make the decision where costs
4 should be booked and how costs are accounted for?

5 A. No. UtiliCorp employees make those decisions. PeopleSoft provides a
6 means to categorize expenses to very specific cost centers. Individuals within UtiliCorp
7 that are responsible for projects or groups of activities have the authority to code
8 transaction expenses to specific accounts. Individuals must be relied upon to create the
9 codes for each specific project and identify the proper coding for each invoice/source
10 document so the flow of expenses to the proper project occurs. A review process ensures
11 that proper codes are used.

12 Q. Did UtiliCorp have an accounting system before PeopleSoft?

13 A. Yes. An accounting system was used to tabulate expenses and revenues
14 into an income statement, and assets and liabilities in a balance sheet. Additional reports
15 could be generated based on the coding of transactions. Accounting systems of this type
16 have been developed over the years as automation/computerization have improved.

17 Q. Have utilities always had some type of accounting systems?

18 A. Yes. For as long as utilities have been supplying utility services to
19 customers they have had some type of accounting system in place to keep an accounting
20 of revenues and expenses, and assets and liabilities. The accounting systems of the past
21 and the accounting system of the present all have one thing in common, they all require
22 human intervention to properly quantify and identify where costs should be booked and
23 how these costs should be treated. PeopleSoft is no different.

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1 Q. Is UtiliCorp attempting to portray that it has a mechanism to "track"
2 merger related savings?

3 A. Yes. That is exactly how UtiliCorp is attempting to use PeopleSoft.
4 UtiliCorp wants the Commission to believe that it has a system in place that can "track"
5 merger savings.

6 Mr. Myers testified for UtiliCorp that the PeopleSoft accounting system was
7 capable of "tracking" merger savings because the system is very complex and
8 sophisticated. PeopleSoft may be a sophisticated accounting system but it will not be
9 able to "track" merger savings. In fact, neither this accounting system nor any other can
10 actually "track" merger savings. UtiliCorp personnel must tell the accounting system
11 through the coding process what the merger savings will be and then PeopleSoft will
12 capture the costs once personnel determine what categories and where the costs savings
13 should be identified. It is the subjective human component of the "tracking" that will
14 prevent the system from accurately distinguishing merger savings from non-merger
15 savings. PeopleSoft is not the problem. The problem is inherent to the human
16 intervention required for the coding of every possible merger and non-merger related
17 transaction.

18 UtiliCorp employees will have to identify, verify and more importantly, have to
19 quantify what the savings will be. The accounting system won't be able to do this.
20 PeopleSoft, as an accounting system program cannot "track" merger savings, only the
21 personnel identifying the merger savings can "track" these amounts. The only thing
22 PeopleSoft will do is to account for the items it is "coded" to do. Without the human
23 intervention PeopleSoft will have no way of identifying merger-related savings.

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1 Q. Does Mr. Myers admit to this?

2 A. Yes. During the transcribed interview, pages 57-67, Mr. Myers stated that
3 the coding process involved human intervention.

4 Q. Was there any other information concerning a savings tracking process
5 gathered by the Staff?

6 A. Yes, during the transcribed interview of Mr. Siemek, the following
7 discussion occurred:

8 Question by Staff: Referring again to Mr. Myers' document (see
9 attached Schedule 3) he gave us yesterday, the last number reflects
10 a calculation of merger savings which is derived from the lines
11 above it.

12 Answer by Siemek: Yes.

13 Question: And I guess my question to you is: Is it intended that this
14 process will produce a number automatically that should be viewed
15 as a merger savings amount for a particular 12 -month period, or
16 will human judgement still have to be entered into it to say, "Is this
17 a reasonable amount? Does this need further adjustments? This
18 expense change has nothing to do with the merger, so let's take it
19 out," and so on. I know that's a pretty long question.

20 Answer: Well, I believe the intent is that the merger synergies will
21 have to be calculated from pieces from different systems. Again,
22 we had the three different types of costs that each would have
23 different baseline numbers. So I believe that you would have to
24 manually compile those or put them together to see what the
25 resulting merger savings are. To that extent, I don't think there is
26 one system that you can press a button and it will automatically
27 derive. There are very few systems like that that I'm aware of,
28 anyway. So I'm not sure that's even a possibility.

29 Q. Did Mr. Siemek further attempt to explain how the "tracking" of merger
30 savings would occur?
31
32
33
34

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A. Yes. The table below follows the example given by Vern Siemek in response to Staff Data Request No. 170, to explain how the synergy analysis of the transition teams will be utilized in the tracking of merger savings. The example provided by Mr. Siemek hypothetically explains how the direct labor costs currently expensed to St. Joseph on a stand-alone basis would be eliminated. The following is a quote from Staff Data Request No. 170:

- A. Assume a St. Joseph department of 10 positions at a cost of \$500,000.
- B. The same work can be accomplished by an existing UtiliCorp department of 20 positions costing \$1,000,000 by adding 4 staff at a cost of \$200,000.
- C. The augmented UtiliCorp department of 24 positions at a cost of \$1,200,000 is allocated on an established basis that allocates 33% of its costs to the St. Joseph unit at a cost of \$400,000.
- D. The synergies in this case are \$100,000 (the original St. Joseph \$500,000 less the post-merger allocation of \$400,000). That difference is simple to validate by retaining the original budgets for St. Joseph department (appropriately inflated) to compare to the costs then being charged to St. Joseph.

I have included the following table to demonstrate the example provided by Mr. Siemek in response to Staff Data Request No. 170:

<u>SJLP Positions</u>	<u>SJLP Dollars</u>	<u>UCU Positions</u>	<u>UCU Dollars</u>
Pre-merger 10	\$500,000	Pre-merger 20	\$ 1,000,000
Post-merger 0	\$ 0	Post-merger 24	\$ 1,200,000
Add Allocation	\$400,000	Subtract Allocation	- \$ 400,000
Total Post-merger	\$400,000	Total Post-merger	\$ 800,000
Synergies	\$100,000	Synergies	\$ 200,000

Q. Do you have any comments on Mr. Siemek's example?

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1 A. Yes. I have several arguments against the example used by Mr. Siemek to
2 explain how "tracking" will work. The additional \$200,000 reduction would not be
3 "tracked" as a merger savings because it would be distributed throughout the UtiliCorp
4 allocation process to all divisions that are included in the allocation. I also find the
5 example to be over simplified.

6 The example is very telling in that the direct costs of St. Joseph will be replaced
7 by costs assumed from the allocation pool of UtiliCorp's ESF or IBU. In the example,
8 the amount to be allocated back to the St. Joseph division is less than the direct costs that
9 had previously been expensed, therefore, according to Mr. Siemek, a synergy of
10 \$100,000 can be "tracked". The actual amounts that will be "tracked" are the \$400,000
11 of expense allocations that will flow to St. Joseph from UtiliCorp. If the savings were
12 actually being "tracked", the \$200,000 would also be a merger synergy included with the
13 \$100,000 recognized from the reduction in expenses from \$500,000 to \$200,000.

14 The critical point is that this example does not attempt to explain how non-merger
15 savings factors will affect the savings calculation. Savings that are unrelated to the St.
16 Joseph merger, such as other merger savings, savings generated from past and future re-
17 engineering projects, savings from employee productivity improvements and savings
18 from advances in technology will affect the savings calculation of Mr. Siemek; in
19 particular, the amount of allocated UtiliCorp overhead expenses to the St. Joseph
20 division. The calculation of merger savings will also be affected by any changes in
21 allocations in the ESF and/or IBU, and the allocation of regulated and non-regulated
22 business operations as well as any increases to costs or decreases to costs from economies

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1 of scale. All of these non-merger impacts would effect the calculation of merger savings
2 under the method described in Staff Data Request No. 170.

3 Q. Is UtiliCorp aware of the Staff's concern regarding distinguishing merger
4 and non-merger savings in a tracking system?

5 A. Yes. Mr. Siemek indicated in his transcribed interview, pages 81-85, that
6 it was not necessary to make the distinction between merger and non-merger related
7 savings when he said:

8 The distinction between merger synergies and other
9 synergies, or other costs, is not very important, other than
10 that hurdle rate...I think that eliminates a lot of the
11 contention that we've typically seen, for example, in the
12 Western case on the KG and E synergies, where it became
13 very critical whether a synergy was merger related or not.
14 In our case, it doesn't make any difference as long as we
15 meet that hurdle rate.
16

17 UtiliCorp appears not to have any intention to separate these savings from one
18 another.

19 Q. Does the Staff have additional concerns about the ability of UtiliCorp to
20 "track" merger savings?

21 A. Yes. The Staff has concerns with the St. Joseph 1999 budget baseline
22 illustrated in Mr. Myers document (see attached Schedule 3). The Joint Applicants use
23 the 1999 St. Joseph budget as the standard to which future expenses will be measured in
24 determining if merger savings have occurred and at what amount.

25 Q. Has Staff done any comparisons of St. Joseph budgeted costs to actual
26 costs?

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1 A. Yes. The UtiliCorp/St. Joseph response to Staff Data Request No. 216
2 provides details of the St. Joseph major budget variances by year for 1996 through 1999.
3 I have included the 1999 major budget variances as Schedule 4 (see attached) to my
4 rebuttal testimony. The 1999 major budget variances demonstrate that the use of the St.
5 Joseph 1999 budget as a baseline will allow non-merger savings to be captured as merger
6 savings. The variances for 1999 show that the budget was over total actual O&M costs
7 (excluding manufacturing cost of goods sold) by \$3,463,000 when the unbudgeted
8 merger related expenses were removed. This analysis shows that the pre-merger
9 St. Joseph, on a stand-alone basis, had variances in all activity areas. If budgeted costs
10 were measured against actuals it would appear that merger savings occurred for some
11 activities and no savings, but additional costs, in others. Budgets are clearly no more
12 than estimates. Using the UtiliCorp tracking format as described in Mr. Myers Schedule,
13 any reduction in expense would appear as merger savings.

14 Q. Do you have any other reservations about the use of 1999 for the baseline?

15 A. Yes, I do. I believe that there are several reasons why the 1999 budget is
16 not an appropriate choice for the baseline. It would appear that any nonrecurring items
17 included in the 1999 St. Joseph budget would require review to determine if adjustments
18 should also be made for the baseline, otherwise future years could show savings because
19 1999 account amounts were above a normalized level. Since the UtiliCorp baseline will
20 also influence the savings calculation, variances from the UtiliCorp 1999 budget may
21 also erroneously show merger savings or the absence of merger savings.

22 The use of any baseline used for savings tracking purposes will require a
23 complete review by the Staff to determine what adjustments must be made to normalize

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1 expenses. In addition, any change in ESF and/or IBU allocation factors between regulated
2 and non-regulated divisions will impact the merger savings calculation.

3 Q. What adjustments to account for nonrecurring events or to normalize
4 expenses have UtiliCorp made to the St. Joseph 1999 budget?

5 A. UtiliCorp, in response to Staff Data Request No. 219 stated that they have
6 adjusted the St. Joseph 1999 budget for the incorrect amortization of the 1998 rate case
7 expense and the benefit credit from the starting point for the Human Resources budget.
8 These are the only adjustments made to the 1999 St. Joseph budget.

9 Q. Do you believe that UtiliCorp has taken into consideration all adjustments
10 that need to be made to the St. Joseph 1999 budget to normalize the amounts contained
11 within and then project it out ten years into the future?

12 A. No. The Staff has become aware that costs built into the St. Joseph 1999
13 budget for major maintenance at Iatan which was later postponed would require an
14 adjustment for tracking purposes. This adjustment has not been addressed by UtiliCorp.

15 Q. Describe the Western/KCPL merger savings "tracking" proposal and why
16 it was proposed.

17 A. Western/KCPL, in their merger, Case No. EM-97-515, proposed to use the
18 actual 1995 expenses as a baseline for purposes of "measuring" merger savings. Western
19 proposed to index non-production O&M expenses to adjust for the impacts of inflation,
20 customer growth and productivity. It also removed medical and dental expenses,
21 transmission for others and net nonrecurring expenses.

22 For production O&M, Western factored in an inflation adjustment and removed
23 purchased power, fuel, lease expense for LaCygne 2, net non-recurring expenses and

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1 Wolf Creek decommissioning and outage expenses. The reason behind the proposed
2 baseline and adjustments was to identify the savings so they could be applied to the
3 regulatory plan proposed by Western Resources. This was essentially an incentive plan
4 with different levels of savings depending on the higher earned return. The importance
5 of the level of merger savings related to Western's position was that the more savings the
6 formula "proved", the higher the retention by the Company through the incentive plan.

7 Q. What was the Staff's position in regard to the baseline Western/KCPL
8 used in determining savings?

9 A. Even with these adjustments, the Staff opposed relying on the
10 Western/KCPL baseline to measure against merger savings. None the less, the
11 Western/KCPL tracking proposal was much more detailed, and was more realistic than
12 the UtiliCorp/St. Joseph "proposed" in that Western and KCPL realized that any baseline
13 chosen for tracking purposes must be subject to adjustment to attempt to eliminate non-
14 merger impacts.

15 Q. Is the Staff aware of other attempts by utilities to "track" merger savings?

16 A. Yes. UtiliCorp attempted to "track" savings following their acquisition of
17 West Plains Energy Kansas (West Plains) from Centel in 1991.

18 Q. Was UtiliCorp successful in its attempt at "tracking" merger savings?

19 A. No. UtiliCorp did not successfully track these savings. When the issue of
20 documenting the actual merger savings was brought before the Kansas Corporation
21 Commission (KCC), UtiliCorp attempted to included a multitude of cost savings that the
22 KCC ultimately decided were not merger related.

23 Q. Please summarize the details of the West Plains acquisition.

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1 A. On September 27, 1991, in Docket No. 175,456-U, the KCC allowed
2 UtiliCorp to acquire the electric assets of Centel subject to stipulated conditions. Centel's
3 assets were transferred to UtiliCorp at or about net book value. However, Centel's
4 eight percent ownership interest in Jeffrey Energy Center was transferred to Wilmington
5 Trust and leased back to UtiliCorp. The stipulation enforced a two-year rate moratorium,
6 a reduction in UtiliCorp's initial rate tariffs, a refund to retail ratepayers within the West
7 Plains service territory and prohibited UtiliCorp from seeking rate recovery of any
8 acquisition premium beyond the level of savings generated by the acquisition. UtiliCorp
9 did not propose a method for identifying and quantify savings in the initial acquisition
10 case. UtiliCorp presented little evidence of cost savings apart from general and
11 administrative cost reductions in its prefiled testimony. The determination of any
12 acquisition premium, the recovery of such costs and the issue of an appropriate
13 measuring mechanism for the merger savings were deferred until the Applicant's next
14 rate case.

15 Q. What were the merger savings issues in the subsequent KCC rate case,
16 Docket No. 99-WPEE-818-RTS?

17 A. The following excerpts from the KCC Order on Application specifically
18 address the merger savings issues in the West Plains case:

19 Page 7, 17. The Applicant identified seven areas of claimed
20 savings to support the recovery of the acquisition premium and
21 submitted that the savings greatly exceeded any acquisition
22 premium paid to Centel. Staff and CURB examined each area of
23 claimed savings and contended that the Applicant failed to show a
24 nexus between the claimed savings and the Centel acquisition...

25
26 Page 8, 18. The largest claimed savings is based upon the position
27 that the Applicant was entirely responsible for the reduced coal
28 costs at the Jeffrey Energy Center... It appears that the primary

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1 reason for coal cost savings is Western's motivation to lower its
2 coal costs and that the Applicant benefited from Western's
3 efforts...Moreover, the Applicant failed to carry its burden of
4 proof with respect to these claimed savings and failed to establish
5 that the coal cost savings would not have been created but for the
6 Centel acquisition.

7
8 Page 9, 20. ...The third source of claimed savings is a Power Plant
9 Matrix Agreement, which resulted in staff reductions and
10 increasing plant capacity factors... The evidence does not show
11 that these savings would not have been realized but for the Centel
12 acquisition or that the savings related to a sharing of personnel
13 with West Plains... It appears that this type of employee reduction
14 was in line with prudent utility management.

15
16 Page 9, 21. The fourth source of claimed merger savings is power
17 plant savings from efficiency programs recently implemented by
18 the Applicant in 1998. Similarly, the Applicant claimed savings in
19 a general work force reduction implemented by the Applicant four
20 years after the Centel assets were acquired. It appears from the
21 evidence that these types of claimed savings are the result of good
22 utility management and consistent with industry standards. The
23 evidence does not establish that these recent corporate changes and
24 restructuring efforts were related to the Centel acquisition.

25
26 Page 11, 24. The final claimed cost savings is a general work
27 force reduction implemented by the Applicant starting in 1995.
28 This reduction is said to involve 60 positions and is claimed to
29 reduce costs by over \$4.6 million... It appears that the workforce
30 reductions were the result of general economic changes in the
31 electric industry that were forcing all electric utilities to make such
32 work force reductions.

33
34 Page 11, 25. ...In addition, the Commission notes that West Plains
35 initially failed to provide adequate evidence and testimony to
36 document their claimed savings and this failure unfortunately
37 complicated and prolonged these proceedings.
38 (Emphasis added)

39 Q. What conclusions did you draw from the West Plains merger savings
40 issues in the KCC cases?

41 A. UtiliCorp did not provide more than general merger savings information in
42 its initial West Plains acquisition case. At the time of the 1999 rate case, UtiliCorp

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1 attempted to claim merger related savings for coal contracts and labor savings that the
2 KCC did not accept as merger-related.

3 Q. How do the rulings by the KCC in the West Plains case relate to the
4 UtiliCorp/St. Joseph merger case?

5 A. I believe that UtiliCorp will attempt to mix non-merger savings with
6 merger savings in the St. Joseph merger case also. An incentive will exist for UtiliCorp to
7 include non-merger savings with merger savings.

8 Q. What do you base this opinion on?

9 A. My opinion is based on the response of Mr. Siemek in the transcribed
10 interview, pages 81-83:

11 Question of Mr. Siemek: With that kind of adjustments,
12 say, to throw out a cost that would be deemed to be uncontrollable,
13 is that something that should be or would be considered by
14 UtiliCorp and other parties in looking at the bottom-line numbers?

15 Answer by Mr. Siemek: Well, actually, I think that type of
16 distinction is less important under the regulatory plan that we've
17 proposed. In other proposals that I've seen, it becomes very
18 significant exactly what the merger synergies are, because it sets a
19 return on equity level or determines how much of the premium you
20 can collect or net against the synergies.
21

22 In our plan, we've tried to avoid that complexity. And so
23 really the only reason, I think, that we need to quantify the merger,
24 the specific merger-related savings, is to make sure that we reach
25 the threshold or hurdle rate of \$1,577,000 in years six through ten.
26 And then it's only important because if we don't reach that hurdle
27 rate, we've guaranteed that—there will be that much of an impact
28 on the customers.
29

30 The distinction between merger synergies and other
31 synergies, or other costs, is not very important, other than that
32 hurdle rate. Because under the scenario and regulatory plan that
33 we've proposed, those synergies or costs get passed through to the
34 customer in that year six through ten, anyway. So if we get out to
35 the year seven and the medical costs are lower than what the
36

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1 projections are, then there are additional synergies, and we've
2 already met the threshold, then the revenue requirements for the
3 customers of St. Joe will be less as a consequence, whether it's
4 merger related or not.

5
6 Question: Okay.

7
8 Answer: So I think that eliminates a lot of the contention
9 that we've typically seen, for example, in the Western case on the
10 KG and E synergies, where it became very critical whether a
11 synergy was merger related or not. In our case, it doesn't make
12 any difference as long as we meet.

13
14 Question: That hurdle--

15
16 Answer: --that hurdle rate. And even that makes no
17 difference, to customers because we're already committing to
18 having that guaranteed reduction in the revenue requirements.

19
20 Mr. Siemek clearly does not see a need to separate merger savings from
21 non-merger savings. This is contrary to the policy the Commission has stated in the past.

22 Q. Will accurate tracking of merger savings be important under the Joint
23 Applicants' regulatory plan to determine if the "hurdle rate" (the \$1.6 million minimum
24 savings "guarantee") is met?

25 A. Yes.

26 Q. Why does it matter that merger savings are separated from non-merger
27 savings?

28 A. Ratepayers typically get the benefits of non-merger savings through cost
29 of service reductions that ultimately reduce rates. Applying savings towards the
30 regulatory plan proposed by UtiliCorp without separating merger savings from non-
31 merger savings would jeopardize the flow of non-merger savings which, regardless of the
32 merger, should all flow through to the ratepayers. At some point customers are entitled

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1 to the savings provided by prudent utility management. While, generally the utility keeps
2 the savings for a period of time through regulatory lag, customers will eventually enjoy
3 the benefit of those cost reductions. When a merger occurs, it is extremely important to
4 separate the cost reductions relating to the merger and those that would have occurred
5 absent the merger. Customers expect to benefit from the actions of a prudent
6 management operating the utility on an on-going basis. When costs increase, customers
7 are generally asked to pay for those increased costs through increased rates. It is equally
8 expected when cost decrease for customers to receive those reductions in reduced rates.
9 Simply put, customers are entitled to non-merger related savings so they must be
10 separated from merger related savings.

11 Q. Is it important to distinguish between merger and non-merger related
12 savings if recovery of an acquisition adjustment is being requested?

13 A. Yes. It is even more critical to identify, verify and quantify the merger
14 related savings from the non-merger related savings to make a decision on recovery of
15 the acquisition adjustment. This can be thought of as a cost/benefit type of analysis
16 where the costs of the merger, in this example, the acquisition adjustment, must be
17 compared to the benefits, in this example, the merger savings. If all savings are included
18 in the analysis you would likely get unrealistic and unsubstantiated results.

19 Q. How does the business strategy of UtiliCorp contribute to the inability to
20 separate savings related to the merger from non-merger savings?

21 A. As stated in UtiliCorp's 1993 Annual Report "...the company actively
22 seeks expansion opportunities in both the regulated and non-regulated segments of the
23 industry." UtiliCorp is a merger and acquisition company. It has had a growth through

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1 acquisitions strategy for almost two decades. The constant influx of change within
2 UtiliCorp contributes to the complexity of the organization and the difficulty in
3 attributing changes in expense levels to one factor (i.e., the St. Joseph merger) as opposed
4 to other factors.

5 For example, suppose UtiliCorp were to acquire another major domestic utility
6 through a merger transaction this year. This hypothetical merger would impact the
7 financial results of UtiliCorp significantly. It would be very difficult, if not impossible,
8 to attribute the amount of the earnings impact from this additional merger separately from
9 the St. Joseph merger, and from other possible influences.

10 Q. Is the Staff convinced that the savings identified by the Companies are
11 only attainable through the merger?

12 A. No. An example of non-merger savings, the recent UtiliCorp re-
13 engineering effort, Project BTU, will be discussed in the next section of my testimony.
14 There are also opportunities in the future after the merger is consummated for savings to
15 be generated that are non-merger related. UtiliCorp could and has attained some of these
16 on a stand-alone basis. St. Joseph also attained non-merger savings in their
17 reorganization through employee reductions.

18 Q. Can the Staff cite examples of non-merger savings that UtiliCorp
19 anticipates in the next few years?

20 A. UtiliCorp, in response to Staff Data Request No. 82, provided **_____
21 _____
22 _____
23 _____

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1 _____
2 _____
3 _____ ** The explanation as to how UtiliCorp plans to attain this improved
4 efficiency is not provided, but it is clear that this is an example of a non-merger savings
5 that can be generated by UtiliCorp on a stand-alone basis.

6 Q. Will the use of PeopleSoft for Human Resources (HR) application by
7 UtiliCorp result in cost savings?

8 A. Yes, I believe it will. I asked UtiliCorp in Staff Data Request No. 198, to
9 identify any expected/anticipated savings to be realized through the implementation of
10 PeopleWorks Phase III. This is a software package to enhance PeopleSoft applications
11 through additional options. Although UtiliCorp's response stated that PeopleSoft HR was
12 implemented in January 1999, it also stated that no savings would be realized from the
13 implementation of PeopleWorks so no savings would to be segregated from either
14 merger.

15 This contradicts PeopleSoft's own data from their web page promotional
16 documents. PeopleSoft illustrates examples of ways cost savings can be generated
17 through efficiencies created by the implementation of its software. For example:

18 A Duke Energy PeopleSoft Profile, states that the use of
19 PeopleSoft in its HR function has allowed them to need fewer
20 people creating economies of scale and productivity.

21
22 As an other example: Entergy stated in another PeopleSoft
23 Profile that HR allowed them to cut their human resource staffing
24 by 30%.
25

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1 These savings will be available to UtiliCorp when the Employee Service Station
2 is implemented. The self-service functionality of the HR software allows employees
3 access to their personnel data through a HR home page.

4 Even though UtiliCorp stated in response to Staff Data Request No. 198 that the
5 basis for approval of the PeopleWorks Phase III wasn't cost savings, when these savings
6 occur, they will flow through the allocations associated with Human Resources functions
7 and be distributed to all divisions of UtiliCorp that received allocations from HR.
8 St. Joseph will receive an allocation from HR. These non-merger UtiliCorp savings will
9 be passed through to St. Joseph with the allocation process and become merger savings to
10 St. Joseph. St. Joseph on a stand-alone basis could have implemented the same HR
11 software and attained a non-merger savings for the same technology benefits that will
12 now be counted as merger related savings.

13 Q. Has the Staff identified any additional potential stand-alone savings for
14 St. Joseph?

15 A. Yes. Automated meter reading (AMR) is a savings area that St. Joseph
16 could realize on a stand-alone basis. A Project Status Report, October 1, 1999, from the
17 Information Technology Transition Team in response to Staff Data Request No. 107,
18 listed the upgrade of the ITRON meter reading system that St. Joseph anticipated on a
19 stand-alone basis. Future technological advances would allow St. Joseph opportunities to
20 generate savings with AMR systems in the future on a stand-alone basis, just like any
21 other utility would experience.

22 St. Joseph's response to Staff Data Request No. 82 provided an excerpt from
23 page 9:

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1 **
2 _____
3 _____
4 _____
5 _____
6 _____
7 _____
8 _____**

9 Clearly, it appears that St. Joseph would be able to generate savings through the
10 implementation of an Internet bill paying system. In addition, St. Joseph could have used
11 this Internet system to enhance non-regulated business activities.

12 Another example of a cost savings that St. Joseph could implement on a stand-
13 alone basis would be to convert their fleet replacement policy to a five-year/125,000 mile
14 plan. This is an operational requirement of the UCU/SJLP distribution transition team, to
15 be implemented on "Day One" of the merger. This may be intended to be included in
16 merger related savings, while St. Joseph could have realized this as a non-merger savings
17 if it had implemented this fleet replacement policy on its own.

18
19 **MERGER SAVINGS – RE-ENGINEERING PROJECTS/NON-MERGER SAVINGS**

20 Q. Do UtiliCorp's projections of savings resulting from reorganization/re-
21 engineering mimic those of the merger?

22 A. Yes, in some cases they do. UtiliCorp provided information about its
23 reorganization and strategic planning effort in response to Staff Data Request Nos. 26 and
24 192. Several excerpts from the response to Staff Data Request No. 26 demonstrate that
25 re-engineering savings were approached in much the same way as merger savings:

26 The focus in this area was on reduction of redundancy and in
27 gaining of efficiencies.
28

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1 Based on the findings of the "Recommended State" study, signif-
2 icant savings could be expected. O&M savings (exclusive) of
3 transition costs would be \$35-40 million or roughly 20%. Much of
4 these savings would result from a decrease in personnel, which is
5 estimated to be approximately 840 employees.
6

7 UtiliCorp recognized that there are opportunities within the UtiliCorp
8 organization on a stand-alone basis to create savings absent the merger.

9 Q. Can you cite examples from Project BTU of non-merger savings?

10 A. Yes, I can. The Companies' response to Staff Data Request No. 192
11 included a copy of Project BTU, Building Tomorrow's UtiliCorp, Business Case, August
12 26, 1996. The following savings were referenced with the report:

- 13 • Improve efficiency of UtiliCorp's labor and material resources in
14 design, construction and maintenance of the distribution network,
15 allowing for lower operating costs
- 16 • The initiative of Project BTU will significantly reduce costs of
17 operations
- 18 • BTU will reduce the time it takes to execute basic business
19 activities
- 20 • Line and service crew productivity will increase through enhanced
21 planning and scheduling capabilities
- 22 • The business focus of the Customer Service Center is to create the
23 most efficient and standardized customer service/sales call center
24 environment in the industry.
- 25 • In 1995, the estimated cost per call for call centers in Michigan and
26 Missouri was \$1.85. The improvements in the system are expected
27 to contribute to meeting the future team goal of \$1.18. This would
28 represent a 36% decrease.
29

30 It will be difficult or nearly impossible to differentiate these types of non-merger
31 savings from merger savings as they extend out in time. Efficiencies developed through
32 the Project BTU re-engineering effort will be amplified through the St. Joseph and
33 Empire mergers. Where re-engineering non-merger savings end and merger savings
34 begin will be nearly impossible to separate, let alone "track".

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1 Q. Does UtiliCorp continue to benefit through cost savings today as a result
2 of the re-engineering which began in 1994?

3 A. Yes. Most of the benefits didn't occur until late 1997. Some of the re-
4 engineering projects have only recently been implemented. The Missouri Customer
5 Information System (CIS) has just been put into place within the last few months. The
6 benefits from changes in CIS will contribute to non-merger savings for years to come.
7 The direct testimony of Staff witness Steve Traxler in the Case No. ER-97-394 discusses
8 the details of the re-engineering plan.

9 Q. Does UtiliCorp have plans to continue to strive for efficiencies and ways
10 to reduce costs that would be classified as non-merger related?

11 A. Yes, UtiliCorp, in response to Staff Data Request No. 192 provided
12 summaries of benefits of Project BTU, the re-engineering program implemented by
13 UtiliCorp beginning in 1996. Cost savings are and will continue to be generated from
14 Project BTU.

15 Q. Why are re-engineering programs implemented and how do they generate
16 savings?

17 A. Re-engineering programs are implemented for a variety of reasons. Some
18 of the reasons are improvements in coordination, systems reliability, performance
19 standards and reductions in costs are just a few. Re-engineering is a process in which an
20 organization reanalyzes their operations to determine where efficiencies can be created.
21 The organization reviews benchmarks and sets goals to incorporate changes to improve
22 its competitive position within the industry. Costs savings are often realized from re-
23 engineering programs.

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1 Q. Has St. Joseph completed any reorganizations?

2 A. St. Joseph responded to Staff Data Request No. 193: "There has been no
3 formal reengineering of the Company since 1994. Changes in the organization have
4 occurred in the ordinary course of business. Specific documentation of these changes and
5 their impact are not available." In response to Staff Data Request No. 16, St. Joseph
6 states, in relation to employee attrition: "In 1996, our restructuring resulted in eight
7 positions being eliminated and three new positions were added resulting in five positions
8 being eliminated." This demonstrated that the Company has reduced costs in the past
9 with the elimination of labor positions. This type of savings is also possible in the future.

10 Q. Does the Staff believe that merger savings can be segregated from savings
11 generated from re-engineering or other cost saving methods employed by the companies
12 on a stand-alone basis?

13 A. No. The Staff believes that there is no mechanism available to truly
14 separate these savings. The UCU/SJLP merger savings tracking "proposal" cannot be
15 relied upon because the estimates contain savings generated from re-engineering and
16 other cost saving methods.

17 A commitment to achieve the levels of savings does not mean that the level of
18 savings, if achieved, are totally merger-related. The impact of the merger will be
19 constant to the extent that the merger impacts are less than the reported savings levels, as
20 Staff believes to be the case. It is possible that management can engage in other activities
21 to achieve the same level of savings by using non-merger-related decisions. It is
22 conceptually possible that UtiliCorp can use additional work management techniques

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1 such as activity standardization and technology substitution that are available to it on a
2 stand-alone basis. Such savings are not merger-related.

3 Q. Does the Staff understand that either the Myers tracking (Schedule 3 to
4 this testimony) or Mr. Siemek's response to Staff Data Request No. 170, both previously
5 discussed, constitute a formal proposal for a savings tracking methodology?

6 A. No. In the absence of such a formal proposal, the Staff is forced to
7 respond in this rebuttal testimony to what little information is available as to UtiliCorp's
8 intentions in this area.

9
10 **ACQUISITION ADJUSTMENTS**

11 Q. Have you read the direct testimony of Joint Applicant witness John W.
12 McKinney?

13 A. Yes, I have.

14 Q. Do you have any comments to make in reference to his testimony?

15 A. Yes, I do. Mr. McKinney has included as "Figure 2", on page 22 of his
16 direct testimony, a map attributed to the NAWC Sourcebook, Updated 6/23/97. This map
17 shows the United States with the states shaded where commissions purportedly have
18 approved acquisition adjustments. In actuality, the Staff believes the map presented by
19 Mr. McKinney represents states where acquisition adjustments were approved for
20 water utilities.

21 The original map in the June 23, 1997 NAWC Sourcebook is included in my
22 testimony as Schedule 5. The appearance of the map is somewhat different from the one
23 presented by Mr. McKinney. The NAWC Sourcebook map is shaded black for states that

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1 have approved acquisition adjustments for water mergers/acquisitions and shaded gray
2 for states that allow a limited acquisition adjustment for water mergers/acquisitions. Of
3 the twenty-six states shaded, fifteen have only allowed acquisition adjustments on a
4 limited basis.

5 Q. What was the purpose of the NAWC Sourcebook update?

6 A. The purpose of the sourcebook for which the full title is Sourcebook of
7 Regulatory Techniques for Water Utilities, is explained by Ms. Janice A. Beecher, Ph.D.
8 Indiana University, who compiled the update for the Rates and Revenue Committee of
9 the National Association of Water Companies. In the introduction to the sourcebook,
10 Ms. Beecher states:

11 The purpose of this Sourcebook of Regulatory Techniques for
12 Water Utilities is to provide water industry and regulatory
13 professionals with a comprehensive and current compilation of
14 regulatory policies and practices. The Sourcebook describes each
15 approach and its use. The purpose of the Sourcebook is not to
16 emphasize or advocate any particular approach, but to provide
17 information resources. The Sourcebook is designed to aid research
18 and promote dialog on a wide range of alternative regulatory
19 techniques.
20

21 Q. What sources of information did Ms Beecher rely on for the compilation?

22 A. In the introduction Ms. Beecher stated the following regarding her
23 sources:

24 The Sourcebook relies extensively on a 1996 survey of
25 commission staff members...The survey includes all forty-five
26 commissions that regulate water utilities... The survey data should
27 be used for general information purposes only. In keeping with the
28 goal of comprehensiveness, the survey is broad in scope but not
29 highly detailed. Commission staff members provided a very
30 general impression of regulatory policy in their respective states
31 based on a very simple survey instrument. Within specific areas of
32 policy, many variations in interpretation are likely. While much
33 effort was devoted to ensuring the accuracy of the survey, the

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1 results should not be taken as a definitive statement of commission
2 policy.
3

4 The survey used to compile the Sourcebook data had very general questions and
5 state regulators that responded were given latitude to convey as much or as little
6 information as they chose.

7 Q. Did you review the Missouri response to the NAWC survey?

8 A. Yes. It was answered from a water regulatory perspective only.

9 Q. Were there further details that accompanied the Sourcebook map that were
10 not included with the "figure 2" map in Mr. McKinney's testimony?

11 A. Yes. There were survey notes that described in greater detail the
12 circumstances in which acquisition adjustments were allowed for water utility merger
13 cases. The survey notes included specific information to the states survey responses (see
14 attached Schedule 6).

15 Q. What additional information did the Staff gain from the NAWC
16 Sourcebook?

17 A. Some jurisdictions have treated acquisition adjustments for water and
18 wastewater merger/acquisitions somewhat differently than those resulting from electric
19 and natural gas mergers. Pennsylvania and New York are two states that have enacted
20 policies to allow acquisition adjustments, both positive and negative, for small water
21 utilities. These policies have been implemented because the quality of water and the
22 financial viability of small utilities is a concern to state regulators. These concerns, along
23 with needs for customer service improvements have spurred the approval of acquisition
24 adjustments for certain water utilities in these jurisdictions.

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1 While some states have realized the need to allow acquisition adjustments for
2 troubled water systems and in some cases for wastewater systems also, the circumstances
3 that lead to the mergers and acquisition of electric and natural gas utilities are obviously
4 quite different.

5 Q. Does the Staff believe the NAWC survey's relevant to the issue of
6 recovery of electric acquisition adjustments?

7 A. The NAWC survey results are not relevant to the acquisition adjustment
8 issue as it relates to electric utility mergers.

9 Q. What has generated the increase in merger activity between electric
10 utilities in recent years?

11 A. I believe that there are several contributing factors to the increase in
12 merger activity in the electric industry. The restructuring of the electric industry has led
13 to the increased merger activity. An article describing electric restructuring activities in
14 Florida taken from the Florida Public Service Commission web page, States' Electric
15 Restructuring Activities Update-Florida Public Service Commission, summarizes some
16 of the main reasons why restructuring is occurring and in turn, why increased merger
17 activity is occurring:

18 A number of states are exploring retail restructuring as a
19 way of achieving lower rates and greater customer satisfaction.
20 Higher than average electric rates appear to be the primary driver
21 in these states. Electric restructuring generally describes a
22 movement from regulated monopoly electric utility services to
23 market-based competitive electric services. A lot of different
24 terms are being used to describe what is happening at the federal
25 level and in other states in the transition to electric competition.
26 Phrases such as restructuring, deregulation, competition, retail
27 wheeling, retail access, and customer choice have all been used to
28 describe a broad-based, national movement away from traditional

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1 rate base regulation of vertically integrated, monopoly public
2 utilities.
3

4 California, New Hampshire, New York and Massachusetts
5 were among the first states to move toward retail access. The
6 average residential rate in these states is approximately 12 cents
7 per kilowatt-hour. Because of these high rates, economic
8 development appears to have suffered with the loss of jobs and the
9 relocation of industry. In many high-cost states, large commercial
10 and industrial customers have been the most active in encouraging
11 a move toward competition. At present, a total of twenty-two
12 states have enacted legislation or implemented regulations
13 requiring retail restructuring, although the legal basis is being
14 challenged in several states... Small-use residential and
15 commercial customers are less likely to have meaningful
16 alternative generation supply choices in a competitive market and
17 may be left paying higher costs.
18

19 Q. Why have state regulators become more likely to pass on acquisition
20 adjustments in electric and natural gas utility mergers to ratepayers in recent years?

21 A. The pressure continues to be exerted upon regulators in states where utility
22 costs are considered to be significantly above the national average to promote activities,
23 whether mergers, divestitures of generation assets or deregulation initiatives, to lower
24 utility rates. On the federal level, the philosophy of the Federal Energy Regulatory
25 Commission (FERC) supports mergers that purport to enhance economic development,
26 build stronger/larger companies that can survive deregulation/restructuring and cut costs
27 through economies of scale.

28 It is yet to be seen if deregulation/restructuring will reduce rates for the majority
29 of Americans. It is unlikely that the customers in low cost energy states, like Missouri,
30 would want their state regulators to endorse the exact same philosophy as those of the
31 high cost energy states.

32 Q. Have you read the direct testimony of UtiliCorp witness Robert K. Green?

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1 A. Yes, I have.

2 Q. Do you have any comments about his testimony?

3 A. Yes, I do. On page 15, he cites Massachusetts as an example of a public
4 service commission that has addressed acquisition premium recovery:

5 After years of denying the cost of acquisition premiums, in 1994
6 the Massachusetts Department of Telecommunications and Energy
7 changed its long-standing policy and now will allow recovery of
8 the premium on a case by case basis when denying recovery of that
9 premium would prevent consummation of a merger that would
10 otherwise be in the public interest.

11
12 I don't believe Mr. Green went far enough in explaining the Massachusetts
13 Department of Telecommunications and Energy (DTE) view on acquisition premiums. I
14 will provide some excerpts from the Massachusetts Department of Public Utilities (DPU)
15 (the predecessor to the DTE) Guidelines and Standards for Acquisitions and Mergers of
16 Utilities (Guidelines) dated August 3, 1994 and then comment on why Massachusetts
17 changed its policy to allow utilities the opportunity to recover acquisition adjustments:

18 ...In light of concerns over high utility rates which in part may be
19 the result of duplicative facilities, functions, and services among
20 Massachusetts utilities, the Department has sought to reexamine its
21 current policy towards mergers or acquisitions and determine
22 whether the public interest may better be served by specific policy
23 changes that enhance efficient delivery of utility services in
24 Massachusetts.

25
26 ...The Department believes that cost-effective mergers are one of
27 several means by which utilities may be able to reduce their cost of
28 service, improve service reliability, and enhance their financial
29 strength.

30 (Emphasis added)

31
32 Massachusetts is a high cost per kilowatt-hour state. I believe high cost states
33 may be compelled to modify prior policy to reduce rates and improve economic

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1 development opportunities in their states. These excerpts from the Massachusetts
2 Guidelines support my position. In his testimony, Mr. Green did not explain what led to
3 the policy change or why Massachusetts is not necessarily comparable to Missouri.

4 Q. Did the Massachusetts DPU provide reasons in the 1994 Guidelines for its
5 change in policy?

6 A. The following excerpts from the Guidelines explain why the DPU had not
7 felt compelled prior to 1994 to allow acquisition adjustments:

8 ...Most mergers or acquisitions that have occurred in
9 Massachusetts have involved affiliated companies where assets
10 and liabilities were combined into a single entity. In these cases,
11 consolidations were achieved either by a sale of assets at a price
12 equal to book value or by exchange of stock. Because these
13 transactions did not result in a difference between purchase price
14 and original book value, no acquisition premium was realized.

15
16 ...A merger or consolidation may also occur through a pooling of
17 interests by two or more utilities...some involved an acquisition
18 price that differed from the net book value of the assets of the
19 acquired utility, thus producing an acquisition premium...however,
20 in each of these cases, the acquiring company specifically pledged
21 that it would not include the premium in rate base, and would not
22 propose cost of service treatment for amortization.
23 (Emphasis added)
24

25 Again, Mr. Green in his direct testimony did not provide an explanation to why
26 acquisition premiums were not approved in Massachusetts prior to 1994. It is clear
27 through the explanation included in the guidelines that historically, acquisition premiums
28 had not been an issue. The guideline cites at least twenty cases where premiums were not
29 an issue in prior acquisitions.

30 Q. Did Mr. McKinney also reference the Massachusetts DPU?

31 A. Yes, he did. McKinney states:

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1 The Massachusetts Department of Public Utilities ("Department")
2 set forth generic guidelines and standards for acquisitions and
3 mergers of utilities. Prior to the generic investigation, the
4 Department maintained a policy of disallowing acquisition
5 adjustments. After the generic hearings, the Department
6 determined that where potential benefits for customers exist, it is
7 not in the interest of the customers, the shareholders, or the state to
8 maintain a barrier against mergers.
9

10 Q. Do you have any comments about his testimony?

11 A. Yes. I don't believe Mr. McKinney went far enough in explaining the
12 Massachusetts DTE's present view on acquisition premiums in the above statement,
13 either. I would like to emphasize the requirements set out in the Guidelines that the
14 Massachusetts DTE would consider various factors in order to determine if the merger is
15 consistent with the public interest.

16 These factors were set forth in the guidelines:

- 17
18 (1) effect on rates
19 (2) effect on the quality of service
20 (3) resulting net savings
21 (4) effect on competition
22 (5) financial integrity of the post-merger entity
23 (6) fairness of the distribution of resulting benefits between
24 shareholders and ratepayers
25 (7) societal costs, such as job loss
26 (8) effect on economic development, and
27 (9) alternatives to the merger or acquisition
28

29 The DTE stated, "This list is illustrative and not 'exhaustive,' and the Department
30 may consider other factors when evaluating a §96 proposal." (Section 96 permits
31 companies subject to Chapter 164 to engage in merger or acquisition under the
32 preconditions there stated.)

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1 The Massachusetts DTE, when allowing acquisition premiums, must be satisfied
2 that companies demonstrated more than "potential benefits for customers exist," which is
3 what Mr. McKinney states in his testimony. A paragraph in the Guidelines points this
4 out explicitly:

5 On the other hand, the Department will not automatically
6 allow recovery of all premiums associated with each and every
7 merger. Rather, we are requiring parties to demonstrate that the
8 recovery of acquisition premiums is allowable as part of the
9 general reckoning of cost and benefit under the G.L. c. 164, §96
10 consistency standard. Adoption of a presumptive rule in favor of
11 acquisition premiums might mislead shareholders to expect
12 guaranteed recovery of merger-related costs, regardless of the
13 existence of countervailing advantages. Moreover, a blanket
14 policy favoring recovery of acquisition premiums might have the
15 unintended consequence of preventing market forces from acting
16 as a restraint against what may otherwise be considered
17 unwarranted premium levels. Therefore, based on the foregoing,
18 the Department finds that in the future it will on a case-by-case
19 basis consider individual merger or acquisition proposals that seek
20 recovery of an acquisition premium. Additionally, the Department
21 will consider the appropriate level of a recoverable acquisition
22 premium on a case-by-case basis.
23

24 While the Massachusetts DTE may allow premiums, they have much latitude in
25 determining how to approach mergers so that no harm comes to ratepayers or the public
26 interest.

27 Q. Has the Massachusetts DTE used its guidelines in merger cases?

28 A. Yes. Massachusetts used its guidelines in two natural gas utility mergers.
29 In the Eastern Enterprises (Eastern) pooling of interests acquisition of Essex County Gas
30 Company (Essex) the applicants estimated a \$47.1 million acquisition premium from
31 earnings dilution that would be experienced by Eastern shareholders. Staff witness Mr.

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1 Hyneman addresses issues related to the differences in accounting treatment (pooling of
2 interest versus purchase) of mergers in his rebuttal testimony.

3 Q. What led the DTE to approve an acquisition premium in this merger case?

4 A. The DTE considered the factors in the Guidelines. Essex is a small gas
5 local distribution company at the end of an interstate pipeline system. The DTE stated in
6 its analysis and findings that Essex would be increasingly challenged to respond to a
7 competitive market dominated by larger utilities and that ultimately the ratepayers would
8 be losers if the merger did not take place. With respect to effect on rates, the DTE stated:

9 The resulting net savings, and alternatives to the merger,
10 the Department found that approval of a 10-years freeze of base
11 rates will yield benefits to Essex's ratepayers and results in just
12 and reasonable rates. Further, the Department recognized that the
13 proposed merger would provide Essex's ratepayers with
14 guaranteed savings in gas costs that would be unavailable absent
15 the merger. Based on our evaluation of the Rate Plan, the
16 Department also concludes that the five percent rate reduction and
17 10-year rate freeze, in conjunction with the opportunity for
18 Eastern's shareholders to recover the costs associated with the
19 merger, represents a fair allocation of the benefits between
20 shareholders and ratepayers.
21

22 A condition of the approval was finding the Eastern/Essex transaction to be
23 "consistent with the public interest" or a "no net harm" standard. Under the Guidelines,
24 the extent to which recovery of the acquisition premium is permitted depends on the "no
25 net harm" analysis.

26 Q. What did the DTE decide in the other natural gas merger case?

27 A. The Northern Indiana Public Service Company (NIPSCO) acquisition of
28 Bay State Gas Company (Bay State) was treated for accounting purposes as a purchase
29 rather than a pooling of interests. The applicants estimated a merger premium of \$315

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1 million, including estimated transaction costs of \$5 million. The DTE approved a five-
2 year rate freeze. The focus of this case was growth of NIPSCO and the anticipated
3 merger savings benefits were not quantified. The DTE allowed Bay State to seek
4 recovery of the acquisition premium in future rate proceedings. The recovery of the
5 premium would be dependent upon achieving merger-related savings.

6 Q. Have there been other Massachusetts merger cases where the Guidelines
7 were applied?

8 A. Yes. In another DTE merger case between Boston Edison Company
9 (BEC) and Commonwealth Energy, DTE 99-19, the Massachusetts Guidelines were
10 applied. In this case, BEC was asking for recovery of an acquisition premium of \$502
11 million under the purchase accounting merger method. The DTE approved the merger
12 with a four year rate freeze and allowed recovery of the premium. The DTE relied on a
13 finding of projected merger savings of \$632.5 million over the first ten years following
14 the merger close. Costs over the same time would be \$205 million in amortization of the
15 premium and \$135 million after tax transaction costs.

16 The Case has been appealed to the State Supreme Court by the Attorney General
17 and a group of large volume customers who contend the rate plan is not in the public
18 interest and the fact that merger savings estimates were relied on by the DTE, led to
19 uncertainties about how much consumers will actually save.

20 Q. Did Mr. McKinney provide examples from other state public utility
21 commissions in his direct testimony?

22 A. Yes, he did. Mr. McKinney listed Oklahoma Corporation Commission
23 (OCC) "criteria" that he believes the UtiliCorp/St. Joseph transaction meets.

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1 Q. Have you reviewed the Oklahoma Gas & Electric Company (OG&E) case
2 referenced in Mr. McKinney's direct testimony?

3 A. Yes, I have. The OCC established a standard test for rate base treatment
4 of acquisition premiums with four points for consideration. These were stated in Mr.
5 McKinney's direct testimony at page 23. The OG&E case, Cause Nos. PUD900000898,
6 PUD910001055, PUD900001005, Order No. 380443, 150PUR 4th 33, February 25, 1994,
7 involved the rates being charged by Enogex, a wholly owned subsidiary of OG&E, in its
8 pipeline transportation charges to OG&E. The OCC decided to pass 50% of the
9 acquisition premium cost through the Fuel Adjustment Clause being charged by Enogex
10 in transportation charges to OG&E. The decision was based on evidence for allocation of
11 the transportation and processing segments of OG&E. The OCC found that in this
12 OG&E case that the transaction substantially met the four criteria recognized in the
13 treatise, Accounting for Public Utilities. The OCC went on to state:

14 The transaction was in the public interest, the price paid
15 was reasonable, the benefits to ratepayers were equal to or greater
16 than the premium level which the Commission allows for rate
17 treatment, and the transaction was conducted at arm's-length.
18 Furthermore, the acquisition is deemed to have been the least cost
19 alternative available to OG&E. These factors were analyzed when
20 the purchase occurred.

21 The parties concur that the acquisition premium amounts to
22 a purchase price of \$133,056,188 above the depreciated book value
23 of the Mustang transportation pipeline and natural gas processing
24 facilities.

25 However, this amount will not be passed along to the
26 ratepayers in its entirety. Allocation of the acquisition premium is
27 necessary to reflect the share of the acquisition premium which
28 fairly can be recovered from ratepayers... This allocation is shown
29 from the record to be determined by two factors: (1) statistical and
30 financial analysis regarding the split between the transportation
31 and processing segments, and (2) policy considerations involving
32 the choice to pass a portion of the benefits and burdens of the
33 transportation segment along to the ratepayers.

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1

2 Q. Should the Commission accept OCC standards in determining if the
3 UtiliCorp/St. Joseph merger should be approved?

4 A. No. Each state commission should follow its own statutes, policies,
5 standards, etc. in determining approval of mergers and rate treatment of the merger.
6 While the OCC standards appear on the surface to be reasonable and UtiliCorp believes
7 their St. Joseph merger transaction meets these standards, these standards are not specific
8 to Missouri.

9 Q. In reference to the four OCC "standards", does the staff believe that the
10 UtiliCorp/St. Joseph acquisition adjustment meets all four standards for recovery?

11 A. No. In particular, the Staff questions whether the Joint Applicants have
12 demonstrated that total merger savings will exceed the merger premium in this case.
13 Please see the testimony of Staff witness Oligschlaeger and Traxler on this point.

14 Q. Have you reviewed merger cases in other state jurisdictions besides those
15 mentioned by Mr. McKinney and Mr. Green?

16 A. Yes. I have reviewed merger cases in several other jurisdictions and have
17 found that state commissions have a variety of approaches to approving mergers.
18 Companies don't necessarily ask for recovery of acquisition premium from ratepayers.
19 Commissions, even when asked to allow recovery of acquisition premiums, don't always
20 allow recovery. Commissions may postpone deciding the recovery issue until savings
21 can be proven. The status of deregulation in the state often influences the approach the
22 commission takes in deciding how much recovery, how long to extend rate freezes,
23 savings sharing mechanisms, etc.

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1 Q. Why is there a question of how acquisition adjustments should be treated?

2 A. There are two basic accounting/rate issues relating to acquisition
3 adjustments. The first is the appropriate treatment of the acquisition adjustment in rate
4 base. The second is the appropriate cost of service treatment of the amortization of the
5 acquisition adjustment.

6 Q. Do you have some specific examples?

7 A. Yes. I reviewed the California Public Utilities Commission's (CPUC)
8 opinion in the merger of Pacific Enterprises and Enova Corporation (Enova),
9 D.98-03-073. California implemented electric industry restructuring in January 1998.
10 Pacific Enterprises and Enova wanted a ten year sharing period to recover fifty-percent of
11 an estimated \$1.1 billion in savings. In the Opinion, the CPUC commented on problems
12 with the ten-year plan in conjunction with an electric rate freeze and a PBR mechanism,
13 which anticipated a cost of service review in 2003:

14 It will be difficult and artificial to conduct this cost of
15 service review with a merger savings overlay. If the utilities true
16 up forecast merger savings to actual savings, they would have an
17 incentive to change from a narrow view of merger savings now to
18 an expansive view of merger savings later. If the utilities lock in
19 merger savings now, any future cost-of-service review will be
20 artificial. We will have to add non-existent costs back into the
21 utility system to develop a cost-of-service review for stand-alone
22 utility operations and redesign earnings sharing mechanisms.
23

24 I believe this statement points to problems in proposals to track merger savings
25 because companies have incentives to combine merger and non-merger savings. This
26 will also likely be a problem in the UtiliCorp/St. Joseph merger under the Joint
27 Applicants' tracking proposal.

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1 Q. Do you have another example of how other jurisdictions have ruled in
2 merger cases?

3 A. Yes. The PacifiCorp and Scottish Power merger was completed
4 November 30, 1999. The combined utility is now one of the top ten investor-owned U.S.
5 electric utilities. The PacifiCorp and Scottish Power merger was approved in several
6 states. I chose to review merger cases in the states of Wyoming and Idaho to examine the
7 main issues in those jurisdictions. Each state has taken a position that addresses their
8 specific situation based on current rates, customers service concerns, and the status of
9 deregulation in that state in addition to the requirements of the laws governing the
10 regulation of utilities in that state.

11 Denise K. Parrish, Supervisor of the Rates and Pricing Section of the Wyoming
12 Public Service Commission, testified as a member of the Consumer Advocate Staff in
13 that jurisdiction's proceedings. She advised the Wyoming Public Service Commission as
14 follows:

15 You have to look at each state on an individual basis and see where
16 they are. For instance, the Idaho staff thinks that PacifiCorp may
17 be over earning. We heard Mr. O'Brien indicate that they are
18 probably under earning in Idaho. Utah has just had a rate case.
19 Oregon has an alternative form of regulation in place where some
20 increases are coming about on a quasi-automatic basis. So I don't
21 think it's fair to compare Wyoming to those other states when
22 there are different regulatory schemes in place.
23

24 Q. Did ScottishPower make concessions to the state of Wyoming as part of
25 its regulatory plan?

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1 A. Graham Morris, Head of Finance for Manweb (a regional electric
2 company in England and Wales), testified for ScottishPower, in the Wyoming merger
3 application case regarding the nature of the merger transaction:

4 All transaction costs would be excluded from PacifiCorp utility
5 accounts. He stated the result of this exclusion. We have ensured
6 that the costs associated with the transaction will not be passed on
7 to customers. The companies are bearing these costs and the
8 acquisition premium, which ScottishPower is paying for
9 PacifiCorp.
10 (Emphasis added)

11
12 Alan V. Richardson, Executive Director and member of ScottishPower Board of
13 Directors, testified:

14 ScottishPower would share its transition plan with the Commission
15 within six months after closing of the merger. The plan will
16 identify how ScottishPower expects to achieve cost savings and the
17 expected costs and benefits of these initiatives. Additionally,
18 ScottishPower committed to submit an informational filing in June
19 2001 to show how planned cost savings will be promptly reflected
20 in Wyoming results of operations.
21

22 Q. What did the Commission decide in the Wyoming
23 ScottishPower/PacifiCorp merger?

24 A. On November 17, 1999 the Wyoming Commission ordered in Docket No.
25 20000-EA-98-141 approval of the reorganization under the terms and conditions of the
26 Stipulation and its Amendment. Condition 4 of the stipulated case as amended states
27 that:

28 The 2001 informational filing will include a full description,
29 calculation and dollar identification of merger savings. The filing
30 will include in the adjusted revenue requirement calculation, any
31 such merger savings. The Wyoming allocated share of merger-
32 related savings shall be no less than \$4 million per annum, rather
33 than the approximately \$1.5 million previously discussed and
34 agreed upon by them. If the savings are higher than \$4 million, the

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higher figure will be used for the 2001 informational filing; and the higher figure will be reflected in the next general rate case filed on or after January 1, 2001. If the full \$4 million is not demonstrated, the parties agree that it may be imputed for ratemaking purposes.
(Emphasis added)

ScottishPower presented a position to the Wyoming Commission that did not include substantial risk to the ratepayers. By not seeking recovery of the acquisition premium and the costs of the transaction, the company removed many of the barriers for approval of the merger. At the same time, the company also agreed to reflect merger savings in rates.

Q. How did Idaho react to the ScottishPower/PacifiCorp merger?

A. The merger of ScottishPower with PacifiCorp was opposed by Idaho citizens at public hearings. Citizens feared the loss of control of an American utility to a foreign company.

Q. What concessions did ScottishPower make in Idaho as part of its regulatory plan?

A. ScottishPower, following the conclusion of the technical hearings in Idaho, filed with the Commission a Notice of Merger Credit Commitment that was incorporated in to the Commission's Order:

Pursuant to that offer, ScottishPower and PacifiCorp shall provide guaranteed merger-related cost of service reductions for four years through an annual merger credit on customers' bills. The amount of the credit shall be \$1.6 million per year for the years 2000, 2001, 2002, and 2003. The total credit in years 2000 through 2003 will be \$6.4 million. For each of the years 2002 and 2003, ScottishPower and PacifiCorp may reduce or offset the \$1.6 million merger credit to the extent that cost reductions related to the merger are reflected in rates.

The Order also states in regard to transaction costs and the estimated savings:

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1 ScottishPower and PacifiCorp will exclude all costs of the
2 transaction from PacifiCorp's utility accounts...ScottishPower
3 originally guaranteed operating efficiencies of at least \$10 million
4 annually on a system basis. If the minimum \$10 million annual
5 reduction is not achieved by the end of the third year, an amount
6 equal to the difference between the \$10 million and efficiencies
7 actually achieved must be moved below the line to be absorbed by
8 shareholders.
9

10 Annual report of efficiencies achieved must be provided to the
11 Commission Staff to verify the savings along with an annual
12 commission basis earnings report. ScottishPower has committed
13 to provide these reports in a format similar to that currently used
14 by the Company in the UK. The actual report format can be
15 modified for additional information following the merger if the
16 Commission so desires.
17

18 Moreover, Staff will audit the annual commission basis earnings
19 report and file an audit report with the Commission. The results of
20 this report can be used to determine if the efficiencies have been
21 achieved. If not, the procedure and actual adjusting entries can
22 then be determined.
23

24 Q. What statutory standards govern mergers in the state of Idaho?

25 A. The Idaho Commission applies the standards which are found in Idaho

26 Code § 61-328. That statute states:

27 ...If the commission shall find that the public interest will not be
28 adversely affected, that the cost of and rates for supplying service
29 will not be increased by reason of such transaction, and that the
30 applicant for such acquisition or transfer has the bona fide intent
31 and financial ability to operate and maintain said property in the
32 public service...
33

34 Q. What does Staff want the Commission to gain from reading these excerpts
35 for the ScottishPower merger case?

36 A. There are several points Staff would like to comment on. Mergers are
37 taking place still today where acquisition adjustments are not recovered. Companies

Rebuttal Testimony of
Janis E. Fischer

1 enter into mergers without threatening to cancel the merger if regulators don't allow
2 recovery of acquisition adjustments. States approach mergers from their specific
3 perspectives. Regulators must weigh the benefits and costs to determine the best
4 approach for each specific merger case. Various sharing mechanisms including rate
5 reductions, rate freezes, savings sharing and the opportunity to seek recovery in future
6 rate case treatment of acquisition adjustments have all been implemented in mergers.

7 Q. Can you cite other examples from various states as to how regulatory
8 commissions determine an acceptable treatment of acquisition adjustments?

9 A. In the state of Florida, generally, the Public Service Commission (PSC)
10 looks for quantifiable merger benefits, which will offset the acquisition adjustment. In
11 fact, the Commission allowed an acquisition adjustment associated with the consolidation
12 of Central Florida Gas Company and Chesapeake Utilities Corporation. In FPSC Order
13 No. 18716, the PSC reserved the right to review the actual savings in a future rate case.
14 And, in the next rate review, the PSC noted that the savings, which were predicted to
15 occur as a result of the acquisition, never, materialized. To the contrary, the company
16 experienced an increase in its revenue requirements since the acquisition. With the
17 absence of savings from which to recover the premium, the Commission removed the
18 acquisition adjustment from rate base (FPSC Order No. 23166).

19
20 **SUMMARY/CONCLUSIONS**

21 Q. Please summarize your conclusions and position.

22 A. My conclusions and position are the following:

Rebuttal Testimony of
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- 1 • The Staff's position is that the estimated merger savings presented by
- 2 UtiliCorp/St. Joseph should not be relied upon.
- 3 • Tracking merger savings is very difficult to accomplish. The tracking
- 4 mechanism discussed by UtiliCorp/St. Joseph does not appear to be
- 5 able to distinguish stand-alone savings from merger savings.
- 6 • In their direct testimony, the Joint Applicants have provided only one
- 7 side of the acquisition adjustment argument. Staff has tried to balance
- 8 the argument by providing cites to cases in other jurisdictions that may
- 9 aid the Commission in their decision in this case

10 Q. Does this conclude your rebuttal testimony?

11 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION

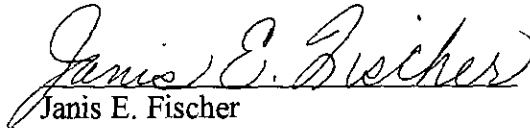
OF THE STATE OF MISSOURI

In the Matter of the Joint Application of)
UtiliCorp United Inc. and St. Joseph Light &)
Power Company for Authority to Merge) Case No. EM-2000-292
St. Joseph Light & Power Company With and)
Into UtiliCorp United Inc. and, In Connection)
Therewith, Certain Other Related Transactions.)

AFFIDAVIT OF JANIS E. FISCHER

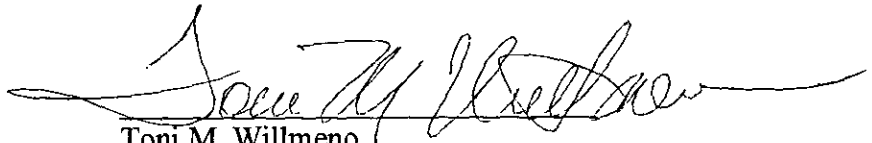
STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Janis E. Fischer, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 78 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Janis E. Fischer

Subscribed and sworn to before me this 2nd day of May 2000.




Toni M. Willmeno
Notary Public, State of Missouri
County of Callaway
My Commission Expires June 24, 2000

DR Response #26	6/23/94 dated materials							
	Current Employees	Current Disco	% Dollar Change	Rec State	Rec Disco Employees	Change in Dollars	Change in Employees	New Total
Operations	2,320	\$88,706	-26.22%	\$65,450	1,575	(\$23,256)	(745)	2,095
Engineering	77	\$3,111	-17.13%	\$2,578	48	(\$533)	(29)	60
Communications	20	\$1,684	-28.74%	\$1,200	11	(\$484)	(9)	14
Legal	12	\$1,518	-13.37%	\$1,315	7	(\$203)	(5)	8
Regulatory/Legislative	38	\$5,976	-15.71%	\$5,037	23	(\$939)	(15)	26
Human Resources	72	\$6,078	-32.54%	\$4,100	47	(\$1,978)	(25)	58
Mtrls/Procurement/Fleet Facilities Management	57	\$7,432	-7.66%	\$6,863	71	(\$569)	14	103
Internal Audit	19	\$1,021	-21.06%	\$806	15	(\$215)	(4)	18
Accounting	180	\$9,351	-18.00%	\$7,668	143	(\$1,683)	(37)	179
Information Systems	121	\$11,379	0.00%	\$11,379	121	\$0	0	144
Call Center	35	\$1,050	128.76%	\$2,402	77	\$1,352	42	95
Marketing/Bus Dev/Econ Dev	120	\$7,932	1.20%	\$8,027	107	\$95	(13)	164
Senior Management	35	\$6,293	-26.90%	\$4,600	26	(\$1,693)	(9)	31
General Admin		\$3,815	-26.90%	\$2,789		(\$1,026)		
Benefits		\$20,420	-26.90%	\$14,927		(\$5,493)		
UCU	20	\$10,455	0.00%	\$10,455	20	\$0	0	32
Risk Management	4	\$3,680	-17.36%	\$3,041	3	(\$639)	(1)	7
Total (excluding operations)	810	101,195	-13.84%	\$87,187	719	(\$14,008)	(91)	
Total	3,130	189,901	-19.62%	\$152,637	2,294	(\$37,264)	(836)	3,034

(Amounts in thousands)

	2001	2002	2003	2004	2005	2001-2005 Average	2006	2007	2008	2009	2010	2006-2010 Average	Total
<u>Savings Area</u>													
<u>Operating Costs</u>													
Dispatching/Generation	3,820	4,358	5,196	6,021	6,687		7,817	6,502	7,274	6,557	5,733		59,965
General & Administrative	5,193	5,599	5,739	5,882	6,029		6,180	6,334	6,493	6,655	6,822		60,926
Distribution	1,385	1,821	1,965	2,014	2,064		2,116	2,169	2,223	2,279	2,336		20,372
Transmission	315	548	562	576	590		605	620	636	652	668		5,772
Conversion to UtiliCorp Benefits	1,996	3,022	2,976	3,401	3,626		3,876	4,152	4,454	4,728	5,003		37,234
Savings Subtotal	12,709	15,348	16,438	17,894	18,996	16,277	20,594	19,777	21,080	20,871	20,562	20,577	184,269
Discounted 11.37%	11,412	12,374	11,900	11,631	11,087	11,681	10,793	9,306	8,907	7,918	7,005	8,786	102,333
<u>Transaction/Transition Costs</u>													
Severance/Change of Control													
Transaction Costs													
IT Transition Costs													
Total Trans/Trans Costs	(1,509)	(1,509)	(1,509)	(1,509)	(1,509)		(1,509)	(1,509)	(1,509)	(1,509)	(1,501)		(15,082)
<u>Capital Savings (Costs)</u>													
Depr-Interconnect/SCADA/T&D	(285)	(330)	(324)	(318)	(313)		(307)	(302)	(296)	(290)	(330)		(3,095)
Return on Interconnect SCADA/T&D	(896)	(897)	(841)	(786)	(731)		(677)	(624)	(571)	(519)	(463)		(7,005)
Total Synergies, net of Cost to Achieve	10,019	12,612	13,764	15,281	16,443	13,624	18,101	17,342	18,704	18,553	18,268	18,194	159,087
Discounted 11.37%	8,996	10,168	9,964	9,933	9,597	9,732	9,486	8,161	7,903	7,039	6,223	7,762	87,470
<u>Enterprise Support Functions Allocated</u>													
SJLP Direct Costs Transferred to ESF	2,292	2,350	2,409	2,469	2,530		2,594	2,659	2,725	2,793	2,863		25,684
SJLP Direct Costs Transferred to IBU	922	1,212	1,308	1,341	1,374		1,409	1,444	1,480	1,517	1,555		13,562
Support Functions Allocated (In)	(12,375)	(12,685)	(13,002)	(13,327)	(13,660)		(14,002)	(14,352)	(14,710)	(15,078)	(15,455)		(138,646)
Net Allocations (costs) savings to SJLP	(9,161)	(9,123)	(9,285)	(9,517)	(9,756)	(9,368)	(9,999)	(10,249)	(10,505)	(10,768)	(11,037)	(10,512)	(99,400)
Total Synergies, net	858	3,489	4,479	5,764	6,687	4,255	8,102	7,093	8,199	7,785	7,231	7,682	59,687
Discounted 11.37%	770	2,813	3,242	3,747	3,903	2,895	4,246	3,338	3,464	2,954	2,463	3,293	30,940
<u>Premium Costs</u>													
Return on Premium	(10,203)	(9,941)	(9,680)	(9,418)	(9,156)		(8,895)	(8,633)	(8,371)	(8,110)	(7,848)		(90,255)
amortization of Premium	(2,302)	(2,302)	(2,302)	(2,302)	(2,302)		(2,302)	(2,302)	(2,302)	(2,302)	(2,302)		(23,020)
Reflect non-tax Deduct of Premium	(1,535)	(1,535)	(1,535)	(1,535)	(1,535)		(1,535)	(1,535)	(1,535)	(1,535)	(1,535)		(15,350)
Total Premium Cost	(14,040)	(13,778)	(13,517)	(13,255)	(12,993)	(13,517)	(12,732)	(12,470)	(12,208)	(11,947)	(11,685)	(12,208)	(128,625)
SJLP Share of Premium Costs	(7,020)	(6,889)	(6,759)	(6,628)	(6,497)	(6,758)	(6,366)	(6,235)	(6,104)	(5,974)	(5,843)	(6,104)	(64,313)
Synergies, net of 50% of Premium	(6,162)	(3,400)	(2,280)	(864)	191	(2,503)	1,736	858	2,095	1,812	1,389	1,578	(4,626)
Discounted 11.37%	(5,533)	(2,741)	(1,650)	(561)	111	(2,075)	910	404	885	687	473	672	2,075

NPV Total Savings Years 1-10 102,333,106
NPV Total to Customers Years 6-10 3,419,542
Percent to Customers 3.34%

Schedule 2

Dept Example

Line No.	Description	1999	2000	2001	2002	2003	2004
1	SJLP Baseline						
2	'99 Budget inflated by 3%	1,000	1,030	1,061	1,093	1,126	1,159
3	UCU Baseline						
4	'99 Budget inflated by 3%	3000	3,090	3,183	3,278	3,377	3,478
5	UCU incremental						
6	Estimate inflated by 3%	300	309	318	328	338	348
7	Sub Total	3,300	3,399	3,501	3,606	3,714	3,826
8	Portion allocated to SJLP	25%	825	850	875	901	929
9	Merger Savings	175	180	186	191	197	203

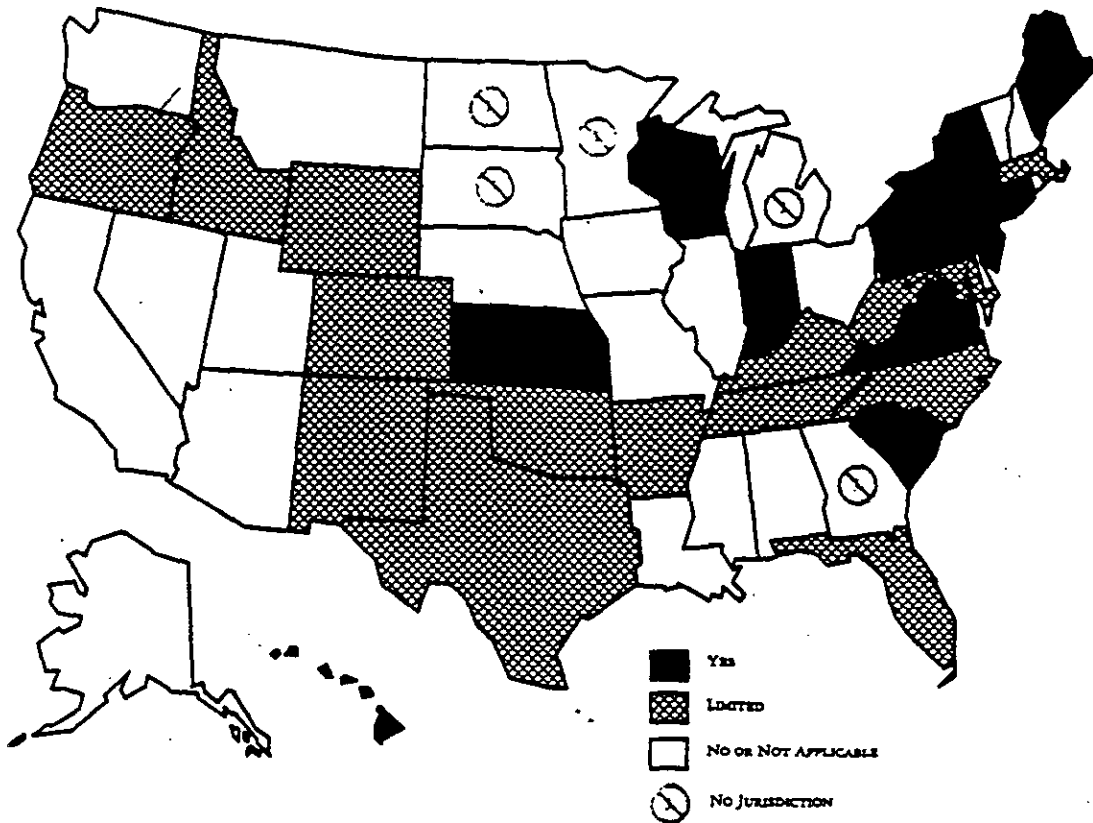
UtiliCorp/St Joseph Light & Power Merger
Case No. EM-2000-292
Response to DR 216

St. Joseph Light & Power Company
Major Budget Variances
Year-To-Date December 1999

	Incr./(Decr.) thousands
OPERATING REVENUES	
Electric:	
Retail sales and other	(1,554)
Sales for resale	511
Gas	(670)
Industrial steam	52
Manufacturing, net of returns & allowances	(9,246)
Total Revenue	<u>(10,907)</u>
FUEL AND INTERCHANGE	
Fuel	1,972
Purchased power-system energy	480
Resale	(246)
Gas	(395)
Total Energy Costs	<u>1,811</u>
Manufacturing cost of goods sold (2)	(6,906)
Subtotal-Gross Margin (Percy Kent (\$2,340))	(5,812)
OTHER OPERATIONS AND MAINTENANCE	
Percy Kent (2)	(694)
Merger related expenses	3,141
Strategic planning expenses, over budget	100
latan, primarily postponed scheduled maintenance	(667)
Distribution maintenance	(177)
Transmission maintenance	129
Boiler #6	(281)
Turbine #4	150
Turbine #7	120
Sales and use tax audit	159
Rate case adjustment for pension & OPEB	(240)
Computer O&M, primarily loss of personnel	(226)
Safety programs	(133)
Insurance, under budget	(208)
Procure materials and services	(123)
Vacation true-up	161
Legal services, under budget	(101)
G&A transferred to capital items	(184)
SERP gain, offset in other	(112)
Other generation	(135)
Other T&D	(37)
Other retail services	(186)
Other gas and steam	(85)
Other support	(693)
Total Operations and Maintenance	<u>(322)</u>
OTHER EXPENSES	
General taxes	(290)
Depreciation	226
Total Operating Expense	<u>(5,481)</u>
OTHER EXPENSE (INCOME)	922
INTEREST EXPENSE	<u>718</u>
INCOME BEFORE INCOME TAXES	<u>(7,066)</u>
INCOME TAXES	(2,108)
MINORITY INTEREST	<u>(690)</u>
TOTAL VARIANCE	<u>(4,268)</u>
EFFECT ON EPS	(0.52)

1.2 Commission Policy

Commissions that have Approved Acquisition Adjustments



Arkansas ▲
Colorado ▲
Connecticut
Florida ▲
Hawaii
Idaho ▲
Indiana
Kansas
Kentucky ▲

Maine
Maryland ▲
Massachusetts (1994) ▲
New Jersey
New Mexico ▲
New York (1994)
North Carolina ▲
Oklahoma ▲
Oregon ▲

Pennsylvania (1995)
South Carolina
Tennessee ▲
Texas ▲
Virginia
West Virginia ▲
Wisconsin
Wyoming ▲

() Approximate effective date (if available).
▲ On a limited basis.

1

2

3

NAWC Sourcebook 6/23/97

4

The survey notes included specific information to the
following states survey responses:

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- Colorado. When shown to benefit ratepayers.
- Delaware. Acquisitions at original cost.
- Florida. Positive, negative, and no adjustments have been made.
- Hawaii. Book purposes only.
- Indiana. Case specific.
- Maryland. If purchase is in the public interest.
- Missouri. Acquisition adjustments have never been recognized in rates.
- New York. Policy exists.
- North Carolina. On a case-by-case basis.
- Oregon. Only where a net benefit to customers is shown.
- Rhode Island. Acquisitions above book are generally disallowed.
- Tennessee. If utility can prove that excess price above net book benefits existing and new customers.
- Texas. Case-by-case (no laws or rules).
- Virginia. Adjustment no higher than purchase pricing using net book value.
- West Virginia. Debit balances not reflected in operations; credit balances must be ruled on by the Commission.
- Wisconsin. Rate recovery determined on a case-by-case basis in the utility's rate case.