Exhibit No.:
Issue: *Merger Overview*
Electric Utility Industry Merger History
Merger Rationale
History of the UCU/SJLP Merger
Financial Theory of Utility Mergers
Surveillance Data Reporting
Witness: Roberta A. McKiddy
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *EM-2000-292*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

ROBERTA A. MCKIDDY

FILED
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Missouri Public Service Commission

UTILICORP UNITED INC.
AND
ST. JOSEPH LIGHT & POWER

CASE NO. EM-2000-292

Jefferson City, Missouri
May, 2000

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ROBERTA A. McKIDDY

UTILICORP UNITED INC.

AND

ST. JOSEPH LIGHT & POWER COMPANY

CASE NO. EM-2000-292

Q. Please state your name.

A. My name is Roberta A. McKiddy.

Q. Please state your business address.

A. My business address is P.O. Box 360, Jefferson City, Missouri 65102.

Q. What is your present occupation?

A. I am employed as a Financial Analyst for the Missouri Public Service Commission (Commission). I accepted this position in May 1998. Prior to my appointment to the Financial Analysis Department, I served in an administrative support position with the Utility Services Division, Accounting Department.

Q. Were you previously employed before you joined the Commission's staff (Staff)?

A. Yes, I was employed by the State Emergency Management Agency for the state of Missouri. I also have previous experience in the areas of accounting, insurance, real estate lending and consumer protection.

Q. What is your educational background?

A. In July 1997, I earned a Bachelor of Science degree in Business Administration with an emphasis in Finance from Columbia College. In October 1998, I began pursuing a Master of Business Administration degree with William Woods University in Jefferson City. My projected graduation date is June 2000.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to report on certain financial and economic aspects of the application of UtiliCorp United Inc. (UCU) to acquire and merge with St. Joseph Light and Power Company (SJLP). I have been asked to review and report on the following aspects of the merger:

1. the recent history of mergers in the electric utility industry and how UCU's offer for SJLP compares to that history;
2. the financial theory of utility mergers and how UCU's offer for SJLP compares to that theory; and
3. surveillance data reporting requirements.

Q. Have you prepared any schedules in support of your testimony?

A. Yes. They are identified as Schedules 1 through 4.

Q. Please summarize your testimony and findings concerning the merger of UCU and SJLP in this proceeding.

A. On March 5, 1999, Standard & Poor's placed its rating of SJLP ("A-") on CreditWatch with negative implications following the announcement that UCU will acquire SJLP. UCU's ("BBB") credit ratings were affirmed. The negative CreditWatch of SJLP reflects the weaker credit profile of the much larger UCU. The ratings of SJLP are expected to be equal to UCU once the merger is completed. What this will imply for

SJLP is a possible higher level of risk. Should the corporate bond rating resulting from the merger be "Baa" or "BBB", the cost of debt for SJLP could be expected to increase. However, there would be an offset to this increase in the cost of debt. The merged entity would have significantly less equity recorded on its books on a post-merger basis. Therefore, the result would be an overall cost of capital for UCU that is below the pre-merger overall cost of capital for SJLP.

Q. Please summarize your findings regarding the recent history of mergers in the electric utility industry.

A. Over the past ten years, 38 electric Investor-Owned Utilities (IOUs) have merged with other utilities in the industry. From 1986 to 1995, the number of IOUs decreased from 282 to 244. This trend appears to be continuing in preparation for open competition. In the first quarter of 2000, there have been eight investor-owned utilities that have announced mergers and/or acquisitions.

Q. Please summarize your findings regarding the recent history of mergers in general.

A. According to an article entitled, "Raiders of the Lost Decade: '80s-Style Mergers Return," published in the March 29, 2000 issue of Wall Street Journal, 350 hostile or unsolicited transactions took place in 1999. There were also approximately 1,100 leveraged buyout transactions. In addition, there were an estimated 100 "jumped deals," or deals challenged by a bid from another company. The statistical data presented in this article was obtained from Salomon Smith Barney and Thomson Financial Securities Data and recognized mergers in all industries worldwide.

Also as part of my analysis, I reviewed financial information related to completed and pending electric utility mergers and acquisitions obtained from Electric Utility Weekly, Goldman Sachs, CA Turner Utility Reports and Telescan. A copy of this information is attached as Schedule 2. Review of this information revealed that the exchange ratios associated with these mergers ranged from a minimum value of 0.23 times to a maximum exchange ratio of 1.67 times, with an average exchange ratio of 1.06 times. The exchange ratio is the number of shares of the acquiring company received by the shareholders of the acquired (target) company for one share of the acquired company. The implied market-to-book ratios of the acquired companies ranged from a low of 0.57 times to a high of 3.14 times, with an average of 2.17 times.

I also reviewed additional financial information, which is attached to my testimony as Schedule 3, related to pending electric utility mergers and acquisitions obtained from the sources referenced above. The range of premiums associated with these mergers range from a low of 9.00 percent to a high of 38.50 percent, with an average premium of 25.0 percent. The premium percentage is the target company's implied value in excess of its current market price at the time of the merger announcement. The exchange ratios from the pending mergers range from 0.6 to 1.12 times, with an average of 0.86. All but two of these mergers employed the purchase method of accounting treatment.

The premium percentage related to the UCU acquisition of SJLP is 36.30 percent. UCU is offering $23.00 per share for SJLP's stock, which will be converted into UCU shares when the merger is completed. An exact exchange ratio cannot be calculated until the close of this merger. However, we can calculate an exchange ratio based on UCU's stock price at the close of business on March 4, 2000. The exchange ratio for SJLP at the time of the merger announcement would be 0.98 times (based on an offer price of $23.00 per share for each SJLP share and an implied value for UCU stock of $23.416). The average premium represented by the eight transactions presented on Schedule 3 is 25 percent. The premium percentage offered by UCU for SJLP (36.30%) is substantially higher than this average.

Q. Please summarize the sections of your testimony related to merger rationale.

A. A synopsis of the reasons for the merger provided by SJLP President and Chief Executive Officer Terry F. Steinbecker on pages 6-7 in his direct testimony is as follows:

- UCU has financial strength, the size and the commitment to growth to better provide competitive returns to SJLP shareowners and quality service at competitive prices to our customers.
- SJLP will benefit from price stability, as well as greater resources and experience provided by UCU.
- Broader range of products and services.
- Increase size and market diversification that will increase overall financial strength of the merged entity.

However, the reasons for the merger provided to the shareholders of SJLP in the Company's Proxy Statement dated May 6, 1999 are somewhat different. A synopsis of those reasons are provided below:

- Attractive premium over the recent historical trading prices of SJLP's common stock.
- More liquid market for their shares.
- Higher dividend rate than what SJLP has historically received.
- Cost savings from decreased electric production and gas supply costs, a reduction in operating and maintenance expenses and other factors.
- More effective participation in the competitive market for the generation of power.

- Significant non-utility operations of UCU, which will allow the combined entity to pursue further non-utility diversification.
- A unique opportunity to realize the benefits created by combining the two companies.

In reading published material outside of this proceeding related to merger savings, it appears that claimed synergies, in general, are rarely realized.

Q. Has the Staff reviewed the merger savings and benefits alleged by the Joint Applicants in their direct testimony and schedules?

A. Yes. Various Staff witnesses have reviewed component pieces of the estimated merger savings amounts put forth by the Joint Applicants and addressed this topic in their testimony. Overall, the Staff believes that some level of merger savings should be produced by the merger above and beyond savings that could be produced by UCU and SJLP on a stand-alone basis. However, the amount of incremental merger savings cannot be accurately quantified prior to the merger, or accurately measured after the merger takes place. Please refer to the testimony of Staff witnesses Mark L. Oligschlaeger, Cary G. Featherstone and Janis E. Fischer for a complete discussion of this matter.

Q. Please summarize the section of your testimony related to the financial theory of utility mergers and how UCU's offer for SJLP compares to that theory.

A. There are two basic methods that can be used to account for business combinations: the purchase method or the pooling-of-interest methods. In the purchase method, the total value paid or exchanged for the acquired firm's assets is recorded on the acquiring company's books. UCU intends to employ the purchase method in this merger transaction. The proposed merger will also be considered a horizontal merger, which simply means that one firm in a particular industry is acquiring another firm in that same industry.

Staff believes evaluating the cash flows from proposed synergies when netted against the amount of any acquisition premium and transaction/transition costs provide a firm with the ability to determine whether there is any positive incremental gain associated with the combination of the two firms through a merger or acquisition. A transaction cost would be a cost that occurs up front such as fees to financial advisors. A transition cost would be a cost that occurs after the closing date of the merger or acquisition such as integration costs, severance payments or relocation costs. When an acquisition premium is involved, acquiring another firm only makes sense if there is *some specific reason to believe that the acquired firm will somehow be worth more in the* acquiring firm's possession than it is currently on a stand alone basis. It is my opinion that the rationale for this merger appears to be slanted toward the shareholder and not the ratepayer. This opinion is based on information presented through testimony filed by the Companies' witnesses, as well as information obtained from SJLP's Annual Report and Proxy Statement. It is a fact that UCU's management has an ultimate fiduciary responsibility to the shareholders and to creating maximum shareholder wealth.

Q. Please summarize the section of your testimony related to surveillance data reporting.

A. The Staff of the Commission's Financial Analysis Department maintains financial information submitted by public utilities through the assistance of a Surveillance Reporting and Tracking System (SURTS). Some of the key calculations performed through our analysis include: (1) return on 12-month ended rate base on

Missouri jurisdictional operations; (2) return on average common equity; (3) pre-tax interest coverage; (4) capital structure components as a percentage of total capital; and (5) Missouri jurisdictional revenues (excess)/deficit.

SJLP began submitting surveillance data reports with the Commission's Financial Analysis Department on approximately November 30, 1990. UCU began submitting surveillance data reports with the Financial Analysis Department on approximately October 31, 1990, in conjunction with the submission of surveillance data reports for its division, Missouri Public Service (MPS). SJLP has been very prompt in its submissions. However, UCU ceased submitting total company information approximately January 31, 1996. The Staff has since negotiated with company personnel and submission of this data commenced in December 1999. It is Staff's belief that the Commission should order SJLP and UCU to continue submitting separate surveillance data reports regardless of the outcome of this merger proceeding. Should this merger be approved by the Commission, Staff believes UCU and SJLP's continued submission of separate surveillance data reports will be necessary to ensure that the ratepayers of the state of Missouri are protected from any over-earnings by UCU or SJLP. It will also help provide Staff with the data helpful in making a preliminary assessment of the effects of the pending merger on MPS and SJLP.

Merger Overview

Q. Please briefly describe the operations of SJLP.

A. SJLP is a diversified, investor-owned utility serving a service area of more than 3,300 square miles in all or part of ten northwest Missouri counties. SJLP's home office is located at 520 Francis Street, P.O. Box 998, St. Joseph, Missouri 64502-0998.

SJLP began as a public utility business in 1883. It was incorporated in 1895 and became an independent, investor-owned business in 1950.

According to Standard & Poor's July 1998 issue of Global Utilities Rating Service-Utility Credit Report, SJLP primarily generates, transmits and distributes electric energy (approximately 75 percent of total revenues). SJLP also provides natural gas service (approximately 5 percent of revenues) and industrial steam service (approximately 5 percent of revenues). SJLP provides electric service to more than 61,000 customers in 74 cities, towns and villages as well as a large rural population. SJLP also provides natural gas to about 6,400 customers in Maryville, a state university town with a population of about 10,000, and 14 other communities in the area. The Company has six industrial steam customers in St. Joseph.

In 1997, SJLP acquired controlling interest in Percy Kent Bag Company and invested in Permalok, a steel pipe fabricator. About 15 percent of total operating revenues in 1997 were from Percy Kent.

Q. Please briefly describe the operations of UCU.

A. UCU is a Delaware corporation with principal office and business headquartered at 20 W. Ninth Street, Kansas City, Missouri 64138. UCU was formed in 1985 from the former Missouri Public Service Company. Since that time, UCU has grown in North America through regulated and non-regulated energy acquisitions totaling nearly $1.3 billion. At March 31, 1999, UCU had total assets of $6.4 billion.

UCU is an international energy company with regulated electric and gas utility operations (about three-quarters of earnings) in the United States, Canada, Australia, and New Zealand; and non-utility gas gathering and processing and energy marketing and trading (about one-quarter of earnings). UCU conducts business in Missouri through its MPS operating division and provides electric and natural gas utility service to customers in its service areas in Missouri subject to the jurisdiction of the Commission. [Source: Standard & Poors, Global Utilities Rating Service, Utility Credit Report, January 2000.]

In North America, UCU serves about 1.5 million utility customers in eight states and two Canadian Provinces. Specifically, UCU serves electric and gas utility customers in Missouri, Kansas, Iowa, Nebraska, Colorado, Michigan, and Minnesota through seven divisions: Missouri Public Service, Kansas Public Service, Peoples Natural Gas, West Plains Energy, Northern Minnesota Utilities, Michigan Gas Utilities. (UCU recently sold West Virginia Power to Allegheny Power, a unit of Allegheny Energy. The deal closed January 2000.) Customers in British Columbia are provided service through West Kootenay Power, a Canadian subsidiary.

UCU's subsidiary Aquila Energy provides natural gas and electricity to industrial and wholesale customers in nearly all of the contiguous 48 states. It is also active in Canada. UCU's subsidiary Aquila Gas Pipeline Corporation (AGP) gathers, transports and processes natural gas and natural gas liquids in Texas and Oklahoma. AGP became privately owned by UCU in 1999.

International investments include a 34 percent ownership share (down from 49.9 percent as a result of a public offering in 1998) in the Australian electric distribution utility United Energy Ltd. and a 79 percent ownership interest in the New Zealand electric distribution utility Power New Zealand Ltd. (PNZ). UCU operates both utilities. UCU restructured its New Zealand holdings in a series of transactions in late

1998. In the United Kingdom, wholly owned United Gas Ltd. and two joint ventures in which UCU is a 25 percent equity partner provide gas marketing activities.

Q. What impact on the bond ratings of the two companies is predicted as a result of the merger?

A. On March 5, 1999, Standard & Poor's placed its ratings of SJLP ("A-") on CreditWatch with negative implications following the announcement that UCU will acquire SJLP. UCU's ("BBB") credit rating was affirmed. The negative CreditWatch on SJLP reflects the weaker credit profile of the much larger UCU. The affirmation of UCU's credit rating reflects the Company's use of equity to make the purchase and the small size of the transaction relative to the Company's overall operations. According to S&P, the ratings of SJLP are expected to be equal those of UCU as long as the merger is completed as proposed. In essence, this is saying that if SJLP continued to operate separately with its own credit rating, it would be "BBB." [Source: Standards & Poors, Utilities and Perspectives, February 14, 2000, page 5.]

Q. If the Companies merge and the resultant bond rating is below that currently in place for SJLP, would SJLP's cost of debt increase?

A. Yes. All else being equal, a lower bond rating would indicate a higher level of risk. In turn, investors would require a higher return in order to compensate them for accepting such higher level of risk. Staff witness David P. Broadwater of the Financial Analysis Department of the Commission will discuss the impact to overall cost of capital in his rebuttal testimony.

Q. What capital cost impact would result from a lower bond rating?

A. Schedule 1 shows Moody's A-rated and Baa-rated utility bond yields over the past ten years. During that time period, bond yields have fallen more than 300 basis points from above 10 percent to a level now near 7 percent. The bond yield levels are shown on the left axis of the graph. Also shown on Schedule 1 is the bond yield differential between Moody's A-rated utility bonds and Baa-rated (equivalent to Standard & Poor's "BBB" rating) utility bonds. The scale for the yield differential between "A" and "Baa" utility debt is shown on the right axis of the graph. Over the entire 10 year period, the average yield differential between "A" and Baa" rated utility debt has been 28 basis points (0.28 percent) and has ranged from a low of 5 basis points (0.05 percent) to a high of 47 basis points (0.47 percent). Over the past five years, the differential has been approximately 32 basis points (0.32 percent). However, over the past 12 months, the differential has been approximately 23 basis points (0.23 percent). Therefore, should the corporate bond rating resulting from the merger be "Baa" or "BBB", the cost of debt for SJLP could be expected to increase. However, there will likely be an offset to this increased cost of debt. The merged entity would have significantly less equity recorded on its books on a post-merger basis than SJLP does currently on a stand-alone basis. Therefore, the result would be an overall cost of capital for UCU that is below the pre-merger overall cost of capital for SJLP.

Q. If the effect of a lower bond rating is a greater cost of debt, how would overall capital costs decrease?

A. One of the main components in the calculation of a bond rating is the financial ratio analysis. The amount of debt employed by a company and its ability to repay principal and interest on that outstanding debt directly impacts the credit rating assigned by a rating agency such as Standard & Poors. As part of the ratio analysis performed by bond rating agencies, financial benchmarks are defined for debt classification. For example, Standard and Poor's has identified a financial benchmark median of 53.00 percent total debt to total capital for a "BBB" rated company. In comparison, S&P has identified a financial benchmark median of 48.25 percent total debt to total capital for an "A" rated company. Financial ratio medians are the average of ratios derived from S&P's financial projections for companies rated both publicly and confidentially. (NOTE: SJLP's total debt to total capital ratio for the 12-months ended June 30, 1999 as published by S&P was 50.10 percent. In contrast, UCU's total debt to total capital ratio for the 12-months ended June 30, 1999 was 60.50 percent.) The other important factor that must also be taken into consideration is the tax deductibility of the interest payments on the company's outstanding debt. When a company's cost of debt and equity are analyzed on a pre-tax basis, one must remember that the company must earn one dollar in revenue to cover each dollar paid in interest expense on the outstanding debt. However, for each dollar the company must earn for the common shareholder, the company must earn approximately \$1.62. (\$1.00 times a tax factor of 1.6231)

It may be helpful to define how Standard & Poor's (S&P) assesses a credit rating Outlook. In determining a rating Outlook, S&P gives consideration to any changes in the economic and/or fundamental business conditions. A rating is not necessarily a precursor of a rating change or future CreditWatch action. "Positive" indicates that a rating may be raised. "Negative" means a rating may be lowered. It may also be helpful to define the true role of a credit rating as defined by S&P:

> A Standard & Poor's issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial

> obligation, a specific class of financial obligations or a specific financial program (including ratings on medium-term note programs and commercial paper programs.) It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated.
>
> A credit rating is not a recommendation to purchase, sell or hold a particular security. The rating performs the isolated function of credit risk evaluation, which is only one element of the entire investment decision-making process. A rating cannot constitute a recommendation inasmuch as it does not take into consideration other factors, such as market price and risk preference of the investor.
>
> Ratings do not create a fiduciary relationship between S&P and users of the ratings since there is no legal basis for the existence of such a relationship.
>
> It is commonplace for companies to structure financing transactions to reflect S&P's credit criteria so they qualify for higher ratings....Many companies go one step further and incorporate specific rating objectives as corporate goals...S&P does not encourage companies to manage themselves with an eye toward a specific rating. The more appropriate approach is to operate for the good of the business as management sees it, and to let the rating follow.
>
> Issue credit ratings are based, in varying degrees, on the following considerations:
>
> - Likelihood of payment – capacity and willingness of the obligator to meet its financial commitment on an obligation in accordance with the terms of the obligations;
> - Nature of and provisions of the obligation;
> - Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Electric Utility Industry Merger History

Q. What has been the trend for mergers and acquisitions in the electric utility industry over the past ten years?

A. Over the past ten years, 38 electric investor-owned utilities (IOUs) have merged with other utilities in the industry. In 1986, there were 282 IOUs, of which 182 were "major" IOUs. By 1995, there were 244 IOUs remaining, of which 179 were major IOUs. In the first quarter of 2000, there have been eight investor-owned utilities that have announced mergers and/or acquisitions. Although there were 244 operating companies in 1995, consolidation is greater than the numbers indicate. Some of these operating companies are subsidiaries of holding companies. For example, Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric and Power are subsidiaries of the Southern Company, a registered holding company. Major investor-owned utilities are defined as having, in the past 3 consecutive years, one or more of the following qualities: (1) 1 million megawatt hours of annual sales, (2) 100 megawatt hours of annual sales for resale, (3) 500 megawatt hours of annual power exchanges delivered; or (4) 500 megawatt hours of annual wheeling for others. [Source: Energy Information Administration, Department of Energy, *Financial Statistics of Major U.S. Investor-Owned Electric Utilities 1995, DOE-EIA-0437(95/1)(Washington, DC, December 1996)*]

Q. Have you reviewed data related to electric utility mergers?

A. Yes. I have obtained information on completed and pending mergers and acquisitions from the American Public Power Association (APPA), a service organization for the nation's 2,000 community owned, locally controlled, not-for-profit electric utilities. I have also obtained certain financial information relating to these mergers and acquisitions from: Electric Utility Weekly, a publication of the McGraw-Hill Companies; Goldman Sachs study dated September 1998; CA Turner Utility Reports dated

January 31, 2000; and Telescan Inc. A copy of this information is attached as Schedules 2 and 3.

Q. For purposes of this testimony, please define the following terms as they are used on your Schedule 2: (1) acquisition; (2) purchase: and (3) merger.

A. In researching information related to completed and pending mergers, I obtained a majority of my information from the APPA. Therefore, I will provide the definitions as they are used by APPA in reporting information related to the mergers and major acquisitions of investor-owned utilities:

(1) *Acquisition* – one company buying another company whether it is through a cash or stock transaction.

(2) *Purchase* – APPA uses this term interchangeably with the term "acquisition."

(3) *Merger* – used to describe two companies that are combining to create an third company with one name or two companies combining who will share control of the new company.

[Source: E-mail correspondence with Diane Moody, APPA, April 25, 2000.]

Q. Please describe the information contained on Schedule 2.

A. The information on Schedule 2 covers the period 1987 through 1999. The information included on this schedule is: (1) date of transaction; (2) type of transaction; (3) industry; (4) acquiring company; (5) target company; (6) resulting company name; (7) ticker symbol; (8) exchange ratio; (9) implied value; (10) book value as of the date of the merger announcement; and (11) market-to-book.

The exchange ratio is the number of shares of the acquiring company received by the shareholders of the acquired company for one share of the acquired company. (The acquired company is commonly referred to as the "target" company.) For stock-based transactions, the implied value is the effective trading price of the acquired company as of the date of the merger closing. The market-to-book ratio for purposes of this analysis equals the implied value divided by the book value, which in this case is the value at the time of the merger announcement.

The exchange ratios ranged from a minimum value of 0.23 times to a maximum exchange ratio of 1.67 times, with an average exchange ratio of 1.06 times. The implied market-to-book ratios of the acquired companies ranged from a low of 0.57 times to a high of 3.14 times, with an average of 2.17 times.

Q. Please describe the information contained on Schedule 3.

A. Data presented for pending mergers is similar to the data presented for the completed mergers and is attached to this testimony as Schedule 3. The implied stock prices reflected on this schedule, however, represent the stock prices reported on the date of the merger announcement, rather than as of the date of merger closing. Also, included on this schedule is a column labeled "Premium". In the context of my testimony, "premium" percentage is defined as the target company's implied value in excess of its current market price at the time of merger announcement. This percentage provides of measure of how much the acquiring company is willing to pay in excess of the current market price (at time of merger announcement) in order to initiate the merger agreement. The range of premiums range from a low of 9.00 percent to a high of 38.50 percent, with an average premium of 25.0 percent. The exchange ratios for the pending mergers range from 0.6 to 1.12 times, with an average of 0.86. According to Goldman Sachs, only two of the mergers employed the pooling-of-interest method of accounting treatment. The other transactions employed the purchase method of accounting treatment.

Q. What is the current trend for electric utility mergers as well as mergers in general?

A. In an article published by the Wall Street Journal in its March 29, 2000 issue, the Journal reported that merger strategies of the 1980s were beginning to repeat themselves in 2000. Leveraged buyouts and hostile bids are on the rise.

The article went on to state that hostile or unsolicited mergers and acquisitions topped the $700 billion mark (approximately 350 transactions) in 1999. Leveraged buyouts (LBOs) for that same period were approximately $100 billion (approximately 1100 transactions). "Jumped deals," or deals challenged by a bid from another company, reached approximately $300 billion (an estimated 100 transactions). According to Thomson Financial Securities Data, "In the U.S., buyouts are expanding on last year's torrid pace, with 49 LBO's valued at $6.88 billion announced so far this year. That compares with 36 deals valued at $1.88 billion announced in last year's first quarter and 50 deals valued at $6.5 billion in the fourth quarter. Unsolicited deals are also growing, with 43 deals announced in the first quarter of 2000, up from 29 deals announced in the fourth quarter." Saloman Smith Barney, Thomson Financial Securities Data, supplied this worldwide volume information to the Wall Street Journal.

Q. How does the proposed UCU/SJLP merger compare to the mergers as shown on Schedule 3?

A. The premium percentage related to the UCU acquisition of SJLP is 36.30 percent. UCU is offering $23.00 per share for SJLP's stock, which will be converted into UCU shares when the merger is completed. An exact exchange ratio cannot be calculated until the close of this merger. However, we can calculate an exchange ratio based on the stock prices at the close of business on March 4, 2000. The exchange ratio for SJLP at time of the merger announcement would be 0.98 times (based on an offer price of $23.00 per share for each SJLP share and an implied value for UCU stock of $23.416). The average premium represented by the eight transactions shown on Schedule 3 is 25 percent. As you can see, the premium percentage offered by UCU for SJLP is substantially higher than the average. SJLP's book value at December 31, 1998 as quoted in its 1998 Annual Report was $11.76. Taking the implied value of $23.00 divided by the book value at December 31, 1998 of $11.76, the market-to-book ratio for SJLP is 1.96 times. This is just slightly below the average market-to-book ratio for the sample group, which is 2.06 times.

Merger Rationale

Q. What reasons does the company provide supporting the merger?

A. In testimony filed on behalf of SJLP, its President and Chief Executive Officer, Mr. Terry F. Steinbecker provides the following reasons for supporting the merger with UCU:

- UtiliCorp has the financial strength, the size and the commitment to growth to better provide competitive returns to SJLP shareowners and quality service at competitive prices to our customers. UtiliCorp is a leader in energy marketing and distribution and also an advocate for customer choice. This merger will provide benefits for SJLP's customers, shareowners, employees and communities (page 6, lines 10-14).

- SJLP customers will benefit in several ways as a result of the merger. First, the merger will bring about price stability without sacrificing service. In this regard, after the closing of the merger, UtiliCorp is proposing to implement a 5-year rate moratorium for SJLP's electric, gas and steam customers followed by a filing of rate cases that will flow the benefits to the SJLP customers. Second, UtiliCorp's greater resources and experience will allow it to better provide and maintain an adequate and reasonably priced energy supply for our customers on a going forward basis (page 7, lines 2-8).

- UtiliCorp is in a position to make available to our customers a broader range of products and services (page 7, lines 8-10).

- The increase in size and market diversification will enhance the overall financial strength of the merged entity, which will ultimately benefit customers and other stakeholders alike (page 7, lines 10-12).

- From the day-to-day standpoint of the customers of SJLP, the change should be transparent (page 7, lines 12 – 13).

Q. Did the company provide any additional reasons in support of the merger?

A. Yes. SJLP's Board of Directors provided the following list of reasons for the merger in SJLP's Proxy Statement dated May 6, 1999:

- The merger consideration offers St. Joseph's shareholders an attractive premium over the recent historical trading prices of St. Joseph's common stock;

- The merger offers St. Joseph's shareholders a more liquid market for their shares;

- As a result of the merger, St. Joseph's shareholders will most likely benefit from UtiliCorp's dividend rate, which currently is, and in recent years has been, higher than St. Joseph's dividend rate;

- St. Joseph's shareholders will benefit by participating in the combined economic growth of the service territories of UtiliCorp and St. Joseph, and from the inherent increase in scale, the market diversification and the resulting increased financial stability and strength of the combined entity;

- The merger will result in cost savings from decreased electric production and gas supply costs, a reduction in operating and maintenance expenses and other factors;

- The combined enterprise can more effectively participate in the increasingly competitive market for the generation of power;

- UtiliCorp has *significant* non-utility operations and, as a larger and stronger financial entity following the merger, should be able to manage and pursue further non-utility diversification activities more efficiently and effectively than St. Joseph as a stand-alone entity; and

- The merger and various provisions of the merger agreement offer St. Joseph's shareholders, customers and employees and the St. Joseph community a unique opportunity to realize the benefits created by combining the two companies.

Q. What is the likelihood that these benefits will be realized?

A. In reading published material outside of this proceeding related to merger savings, it appears that claimed synergies, in general, are rarely realized. (The information reviewed was not exclusive to electric utilities or the utility industry.) It should be remembered that UCU's management has an ultimate fiduciary responsibility to the shareholders and will thus make decisions in the interest of creating maximum shareholder wealth. Shareholder wealth is measured by the market value of the shareholders' common stock.

Q. Has the Staff reviewed the merger savings and benefits alleged by the Joint Applicants in their direct testimony and schedules?

A. Yes. Various Staff witnesses have reviewed component pieces of the estimated merger savings amounts put forth by the Joint Applicants and addressed this topic in their testimony. Overall, the Staff believes that some level of merger savings should be produced by the merger above and beyond savings that could be produced by UCU and SJLP on a stand-alone basis. However, the amount of incremental merger savings cannot be accurately quantified prior to the merger, or accurately measured after the merger takes place. Please refer to the testimony of Staff witnesses Mark L. Oligschlaeger, Cary G. Featherstone and Janis E. Fischer for a complete discussion of this matter.

Q. What has happened to UCU and SJLP's respective stock price since the announcement of this merger?

A. On March 4, 1999, UCU's stock price closed at \$23.416. On April 24, 2000, UCU's stock price closed at \$18.937. This is a decrease of 19.12 percent. On the contrary, SJLP's stock price closed at \$16.875 on March 4, 1999. On April 24, 2000, SJLP's closed at \$20.937. This is an increase of 24.28 percent. One should keep in mind that UCU has offered \$23.00 per share for SJLP's stock.

One factor contributing to the decline in UCU's stock price is the general overall trend in the utilities market. According to Value Line's Selection & Opinion dated April 14, 2000, the Dow Jones Averages for Utilities decreased from 311.55 at April 30, 1999 to 292.65 at April 6, 2000 (18.90 points). In comparison, the Dow Jones Industrial Averages increased from 10789.04 at April 30, 1999 to 11114.27 at April 6, 2000. The Dow Jones Industrial Average (DJIA) is based on the stock prices of 30 large, well-established industrial corporations. The DJIA is calculated by adding the prices of the 30 stocks and dividing by a number that reflects prior stock dividends and splits. A one-point movement in the DJIA is equal to about a \$0.07 per share movement in the price of an average stock in the DJIA [Source: Moyer, R. Charles, McGuigan, James R., Kretlow, William J., "Contemporary Financial Management," 1995].

In an informal transcribed interview between the Staff and UCU witness Robert K. Green held on March 17, 2000, Mr. Green offered the following explanation:

> ...I think it's the old economy. I mean, if you look at airlines, chemicals, any basic industry, they're trading at seven to nine times earnings. The whole industry is down. Retail investors are

> moving to anything fiber and dot-com and the new economy. And it's pulled all the values in the old economy down.
>
> In addition, I think when they look at utilities there is a fair degree of uncertainty with regard to deregulation, so that makes them potentially steer clear. And then I guess the third big factor I would highlight would be a need on our part to continue to grow, because a larger market cap company typically receives a higher multiple. That's pretty clear. Then that will give us a lower cost of capital and benefit everybody.
>
> So that's … I mean, we've hit our earning targets for three years in a row. If you go back over two years or three years and look at our performance against the industry, we do somewhat better than the industry. But it's where we are. There's no fundamental inside UtiliCorp, and I was just in Wall Street kind of going through this with some of our investors and the analyst community. And there's no fundamental inside the company that's caused our stock to go down. It's the sector. It's the old economy. It's utilities and deregulation. (Green Transcript, pp. 67-68)

<u>History Of The UCU/SJLP Merger</u>

Q. When did UCU and SJLP begin discussions regarding the possibility of a merger?

A. As stated in SJLP witness Terry F. Steinbecker's testimony on page 4, lines 12-15, "Between December 16 and December 18, 1998, preliminary expressions of interest were received from three companies including UCU. The financial and non-financial aspects of these expressions of interest were reviewed and discussed by the board at a meeting held on December 21, 1998." Schedule 4 attached to this testimony provides a detailed chronology of the background of this merger transaction.

Q. What transpired between the two companies from February 17 to March 4, 1999?

A. According to SJLP witness Steinbecker's testimony on page 5, lines 5-12,

> On February 17-18, 1999, the Strategic Planning Committee and SJLP's financial and legal advisors met to review the economic and other terms of the two proposals. The full board reviewed and compared the two proposals at a meeting held of February 19, 1999. At that meeting, SLJP's financial advisor discussed its preliminary assessment of the two competing bids from a financial point of view. After this discussion, and based upon the higher and fixed nature of the bid contained in the UtiliCorp's proposal, the board directed its investment banking firm to encourage UtiliCorp to increase its bid. In response, UtiliCorp raised its bid to $23.00 per share of SJLP common stock.

Q. When did UCU and SJLP first agree to merge?

A. UCU and SJLP announced on March 5, 1999 that the two companies had signed a definitive agreement to merge in a transaction that valued SJLP's equity at approximately $191 million.

Q. Please briefly summarize the terms and conditions of the merger between UCU and SJLP.

A. Under the terms of the agreement, SJLP shareholders would receive a fixed value of $23 per share for their SJLP common stock that would be converted into shares of UCU common when the merger is completed. The total purchase price is approximately $270 million, including the assumption of about $80 million in debt. [Source: UtiliCorp United Inc. – Management's Discussion and Analysis of Financial Condition and Results of Operations, see reference above]

Financial Theory Of Utility Mergers

Q. Please briefly explain the two types of accounting for business combinations that are used to combine the resources of one utility company with the resources of another utility company.

A. There are two basic methods that can be used to account for business combinations: the purchase method or the pooling-of-interest method. In the purchase method for regulated utilities, the total value paid or exchanged for the acquired firm's assets in excess of net book value is recorded on the acquiring company's books in an "Acquisition Adjustment" account.

To illustrate, suppose Firm A acquires Firm B, thereby creating a new firm, AB. Suppose Firm A pays $18 million in cash for Firm B. Also, suppose the money is raised by borrowing the full amount. The net fixed assets in Firm B, which are carried on the books at $8 million with working capital worth $2 million. Firm A thus pays $8 million in excess of the estimated market value of these net assets [$18 million -($8 million + $2 million)]. This amount is considered an acquisition adjustment.

Under the pooling-of-interests, the assets of the acquiring and acquired firms are pooled, meaning that the balance sheets are just added together. To illustrate, suppose that Firm A buys Firm B by giving B's shareholders $18 million worth of common stock. The new firm is then owned jointly by all the stockholders of the previously separate firms. In the pooling-of-interests method, the acquired company's assets are recorded on the acquiring company's books at their cost (net of depreciation) when originally acquired. Thus, any difference between the purchase price and the book value is not recorded on the acquiring company's books, and no acquisition adjustment account is created.

Q. In this case, the proposed merger is a purchase transaction. Why do the reasonableness of the purchase price and premium paid need to be addressed in this proceeding?

A. A discussion of the proposed merger and its accounting as a purchase transaction will be offered through rebuttal testimony presented by Staff witness Charles R. Hyneman of the Accounting Department.

Q. In this particular merger application, is UCU seeking to recover the acquisition adjustment in rates?

A. Yes. In testimony presented by UCU witness Robert K. Green, he states the following:

> Utilicorp is proposing the combination of a traditional regulatory lag mechanism – a five year rate freeze for SJLP – with a subsequent partial premium in rate base and cost of service treatment of the amortization.

Q. How are determinations made with regards to the recovery of premiums in utility rates?

A. A discussion of the Staff's position in regard to recovery for premiums in utility rates will be offered through rebuttal testimony presented by Staff witnesses Cary G. Featherstone, Mark L. Oligschlaeger and Michael S. Proctor in their respective rebuttal testimony.

Q. What is a horizontal merger?

A. A horizontal merger occurs when one firm in a particular industry acquires another firm in that same industry. The firms compete directly with each other in their product markets. The two firms produce the same type of good or service.

Q. Please give an example of a horizontal merger.

A. UCU's merger with SJLP is an example of a horizontal merger.

Q. In contrast, what is a vertical merger?

A. A vertical merger occurs when one firm in a particular industry acquires a supplier or customer.

Q. Please give an example of a vertical merger.

A. An example of a vertical merger would be an oil producer acquiring a petrochemical firm that uses oil as a raw material.

Q. How do you define "synergies"?

A. Synergy is defined as a condition wherein the whole is greater than the sum of its parts; in a synergistic merger, the post-merger value exceeds the sum of the separate companies' pre-merger values. Synergy can arise through four primary sources: (1) operating economies, which result from economies of scale in management, marketing, production, or distribution; (2) financial economies, including lower transactions costs and better coverage by security analysts; (3) differential efficiency, which implies that the management of one firm is more efficient and that the weaker firm's assets will be more productive after the merger; and (4) increased market power due to reduced competition. [Source: Eugene F. Brigham and Joel F. Houston, "Fundamentals of Financial Management," published by Harcourt Brace College Publishers, 1998.]

Q. Why is it important to make the comparison between the present value of additional cash flow from synergies and the present value of cash flow for transaction costs and the premium?

A. Evaluating the cash flows from proposed synergies when netted against the amount of an acquisition premium and transaction/transition costs provide a firm with the ability to determine whether there is any positive incremental gain associated with the combination of the two firms through a merger or acquisition. When a acquisition premium is involved, acquiring another firm only makes sense if there is some specific reason to believe that the acquired firm will somehow be worth more in the acquiring firm's possession than it is currently on a stand alone basis. For example, suppose Firm A is contemplating acquiring Firm B. The acquisition will be beneficial if the combined firm has value that is greater than the sum of the values of the separate firms. A successful merger thus requires that the sum of the values of the whole exceed the sum of the parts. The difference between the value of the combined firm and the sum of the values of the firms as separate entities is the incremental net gain from the acquisition. To determine the incremental value of an acquisition, the incremental cash flows need to be known. These are the cash flows for the combined firm less what A and B could generate separately. Therefore, the incremental cash flow for evaluating the merger is the difference between the cash flow of the combined company and the sum of the cash flows for the two companies considered separately.

Surveillance Data Reporting

Q. What is surveillance data reporting?

A. Surveillance data reporting is a tool that is used by the Commission Staff to closely monitor the finances of public utilities for over-earnings.

Q. How is such information financial information maintained and used by the Commission Staff?

A. The Staff of the Commission's Financial Analysis Department tracks and analyzes financial information submitted by public utilities within the jurisdiction of the Commission through the assistance of a Surveillance Reporting and Tracking System (SURTS).

Q. What type of calculations does the Commission Staff perform using the submitted financial information?

A. There are currently twenty-four calculations performed by the Commission's Financial Analysis Department based on the financial information submitted by selected public utilities within the jurisdiction of the Commission. Some of the key calculations performed include: (1) return on 12-month ended rate base based on Missouri jurisdictional operations (2) return on average common equity (3) pre-tax interest coverage (4) capital structure components as a percentage of total capital and (5) Missouri jurisdictional revenues (excess) deficit.

Q. Does the Commission have authority to obtain surveillance data from the public utilities within the jurisdiction of the Commission?

A. Yes, pursuant to Section 393.140(9) for electrical, gas, water and sewer corporations and Section 392.210.1 for telecommunications companies.

Q. Do UCU and SJLP currently submit surveillance data reports to the Commission's Financial Analysis Department?

A. Yes. SLJP began submitting surveillance data reports with the Commission approximately November 30, 1990. SJLP has been very prompt in the submission of these reports.

UCU began submitting surveillance data reports to the Commission's Financial Analysis Department approximately October 31, 1990 in conjunction with the submission of surveillance data reports for its subsidiary, Missouri Public Service. However, UCU ceased submitting total company information approximately January 31, 1996.

Q. Has UCU's failure to submit total company financial data to the Commission's Financial Analysis Department presented problems for the Staff?

A. Yes. Staff believes that it is important to monitor the earnings of UCU to ensure protection of Missouri ratepayers from any over-earnings by the Company.

Q. Have past problems with the submission of surveillance data by UCU and MoPUB been resolved satisfactorily at this time?

A. Yes. Staff participated in a conference call with Mr. Gary Clemens of UCU on December 3, 1999 to discuss the issues described above. Mr. Clemens agreed to submit total company information for UCU in the form of a monthly balance sheet and income statement. Staff also discussed with Mr. Clemens the possibility of UCU including items that normally are considered "rate case" adjustments during the normal course of a rate case proceeding as part of their surveillance data reports. However, this type of information has not been submitted to date.

Q. Are there other Missouri jurisdictional utilities that have failed to submit surveillance data reports?

A. Yes. Several Missouri jurisdictional utilities are currently in arrears with their surveillance data reports. However, these companies typically notify the Financial Analysis Department Staff of any problems encountered with the submission of the required information. Such problems include, but are not limited to (1) conversion of computer records and (2) year-end audits.

Q. Do you believe UCU and SJLP should be required to submit separate surveillance data reports as a condition of approval for this merger?

A. It is Staff's belief that the Commission should order SJLP and UCU to continue submitting separate surveillance data reports regardless of the outcome of this merger proceeding. If this merger is approved, it is UCU's intent to operate SJLP as a separate division of UCU and maintain separate roles for it. Should this merger be approved by the Commission, Staff believes UCU and SJLP's continued submission of separate surveillance data reports will be necessary to ensure that the ratepayers of the state of Missouri are protected from any over-earnings by UCU or SJLP. It will also provide Staff with data helpful in making a preliminary assessment of the effects of the pending merger on MPS and SJLP.

Q. Does this conclude your rebuttal testimony?

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 St. Joseph Light & Power Company With and Into UtiliCorp United Inc. and, In Connection Therewith, Certain Other Related Transactions.	)	Case No. EM-2000-292

AFFIDAVIT OF ROBERTA A. MCKIDDY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Roberta A. McKiddy, 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 31 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.

Roberta A. McKiddy

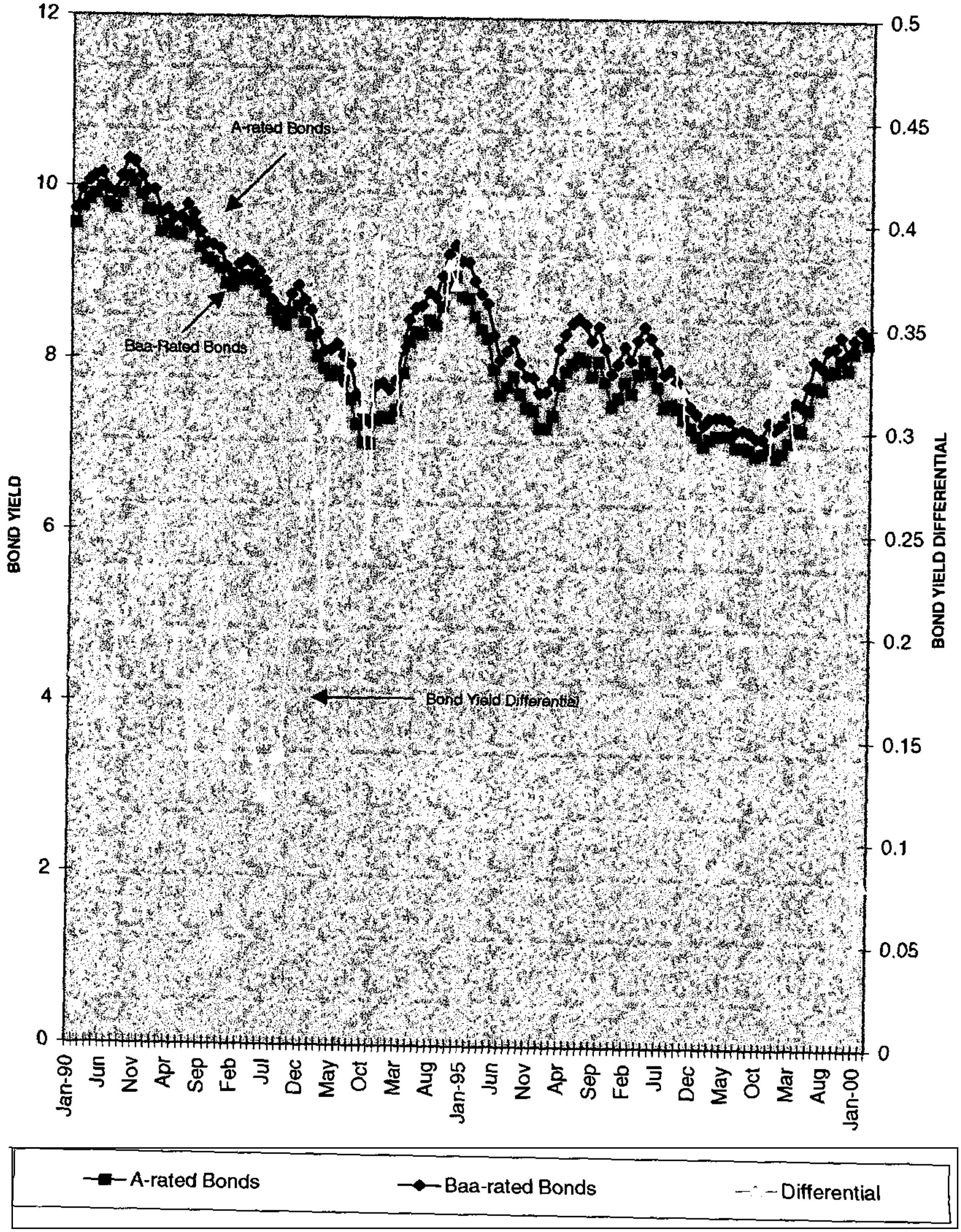
Subscribed and sworn to before me this 1st day of May 2000.

TONI M. WILLMENO
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

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

UTILICORP UNITED/ST. JOSEPH LIGHT AND POWER
EM-2000-292

MOODY'S UTILITY BOND YIELDS



Investor-Owned Utilities: Mergers and Major Acquisitions
For the Period 1987 - 1999
[Source: American Public Power Association (November 8, 1999), Goldman Sachs, CA Turner Utility Reports, Telescan Inc. and Electric Utility Weekly]

Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1999										
Nov-99	purchase	electric	Sierra Pacific Resources	Portland General Electric Co. (owned by Enron)		SRP		N.A.	N.A.	N.A.
3rd Qtr 2000 (11/4/99)	merger	gas	KeySpan Corporation	Eastern Enterprises (holding company for Boston Gas)		KSE		N.A.	N.A.	N.A.
1st Qtr 2000 (10/25/99)	acquisition		Private Investment Group (includes Berkshire Hathaway)	MidAmerican Energy Holdings				N.A.	N.A.	N.A.
10/18/99	acquisition	electric	AES Corp.	CILCORP, Inc. (parent company of Central Illinois Light Co.)		AES		$51.38 #	$7.28 ^ (@9/30/99)	7.06 x
4th Qtr 2000 (10/13/99)	acquisition	electric	Consolidated Edison (parent co. of New York, Inc. and Orange & Rockland Utilities, Inc.)	Northeast Utilities (holding co. for Connecticut Light & Power, Public Service Company of New Hampshire and Western Massachusetts Electric Co.)		ED		N.A.	N.A.	N.A.
mid-2000 (10/5/99)	merger	gas	DTE Energy Co. (holding co. for Detroit Edison Co.)	MCN Energy Group Inc. (holding co. for Michigan Consolidated Gas Co.)		DTE MCN		N.A. N.A.	N.A. N.A.	N.A. N.A.
4th Qtr 2000 (9/23/99)	merger		Unicom Corp. (holding company for Commonwealth Energy Co.)	PECO Energy Co.				N.A.	N.A.	N.A.
1/4/00 (9/9/99)	purchase		Allegheny Energy Inc.	West Virginia Power (owned by UtiliCorp United)		AYE		$26.25 *	$15.36 ^ (@9/30/99)	1.71 x
8/24/99	merger	electric	BEC Energy (holding co. for Boston Edison Co.)	Commonwealth Energy System (holding co. for three electric utilities)	NSTAR	BOSEO NST		$75.25 *	$22.29 ^ (@12/31/98)	3.38 x
Late 2000 (8/23/99)	acquisition		Carolina Power & Light Co.	Florida Progress Corp. (parent of Florida Power Corp.)		CPD FPC		N.A. N.A.	N.A. N.A.	N.A. N.A.
7/28/99	merger	electric	Sierra Pacific Resources (holding co. for Sierra Pacific Power Co.) (subsidiary of Sierra Pacific Resources)	Nevada Power Co. (subsidiary of Sierra Pacific Resources)		SRP		$37.81 #	$19.46 ^ (@9/30/99)	1.94 x
7/15/99	acquisition	gas	Carolina Power & Light Co.	North Carolina Natural Gas Corp.		CPL		$43.00 #	$21.37 ^ (@9/30/99)	2.01 x
7/9/99	acquisition	diversified	Consolidated Edison Inc. (parent of Consolidated Edison of New York)	Orange & Rockland Utilities Inc.		ED		$44.88 #	$27.66 ^ (@9/30/99)	1.62 x
2nd Qtr 2000 (6/30/99)	acquisition	electric/gas	Energy East Corp. (holding co. for New York State Elec. & Gas Corp.)	CTG Resources Inc. (parent of Connecticut Natural Gas Corp, a gas distributor)		CTG		N.A.	N.A.	N.A.
2nd Qtr 2000 (6/28/99)	acquisition	electric/gas	Wisconsin Energy Corp. (holding co. for Wisconsin Electric Power Co.)	Wicor Inc. (holding co. for Wisconsin Gas Co.)		WEC WIC		N.A. N.A.	N.A. N.A.	N.A. N.A.
3/1/00 (6/15/99)	acquisition	gas	Northeast Utilities	Yankee Energy System Inc. (a gas distribution utility in Connecticut)		NU YES		$19.38 * $44.38 *	$15.92 ^ N.A.	1.22 x N.A.
mid-2000 (6/15/99)	acquisition	electric/gas	Energy East Corp. (holding co. for New York State Elec. & Gas Corp.)	CMP Group (holding co. for Central Main Power co.)		NEG CTP		N.A. N.A.	N.A. N.A.	N.A. N.A.
1st Qtr 2000 (6/14/99)	merger	electric/gas	SIGCORP (parent of Southern Indiana Gas & Electric)	Indiana Energy Inc. (parent of Indiana Gas Co., a natural gas distribution company)	Vectren Corp.	SIG IEI		N.A. N.A.	N.A. N.A.	N.A. N.A.

Schedule 2-1

Created March 27, 2000

^ Annual Report/Company Profile   # Telescan Inc.   * Electric Utility Week

Document Name: Mergers_1987-1999_Ratios

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1999 - Con't										
2/2/00 (6/14/99)	merger	gas	Dynegy, Inc. (an energy marketing & natural gas processing and transportation company)	Illinova Corp. (parent of Illinois Power)		DYN Illinova		$46.75 * $47.50 *	N.A. $7.90 ^	N.A. 6.01 x
Jun-99	acquisition	gas	NiSource Inc. (holding co. for Northern Indiana Public Service Co.)	Columbia Energy Group (a natural gas distribution & pipeline company)		NI		N.A.	N.A.	N.A.
May-99	acquisition	electric/gas	OGE Energy Corp. (parent of Oklahoma Gas & Electric Company)	Transok LLC (a gatherer, processor, & transporter of natural gas and a subsidiary of Enogex Inc.)		OGE		N.A.	N.A.	N.A.
1st Qtr 2000 (5/25/99)	acquisition	electric	S. W. Acquisition Corp. (a private investor group)	TNP Enterprises (holding co. for Texas-New Mexico Power Company)		TNP		N.A.	N.A.	N.A.
2nd Half 2000 (5/11/99)	merger	electric	UtiliCorp United Inc.	Empire District Electric		UCU EDE		N.A. N.A.	N.A. N.A.	N.A. N.A.
2/1/00 (4/23/99)	acquisition	electric/gas	Energy East Corp. (holding company for New York Electric & Gas Corp.)	Connecticut Energy Corp (holding company for Southern Connecticut Gas Co., a gas distribution company)		NEG		$22.88 #	$13.57 ^	1.69 x
Mar-99	purchase	gas	Duke Energy	UP Fuels (a natural gas processing & marketing unit of Union Pacific Resources)		DUK		N.A.	N.A.	N.A.
Mar-99	purchase	gas	CMS Energy Corp (parent of Consumers Energy Co.)	Panhandle Eastern Pipe Line Co. & Trunkline Gas Co. (owned by Duke Energy)		CMS		N.A.	N.A.	N.A.
2nd Qtr 2000 (3/25/99)	merger	diversified	Northern State Power Co.	New Century Energies (a registered holding company that owns Public Service Company of Colorado and Southwestern Public Serivce Company)	Xcel Energy	NSP NCE		N.A. N.A.	N.A. N.A.	N.A. N.A.
3/12/99	merger		MidAmerican Energy Holdings Co.	CalEnergy Company Inc. (an independent power producer)	Mid-American Energy	MEC		$27.06 #	$15.59 ^	1.74 x
mid-2000 (3/5/99)	merger	electric/gas	UtiliCorp United Inc.	St. Joseph Light & Power Co.		UCU SAJ		N.A. N.A.	N.A. N.A.	N.A. N.A.
1/28/00 (2/99)	acquisition	gas	Dominion Resources Inc. (holding company for Virginia Power)	Consolidated Natural Gas Co. (a registered holding co. that has natural gas distribution, pipeline, production & mktg. subsidiaries)		D		$40.63 #	$25.51 ^	1.59 x
Feb-99	acquisition	electric/gas	Sempra Energy (parent of San Diego Gas & Electric)	K N Energy, Inc. (a natural gas pipeline & storage company)		SRE KNP		N.A. N.A.	N.A. N.A.	N.A. N.A.
Feb-00	acquisition	gas	NIPSCO Industries (holding co. for Northern Indiana Public Service Co.)	TPC Corporation (a natural gas gathering, processing & marketing company acquired by PaciCorp through its subsidiary, PacifiCorp Holdings Inc. 4/97)		NI (NiSource)		N.A.	N.A.	N.A.
2/1/00 (2/10/99)	acquisition	electric/gas	SCANA Corp (holding company for South Carolina Electric & Gas Co.)	Public Service Company of North Carolina (a gas distribution utility)		SCG PGS		$27.06 * $32.50 *	$18.56 ^ N.A.	1.46 x N.A.
2/12/99	merger	gas	NIPSCO Industries (holding co. for Northern Indiana Public Service Co.)	Bay State Gas Company (a gas distribution, marketing & energy services co.)		NI (NiSource)		$26.19 #	$10.91 ^	2.40 x

Created March 27, 2000

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Document Name: Mergers_1987-1999_Ratios

Schedule 2-2

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1999 - Con't										
1st Qtr 2000 (2/1/99)	acquisition	electric	New England Electric System (registered holding co. that owns 4 New England distribution utilities)	Eastern Utilities Associates (registered holding co. that owns 3 New England distribution utilities)		NES EUA		N.A. N.A.	N.A. N.A.	N.A. N.A.
1998										
Dec-98	acquisition	electric/gas	American Electric Power Company	*Equitable Resources Inc.* (a natural gas gathering, processing and storage co.)		AEP		N.A.	N.A.	N.A.
Oct-98	acquisition	gas	CMS Energy Corp. (parent of Consumers Energy Co.)	Continental Natural Gas Inc. (a gas gathering, processing & marketing co.)		CMS		N.A.	N.A.	N.A.
Sep-98	acquisition	diversified	WPS Resources Corp. (holding company for Wisconsin Public Service Corp.)	Upper Penninsula Energy Corp. (holding company for Upper Peninsula Power Co.)		WPS		N.A.	N.A.	N.A.
Aug-98	acquisition	electric/gas	PP&L Resources (parent of Pennsylvania Power & Light Co.)	Penn Fuel Gas, Inc. (a gas distribution company)		PPL		N.A.	N.A.	N.A.
6/26/98	merger	electric/gas	Enova Corp. (parent of San Diego Gas & Electric Co.)	Pacific Enterprises (parent of Southern California Gas Co.)	Sempra Energy		1.50x	$40.04	$15.91	2.62 x
May-98	acquisition	electric	Wisconsin Energy Corp. (parent of Wisconsin Electric Power Co.)	Eselco Inc. (holding company for Edison Sault Electric Co.)				N.A.	N.A.	N.A.
5/28/98	merger		*Long Island* Lighting Co.	KeySpan Energy (parent of Brooklyn Union Gas Co.)	MarketSpan Corp.		.88x	$29.65	$20.89	1.42 x
May-98	acquisition		Long Island Power Authority (LIPA) (LIPA was created in 1986 as a political subdivision of the state of New York.)	*Long Island Lighting Company*				N.A.	N.A.	N.A.
5/4/98	merger	*electric/gas*	LG&E Energy Corp. (parent of Louisville Gas & Electric Co.)	KU Energy Corp. (parent of Kentucky Utilities Co.)			1.67x	$44.57	$17.29	2.58 x
3/21/98	merger		WPL Holdings Inc. (holding company for Wisconsin Power & Light Co.)	IES Industries Inc. and Interstate Power Co. (*holding company* for IES Utilities Inc.)	*Alliant Energy*		1.14x 1.11x	$39.40 $38.36	$20.22 $20.17	1.95 x 1.9 x
1997										
3/1/98	*merger*	electric	Atlantic Energy Inc. (parent of Atlantic City Electric Co.)	Delmarva Power and Light Co.	Conectiv		(h)	$20.41(i)	$15.38	1.33 x
12/31/97	merger	electric	*Union Electric*	CIPSCO Inc. (parent of Central Illinois Public Service Co.)	Ameren Corp.		1.03x	$44.55	$18.92	2.35 x
1st Qtr 2000 (12/22/97)	acquisition	electric	American Electric Power Company, Inc. (each company is a registered holding company that owns electric utility subsidiaries.)	Central and South West Corporation (each company is a registered holding company that owns electric utility subsidiaries.)		AEP CSR		N.A. N.A.	N.A. N.A.	N.A. N.A.
11/10/97	merger	electric	Ohio Edison Co.	Centerior *Energy Corp.* (parent of The Toledo Edison Co. and The Cleveland Electric Illuminating Co.)	*FirstEnergy Corp.*		.53x	$13.55	$12.97	1.04 x
8/1/97	merger		*Public Service Company* of Colorado	Southwestern Public Service Co.	New Century Energies		0.95x	$39.97	$16.83	2.34 x

Schedule 2-3

Created March 27, 2000

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Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1995 - Con't										
Aug-95	acquisition		PECO Energy Co.	PP&L Resources Inc. (parent of Pennsylvania Power & Light Co.)				N.A.	N.A.	N.A.
6/30/95	merger	electric/gas	Midwest Resources Inc. (holding company for Midwest Power Systems Inc.)	Iowa-Illinois Gas & Electric Co.	MidAmerican Energy Co.		1.47x	$20.58	$17.01	1.21 x
Jun-95	*purchase*		Delmarva Power & Light Co.	Conowingo Power Co. (owned by PECO Energy Co.)				N.A.	N.A.	N.A.
May-95	acquisition	electric/gas	LG&E Energy Corp. (parent of Louisville Gas & Electric Co.)	Hadson Corporation (a gas marketing, transmission & processing company)				N.A.	N.A.	N.A.
May-95	merger	electric	Northern States Power Co.	Wisconsin Energy Corp. (parent of Wisconsin Electric Power Co.)	Primergy Corp.			N.A.	N.A.	N.A.
1994										
Dec-94	acquisition		Washington Water Power Co.	Sandpoint district of Idaho (owned by PacifiCorp)				N.A.	N.A.	N.A.
10/24/94	merger	electric/gas	PSI Resources Inc. (parent of PSI Energy Inc.)	Cincinnati Gas & Electric Co.	CINergy Corp.		1.02x	$23.40	$12.25	1.91 x
Jun-94	merger		Sierra Pacific Resources (holding company for Sierra Pacific Power Co.)	Washington Water Power Co.	Altus Corp.			N.A.	N.A.	N.A.
1993										
Dec-93	merger	electric/gas	Iowa Electric Light & Power Co. (operating subsidiary of IES Industries Inc.)	Iowa Southern Utilities Co. (operating subsidiary of IES Industries Inc.)	IES Utilities Inc.			N.A.	N.A.	N.A.
12/31/93	acquisition		Entergy Corp. (registered holding company)	Gulf States Utilities Co.			(f)	$20.00	$16.84	1.19 x
Jul-93	acquisition	electric	Texas Utilities Co. (parent of Texas Utilities Electric Co.)	Southwestern Electric Service Co.				N.A.	N.A.	N.A.
May-93	merger	electric	Central and South West Corp. (registered holding company)	El Paso Electric Co.				N.A.	N.A.	N.A.
Mar-93	acquisition		IPALCO Enterprises (parent of Indianapolis Power & Light Co.)	PSI Resources Inc. (parent of PSI Energy Inc.)				N.A.	N.A.	N.A.
1992										
Dec-92	acquisition	electric/gas	Iowa Electric Light & Power Co.	Iowa distribution system & portion of transmission system from Union Electric				N.A.	N.A.	N.A.
Dec-92	*purchase*	electric/gas	Central Illinois Public Service Co.	NW Illinois distribution property of Union Electric Co.				N.A.	N.A.	N.A.
Jul-92	merger		Iowa Public Service Co. (operating subsidiary of Midwest Resources Inc.)	Iowa Power Inc. (operating subsidiary of Midwest Resources Inc.)	Midwest Power Systems Inc.			N.A.	N.A.	N.A.
6/5/92	acquisition		Northeast Utilities (registered holding company)	Public Service Co. of New Hampshire			(e)	$4.13	$7.23	0.57 x
4/28/92	acquisition	electric/gas	UNITIL Corp.	Fitchburg Gas & Electric Light Co.			1.11x	$39.82	$24.56	1.62 x

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^ Annual Report/Company Profile # Telescan Inc. * Electric Utility Week

Document Name: Mergers_1987-1999_Ratios

Schedule 2-5

Investor-Owned Utilities: Mergers and Major Acquisitions
For the Period 1987 - 1999
[Source: American Public Power Association (November 8, 1999), Goldman Sachs, CA Turner Utility Reports, Telescan Inc. and Electric Utility Weekly]

Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1992 - Con't										
3/31/92	acquisition	electric/gas	Kansas Power & Light Co.	Kansas Gas & Electric Company	Western Resources		.85x	$33.59 (d)	$19.27	1.74 x
Mar-92	purchase	electric/gas	Union Electric Co.	Missouri distribution property of Arkansas Power & Light Co.				N.A.	N.A.	N.A.
1991										
Sep-91	acquisition		UtiliCorp United	Centel Corp.				N.A.	N.A.	N.A.
7/1/91	*acquisition*	*electric*	IE Industries Inc. (holding co. for Iowa Electric Light & Power Co.)	Iowa Southern Utilities co.	IES Industries Inc.		1.60x	$41.60	$24.48	1.70 x
1990										
11/7/90	merger		Midwest Energy Co. (parent of Iowa Public Service Co.	Iowa Resources Inc. (parent of Iowa Power Inc. formerly Iowa Power & Light Co.)	Midwest Resources Inc.		(c)	NM	$16.03	NM
Apr-90	acquisition	electric	Eastern Utilities Associates (registered holding company)	Newport Electric Corp.				N.A.	N.A.	N.A.
1989										
1/9/89	merger	electric	PacifiCorp	Utah Power & Light Co.			.91x	$32.46	$18.82	1.72 x
1988										
Nov-88	acquisition		Duke Power Co.	Nantahala Power & Light Co.				N.A.	N.A.	N.A.
3/3/88	acquisition	electric	The Southern Company (registered holding company)	Savannah Electric & Power Co.			1.05x	$24.64	$12.53	1.96 x
1987										
Mar-87	acquisition	electric	UtiliCorp United	West Virginia Power (parent of Virginia Electric & Power Co.)				N.A.	N.A.	N.A.

(a) For stock-based transactions (except Pinnacle West), this is approximately the trading price on the date that the merger closed.
(b) Book values are as of the date of merger announcement.
(c) Iowa Resources shareholders received *1.235 shares of Midwest Resources. Midwest Energy shareholders* received 1.08 shares of Midwest Resources.
(d) In addition to 0.8512 shares of Kansas Power & Light, Kansas Gas & Electric shareholders received $11.78 in cash per share.
(e) Consists of (1) 0.0988 shares of new Public Service Co. of New Hampshire (PSNH), including stock dividends, which Northeast Utilities (NU) purchased at $20 per share (equivalent to $1.98 per original PSNH share); (2) $1.94 worth of notes per original share, including accrued interest; (3) 0.0695 warrants to purchase NU stock. Each warrant was valued at about $3, implying a value of about *$0.21 per original PSNH share.*
(f) Combination of cash and stock
(g) Those NorAm Energy shareholders electing stock received $16.00 worth of Houston Industries, Inc. stock for each of their shares. Those NorAm Energy shareholders electing to receive cash received $16.3051 per share. Accrued interest accounted for the differences between the cash and stock payments.
(h) Each Atlantic Energy shareholder received 0.75 shares of Conectiv Class A stock.
(i) Based on the opening prices of Conectiv and Conectiv Class A stock.

Schedule 2-6

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Investor-Owned Utilities: Mergers and Major Acquisitions
For the Period 1987 - 1999
[Source: American Public Power Association (November 8, 1999), Goldman Sachs, CA Turner Utility Reports, Telescan Inc. and Electric Utility Weekly]

Date Announced	Acquiring Company	Target Company	Ticker Symbol	Exchange Ratio	Implied Value(s)	Premium	Book Value	Market-to-Book
3/5/99	UtiliCorp United Inc.	St. Joseph Light & Power Company (j)	SAJ	NM	$23.00	36.30%	$11.76	1.96 x
8/12/98	CalEnergy Company, Inc.	MidAmerican Energy Holdings Company (i)	MEC	NM	$27.15	35.80%	$13.94	1.95 x
5/8/98	Consolidated Edison, Inc. (h)	Orange and Rockland Utilities Inc.		NM	$58.50	38.60%	$27.69	2.10 x
4/30/98	Nevada Power Company	Sierra Pacific Resources (g)	SRP	(g)	$37.55	9.00%	$20.49	1.83 x
12/22/97	American Electric Power Co., Inc. (f)	Central and South West Corporation		0.60	$31.20	20.00%	$17.11	1.82 x
12/18/97	NIPSCO Industries, Inc. (e)	Bay State Gas Company		(e)	$40.00	26.50%	$17.35	2.31 x
6/10/97	WPS Resources Corporation (d)	Upper Peninsula Energy Corporation		0.90	$24.64	35.00%	$11.11	2.22 x
4/7/97	DQE Inc. (NOTE: offer has been withdrawn by DQE)	Allegheny Energy Inc. (c)	AYE	1.12	$33.32	22.80%	$18.01	1.85 x
2/7/97 3/18/98	Western Resources Inc. (a)	Kansas City Power and Light Company (Note: merger has been cancelled by KCPL)	KLT	(b)	$34.50	12.40%	$14.19	2.43 x

(a) On February 7, 1997, Western Resources (WR) and Kansas City Power & Light Company (KLT) reached a merger agreement. On December 19, 1997, the companies jointly announced that WR wanted to renegotiate the terms of the transaction and a revised agreement was introduced on March 18, 1998. Under the new merger agreement, WR and KLT each would contribute its electric utility business to a new entity, Westar Energy. The exchange of KLT to WR shares was subject to a price collar, with a $23.50 of value offered if WR shares remain in the $38.38 - $47.00 price range over the 20-day trading period prior to closing. Under the collar, the minimum and maximum values of WR stock exchanged per KLT share would be $21.50 and $26.25, respectively. The merger required the approvals of the Kansas Corporation Commission, the Missouri Public Service Commission, the Nuclear Regulatory Commission, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Internal Revenue Service, and the Department of Justice. The merger was expected to close by mid-1999. However, KCPL cancelled the merger on January 3, 2000 citing falling stock prices for both Western and KCPL as well as problems with Western's Protection One home security company and Oneok, a natural gas producer.

(b) Combination of cash and stock.

(c) On April 7, 1997, Allegheny Energy, Inc. (AYE) and DQE Inc. (DQE) announced an agreement to merge. Each DQE share would be exchanged for 1.12 shares of Allegheny Energy while each AYE share would receive one share of Allegheny Energy. The merger was expected to be a tax-free transaction and would be accounted for under the pooling of interest method. The merger was subject to the approval of a simple majority of AYE and DQE shareholders, the Pennsylvania Public Utility Commission, the Maryland Public Service Commission, FERC, the Securities and Exchange Commission, and the Nuclear Regulatory Commission. Although the merger initially was expected to close in mid-1998, DQE filed notice of its intent to terminate the merger, preferably with the consent of AYE. The merger, however, was terminated without AYE's consent. Legal issues are pending.

(d) On July 10, 1997, WPS Resources Corp. (WPS) announced that it would acquire Upper Peninsula Energy Corp. (UPEN) in a fax-free, stock-for-stock transaction. Each share of UPEN common stock will be exchanged for 0.90 shares of WPS common stock. The transaction is subject to the approvals of UPEN shareholders, the SEC, Hart-Scott-Rodino and the FERC. The merger is expected to close in the second half of 1998.

Schedule 3-1

(e) On December 18, 1997, NIPSCO Industries Inc. announced that it had entered into a definitive merger agreement to acquire Bay State Gas Company (BGC) in a stock and cash transaction worth $780 million in equity and $240 million in debt and preferred stock. The merger will occur as a purchase accounting transaction that will include $250 million in goodwill to be amortized over 40 years. NI will acquire BGC stock at $40 per share and BGC shareholders will have the option to receive up to 50% of the purchase price in cash.
The $40 purchase price represents a 35% premium to the average price over the past 30 trading days. Completion of the merger is targeted for late 1998 after approval of BGC's common shareholders, the Federal Energy Regulatory Commission, Securities and Exchange Commission, and state regulators in Maine, Massachusetts, and New Hampshire.

(f) On December 22, 1997, American Electric Power Company (AEP) and Central and South West Corporation (CSR) announced an agreement to merge into American Electric Power Company Inc. Each CSR would be exchanged for 0.60 shares of AEP. The merger is expected to be a tax-free transaction and will be accounted for under the pooling of interest method. The merger will be subject to the approval of a majority of outstanding shares of both companies and the regulatory approvals of the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Texas Public Utility Commission, the Oklahoma Corporation Commission, the Securities and Exchange Commission, the FERC, and the Nuclear Regulatory Commission. Closing is expected within 12-18 months.

(g) On April 30, 1998, Nevada Power Company (NVP) and Sierra Pacific Resources (SRP) announced an agreement to merge into Sierra Pacific Resources Corporation. Under the agreement, Nevada Power shareholders will have the option of receiving 1.00 shares of the new company's stock or $26.00 cash per Nevada Power share. Sierra Pacific Resources shareholders have the option of receiving 1.44 shares of the new corporation's stock or $37.55 cash per Sierra Pacific Resources share. Following the transaction, each company's shareholders will own 50% of the new company. The merger is expected to be a taxable transaction and will be accounted for under the purchase method. The transaction is subject to the approvals of a simple majority of the outstanding shares of both companies, the Public Utilities Commission of Nevada, the Securities and Exchange Commission, and the Federal Energy Regulatory Commission. The companies expect to close the merger by April 1999.

(h) On May 11, 1998, Consolidated Edison, Inc. (ED) announced an agreement to acquire Orange and Rockland Utilities, Inc. Under the terms of the agreement, Consolidated Edison will pay $58.50 for each Orange and Rockland share. The transaction will be taxable, accounted for under the purchase method, and subject to the approvals of majority of Orange and Rockland shareholders, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, and the public utility commissions of New York, New Jersey, and Pennsylvania. The companies expect to close the transaction by May 1999.

(i) On August 12, 1998, CalEnergy Company (CE) announced an agreement to acquire MidAmerican Energy Holdings Company. Under the terms of the agreement, CalEnergy will pay $27.15 per MidAmerican Energy share. The transaction will be taxable, accounted for under the purchase method, and subject to the approvals of a majority of both companies shareholders, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, and the Iowa Utilities Board. The companies expect to close the transaction in first-quarter 1999.

(j) On March 4, 1999, St. Joseph Light & Power Company's (SAJ) stock closed at $16.875. On March 5, 1999, UtiliCorp United Inc. announced it would merge with SJLP. Under the terms of the agreement, UCU will pay $23.00 per SAJ share. The companies expect to close the transaction in mid-2000.

NM - not meaningful

Schedule 3-2

UTILICORP UNITED INC./ST. JOSEPH LIGHT & POWER COMPANY
BACKGROUND OF THE MERGER TRANSACTION
CASE NO. EM-2000-292

Date	Description
1995	St. Joseph retained a consulting firm to assist management in developing a strategic plan.
1/17/96	St. Joseph embarked upon a diversification program by which it sought out private equity and certain convertible debt investment opportunities, primarily in unregulated industries. In connection with this program, St. Joseph made three investments in non-regulated businesses from 1996 through 1998.
5/31/97	Effective this date, St. Joseph acquired a controlling interest in Percy Kent, a manufacturer of multi-wall and small paper bags, primarily for food, agricultural, chemical, pet food and other consumer packaging companies throughout the United States.
1998	The Strategic Planning Committee of St. Joseph's Board of Directors retained another consulting firm to provide strategic planning advice.
3/18/98	The consulting firm delivered a report to the Board in which it recommended that St. Joseph begin exploring various strategic alternatives, including a potential merger or strategic alliance.
5/19/98	The Board began to interview potential financial advisors to assist in exploring strategic alternatives.
7/15/98	The Board authorized management to negotiate the engagement of the investment banking firm of Morgan Stanley & Co. Incorporated to serve as St. Joseph's financial advisor.
8/17/98	The board authorized and approved an engagement letter with Morgan Stanley. Morgan Stanley was instructed to commence a review of St. Joseph and its competitive position in the utility industry and to begin developing potential strategic alternatives for maximizing shareholder value, including a potential merger or strategic alliance.
10/14/98	The board's Strategic Planning Committee met and discussed the need for the board to hire special counsel to assist the board in conducting its review of strategic alternatives. The board retained the law firm of Bryan Cave LLP to assist it in reviewing such matters. Also, at that meeting, Morgan Stanley outlined the strategic challenges facing St. Joseph and recommended that St. Joseph explore a potential business combination with a larger utility company as the best means of maximizing long-term value for St. Joseph's shareholders. The board and its advisors identified a list of potential strategic merger partners, including UtiliCorp. The board instructed Morgan Stanley to contact seven companies from the list (the "Potential Bidders") for the purpose of obtaining expressions of interest in a potential business combination.
11/9/98	Morgan Stanley initially contacted the Potential Bidders during this week.
11/17/98	Morgan Stanley was informed that two of the seven Potential Bidders did not intend to participate in discussions regarding a potential transaction.
11/25/98	Morgan Stanley was informed that a third Potential Bidder also did not intend to participate in discussions.
11/27-12/2/98	Two of the Potential Bidders (including UtiliCorp) informed Morgan Stanley of their interest in receiving information about St. Joseph; accordingly, confidentiality agreements were executed with such parties and an information statement that had been prepared by St. Joseph and Morgan Stanley was provided to them.
12/4/98	Morgan Stanley briefed the board on the status of the expressions of interest. Morgan Stanley also informed the board that another interested party had contacted it about St. Joseph. The board instructed Morgan Stanley to solicit an expression of interest from that party (the "Additional Potential Bidder"). On behalf of St. Joseph, Morgan Stanley initially contacted that Additional Potential Bidder that same day. Also, a fourth Potential Bidder informed Morgan Stanley of its intention not to participate in the process.
12/7/98	The Additional Potential Bidder informed Morgan Stanley of its interest in receiving information about St. Joseph. It executed a confidentiality agreement and received the information statement on the same day.
12/15/98	A fifth Potential Bidder notified Morgan Stanley of its intention not to participate in the process.
12/16-18/98	Morgan Stanley received a preliminary expression of interest from each of the two remaining Potential Bidders (including UtiliCorp) and the Additional Potential Bidder.
12/21/98	The financial and non-financial aspects of these expressions of interest were reviewed and discussed by the board. These non-binding expressions of interest contained preliminary proposed valuations of between $19.70 and $22.25 per share of St. Joseph common stock.
1/12-21.99	The three parties that had submitted expressions of interest performed a due diligence review of St. Joseph, including discussions with St. Joseph's management.
1/25/99	The Strategic Planning Committee met to discuss the status of the due diligence procedures conducted by the interested parties. The committee also reviewed a form of draft merger agreement to be distributed to the interested parties. After the committee approved the form of the draft merger agreement, Morgan Stanley delivered the draft to the three interested parties on behalf of St. Joseph and informed them of a February 16, 1999 deadline for submitting final binding proposals.
1/7-2/17/99	St. Joseph's management conducted a due diligence review of the three interested parties, including management interviews.
2/16/99	St. Joseph received final binding proposals from two of the three interested parties. UtiliCorp's proposal contemplated an all stock transaction at a fixed value of $22.50 per share of St. Joseph common stock. The second proposal contemplated an all stock transaction at a value of $12.28 per share of St. Joseph common stock, with a downward price adjustment in the event of a reduction in the bidder's share price. Each proposal was accompanied by a set of proposed written changes to the draft merger agreement previously provided to the bidders. Prior to 2/16/99, the third interested party contacted Morgan Stanley to indicate that it did not intend to submit a final binding proposal.
2/17-18/99	The Strategic Planning Committee and St. Joseph's financial and legal advisors met to review the economic and other terms of the two proposals, including the comments received with respect to the draft merger agreement. Clarification was sought from the interest parties as to certain terms of their proposals.
2//19/99	The board reviewed and compared the two proposals. Morgan Stanley discussed its preliminary assessment of the two competing bids, from a financial point of view. Based on the higher and fixed nature of the bid contained in UtiliCorp's proposal, the board requested that Morgan Stanley assist in determining whether UtiliCorp would increase the offer contained in its proposal on behalf of St. Joseph. Morgan Stanley contacted UtiliCorp and encouraged UtiliCorp to increase its bid. In response, UtiliCorp raised its bid to $23.00 per share of St. Joseph common stock. Morgan Stanley also discussed with UtiliCorp certain items referred to in the comments to the merger agreement submitted by UtiliCorp in connection with its bid.
2/22/99	Based upon the increase in price to $23.00 per share and the more favorable structure of Utilicorp's bid, St. Joseph's board of directors authorized management and St. Joseph's legal advisors to continue negotiations of a definitive merger agreement with UtiliCorp. Over the course of the next 10 days, management and St. Joseph's legal and financial advisors negotiated the definitive merger agreement.
3/4/99	Morgan Stanley rendered an opinion that the merger consideration was fair, from a financial point of view, to holders of shares of St. Joseph's common stock. The board unanimously approved the merger agreement and the merger. The merger agreement was executed on the evening of March 4, 1999.
3/5/99	The merger was publicly announced prior to the opening of trading on the NYSE.