Exhibit No.:
Issue: *Corporate Overhead Allocations*
Employee Benefits Conversion
St. Joseph Light & Power's Electric, Gas & Steam Cost of Service
Proposed Regulatory Plan
Projected Merger Cost & Benefit Analysis
Witness: *Steve M. Traxler*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *EM-2000-292*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

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

CASE NO. EM-2000-292

Jefferson City, Missouri
May, 2000

REBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

UTILICORP UNITED INC.

AND

ST. JOSEPH LIGHT & POWER COMPANY

CASE NO. EM-2000-292

Q. Please state your name and business address.

A. Steve M. Traxler, Noland Plaza Office Building, 3675 Noland Road, Independence, Missouri 64055.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from Missouri Valley College at Marshall, Missouri, in 1974 with a Bachelor of Science degree in Business Administration with a major in Accounting.

Q. Please describe your employment history.

A. I was employed as an accountant with Rival Manufacturing Company in Kansas City from June 1974 to May 1977. I was employed as a Regulatory Auditor with the Missouri Public Service Commission from June 1977 to January 1983. I was employed by United Telephone Company as a Regulatory Accountant from February 1983 to May 1986. In June 1986, I began my employment with Dittmer, Brosch &

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

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

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

Q. Have you previously testified before this Commission?

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

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

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

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

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

(2) The Joint Applicants are requesting approval of a Regulatory Plan for specific regulatory treatment specific savings

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

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

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

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

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

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

(2) The Joint Applicants' project savings of approximately $60 million over the 10-year period following merger approval. Staff witness Dr. Michael Proctor's position is that approximately 93% of these savings can be achieved by SJLP on a "stand alone" no merger assumption basis and, therefore, should not be used to offset merger costs in a cost/benefit analysis for this merger.

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

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

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

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

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

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

If the Commission "ignores" for ratemaking purposes, cost reductions from the merger in the form of lower cost of capital for SJLP and lower Corporate Overhead cost allocations to MPS, as requested by the Regulatory Plan, MPS and SJLP will subsidize merger costs and the merger acquisition premium by approximately $73 million over the 10-year period following merger approval.

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

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

A. My testimony will address the following areas:

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

- Staff's projected merger impact on SJLP's cost of service resulting from the Consolidation of Administrative and General, Customer Service, Transmission, Distribution and General Plant Functions and the corresponding allocation of UCU Corporate Overhead costs to SJLP.
- Overstatement of projected merger savings from Employee Benefits Conversion as a result of the failure to reflect the consolidation of SJLP and UCU Pension Fund Assets after the merger;
- Staff's analysis of the **net** result of all projected Merger Costs and Savings, under the Staff's assumptions, which demonstrates that the proposed merger will be detrimental to SJLP's ratepayers, absent the Staff's recommended conditions required for merger approval.

PROPOSED REGULATORY PLAN

Q. Why is it necessary to analyze the expected costs and benefits that will result from a merger of St. Joseph Light & Power Company (SJLP), Empire District Electric Company (EDE or Empire) and UtiliCorp United, Inc. (UCU)?

A. The Commission is bound by a Missouri statute regarding the approval of regulated utility company mergers. The Joint Applicants are required to demonstrate that the proposed merger is not detrimental to the public interest. It is, therefore, incumbent on the Joint Applicants (SJLP and UCU) and the Staff to conclude and recommend to the Commission that the proposed merger is not expected to result in:

1. Higher utility rates for the customers of SJLP, Empire and UlitiCorp's Missouri division, Missouri Public Service (MPS), as a result of the merger; and

2. Deterioration in the level of customer service.

Q. Does the not detrimental to the public interest standard in Missouri require that any of the Missouri customers of SJLP, UCU or Empire benefit from the proposed merger?

A. No. The Joint Applicants do not have to demonstrate <u>net benefits</u> (savings <u>exceeding</u> costs), or improved customer service. They <u>do</u> have to demonstrate that costs resulting from the merger will not <u>exceed</u> the savings, resulting in higher utility rates, and that customer service will not deteriorate.

Q. Is it generally true that utility merger applications are presented by the applicants on the assumption that merger-related benefits will exceed costs?

A. Yes. In all of the previous major merger applications in Missouri, the Joint Applicants projected that savings would <u>exceed</u> all transaction, transition, consolidation costs as well as the merger premium acquisition adjustment. The monies which exceeded the recovery of costs were then purported to be used for rate mitigation for customers.

Q. With respect to this proposed merger between UCU and SJLP, are the Joint Applicants projecting savings which exceed transaction, transition, consolidation costs as well as the merger premium acquisition adjustment?

A. No. Reflected below are the Joint Applicants' projected savings and merger-related costs over the 10-year period following the closing of the merger. The amounts are separated between expected financial results for years 1-5 and 6-10 respectively. Line 5 reflects that projected savings will exceed projected transition, transaction and consolidation costs by $21.3 million in the first five years and $38.4 million in the second five years.

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

	UCU/SJLP Projected Merger Costs/Savings	
	Years 1-5	**Years 6-10**
Operation & Maintenance Consolidation Savings	$81,385	$102,885
Additional Capital Costs to Implement Consolidation	(13,265)	($11,915)
Total Savings, Net of Costs to Achieve	$68,120	$ 90,970
Increase in Operation & Maintenance Expense - UCU Allocations	($46,840)	($52,560)
Total Savings Less Costs Excluding Premium Amount	$21,280	$38,410
Amortization of Total Acquisition Premiums	($67,586	($61,040)
Net Loss – Years 1-5	($46,306)	
Net Loss – Years 6-10		($ 22,630
Net Loss – Years 1-10		($68,936

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

A. Clearly, the Joint Applicants would <u>not</u> be attempting to justify this merger to their shareholders if the projected financial results told the entire story regarding the "Regulatory Plan" being requested in the application of the Joint Applicants.

Q. The Regulatory Plan being proposed by the Joint Applicants is explained in detail in the testimony of Staff witnesses Mark Oligschlaeger, David Broadwater and Dr. Michael Proctor.

However, I will briefly explain how the proposed Regulatory Plan <u>forces</u> the existing ratepayers of MPS and SJLP to <u>subsidize</u> the recovery of the acquisition premium and merger costs which are not recoverable through projected savings.

(1) UCU's general and administrative overhead costs, which benefit all of its U.S. regulated and non-regulated divisions/subsidiaries, are currently allocated to 27 separate divisions or subsidiaries. Adding SJLP and Empire to the organization results in an immediate reduction in the allocation percent for the 27 existing entities which receive an allocation of UCU's overhead costs. UCU's existing Missouri regulated utility division, Missouri Public Service (MPS) is one of the 27 existing entities that would benefit from a **reduction** in the allocation factor used to assign UCU's overhead costs to MPS.

However, under the proposed Regulatory Plan, the Joint Applicants are requesting that this cost allocation benefit to MPS be "ignored" in any rate case involving MPS during the first 10 years following the merger.

This recommended ratemaking treatment for MPS is nothing more than a backdoor approach to force UCU's existing Missouri customers to subsidize the net loss from the merger, referred to previously, which results because projected merger savings are insufficient to cover all merger costs and the acquisition premium.

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

Using UCU's own projections, MPS's allocated share of Corporate Overhead Costs would be reduced by an average $8.3 million annually as soon as SJLP began absorbing its allocated share of these costs. Schedule SMT-8 reflects the additional cost to MPS ratepayers from this proposal. The Regulatory Plan requires the Commission to "ignore" this cost reduction and increase rates for UCU's existing MPS ratepayers by an average of $8.3 million annually as a result. It is my understanding that a MPS rate case is expected to be filed within the next two years. Assuming that the Commission adopted the proposed Regulatory Plan, MPS's Missouri ratepayers will be forced to subsidize the merger acquisition premium and merger costs by approximately $67 million during the 10-year period being used to project merger costs and savings by UCU/SJLP. Schedule SMT-9 reflects the calculation of the subsidy by MPS ratepayers during the eight-year period after MPS's next expected rate case.

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

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

that SJLP remains a separate Missouri electric utility with its own capital structure for the purpose of determining the rate of return used in a rate case for the SJLP division.

SJLP's current premerger capital structure has a higher equity ratio than UCU's consolidated capital structure following the merger. If the Joint Applicants can get the Commission to "assume" that SJLP's pre-merger capital structure still exists for the next 10 years, then SJLP's customers will also be forced to subsidize the recovery of the merger acquisition premium and merger costs not covered by merger savings. Staff witness David Broadwater addresses the detrimental aspects of this regulatory proposal in this rebuttal testimony. This proposal, if adopted, requires SJLP's ratepayers to <u>subsidize</u> the acquisition premium and other merger costs by approximately $6.4 million annually in the form of higher rates in Years 6-10.

(3) Joint Applicants' witness, Robert Holzwarth, addresses the projected merger savings that will result from:

1) jointly dispatching the combined generation units of SJLP and MPS resulting in efficiency savings; and

2) a projected increase in the sale opportunities on the interchange market resulting in higher interchange profits.

No witness, including Mr. Holzwarth, will deny that savings in the two areas described above require the **joint** use of the generation assets of SJLP and UCU's Missouri division, MPS, assuming a UCU/SJLP merger, and that any projected savings from a merger involving SJLP, Empire and UCU result from the **joint** use of the generation assets of all three utilities. Since the projected benefits from efficiency gains and increased opportunities on the interchange market result from the use of joint facilities, one would logically assume that benefits would be jointly shared by UCU, SJLP and Empire.

However, the word "logical" does not apply to the Regulatory Plan being proposed in this case. With the exception of some capacity cost savings. Mr. Holzwarth is assigning 100% of all energy benefits, resulting from the joint dispatch of the combined generation assets, to the SJLP and Empire ratepayers. The Commission is being asked to assume that the MPS ratepayers, who have been paying depreciation and a rate of return on MPS's Sibley generating station and other MPS generating facilities, for the last 35 years, have no right to any benefits resulting from the joint use of these facilities after the merger.

This proposal, if adopted, will also result in a forced subsidization of the acquisition premium and merger costs by UCU's existing Missouri ratepayers. Staff witness Dr. Michael Proctor addresses this issue in his rebuttal testimony.

(4) The Regulatory Plan requires the measurement of merger costs and savings for a five-year period following merger approval. The Joint Applicants have not presented any detailed plan as to how they plan to separate <u>non-merger</u> savings from <u>merger</u> savings. Not being able to differentiate between non-merger and merger savings will result in an increase in SJLP's cost of service when <u>non-merger</u> savings are used to offset <u>merger</u> costs.

Q. Does any proposal requiring the tracking of merger savings and costs require a "base year" to be used for the purpose of attempting to measure the amount of net savings/costs resulting from the merger.

A. Yes. In theory, a pre-merger "base year" which reflects pre-merger costs is required to measure the savings resulting from the merger.

The Staff is opposed to any proposal that attempts to measure merger costs and savings after a merger. The reasons supporting our objections are addressed in detail in the testimony of Staff witnesses Mark Oligschlaeger, Janis Fischer, Dr. Michael Proctor and Cary Featherstone.

Q. What "base year" is being proposed by UCU/SJLP for the purpose of the tracking merger savings and costs?

A. The 1999 budget for SJLP is being proposed for this purpose.

Q. What "base year" is being proposed by the Staff for the purpose of tracking merger costs and savings?

A. The only reason the Staff is recommending any base year for tracking merger savings and costs is to avoid using the 1999 budget, as proposed by UCU/SJLP, in the event the Commission rejects Staff's primary position on this issue. However, in the event the Commission does approve a merger tracking proposal, the Staff is recommending that an updated cost of service calculation through December 31, 1999 be used in lieu of the 1999 budget.

Q. Why is the Staff opposed to using the 1999 budget of SJLP for a base year for tracking merger costs and savings?

A. At best, a budget is nothing more than a best estimate about events 12-14 months in the future at the time the budget is proposed. The volatility in the purchase power and interchange market today is impossible to budget 12-14 months in advance.

The Joint Applicants' recommendation for using the 1999 SJLP budget also does not include a recommendation for truing-up budgeted amounts for significant differences between "budgeted" and "actual" 1999 results, which makes it unsuitable as an accurate base year to be used in tracking merger costs and savings.

Q. Are you aware of any significant differences between SJLP's 1999 budget and actual results for 1999?

A. Yes. A scheduled maintenance outage for the Iatan generating unit was scheduled for the Fall of 1999 and included in the 1999 budget at an amount of $1,816,000 (Response to Staff Data Request 223). The Iatan maintenance outage was canceled later in the year and rescheduled for the Spring of 2000.

This one difference between actual and budgeted results in 1999 makes the SJLP 1999 budget unsuitable for the purpose of tracking merger costs and savings resulting from a Commission order adopting such a proposal.

Using the 1999 SJLP budget unadjusted, would "guarantee" $1,816,000 in merger savings that do not exist because it includes $1.8 million in maintenance expense that does not exist.

Q. What are the advantages of using the Staff's updated cost of service calculation through December 1999 as a base year for tracking merger costs and savings?

A. The Staff's recommended rate reduction for SJLP in the recent rate case, ER-99-247, was based upon a test year ending December 31, 1998 updated for known and measurable results through March 31, 1999.

Using the results of the audit in Case No. ER-99-247 as a starting point allowed the Staff to perform sufficient auditing regarding significant changes which occurred between March 31, 1999 and December 31, 1999. The Staff's updated cost of service calculations for SJLP's Electric, Gas and Steam operations reflect all known and measurable changes through December 31, 1999. These cost of service calculations also include disallowances for costs that should not be recovered from ratepayers such as merger transaction costs, charitable contributions, dues and donations. The 1999 budget for SJLP is overstated because no such disallowance adjustments are included.

Results of Staff's Updated Cost of Service for SJLP

Q. What was the test year and known and measurable date for the Staff's updated cost of service calculation for SJLP's Electric, Gas and Steam operations?

A. The 1998 test year for SJLP's recent rate case, ER-99-247, was also used in updating SJLP's cost of service through December 31, 1999.

Q. Is there any risk in understating the cost of service for SJLP by using a 1998 test year as opposed to 1999?

A. No. I have heard witnesses attempt to make that argument in similar circumstances. However, as long as the test year is adjusted to reflect all significant material changes which have occurred through the cut-off date (December 31, 1999 in this case), then the adjusted test year will reflect SJLP's current cost of service.

The only way that a 1998 test year or any test year for that matter could understate SJLP's cost of service is if a material change in cost occurred after 1998 that was overlooked and not adjusted for.

Q. Is it your opinion that all material changes in SJLP's cost of service have been reflected in the Staff's cost of service EMS runs as of December 31, 1999?

A. Yes. The updated cost of service calculations include adjustments to reflect current revenue, expense and cost of capital as of December 31, 1999 for the following cost elements:

Plant in Service
Accumulated Depreciation Reserve
Accumulated Deferred Income Tax Reserve
Materials and Supplies
Prepayments
Fuel Inventories
Deferred Charges includible in Rate Base
Customer Deposits
Revenue Growth through December 31, 1999
Fuel and Freight Costs
Purchase Power Energy and Demand Costs
Payroll Costs
Payroll Vacancies as a result of the Merger
Property Taxes
Payroll Taxes
Employer Benefits Costs
Elimination of Merger Costs
Disallowance of Dues, Donations, Charitable Contributions
PSC Assessment
Rate Case Expense
Weather Normalization for 1998
Maintenance Normalization
Disallowance of Nonrecurring Y2K Costs
Depreciation Expense
Current and Deferred Income Tax Expense
Cost of Capital/Rate of Return

Q. Were any unusual adjustments required to eliminate understated expenses as a result of the merger?

A. Yes. In all rate cases, both the Staff and the company annualize payroll costs based upon employee levels and wage rates as of the end of the update cutoff date which was December 31, 1999 in this case. However, updating SJLP's payroll through December 31,1999 produces an <u>annual</u> level of payroll costs which is understated due to the impact of the merger on employee levels as of December 31, 1999. SJLP, like any other company involved in a proposed merger with another company, experienced a significant loss of employees who voluntarily left the company in 1999. As a result, adjustments were made to the Electric, Gas and Steam cases to increase annualized payroll cost to reflect normal, pre-merger operations. The Electric, Gas and Steam cases include adjustments to increase payroll cost by approximately $850,000 on a total company basis.

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

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

- Electric ($835,614)
- Gas ($ 58,433)
- Steam $ 23,748

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

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

Staff Witnesses Janice Pyatte, Lena Mantle and Tom Lin have also filed rebuttal testimony supporting specific revenue adjustments and the fuel model results supporting Staff's annualization of fuel and purchase power energy costs.

Q. Please summarize the primary purpose of updating SJLP's Cost of Service for its Electric, Gas and Steam operations?

A. The Regulatory Plan proposed by UCU/SJLP includes a recommendation to track merger savings and costs for five years after closing of the merger. The Joint Applicants intend to demonstrate in SJLP's next rate case that merger savings exceed merger costs by an amount which will justify rate base treatment and expense recovery for 50% of the merger acquisition premium. The Staff is strongly opposed to the Regulatory Plan; however, in the event the Commission approves some form of merger cost/savings tracking proposal, the "base year" required should be the Staff's updated cost of service calculations and not the 1999 budget as proposed by the Joint Applicants.

Projected Savings/Costs from Consolidating Transmission, Distribution and Administration and General/Customer Service and General Plant Functions

Q. Before discussing the Joint Applicants' specific projected merger savings and costs, please explain UCU's corporate structure and method for assigning its corporate overhead costs to its regulated and non-regulated divisions/subsidiaries.

A. UtiliCorp is a multinational corporation with regulated and non-regulated operations in the United States, Canada, New Zealand, Australia and the United Kingdom. UCU has regulated gas and electric operations in the states of Missouri, Kansas, Nebraska, Colorado, Iowa, Michigan and Minnesota.

For a number of years, UCU has pursued a strategy of consolidating common functions for its domestic operations. UCU's international operations are run autonomously and are assumed to have little impact on the allocation of UCU's corporate overhead costs to the regulated and non-regulated operations in the United States.

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

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

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

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

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

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

A. Each ESF and IBU Department allocates its costs based upon the calculation of allocation factors using historical data considered to be the primary cost driver for the particular costs incurred.

Most of the ESF Department costs, which benefit all domestic regulated and non-regulated operations, are allocated on a general allocator based upon the average of gross margin, payroll and net plant.

Q. Which Federal Energy Regulatory Energy Commission (FERC) functional expenses categories are consolidated by UCU's centralized structure?

A. The FERC functional expense areas for which consolidation occurs at the UCU headquarters level are reflected below:

- Production/Management Expenses
- Transmission/Management Expenses
- Distribution/Management Expenses
- Customer Accounts Expense
- Customer Service and Information Expense
- Sales Expenses
- Administrative and General Expenses (A&G)
- Payroll Taxes
- General Plant Investment and Depreciation Costs

The A&G and Customer-related functions are consolidated to a greater degree than the Production, Transmission and Distribution functions.

Q. Did you prepare an analysis in an effort to determine whether UCU's corporate structure had resulted in cost savings for MPS when compared to SJLP?

A. Yes. In response to Staff Data Request 591, UCU provided the UCU corporate overhead costs allocated to MPS from July through December 1999. Approximately 70% of the allocated costs were related to the Customer and A&G

functions. I prepared a four-year analysis for the years 1995-1998 for the following expense functions for both SJLP and MPS's electric operations:

- Customer Accounts Functions
- Customer Service and Information Functions
- Sales Functions
- Administration and General (A&G) Functions

Q. What were the results of your analysis of the Customer Service and Administrative and General (A&G) Functions of UCU's MPS division and SJLP?

A. The results of my analysis of MPS's and SJLP's electric operations for the years 1995-1998 are reflected below:

	1995 - 1998	
	SJLP	MPS
Average $/Customer-Customer Service A&G Costs	$169	$200

On an average cost per customer basis, SJLP's annual costs for the Customer Service and Administrative and General Functions were $31 less than those of MPS from 1995-1998. Stated as a percentage, SJLP's costs were 15% less than MPS's every year on average.

Q. Do the results of your analysis raise a concern regarding the risk that SJLP's annual cost of service may increase after the merger as a result of UCU's corporate structure?

A. Yes they do. In addition to MPS's Customer Service and A&G costs being higher, UCU's corporate structure presents other risks to SJLP's customers which don't exist at the current time for SJLP.

Q. What additional risks for SJLP's customers result from a merger with UCU?

A. Earlier in my testimony, I listed 12 non-regulated UCU divisions/ subsidiaries who receive an allocated share of UCU's corporate overhead costs. In every instance where a regulated utility consolidates functions which are jointly used by its regulated and non-regulated operations, there is an incentive for the utility to subsidize its non-regulated operations by allocating a disproportionate share of its overhead costs to the regulated jurisdiction.

SJLP's limited investment in non-regulated operations presents no similar risk to its regulated ratepayers.

Q. What is your experience involving rate proceedings with UCU's MPS division?

A. Since returning to the Commission in 1989, I have been directly involved as the lead auditor in three rate cases involving MPS: ER-90-101, ER-93-37 and ER-97-394. Two of those cases, ER-90-101 and ER-97-394, went to hearing.

Q. Was the fairness of UCU's corporate overhead costs allocation at issue in those proceedings?

A. Yes, in every case since 1990, UCU's Corporate Overhead Cost allocations to MPS have been a seriously contested issue.

As an example, the Corporate Overhead Cost issues raised by the Staff in the most recent MPS case, ER-97-394 are listed below:

Governmental Affairs	$ 399,794
Public Affairs	$ 254,444
TransUCU (Corporate Jet)	$ 515,922
Severence Costs	$ 142,662
Common Plant Allocation	$ 517,000
Mergers & Acquisitions	$ 726,122
Discretionary Bonus	$ 147,787
Ernst & Young Synergy Study	$ 46,627
TotalValue of Issues that went to Hearing	$2,795,358
Marketing Costs Disallowance (accepted by UCU)	$3,763,253
Total Corp. Overhead Issues	$6,558,611

The Staff's position on all of the above issues were accepted by the Commission with the exception of the Common Plant Allocation issue.

Q. Do you anticipate having to raise these same issues in future rate proceedings involving the MPS, SJLP and Empire divisions of UCU, assuming UCU's proposed mergers with SJLP and Empire are approved?

A. Yes. Based on past experience, I expect to continue to devote significant time and resources for the purpose of identifying UCU's Corporate Overhead Costs, allocated to its regulated divisions in Missouri, which having nothing to do with providing regulated electric and gas service in this state.

Q. Who will bear the costs of outside consultants and Staff resources devoted to auditing UCU's Corporate Overhead Costs in future cases?

A. Although I have not attempted to quantify the costs of auditing UCU's post-merger Corporate Overhead Costs, these audit costs, whatever they are, will be reflected in the SJLP and Empire division's PSC Assessment and Rate Case Expense, both of which will be recovered from the SJLP and Empire ratepayers, assuming the proposed mergers are approved. These additional audit costs related to rate cases involving the SJLP and Empire divisions, post-merger, are costs which do not exist for SJLP and Empire ratepayers today.

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

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

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

A. Yes. Schedule SMT-2 reflects that SJLP's current cost of depreciation and carrying costs (rate of return) related to its investment in General Plant is $5,389,138 annually, reflected on line 18 of Schedule SMT-2. Line 23 reflects the increase in General Plant depreciation expense and carrying costs based upon the projected cost increases sponsored by Joint Applicants' witness Vern Siemek. Line 23 reflects that SJLP's cost of service will increase $2.7 million annually as a result of being allocated a share of UCU's General Plant and Infrastructure Costs. Line 24 illustrates that a $2.7 million increase represents a 50.6% increase over SJLP's current cost of service for General Plant and related Depreciation expense.

Q. In your opinion, do SJLP's ratepayers need to pay an additional $2.7 million annually for UCU' General Plant investment costs in order to continue to receive safe and adequate service at just and reasonable rates?

A. Certainly not. This specific cost of service increase occurs only as a result of the additional plant investment and infrastructure costs necessary for UCU to consolidate its regulated and non-regulated operations in seven states.

Q. Is there any dispute between the Staff and the Joint Applicants as to whether SJLP's cost of service will increase as a result of allocating UCU's Corporate Overhead Costs to SJLP after the merger?

A. No. This is one area that both sides agree upon. However, there is significant disagreement as to how much the incremental increase will be to SJLP's cost of service resulting from UCU's corporate overhead allocations.

Q. What are the differences between the Joint Applicants' and the Staff's projected merger costs and savings resulting from the consolidation of functions in the Transmission, Distribution, Customer Service, Administration & General, and General Plant functions?

A. Joint Applicants' witness, Vern Siemek, sponsors Schedule VJS-1, which reflects the Joint Applicants' total Projected Merger Savings and Costs. Attached to my rebuttal testimony is Schedule SMT-3, which duplicates witness Siemek's Schedule VJS-1 and also reflects the Staff's Projected Merger Costs and Savings. The significant differences between Joint Applicants' and the Staff's Projected Merger Costs and Savings are reflected on Schedule SMT-3. Lines 2, 3 and 4 of Schedule SMT-3 reflect the projected savings in the Transmission, Distribution, Customer Service, A&G and General Plant Functions. The projected merger savings in these functional areas result from projected reductions in personnel and related payroll taxes by consolidating some of SJLP's existing operations at the UCU corporate level.

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

Schedule SMT-3 Line No.		**10-Year Projections** UCU/SJLP 000's	**Staff 000's**
2	A&G/Customer Service Savings	$ 60,925	$ 71,813
3	Distribution Savings	$ 20,370	$ 24,071
4	Transmission Savings	$ 5,770	$ 6,828
5	Total Merger Savings	$ 87,066	$102,712
12	SJLP Direct Costs Transferred to ESF Depts.	$ 25,685	$ 23,287
13	SJLP Direct Costs Transferred to IBU Depts.	$ 13,565	$ 12,272
14	ESF & IBU Depts. **Allocated Back to SJLP**	($138,650)	($163,341)
15	SJLP Cost Increase from UCU Allocations	($ 99,400)	($127,782)
16	Net Cost **Increase** to SJLP	($ 12,334)	($ 25,070)
17	Average Cost **Increase** Per Year	($ 1,233)	($ 2,507)

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

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

The Staff is projecting a $25.1 million **net** increase in SJLP's cost of service which amounts to $2.5 million annually during the 10-year period immediately following the merger closing.

Q. What assumption differences account for the approximate $12.7 million difference between the Staff and UCU/SJLP projected cost increase from UCU's Corporate Overhead allocations and consolidation of existing SJLP operations?

A. There are only two assumption differences which account for the Staff's projected cost increase being $12.7 million higher over the 10-year period following the merger closing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UCU's Missouri regulated MPS division. The results of my analysis are reflected on Schedule SMT-5 and are summarized below:

Annual % Increase in UCU ESF & IBU Dept. Costs	**Total UCU**	**Allocated To MPS**
1996-1999 - Four-Year Average	87.7%	87.6%
1997-1999 – Three-Year Average	28.9%	24.4%
1998-1999 – Two-Year Average	14.7%	6.2%

Please note that the above percent increases are not the total for the four-year period, but represent the average annual increase in every year.

MPS's allocated share of UCU's corporate overhead costs has increased from $10.3 million in 1995 to $46.5 million in 1999. A $36.5 million annual increase in four years is significant from any point of view.

Q. Given the actual growth in UCU's Corporate Overhead costs allocated to MPS and the significant increase being projected by both UCU/SJLP and Staff for SJLP, as a result of the merger, should the calculation of an appropriate growth/inflation rate favor of SJLP's current ratepayers?

A. It certainly should. The not detrimental to the public interest standard that applies to this merger application addresses the question of whether or not the cost of providing utility service to SJLP's customers will <u>increase</u> as a <u>direct</u> result of the merger with UCU. With that in mind, I certainly do not believe that using Mr. Siemek's 2.5% inflation rate for UCU's Corporate Overhead costs is reasonable given the significant annual cost increases experienced by UCU's Missouri regulated, MPS division since 1995.

Q. What growth/inflation rate are you recommending be used for the purpose of projecting UCU's Corporate Overhead Costs for the 10-year period following the closing of the merger?

A. Based on MPS's actual experience regarding allocated Overhead Costs from UCU, I believe that a 5% growth rate is the lowest growth rate that should be used. MPS's actual growth rate was 3.5% in 1999 as reflected on Line 11 of Schedule SMT-5. However, based upon MPS's experience in the last three years, a rate of 20% or more could be justified.

The only year since 1995 that MPS's allocated overhead costs from UCU did not exceed 5%, by a significant amount, was 1999.

The primary purpose of analyzing UCU/SJLP projected merger costs and savings is to make a recommendation as to whether a merger with UCU is expected to be not detrimental to SJLP's ratepayers. I believe that a 5% growth rate to be the minimum assumption suitable for this objective. Referring to Schedule SMT-5, once more, the average growth rate for 1998 and 1999 of 6.2% also exceeds my 5% assumption.

Q. What impact did your inflation rate assumption have on the projected savings by UCU/SJLP related to the consolidation of the functional expense areas identified on pages 10 and 11of this rebuttal testimony?

A. First, let me point out that I have assumed that 100% of the projected savings from consolidation will be realized. The Staff has not made any adjustments to the Joint Applicants' projected savings amounts reflected on Lines 2, 3 and 4, Columns A, B and C of Schedule SMT-3.

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

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

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

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

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

A. Referring to page 16 of this rebuttal testimony, both the Joint Applicants and the Staff expect a significant increase to SJLP's Cost of Service a result of consolidating existing SJLP functions and allocating UCU's Corporate Overhead costs to SJLP. The Joint Applicants reflect a 10-year increase of $12.3 million. My calculation results in a 10-year increase of $25.1 million based upon more reasonable inflation rate assumptions for SJLP costs to be transferred and UCU Overhead Costs to be allocated to SJLP.

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

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

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

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

Schedule SMT-3		**Years 6-10**	
Line No.		**UCU/SJLP**	**STAFF**
		000's	**000's**
2	A&G Customer Savings	$ 32,485	$40,423
3	Distribution Savings	$ 11,120	$13,840
4	Transmission Savings	$ 3,180	$ 3,958
5	Total Savings from Consolidation	$ 46,785	$58,221
12	SJLP Direct Costs Transferred to ESF Depts.	$ 13,635	$11,933
13	SJLP Direct Costs Transferred to IBU Depts.	$ 7,405	$ 6,481
14	ESF & IBU Depts. Allocated to SJLP	($ 73,600)	$91,583

15	Total Costs from Consolidation	($ 52,560)	($73,169)
16	Net Cost **Increase** to SJLP	<u>($ 5,775)</u>	<u>($14,948)</u>
17	Average Cost Increase Per Year – Years 6-10	<u>($ 1,155)</u>	<u>($ 2,990)</u>

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

A. Yes. The Joint Applicants are projecting a $5.8 million net cost <u>increase</u> for Years 6-10. Staff is projecting a $15 million cost increase for the Years 6-10.

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

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

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

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

Overstatement of Merger Savings from Benefits Conversion

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

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

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

A. No. The merger savings from Benefits Conversion is significantly overstated as a result of including $31 million in Pension Cost reductions which **accrue** to **all** of UCU's **other** divisions/subsidiaries as a result of **combining** the pension assets of SJLP and UCU after the merger.

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

A. In calculating the FAS 87 Pension Cost for the SJLP division, for the 10-year period following the merger closing, Mr. Browning has assumed that SJLP's pension cost would be based upon the funded status of the SJLP plan **prior** to the merger. This assumption is inconsistent with how UCU has treated the pension assets of all other regulated acquisitions. Additionally, no UCU/SJLP witness has committed to keeping SJLP's pension assets **separate** from UCU's pension assets after the merger.

Q. Is Mr. Browning's pension cost calculation, assuming SJLP's pre-merger funded status, consistent with a UCU/SJLP data request response regarding the treatment of pension assets after the merger?

A. No. In response to Staff Data Request No. 186, UCU/SJLP stated as follows: "In general since it is most cost effective to merge all trust assets into one trust (eliminates dual trust, audit and administrative costs), it is UCU's <u>intent</u> over time to <u>merge</u> the SJLP pension trusts into the UCU master trust." (Emphasis added.)

Q. Are you aware of any other evidence that would support your conclusion that UCU plans to consolidate the SJLP and UCU pension assets after the merger?

A. Yes. On May 14, 1999, UCU filed its Merger Restriction Statement. See Form 5-4 filed by UCU with the Securities and Exchange Commission.

Paragraph (g) of Merger Restriction Statement includes the following statement:

> The execution of, and the performance of the transactions contemplated in, this Agreement will not . . . . result in the triggering or imposition of any restrictions or limitations on the right of UCU, the Company or any of its Subsidiaries to amend or terminate any Company Employee Plans and **receive** the **full amount** of any **excess assets** remaining or resulting from such amendment or termination, subject to applicable taxes. (emphasis added.)

Q. Does the statement referenced in your last answer led you to conclude that UCU is serious about protecting its rights to the benefits from the excess assets in SJLP's pension plan?

A. Yes. That is quite clear. UCU desires to avoid any restrictions on the use of the excess pension assets in the SJLP plan.

Q. Please define the term excess assets as applied to the assets in a defined benefit pension plan?

A. The legal obligation which must be funded in accordance with the Employee Income Security Act (ERISA) of 1974 is referred to the Accumulated Benefit Obligation (ABO), which represents the accrued liability of all benefits earned to date by employees. Required minimum contributions are established under ERISA to ensure funding of the ABO. The market value of assets which exceeds the ABO is considered excess assets.

When a plan is terminated and a new plan takes its place, ERISA requires that assets equal to the ABO of the old plan be transferred to the new plan. The excess assets above the ABO can be used by the corporation for any purpose it sees fit.

The employees participating in a defined benefit plan have no legal right to the pension assets which exceed the ABO.

Q. Are there any financial benefits to UCU under Mr. Browning's assumption that SJLP's pension assets will be kept separate and distinct and not combined with those of UCU after the merger?

A. No. It is unlawful to remove assets in a pension plan for general use with the exception of a plan termination mentioned above. Using the excess assets in SJLP's pension fund for general use by the corporation requires a termination of the existing plan and a transfer of assets equal to the ABO to another plan. Under a termination assumption, UCU could use the excess pension assets for any purpose it desires. Referring again to the statement in my previous answer from the Merger Registration Statement, UCU has made it clear that the merger transaction will not restrict it from terminating any employee pension plan in order to receive the full amount of any excess amounts remaining.

This concern is completely inconsistent with witness Mr. Browning's 10-year assumption that the full amount of SJLP's pension assets will be kept separate and not combined with the UCU pension assets or used for general corporate use after a plan termination.

Q. Would UCU benefit from the excess SJLP pension assets under an asset consolidation assumption, even if 100% of the SJLP pension assets are transferred to the UCU fund?

A. Yes. This is the scenario I am addressing in this case based upon UCU's historical experience with other regulated organizations.

Since SJLP's Pension Plan has a much higher funding ratio than the UCU Pension Plan, (257% at December 31, 1999 compared to UCU of 147% at September 30, 1999) adding the SJLP's pension assets to the UCU plan improves the funded status to 165% for all existing regulated and non-regulated participants in the plan. This results in lower pension costs and increased earnings for the existing plan participants (excluding SJLP).

The opposite is true for SJLP. SJLP's Funded Status December 31, 1999 of 257% drops to 165%. If left unchallenged by the Missouri Commission, SJLP will experience a significant increase in pension cost that must be recovered in rates from SJLP ratepayers while all of UCU's other regulated and non-regulated plan members are experiencing a windfall profit at the expense of SJLP ratepayers. My testimony in this case quantifies the financial detriment to SJLP ratepayers under such an assumption.

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

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

Schedule SMT-6 reflects the following Funded Status calculations:

Funded Status – SJLP Pension Plan	222.3%
Funded Status – UCU Pension Plan	126.0%
Funded Status – Combined SJLP/UCU	141.7%

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

The **reduction** in the funded status of SJLP's pension plan from 222.3%, on a stand-alone basis, to 141.7% on a **combined** basis will result in a **significant** increase in Pension Cost in SJLP's cost of service under a UCU/SJLP merger assumption. However, all of UCU's regulated and non-merger plan participants will experience a **reduction** in pension costs at the expense of SJLP ratepayers.

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

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

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

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

(2) The most important reason for assuming that UCU will combine the SJLP and UCU pension assets is UCU's historical experience involving its other regulated utility divisions. If UCU is permitted to combine the pension assets of SJLP and UCU, the earnings for its other divisions/subsidiaries participating in the UCU plan will increase approximately $3.1 million annually resulting from lower allocated pension costs. Conversely, SJLP's pension cost

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

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

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

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

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

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

A. Schedule SMT-7 reflects the impact on SJLP's pension cost for 1999 resulting from reducing the actual funded status at January 1, 1999, of 222.3% (Schedule SMT-6) to the combined SJLP/UCU funded status of 141.7% (Schedule SMT-6).

Line 9 of Schedule SMT-7 reflects that SJLP's Pension Cost for 1999 would increase $2,201,000 in 1999 based on an assumed Funded Status for the Combined Pension Assets of SJLP and UCU after the merger, 141.7%

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

A. In response to Staff Data Request 588, Mr. Browning provided his annual growth assumptions used in calculating the merger savings for pension plan conversion. I used Mr. Browning's growth rates for each year. I applied Mr. Browning's growth rates to the increase in pension cost calculated on Schedule SMT-7 of $2,201,000. The result was an increase in Pension Cost to SJLP of approximately $31 million over the 10-year period.

Q. But isn't it true that UCU's other regulated and non-regulated divisions/subsidiaries would, in fact, be the recipients of $28.6 million in savings under a merger assumption for UCU and SJLP?

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

UCU/SJLP are required under the not detrimental to the public interest statute in Missouri to demonstrate that the proposed merger will not result in increased rates for the MPS and SJLP ratepayers as a direct result of the merger. The UCU/SJLP Merger Application does not reflect the $31 million increase in pension cost to SJLP ratepayers as a result of consolidating the SJLP and UCU pension assets.

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

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

Additionally, UCU/SJLP's projected merger savings in its Application must be reduced by $31 million in order to reflect the increase in pension cost to SJLP ratepayers.

Results of Staff's Analysis of Projected Merger Costs/Savings

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

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

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

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

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

Column (D) provides the Staff's 10-year total of projected merger costs and savings resulting from making adjustments to the UCU/SJLP amounts in areas of disagreement. Column (E) reflects the total difference between the Staff and UCU/SJLP in the 10-year projected level of merger costs and savings.

Q. What is the purpose of Column on (F) on Schedule SMT-3?

A. Under their proposed Regulatory Plan, UCU/SJLP are not planning a rate case for the SJLP division until year 6 following merger closing. UCU/SJLP, as part of the Regulatory Plan, has guaranteed $1.6 million in net savings to SJLP's ratepayers to be reflected in Cost of Service in that case.

Column (F) reflects the Staff's projected merger costs and savings for years 6-10 which are comparable to the UCU/SJLP 6-10 year levels in Column (B).

Q. What are the primary areas of disagreement between the Staff and UCU/SJLP regarding expected benefits/costs from this merger?

A. The primary areas of disagreement are as follows:

(1) Allocation Treatment of (Joint Dispatch); UCU/SJLP are assigning 100% of energy cost savings, from Joint Dispatch, to SJLP ratepayers and ignoring the fact that these savings, according to UCU/SJLP witness Holzwarth, result from the <u>joint</u> use of <u>MPS</u> and <u>SJLP</u> generating assets. With regard to savings that occur, as a result of the merger, Dr. Proctor is correctly allocating these benefits to both MPS and SJLP consistent with the joint use of the assets used to generate the savings;

(2) Assumed Growth/Inflation rates (UCU Corporate Overhead Allocations and Consolidation of existing SJLP operations);

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

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

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

	$ 000's
UCU/SJLP Net Merger Savings/Costs, Years 1-10	$59,690
Staff Net Merger Savings/Costs, Years 1-10	($32,438)
10-Year Difference between Staff & UCU/SJLP	$92,128

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

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

	Years 1-10 (\$000s)
UCU/SJLP Net Merger Savings/Costs	$ 59,690
Proper Allocation of Joint Dispatch Savings to MPS & SJLP	($58,248)
Increase in Consolidation/UCU Overhead Allocations due To use of Appropriate Growth/Inflation Rate	($12,735)
Disallowance of Transaction Costs Assigned to Shareholders	$ 9,855
Overstatement of Pension Benefits Conversion	($31,000)
Staff Excess of Merger Costs over Merger Savings	($32,438)

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

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

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

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

(3) **Validity** as to whether the cost is something that ratepayers should be paying for in rates – Acquisition Premium, Specific Transition Costs assignable to shareholders or amounts for non-merger savings which should be excluded from a merger cost/benefit analysis. Dr. Proctor considers approximately 93% of witness Holzmarth's Joint Dispatch Energy Savings to be non-merger savings available to SJLP on a "stand alone" assumption.

(4) **Contradictory** as to the stated intent of how the merged company plans to treat an item after the merger – Browning's "stand alone" assumption regarding SJLP's Pension Assets after the merger contradicts the stated intention of UCU/SJLP to <u>combine</u> the Pension Assets of SJLP with those of UCU after the merger.

Q. Based on the results of the Staff's analysis of projected merger savings and costs, will this merger result in higher rates for SJLP's ratepayers as currently structured?

A. Yes, it is Staff's position that UCU/SJLP merger savings are significantly overstated. Staff believes that merger costs will exceed benefits by a significant amount and result in higher rates for SJLP ratepayers. Additionally, as stated previously in my testimony as well as in the testimonies of Staff witnesses Mark Oligschlaeger, Dr. Michael Proctor and David Broadwater, the proposed UCU/SJLP Regulatory Plan is considered detrimental to the MPS and SJLP ratepayers.

Staff witness Mark Oligschlaeger addresses the conditions necessary to eliminate the detrimental impact of the UCU/SJLP merger on MPS and SJLP ratepayers.

I have addressed the detrimental impact of a pension asset consolidation on SJLP ratepayers in this rebuttal testimony.

Q. In your view, does the proposed merger between UCU and SJLP make economic sense to the shareholders of UCU?

A. The merger savings are not sufficient to cover merger costs and the merger acquisition premium. Approval of the proposed Regulatory Plan will be required in order to recover all of the costs of this merger. If approved, MPS and SJLP ratepayers will subsidize the recovery of merger costs which will not be recovered from merger savings in an approximate amount of $73 million for the 10-year period following the merger closing.

Q. In your opinion, is it likely that the management of UCU may be valuing this merger, to some extent, on the assumption of the future deregulation of the generation side of the business?

A. Yes. Merger savings do not provide benefits to UCU shareholders from this proposed USU/SJLP merger. I think it is highly likely that this merger is being valued based upon the anticipated value of the SJLP generation assets in a deregulated market.

Q. What evidence do you have that the value of SJLP's generation assets in a deregulated market will exceed the price paid today by UCU?

A. Attached as Schedule SMT-9 to this rebuttal testimony is a summary from Public Utilities Fortnightly published September 1, 1999, labeled Plant Divestitures-Price and Book Value. This table provides the historical relationship to date between the book value and market value of generation assets which have been purchased in a deregulated market.

Q. What is the relationship between book value and market value for all generation assets listed on Schedule SMT-9?

A. The market to book ratio is as follows based upon Schedule SMT-9:

Total Market Price Paid	$21,170
Total Book Value of Assets	9,835
Market Value to Book Ratio	2.15

Q. What is the estimated market value of SJLP's generation assets based upon an annual market to book ratio of 2.15?

A. SJLP's net book value of its generation assets at December 31, 1999 and the estimated market value of those assets is reflected below:

	December 31, 1999
Book Value of Generation Assets	$58,961,770
Estimated Market to Book Ratio	2.15
Estimated Market Value of Generation Assets	$126,767,805

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 STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Steve M. Traxler, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 48 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Steve M. Traxler

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

TONI M. WILLMENO
NOTARY SEAL
NOTARY PUBLIC
STATE OF MISSOURI

Steve M. Traxler

SUMMARY OF RATE CASE INVOLVEMENT

Year	Case No.	Utility	Type of Testimony	
1978	Case No. ER-78-29	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1979	Case No. ER-79-60	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1979		Elimination of Fuel Adjustment Clause Audits (all electric utilities)		
1980	Case No. ER-80-118	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph & Power Company (industrial steam)	Direct	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Stipulated
1982	Case No. ER-82-66	Kansas City Power & Light Company	Rebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal	Contested
1982	Case No. ER-82-39	Missouri Public Service	Direct Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50	Kansas Power & Light - Gas Service Division (natural gas)	Direct	Stipulated

Year	Case No.	Utility	Type of Testimony	
1990	Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)	Direct Surrebuttal	Contested
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas)	Rebuttal	Contested
1993	Case Nos. ER-93-37	UtiliCorp United Inc. Missouri Public Service Division (electric)	Direct Rebuttal Surrebuttal	Stipulated
1993	Case No. ER-93-41	St. Joseph Light & Power Co.	Direct Rebuttal	Contested
1993	Case Nos. TC-93-224 and TO-93-192	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1993	Case No. TR-93-181	United Telephone Company of Missouri	Direct Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company	Rebuttal	Stipulated
1994	Case Nos. ER-94-163 and HR-94-177	St. Joseph Light & Power Co.	Direct	Stipulated
1995	Case No. GR-95-160	United Cities Gas Co.	Direct	Contested
1995	Case No. ER-95-279	Empire Electric Co.	Direct	Stipulated
1996	Case No. GR-96-193	Laclede Gas Co.	Direct	Stipulated
1996	Case No. WR-96-263	St. Louis County Water	Direct Surrebuttal	Contested
1996	Case No. GR-96-285	Missouri Gas Energy	Direct Surrebuttal	Contested
1997	Case No. ER-97-394	UtiliCorp United Inc. Missouri Public Service (electric)	Direct Rebuttal Surrebuttal	Contested
1998	Case No. GR-98-374	Laclede Gas Company	Direct	Settled
1999	Case No. ER-99-247 Case No. EC-98-573	St. Joseph Light & Power Co.	Direct Rebuttal Serrebuttal	Settled

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

Analysis of General Plant Depreciation - December 31, 1999

Line No.	Account Number	Total Company Plant-in-Service December 31, 1998	Staff Total Company Adjustments	Staff Adjusted Total Company Plant December 31, 1999	Depreciation Rate	Depreciation Expense
1	389.000	$ 733,546	$ -	$ 733,546	0.00%	$ -
2	390.000	$ 10,682,757	$ (10,167)	$ 10,672,590	3.10%	$ 330,850
3	391.000	$ 1,174,769	$ 25,393	$ 1,200,162	7.00%	$ 84,011
4	391.100	$ 5,787,154	$ 78,155	$ 5,865,309	0.00%	$ -
5	391.200	$ 357,436	$ (18,273)	$ 339,163	11.60%	$ 39,343
6	391.300	$ 1,890,024	$ 214,475	$ 2,104,499	14.30%	$ 300,943
7	392.000	$ 5,461,845	$ 190,230	$ 5,652,075	6.20%	$ 350,429
8	393.000	$ 253,933	$ -	$ 253,933	5.00%	$ 12,697
9	394.000	$ 1,107,393	$ 12,832	$ 1,120,225	4.40%	$ 49,290
10	395.000	$ 302,042	$ 6,543	$ 308,585	3.40%	$ 10,492
11	396.000	$ 574,072	$ (1,960)	$ 572,112	3.90%	$ 22,312
12	397.000	$ 2,629,809	$ 61,854	$ 2,691,663	4.90%	$ 131,891
13	398.000	$ 161,695	$ 17,402	$ 179,097	3.60%	$ 6,447
14	Total	$ 31,116,475	$ 576,484	$ 31,692,959	**4.22%**	$ 1,338,706
15	SJLP - Investment in General Plant at December 31, 1999				$ 31,116,475	
16	Carrying Cost based upon Rate of Return in Case No. ER 99-247				13.0170%	
17	Annual Revenue Requirement on SJLP's Investment in General Plant					$ 4,050,432
18	Total Annual Cost - Depreciation and Rate of Return on General Plant					$ 5,389,138
19	UCU Investment in General Plant allocated to SJLP (Siemek Workpaper I - 2 D)				$ 16,005,000	
20	Estimated Annual Depreciation Expense using SJLP's Average Depreciation Rate				**4.22%**	
21	Increase in SJLP's annual Depreciation Expense on General Plant				$ 675,411	
22	Rate of Return on SJLP's Share of UCU's General Plant (Siemek WP I -2 D)				$ 2,052,000	
23	Total Increase in SJLP's Cost of Service - UCU's General Plant Allocation					$ 2,727,411
24	Percent Increase in SJLP's Cost of Service					**50.61%**

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

UCU/SJLP Projected Merger Cost / Benefit Analysis

		UCU/SJLP Total Years 1 - 5 000's (A)	UCU/SJLP Total Years 6 - 10 000's (B)	UCU/SJLP Total All 10 Years 000's (C)	Staff Total All 10 Years 000's (D)	Difference All 10 Years 000's (E) (D)-(G)	Staff Total Years 6 - 10 000's (F)
	UCU/SJLP Projected Merger Cost / Benefit Analysis						
I	**Operating & Maintenance Savings - Current Dollars**						
	1 Dispatch / Generation Savings	$26,080	$33,885	$59,965	$1,717	($58,248)	$859
	2 General & Administrative / Customer Service Savings	$28,440	$32,485	$60,925	$71,813	$10,888	$40,423
	3 Distribution Savings	$9,250	$11,120	$20,370	$24,071	$3,701	$13,840
	4 Transmission Savings	$2,590	$3,180	$5,770	$6,828	$1,058	$3,958
	5 Conversion to Utilicorp Benefits	$15,025	$22,215	$37,240	$6,240	($31,000)	$6,715
	6 Total O & M Savings	$81,385	$102,885	$184,270	$110,669	($73,601)	$65,794
II	**Capital Savings (Costs)**						
	7 Depreciation - Interconnect / SCADA / T&D	($1,570)	($1,525)	($3,095)	($3,095)	$0	($1,525)
	8 Amortization of Transaction / Transition Costs	($7,545)	($7,535)	($15,080)	($5,225)	$9,855	$0
	9 Return on Interconnect SCADA / T&D	($4,150)	($2,855)	($7,005)	($7,005)	$0	($2,855)
	10 Return on Transaction / Transition Costs	$0	$0	$0	$0	$0	$0
	11 Total Capital Savings (Costs)	($13,265)	($11,915)	($25,180)	($15,325)	$9,855	($4,380)
III	**Total Synergies, Net of Costs to Achieve**	$68,120	$90,970	$159,090	$95,344	($63,746)	$61,414
IV	**Net Enterprise Support Functions Allocated to SJLP**						
	12 SJLP Direct Costs transferred to ESF Departments	$12,050	$13,635	$25,685	$23,287	($2,398)	$11,933
	13 SJLP Direct Costs transferred to IBU Departments	$6,160	$7,405	$13,565	$12,272	($1,293)	$6,481
	14 ESF and IBU Departments **Allocated Back to SJLP**	($65,050)	($73,600)	($138,650)	($163,341)	($24,691)	($91,583)
	15 Net UCU Corporate Overhead Depts. Allocated to SJLP	($46,840)	($52,560)	($99,400)	($127,782)	($28,382)	($73,169)
V	16 **Total Synergies, Net of Costs to Achieve and Allocated Costs**	$21,280	$38,410	$59,690	($32,438)	($92,128)	($11,756)
VI	**Premium Costs**						
	17 Return on Premium	($48,400)	($41,855)	($90,255)	$0	$90,255	$0
	18 Amortization of Premium	($11,510)	($11,510)	($23,020)	$0	$23,020	$0
	19 Reflect non-tax deductibility of Premium	($7,676)	($7,675)	($15,351)	$0	$15,351	$0
	20 Total Premium Cost	($67,586)	($61,040)	($128,626)	$0	$128,626	$0
VI	21 **SJLP Share of Premium Costs - 50 %**	($33,793)	($30,520)	($64,313)	$0	$64,313	$0
VII	22 **Synergies, Net of 50 % of Premium**	($12,513)	$7,890	($4,623)	($32,438)	($27,815)	($11,756)
	23 **Average per Year**	($2,503)	**$1,577**	($462)	($3,244)	($2,781)	**($2,351)**

24 Inflation Rate - UCU ESF / IBU Dept. Costs and Savings Estimates **5.0%**
25 Inflation Rate - SJLP Costs Transferred to UCU **1.0%**

Schedule SMT - 3

Schedule SMT – 3

Utilicorp / St.Joseph Light & Power Merger Case
Case No. EM 00-292

Line No.	Account	SJLP Expense Analysis - 1995 - 1998	1995	1996	1997	1998	1999
1	560 - 573	**Total Transmission Expense**	$ 1,624,423	$ 1,491,912	$ 1,261,261	$ 1,150,141	$ 1,465,695
2	580 - 598	**Total Distribution Expense**	$ 3,813,695	$ 4,344,038	$ 4,505,480	$ 4,182,137	$ 4,250,512
		Customer Accounts Expenses					
3	901	Customer Accounts Expense	$47,898	$38,795	$85,496	$77,950	$69,045
4	902	Meter Reading Expense	$396,593	$425,818	$585,574	$601,046	$661,239
5	903	Customer Records & Collection	$960,564	$986,774	$699,775	$661,530	$680,519
6	904	Uncollectible Accounts	$137,847	$181,653	$170,724	$228,050	$196,000
7	905	Miscellaneous Customer Accounts Expense	$1,224	$596			
8		**Total Customer Accounts Expenses**	$1,544,126	$1,633,636	$1,541,569	$1,568,576	$1,606,803
		Customer Service & Information Expenses					
9	907	Supervision	$63,830	$56,046	$48,343	$65,232	$60,425
10	908	Customer Assistance Expenses	$447,100	$487,520	$252,305	$264,338	$248,082
11	909	Informational & Instructional Advertising Exp.	$112,707	$91,270	$321,720	$93,768	$87,113
12	910	Misc. Customer Service & Information Exp.	$12,105	$14,918			$698
13		**Total Customer Service & Information Expenses**	$635,742	$649,754	$622,368	$423,338	$396,318
		Sales Expenses					
14	911	Supervision	$11,352	$8,545	$96,055	$90,786	$80,436
15	912	Demonstrating and Selling Expenses	$120,416	$128,435	$451,035	$545,936	$375,252
16	913	Advertising Expenses	$3,413	$9,891	$20,794	$8,445	$5,013
17	916	Miscellaneous Sales Expense	$589				
18		**Total Sales Expenses**	$135,770	$146,871	$567,884	$645,167	$460,701
		Administrative & General Expenses					
19	920	Administrative & General Salaries	$2,975,448	$3,034,401	$3,601,995	$3,879,912	$3,639,347
20	921	Office Supplies & Expenses	$853,135	$732,851	$1,114,598	$1,392,324	$1,665,806
21	922	Administrative Expenses Transferred	($178,784)	($168,920)	($249,060)	($245,527)	($224,193)
22	923	Outside Services Employed	$902,890	$724,547	$535,492	$941,148	$2,612,103
23	924	Property Insurance	$479,190	$502,003	$510,224	$443,833	$423,520
24	925	Injuries & Damages	$841,945	$508,579	$452,299	$581,318	$444,462
25	926	Pensions & Benefits	$1,609,491	$1,062,218	$1,157,872	$567,596	$115,892
26	927	Franchise Requirements					
27	928	Regulatory Commission Expenses	$151,931	$142,682	$139,937	$147,485	$186,053
28	929	Duplicate Charges - Credit	($137,828)	($131,352)	($145,994)	($108,136)	($126,369)
29	930.1	General Advertising Expenses	$1,237	$2,309	$73,943	$21,299	$28,222
30	930.2	Miscellaneous General Expenses	$787,056	$983,319	$843,039	$892,209	$900,008
31	931	Rents	$247,478	$255,088	$143,622	$278,657	$323,151
32	935	Maintenance of General Plant	$538,742	$541,628	$253,268	$267,262	$289,362
33		**Total Administrative & General Expenses**	$9,071,931	$8,189,353	$8,431,235	$9,059,380	$10,277,364
34		**Taxes Other - Payroll Taxes**	$913,926	$942,234	$934,670	$1,029,633	$996,659
35		**Total - Trans.,Distrb., Customer, & A & G Expense**	$17,739,613	$17,397,798	$17,864,467	$18,058,372	$ 19,454,052
36		**Percent Increase by Year**		-1.9%	2.7%	1.1%	7.7%
37		**Average Annual Increase 1996 - 1998**				$\boxed{0.6\%}$	

Schedule SMT - 4

UCU / SJLP Merger Case
EM -2000 - 292
Analysis of UCU Overhead Costs - 1995 - 1999

Line No.	Utilicorp ESF and IBU Depart. Costs - Total Company	Total UCU 1995	Total UCU 1996	Total UCU 1997	Total UCU 1998	Total UCU 1999
1	Total Company - ESF Cost Pool	$41,706,514	$103,152,000	$115,883,978	$123,433,641	$143,317,641
2	Total Company - IBU Cost Pool	$2,369,242	$3,312,259	$35,327,848	$55,057,620	$55,407,117
3	Total Costs Subject to Allocation	$44,075,756	$106,464,259	$151,211,826	$178,491,261	$198,724,758
4	**Percent Increase by Year**		141.5%	42.0%	18.0%	11.3%
5	**Annual Increase in Total ESF and IBU Dept. Costs**			**1996 - 1999**	**4 Yr. Average**	**87.7%**
6				**1997 - 1999**	**3 Yr. Average**	**28.9%**
7				**1998 - 1999**	**2 yr. Average**	**14.7%**

Line No.	UCU ESF & IBU Costs Allocated to Missouri Public Service	Allocated Corp. Costs to MPS 1995	Allocated Corp. Costs to MPS 1996	Allocated Corp. Costs to MPS 1997	Allocated Corp. Costs to MPS 1998	Allocated Corp. Costs to MPS 1999
8	ESF Costs - Allocated to MPS	$9,304,100	$25,407,000	$31,560,797	$30,501,487	$34,368,908
9	IBU Costs - Allocated to MPS	$1,010,882	$1,428,779	$9,696,027	$14,403,754	$12,105,621
10	Total UCU Costs - Allocated to MPS	$10,314,982	$26,835,779	$41,256,824	$44,905,241	$46,474,529
11	**Percent Increase by Year**		160.2%	53.7%	8.8%	3.5%
12	**Annual Increase in ESF and IBU Depart. Costs allocated to MPS - MO.**			**1996 - 1999**	**4 Yr. Average**	**87.6%**
13				**1997 - 1999**	**3 Yr. Average**	**24.4%**
14				**1998 - 1999**	**2 yr. Average**	**6.2%**

Source: DR 594 - EM 00-292

Schedule SMT – 5

Utilicorp / SJLP Merger
Case No. EM 00-292

Analysis of UCU and SJLP Pension Plans - Funded Status

Line No.		SJLP Bargaining	SJLP Non Bargaining	SJLP Total	Funded Status %
1	Market Value of Assets - Jan. 1, 1999	$34,943,039	$32,512,829	$67,455,868	**222.3%**
2	Accumulated Benefit Obligation	$13,959,646	$16,386,377	$30,346,023	
3	Excess of Assets over ABO	$20,983,393	$16,126,452	$37,109,845	
				Utilicorp	
4	Market Value of Assets - October 1, 1998			$196,962,000	**126.0%**
5	Accumulated Benefit Obligation			$156,318,000	
6	Excess of Assets over ABO			$40,644,000	
				Utilicorp/SJLP Combined	
7	Market Value of Assets - SJLP & UCU Combined			$264,417,868	**141.7%**
8	Accumulated Benefit Obligation			$186,664,023	
9	Excess of Assets over ABO			$77,753,845	

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

Utilicorp / SJLP Merger Case EM 00-292

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

Line No.			Funded Status
1	SJLP Pension Asset Balance - Jan 1, 1999	$67,455,868	
2	Expected Rate of Return Assumption (SJLP)	9.00%	
3	Reduction to Pension Cost - **SJLP Stand Alone**	$6,071,028	
4	SJLP Pension Asset Balance - Jan 1, 1999	$67,455,868	222.3%
5	Dillutive Impact of Combining Pension Fund Assets with UCU	($24,455,553)	
6	SJLP Assets adjusted to reflect **Combined UCU / SJLP** funded status of 141.7 %	$43,000,315	**141.7%**
7	Expected Rate of Return Assumption (SJLP)	9.00%	
8	Reduction to Pension Cost - **SJLP/UCU combined**	$3,870,028	
9	**Increase in Annual Pension Cost to SJLP Customers**	**$2,201,000**	

Source: DR 509 EM 00-369
DR 579 EM 00-292

Schedule SMT - 7

Utilicorp / St. Joseph Light & Power

Merger Case No. EM 00-292

Rate Increase to be collected from **MPS Ratepayers** under Proposed **Regulatory Plan**

Line No.				Year	
1	Projected Reduction in ESF Department Costs allocated to MPS - based on 1999 costs				($3,858,000)
2	Projected Reduction in IBU Department Costs allocated to MPS - based on 1999 costs				($2,899,000)
4	Total Projected Reduction in UCU Corporate Overhead Costs to MPS				($6,757,000)
5	Growth Rate Assumption for UCU Overhead Costs	2.5%		2000	($6,925,925)
6			Merger Approval	2001	($7,099,073)
7				2002	($7,276,550)
8			MPS - New Rates	2003	($7,458,464)
9				**2004**	($7,644,925)
10				2005	($7,836,048)
11				2006	($8,031,950)
12				2007	($8,232,748)
13				2008	($8,438,567)
14				2009	($8,649,531)
15				2010	($8,865,770)
16				**2011**	($9,087,414)
17	Reduction in Corporate Overhead Costs - **2004 - 2011** after new rates in **2003**				($66,786,953)
18	Rev. Requirement Impact on MPS - **No Cost Reduction Reflected** in 2002 Rate Change (2004-2011)				$66,786,953
19	**Average Increase in Rates per Year**				$8,348,369

Source: ESF & IBU cost Reductions on MPS - Model Results used in support of UCU/SJLP witness Vern Siemek for UCU Overhead Cost Allocations

2.5 % Growth Rate used by UCU/SJLP witness Siemek - UCU Overhead Cost Allocations

Table 2: Plant Divestitures—Price and Book Value

Seller/Buyer(s)	Capacity (MW)	Price ($ MM)	Price ($ per kW)*	Book Value ($ MM)	Book Value* ($ per kW)
1. Bangor/PP&L	96	80	833	24	250
2. BEC/Sithe	1,983	536	270	450	227
3. CMP/FPL	1,185	846	714	240	203
4. Cmwlth Energy/Southern	984	462	470	79	80
5. ConEd/Southern & Dynegy	814	135	166	151	186
6. ConEd/NRG	1,456	505	347	220	151
7. ConEd/KeySpan	2,168	597	275	330	152
8. ConEd/Orion	1,855	550	296	250	135
9. DQE/AYP	276	N/A	—	N/A	—
10. EIX/AES	3,956	781	197	N/A	—
11. EIX/Houston	2,276	237	104	N/A	—
12. EIX/NRG & Destec	1,020	88	86	N/A	—
13. EIX/Thermo Ecotek	280	10	34	N/A	—
14. EIX/Houston	1,500	43	29	125	83
15. EIX/NRG & Destec	530	30	56	N/A	—
16. Energy East/AES	1,424	950	667	662	465
17. Energy East/Edison Mission	942	900	955	219	232
18. EUA/FPL	16	2	147	N/A	—
19. EUA/Southern	280	75	268	40	143
20. EUA/NRG	160	55	344	30	188
21. GPU/Edison Mission	942	900	955	219	232
22. GPU/Sithe	4,117	1,680	408	814	198
23. GPU/FirstEnergy	83	43	518	16	193
24. MainePSCo/WPS-PDI	92	37	405	12	127
25. Montana Power/PPL	1,556	892	573	552	355
26. NEES/USGen	3,960	1,590	402	1,100	278
27. NiMo/Orion	661	425	643	250	378
28. NiMo/NRG	1,360	355	261	370	272
29. Orange & Rockland/Southern	976	345	353	179	183
30. PG&E/Duke	2,745	501	183	380	138
31. PG&E/Southern	3,065	801	261	432	141
32. PG&E/FPL	1,224	214	175	160	131
33. PGE(Enron)/PPL	323	49	152	32	99
34. PPL/WPS-PDI	467	106	227	64	137
35. Puget/PPL	735	549	747	354	482
36. Sempra/NRG & Dynegy	1,218	356	292	94	77
37. Sempra/San Diego Unified P.D.	693	110	159	40	58
38. Unicom/Southern & Dominion	1,598	250	156	250	156
39. Unicom/Edison Mission	9,772	4,813	493	1,300	133
40. United Illuminating/Wisvest	1,056	272	258	217	205
TOTAL or *AVERAGE*	**59,844**	**21,170**	***346****	**9,835**	***160****

*Per-kilowatt values are calculated by backing out the capacity figures for plants with unknown prices or book values.

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Source: Edison Electric Institute, *Divestiture Action Analysis*, July 1, 1999.