Exhibit No.:	
Issue(s):	Rate of Return
Witness/Type of Exhibit:	Burdette/Rebuttal
Sponsoring Party:	Public Counsel
Case No.:	ER-2001-672

REBUTTAL TESTIMONY

OF

MARK BURDETTE

Submitted on Behalf of
the Office of the Public Counsel

UTILICORP UNITED, INC.

Case No. ER-2001-672

January 8, 2002

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the tariff filing of Missouri Public Service ("MPS") a division of UtiliCorp United Inc., ("UtiliCorp") to implement a general rate increase for retail electric service provided to customers in the Missouri service area of MPS	)	Case No. ER-2001-672

AFFIDAVIT OF MARK BURDETTE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Mark Burdette, of lawful age and being first duly sworn, deposes and states:

1. My name is Mark Burdette. I am a Financial Analyst for the Office of the Public Counsel.

2. Attached hereto and made a part hereof for all purposes is my direct testimony consisting of pages 1 through 10 and Schedules MB-2R, MB-4R and MB-12R.

3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

Mark Burdette
Mark Burdette

Subscribed and sworn to me this 8th day of January 2002.

BONNIE S. HOWARD
MY COMMISSION EXPIRES 05-03-2005
NOTARY SEAL
NOTARY PUBLIC
COUNTY OF MONITEAU
STATE OF MISSOURI

Bonnie S. Howard
Bonnie S. Howard
Notary Public

My commission expires May 3, 2005.

REBUTTAL TESTIMONY

OF

MARK BURDETTE

UTILICORP UNITED INC.

CASE NO. ER-01-672

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Mark Burdette, P.O. Box 7800, Jefferson City, Missouri 65102-7800.

Q. ARE YOU THE SAME MARK BURDETTE WHO FILED DIRECT TESTIMONY IN THIS CASE?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. I will present corrections and updates to my Direct testimony. Also, I will comment on the Direct testimony of UCU witness Dunn and Staff witness Murray.

Q. HAVE YOU PREPARED SCHEDULES IN SUPPORT OF YOUR TESTIMONY?

A. Yes. I have prepared three updated schedules (MB-2R, MB-4R and MB-12R) that are attached to this testimony.

Q. WHAT UPDATES OR CORRECTIONS WOULD YOU LIKE TO MAKE TO YOUR ANALYSIS IN YOUR DIRECT TESTIMONY?

A. My corrections and/or updates are as follows:

Level of common equity in UCU's capital structure (MB-2R)

Embedded cost of company-obligated preferred securities (MB-4R)

Embedded cost of long term debt

Weighted average cost of capital (MB-12R)

Q. WHAT IS YOUR CORRECTION TO THE LEVEL OF COMMON EQUITY?

A. My analysis contained in Burdette-Direct uses a level of common equity of $2,629,002,000. The updated (to 30 June 2001) level of common equity is $2,586,702,000. This change is shown on Schedules MB-2R and MB-12R, attached to this Rebuttal testimony. This level should be the same as the level of common equity recommended by Staff witness Murray.

Q. WHAT IS YOUR CHANGE TO THE EMBEDDED COST OF COMPANY-OBLIGATED PREFERRED SECURITIES?

A. I made two changes in my calculation, which resulted in a change in the embedded cost. First, I added a yearly amortization of issuance expense to the embedded cost calculation. Second, I corrected the dividend requirement for one issue of company-obligated preferred. These changes resulted in the embedded cost changing to 9.29% from 9.61%. This cost is the same as filed by MPSC Staff witness Murray in his direct testimony. These changes are shown on Schedule MB-4R.

The change in methodology (i.e. including a yearly amortization of issuance expense) reflects the MPSC's recent ruling that company-obligated preferred securities are essentially debt and should therefore be costed as debt. I would not include a yearly amortization of issuance expense if the securities were actual preferred stock.

Q. WHAT IS YOUR CHANGE TO THE EMBEDDED COST OF LONG TERM DEBT?

A. As stated in my direct testimony, Public Counsel is adopting Staff's calculation of the embedded cost of long term debt. I misstated that cost as 7.70% in my direct testimony. The actual cost is 7.35%. This change is shown on Schedule MB-12R.

Q. CONSIDERING THE CHANGES AND UPDATES YOU'VE MADE, WHAT CAPITAL STRUCTURE DO YOU RECOMMEND BE USED TO CALCULATE AN OVERALL COST OF CAPITAL FOR UTILICORP'S MISSOURI-JURISDICTIONAL ELECTRIC OPERATIONS?

A. I recommend the following actual capital structure (as of 30 June 2001) be used for UCU's Missouri-jurisdictional electric operations:

	Actual Level	Percent
Common equity	$2,586,702,000	47.02%
Preferred stock	$347,782,628	6.32%
Long term debt	$2,397,871,325	43.59%
Short term debt	$168,521,262	3.06%
		100.00%

Public Counsel supports truing up capital structure in this case and reserves the right to change its recommendations should UCU's financial condition change appreciably.

Q. HOW DOES YOUR RECOMMENDED CAPITAL STRUCTURE DIFFER FROM STAFF WITNESS MURRAY'S RECOMMENDED CAPITAL STRUCTURE?

A. The only difference in the actual dollar levels and resulting percentages is that I included short term debt in my capital structure; Mr. Murray did not.

Staff and OPC agree on level of common equity, level of company-obligated preferred, level of long term debt, cost of company-obligated preferred and cost of long term debt. The only outstanding issues are the cost of equity and the inclusion (and embedded cost) of short term debt.

Q. PLEASE EXPLAIN WHY YOU INCLUDED SHORT TERM DEBT IN YOUR CAPITAL STRUCTURE.

A. I included short term debt (STD), less any construction work in progress (CWIP), for two primary reasons: 1) UCU consistently uses a level of short term debt greater than CWIP throughout the year, and 2) the average level of net short term debt used by UCU is a significant part of the capital structure.

The level of short term debt used by UCU varies over the course of the twelve months July 2000 – June 2001, from a month-end low of $75,000 in November 2000 to a month-end high of $408,175,000 in July 2000. For that reason, a "snapshot" of UCU's short term debt is not necessarily reflective of the Company's actual usage over the course of the year. Using a snapshot of STD causes the calculated overall rate of return for UCU to be highly dependent on the date of the snapshot alone – STD is much more date-dependent than the other, relatively stable, capital structure components.

For example, holding all other capital structure components the same (and assuming a 10% return on equity), UCU's overall rate of return (ROR) would be 8.67% as of October 2000 using the month-end STD balance on that date. The very next month, using the November 2000 level of STD, the overall rate of return rises to 8.74%. Using the December 2000 level of STD, the overall ROR drops back to 8.68%. Using a STD level of zero, the overall rate of return rises to 8.76%.

Staff witness Murray includes zero short term debt in his recommended capital structure. However, schedule MB-6 (Burdette-Direct) shows that a level of zero is not at all reflective of UCU's usage of STD. Mr. Murray's snapshot of UCU's capital structure fails to capture the Company's actual financing choices, and because he does not include relatively lower-cost STD, the effect is an increase in his overall recommended Rate of Return, as the example above illustrates.

Mr. Murray should alter his recommended capital structure in order to capture UCU's actual usage of short term debt.

Q. WHAT ARE YOUR CHANGES TO YOUR CALCULATED WEIGHTED AVERAGE COST OF CAPITAL?

A. Due to the changes listed above, the range of my weighted average cost of capital for UCU ranges from 8.71% to 8.82%, rather than ranging from 8.89% to 9.01% as I stated in my direct testimony. These changes are shown on Schedule MB-12R.

Q. WHAT ARE YOUR COMMENTS REGARDING UCU WITNESS DUNN'S DIRECT TESTIMONY?

A. Mr. Dunn proposes to use an imaginary capital structure to calculate the rate of return for UCU's Missouri Public Service (MPS) operations. However, he admits in his direct testimony that all of MPS's capital needs are supplied by UtiliCorp, and that it is UCU's actual capital structure that supports the regulated utility assets.

Q. Can individuals made [sic] a direct investment in MPS?

> A. No. The process of investment in MPS involves investment in UtiliCorp because MPS is a division of UtiliCorp and is not a publicly traded separate corporation.
>
> Q. How does MPS obtain the capital needed for its operations?
>
> A. Capital in the form of debt and equity is supplied by individuals and institutions to UtiliCorp which the allocates that capital to MPS and other corporate divisions and subsidiaries to finance needed facilities needed by each to provide their services.

(Dunn-Direct, page 7, lines 11-17)

Q. DO ALL THREE PARTIES SPONSORING CAPITAL STRUCTURE TESTIMONY IN THIS PROCEEDING AGREE THAT UTILICORP UNITED INC. SUPPLIES ALL THE CAPITAL NEEDS TO ITS MPS DIVISION, AND THAT THE MPS DIVISION DOES NOT ISSUE ANY OF ITS OWN DEBT OR EQUITY?

A. Correct. All three parties agree that UCU provides all the capital supporting the MPS division, just as UCU provides all the capital needed by its St. Joseph division. UCU's capital structure is the only capital structure that actually exits and is in line with the regulated electric industry – it is therefore appropriately used to calculate UCU's rate of return.

Mr. Dunn's lengthy assertions and arguments regarding an imaginary capital structure are irrelevant.

Q. MR. DUNN ATTEMPTS TO MAKE A CONNECTION BETWEEN THE IMAGINARY CAPITAL STRUCTURE HE PROPOSES TO USE IN THIS PROCEEDING, AND A MPSC DECISION IN CASE NO. EC-93-252, ST. JOSEPH LIGHT & POWER (DUNN-DIRECT, PAGE 21, LINES 11-16). IS THIS COMPARISON RELEVANT?

A. Absolutely not. In this proceeding, the MPSC will make a determination of whether UCU's actual capital structure or an *imaginary* capital structure allocated to a single division of a large, consolidated company – and not representative of actual financing – should be used to determine appropriate utility rates. In EC-93-252, the Commission determined that St. Joseph Light & Power – an independent, stand-alone company - had maintained an *actual* capital structure that contained a level of common equity that was too high, which would lead to rates which were artificially too high.

Q. COULD YOU COMMENT ON MR. DUNN'S RETURN ON EQUITY ANALYSIS?

A. Yes. Mr. Dunn relied primarily on the Discounted Cash Flow (DCF) model, and also heavily relied on his analysis of a group of other companies. The DCF methodology requires the calculation of two primary components – the expected sustainable growth rate and the expected dividend yield. Mr. Dunn's analysis and calculations of both components are flawed. This, combined with his myriad subjective upward adjustments to ROE, lead to a recommended cost of equity for UCU that is simply too high.

Many analysts choose to utilize a comparable group of companies to corroborate their findings. Mr. Dunn selected companies for his comparable group that are *not* representative of UCU's electric operations and therefore taint all of his corroborating analysis, contributing to his flawed results.

Q. PLEASE COMMENT ON MR. DUNN'S SELECTED COMPANIES.

A. Mr. Dunn chose nine companies to analyze. Two of these companies, Ameren Corp. and Kansas City Power and Light (KCPL), are regulated by the Missouri Public Service Commission. It is a well-respected opinion among financial analysts that when determining rates for a regulated utility, it is not appropriate to use other companies regulated by the same regulatory entity or you introduce circularity. The point of a comparable company analysis is to get a broader view of the industry and similar companies operating within that industry. For those reasons, Ameren Corp. and KCPL are inappropriate choices.

Q. PLEASE CONTINUE YOUR DISCUSSION ON MR. DUNN'S GROUP OF COMPANIES.

A. There are seven other companies in Mr. Dunn's group. I will comment on each in turn:

Allete: According to Value Line Investment Survey, Allete gets only 32% of net income from the sale of electricity. The company earns more net income than that (36%) from its *car remarketing operations*. C. A. Turner Utility Reports indicates that Allete earns 40% of total revenues from the sale of electricity. Obviously, Allete is not 'comparable' to a regulated electric utility, and is not appropriate to analyze in order to set rates for Missouri's electric consumers.

Cleco Corporation: C. A. Turner reports that Cleco earns only 64% of its revenues from the sale of electricity.

DPL Inc.: DPL is the only company in Mr. Dunn's group that I also used. C. A. Turner reports that DPL earned 99% of total revenues from the sale of electricity as of December 2001. I eliminated companies that did not earn at least 70% of revenues from the sale of electricity.

IPALCO Enterprises Inc.: IPALCO ceased to exist as a stand-alone company on 27 March 2001. IPALCO's stock ceased trading as it became wholly-owned by AES Corporation. Although Mr. Dunn's affidavit in this case is dated 21 May 2001, almost two months after IPALCO stock ceased to exist, he used this company in his analysis. The DCF methodology relies on market-based information from publicly traded companies. IPALCO should not have been included in Mr. Dunn's analysis.

NiSource Inc.: The year 2000 Annual Report to Shareholders for NiSource shows that less than 26% of total revenues came from the sale of electricity in 2000. In fact, energy marketing operations contributed more, over 32%. C. A. Turner Utility Reports indicates that as of December 2001, NiSource was earning only 14% of total revenues from the sale of electricity. NiSource is obviously not comparable to a regulated electric utility.

OGE Energy Corp.: According to Value Line, OGE earns 91% of its electric revenues in the state of Oklahoma, yet that level of earnings represents only 50% of OGE's overall earnings. C. A. Turner reports that OGE earns only 40% of total revenues from the sale of electricity. As with Mr. Dunn's other companies, OGE is simply not representative of a regulated electric utility and should not be included as part of the analysis for UCU.

Wisconsin Energy: C. A. Turner Utility reports shows that Wisconsin Energy earned only 53% of total revenues from the sale of electricity as of December 2001. Also of concern, Value Line reports that Wisconsin Energy paid out more in dividends per share than the company earned per share in both 1997 and 2000, and the company made an almost 42% cut in dividends between 2000 and 2001. A company that pays out more in dividends than it earns cannot long survive, and at the very least causes financial information to be tainted.

Q. PLEASE SUMMARIZE YOUR COMMENTS ON THE GROUP OF COMPANIES MR. DUNN CHOSE TO ANALYZE IN HIS DIRECT TESTIMONY.

A. Mr. Dunn used nine companies in his analysis. Only one of the nine (DPL) was appropriately included. The others, for reasons outlined above, are inappropriate for the analysis and create serious flaws in Mr. Dunn's results and recommendations. Therefore, Mr. Dunn's growth rate and dividend yield analysis are also flawed and should be dismissed by the MPSC as simply inapplicable in this proceeding.

Despite the fundamental inapplicability of Mr. Dunn's analysis, I will briefly comment on his growth rate and dividend yield analyses for purposes of being complete.

Q. PLEASE DISCUSS MR. DUNN'S GROWTH RATE ANALYSIS.

A. Mr. Dunn recommends a 7% growth rate for UCU (Dunn-Direct, page 41, line 6). However, even considering that the group of companies he used for corroboration are inappropriate, his data and analysis do not support such a high growth rate recommendation.

Investors utilize various historical and forecasted growth rates and financial information when determining their opinion on the sustainable growth rate for a company. Mr. Dunn's analysis shows various average historical growth rates for his group of companies of between 2.44% and 5.86%. He relies primarily on forecasted growth rates, but as I have already shown, the forecasted growth rates he utilized are for companies that are – for the most part – NOT in the same line of business as UCU's electric operations. Forecasted growth rates for energy marketing firms or car remarketing firms – or any of the other variety of nonregulated businesses being undertaken by Mr. Dunn's group – are wholly irrelevant to this proceeding.

Q. PLEASE COMMENT ON MR. DUNN'S DIVIDEND YIELD ANALYSIS.

A. Mr. Dunn's dividend yield calculations are fundamentally flawed in the same way his growth rate calculations are flawed – he analyzes companies that are not appropriate. However, he magnifies the error by making adjustments to his calculation that are misplaced:

Mr. Dunn increases his calculated dividend yield by a growth factor (Dunn-Direct, page 43). However, he increases the average dividend yield for all the companies he analyzed by exactly the same amount (2%). If Mr. Dunn was going to attempt to increase his dividend yield calculations by a growth rate, those calculations would be company-specific. This increases his recommended dividend yield to 4.5% from 4.4%.

Mr. Dunn then makes another upward adjustment to his dividend yield for "pre-offering pressure and expense" (Dunn-Direct, page 44, lines 15-21), although he presents no evidence of a relevant offering for which this pressure and expense exist, and no data even supporting the need for this adjustment. This adjustment increases his dividend yield further, to 4.8%.

Mr. Dunn concludes his overall analysis by making yet another upward adjustment to his calculations to account for supposed risk differences between UCU's MPS division and his group of comparison companies. Had Mr. Dunn actually chosen *comparable* companies for his analysis, this adjustment would be questionable. As it is, Mr. Dunn makes this upward adjustment to a fundamentally flawed result, which he has already subjectively increased, and all of this stemming from the analysis of noncomparable companies. Mr. Dunn's ROE recommendation for UCU is without merit and should be ignored by the MPSC.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

BURDETTE - REBUTTAL
ER-2001-672 UtiliCorp United, Inc.

UtiliCorp United, Inc.
Updated Capital Structure as of 30 June 2001

	Amount	Percent
Common Stock Equity	$ 2,586,702,000	47.02%
Company-obligated Preferred	$ 347,782,628	6.32%
Long Term Debt	$ 2,397,871,325	43.59%
Short Term Debt	$ 168,521,262	3.06%
	$5,500,877,215	100.00%

Source: Company response to OPC DR2001, 2002, 2003; Schedules MB-4-6.

BURDETTE - REBUTTAL
ER-2001-672 UtiliCorp United, Inc.

UtiliCorp United, Inc.
Updated Embedded Cost of Company-obligated Preferred Securities
as of 30 June 2001

Issue:	Amount	Unamortized Issuance Exp.	Net Proceeds	Coupon Rate	Dividend Requirement
UCU Capital L.P.	$100,000,000		$100,000,000	6.676%	$6,676,000
UCU Capital Trust I	$250,000,000		$250,000,000	9.750%	$24,375,000
TOTAL:	$350,000,000	$2,217,372	$347,782,628		$31,051,000

Amount Outstanding	$347,782,628
Dividend Requirement:	$31,051,000
Amortization*	$1,275,044
Total expense:	$32,326,044
Embedded Cost Rate:	**9.29%**

*Note: Updated information includes yearly amortization as an expense.

Source: Company response to Staff data request 3802.

BURDETTE - REBUTTAL
ER-2001-672 UtiliCorp United, Inc.

UtiliCorp United, Inc.
Updated Weighted Average Cost of Capital - 30 June 2001

	Amount	Percent	Cost Rate	Weighted Cost	Cost Rate	Weighted Cost
Common Stock Equity	$ 2,586,702,000	47.02%	***10.00%***	4.70%	***10.25%***	4.82%
Company-obligated Preferred	$ 347,782,628	6.32%	9.29%	0.59%	9.29%	0.59%
Long Term Debt	$ 2,397,871,325	43.59%	7.35%	3.20%	7.35%	3.20%
Short Term Debt	$ 168,521,262	3.06%	6.93%	0.21%	6.93%	0.21%
	$ 5,500,877,215	100.00%		**8.71%**		**8.82%**

Pre-Tax Interest Coverage

Tax factor = 1.62308

	Weighted Cost	Pre-tax Weighted Cost		Weighted Cost	Pre-tax Weighted Cost
Common Stock Equity	4.70%	7.63%		4.82%	7.82%
Company-obligated Preferred	0.588%	0.588%		0.588%	0.588%
Long Term Debt	3.20%	3.20%		3.20%	3.20%
Short Term Debt	0.212%	0.212%		0.212%	0.212%
Total	8.71%	11.64%		8.82%	11.83%
	Pre-tax wtd. cost:	11.64%	Pre-tax weighted cost:		11.83%
	Cost of Debt (long term and short term):	3.42%	Cost of Debt:		3.42%
	Pre-tax Interest Coverage	**3.41**			**3.46**

Source: Schedules MB-2, MB-4, MB-5, MB-9.

Note: Cost of long term debt supplied by Laclede in response to OPC data request 2002.

Note: Times interest earned is a conservative number because a portion of company-obligated preferred payments are not tax deductible.