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November 29, 2001

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Executive Director
WESS A. HENDERSON
Director, Utility Operations
ROBERT SCHALLENBERG
Director, Utility Services
DONNA M. KOLILIS
Director, Administration
DALE HARDY ROBERTS
Secretary/Chief Regulatory Law Judge
DANA K. JOYCE
General Counsel

FILED³

NOV 29 2001

Missouri Public
Service Commission

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

RE: Case No. EO-2002-215-In the Matter of the Application of Utilicorp United Inc. for Authority to Acquire the Shares of Avon Energy Partners Holdings and to Take All Other Actions Reasonably Necessary to Effectuate Said Transaction.

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a **STAFF RECOMMENDATION**.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

David A. Meyer
Associate General Counsel
(573) 751- 8706
dmeyer@mail.state.mo.us

Enclosure

cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED³

NOV 29 2001

In the Matter of the Application of)
UtiliCorp United Inc. for Authority to)
Acquire the Shares of Avon Energy)
Partners Holdings and to Take All Other)
Actions Reasonably Necessary to)
Effectuate Said Transaction.)

Missouri Public
Service Commission

Case No. EO-2002-215

STAFF RECOMMENDATION

COMES NOW the Staff ("Staff") of the Missouri Public Service Commission ("Commission") and for its Recommendation in the above-captioned case, respectfully states as follows:

1. On October 30, 2001, UtiliCorp United Inc. filed with the Commission, pursuant to Section 393.190 RSMo 2000 and 4 CSR 240-2.060(12), an Application requesting authority to acquire 100% of the outstanding shares of Avon Energy Partners Holdings from EI UK Holdings, Inc.

2. As part of its Application, UtiliCorp has requested that the Commission act by no later than December 15, 2001, because it anticipates that all other preconditions for closing the transfer will be in place by December 31.

3. In its Order issued November 8, 2001, the Commission ordered Staff to file its recommendation no later than November 30, 2001.


4. In Staff's opinion, UtiliCorp's request is not detrimental to the ratepayers of its Missouri Public Service division. This standard, as applied to stock transfers such as those the Commission reviews under Section 393.190, was enunciated by the Missouri Supreme Court in *State ex rel. City of St. Louis v. Public Service Comm'n*, 73 S.W.2d 393, 400 (Mo.banc 1934).

Accordingly, in the attached Memorandum ("Appendix A"), Staff recommends approval of UtiliCorp's request, subject to the conditions specified in the Memorandum. Specifically, Staff recommends that nothing in the Commission's order shall be considered a finding by the Commission of the value of the transaction for rate-making purposes, and that the Commission reserves the right to consider the rate-making treatment to be afforded the transaction in any later proceeding; that the Commission's order shall not be deemed precedent for any future transaction; that any adverse financial effects of this acquisition shall be borne by UtiliCorp's stockholders; that all records pertaining to this transaction shall be maintained at UtiliCorp's headquarters and be made available to Staff; that UtiliCorp shall be prepared to provide documentation of proper cost allocations to non-regulated entities; and that UtiliCorp shall include any costs borne by Missouri Public Service related to these non-regulated subsidiaries in the monthly surveillance reports sent to Staff.

WHEREFORE, the Staff respectfully requests that the Commission issue an Order granting UtiliCorp's request to acquire the outstanding shares of Avon Energy Partners Holdings, subject to the specific conditions set forth in the Staff's attached Memorandum.

Respectfully submitted,

DANA K. JOYCE
General Counsel


David A. Meyer
Associate General Counsel
Mo. Bar. #46620

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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 29th day of November, 2001.



MEMORANDUM

To: Missouri Public Service Commission's Official Case File
Case No. EO-2002-215, UtiliCorp United Inc.

From: David Murray, Financial Analysis Department

Subject: Staff's recommendation for approval of the Application of UtiliCorp United, Inc. for authority to acquire the shares of Avon Energy Partners Holdings, which owns and operates Midlands Electricity plc.

Date: November 29, 2001

Approved by: David Murray 11/29/01 Steven J. Gotsch 11/29/01
Project Coordinator / Date General Counsel's Office / Date

UtiliCorp United Inc.

On October 30, 2001, UtiliCorp United Inc. (UtiliCorp, Company) filed pursuant to Section 393.190 RSMo. 2000 and 4 CSR 240-2.060(12), an Application requesting authority to acquire the shares of Avon Energy Partners Holdings (Avon), which owns and operates Midlands Electricity plc (Midlands), from FirstEnergy Corp. (FirstEnergy). As part of the Application, UtiliCorp has requested that the Public Service Commission (Commission) act on its application by December 15, 2001, because it anticipates that all other preconditions for closing, including all other regulatory approvals, will be satisfied by December 31, 2001.

FirstEnergy, headquartered in Akron, Ohio, is a diversified energy services holding company. Its subsidiaries and affiliates provide a wide range of energy and energy-related products and services, including the generation and sale of electricity; exploration and production of oil and natural gas; transmission and marketing of natural gas; mechanical and electrical contracting and construction; energy management; telecommunications; and e-commerce.

According to the application, UtiliCorp has made a written offer to FirstEnergy to acquire one hundred percent (100%) of the outstanding shares of Avon from EI UK Holdings, Inc. (EI UK). GPU, the current owner of EI UK, is expected to merge with FirstEnergy prior to December 31, 2001. After the closing of the GPU/FirstEnergy merger, UtiliCorp expects that UtiliCorp and EI UK will execute the agreed-upon form of the Stock Purchase Agreement for the purchase and sale of all the outstanding shares of Avon. UtiliCorp expects to invest in the equity of Avon on a 50-50 basis with a financial partner (the Partner).

Avon owns and operates Midlands, comprising a substantial electric utility distribution business and several related businesses (collectively, the "Midlands Business") in the United Kingdom (UK). Midlands is one of twelve regional electricity companies in the UK that came into

existence as a result of the privatization of the UK electric industry in 1990. UtiliCorp anticipates that the acquisition of the Midlands Business will provide a strategic platform from which UtiliCorp will be able to expand its operations in the UK and into the rest of Europe.

UtiliCorp, through an acquisition vehicle owned by a UtiliCorp subsidiary and the Partner, intends to acquire one hundred percent (100%) of the outstanding shares of Avon. The purchase price for the shares is US\$362 million. In addition, Avon and its subsidiaries, including Midlands, will maintain significant indebtedness following the acquisition. All of that indebtedness will be nonrecourse to UtiliCorp, which essentially means that the creditors cannot demand payment from UtiliCorp if Midlands should default on payment. UtiliCorp may, however, borrow (or guarantee the borrowing by the acquisition vehicle of) monies to fund its pro rata share of the purchase price (equal to its percentage interest in the joint venture vehicle). A diagram of the proposed acquisition structure is attached, marked as Attachment C.

According to the Company's Application, UtiliCorp's aggregate direct investment in Avon will not exceed the sum of \$200 million at the time of closing. This includes its 50 percent stake in the \$362 million for the shares plus an additional \$19 million in transaction costs, which as per the Share Purchase and Sale Agreement, may include fees to attorneys, accountants, investment bankers or other representatives. UtiliCorp expects the funding of this proposed acquisition to eventually be 55 percent debt and 45 percent equity. However, initially it will be funded entirely by debt. Therefore, in order to err on the conservative side, the analyses done on the financial impact of this acquisition assumed the funding was 100 percent debt.

In response to the announcement of the Midland's deal, Standard & Poor's has affirmed the credit rating of BBB on UtiliCorp with an outlook of "stable." This affirmation of the credit rating for UtiliCorp was based on "Standard & Poor's conclusion that the company will offer minimal support to Midlands and its debt holders, and therefore, the transaction will have little effect on UtiliCorp's debt-servicing capabilities. That conclusion rests on the fact that the debt is legally nonrecourse to UtiliCorp, and the company's track record with similar utility investments in other countries" (Standard & Poor's *Utilities & Perspectives*, October 29, 2001).

Assuming the most conservative scenario, 100 percent debt funding for the acquisition of the stock, I performed an analysis of the financial impact that UtiliCorp's acquisition will have on its financial viability. Based on current and pro forma financial statements submitted with the Application, the Company's capital structure as of June 30, 2001, consisted of 44.50% long-term debt, 2.70% short-term debt, 6.30% preferred stock, and 46.50% common equity. On a pro forma basis showing the full effect of the additional \$200 million in long-term debt, the Company's capital structure would consist of 46.40% long-term debt, 2.60% short-term debt, 6.10% preferred stock, and 44.90% common equity (see Attachment A).

UtiliCorp's stock transaction, conservatively assuming that it will be funded with 100 percent debt, would increase its percentage of total debt to total capital by 1.80%, from 47.20% to 49.00%. This debt ratio is supported by debt ratios contained in credit ratings above BBB rated electric utilities. In the early part of this year, UtiliCorp made an equity issuance and partially spun off Aquila, Inc., which significantly improved its capital structure. This explains why UtiliCorp's debt ratio, even after this proposed transaction, is at a level contained in credit

Attachments: A - Pro Forma Capital Structure as of June 30, 2001
B - Selected Pro Forma Financial Ratios as of June 30, 2001
C - Proposed Ownership Structure

Pro Forma Capitalization as of 06/30/2001 for UtiliCorp United Inc.

(In millions US\$)

Capital Component	Percentage of Capital	Capital Dollars	Proforma Adjustments ⁽¹⁾	Proforma Capital Dollars	Proforma Percentage of Capital
Common Equity	46.5%	2,586.7		2,586.7	44.9%
Comp. Obligated Preferred Securities	6.3%	350.0		350.0	6.1%
Long Term Debt	44.5%	2,478.4	200.0	2,678.4	46.4%
Short Term Debt	2.7%	151.4		151.4	2.6%
Total	100.0%	5,566.5	200.0	5,766.5	100.0%

Notes:

⁽¹⁾ Proforma adjustment to capitalization includes 50% of the equity investment in the target company, plus transaction costs, which UtiliCorp has conservatively estimated at \$19 million. This request represents the maximum amount of investment funding required. The actual amount may be less based on transaction costs. Additionally, the proforma numbers are funded using 100% debt, which represents the worst case scenario to UtiliCorp's financial ratio benchmarks.

Financial Ratio Benchmarks Total Debt / Total Capital

		Current UtiliCorp		
		AA	A	Rating BBB
Standard & Poor's Corporation				
Utilities Rating Service,				
Financial Statistics	Range (%)	45.53 - 51.05%	48.15 - 58.05%	54.45 - 64.33%
Electric Utilities	Median (%)	48.05%	52.90%	59.60%
July 7, 2000				

**Selected Pro Forma Financial Ratios
for UtiliCorp United Inc.**

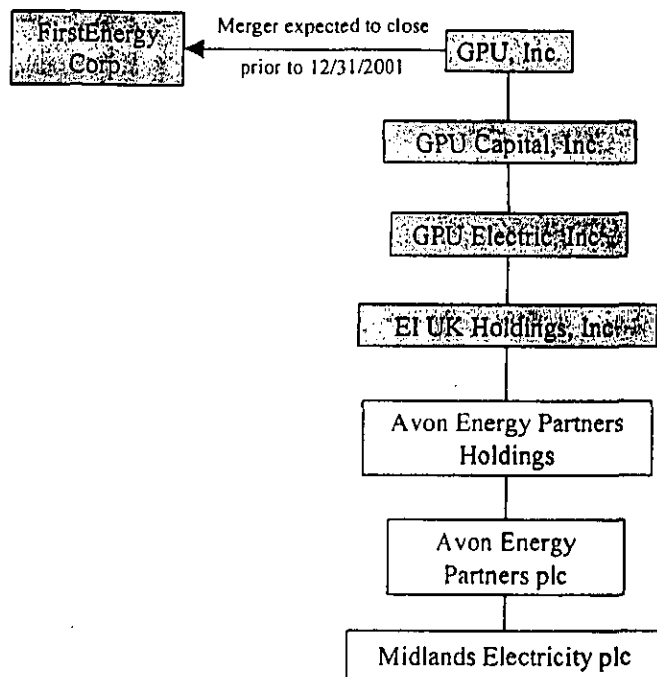
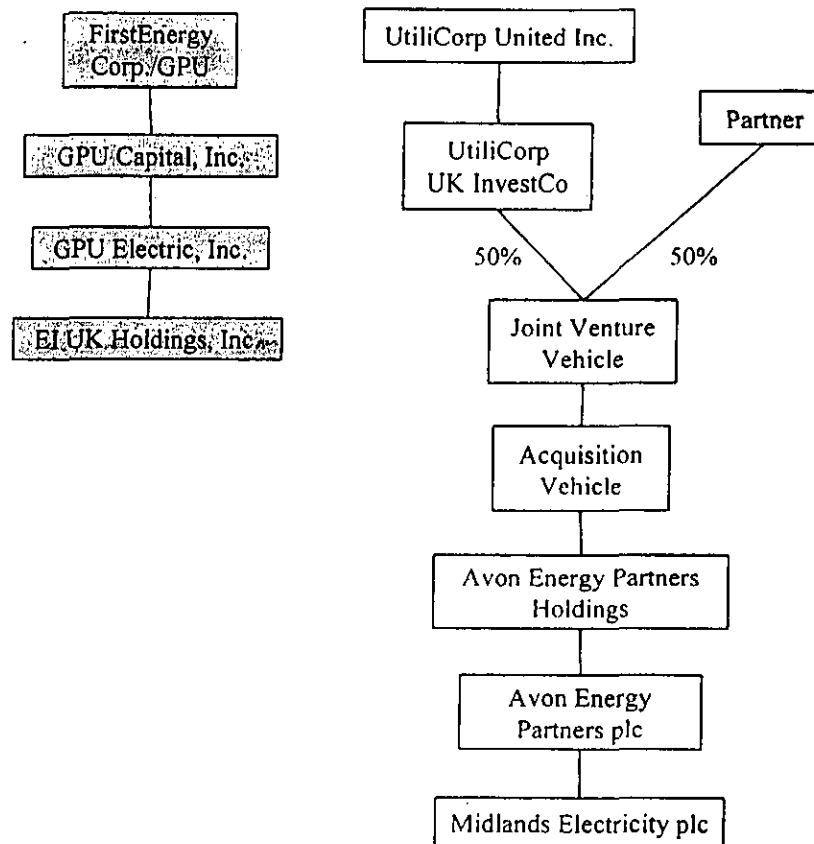
Ratio Analysis	Ratio as of 06-30-2001	Proforma Ratio ⁽¹⁾	S&P Guidelines "AA" Rating	S&P Guidelines "A" Rating	S&P Guidelines "BBB" Rating ⁽²⁾
Pre-tax Interest Coverage	3.6 x	3.6 x	3.55 - 4.62 x	2.95 - 4.13 x	1.97 - 3.15 x
Funds From Operations Interest Coverage	3.9 x	3.7 x	4.14 - 5.58 x	3.18 - 4.94 x	2.62 - 3.76 x
Funds From Operations to Total Debt	33.6%	32.0%	22.00 - 34.08 %	17.28 - 27.80 %	12.48 - 19.40 %
Total Debt / Total Capital	47.2%	49.0%	45.53 - 51.05 %	48.15 - 58.05 %	54.45 - 64.33 %

⁽¹⁾ Proforma ratios assume transaction is funded with 100% debt, representing the worst case scenario to UtiliCorp's proforma financial ratios.

⁽²⁾ Current UtiliCorp United credit rating.

Source: Standard & Poor's Utility Rating Service, Financial Statistics, July 7, 2001

MIDLANDS ACQUISITION STRUCTURE

Pre-Acquisition StructurePost-Acquisition Structure

Service List for
Case No. EO-2002-215
Verified: November 29, 2001 (cgo)

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