

UTILICORP UNITED INC.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI**

FILED³

JUN 26 2000

Missouri Public
Service Commission

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

UtiliCorp United Inc. and St. Joseph Light & Power Company Merger

Surrebuttal Testimony

June 26, 2000

ORIGINAL

Exhibit No.:
Issue: Regulatory Plan
Witness: John W. McKinney
Sponsoring Party: UtiliCorp United Inc.
Case No.: EM-2000-292
Date Prepared: June 26, 2000

MISSOURI PUBLIC SERVICE COMMISSION
Case No. EM-2000-292

Surrebuttal Testimony

of

John W. McKinney

Jefferson City, Missouri

**SURREBUTTAL TESTIMONY
JOHN W. MCKINNEY**

**UTILICORP UNITED INC.
CASE NO. EM-2000-292**

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**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF JOHN W. MCKINNEY
ON BEHALF OF UTILICORP UNITED INC.
CASE NO. EM-2000-292**

1 Q. Would you please state your name for the record?

2 A. John W. McKinney.

3 Q. Are you the same John W. McKinney who previously caused to be prepared and filed in
4 this proceeding certain direct testimony on behalf of UtiliCorp United Inc. ("UtiliCorp")
5 in connection with its proposed merger with St. Joseph Light & Power Company
6 ("SJLP")?

7 A. Yes.

8 Q. What is the purpose of your surrebuttal testimony?

9 A. The purpose of this testimony is to provide an overview of UtiliCorp's response to the
10 rebuttal testimony filed by various other parties to this proceeding. Specifically, I will
11 respond to certain of the issues raised by Missouri Public Service Commission Staff
12 ("Staff") including witnesses Mark L. Oligschlaeger, Cary G. Featherstone, Charles R.
13 Hyneman, Steve M. Traxler, Michael S. Proctor and David Broadwater; the Office of the
14 Public Counsel ("Public Counsel") witnesses Ryan Kind and Russell Trippensee, the
15 rebuttal testimony of Maurice Brubaker witness for Ag Processing Inc. ("AGP") and
16 Whitfield A Russell, witness for Springfield City Utilities ("Springfield").

STANDARD TO BE APPLIED

17
18 Q. Beginning at page 16 of his rebuttal testimony, Staff witness Cary G. Featherstone
19 discusses the standard, which the Staff has utilized to develop its recommendation

1 regarding the proposed merger between UtiliCorp and SJLP. There he cites what he
2 refers to as the “not detrimental to the public interest” standard. He goes on to define the
3 “public” as SJLP’s present electric, natural gas and industrial steam customers and
4 defines “public interest” as the nature and level of the impact or effect that the merger
5 will have on SJLP’s Missouri customers. How do you respond?

6 A. My understanding of the appropriate standard to apply to this transaction is essentially the
7 same as Mr. Featherstone’s; that is, the Commission should approve the proposed merger
8 unless it can be demonstrated that the transaction will be detrimental to the public. I also
9 agree with Mr. Featherstone that the public in this case consists of SJLP’s electric, gas
10 and industrial steam customers. While I do not necessarily agree with Mr. Featherstone’s
11 conclusion, at page 18 of his rebuttal testimony, that the public in this instance also
12 includes UtiliCorp’s Missouri customers, it doesn’t really matter. The proposed
13 transaction will not be detrimental to SJLP’s existing customers or to UtiliCorp’s existing
14 Missouri customers.

15 Q. What is your understanding as to how the Staff would measure detriment?

16 A. Staff witness Steve M. Traxler, at page 7 of his rebuttal testimony, says that “detriment”
17 is higher rates and/or deterioration in the level of customer service.

18 Q. How do you respond?

19 A. I agree that those are the elements to be considered. I would also add that there is no
20 evidence in this case to show that any detriment will result to SJLP’s customers or
21 UtiliCorp’s customers as that term is defined by the Staff.

22 Q. At page 41 of his rebuttal testimony, Mr. Mark L. Oligschlaeger states that the Staff is
3 opposed to the proposed merger on the grounds that it is “detrimental to the public

1 interest.” He reaches the same conclusion at page 56 of his testimony. How do you
2 respond?

3 A. Again, there is no evidence in this case to show that UtiliCorp cannot or will not provide
4 safe and reliable gas, electric and industrial steam service in the SJLP service area. The
5 level of service enjoyed in the past by SJLP’s customers will not deteriorate as a result of
6 the merger. UtiliCorp witness Steve Pella provided detailed direct testimony explaining
7 the service quality and plans for servicing the SJLP customers after the merger.
8 Mr. Pella’s surrebuttal testimony addresses service issues raised by other parties. Also,
9 there is no evidence that rates will increase for SJLP’s customers as a result of the
10 merger. In fact, rates will be frozen at existing levels for 5 years. The UtiliCorp
11 regulatory plan ensures the customers are protected from any higher rates during the
12 moratorium period and avoids 2 rate increases now planned by SJLP during this period of
13 time. In other words, the status quo will be maintained, at least for the immediate future,
14 with no change in rates or conditions of service. Thus, there will be no detriment from
15 the transaction with respect to SJLP’s customers. Also, there will be no detriment to
16 UtiliCorp’s existing Missouri customers. In fact, they will receive a benefit according to
17 Mr. Oligschlaeger. To better understand why I say there will be no detriment as a result
18 of the proposed merger and to clear up the confusion which may have been created by the
19 rebuttal testimony of the other parties, a brief review of UtiliCorp’s proposed regulatory
20 plan for the operation of the combined companies is appropriate.

21 **THE REGULATORY PLAN**

22 Q. Would you please summarize the regulatory plan?

1 A. The regulatory plan for the proposed transaction is set out in paragraph 15 of the Joint
2 Application and is described at pages 6 through 11 of my direct testimony. In essence,
3 when the merger is closed, a five-year rate moratorium for the former SJLP properties
4 will be put in place. During the fifth year of that rate moratorium, UtiliCorp will initiate
5 general rate cases for the various operations of the SJLP unit. The intent would be that
6 the new rates, if necessary, will take effect at the end of the moratorium period. In the
7 context of those rate cases, and for ratemaking purposes, fifty percent (50%) of the
8 unamortized balance of the merger premium ("Assigned Premium") will be included in
9 the rate bases of the SJLP unit's electric, gas and industrial steam operations. In addition,
10 the annual amortization of the Assigned Premium will be included in the expenses
11 allowed for recovery in cost of service. As indicated, for purposes of clarity, I refer to the
12 amount of premium for which rate recovery is sought as the "Assigned Premium".

13 Q. Practically speaking how will this work?

14 A. The merger premium will be amortized over forty years beginning at the closing of the
15 transaction. Consequently, at the end of the five year rate moratorium, thirty-five
16 fortieths (35/40) of the premium will remain to be amortized. In the post-moratorium rate
17 case, fifty percent of this thirty five fortieths (35/40), the Assigned Premium, will be
18 included in rate base and the amortization of the Assigned Premium will be included in
19 expenses.

20 Q. How does the rate recovery of the Assigned Premium, which will not begin to take place
21 until year five, bear on this Joint Application?

1 A. We are requesting in the Joint Application that in the context of this merger proceeding
2 the Commission expressly authorize and approve the proposed regulatory plan including
3 rate recovery of the Assigned Premium as described.

4 Q. Are there other specific items for which the Commission's express approval is sought in
5 the context of this Joint Application?

6 A. Yes. In addition to the request for a five year rate moratorium and Assigned Premium
7 recovery, as a part of the regulatory plan we are also requesting that in the context of the
8 post moratorium rate case, for ratemaking purposes, the return allowed on the Assigned
9 Premium portion of the rate bases be based on a UtiliCorp capital structure of 60% debt
10 and 40% equity and the return allowed on the balance of the rate bases be based on an
11 SJLP unit capital structure of 47% debt and 53% equity. We are also requesting that in
12 the post moratorium rate case, the allocation of UtiliCorp's corporate and intra-business
13 unit costs to UtiliCorp's Missouri Public Service ("MPS") operating division exclude the
14 SJLP factors from the methodology for the period covered by the regulatory plan.

15 Q. Under the proposed regulatory plan, is any premium recovery guaranteed?

16 A. No. As a part of the proposed regulatory plan, in the post moratorium rate filings the
17 burden will be on UtiliCorp to set out an accounting of the synergies realized during the
18 moratorium period as a result of the merger and to also set out the balance of the
19 Assigned Premium not covered by said synergies. What this means is that each time
20 UtiliCorp appears before the Commission in these future rate proceedings it will have the
21 burden to demonstrate that it has been able to both track and quantify these merger
22 savings. In other words, UtiliCorp will bear the responsibility and risk of generating
3 merger synergies, quantifying them properly and providing that information to the

1 Commission. If UtiliCorp is unable to prove up synergies equal to the Assigned
2 Premium for which recovery is sought, an adjustment would result in a lower percentage
3 of the Assigned Premium being included for rate recovery. In fact, if UtiliCorp cannot
4 prove up any merger synergies, then it would not realize any premium recovery through
5 rates.

6 Q. Is premium recovery a detriment?

7 A. No, not if the benefits from the transaction exceed the costs, including the Assigned
8 Premium costs. Premium costs should be viewed no differently than any other costs for
9 which rate recovery is allowed.

10 Q. At page 17 of his rebuttal testimony, Mr. Oligschlaeger contrasts the proposed
11 UtiliCorp/SJLP regulatory plan with a plan, which was offered in connection with a
12 proposed UtiliCorp/Kansas City Power & Light Company merger. How do you respond?

13 A. This is a non-issue. What may have been considered as appropriate for one transaction is
14 not necessarily relevant to another. Furthermore, as I have stated previously, Missouri is
15 a no detriment state and therefore there is no requirement that the transaction actually
16 provide a positive benefit for the public. This transaction, however, will provide a
17 positive public benefit.

18 **ASSIGNED PREMIUM**

19 Q. On pages 8 through 15 of his rebuttal testimony, Mr. Proctor discusses how the merger
20 related acquisition premium should be calculated and that it should not be recovered
21 because it would establish new policy for the Commission. Do you agree with his
22 positions?

1 A. No. Mr. Proctor engages in an exercise to take the merger premium in this case, divide it
2 into different components and then say that none of the components should be
3 recoverable. The Uniform System of Accounts and Generally Accepted Accounting
4 Practices that public utilities must comply with provides the basis for accounting for the
5 merger premium in transactions of this type. UtiliCorp provided those guidelines in the
6 direct testimony filed in this case. The components that Mr. Proctor develops are
7 meaningless.

8 Q. Why?

9 A. The value an investor pays for assets is the value the investor needs to earn a return on
10 and to have the investment returned. This is not a complex concept; it is the basis for all
11 investments in the utility industry and in all other industries. UtiliCorp believes the value
12 it has offered for SJLP is a fair price. The customers will not be harmed, as the increase
13 in value above book value for SJLP will be totally offset by savings that can only be
14 developed by this transaction. Consequently, there will be no detriment to the customers
15 of SJLP. This Commission has previously addressed the concept of premium recovery
16 in previous orders and therefore will not be setting new policy as feared by the Staff.

17 Q. At page 14 of his rebuttal testimony, Mr. Oligschlaeger says that UtiliCorp and SJLP
18 have presented no evidence concerning an appropriate assignment of the acquisition
19 adjustment to non-regulated operations. He also questions why more than 50% of the
20 premium should not be assigned to non-regulated operations. How do you respond?

21 A. These claims are really not relevant to this proceeding. I say this because the standard is
22 "no public detriment." So long as SJLP's customers experience the status quo or better in

1 terms of service and rates, the fact that any or all of the acquisition premium might be
2 recovered by UtiliCorp through rates should not really matter.

3 **MARKET POWER STUDY**

4 Q. Have a number of witnesses called for the inclusion of a Market Power Study to be
5 included in one form or another in this case?

6 A. Yes. Witnesses from the Staff, Public Counsel, and AGP have all filed rebuttal testimony
7 requesting the Commission impose as a condition of merger approval that UtiliCorp
8 agree to a retail market power study to be completed using the same conditions agreed to
9 by Western Resources in Case No. EM-97-515.

10 Q. How do you respond?

11 A. These parties made somewhat similar requests during the procedural scheduling process
12 for this case and the Commission has already addressed this issue by not requiring retail
13 market power studies to be filed. Furthermore, UtiliCorp stated in its direct testimony
14 that it will comply with all Commission orders requiring retail market power studies for
15 Missouri under the terms put forth by the Commission at the time it requires the studies
16 to be completed. UtiliCorp should not now be expected to agree to complete a retail
17 market power study under conditions that might be contrary to the conditions the
18 Commission believes are proper at that point in time in the future when a study is
19 ordered.

20 **POOLING vs PURCHASE ACCOUNTING**

21 Q. At page 16 of his rebuttal testimony, Mr. Oligschlaeger argues that the transaction could
22 have been structured as a "pooling" as opposed to a "purchase" transaction and
23 consequently the issue of an acquisition premium should not exist. How do you respond?

1 A. It is my understanding that the transaction could not have been structured as a pooling.
2 Mr. Robert C. Kehm, partner with Arthur Andersen & Co., will explain UtiliCorp's
3 position on this issue in greater detail in his surrebuttal testimony.

4 SYNERGIES

5 Q. A number of Staff witnesses have stated in their rebuttal testimony that the synergies
6 forecasted by UtiliCorp are overstated. How do you respond?

7 A. It really doesn't matter at this time. UtiliCorp's synergy estimates are the best estimates
8 that can be developed at this time as to the level of synergies that can be expected from
9 this transaction. A large group of employees from both companies, working in transition
10 teams, have spent many hours reviewing the future operations of the merged company to
11 develop these estimates. But, as I have already stated, it is the responsibility of UtiliCorp
12 to prove the development and tracking of the synergies and to present this to the
13 Commission in the Post Moratorium rate case. If the synergies do not develop as
14 estimated, then UtiliCorp will not recover all or possibly any part of the Assigned
15 Premium. The Commission will continue to have jurisdiction to determine what costs are
16 just and reasonable. Therefore, under the proposed regulatory plan, with UtiliCorp
17 having the burden of proof, and the Commission's continuing jurisdiction, the customers
18 are totally protected and cannot be harmed by this transaction.

19 Q. At page 21 of his rebuttal testimony, Mr. Oligschlaeger says that a "good faith proposal
20 to recover an acquisition adjustment would require merging companies to provide the
21 following: (1) a description and quantification of expected merger savings in non-
22 regulated areas of operation and (2) a proposal for allocation of an appropriate amount of

1 the acquisition adjustment to non-regulated operations with detailed support provided.”

2 How do you respond?

3 A. He also raises this issue on page 14. Our proposal is to recover only the Assigned
4 Premium through rates. UtiliCorp is at risk for the rest of the premium. As long as
5 customers experience the status quo or better, it doesn't matter how much premium is
6 recovered through rates.

7 Q. At page 26 of his rebuttal testimony, Mr. Oligschlaeger argues that UtiliCorp cannot
8 “guarantee” a certain level of merger benefits for its customers unless it can track merger
9 savings. How do you respond?

10 A. This argument is repeated many times by the Staff in their presentation by
11 Mr. Oligschlaeger and other witnesses. As I stated earlier in my direct testimony and in
12 this surrebuttal testimony, it is UtiliCorp's burden of proof in the post moratorium rate
13 case to prove the level of synergies that have been developed and tracked. UtiliCorp is
14 requesting the Commission in this case to approve the methods UtiliCorp will use to
15 make that presentation, i.e. Assigned Premium included in rate base, the amortization of
16 Assigned Premium in cost of service, capital structure as requested and corporate
17 allocation as requested.

18 Moreover, it is important to remember that UtiliCorp is “guaranteeing” a \$1.6 million
19 reduction in cost of service for customers in the SJLP service area regardless of whether
20 or not UtiliCorp can prove up any merger savings in the post-moratorium rate case.

21 Q. At page 27 of his rebuttal testimony, Mr. Oligschlaeger claims that the Joint Applicants
22 have made no serious proposal as to how their tracking system would work. How do you
respond?

1 A. This is another straw issue. I say this because the burden will be on UtiliCorp, in the post
2 moratorium rate case, to demonstrate merger related savings. How UtiliCorp will
3 actually prove up these savings in five years does not need to be litigated now.

4 Q. At page 27, Mr. Oligschlaeger cautions the Commission against putting itself "in the
5 box" of deciding that tracking merger savings is possible. How do you respond?

6 A. The Commission, in agreeing to allow the requested rate treatment of 50% of the
7 unamortized balance of the merger premium, the Assigned Premium, and thereby
8 implicitly recognizing that merger savings can be determined is not putting itself "in the
9 box" on any issue. Rather, it is just carrying forward its previously stated policy of
10 allowing premium recovery subject to certain conditions.

11 Q. Please explain.

12 A. As indicated in Mr. Robert K. Green's direct testimony, in entering into this transaction
13 UtiliCorp assumed that the Commission would provide it with a reasonable opportunity
14 to recover the acquisition premium based on the Commission's previously articulated
15 standard for premium recovery set out in Case No. EM-91-213 and Case No. WR-95-204.
16 In that latter case, the Commission stated that on a policy basis it was not necessarily
17 opposed to consideration of an acquisition adjustment and did not wish to discourage
18 companies from actions, which produced economies of scale, and savings, which can
19 benefit ratepayers and shareholders alike. Stated another way, UtiliCorp had no reason to
20 believe that the Commission had an absolute policy against premium recovery. In this
21 case, we are simply asking that the Commission continue this policy of consideration of
22 an acquisition adjustment, and tell us now, in the context of this merger case, that it will

1 allow the requested ratemaking treatment of the Assigned Premium in the post
2 moratorium rate cases provided that UtiliCorp meets certain conditions.

3 Q. Once again, what are those conditions?

4 A. Those conditions are simply that UtiliCorp has developed synergies to a level high
5 enough to offset the Assigned Premium in this transaction.

6 **ADDITIONAL ISSUES TO BE DECIDED**

7 Q. Based on your review of the rebuttal testimony of the Staff, the Public Counsel and the
8 other parties are there other issues related to the proposed regulatory plan that are set out
9 in the "List of Issues" and which should be decided in the context of this merger
10 proceeding.

11 A. Yes, there are several.

12 Q. Please proceed and discuss the first of these issues.

13 A. First, if the Commission is of the opinion that, as claimed by the Staff, there is no way
14 that merger savings can be tracked, verified and later presented in a rate proceeding, the
15 Joint Applicants need to know this now. If the Commission agrees with the Staff on this
16 point, then it would be impossible for UtiliCorp to satisfy its regulatory plan requirements
17 in the post moratorium rate case by proving up the merger savings and thereby securing
18 the requested rate treatment of the assigned merger premium. While UtiliCorp has
19 concluded that, based on the Commission's prior statements with respect to premium
20 recovery, the Commission does believe that merger savings can be tracked and proven, if
21 UtiliCorp is correct or alternatively, if the Commission now has a different position on
22 this issue, this needs to be resolved now in the context of this case and prior to closing of
3 the proposed merger.

1 Q. If the Commission rejects the Staff's argument and determines that tracking merger
2 savings is possible, how would you characterize the need to determine now a specific
3 tracking mechanism to be used by UtiliCorp?

4 A. It is not essential to determine any specific tracking system now. It will be up to
5 UtiliCorp to prove up the merger savings in the post moratorium rate case, and thus
6 UtiliCorp will bear the risk that its method of tracking and proving up these savings will
7 be adequate.

8 Q. Are there other issues set out in the List of Issues that need to be decided now in the
9 context of this case and prior to the closing of the merger?

10 A. Yes.

11 Q. Please discuss these additional issues.

12 A. Staff witness Michael S. Proctor, in his rebuttal testimony, testifies that it is the Staff's
13 position that only \$6.8 million of the \$100 million in potential energy costs savings are
14 directly related to the merger. He claims that the Joint Applicants have failed to
15 demonstrate that the increased sales opportunities estimated for the merged company are
16 reasonably likely to occur or that such increased sales opportunities would not be
17 available for the stand alone companies.

18 Q. Why does this matter?

19 A. Since the bulk of the merger savings are anticipated to occur in the areas of joint dispatch
20 and off-system sales it is critical that these matters be resolved now in the context of the
21 merger proceeding prior to closing. We believe that the benefits from this transaction
22 will exceed the costs, including the premium, and we are counting on increased off-
system sales as one of these benefits. If the Commission should determine that the

1 increased sales opportunities estimated for the merged company are not likely to occur or
2 would have been available for the stand-alone companies absent the merger, and thus
3 cannot be used to justify premium recovery, UtiliCorp will not be able to execute its
4 regulatory plan by proving up the merger savings necessary to receive recovery of the
5 Assigned Premium.

6 Q. How would you characterize the ability of UtiliCorp to recover the Assigned Premium as
7 proposed?

8 A. It is important to this transaction. As I said in my direct testimony, to complete the
9 transaction the economics must make sense. That is why I also said in my direct
10 testimony that we are requesting the Commission to first examine our proposal and
11 determine that significant merger benefits are or will be created as a consequence of this
12 combination. If the benefits are not there, we would not expect the Commission to
13 authorize premium recovery. Along these lines, Mr. Robert Green advised the Staff in
14 his interview that UtiliCorp needs to recover the premium or the transaction doesn't make
15 economic sense. During that same interview, Mr. Featherstone seemed to recognize this
16 when while discussing premium recovery he acknowledged that "...prudent business
17 people have to have some incentive. They have to have some reasonable assurance
18 they're going to get their return back."

19 Q. Do you attach any significance to Mr. Featherstone's comment?

20 A. Yes. I think he was very candid in admitting the importance to UtiliCorp of recovering
21 its investment.

22 Q. Are there other issues you need to comment on?

1 A. Yes. Staff witness Steve Traxler raises the issue of the level of corporate costs being
2 assigned to the operating units of UtiliCorp and how high these costs are in comparison to
3 SJLP.

4 Q. How do you respond?

5 A. A review of current FERC Form 1's filed with this Commission reveals that UtiliCorp's
6 level of expenses for these areas is lower than most other electric utilities in the state.
7 These cost levels have been reviewed by the Commission in the past and the Commission
8 has allowed these costs to be recovered by UtiliCorp and has disallowed some costs in
9 past rate cases. UtiliCorp's level of operating costs are reasonable and should not be
10 subject to "Cost Caps". The Staff in its review of the merger continues to look for the
11 negative items and determine that they are detrimental to the public while at the same
12 time concludes the public should receive all the benefits from the transaction. Any
13 transaction of this type causes differences in cost levels from pre- to post-merger
14 operations. UtiliCorp, through the work of the transition teams, has confirmed the
15 savings can be expected and should develop. The UtiliCorp regulatory plan in this case
16 totally protects the customers from any possible harm.

17 Q. Are there any other issues, which need to be resolved now?

18 A. Yes. Staff witness David P. Broadwater as well as Staff witness Michael S. Proctor raise
19 an issue concerning the amount or calculation of the premium and the price paid by
20 UtiliCorp for SJLP. Recovery of the actual premium paid, as described in the Joint
21 Application and UtiliCorp's direct testimony, is critical to the success of UtiliCorp's
22 regulatory plan. If there is an issue as to the amount of premium to be considered for
ratemaking purposes, it needs to be resolved in the context of the merger proceeding and

1 prior to the closing of the transaction. Mr. Green's direct testimony and the surrebuttal
2 testimony of Mr. Lyle Miller of Morgan Stanley responds to the Staff's miscalculations
3 with respect to the price issue on behalf of UtiliCorp and SJLP.

4 Q. Are there any other issues, which need to be determined now?

5 A. Yes. In order for there to be a meaningful measurement of merger savings in the context
6 of the post moratorium rate case, a starting point or benchmark must be established from
7 which merger savings can be measured. Staff witness Steve M. Traxler raises this issue
8 in his rebuttal testimony. This issue should be resolved now in the context of the merger
9 proceeding in order for UtiliCorp to execute its regulatory plan. Mr. DeBacker's,
10 Mr. Browning's and Mr. Siemek's direct and surrebuttal testimonies address this issue on
11 behalf of UtiliCorp.

12 Q. On page 54 of his rebuttal testimony, Mr. Oligschlaeger discusses the issue of Stranded
13 Costs and the impacts this merger may have on the determination of the level of Stranded
14 Costs for SJLP and MPS. How do you respond?

15 A. To the best of my knowledge, the State Legislature, in future electric industry
16 restructuring legislation, will make the determination of the definition of Stranded Costs
17 and what costs are includable as a Stranded Cost. Therefore this is not an issue for this
18 merger case.

19 Q. A number of Staff witnesses bring forth the position that the Assigned Premium should
20 not be allowed because UtiliCorp will be taking assets out of rate base in the future and
21 making these assets non-regulated property. How do you respond?

22 A. This position is invalid because, before any asset can be moved out of rate base, this
23 Commission will need to provide its approval. Also, it is my understanding, that if an

1 asset has a related premium, that premium would also be transferred to a new business
2 unit. Because of these two points, this position of the Staff is not an issue that needs to
3 be decided in this case.

4 **CONDITIONS FOR APPROVAL**

5 Q. Other parties to this case have proposed other conditions which should be imposed on
6 UtiliCorp when the Commission approves this merger. Would you provide us with
7 UtiliCorp's position in regard to some of these recommendations?

8 A. Yes. A couple of requests address the issue of access to the books and records of
9 affiliates of UtiliCorp and compliance with this Commission's Affiliate Rules. UtiliCorp
10 will comply with all rules of this Commission and will allow access to the books and
11 records of affiliates as required by the rules of this Commission and laws of this state.

12 Staff witness McKiddy wanted UtiliCorp to agree to continue to file surveillance reports
13 for UtiliCorp and SJLP. UtiliCorp has no problem with this request. However, UtiliCorp
14 does believe all utilities in the state should be required to comply with the same
15 surveillance report filing requirement expected of UtiliCorp. It is my understanding that
16 some utilities file monthly reports while others only file annual reports. Even though
17 there are no Commission rules requiring these surveillance reports, if utilities are
18 expected to file these reports, the expectations for all utilities should be the same.

19 Q. Does this conclude your Surrebuttal Testimony at this time?

20 A. Yes, it does.

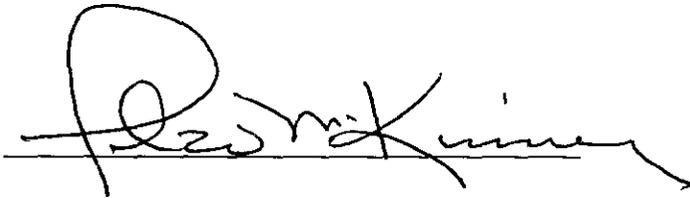
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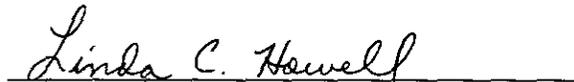
AFFIDAVIT OF JOHN W. MCKINNEY

John W. McKinney, **being first duly sworn**, deposes and says that he is the witness who sponsors the accompanying testimony entitled surrebuttal testimony; that said testimony was prepared by him and or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.



Subscribed and sworn to before me this 26 day of June, 2000.

Linda C. Howell
Notary Public-Notary Seal
State of Missouri
Jackson County
My Commission Expires: May4, 2004



Notary Public

My Commission expires:

May 4, 2004