

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: Synergy Tracking
Witness: Jerry D. Myers
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

Jerry D. Myers

Jefferson City, Missouri

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF JERRY D. MYERS
ON BEHALF OF UTILICORP UNITED INC
CASE NO. EM-2000-292**

1 Q. Please state your name?

2 A. My name is Jerry D. Myers.

3 Q. Are you the same Jerry D. Myers that previously filed direct testimony in this case?

4 A. Yes, I am.

5 Q. What is the purpose of this surrebuttal testimony?

6 A. To rebut certain points made by the Missouri Public Service Commission Staff (Staff")
7 and The Office of The Public Counsel, ("Public Counsel") witnesses Fischer, Tripensee,
8 Featherstone and Traxler with regard to UtiliCorp United Inc.'s ("UtiliCorp") ability to
9 track and identify merger savings in connection with the proposed merger of UtiliCorp
10 and St. Joseph Light & Power Company ("SJLP").

11 Q. What is the significance of this issue?

12 A. In future rate proceedings, under the proposed regulatory plan UtiliCorp will have the
13 burden to demonstrate that it can track and quantify merger savings.

14 Q. Will UtiliCorp be able to track SJLP's operations separately in its financial records?

15 A. Yes, the SJLP business will be set up as a separate business unit(s) in UtiliCorp's
16 financial system. This is consistent with how we have established the Missouri Public
17 Service ("MPS") division of UtiliCorp. The Staff is familiar with how that division is

1 established under the current system. UtiliCorp maintains financial information for each
2 of its regulated divisions separately.

3 Q. How does financial information get into the UtiliCorp system?

4 A. Financial information can be input into the system from several sources. First, payment
5 vouchers are reviewed, coded and approved by UtiliCorp employees and their supervisors
6 in the field and sent to accounts payable where they are entered into the system.

7 Secondly, each employee prepares a periodic time sheet where they distinguish where
8 they have spent their time for the period. This is approved by their supervisor and is
9 input into a time collection system, which is then interfaced with the financial system
10 once the payroll is processed. And lastly, financial information can be entered into the
11 system using a general journal entry that is prepared and reviewed prior to entry into the
12 system.

13 Q. Are judgements made by persons coding the information to be entered into the system?

14 A. Yes, like any financial system, the UtiliCorp financial results are dependent on the
15 judgements made by the employee in coding the payment voucher, their time sheet or the
16 general journal entry. This is not unusual or unique to UtiliCorp's system. For example,
17 the Commission and the Staff rely on information from financial systems in connection
18 with each rate proceeding. This information is the result of judgements made by
19 employees of the company under review.

20 Q. How does UtiliCorp ensure that financial information in the system is consistently coded
21 and reported?

1 A. There are several avenues relied upon by UtiliCorp in ensuring financial information is
2 consistently prepared. First, UtiliCorp has published a code block catalog (furnished in
3 data request SJLP No. 83 in Case No. EM-2000-292). This provides the values to be
4 used by employees in coding payment vouchers, time sheets or general journal entries.
5 Secondly, each employee was trained at the time the system was implemented to ensure
6 there was a good understanding of the system and the code block. Third, each
7 department manager prepares an annual budget and is required to follow up on significant
8 variances from that budget. This process would highlight potential coding errors.
9 Fourth, there is a centralized department responsible for maintaining and changing code
10 block values and also maintains a centralized help desk. And last, supervisor approval is
11 required on payment vouchers, time sheets and most general journal entries. This
12 approval includes a review of the coding used.

13 Q. Is the system able to distinguish between merger and non-merger savings?

14 A. To answer this I must first explain merger and non-merger savings.

15 Q. Please proceed.

16 A. Merger savings are the result of combining operations, reducing duplicative activities and
17 personnel and taking advantage of economies of scale. Non-merger savings result, for
18 example, from improvements in technology or reduced regulatory requirements. The
19 system, as such, will allow both UtiliCorp and the Staff to derive a total savings amount.

20 Q. Will the system track merger related savings specifically?

1 A. The system will track SJLP operations separately from the rest of UtiliCorp's operations.
2 The results of those operations can then be compared to the "baseline" which has been
3 determined either by agreement among the parties or as ordered by the Commission. The
4 result of that comparison is the total savings amount, both merger and non-merger.

5 Q. How would non-merger savings be distinguished?

6 A. Estimates would be derived which assign a dollar value to certain improvements in
7 technology or changes in regulatory requirements that might have occurred over the five
8 year period. This analysis would be prepared by UtiliCorp and be subject to review and
9 audit by the Staff. The results of this review would be deducted from the total savings
10 amount to derive the pure "merger savings."

11 Q. Would the result be 100% accurate?

12 A. As with any estimate, it would not be 100% accurate. However, the results can be
13 utilized in implementing the regulatory plan that is discussed more fully by UtiliCorp
14 witness, John McKinney.

15 Q. What baseline will be used for SJLP operations?

16 A. UtiliCorp has recommended using SJLP's 1999 budget as the baseline in the merger
17 application. The Staff has suggested using actual information for a prior year, for
18 example, 1998 (Staff witness Traxler). UtiliCorp is open to working with the Staff and
19 Commission in establishing a mutually agreeable baseline, either based on budgeted or
20 actual information, as adjusted.

1 Q. Can you provide an example of the process to be used by UtiliCorp in identifying merger
2 and non-merger savings?

3 A. Yes. Attached to my testimony is Schedule JDM-1. This was provided to the Staff and
4 the Public Counsel during the time of my informal interview and was also supplied via a
5 data request response. This schedule provides a hypothetical departmental example of
6 the approach. It does not use actual numbers and assumes costs will increase 3% per
7 year. Costs may or may not increase by this amount and may, in fact, decrease over the
8 five-year period. This schedule is offered simply to illustrate the approach.

9 Q. What is shown on lines 1 and 2 of Schedule JDM -1?

10 A. Lines 1 and 2 of Schedule JDM-1 set out the baselines that are to be agreed upon by
11 UtiliCorp, Staff and other parties. For purposes of this example, we are indicating we
12 will use the 1999 budget, which is then inflated by 3% per year. That, of course, is
13 dependent on the baselines agreed to by the parties, and or ordered by the Commission.

14 Q. What are the incremental costs shown on line 3?

15 A. These incremental costs represent costs that will be necessary for UtiliCorp to absorb the
16 operations of SJLP. We have opted to track these separately from those costs of
17 UtiliCorp, pre-merger. The total of lines 2 and 3 represent the total costs of UtiliCorp,
18 post-merger. A more detailed discussion of the tracking of these incremental costs is
19 included in my direct testimony.

20 Q. Why are you tracking these incremental costs?

1 A. These costs are tracked for two reasons. First, UtiliCorp believes it would be useful
2 information that could possibly be used for benchmarks in future activities. Additionally,
3 as we proposed in our regulatory plan, the customers of MPS should not suffer a
4 detriment from the SJLP merger and, as a result, allocations of corporate costs to MPS
5 should not include the incremental costs of absorbing SJLP operations.

6 Q. What is shown on line 4?

7 A. Line 4 is merely the sum of lines 2 and 3 and represents the total costs of UtiliCorp, post-
8 merger.

9 Q. What is Shown on Line 5 of Schedule JDM-1?

10 A. It reflects an allocation of costs to SJLP. Line 5 is the product of line 4 and the 25%
11 shown just to the left of the 1999 column. Again, for purposes of this example, 25% is
12 hypothetical. We allocate costs using several drivers with the primary driver being the
13 Massachusetts formula. The Commission and Staff are familiar with this formula and
14 UtiliCorp's allocation methodology. The difference then between line 5 and line 1
15 derives the savings, both merger and non-merger.

16 Q. To distinguish merger and non-merger savings, what process would you follow?

17 A. You would follow the process discussed above to isolate the non-merger savings.

18 Q. Is approval of the specific tracking system necessary in this case?

19 A. No. Approval of a specific tracking system is not critical to approval of the merger.

20 Under the proposed regulatory plan, in future rate proceedings, UtiliCorp will have the
21 burden to quantify merger savings.

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

UTILICORP UNITED INC
St. Joseph Light & Power Merger
EM-2000-292

Dept Example

Line No.	Description	1999	2000	2001	2002	2003	2004
	<u>SJLP Baseline</u>						
1	'99 Budget inflated by 3%	1,000	1,030	1,061	1,093	1,126	1,159
	<u>UCU Baseline</u>						
2	'99 Budget inflated by 3%	3,000	3,090	3,183	3,278	3,377	3,478
	<u>UCU incremental</u>						
3	Estimate inflated by 3%	300	309	318	328	338	348
4	Sub Total	3,300	3,399	3,501	3,606	3,715	3,826
5	Portion allocated to SJLP 25%	825	850	875	901	929	956
6	Merger Savings	175	180	186	192	197	203

Schedule JDM-1

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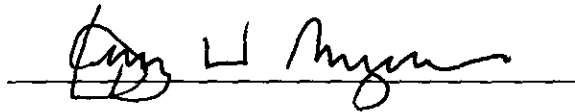
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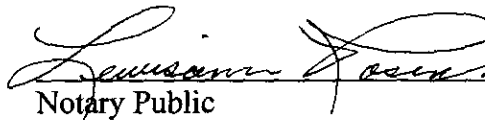
County of Jackson
State of Missouri

AFFIDAVIT OF JERRY D. MYERS

Jerry D. Myers, **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/her and or under his/her 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/her knowledge, information, and belief.



Subscribed and sworn to before me this 19th day of June, 2000.


Notary Public

LEWISANN ROSENBERGER
Notary Public - Notary Seal
State of Missouri
County of Jackson
My Commission Expires 12/08/2002

My Commission expires:

12/08/2002