

**UTILICORP UNITED INC.**  
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

**FILED<sup>3</sup>**

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: Janet K. Pullen  
Sponsoring Party: St. Joseph Light & Power Company  
and 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

Janet K. Pullen

Jefferson City, Missouri

**SURREBUTTAL TESTIMONY  
JANET K. PULLEN**

**ST. JOSEPH LIGHT & POWER COMPANY  
AND  
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 JANET K. PULLEN  
ON BEHALF OF ST. JOSEPH LIGHT & POWER COMPANY  
CASE NO. EM-2000-292**

1 Q. Please state your name and business address.

2 A. Janet K. Pullen, 520 Francis Street, St. Joseph, Missouri.

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

4 A. I am employed by St. Joseph Light & Power Company ("SJLP") as Supervisor, Treasury  
5 and Accounting.

6 Q. Please state your educational background and prior business experience.

7 A. I have a Bachelor of Science degree in Business Administration from the University of  
8 Missouri - Columbia. Upon graduation from college in 1977, I accepted a position as a  
9 staff accountant in the auditing division with Arthur Andersen & Co. in Kansas City,  
10 Missouri. I transferred to the tax division in 1982. In 1985, I took the position of  
11 controller with a public trucking company and remained there in various accounting and  
12 financial positions until 1995. In 1995, I joined SJLP as Supervisor, Treasury.

13 Q. Are you a Certified Public Accountant (CPA)?

14 A. Yes, I have been a CPA since 1977.

15 Q. What areas of responsibility do you have at SJLP?

16 A. I am responsible for the maintenance of the books and records, financial statement  
17 preparation, taxes, budgeting and forecasting, cash management, and related matters.  
18 One of my responsibilities is preparing SJLP's long-range forecast.

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

1 A The purpose of my surrebuttal testimony is to respond on behalf of SJLP to rebuttal  
2 testimony filed on behalf of the Missouri Public Service Commission Staff (the "Staff")  
3 with regard to whether the merger meets the not detrimental to the public interest  
4 standard. Specifically, I will address rebuttal testimony filed by Staff witnesses,  
5 including Dr. Michael S. Proctor (page 16) and Cary G. Featherstone (page 79), where  
6 they contend that SJLP's costs will continue to decline.

7 SUMMARY

8 Q. Please summarize your conclusions.

9 A. Staff witnesses state that, due to SJLP's history of reducing costs, SJLP would have rate  
10 decreases in the next five years absent the merger.

11 Q. How do you respond?

12 A. While SJLP has been able to reduce some costs to allow rate reductions or avoid rate  
13 increases in the past, this pattern will not continue indefinitely as Staff implies.

14 Q. What is SJLP's recent rate history?

15 A. SJLP has had the following electric rate increases or reductions in the last ten years:

16 1999 - \$2.5 million reduction

17 1995 - \$.5 million increase(allocations case which was revenue neutral to SJLP)

18 1994 - \$2.15 million increase

19 1993 - \$.88 million reduction

20 This history does not support Staff's implied contention that rate decreases in the next  
21 few years are a sure thing. In fact, SJLP forecasts, even with conservative operations and  
22 maintenance expense increases, indicate that rate increases will be needed in 2002 and  
23 2004.

1 Q. Have conditions changed since the forecast was prepared?

2 A. Yes. An example is the accident that occurred at the Lake Road plant in early June.

3 Q. Does this affect SJLP's need for rate relief?

4 A. Yes, refer to page 11 of the testimony of SJLP witness Stoll where he indicates that SJLP  
5 would request a rate increase in 2000 absent the proposed merger.

6 Q. Staff witness Janis E. Fischer, on pages 54-55 of her rebuttal testimony, suggests several  
7 areas where she believes SJLP could achieve further cost reductions absent the merger.

8 How do you respond?

9 A. These suggestions of witness Fischer were not and cannot be substantiated.

10 COMPANY FORECAST

11 Q. Has SJLP prepared a long-range forecast?

12 A. Yes. A forecast covering 2000-2004 was prepared in early 2000.

13 Q. Has this forecast been provided to the Staff?

14 A. Yes, it was provided in the updated response to Data Request No. 133 of this case.

15 Q. Does this forecast show rate increases or decreases in the period 2000-2004?

16 A. It shows electric rate increases of \$2 million in each of 2002 and 2004.

17 Q. What primary factors lead to the need for electric rate increases in 2002 and 2004?

18 A. Typically, and in this forecast, rates are primarily influenced by system requirements,  
19 unit fuel and purchased power costs, and the cost of capital.

20 Q. What cost of capital is used in the 2000-2004 forecast?

21 A. 9.82% for all years. This is .27% higher than the high end of the range recommended by  
22 the Staff in SJLP's last electric rate case, ER-99-247. The increment reflects increased

1 interest rates. SJLP witness Larry J. Stoll will be addressing the cost of capital in the  
2 current case.

3 Q. Will you be presenting testimony with respect to sales, system requirements, system peak  
4 demands, and fuel and purchased power costs in the 2000-2004 forecast?

5 A. No. SJLP witness Stephen L. Ferry will be presenting testimony to support the level of  
6 fuel and purchased power expense in the forecast. SJLP witness Lois J. Liechti will be  
7 presenting testimony to support system requirements and system peak demand in SJLP's  
8 forecast.

9 Q. What portion of SJLP's forecast will you be supporting?

10 A. I will present testimony to support the rate of increase used for operating expenses other  
11 than fuel and purchased power.

12 CHANGES IN OPERATING EXPENSES OTHER THAN FUEL & PURCHASED POWER

13 Increases Assumed in Forecast

14 Q. What increases in operating expenses are assumed in SJLP's 2000-2004 forecast?

15 A. Differing rates are used for different categories of expense. Non-production operations  
16 and maintenance expenses ("O&M") are assumed to increase at 1% less than the  
17 projected increase in the CPI-U. Major production O&M expenses are forecasted on a  
18 detailed basis, giving consideration to the effects of new or retired equipment and  
19 maintenance schedules; routine production O&M expenses are assumed to increase ½%  
20 less than the projected CPI-U. Property taxes are assumed to stay at a constant percentage  
21 of property. Depreciation expense is calculated based on projected property balances.  
22 The pension credit is assumed to be the same as the 2000 budget throughout the  
23 forecasted period.

1 Q. Explain in more detail how property taxes and depreciation expense are calculated in the  
2 forecast.

3 A. Property taxes are assumed to be approximately 1.9% of net property. Depreciation  
4 expense is calculated based on Commission-approved depreciation rates for individual  
5 classes of property.

6 Q. Does the forecast reflect the accounting changes adopted as a result of Case No. ER-99-  
7 247, such as depreciation rate changes and the method of amortization of deferred gains  
8 and losses for pension and OPEB?

9 A. Yes, it does.

10 Q. Why was the pension credit not increased or decreased from the amount budgeted for  
11 2000 and what was the amount?

12 A. The pension credit was left constant at \$5.5 million (\$4.345 O&M, \$1.155 capitalized)  
13 because we do not believe that the credit will continue to increase as it has recently. The  
14 primary reason for recent large annual increases in the credit is significant increases in  
15 returns on plan assets. Stock market returns are not expected to continue at  
16 unprecedented levels forever, as evidenced by the recent downturns in the markets. In  
17 fact, actual current year annualized returns in the pension plans through May 2000 are -  
18 4.7%. This compares to the actuarial assumption of 9.0%. The amount budgeted for  
19 2000 already reflects the change in method of amortizing deferred gains.

20 Q. What actual rates of increase were used for non-production O&M?

21 A. Approximately 1½%. The CPI-U was projected to increase at approximately 2½% for  
22 the forecast period so non-production O&M expenses were increased by approximately  
23 1½% per year.



1 Q. Do non-production O&M expenses include payroll?

2 A. Yes.

3 Q. At what rate does payroll typically increase?

4 A. In recent years, annual bargaining raises have been 3% and non-bargaining raises have  
5 averaged around 4%. The overall payroll cost increase has been around 3½%.

6 Q. Was the payroll portion of non-production O&M increased at 3½%?

7 A. No, all non-production O&M expenses, including payroll, were trended at approximately  
8 1½%. That is one reason the cost increases are characterized as conservative.

9 Q. Is there any other evidence that the projected cost increases are conservative?

10 A. Yes, historical increases have been higher than 1½%.

11 Historical Increases

12 Q. Have you done any analysis to support the assumed rate of increase in non-production  
13 O&M?

14 A. Yes.

15 Q. What were the results of this analysis?

16 A. From 1995 to 1998, non-production O&M, including the pension credit, increased by  
17 approximately .3% annually.

18 Q. Have the results of this analysis been made available to the Staff?

19 A. Yes. SJLP's response to Data Request No. 288 was a correction of Staff witness  
20 Traxler's schedule SMT-4; this response shows the .3% increase.

21 Q. Should the pension credit be excluded from this analysis?

1 A. Yes. The pension credit should be estimated separately from other O&M expenses due to  
2 its significance, the way it has been increasing recently, and the complexity of accounting  
3 for pensions. As noted above, it was estimated separately in the forecast.

4 Q. What would be the results of your analysis if the pension credit were excluded from these  
5 expenses?

6 A. The annual increase would have been approximately 2.3%.

7 Accuracy of Forecasts

8 Q. How would you characterize SJLP's forecasts on a historical basis?

9 A. They have been reasonably accurate.

10 Q. What have you done to substantiate this statement?

11 A. I compared electric operating income in the forecast to actual electric operating income  
12 for the following periods:

13 1999 – in the 1996-2015, 1997-2016, and 1998-2007 forecasts

14 1998 – in the 1996-2015 and 1997-2016 forecasts

15 1997 – in the 1996-2015 forecast

16 In my comparison, I adjusted the forecasted amount to eliminate forecasted rate increases  
17 and decreases, to include the annual effect of the 1999 rate cases, and to eliminate merger  
18 expenses.

19 Q. What were the results of your analysis?

20 A. The results are summarized on Schedule JKP-1 and show that our recent forecasts have  
21 been fairly accurate. Generally, actual results have been within 3% of forecasted results.

22 STAFF'S CONTENTION THAT COSTS COULD DECREASE

1 Q. Does the Staff's rebuttal testimony indicate an opinion as to whether SJLP's operating  
2 expenses could increase or decrease in the future?

3 A. Yes, Staff witness Janis E. Fischer indicates that SJLP has reduced costs in the past and  
4 this type of savings is possible in the future.

5 Q. Does the Staff offer any specific areas where it thinks costs can be reduced?

6 A. Yes. Ms. Fischer cites four examples of areas that she believes SJLP could implement on  
7 a stand-alone basis to create savings absent the merger. These areas are (1)human  
8 resources software, (2)automated meter reading, (3)an Internet bill paying system, and  
9 (4)changing fleet replacement policy to a five-year/125,000 mile plan. I will address  
10 each of these areas separately.

11 Human Resources

12 Q. Do you agree with Ms. Fischer's statement on page 53 of her testimony that "St. Joseph  
13 on a stand-alone basis could have implemented the same HR software and attained a non-  
14 merger savings for the same technology benefits that will now be counted as merger  
15 related savings"?

16 A. No.

17 Q. Has SJLP ever considered implementing PeopleSoft HR software?

18 A. Yes. In 1997, SJLP considered upgrading its human resources/payroll system.  
19 PeopleSoft was one of the packages which was reviewed by the implementation team.

20 Q. Did the team recommend implementation of the PeopleSoft HR software?

21 A. No, the team determined that its benefits (either payroll or combination human  
22 resources/payroll) did not justify its cost for a company of SJLP's size.

1 Q. Does the size of a company have any impact on how much a company can save from  
2 implementing a software product?

3 A. Yes. Economies of scale are often the key to overall savings from a labor-saving  
4 application. Generally, a company must have a certain number of employees to expect  
5 savings which result in a reasonable payback period to justify the cost of software.

6 Q. Does Ms. Fischer state why she believes that PeopleSoft HR software could save money  
7 for SJLP?

8 A. Apparently she accepted the examples on PeopleSoft's advertising web site which she  
9 quotes on page 53 of her testimony.

10 Q. Was your analysis in more depth than reviewing claims on a web site?

11 A. Yes.

12 Automated Meter Reading

13 Q. Ms. Fischer states on page 54 of her rebuttal testimony that automated meter reading  
14 (AMR) is "a savings opportunity that St. Joseph could realize on a stand-alone basis."  
15 Do you agree?

16 A. No. Ms. Fischer has used the term "AMR" incorrectly. The Project Status Report  
17 referred to by Ms. Fisher addresses SJLP's decision to upgrade its Itron hand-held meter  
18 reading system, which is in no way an "automated meter reading system." The hand-held  
19 system allows the meter reader to punch in a reading instead of writing it down on paper.  
20 SJLP has utilized such a system since 1988, and the upgrade referred to by Ms. Fischer is  
21 merely a typical systems upgrade.

22 Q. What does the term "AMR" mean?

1 A. An AMR system allows a utility to electronically probe a meter for a reading or for other  
2 purposes, without having to send a meter reader to the location.

3 Q. Has SJLP conducted a study on the feasibility of implementing an AMR system?

4 A. Yes, SJLP has conducted such a review several times in the last 10-15 years.

5 Q. What were the results of the studies?

6 A. In each case prior to the most recent study, such a system could not be cost justified as  
7 the present value of future costs outweighed the present value of the benefits.

8 Q. Did the cost/benefit picture improve in the most recent study?

9 A. Yes. A 1998 study concluded that the present value of benefits was approximately equal  
10 to the present value of costs.

11 Q. Did SJLP decide to purchase an AMR system at that time?

12 A. No. Certain of the benefits are dependent on a deregulated utility environment, which  
13 does not currently exist in Missouri. For example, some form of real time pricing will  
14 likely be required under deregulation, and AMR greatly assists in this area.

15 Q. Even if all of the benefits are considered, does this represent a "cost savings" opportunity  
16 for SJLP?

17 A. No. At best, given the current state of AMR technology and the cost structure, it appears  
18 AMR presents a "break-even" proposition. Most of the impetus for purchasing such a  
19 system relates to improving customer service and retention, and meeting deregulation  
20 requirements.

21 Internet Bill Paying System

22 Q. What does Ms. Fischer say about an Internet bill paying system?

1 A. On page 55 of her testimony, she states that "clearly, it appears that St. Joseph would be  
2 able to generate savings through the implementation of an Internet bill paying system."

3 Q. Do you agree with her conclusion?

4 A. No. Generally, the benefit of such systems is in improving customer service, not in cost  
5 reductions. A high level of penetration would be necessary to generate cost reductions.

6 Q. Are you aware of any U.S. utilities that have claimed savings by using an Internet-based  
7 bill paying system?

8 A. No.

9 Fleet Replacement Policy

10 Q. Does Ms. Fischer give another example of a cost savings that she believes SJLP could  
11 implement on a stand-alone basis?

12 A. Yes, on page 55 of her testimony she suggests that SJLP's fleet replacement policy could  
13 be changed to a five-year/125,000 mile plan. She further states that such a  
14 recommendation was made by the UCU/SJLP transition team.

15 Q. Do you agree that such a change would produce meaningful savings for SJLP on a stand-  
16 alone basis?

17 A. Not necessarily. What is appropriate for the combined entity may not be appropriate for  
18 SJLP on a stand-alone basis.

19 Q. Did the transition team report indicate there were cost savings associated with such a  
20 switch in replacement procedures?

21 A. No, the report did not indicate any such savings, only that such a change should be  
22 implemented on "Day One."

23 Q. Why then did the team recommend the switch?

1 A. The team recommended the change in procedure to conform SJLP's policy to UCU's  
2 replacement policy.

3 Q. Do you believe that such a change in replacement policy would generate cost reductions  
4 for SJLP on a stand-alone basis?

5 A. It is difficult to say whether costs would increase or decrease without conducting a  
6 thorough study. SJLP has not recently conducted such a detailed study. Several factors  
7 would have to be considered in such a study, including vehicle usage patterns,  
8 maintenance costs vs. capital costs, etc.

9 Q. Does this conclude your testimony at this time?

10 A. Yes, it does.

# Summary of Electric Forecasted Results Compared to Actual Results

	<u>1999 Results as Forecasted</u>			<u>1998 Results as Forecasted</u>		<u>1997 Results as Forecasted</u>
	<u>1999-2007</u>	<u>1997-2016</u>	<u>1996-2015</u>	<u>1997-2016</u>	<u>1996-2015</u>	<u>1996-2015</u>
Forecasted operating income	\$ 15,423,000	\$ 15,340,000	\$ 15,206,000	\$ 15,955,000	\$ 15,002,000	\$ 14,582,000
Add back planned rate decrease	-	-	179,285			1,493,426
Subtract planned rate increase	-	430,654	-	3,081	753,490	
Merger expenses - after-tax	2,417,217	2,417,217	2,417,217	93,551	93,551	
Actual effect of '99 rate proceeding	18,771	18,771	18,771			
Forecasted operating income (adjusted)	\$ 13,024,554	\$ 12,510,900	\$ 12,986,839	\$ 15,858,369	\$ 14,154,959	\$ 16,075,426
Actual operating income	\$ 12,624,506	\$ 12,624,506	\$ 12,624,506	\$ 15,527,000	\$ 15,527,000	\$ 16,373,000
Difference--over/(under) forecast	\$ (400,048)	\$ 113,606	\$ (362,333)	\$ (331,369)	\$ 1,372,041	\$ 297,574
Difference as % of forecast	-3.071%	0.908%	-2.790%	-2.090%	9.693%	1.851%



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with and into UtiliCorp United Inc., and, )  
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Related Transactions.                        )

County of Buchanan             )  
                                      )  
State of Missouri             )

**AFFIDAVIT OF Janet K. Pullen**

Janet K. Pullen, **being first duly sworn**, deposes and says that he/she is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of Janet K. Pullen"; 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/she 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.

Janet K. Pullen

Subscribed and sworn before me this 20<sup>th</sup> day of June, 2000.

Jacqueline F. Finchum  
Notary Public

My Commission expires:

6-16-02

