

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 Savings
Witness: Vern J. Siemek
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

Vern J. Siemek

Jefferson City, Missouri

**SURREBUTTAL TESTIMONY
VERN J. SIEMEK**

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

TABLE OF CONTENTS

	PAGE
I. MERGER SAVINGS/PROJECTED SYNERGIES.....	1
II. COSTS TO ACHIEVE THE SYNERGIES.....	12
III. PROPER STARTING POINT FOR SYNERGIES.....	17

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF VERN J. SIEMEK
ON BEHALF OF UTILICORP UNITED INC.
CASE NO. EM-2000-292**

1 Q. Please state your name.

2 A. My name is Vern J. Siemek.

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

4 A. I am employed by UtiliCorp United Inc. ("UtiliCorp" or "UCU") as Director of Business
5 Services for UtiliCorp Energy Delivery.

6 Q. Are you the same Vern J. Siemek that has previously filed direct testimony in this case?

7 A. Yes.

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

9 A. My surrebuttal testimony will:

- 10 1. Respond to Missouri Public Service Commission Staff ("Staff") rebuttal
11 testimony with respect to merger savings/projected synergies;
- 12 2. Respond to Staff rebuttal testimony with respect to amortizing all the Costs to
13 Achieve the Synergies over the ten years proposed in the regulatory plan;
- 14 3. Respond to Staff's concerns with the proper starting point for calculating the
15 synergies and explain why Staff's proposed starting point is inappropriate and
16 understated.

17 My testimony will also respond to certain matters raised by the Office of the Public
18 Counsel ("OPC") witnesses.

19 **Merger Savings\Projected Synergies:**

1 Q. How do you respond to the Staff's claim that estimated merger savings\synergies do not
2 exceed estimated merger costs?

3 A. Based on my own work, and my knowledge of the work performed by the transition
4 teams and UtiliCorp witnesses Browning and Holzwarth, I firmly believe that both the
5 estimated and actual merger savings/synergies will exceed the estimated merger costs. In
6 any event, UtiliCorp will bear the burden of proof in the Post Moratorium Rate Case to
7 demonstrate to the Commission that merger savings/synergies exceed the costs requested
8 for recovery through rates.

9 Q. Staff witness Steve Traxler represents on page 25 (lines 4-8) and page 31 (line 22) of his
10 rebuttal testimony that UtiliCorp and St Joseph Light & Power Company ("SJLP") agree
11 and expect a significant increase to SJLP's cost of service as a result of consolidating
12 existing SJLP functions and allocating UCU Corporate Overhead costs to SJLP. How do
13 you respond?

14 A. That is simply not true. Staff has apparently misinterpreted and then misused Section IV
15 of Schedule VJS-1 of my direct testimony. That Section cannot be used as Staff
16 apparently has since it does not represent comparable costs between the costs transferred
17 to UtiliCorp and the costs allocated to SJLP.

18 Q. Why not?

19 A. As one example of many, the General and Administrative savings in line I-2 of Schedule
20 VJS-1 of my direct testimony includes savings from eliminating the finance and treasury
21 functions at SJLP. Because that function was eliminated, no SJLP Direct Costs were
22 transferred to UCU on lines IV-1 or -2. However, the Allocation to SJLP on line IV-3

1 includes allocations of finance and treasury costs from UtiliCorp. There are other similar
2 costs that impact the comparability within Section IV. Thus, it is not appropriate for Staff
3 to characterize the net allocation on Line IV-4 as a significant increase in costs from
4 allocations.

5 Q. Staff witness Traxler (page 26, line 20-29) indicates that 1) UCU projects a cost increase
6 to SJLP customers in our filing of \$12.3 million during the first ten years and 2) Staff
7 instead projects cost increases to SJLP customers of \$25.1 million during the same
8 period. How do you respond?

9 A. I disagree. His first claim that UCU projects cost increases of \$12.3 million is incorrect.

10 Q. Why?

11 A. Staff analysis does not incorporate all the comparable costs and synergies. At a minimum
12 Staff's analysis should include the benefits synergies related to the cost reductions
13 included in Staff's analysis. Benefits are included in the cost allocations from UCU to
14 SJLP, so Staff has only extracted a partial picture from our analysis. As a consequence,
15 Staff has drawn incorrect conclusions.

16 Q. Are adjustments needed to correct Staff analysis?

17 A. Yes. The analysis needs to be corrected to reflect the \$37.2 million of benefits synergies
18 over the ten years as reflected in my direct testimony on Schedule VJS-1. The corrected
19 analysis of UCU's projections will result in approximately \$24.9 million of synergies for
20 SJLP, not Mr. Traxler's miscalculated cost of \$12.3 million. The \$24.9 million is
21 approximate since the individual lines or elements of our filing were not intended to be

1 regrouped as Mr. Traxler has attempted to do. However, the \$24.9 million is much more
2 representative than the Staff's figure.

3 Q. In his second point on page 20, Staff witness Traxler also proposes reducing UCU's
4 calculation of the merger-related synergies. Do you agree with his proposal?

5 A. No. The Staff's calculation of forecasted merger-related synergies is incorrect for several
6 reasons.

7 Q. Why?

8 A. First, the proposal in the rebuttal testimony of Staff witness Traxler is to reduce the
9 average inflation rates for SJLP operations and maintenance costs to 1% from 2.5%. That
10 proposal is based on an error made by the Staff in recalculating the average cost increases
11 during the historical period reviewed from 1996 to 1998.

12 Q. Please explain the error.

13 A. The error was to include the substantial benefits realized during the period for employee
14 benefits and pensions, primarily from the investment returns of the pension plan. The
15 impact of including those benefits is to disguise the real impact of inflation on the
16 operating costs of SJLP. The direct testimony of UCU witness Robert Browning
17 separated projected pension and benefits costs synergies, so it is not appropriate to
18 include those costs in the base for determining inflation impacts for the remaining
19 operation and maintenance costs.

20 Q. What is the actual three-year historical inflation experienced by SJLP, exclusive of the
21 pension and benefits impacts?

22 A. 2.42% is the actual three-year historical inflation of SJLP.

1 Q. How did you arrive at this number?

2 A. I calculated the 2.42% from witness Traxler's Schedule SMT-4 as corrected per response
3 to DR-288. I removed the Pension/Benefit cost (line 25) from the total costs (line 35) for
4 each year, calculated the percent increase from 1995 to 1998, and divided by three years
5 for the average annual increase. The 2.42% approximates the 2.5% average inflation
6 impact in the original filing and is substantially higher than Staff's proposed 1%. A rate
7 higher than 1% is also supported because the transferred SJLP cost are primarily payroll
8 which has historically exceeded 3% annual increase.

9 Q. Staff witness Traxler also proposed that the cost escalation impact for UCU corporate
10 allocation be increased to 5% from 2.5%. How do you respond?

11 A. I disagree.

12 Q. Why?

13 A. Staff's review of UCU costs was distorted by the failure to recognize that the
14 implementation of several reengineering initiatives impacted UCU costs in the periods
15 selected.

16 Q. Please explain.

17 A. Staff's comparison of 1998 and 1999 MPS costs to develop 5% is flawed because it failed
18 to consider the increased operational cost of reengineering initiatives that were
19 implemented in 1997, 1998 and 1999 over the entire UCU system. When such systems
20 are implemented, support costs previously capitalized during development of systems
21 become operating costs. In addition, frequently Information Technology costs such as
22 telecommunications increase to support the newly implemented systems. Normally, such

1 cost increases would not continue after the new applications became operational. A more
2 normal increase for UCU costs would approximate the Consumer Price Index-Urban
3 ("CPI-U"), which supports the 2.5% used in UCU's projections. It should also be noted
4 that the actual cost increases for UCU in future years will be known to the Commission
5 before any post moratorium rate case impacting SJLP rates. Even with the
6 implementation of the reengineering initiatives, costs allocated to Missouri Public Service
7 ("MPS") increased only 3.5% in 1999, according to Staff's Schedule SMT-5, line 11, 1999
8 column.

9 Q. Do you have any other comments with respect to Staff's calculation of synergies?

10 A. Yes. Staff has misused its estimate of UCU's inflation factor resulting in an
11 inappropriate increase in the SJLP synergies for A&G/Customer Services savings,
12 Distribution savings, and Transmission savings. The table on page 26 of Staff witness
13 Traxler's testimony, as well as the narrative on page 31, lines 1-3, clearly indicates that a
14 5% inflation factor was used to project synergies for merger savings.

15 Q. How do you characterize the use of this factor?

16 A. It is inaccurate.

17 Q. Why?

18 A. The savings/synergies used as the base by Staff reduce SJLP's costs, not UtiliCorp's
19 costs. Staff has improperly applied the 5% intended by Staff to reflect UtiliCorp inflation
20 to synergies of SJLP. This is clearly inaccurate and inappropriate.

21 Q. What is the impact of Staff's inflation factor on the projected synergies?

1 A. The error actually increases the projected synergies. That increase is improper and
2 reflects a level of synergies that is not reasonable. The potential impact of the error is
3 that the merger could be approved with a built-in error that improperly exaggerates the
4 projected synergies.

5 Q. Do you draw any overall conclusions from Staff's inflation adjustments?

6 A. Yes. Staff's attempted adjustments to reflect differentiated inflation adjustments are ill-
7 considered and based on errors. Even had they been properly estimated, they are
8 improperly applied. UtiliCorp's initial proposed inflation projections are still
9 appropriate.

10 Q. How do you characterize the inflation rate issue?

11 A. The SJLP inflation rate of 2.5% which we have proposed is clearly still appropriate and
12 reasonable. The actual rate of UCU cost increases is unimportant at this time. The actual
13 rate of increase will be known in the future in the post moratorium and subsequent rate
14 cases when UCU bears the burden of proof to demonstrate the actual costs and synergies.
15 If actual costs are higher than now estimated for UCU allocations, those higher costs will
16 be reflected in the future synergy analysis, and will be appropriately reflected in the net
17 synergies.

18 Q. Do these same errors extend to the Staff's comparison of synergies and costs for years 6-
19 10 on pages 32-33 of Staff witness Traxler's rebuttal testimony?

20 A. Yes. The column labeled UCU/SJLP should be corrected to include employee benefits
21 synergies of \$4.443 million from Schedule VJS-1 of my direct testimony. This correction
22 converts the alleged Average Cost Increase of (\$1,155) to a net synergy of \$3,288.

1 Q. What impact do the inflation corrections have on column labeled STAFF for years 6-10?

2 A. Correcting all the errors in inflation projections will result in the column labeled STAFF
3 being identical to the UCU/SJLP column, and will yield the same average annual synergy
4 as the corrected column labeled UCU/SJLP of \$3,288.

5 Q. Staff witness Traxler claims that UtiliCorp general plant costs will increase the costs of
6 general plant for SJLP. How do you respond?

7 A. Those costs are appropriately allocated to SJLP customers.

8 Q. Please explain.

9 A. Those costs (for office space, furnishings and computer equipment) are no different than
10 the payroll and other operating costs being allocated to SJLP customers to reflect the
11 services now being provided by UtiliCorp. Those costs are normally allocated to
12 business entities just as operating costs are allocated to business entities. Those support
13 functions are being provided to SJLP customers from UtiliCorp facilities for Customer
14 Care centers, centralized engineering services, human resources, computer operations and
15 application support, dispatching centers, information technology support, accounting and
16 finance, treasury and management locations. These costs are being incurred to provide
17 services to SJLP customers. Staff is attempting to disaggregate projected costs and
18 synergies inappropriately, when the important issue is the overall net synergies.

19 Q. What additional impact would a three-way merger of UCU, SJLP and The Empire
20 District Electric Company ("Empire") have on the synergies presented for SJLP?

21 A. There would be no additional impact. The major area of impact from a three-way merger
22 is on the allocation of generation synergies. Mr. Holzwarth has calculated and explained

1 in his direct testimony the impact on generation-related synergies if both transactions are
2 completed. The synergies calculated on Schedule VJS-1 to my direct testimony reflect
3 that three-way impact for generation. The relatively minor differences in cost allocations
4 of Enterprise Support Functions ("ESF") and Intra Business Unit ("IBU") departments
5 have also already been considered.

6 Q. Are there additional personnel-related economies of scale that could be realized from a
7 three-way merger?

8 A. No. We are essentially joining two small companies, SJLP and Empire, with a much
9 larger entity, UtiliCorp. As a result, the additional General and Administrative personnel
10 needed at the larger company to support the two smaller companies are primarily
11 incremental transaction processing personnel such as accounts payable clerks. Existing
12 supervision and management levels at UtiliCorp were determined to be adequate for the
13 additional supervision needed. Reducing supervisors and management of the smaller
14 merged companies and eliminations of duplicate positions such as reporting and
15 financing are typical examples of economies of scale. Those economies have all been
16 extracted from the approaches used by the transition teams. We have effectively
17 eliminated over 70% of the general and administrative positions of the two smaller
18 companies and the few positions remaining are primarily processing positions. Of
19 course, if additional synergies are realized in the future, those additional synergies would
20 result in revenue requirements reductions under our Regulatory Plan.

21 Q. Did you calculate net present values of the proposed synergies and related guaranteed
22 revenue requirement reductions?

1 A. No.

2 Q. Why not?

3 A. Calculating Net Present Value was unnecessary to achieve a fair result. It is generally
4 recognized that a dollar received in years six through ten is not the same value as a dollar
5 received today. On the other hand, no merger results in no dollar received in years six
6 through ten and that situation yields no value to the SJLP customers. That is the situation
7 absent the merger-related synergies – customers will see none of those merger-related
8 benefits.

9 Q. What is the impact of using discounting?

10 A. The apparent values of the benefits to the customers are less.

11 Q. Why?

12 A. Because the bulk of the synergies are implemented in the early years in exchange for a
13 capital investment. The synergies generally grow at 2.5%, the inflation factor for most
14 operating costs. Any discount rate in excess of 2.5% will reduce the future value of the
15 dollars. However, any benefit from future revenue requirement reductions is an
16 improvement over the existing standalone situation.

17 Q. Does discounting change the \$1.6 million net synergy amount in years 6-10?

18 A. No. It is simply an alternate view of the same dollars of synergies. The point remains
19 that discounting no synergies (absent a merger) is definitely worth less to SJLP customers
20 than discounting the \$1.6 million of synergies net of the Costs to Achieve the Synergies
21 and some premium recovery.

1 Q. Staff witness Traxler contends that \$67 million of allocations will be reallocated from
2 MPS to SJLP over the ten years of the Regulatory Plan. Do you agree?

3 A. No. Staff's calculation is overstated by approximately \$45 million because the
4 calculation includes the impact of both SJLP and Empire. The applicable portion of
5 UCU's response to Data Request SJLP DR-1 used by Staff is attached as Schedule VJS-5
6 (2 pages). Page 1 is the Enterprise Support Function ("ESF") summary and column 3
7 (Incremental Change) shows \$3,838 as the impact on MPS if both SJLP and Empire are
8 merged with UCU. Witness Traxler's Schedule SMT-8 erroneously reflects the entire
9 \$3,858 as the impact of merging only SJLP and UCU.

10 Page 2 of Schedule VJS-5 is the Intra Business Unit ("IBU") Summary. Column 3
11 (Incremental Change) shows \$2,899 as the impact if both SJLP and Empire are merged
12 with UCU. Again, witness Traxler's Schedule SMT-8 erroneously reflects the entire
13 \$2,899 as the impact of merging only SJLP and UCU. Properly restating the calculations
14 for those errors reduces the intended impact from \$67 million to \$22 million, which is
15 addressed in our regulatory plan.

16 Q. Should the Commission rely upon UCU/SJLP's estimates of merger savings/synergies
17 and merger costs in its findings regarding the proposed merger?

18 A. Yes. These estimates were carefully prepared by experienced personnel and are
19 reasonable estimates of the synergies to be achieved. In addition, the actual synergies
20 and costs will be considered and reviewed by the Commission during the Post
21 Moratorium Rate Case, five years after the closing of the merger. At that time the

1 Commission will have the opportunity to determine the actual synergies and costs of the
2 merger.

3 **Costs to Achieve the Synergies:**

4 Q. Staff Witnesses Russo and Oligschlaeger and OPC witness Robertson have questioned
5 various aspects of the proposed recovery of Costs to Achieve, including, in some cases, a
6 distinction between transition and transaction costs. How do you respond?

7 A. I disagree with their positions.

8 Q. Why?

9 A. All of these costs are necessary to realize any of the synergies from the transaction.

10 (Siemek Direct page 6, line 11-12.) Staff witness Russo even acknowledges as much on
11 page 6, lines 3-4 of his surrebuttal when he says, "Absent the merger, these transaction
12 costs would not have been incurred." Failure to deduct these costs from the synergies
13 overstates synergies that could not be accomplished without the costs to achieve (Siemek
14 direct page 7, lines 4-7).

15 Q. Staff witness Russo asserts that all transaction costs should be borne by shareholders
16 since the transaction was done to increase shareholder value. How can shareholders
17 realize value?

18 A. One primary method is to retain some of the benefits of the synergies created by the
19 merger to at least recover some of the costs of achieving the merger like these transaction
20 costs.

1 Q. What is an appropriate recovery period?

2 A. Ten years is the period covered by our proposed Regulatory Plan and is appropriate. Ten
3 years is a commonly used period for projecting synergies from mergers. Despite that
4 long period of recovery, we did not request carrying costs on the unamortized balances of
5 the Costs to Achieve. Schedule VJS-1 of my direct testimony clearly shows that the
6 projected synergies during the first five years are inadequate to recover the costs
7 amortized during those years. As a further protection for customers, under our regulatory
8 plan, UtiliCorp will bear the burden of proof in later years to substantiate that the
9 synergies are adequate to provide for the recovery of those remaining costs, or the \$1.6
10 million revenue requirement reduction is triggered. Our Regulatory Plan represents an
11 appropriate sharing of the costs.

12 Q. Even if any of those Costs to Achieve the Synergies are classified transaction costs, is the
13 Commission required to amortize these costs over forty years as suggested by Staff
14 witness Russo?

15 A. No. First, regulatory commissions have some authority to impact accounting by the
16 method approved for cost recovery. Examples commonly seen are accounting orders
17 deferring extraordinary costs for later recovery; income tax benefits that are flowed-
18 through to rates immediately rather than normalized through deferred tax entries;
19 deferrals and amortizations of various unusual costs like storm damages that would
20 normally be expenses of the period in which they occur; the accounting for purchased gas
21 cost tracking mechanisms that reflect over or under recovery of actual gas costs; and

1 pension/retiree medical benefit expenses where accounting principles are frequently
2 altered.

3 Second, even if that authority were not invoked, the accounting principles on amortizing
4 goodwill do not require amortization over forty years, but rather establish a maximum
5 life of forty years, with shorter lives recommended depending on the circumstances. In
6 this instance, the regulatory plan was proposed for only ten years, so that same ten-year
7 life is appropriated to amortize the costs to achieve.

8 Q. Staff witness Russo recommends amortizing many of the Costs to Achieve over forty
9 years, and at the same time recommends that no carrying costs be allowed. How do you
10 respond?

11 A. I disagree.

12 Q. Why?

13 A. Since we have already voluntarily foregone a carrying cost on those Costs to Achieve the
14 Synergies, the value of the ten-year recovery is roughly only 60%. Achieving even that
15 value ignores the fact that the amortization is not fully recovered in the first five years of
16 the rate moratorium when synergies do not recover the costs. Lengthening the
17 amortization to forty years reduces the value of the recovery to roughly 20%, even before
18 the moratorium shortfall. This is clearly inequitable.

19 Q. Do you agree with the condition set out in the testimony of Staff witness Russo that
20 transaction costs be tracked to preclude recovery?

1 A. Not completely. I believe the Costs to Achieve the Synergies should indeed be tracked.
2 However, the tracking is necessary to ensure that the costs are properly included in
3 consideration of net synergies benefiting customers of SJLP, not excluded.

4 Q. How do you respond to Staff witness Russo's recommendation that transition costs be
5 expensed as incurred, but allow recovery through rates if incurred during a rate review
6 period or test period?

7 A. I disagree. Since almost all of the transition costs will be incurred in the first three years
8 (all during the rate moratorium), the practical effect of that recommendation is to deny
9 any recovery of the transition costs. Such a denial would be inequitable since it would
10 have UtiliCorp expend all the costs of implementing the synergies and then return all of
11 the consequent synergies to the customers, who would have contributed nothing to the
12 cost of achieving them.

13 Q. Staff and OPC witnesses have questioned recovery of certain Costs to Achieve the
14 Synergies such as the change-in-control agreements for SJLP officers (and related
15 consultant fees in connection with updating the change-in-control agreements), the
16 Supplemental Executive Retirement Plan ("SERP") and the Advisory Board. How do
17 you respond?

18 A. It is clearly appropriate to net those costs against synergies.

19 Q. Why?

20 A. Both executive costs and SERP funding costs are included in current cost of service for
21 SJLP as a stand-alone company. Those items have never been raised as a cost of service
22 issue in prior SJLP rate cases to my knowledge. Furthermore, those costs will be

1 eliminated after the merger and will be included in the projected synergies. The Advisory
2 Board is a condition set out in the merger agreement and in effect replaces ten years of
3 the costs of the SJLP Board of Directors with three years of the cost of the Advisory
4 Board.

5 Q. How will customers be impacted by UCU's proposed treatment of these costs?

6 A. Customers will realize synergies during the ten years from the elimination of the related
7 costs of the executives, the SERP annual funding and the Board of Directors. To at the
8 same time exclude the lesser costs of achieving those synergies would not be fair.

9 Q. Does the amortization of any of the Costs to Achieve over the ten years of the regulatory
10 plan mean that the costs will actually be recovered from customers?

11 A. No. Since we have already voluntarily foregone a carrying cost on those Costs to
12 Achieve the Synergies, the value of the ten-year recovery is roughly only 60%. During
13 the first five years, the synergies are inadequate to recover our costs. As a result, it is
14 likely that customers will actually pay less than half of the costs.

15 Q. Staff witness Russo recommends that the Cost to Achieve the Synergies need to be
16 explicitly allocated to nonregulated operations. Do you agree?

17 A. No. The nonregulated businesses of SJLP are basically self-contained entities and will
18 not benefit from most of the synergies to be realized by the merger. In addition, UCU's
19 proposal already implicitly reduces the allocation of the Costs to Achieve the Synergies
20 to the regulated operations to a lower level of costs to regulated operations than could be
21 justified.

22 Q. How is that accomplished?

1 A. The current value of incurring costs today that are recovered over ten years with no
2 carrying costs (as UCU has proposed) yields a payback of approximately 60% of the
3 initial expenditure. That recovery is reduced further by the shortfall of synergies during
4 the rate moratorium.

5 Q. How does that compare to the regulated operations of SJLP?

6 A. A review of the projections in the due diligence analysis clearly indicates that the
7 regulated operations of SJLP are significantly more than 60% of the total operations. As
8 a consequence, the implicit assignment of Costs to Achieve to regulated operations in the
9 UtiliCorp filing actually under allocates costs to the regulated operations.

10 **Proper Starting Point for Synergies:**

11 Q. Staff witness Traxler recommends that a 1998 base period, with numerous adjustments to
12 attempt to bring costs forward to 1999, should be used as the savings/tracking "baseline".
13 How do you respond?

14 A. I disagree. I believe that the starting point for measurement should be different for each
15 of the three major types of costs because of their different characteristics.

16 Q. What are the three major types of costs?

17 A. The three major types of costs are benefits; generation-related costs; and other operations
18 and maintenance costs.

19 Q. What is the appropriate starting point to measure synergies for benefits and why?

20 A. The correct starting point for benefits is a year-by-year projection on the proper basis to
21 calculate the merger-related synergies, as witness Browning set out in the schedules to his
22 direct testimony. These year-by-year projections reflect the complex nature of the

1 various elements of benefits costs, particularly pensions and retiree medical costs, as well
2 as correcting estimates of future costs. Mr. Browning's surrebuttal testimony will
3 provide more detailed explanations of the complexity that is incorporated in these
4 calculations.

5 Q. What is the appropriate starting point to measure synergies for generation-related
6 synergies and why?

7 A. The correct starting point for generation-related synergies is also a year-by-year
8 projection on the proper basis to calculate the merger-related synergies, as witness
9 Holzwarth set out in the schedules to his direct testimony. These year-by-year
10 projections reflect the complex nature of the various elements of costs and revenues in
11 these areas, including the interaction of fuel costs, capacity availability, purchased power
12 contracts and growth opportunities in sales. Mr. DeBacker's surrebuttal testimony will
13 provide more detailed explanations of the complexity that is incorporated in these
14 calculations.

15 Q. What is the appropriate starting point to measure synergies for other operations and
16 maintenance costs and why?

17 A. I believe the correct starting point for other operating and maintenance expense synergies
18 is the 1999 budget of SJLP as the proper basis to calculate the merger-related synergies.
19 That starting point is reflected in the schedules to my direct testimony and consistently
20 used by the transition teams in developing their projected synergies. As discussed in my
21 interview by Staff, the 1999 budget was selected as the baseline because it was the most
22 current information on expected SJLP operating costs available to all the transition teams.

1 It also appeared reasonable in comparison to the latest actual information on 1998, which
2 was eleven months actual and 1 month estimated. This enabled the transition teams to
3 have the benefit of the best and most current view of SJLP operating managers of SJLP
4 costs to operate and in a form that facilitates management of those cost going forward. I
5 continue to believe that the 1999 budget is appropriate for developing those synergies
6 projections.

7 Q. Staff contends that 1999 budgeted costs are less reliable because some budgeted events
8 do not occur. The sole example cited is the scheduled Iatan maintenance outage that was
9 deferred from 1999 to early 2000. Staff contends that such a variance reduces the ability
10 to use the budgets as a starting point for synergies. How do you respond?

11 A. Budgets are just as reliable as adjusted actuals as a starting point. Actuals cannot be used
12 without adjustments in rate cases or in these proceedings. In fact, numerous adjustments
13 have been made to Staff's starting point of 1998 actuals to develop Staff's adjusted 1998
14 actuals to represent 1999. The Iatan situation does not even require an adjustment to
15 UtiliCorp's synergies.

16 Q. Why not?

17 A. UCU did not rely on the 1999 Budget as the starting point to develop generation-related
18 synergies. UCU used the year-to-year projections as discussed earlier. No synergy
19 related to the Iatan maintenance is included in any future year synergies because the delay
20 does not effect 2001 and later years in the year-to-year projections.

21 Q. Are there other reasons to use the 1999 budget as the starting point for other operation
22 and maintenance expenses rather than adjusted 1998 FERC expenses?

1 A Yes. Management's ability to monitor and ensure that the synergies are accomplished is
2 much improved by using an operational budget that actually shows what a department is
3 spending. The costs of many departments become intermixed when converted to FERC
4 accounts. It would add an unneeded layer of complexity to start from Staff's estimates
5 and adjustments that are denoted in FERC accounts and then translate back into
6 manageable department targets. Any additional complexity that is not necessary such as
7 attempting to translate backward from FERC accounts should be avoided.

8 Q. Can budgeted amounts be relied upon for purposes of establishing a savings tracking
9 "baseline" for just the other operating and maintenance costs?

10 A. Yes.

11 Q. Could Staff's adjusted 1998 amounts be relied upon for purposes of establishing a
12 savings tracking "baseline" for just the other operating and maintenance costs?

13 A. Not easily and not at the level proposed by Staff. Aside from the complexities introduced
14 by using FERC accounts, an even more critical issue is the amount of the baseline for
15 operations and maintenance expenses, excluding fuel, purchased power and benefits.
16 Staff's proposed starting point is inadequate in terms of costs because several of Staff's
17 adjustments improperly reduced actual costs or Staff omitted adjustments to reflect
18 normal levels of costs expected for 1999. We have been working with Staff to overcome
19 those issues so that we might yet have an acceptable starting point based on Staff's
20 approach in the other operating and maintenance costs before the hearing. That
21 discussion may yield an acceptable 'baseline' for operations and maintenance costs,

1 excluding fuel, purchased power and benefits, although it would still leave the
2 complexity of the FERC versus management information needs.

3 Q. What adjustments are needed to properly reflect Staff's proposed starting point for other
4 operating and maintenance expenses?

5 A. The adjustments needed and the rationale for each are as follows:

6 1) To reflect 1999 inflation impacts on non-payroll operating costs-\$210,000

7 2) To add back outside costs for strategic planning and computer costs to reflect ongoing
8 cost levels-\$359,000

9 3) To add back selected disallowances of dues and advertising that are properly
10 includible in SJLP costs of service-\$191,000

11 4) To correct G&A costs capitalized to rely on SJLP employee timesheets-\$115,000

12 Q. Can a similar adjusted 1998 amount be developed for benefits?

13 A. No. The complex nature of those costs render comparisons to single base years almost
14 meaningless and definitely inappropriate for calculating synergies. See the surrebuttal
15 testimony of Mr. Browning for additional discussion.

16 Q. Can a similar adjusted 1998 amount be developed for generation-related synergies,
17 particularly fuel/purchased power?

18 A. Not without considerable care and definition of terms, but Mr. DeBacker is the
19 appropriate witness to address that.

20 Q. Do the starting point measurements need to be resolved in this proceeding?

1 A. Yes. UtiliCorp needs to know the ground rules on measuring merger-related synergies
2 now in order to determine the likely financial impacts and thus the economics of the
3 transaction prior to closing.

4 Q. Does this conclude your surrebuttal testimony?

5 A. Yes.

ESF Summary Report
Senario A: What if TWO New Departments Added
St. Joseph and Empire

Line No.	1999 ESF budget (^{'000's})	Both Departs Added	Incremental Change	St Joseph	Empire	St, Joseph	Empire
1 Missouri	\$ 30,540	\$ 26,682	\$ (3,858)	\$ (1,349)	\$ (2,509)	35%	65%
2 New Dept in MO	\$ -	\$ 18,100	\$ 18,100	\$ 6,313	\$ 11,788	35%	65%
3 Total Missouri	\$ 30,541	\$ 44,782	\$ 14,241	\$ 4,962	\$ 9,279	35%	65%
4 Kansas	\$ 10,117	\$ 8,863	\$ (1,254)	\$ (394)	\$ (860)	31%	69%
5 Colorado	\$ 6,609	\$ 5,852	\$ (757)	\$ (233)	\$ (524)	31%	69%
6 Michigan	\$ 7,684	\$ 6,832	\$ (852)	\$ (261)	\$ (591)	31%	69%
7 Minnesota	\$ 8,257	\$ 7,427	\$ (830)	\$ (281)	\$ (549)	34%	66%
8 Nebraska	\$ 9,050	\$ 8,185	\$ (865)	\$ (288)	\$ (577)	33%	67%
9 Iowa	\$ 6,027	\$ 5,452	\$ (575)	\$ (203)	\$ (372)	35%	65%
10 Colorado Gas	\$ 1,905	\$ 1,722	\$ (183)	\$ (74)	\$ (109)	40%	60%
11 Kansas Gas	\$ 5,334	\$ 4,762	\$ (572)	\$ (184)	\$ (388)	32%	68%
12 West Virginia	\$ 3,991	\$ 3,526	\$ (465)	\$ (188)	\$ (277)	40%	60%
13 Sub Total Regulated	\$ 89,514	\$ 97,402	\$ 7,888	\$ 2,857	\$ 5,031	36%	64%
					\$ -		
14 Non Regulated	\$ 34,378	\$ 32,708	\$ (1,670)	\$ (507)	\$ (1,163)	30%	70%
					\$ -		
15 Grand Total	\$ 123,892	\$ 130,110	\$ 6,218	\$ 2,350	\$ 3,868	38%	62%

IBU Summary Report
Senario B: What if North and South Department Added
and add \$1.2 million of Incremental Cost

Line No.		1999 IBU budget ('000's)	Senario B	Incremental Change	St Joseph	Empire
1	Missouri	\$ 15,907	\$ 13,008	\$ (2,899)	\$ (1,045)	\$ (1,853)
2	New Dept in MO	\$ -	\$ 10,092	\$ 10,092	\$ 3,415	\$ 6,676
3	Total Missouri	\$ 15,907	\$ 23,100	\$ 7,193	\$ 2,370	\$ 4,823
4	Kansas	\$ 6,152	\$ 5,196	\$ (955)	\$ (396)	\$ (559)
5	Colorado	\$ 4,906	\$ 4,350	\$ (557)	\$ (248)	\$ (308)
6	Michigan	\$ 7,626	\$ 7,284	\$ (342)	\$ (86)	\$ (256)
7	Minnesota	\$ 10,102	\$ 9,726	\$ (377)	\$ (96)	\$ (281)
8	Nebraska	\$ 7,852	\$ 7,494	\$ (358)	\$ (88)	\$ (270)
9	Iowa	\$ 6,401	\$ 6,110	\$ (291)	\$ (74)	\$ (217)
10	Colorado Gas	\$ 2,090	\$ 2,002	\$ (88)	\$ (21)	\$ (67)
11	Kansas Gas	\$ 4,476	\$ 4,185	\$ (290)	\$ (60)	\$ (231)
12	West Virginia	\$ 2,447	\$ 2,200	\$ (247)	\$ (83)	\$ (164)
13	Sub Total Regulated	\$ 67,959	\$ 71,648	\$ 3,688	\$ 1,217	\$ 2,471
					\$ -	
14	Non Regulated	\$ 2,253	\$ 2,112	\$ (140)	\$ (51)	\$ (89)
					\$ -	
15	Grand Total	\$ 70,212	\$ 73,760	\$ 3,548	\$ 1,166	\$ 2,382

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

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

County of Jackson)
State of Missouri)

AFFIDAVIT OF Vern J. Siemek

Vern J. Siemek, 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.

Vern J. Siemek

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

Lewisann Rosenberg
Notary Public



My Commission expires:

12/08/2002

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