

1 the shareholders.

2 Q. So Massachusetts was in a position of wanting
3 to encourage mergers and they looked at this as an incentive
4 to encourage them?

5 A. No. They just felt like they needed to look
6 at it on a case-by-case basis instead of having a broad
7 policy.

8 Q. Then on page -- I guess the map on page 22,
9 these are the states that you say have approved acquisition
10 adjustments. Do they approve them all the time, or do they
11 do it on a case-by-case basis as you suggested Massachusetts
12 does?

13 A. This map came out of a water deal, but it was
14 the only one I could find like this for a source, but it
15 does show -- It's mainly on a case-by-case basis, most
16 commissions. They're going to review the facts before they
17 make a decision.

18 Q. Then on page -- the next page where you talk
19 about Oklahoma and what their criteria are, those are very
20 generic, broad criteria. I mean, couldn't people disagree
21 on every one of those?

22 A. Oh, most of the cases are contested, yes. And
23 they're very thoroughly reviewed and discussed. It's not a
24 blank check approach.

25 Q. So as far as measurements, they're not really

1 measurements, they're just broad principles?

2 A. No. It's a criteria -- those are broad
3 criteria areas that Oklahoma looks at.

4 Q. Then let me get to measurement. How would you
5 measure these benefits and savings that are going to occur?
6 How would you create the benchmarks?

7 A. Well, the benchmark in this case that we've
8 used has been discussed with the Staff. It's basically the
9 cost at this point in time before the merger. The Staff --
10 I believe Mr. Traxler's recommending that we use his
11 accounting schedules as adjusted. Mr. Siemek has testimony
12 on his. But a benchmark is set now beforehand.

13 We're not trying to quantify every nickel,
14 dime, paper clip, ballpoint pen savings. All we're trying
15 to show to the Commission when we come back are the ones
16 that we feel are very easily quantifiable. Those are the
17 generation area through the use of generation models.

18 Both the Commission Staff and the company both
19 use the same generation model. And that is not that
20 difficult to run today and run in the future with a set of
21 assumptions.

22 The other main item that we're looking at are
23 head counts. Counting the number of employees is not a
24 difficult task. And it's not that difficult to keep the
25 accounting on any incremental change in cost separate.

1 That's what we're trying to do is set a benchmark today that
2 we can measure against for those big dollar items, and come
3 back to you for those.

4 We're not asking for you to buy into that
5 today. All we're saying is, we're giving you a method today
6 that we want to bring to you in five years. That's all
7 we're asking you to do is say, Okay, in five years you can
8 come back with this method. If you bear the burden of
9 proof, you can have the premium at that time. If you don't,
10 even under this method, you won't get any premium.

11 Q. Really in this case you are asking us to set
12 the measurement benchmarks?

13 A. Yes. The benchmark and the method --

14 Q. And the method?

15 A. -- that we will use.

16 Q. Let me ask you another question here. The
17 argument is that you needed to pay the premium to accomplish
18 the merger and by accomplishing the merger then you get --
19 that will lead to savings. And then you subtract the
20 premium from the savings over a 10-year period. Does that
21 mean the customer really waits for 10 years to get any
22 actual benefits?

23 A. No. We believe he will get benefits in that
24 post-moratorium rate case. And we've even guaranteed he
25 will.

1 Q. So he will wait five years?

2 A. That's correct. He will get the benefits of
3 being the part of the larger company and the other products
4 we can serve as Mr. Steinbecker talked yesterday.

5 Q. What if he doesn't want other products, he
6 just wants electricity?

7 A. That's his choice.

8 Q. Then he doesn't get any benefits for five
9 years?

10 A. If he chooses not to take them, that's his
11 choice.

12 Q. Why should the customers of UtiliCorp of Mo
13 Pub not benefit from this?

14 A. The regulatory plan that we put together,
15 there are benefits that come under MPS. Now, we could have
16 left those benefits there and moved the cost to achieve
17 those benefits over to MPS. But we felt it was cleaner to
18 leave all the costs on St. Joe's books because we're running
19 it as a division and let's just move the benefits to
20 St. Joe.

21 We could have taken part of the premium and
22 put it on MPS, because without the merger, without the
23 premium, the benefits would not occur to MPS. So the
24 benefits are part of the cost of creating those benefits for
25 MPS.

1 Now, that would have been an alternative and
2 we can still do that. We can move premium over, put it on
3 MPS's books, because that's a cost of achieving the benefits
4 that are there. So instead, we just took the benefits, put
5 it over where the premium is so we could keep the premium
6 all together on St. Joe's books.

7 CHAIR LUMPE: Thank you, Mr. McKinney. That's
8 all I have.

9 THE WITNESS: Thank you.

10 JUDGE WOODRUFF: Vice-chair Drainer?

11 QUESTIONS BY VICE-CHAIR DRAINER:

12 Q. Good afternoon, Mr. McKinney.

13 A. Good afternoon.

14 Q. Were you in here yesterday when Mr. Green more
15 or less told us that you have the answers to the universe?

16 A. I heard enough of it, yes.

17 Q. Okay. And you came back. Thank you.

18 A. Yes.

19 Q. Let me ask you just a few clarifying
20 questions. Based on what you just said to Chair Lumpe, you
21 are putting the cost and the benefits in the analysis for
22 the cost and the benefits all on St. Joe?

23 A. The majority. There's a little left behind
24 for MPS as Mr. Oligschlaeger talked about this morning. A
25 little bit of the capacity savings was left on MPS's books.

1 Q. And then if the Commission were to buy into
2 the regulatory plan, that's why St. Joseph -- that division
3 would not have a rate case for five years, and it would be
4 in that division where in five years we would look at the
5 cost and the benefits and the economies of scale from this
6 merger and that's for the premium -- the shift to put the
7 premium on would be all in that division. Correct?

8 A. That's correct.

9 Q. So then also to get a clarification from what
10 I heard you saying to Mr. Dottheim, the other division, the
11 Missouri Public Service division, would be able to come
12 in -- you'd expect them to come in in the next 12 months for
13 a rate case before the Commission?

14 A. We're looking at one today, yes. We expect to
15 file it sometime in the next year.

16 Q. And would you expect possibly another one
17 within that five-year period?

18 A. That's very possible, yes.

19 Q. And if we were looking at -- how then is it
20 affected by this merger and the regulatory plan?

21 A. I'm sorry?

22 Q. How would that rate case or the couple rate
23 cases in the next five years that Missouri Public Service
24 would have, how are they affected or what parameters are put
25 in place from this regulatory plan with respect to those

1 rate cases?

2 A. The joint dispatch agreement, of course, would
3 be part of those cases. It would have to be looked upon,
4 any time there is a joint dispatch agreement between
5 utilities. So the joint dispatch agreement or the electric
6 allocation agreement, I believe as Mr. Proctor talked about
7 it, would come into play and that would be looked at in
8 those rate cases.

9 The corporate allocation factor, that factor
10 is not frozen. It's -- I think there might be a little
11 misunderstanding. We're not freezing that factor. What
12 we're doing is not changing it for the components St. Joe
13 might impact it by. So that would be part of those cases
14 where we would have to show.

15 And then the level of off-system sales that we
16 say comes from the joint dispatch with St. Joe we would be
17 moving out of the MPS case up to St. Joe. So those are the
18 three main things that would be in those cases.

19 Q. Okay. And it's your belief, again from what I
20 was hearing you talk about with Chair Lumpe, that you
21 believe that you could capture the cost and the savings
22 that -- the major pieces? It may not be perfect, you're not
23 going to find every paper clip that was used, but that if
24 you were able to go forward with your regulatory plan, you
25 would be able to have enough in place to capture the major

1 savings and costs?

2 A. Yes. We believe we can. Since we're not
3 trying for, as you said, every paper clip. We're looking
4 for the big ticket items, the big dollars, and that's what
5 we're trying to quantify.

6 Q. If you could quantify those big dollar items,
7 what percent do you think you would be looking at?

8 A. We feel most of them. We would be able to
9 bring all of them to you. Because the large part, of
10 course, is joint dispatch. Joint dispatch with the models
11 that both the Staff and the company have, as they've both
12 done in this case -- I think the only difference between the
13 two model runs that we have is the assumption on off-system
14 sales of Mr. Proctor's. That's the only difference in the
15 assumption between the two generation model runs.

16 With the assumptions basically being the same
17 as they are now except for that one, we would be able to
18 re-run the models on a combined basis and then on a separate
19 dispatch basis. The difference between the two is you can
20 see what the difference of the merger is. It's not that
21 difficult. I can't run it, but the engineers could.

22 Q. Okay. And I also heard you say something to
23 the effect that you thought there was a confusion on what
24 the 50 percent premium would be in five years, what you were
25 really asking. Would you please go ahead and clarify that?

1 A. Thank you. Yes. The -- I've heard over the
2 last day or so that -- and during the course of the audit,
3 it's come up a number of times, that we're asking for
4 50 percent. Well, the 50 percent reference is to what we
5 were going to be putting in rate base. We're putting in
6 50 percent of the unamortized premium. The amortization, of
7 course, must start at close of merger.

8 So five years goes by. We will put in
9 thirty-five fortieths because it will be amortized over
10 40 years for the premium. Thirty-five fortieths divided by
11 two in rate base. That's the half we're talking about
12 there. And then we will amortize that out over the
13 remainder of the 40 years. So the amortization has already
14 run five years and will continue another 35 years. That's
15 the 50 percent we're talking about.

16 There are other aspects which -- different
17 issues that will come before you this week, the frozen
18 capital structure, that's a separate issue to be discussed
19 with you this week. The impacts of the MPS allocation
20 factor, that's a separate issue also on allocations that
21 will come up. So those are separate components. The major
22 component, of course, is the amount we're putting in rate
23 base.

24 Q. And how did you come up with this formula and
25 this percent for premium?

1 A. I would wish that the St. Joe merger could
2 cover all the cost of the premium, but it is what the
3 deal -- it's the economics the deal will do. And we feel
4 that there are --

5 Q. Please tell me what you mean by that's the
6 economics that the deal will do. Define that.

7 A. The St. Joe merger will create X synergies.
8 It will only allow us to recover so much premium from the
9 St. Joe area. And that comes from the shifting of MPS and
10 everything else to help that situation.

11 We put the plan together to make sure that we
12 are recovering our premium and levelizing our risk as much
13 as possible to the other jurisdictions that we'll be going
14 to under the same allocation MPS concept where we would be
15 able to recover the premium from that and from
16 non-regulated.

17 Not all of it's being recovered and we're
18 willing to take the risk for the rest of it. But this gives
19 us enough of a guarantee that we feel we can move toward.
20 And some of the other mergers that came to you, the whole
21 transaction was before you to do. We only brought part of
22 it to the Commission, because that's the synergy level that
23 we can develop.

24 Q. Okay. And then something I struggle with is
25 the win/win concept of how everyone's winning. And I do

1 better with numbers. Is there anywhere that we have numbers
2 that would show what St. Joseph projects would be the impact
3 of a rate increase on that division if there was not this
4 regulatory plan in place and what you would project the
5 impact to that division's ratepayers with the regulatory
6 plan in place?

7 A. Yes. I believe St. Joe has witnesses that
8 will appear before you today following me that shows what
9 the rate cases that they have planned in 2002 and 2004 are.
10 And they can address the approximate value of those rate
11 cases. Those will be avoided with our regulatory plan, so
12 in the regulatory plan the amount of rate increase is zero.

13 In the year six when we come about -- well,
14 the rate case will take place during year five. That rate
15 case has not been estimated on what it would be at this
16 point in time. What we are saying is, whatever it would be,
17 the regulatory plan would put a guarantee in to assure that
18 it's going to be at least \$1.6 million less.

19 Q. Than?

20 A. Whatever it's going to be without. Because
21 we're saying the synergy flow through that we're going to
22 put in -- we're even going out and increasing the amount of
23 savings that we're going to put in that case by going out in
24 the future years and increasing the test year level of
25 savings by lowering expenses to make sure that there's at

1 least 1.6 level of savings flowing to the customers after
2 the merger goes in.

3 So if you would take their budget today, their
4 forecast and do a rate case, our plan is assuring that that
5 number will go down by 1.6 million at least.

6 Q. So what you're saying -- and I want to get
7 this clear -- is that with the regulatory plan in place, the
8 St. Joseph ratepayers by year six will be paying 1.6 million
9 less than they would have been paying without the merger and
10 without the plan?

11 A. That is our belief, yes. There's been
12 discussion about our corporate costs being higher. That
13 goes into that net synergy number, so they don't effect the
14 base that's sitting over here. That comes into that savings
15 calculation.

16 Q. So is that the reduction even with the pass
17 through of the premium?

18 A. Yes. That's correct. That shows on
19 Mr. Siemek's Schedule 1. That shows all the components of
20 it. And when he's here, he would be very happy to walk
21 through line by line with anybody that would have any
22 questions about any of it.

23 Q. You guys are all good at passing that baton.
24 And I appreciate it, because you're passing it to a witness
25 I haven't talked to yet. It's usually once the guy's left

1 town and --

2 A. I wouldn't do that.

3 Q. And then finally, because you have been here
4 and listening to the questions and answers the Commission's
5 hearing, do you believe there are any other areas where
6 there has been some confusion based on the questions and
7 answers you've heard that you would like to clarify at this
8 time?

9 A. There was some this morning. Mr. Traxler gave
10 some that I'm a little confused about on the indication that
11 this MPS factor -- allocation factor is going to be frozen.
12 The MPS allocation factor used on corporate costs is not
13 frozen. The only thing we're doing to that is the St. Joe
14 impacts on that allocation factor. The factor will still
15 change on an annual basis as actuals happen.

16 Q. But you will not be making an adjustment
17 because of St. Joseph --

18 A. That's correct.

19 Q. -- for that five-year period?

20 A. That's correct.

21 Q. There will be other adjustments --

22 A. That will go into it. As any of the other
23 factors that would normally effect it, it will continue to
24 be impacted by those.

25 Also, the incremental changes on corporate

1 costs that UtiliCorp may incur, Mr. Myers has in his
2 surrebuttal testimony the handling of that. I think that
3 will clarify this morning. We have no intent on those going
4 into a pool, being allocated out. That's part of the
5 tracking. We'll be able to keep track of those. And that's
6 part of the incremental tracking we'll be able to do to be
7 sure that those costs go to only St. Joe and don't impact
8 MPS.

9 Q. My final question, and it probably goes into
10 another area that I would like to ask that -- you're talking
11 about tracking. Will UtiliCorp and its new division then,
12 the St. Joe Light & Power, work with our Staff in giving
13 them the records that they feel they would need to have to
14 help in the tracking of this information as this plan were
15 to move forward?

16 A. Yes. Without any question.

17 Q. And would there be any problems with them not
18 having access to the records that they felt they needed?

19 A. No. There will be no problem. I don't
20 believe there's been any problem in discovery that I'm aware
21 of through any process of this case and we hope there will
22 never be in the future.

23 VICE-CHAIR DRAINER: Thank you very much. I
24 appreciate your answers. And, yes, you were right about
25 Greenspan.

1 JUDGE WOODRUFF: Commissioner Murray?

2 COMMISSIONER MURRAY: Thank you.

3 QUESTIONS BY COMMISSIONER MURRAY:

4 Q. I hope my throat will cooperate with me this
5 morning.

6 A. So will mine.

7 Q. Does your proposed plan limit -- place an
8 upward limit on the amount of -- that St. Joe customers will
9 receive for merger saving or is that a minimum?

10 A. Minimum. We're hoping there will be much
11 more.

12 Q. And is it true that some of the merger costs
13 under the company's plan would be paid by shareholders and
14 some of the merger costs would be paid by non-Missouri
15 regulated UtiliCorp customers?

16 A. Indirectly. Indirectly. Let me explain that,
17 if I might. During the first five years, of course, there's
18 a moratorium and we're not recovering everything, so that
19 flows through. The only place that we're going to
20 non-Missouri customers is through the same type of MPS
21 allocation on the allocation factor to other jurisdictions
22 where we will not be making that change.

23 We will not be making the change to the
24 corporate allocation factor in other states. We'll be
25 asking the commissions to accept that also, because the

1 change in the factors only result of a Missouri merger. We
2 will have to cross that bridge with each one of those states
3 as we go before them.

4 Q. Okay. And I realize that allocation is
5 another -- looks like it's scheduled for a different time,
6 corporate allocations?

7 A. Yes.

8 Q. But since you're here and since we've already
9 talked about it, I'm going to ask you a question or two
10 about it anyway.

11 A. That's fine.

12 Q. If the adjustments are not made as a result of
13 the merger, wouldn't that result in the other -- either MPS
14 customers or the non-Missouri customers even paying more
15 than their share of the corporate costs?

16 A. Excuse me? You're saying if we do not make
17 the adjustment?

18 Q. Right.

19 A. If we do not make the adjustment, the
20 St. Joseph components then come into the corporate
21 calculation. And then it would impact the allocation
22 factor.

23 Q. Okay. Then I guess what I mean is, if you do
24 make the adjustment -- if you do it in conjunction with your
25 plan, would that not result in the other -- MPS and any

1 other customers paying more than their actual costs?

2 A. On an actual cost basis. What we're looking
3 at is that benefit or that change has a cause and effect.
4 It is caused by this merger. That benefit was created by
5 this merger.

6 Now, we could move premium over to off set it,
7 but like I said, we've left all the premium on the St. Joe
8 books for clarity so they could be tracked easier and keep
9 track of as we're putting it in rate base.

10 So I look at it as, what created that change?
11 What's causing that change in the allocation factor? Would
12 that change have happened without this merger? No, it would
13 not. Those costs would be what they are. So the only
14 reason that they would come down is because of the merger
15 happening. Missouri is a no detriment state, so our goal is
16 to create no detriment to our customers.

17 Q. So you're saying that overall the costs to the
18 other customers are not going to increase and that if they
19 were to receive -- if their share of the corporate costs
20 were to be diluted, that would be a result only of the
21 merger?

22 A. That's correct.

23 Q. And, therefore, their share of the total cost
24 shouldn't be diluted if they're not sharing --

25 A. In the cost to create the benefit.

1 Q. Thank you for helping me complete that
2 sentence.

3 A. Thank you. I'm sorry for interrupting.

4 Q. I think Chair Lumpe referred to your plan as
5 district specific pricing. I don't know if you were here
6 when --

7 A. I've not been a part of that other case, so
8 I'm not sure what that means.

9 Q. My question is, why does the company think
10 that St. Joe customers and the other Missouri jurisdictional
11 customers of UtiliCorp should be separated in terms of the
12 rate-making?

13 A. There's a wide disparity in the rate
14 differential at this time and it would be very difficult at
15 this time to close it. St. Joe's rates are much lower than
16 MPS's at this time and it would be very difficult to close
17 that gap.

18 And the same thing we can say with the other
19 company, Empire. Empire's rates also are somewhat --
20 Empire's rates also are going to be a little bit closer to
21 MPS's after Empire finishes its planned rate case and MPS
22 finishes theirs. Those rate differentials are closing a
23 little bit, especially for generation costs.

24 COMMISSIONER MURRAY: Just one second.

25 That's all the questions I have at this time.

1 Thank you.

2 JUDGE WOODRUFF: Commissioner Schemenauer?

3 COMMISSIONER SCHEMENAUER: Thank you, your
4 Honor.

5 QUESTIONS BY COMMISSIONER SCHEMENAUER:

6 Q. Good afternoon.

7 A. Good afternoon.

8 Q. When constructing this deal, this merger deal,
9 is the purchase transaction versus the pool of interest
10 better for the shareholders?

11 A. I'm not a CPA, so I'm not sure I can give you
12 the technical definition you should receive. Mr. Jerry
13 Myers will appear on that issue and Mr. Robert Kehm will
14 also. I don't think there's a major difference between the
15 two in my view though.

16 Q. You discussed it on page 14 of your direct
17 testimony?

18 A. That's correct. I tried to give you a
19 layman's point of view on that.

20 Q. Well, in a layman's point of view, what do you
21 think?

22 A. I don't think there's that much difference.
23 In my point of view, there's a premium on both sides.
24 That's why even when you see the pooling transaction, people
25 are bringing to you regulatory plans to hang on to savings.

1 If the premium wasn't there, they wouldn't be incented to
2 want to hang on to some of the savings to cover some of
3 that.

4 So even in the pooling, if you get into the
5 impacts on the cost of common equity, you have to be down to
6 a per share basis. But when you look at the cost per share
7 of the acquiring company, you look at the cost per share of
8 before the acquisition and after, you will see the
9 differential.

10 To bring that cost of share in common share
11 back up, you have to retain some premium or synergies to get
12 that cost back up. I feel that's why there's a lot of
13 incentive in the poolings to come up with some type of
14 regulatory plan to present to the Commission to retain
15 synergies or recover some costs to get that hidden premium
16 back up.

17 Q. What kind of economic restraint would be on a
18 company to keep it from paying too much for another company
19 that they would like to own if they can be guaranteed to
20 recover that premium?

21 A. I don't know of any state that gives a
22 guarantee. And we're not asking for a guarantee here in our
23 plan. I think it's the regulatory oversight that a company
24 must be under and the regulated environment that is an
25 incentive to prevent that from happening.

1 Q. And regulatory oversight is an attribute of a
2 monopoly operating in the state. If UtiliCorp were buying a
3 company that's not regulated, how would they require that
4 pre-- how would they recoup that premium?

5 A. You're allowed -- excuse me. I got a little
6 bit too close. In a non-regulated environment, of course
7 you pay what you feel you can pay based on the value that
8 you can attract out of the business that you're acquiring.
9 So the value that you can attract for the synergies or the
10 savings or the value is what you get for your reward for the
11 payment that you make up front.

12 Q. But in a competitive market you wouldn't have
13 any protection from competition. I mean, you're just out
14 there and you're -- the price for your product, whatever
15 you're selling, or service, has to be competitive. So, I
16 mean, wouldn't that in itself limit how much premium a
17 company would be willing to pay for another company?

18 A. That's true in a competitive world. You all
19 kind of replace that market somewhat in the regulator role.

20 Q. On page 3 of your surrebuttal testimony,
21 line 10 you say, Rates will be frozen at existing levels for
22 five years.

23 I mean, rates will not be frozen, will they?
24 It's the revenue stream from the company that you said would
25 be frozen?

1 A. Well, the rates that we charge the customer
2 will not change for a period of five years. Now, as more
3 customers come in, different revenue will come in. As
4 usages change, that will change revenue streams also. So
5 the revenue stream will change. But the actual cost that we
6 charge the customers, the tariff sheets that we have on file
7 with you will not change for the five-year period.

8 Q. The merger agreement doesn't give you some
9 options to increase rates?

10 A. The merger agreement, we can do whatever we
11 want. It's the moratorium that we put in the regulatory
12 plan.

13 Q. The regulatory plan?

14 A. Right.

15 Q. The moratorium has some outs for you, doesn't
16 it?

17 A. There's some outs if they would happen. They
18 would have to be very strong, because we want that five-year
19 period to stay. Because that five-year freeze gives us an
20 opportunity to retain synergies to help us recover part of
21 the premium. We're definitely not incented to try to break
22 it.

23 Q. The five-year moratorium would prevent the
24 Commission from looking at a rate case during that five-year
25 period? I mean, it would tie the Commission's hands?

1 A. It depended on who executed that case. If the
2 Office of the Public Counsel did, no, it does not tie your
3 hands. Or if a group of citizens -- counsel will have to
4 help here -- 20, 25, I'm not sure what the number is. If
5 they would bring a document in, a complaint or whatever and
6 did the investigation of a payer case, you, of course, could
7 hear that. You would have to under state statute.

8 Q. But if OPC brought a case in, would the
9 Commission Staff be prevented as a result of this agreement
10 from giving any testimony or looking at the company?

11 A. We've asked that be in part of the plan, that
12 the Staff would not take part, yes.

13 Q. So it, in fact, would cripple anybody that
14 would file a rate case?

15 A. Not necessarily. The OPC did it in 1987 to
16 our company. In 1986 we reached a moratorium with the Staff
17 and the Commission for a moratorium on lower rates. OPC was
18 not part of that. Twelve months later OPC came in with a
19 case and we ended up with another rate reduction the very
20 next year.

21 Q. City of Kansas City, City of St. Joseph or any
22 municipality that wanted to open up a case, they would be on
23 their own unless they could get OPC to help them?

24 A. I don't believe the cities themselves
25 represent the public. And, again, I'm not a lawyer and this

1 is only from --

2 Q. But a municipality can file a case with them?

3 A. I'm sorry?

4 Q. Any municipality can file a case -- a
5 complaint with them?

6 A. No. It would take the cities themselves to do
7 that, not the city fathers.

8 Q. Is that right? I have one last question. If
9 the ratepayers are going to pick up half of the premium
10 contingent upon any savings -- synergies, I guess we're
11 calling them here -- that would be passed on to them, if the
12 company stock price would increase over five years, would
13 any of that increase be rolled back in to discount the
14 premium that the ratepayers are --

15 A. That change in common equity would come into
16 play during that post-moratorium rate case because the
17 common equity position would be changing.

18 Q. I'm not talking about the equity. I'm talking
19 about the price of the stock on the local market.

20 A. I'm not sure -- I can't predict what it would
21 do to the price of stock. I couldn't testify to that today.

22 Q. There isn't anything in the regulatory plan
23 that would pass on any gains -- stock market gains on
24 UtiliCorp stock?

25 A. No.

1 COMMISSIONER SCHEMENAUER: Thank you. That's
2 all I have.

3 JUDGE WOODRUFF: Commissioner Simmons?

4 QUESTIONS BY COMMISSIONER SIMMONS:

5 Q. Good afternoon, Mr. McKinney.

6 A. Good afternoon.

7 Q. In your direct testimony as it relates to the
8 regulatory plan, you speak about -- or you emphasize about
9 the sufficient synergies that need to exist. And a question
10 for you, are those synergies a subjective standard between
11 the two parties or is there an objective standard in
12 relationship to the synergies? Is there an industry
13 objective standard?

14 A. Let me explain how we've come up with the
15 numbers. The original numbers were developed by a due
16 diligence team, which I was a part of for regulatory
17 purposes, that reviewed St. Joe Light & Power and came up
18 with estimates of what we felt we could save.

19 After the merger agreement was completed,
20 transition teams were put together for the various areas of
21 the company. These teams have gone out and in detail
22 reviewed these areas on what they believed could be saved.
23 Those reports have just now come in, and we've been able to
24 update our synergies for that.

25 Now, those reports have not been finalized by

1 the formal steering team of the two companies. That is
2 expected within the next month. But that's a process that
3 we went through. Our due diligence team reviewed, developed
4 our estimate. The transition teams have been working since
5 that period for a year now refining those estimates on what
6 we think they can do.

7 But these are just estimates of what we
8 believe the synergies are. It's going to be incumbent for
9 us to come in and prove those to you in that post-moratorium
10 rate case and what we were able to do. If we don't meet
11 that burden, we don't get the premium.

12 Q. Continuing on the regulatory plan that you lay
13 out in your direct testimony, is there a potential that any
14 efficiencies that could come about within this five-year
15 period could actually lower the cost even lower than the
16 1.6 million that you're talking about as it relates to
17 savings? And if that could happen, would the customers be
18 barred from receiving that benefit because of the
19 moratorium?

20 A. During moratorium, the rates are frozen so
21 they would not -- the rates would not change during that
22 five-year period. But in the post-moratorium rate cases,
23 those would flow through to the customers in that period.
24 And we hope there are more savings during that case.

25 Q. But you don't see any potential for savings

1 that would be even more than the 1.6 that you're --

2 A. I hope there are, but I think our teams have
3 done a good job in their estimation, but things could
4 change. They could be greater. We're just putting the
5 protection in to make sure if we miss the mark and they're
6 lower, the customers are still going to get that benefit.

7 COMMISSIONER SIMMONS: That's all the
8 questions I have.

9 THE WITNESS: Thank you, Commissioner.

10 COMMISSIONER SIMMONS: Thank you, sir.

11 JUDGE WOODRUFF: Chair Lumpe?

12 FURTHER QUESTIONS BY CHAIR LUMPE:

13 Q. To follow-up on that 1.6 million -- and I may
14 have misheard yesterday, but I thought the understanding
15 was -- or my understanding was that in the fifth year when
16 you come in for a rate case, a revenue requirement would be
17 established and this 1.6 would be deducted from that revenue
18 requirement; is that correct?

19 A. At least 1.6 will be. We're guaranteeing that
20 the difference between the premium going in the case, that
21 post-moratorium return rate case, and the impact of the
22 synergies, we're saying that revenue requirement will go
23 down by the impact of those two events by at least
24 \$1.6 million. It may be more.

25 Q. And hopefully zero. Right?

1 A. No. We -- if it is zero, the customers -- we
2 weren't very good in our estimation, and the customers will
3 get a 1.6.

4 Q. Okay. I just want to make sure I understood
5 that. That was not they were going to get 1.6 off their
6 rates, they were going to get 1.6 off of some additional
7 revenue requirement?

8 A. No. Off the revenue requirement in that case.

9 Q. Okay. One last question. You made the
10 comment that because Missouri is a no detriment state,
11 therefore, there is no requirement that the transaction
12 actually provide a positive benefit for the public. Now,
13 you do say you believe that there will be benefits, but
14 there's no need that there be any benefits. But you did
15 believe that there needed to be benefits for the
16 shareholders or you would not have been able to do the
17 merger; is that correct?

18 A. We believe there would be benefits for all.
19 And my testimony stated that straight up in the direct
20 testimony that I pre-filed. We believe that everybody is
21 going to be beneficial in this deal. What I'm saying is,
22 even if we would desire Missouri to be what we could call a
23 benefit state, it's not. The state law says it's a no
24 detriment state.

25 So we felt that the merger should have

1 benefits for all, should be a win situation for the
2 communities, for the shareholders of both companies and for
3 the customers, and our plan is an attempt to accomplish
4 that.

5 Q. But for the customers it won't be until the
6 fifth year?

7 A. That's correct. As far as their rates.

8 Q. And for the shareholders it may be immediate?

9 A. That's correct. They're making the investment
10 immediately.

11 CHAIR LUMPE: Okay. Thank you.

12 JUDGE WOODRUFF: Okay. Let's go to recross
13 then beginning with St. Joseph?

14 MR. COMLEY: No questions. Thank you.

15 JUDGE WOODRUFF: Union Electric is not here.
16 Natural Resources?

17 MS. WOODS: No questions. Thank you.

18 JUDGE WOODRUFF: AGP?

19 RECROSS-EXAMINATION BY MR. CONRAD:

20 Q. Commissioner Drainer asked you a question
21 about your willingness to provide data to the Staff and to
22 Public Counsel with the proposed new division, and I think
23 you indicated that you weren't aware of any problem with
24 discovery in this case, Mr. McKinney. Do you want to think
25 about that question again?

1 A. No.

2 Q. You don't consider then, sir, that mailing me
3 an update yesterday that pertains to testimony that was
4 served on you approximately the first of May indicates any
5 kind of a difficulty with discovery in this case?

6 A. Not when the schedules were completed over
7 this weekend, no, I do not.

8 Q. The schedules were completed over this
9 weekend. Is that your testimony?

10 A. We delivered them to the Staff yesterday
11 morning, I believe. I asked Mr. Clemmons before --

12 Q. Do you have a copy of Mr. Brubaker's testimony
13 with you?

14 A. No, I do not. Now, the only document --

15 Q. There's no question on the table, sir.

16 A. I'm sorry, sir.

17 Q. I'll show you a copy of Mr. Brubaker's
18 testimony. It's been marked as Exhibit 500, Mr. McKinney.
19 I want you to turn right to the very back of it, sir.

20 A. Are you upset, sir?

21 Q. Turn right to the very back of it, sir. I'll
22 ask the questions here.

23 A. Yes.

24 Q. Do you see there the exhibit that was
25 presented to you earlier?

1 A. Yes.

2 Q. And that's the same as Exhibit 503, isn't it?

3 A. I believe it is.

4 Q. When was that filed, sir?

5 A. In May.

6 Q. And is the first page of that pursuant to a

7 data request that we asked you update if you became aware of

8 any material changes to it?

9 A. That's correct.

10 Q. And despite the fact that it was served on you

11 and responded to here in this testimony approximately the

12 first part of May, it took you until this weekend to come up

13 with something that you felt that you needed to testify to

14 me and to this record that it was now irrelevant?

15 A. Is that a question?

16 Q. Yeah.

17 A. The change that I'm talking about that we've

18 sent you is a column marked Average Years One Through Five.

19 That is a result of a transition team's work that I was

20 talking to Commissioner -- the Commissioner about.

21 They've just completed that work. We've just

22 got those numbers together. We have promised the Staff and

23 parties that we would update that. We have just finished

24 that work. We have just completed the schedule. We

25 provided the Staff with those numbers Monday. My office is

1 instructed to serve the other parties, get those data
2 requests out. I haven't even called to make sure they were
3 mailed. I asked Mr. Clemmons as soon as I got off the stand
4 to make sure that you got a copy of that today.

5 Q. You don't consider that to be having a problem
6 with discovery?

7 MR. SWEARENGEN: Your Honor, I'm going to
8 object that he's arguing with the witness. The document was
9 just updated this weekend. I don't know how it could have
10 been mailed or provided to anybody any sooner than that. It
11 would have been impossible to do it. And he's arguing with
12 him, and I'm going to object on that basis.

13 MR. CONRAD: I just want to find out -- if
14 we're going to be dealing with this company in the future, I
15 just want to find out what the rules of the game are insofar
16 as their compliance with discovery.

17 MR. SWEARENGEN: That's not a question.

18 MR. CONRAD: The Commission up here asked them
19 to comply with discovery. His response was that there were
20 no problems with it. I just want to find out what they
21 define as being no problem with discovery.

22 MR. SWEARENGEN: Well, I think he's answered
23 it. He's complied with the discovery rules. As soon as the
24 document was available, he made it available. He couldn't
25 do any better than that.

1 JUDGE WOODRUFF: I'm going to overrule the
2 objection. You can go ahead and inquire.

3 BY MR. CONRAD:

4 Q. Do you still feel, Mr. McKinney, that there's
5 no problem with discovery in this case?

6 MR. SWEARENGEN: Asked and answered.

7 JUDGE WOODRUFF: Go ahead and answer.

8 THE WITNESS: The only way I could update the
9 numbers is to have the information to make the calculations.
10 We have just received that information, we made the
11 calculations, we updated the estimate of the synergies in
12 years one through five as soon as the numbers became
13 available to us, and we're providing that information to all
14 parties in the case as soon as possible.

15 And the numbers are still an estimate. They
16 will change again, I guarantee it. Once the spherion teams
17 look at them, there will be changes again. We will supply
18 again as soon as we have that information.

19 MR. CONRAD: That's all I have. Thank you.

20 THE WITNESS: Thank you.

21 JUDGE WOODRUFF: All right. Springfield is
22 not here. So we'll go to Public Counsel.

23 RECROSS-EXAMINATION BY MR. MICHEEL:

24 Q. Mr. McKinney, Commissioner Schemenauer asked
25 you some questions about your regulatory plan. Do you

1 recall those?

2 A. Yes.

3 Q. And I think in response to one of Commissioner
4 Schemenauer's questions you indicated that there's no
5 guaranteed recovery of the acquisition premium; is that
6 correct?

7 A. There was no absolute guarantee, that's
8 correct.

9 Q. Would you agree with me, Mr. McKinney, that
10 assuming the Commission accepts your regulatory plan, that
11 the Commission is -- or that the company is going to recover
12 a portion of the acquisition premium in that five-year
13 moratorium period; is that correct?

14 A. Yes.

15 Q. So to the extent that they approve the
16 five-year moratorium, there's a guaranteed recovery there;
17 is that correct?

18 A. For portions.

19 Q. Okay. When UtiliCorp files the five-year plan
20 or the post-moratorium rate case proposal, and I believe
21 Commissioner Simmons also asked you about this, is it my
22 understanding then that UtiliCorp will put what you call the
23 assigned premium into rate base or request recovery of that
24 assigned premium in that post-moratorium rate plan, assuming
25 that the company can prove up the synergy savings; is that

1 correct?

2 A. We will have the burden of proof in that case
3 to do that, yes.

4 Q. Assume with me that you're able -- "you" being
5 UtiliCorp in this question. UtiliCorp is able to prove up
6 all of its synergy savings. Okay? In that year five rate
7 case -- post-moratorium rate case, will the Commission be
8 free, even assuming you've proved up your synergies, to
9 reject the company's request for premium approval?

10 A. Yes.

11 Q. Will --

12 A. I hope they will not.

13 Q. So in that year five moratorium rate case
14 plan, even if the company proves up all the synergies, every
15 party would be free to argue about whether or not UtiliCorp
16 should recover the acquisition premium. Is that your
17 testimony?

18 A. Any party can argue anything they want in any
19 case.

20 Q. And you're not asking this Commission to bind
21 itself for recovery of the acquisition premium assuming
22 UtiliCorp proves those synergies; is that correct?

23 A. We're asking this Commission, yes. But what
24 the Commission will do in five years, I can't bind that
25 Commission.

1 Q. So you're asking this Commission to bind
2 itself?

3 A. We're asking this Commission for an order
4 approving the regulatory plan as we've filed. We hope the
5 Commission in five years will honor that.

6 Q. I believe that Chair Lumpe asked you about a
7 figure that you had on page 22 of your direct testimony
8 which talked about recovery of acquisition adjustments in
9 various states. Do you recall those questions?

10 A. Yes. The map?

11 Q. Yeah. That shows states that have allowed
12 acquisition recovery; is that correct?

13 A. Some portion, yes, the acquisition
14 adjustments. They're water cases, but it shows the
15 indication that I was trying to convey.

16 Q. Sure. Do you know if the states that are
17 darkened there, those are the ones that have allowed some
18 portion of acquisition recovery; is that correct?

19 A. On a case by case. There may be some cases
20 they denied it.

21 Q. Sure. Do you know if they -- those other
22 commissions, allowed recovery of that acquisition adjustment
23 in a merger proceeding?

24 A. There was some indications in Kansas -- in our
25 merger proceeding in Kansas. The Commission told us in that

1 case that in the future, which we're asking for here, they
2 laid out the ground rules on how we could go about recovery
3 of premium in our Syntel case. We had a rate case. We came
4 back. Under those ground rules we were able to get
5 50 percent of the premium recovery, but they laid out the
6 ground rules in the merger case.

7 Q. So you're only asking this Commission to bind
8 itself; is that correct?

9 A. That's all I can do.

10 MR. MICHEEL: Thank you very much.

11 THE WITNESS: Thank you.

12 JUDGE WOODRUFF: Staff?

13 MR. DOTTHEIM: Thank you.

14 RECROSS-EXAMINATION BY MR. DOTTHEIM:

15 Q. Mr. McKinney, in a question from Commissioner
16 Drainer regarding discovery, access to books and records,
17 you indicated that you anticipate that there would be no
18 discovery problems on a going-forward basis?

19 A. Our team is working very hard to do everything
20 we can to make sure there is no problem. You'll have to
21 talk to your own staff. I'm not aware of any complaints or
22 any comments that were filed in this case with the
23 Commission. I hope there wasn't any problems. I was not
24 made aware of any.

25 Q. Are you aware of the company's position on the

1 Office of Public Counsel's conditions on access to books and
2 records and the affiliated transactions?

3 A. Yes, I am. I believe on our little crib sheet
4 that we've developed here, we chose -- the affiliated
5 transaction issue was supposed to be tried today, we're not
6 going to get there, I don't think. And I appear as the
7 witness on that one along with Mr. Kind of the Public
8 Counsel. And also on access to books and records, an issue
9 to be heard on the 13th, again, I'm the witness along with
10 Mr. Kind on that. So, yes, I am aware.

11 Q. So there are some present disagreements, at
12 least with the Office of Public Counsel, on a going-forward
13 basis regarding access to books and records and affiliated
14 transactions?

15 A. Only to the point the Office of the Public
16 Counsel has asked us on affiliated transactions to agree to
17 the Commission's rule, which we have. And we've agreed to
18 comply with the rule that's in place. But the Public
19 Counsel is going to step beyond my interpretation -- and I
20 hope I'm not misunderstanding their position -- if the
21 courts would overturn that rule, they want us to still
22 comply with that rule.

23 Our company's position is, we will comply with
24 all rules of the Commission and the state law of the state.
25 Same thing on discovery. There are statutes and rules of

1 the Commission that dictate that. We will comply with those
2 to the best of our abilities at all times. We will not go
3 necessarily beyond those, but we will comply with all rules,
4 requests of the Commission.

5 Q. Well, you said all rules of the Commission --

6 A. And state laws.

7 Q. Okay. The Commission may order you to provide
8 access to books and records, but if it's UtiliCorp's
9 interpretation that the law does not require access to those
10 books and records, that Commission order you will challenge,
11 I assume?

12 A. We may discuss it with the Commission, yes. I
13 can't judge now whether it would be a challenge or a
14 discussion.

15 Q. In respect to a couple of questions from Chair
16 Lumpe, one in regards to corporate allocations, does
17 Missouri Public Service benefit presently from other
18 UtiliCorp acquisitions as those other acquisitions impact
19 corporate allocations?

20 A. Yes.

21 Q. And, again, a question from the Bench, is
22 there an agreement between the company and Staff to use the
23 Staff's updated EMS runs as a benchmark starting point?

24 A. You'll need to ask Mr. Siemek that. I'm
25 not -- I can't testify to that. I'm not aware of that.

1 Q. And to follow-up on a question from
2 Commissioner Drainer, again regarding the regulatory plan,
3 will UtiliCorp recover any part of the acquisition
4 adjustment in years one to five?

5 A. By retaining synergies, yes.

6 MR. DOTTHEIM: Thank you, Mr. McKinney.

7 THE WITNESS: Thank you.

8 JUDGE WOODRUFF: Redirect?

9 MR. SWEARENGEN: Just a few, your Honor.

10 REDIRECT EXAMINATION BY MR. SWEARENGEN:

11 Q. Just as a follow-up to a question Mr. Dottheim
12 asked you, if during that moratorium period no synergies are
13 generated or created, would you get any premium recovery
14 under that scenario?

15 A. No.

16 Q. Mr. Schemenauer asked you whether or not you
17 were guaranteed premium recovery during the moratorium
18 period. What would your answer be under those circumstances
19 when maybe you don't generate savings?

20 A. If we are not able to, then, of course, we
21 would not. We have confidence we will though.

22 Q. With respect to the post-moratorium rate case,
23 how would you intend to prove up merger synergies or savings
24 at that time?

25 A. That is the purpose of Mr. Myers' testimony.

1 We believe we'll be able to track those. And Mr. DeBacker
2 will be able to show to the Commission in that case the
3 level of synergies that we have been able to develop and
4 that we have been able to track and present them in that
5 case at that time.

6 Q. If in that proceeding you are not able to do
7 that, would you recover any of the premium?

8 A. No. That's the condition that we have.

9 Q. I think in response to a question from
10 Commissioner Drainer you made the comment you would be --
11 you would increase in the post-moratorium rate case the test
12 year level of savings?

13 A. That's correct.

14 Q. What did you mean by that?

15 A. That was talking about this morning's comments
16 on looking out into the future. In the test year in the
17 that post-moratorium rate case, that will go on during that
18 fifth year. The fourth year probably will be the test year,
19 and I agree with Mr. Traxler on that.

20 But what we're willing to do is we're willing
21 to increase the level of savings. And by doing that,
22 increasing the level of savings, you force expenses down.
23 We're going to force those expenses down to the level that
24 we're projecting in years six through ten.

25 So level four's expenses -- the test year's

1 expenses will be forced down even more to the forecasted
2 level or the average level for years six through ten to
3 ensure that we're putting savings at the ongoing level that
4 we believe they're going to be. And that level, we believe,
5 will create the 1.6 differential. Hopefully, it will be
6 even more. If the test year exceeds that, of course we
7 don't need to make that adjustment.

8 Q. That forecasted level of savings that you were
9 talking about, were those the budgeted numbers that
10 Mr. Traxler was referring to this morning when he testified?

11 A. I believe so. Now, it's not going to take a
12 big leap of faith, because that's about the same as year
13 five. There's not that much differential.

14 Q. I think when Mr. Dottheim crossed you earlier,
15 he was asking you about the Western Resources/KCPL merger
16 settlement agreement. And you mentioned in response to one
17 of his questions that at a meeting you had the Staff said
18 the Western Resources/KCPL merger stipulation would need to
19 be the basis of any settlement of this merger case. Do you
20 recall that?

21 A. That's basically the understanding that I came
22 out of the meeting with. That's -- that's what they
23 believed would take to settle this case, is for us to agree
24 to the terms of that settlement.

25 Q. And that was prior to the time the joint

1 application which started this case was filed; is that
2 correct?

3 A. That's correct.

4 Q. Let me go back one last time to this
5 moratorium question so that I can make sure there isn't any
6 confusion in my mind. I think you talk about that at page 8
7 of your direct testimony; is that correct?

8 A. That's -- that's correct.

9 Q. And I think I heard you say in response to a
10 question from Chair Lumpe that -- on the one hand you said
11 that all you were seeking was to prohibit the Staff from
12 being involved in any proceedings seeking to reduce
13 UtiliCorp's rates during that five-year period. And then
14 later I thought I heard you say that the Commission could
15 not entertain a complaint from anyone else.

16 A. No. I'm sorry if I left that confusion. I
17 believe -- and, again, I'm not a lawyer, but I think the
18 Staff feels they need to go to the Commission, get the
19 Commission's approval to go out and do a complaint case.
20 And recently that's been my understanding.

21 What we're asking is the Staff not engage in
22 that activity during the five-year period. If the Office of
23 Public Counsel brings one in or a group of citizens brings
24 one in, of course the Commission could hear that.

25 Q. Okay. During that five-year moratorium, with

1 respect to the SJLP customers -- and I think it was Chair
2 Lumpe that said some of them might not want any of these
3 other products or services that UtiliCorp could perhaps
4 offer that St. Joe isn't offering now. Are there benefits
5 for those customers beyond the products and services during
6 that five-year period?

7 A. We believe there are. There's two rate cases
8 that they won't be faced with, so they'll be able to avoid
9 some rate increases.

10 MR. SWEARENGEN: That's all I have. Thank
11 you.

12 THE WITNESS: Thank you.

13 COMMISSIONER SCHEMENAUER: Judge, I have one.

14 JUDGE WOODRUFF: Go right ahead.

15 FURTHER QUESTIONS BY COMMISSIONER SCHEMENAUER:

16 Q. Mr. McKinney, on the rate moratorium, I asked
17 you whether a city like Kansas City or St. Joe, if they
18 filed a rate complaint with us, that the Staff would be
19 prohibited from helping them. And I think you responded and
20 said the cities could not file a rate complaint?

21 A. Again, I'm not a lawyer. So if I'm wrong --
22 it's my understanding that the citizens don't represent -- I
23 mean, excuse me, the cities don't represent their citizens
24 before this administrative body. That's the job of the
25 Office of the Public Counsel. So when the cities intervene,

1 they're intervening as themselves. And I'm not sure, but I
2 think I've read, as a layman, some court decisions on that
3 point.

4 Q. I think this Section 286 39.1 -- and I'd like
5 to read you a part of it. It says that, No complaint shall
6 be entertained by the Commission except upon its own motion
7 as to the reasonableness of any rates or charges of any gas,
8 electrical, water, sewer or telephone corporation unless the
9 same be signed by the Public Counsel or the mayor or the
10 president or chairman of the board of aldermen or majority
11 of the counsel, commission, or other legislative body of any
12 city, town, village or county, within which the alleged
13 violation occurred or not less than 25 consumers or
14 purchasers or prospective consumers or purchasers of any
15 such gas, electricity, water, sewer, telephone service.

16 Does that sound to you like the city or the --

17 A. They may be able to. I stand corrected. Like
18 I said, I'm not an attorney.

19 COMMISSIONER SCHEMENAUER: I just wanted to
20 clear that up for the record. Thank you.

21 CHAIR LUMPE: Let me clarify one thing, too.

22 JUDGE WOODRUFF: Go ahead, Chair Lumpe.

23 FURTHER QUESTIONS BY CHAIR LUMPE:

24 Q. The question about the prohibition on the
25 Commission. Yes, indeed if Public Counsel were to bring the

1 case or one of these entities that we just read, but as I
2 understood you to say, it would prohibit the Commission from
3 asking the Staff. And you still stand by that?

4 A. Yes.

5 Q. We would not be able to ask the Staff?

6 A. That's what we're asking. That you not go out
7 on your own motion and do it. Now, I -- looking at the
8 forecast as everybody has in this case of St. Joe, I don't
9 believe that's going to be a big concern, because there are
10 rate cases pending during this five-year period and I don't
11 believe there's going to be any earnings investigation
12 anyway.

13 JUDGE WOODRUFF: Do any of the parties want to
14 respond to any of the questions that just came from the
15 Bench? Go ahead, Mr. Micheel.

16 MR. MICHEEL: I'm going to leave it alone.

17 JUDGE WOODRUFF: All right then. You are
18 excused.

19 THE WITNESS: Excused?

20 JUDGE WOODRUFF: Just step down. Not
21 permanent.

22 THE WITNESS: I'm out of here.

23 MR. SWEARENGEN: He'll be back.

24 JUDGE WOODRUFF: We're going to take a break
25 now. Make it a short one, come back at 3:15.

1 (A RECESS WAS TAKEN.)

2 JUDGE WOODRUFF: Mr. Conrad, I believe you
3 had a matter you wanted to bring up?

4 MR. CONRAD: Very quickly. Just in view of
5 the time and the progress that we're making, we'd offer to
6 enter into a stipulation with all the other parties that we
7 could dispense with what I would call the formal foundations
8 of the witnesses as they come and go from the stand; namely,
9 that if they were asked the same questions, that they would
10 give the same answers and that they have prepared and are
11 responsible for the exhibits, if any, that are attached and
12 that they are the same person that has prepared them. That
13 can save three or four minutes a witness, but, of course,
14 over the course --

15 JUDGE WOODRUFF: We have a lot of witnesses.

16 MR. CONRAD: -- of time when you have several
17 witnesses, it might save a couple of hours in total. And
18 we're happy to do that, because I've never yet heard a
19 witness deny that they were the same person who submitted
20 the testimony, so --

21 JUDGE WOODRUFF: Does any party have any
22 objection to that?

23 MR. SWEARENGEN: I had a witness one time -- I
24 asked him to state his name and he said who wanted to know.

25 MR. MICHEEL: Was that Duffy?

1 MR. SWEARENGEN: No. We have no objection to
2 that. We're in favor of anything that can speed this along.

3 JUDGE WOODRUFF: Springfield and UE are not
4 here. If they have any objection when they arrive, they can
5 voice it at that time.

6 We'll go ahead and accept that stipulation and
7 parties can avoid taking that extra time.

8 MR. COMLEY: We'd call Lois J. Liechti on
9 behalf of St. Joseph Light & Power.

10 (Witness sworn.)

11 (EXHIBIT NO. 22 WAS MARKED FOR
12 IDENTIFICATION.)

13 MR. COMLEY: In view of the stipulation of the
14 parties, your Honor, I'd offer Exhibit 22, which is the
15 pre-marked surrebuttal testimony of Lois J. Liechti into
16 evidence and tender this witness for cross-examination.

17 JUDGE WOODRUFF: Is this the only time she
18 will be appearing?

19 MR. COMLEY: Yes.

20 JUDGE WOODRUFF: All right. Exhibit No. 22
21 has been offered into evidence. Are there any objections?

22 Hearing none, it will be received into
23 evidence.

24 (EXHIBIT NO. 22 WAS RECEIVED INTO EVIDENCE.)

25 JUDGE WOODRUFF: All right. She has been

1 tendered for cross-examination and UtiliCorp is first on the
2 list.

3 MR. SWEARENGEN: No questions.

4 JUDGE WOODRUFF: Union Electric, not here.
5 Natural Resources?

6 MS. WOODS: No questions.

7 JUDGE WOODRUFF: AGP?

8 MR. CONRAD: No questions, your Honor.

9 JUDGE WOODRUFF: City of Springfield is not
10 here. Public Counsel?

11 MR. MICHEEL: Thank you, your Honor.

12 LOIS J. LIECHTI testified as follows:

13 CROSS-EXAMINATION BY MR. MICHEEL:

14 Q. Ms. Liechti, do you have a copy of your
15 testimony with you?

16 A. Yes, I do.

17 Q. On page 1 of that testimony it indicates that
18 you're the supervisor, planning, pricing and market
19 research; is that correct?

20 A. Pricing and market research.

21 Q. Do you know whether or not that position is
22 going to be eliminated as a result of the merger?

23 A. My understanding is, yes, that it will be
24 eliminated.

25 Q. Are you going to retain your position with the

1 company?

2 A. My position with the company is being
3 eliminated.

4 Q. So at the close of the merger will you still
5 be employed with the company?

6 A. That remains to be seen. My current position
7 will not be in existence at the close of the merger.

8 MR. MICHEEL: Thank you very much.

9 THE WITNESS: You're welcome.

10 JUDGE WOODRUFF: Staff?

11 MR. DOTTHEIM: No questions.

12 JUDGE WOODRUFF: We'll go to questions from
13 the Bench, Commissioner Murray?

14 COMMISSIONER MURRAY: No questions.

15 JUDGE WOODRUFF: Commissioner Schemenauer?

16 COMMISSIONER SCHEMENAUER: No questions.

17 JUDGE WOODRUFF: Commissioner Simmons?

18 COMMISSIONER SIMMONS: I have just one, your
19 Honor.

20 QUESTIONS BY COMMISSIONER SIMMONS:

21 Q. Good afternoon.

22 A. Good afternoon.

23 Q. I'm reading page 5 of your testimony, which
24 talks about forecasting revenue, how it's calculated.

25 A. Yes.

1 Q. You give us an answer there in terms of what
2 you look at. I just wanted to know if that is standard
3 practice, or would you do a calculation different if we were
4 in a deregulated environment?

5 A. Much of the process would be the same whether
6 it was deregulated or not regulated. The things that would
7 change would be the value of the inputs. We would be
8 looking at more of the market-based rate, but it would still
9 be based on number of customers that we believed we would be
10 serving and it would still be based on the amount of sales
11 that we believe -- the use per customer.

12 The price, however, might change depending on
13 what the market would bear or what we'd seen in the recent
14 past, conditions that we believe were going to occur in the
15 future. So the cost per kilowatt hour might change.

16 And in -- from what I've seen as far as
17 deregulation, the pricing gets unbundled. There's a price
18 for the supply, there's a price for the distribution, a
19 price for the metering, billing, those kinds of services.
20 So from that perspective it might be looked at as three
21 different components rather than one price.

22 COMMISSIONER SIMMONS: That's the only
23 question I had. Thank you.

24 JUDGE WOODRUFF: Thank you. Recross based on
25 questions from the Bench then, St. Joseph Light -- excuse

1 me -- UtiliCorp?

2 MR. SWEARENGEN: No.

3 JUDGE WOODRUFF: Union Electric's not here.
4 Natural Resources?

5 MS. WOODS: Nothing. Thank you.

6 JUDGE WOODRUFF: AGP?

7 MR. CONRAD: Nothing further, your Honor.

8 JUDGE WOODRUFF: City of Springfield? They're
9 not here. Public Counsel?

10 MR. MICHEEL: No.

11 JUDGE WOODRUFF: And Staff?

12 MR. DOTTHEIM: No.

13 JUDGE WOODRUFF: Any redirect?

14 MR. COMLEY: Yes, your Honor.

15 REDIRECT EXAMINATION BY MR. COMLEY:

16 Q. Public Counsel asked you about the job
17 prospects that you have with UtiliCorp. Is there a chance
18 that you will have a position with UtiliCorp following the
19 merger?

20 A. Yes, there is. We have been in discussion
21 about a position in their load research area. I am -- I
22 supervise load research and used to do load research. And
23 it remains to be seen how it works out, but yes, there is an
24 opportunity there.

25 MR. COMLEY: Thank you. I have no other

1 questions.

2 JUDGE WOODRUFF: All right. You may step
3 done.

4 Next witness?

5 MR. COMLEY: Call Stephen Ferry.

6 (Witness sworn.)

7 (EXHIBIT NO. 23 WAS MARKED FOR
8 IDENTIFICATION.)

9 JUDGE WOODRUFF: And you are Stephen Ferry?

10 THE WITNESS: I am.

11 JUDGE WOODRUFF: You may inquire.

12 MR. COMLEY: Your Honor, based upon the
13 stipulation of the parties --

14 THE WITNESS: I had one question -- or one
15 change of testimony.

16 MR. COMLEY: Your Honor, I've been advised
17 that the witness may have a correction to his testimony.

18 STEPHEN L. FERRY testified as follows:

19 DIRECT EXAMINATION BY MR. COMLEY:

20 Q. Mr. Ferry, do you have an addition or
21 correction to what has been pre-marked as Exhibit 23, your
22 surrebuttal testimony?

23 A. Yes, I do. On page 3, line 9 replace the date
24 April 14th, 2000 with the date April 20th, 2000. That's all
25 I have.

1 Q. And there are no other additions or
2 corrections?

3 A. No, sir.

4 Q. And as corrected, would the answers to the
5 questions propounded in that testimony be the same if you
6 were to be asked those today?

7 A. Yes, they would.

8 MR. COMLEY: Your Honor, I'd offer into
9 evidence Exhibit 23 and tender Mr. Ferry for
10 cross-examination.

11 JUDGE WOODRUFF: Exhibit No. 23 has been
12 offered into evidence. Are there any objections?

13 Hearing none, then it will be received into
14 evidence.

15 (EXHIBIT NO. 23 WAS RECEIVED INTO EVIDENCE.)

16 JUDGE WOODRUFF: Cross-examination, and we'll
17 start with UtiliCorp?

18 MR. SWEARENGEN: No questions. Thank you.

19 JUDGE WOODRUFF: And Union Electric is not
20 here. Natural Resources?

21 MS. WOODS: No questions.

22 JUDGE WOODRUFF: AGP?

23 MR. CONRAD: No questions.

24 JUDGE WOODRUFF: City of Springfield is not
25 here. Public Counsel?

1 MR. MICHEEL: Yes, your Honor.

2 CROSS-EXAMINATION BY MR. MICHEEL:

3 Q. Mr. Ferry, will your current position, manager
4 of system operations and planning, will that position be
5 eliminated as a result of the merger?

6 A. My understanding is it will be eliminated.

7 MR. MICHEEL: Thank you.

8 JUDGE WOODRUFF: And Staff?

9 MR. DOTTHEIM: Yes. I have a question.

10 CROSS-EXAMINATION BY MR. DOTTHEIM:

11 Q. Mr. Ferry, I'd like to direct you to your
12 Schedule SLF-3.

13 A. Yes.

14 Q. Is it correct that on Schedule SLF-3 that you
15 are showing budgeted amounts for energy costs net of sales
16 for resale of over \$33 million a year for the years 2001
17 through 2004?

18 A. The amounts shown in this schedule are
19 combined electric and steam.

20 Q. Would you have that broken down between
21 electric and steam?

22 A. No. And that -- the data which was provided
23 in the update to the DR, I believe it was 133, did not
24 separate or unbundle the amounts. Therefore, I used the
25 information that was on that schedule.

1 Q. Thank you.

2 MR. DOTTHEIM: Thank you.

3 JUDGE WOODRUFF: All right. Questions from
4 the Bench then, Commissioner Murray?

5 COMMISSIONER MURRAY: No questions. Thank
6 you.

7 JUDGE WOODRUFF: Commissioner Simmons?

8 COMMISSIONER SIMMONS: No questions.

9 JUDGE WOODRUFF: Since there are no questions
10 from the Bench, then there's no recross. Is there any
11 redirect?

12 MR. COMLEY: Yes. Quick.

13 REDIRECT EXAMINATION BY MR. COMLEY:

14 Q. With respect to Public Counsel's question to
15 you about the prospect of employment, again, is there a
16 chance that you will find employment with UtiliCorp United
17 after the merger?

18 A. Yes, there is. We have discussed some of the
19 opportunities. There has been no commitment though.

20 Q. But you are in discussions with UtiliCorp
21 about a position?

22 A. General discussions.

23 Q. Mr. Dottheim asked you about your Schedule
24 SLF-3. And you mentioned that that shows prices respecting
25 electric and steam. It does not show gas?

1 A. That's correct.

2 Q. Could you tell the Commission which one does

3 show gas? Do you have a --

4 A. None of these schedules do.

5 Q. All right.

6 MR. COMLEY: That's all. Thank you very much.

7 JUDGE WOODRUFF: You may step down.

8 THE WITNESS: Thank you.

9 JUDGE WOODRUFF: Next witness?

10 MR. COMLEY: Ms. Janet Pullen.

11 (Witness sworn.)

12 (EXHIBIT NO. 24 WAS MARKED FOR

13 IDENTIFICATION.)

14 JUDGE WOODRUFF: And you are Janet Pullen?

15 THE WITNESS: Yes.

16 JUDGE WOODRUFF: All right. Thank you.

17 You may inquire.

18 MR. COMLEY: Given the stipulation of the

19 parties, I would again make the offer of Exhibit 24, the

20 pre-marked surrebuttal testimony of Janet K. Pullen, and

21 offer the witness for cross-examination

22 JUDGE WOODRUFF: Thank you. Exhibit No. 24

23 has been offered into evidence. Are there any objections?

24 Hearing none, it will be received.

25 (EXHIBIT NO. 24 WAS RECEIVED INTO EVIDENCE.)

1 JUDGE WOODRUFF: Again, for cross-examination,
2 UtiliCorp?

3 MR. SWEARENGEN: No questions. Thank you.

4 JUDGE WOODRUFF: Union Electric is not
5 present. Natural Resources?

6 MS. WOODS: No questions. Thank you.

7 JUDGE WOODRUFF: AGP?

8 MR. CONRAD: Yes, your Honor. Very briefly.

9 CROSS-EXAMINATION BY MR. CONRAD:

10 Q. Ms. Pullen, look, please, to page 2 of
11 Exhibit 24, that being your surrebuttal testimony. And I'm
12 specifically thinking about the question and answer that
13 began at line 14. Do you see that material?

14 A. Yes, I do.

15 Q. Has St. Joseph Light & Power always received
16 what it has requested from the Commission in terms of rate
17 relief?

18 A. No.

19 MR. CONRAD: Thank you. That's all.

20 JUDGE WOODRUFF: Thank you. And City of
21 Springfield is not here. Public Counsel?

22 CROSS-EXAMINATION BY MR. MICHEEL:

23 Q. Ms. Pullen, I note that your position is
24 supervisor of treasury and accounting on page 1 of your
25 testimony?

1 A. That's correct.

2 Q. Do you know whether or not that position will
3 be eliminated with the merger?

4 A. That position will be eliminated, but I've
5 actually been offered a job by UtiliCorp already.

6 Q. On page 2 of your testimony, focusing on
7 line 17, you have listed there a \$.5 million increase in
8 1995; is that correct?

9 A. Yes.

10 Q. Isn't it correct that that was a revenue
11 neutral rate design case?

12 A. That's what it says on the same line, that's
13 correct.

14 Q. So that really wasn't a rate increase, it was
15 a rate design case; is that correct?

16 A. It was a rate increase for electric, but there
17 were corresponding decreases -- or I believe an increase in
18 gas and decrease in steam and it was revenue neutral to the
19 company overall.

20 Q. On page 3 of your testimony you talk about an
21 incident that occurred -- an accident that occurred at the
22 Lake Road plant in early June?

23 A. Yes.

24 Q. Mr. Steinbecker didn't know what caused the
25 accident. I was wondering, do you know?

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A. No.

Q. On page 3 you talk about the company's long-range forecast; is that correct?

A. Yes.

Q. Do you know when the merger was announced?

A. March 5, 1999.

Q. And it is correct that you -- "you" being St. Joe Light & Power began this long-range forecast in early 2000 after the merger was announced; is that correct?

A. I believe we probably began the process much earlier than that. Still after -- I mean, we do a long-range forecast every year and this was just one more, but initial discussions probably started in August of 1999.

Q. Well, I was just focusing on your answer there. You say, Yes, a forecast covering 2000 through 2004 was prepared in early 2000; is that correct?

A. A better word might have been "completed."

Q. Okay. So it's your testimony you began that forecast when?

A. Sometime in 1999. I really couldn't be very precise about that.

Q. Any one of those 365 days we had in there?

A. I would say probably no earlier than August.

MR. MICHEEL: Thank you very much.

JUDGE WOODRUFF: Staff?

1 MR. DOTTHEIM: Yes. Thank you.

2 CROSS-EXAMINATION BY MR. DOTTHEIM:

3 Q. Good afternoon, Ms. Pullen.

4 A. Good afternoon.

5 Q. Ms. Pullen, could you please describe the
6 timing of St. Joseph Light & Power's annual budget process
7 as it has occurred up until this time?

8 A. Do you mean the budget process or the forecast
9 process?

10 Q. The forecast process.

11 A. The forecast process. Typically that starts
12 sometime in the July/August time frame of one year with most
13 of the work being completed by -- well, before the end of
14 the year. I mean, that kind of varies. October or November
15 or December might be when that is mostly wrapped up.

16 Then the forecast is not finalized until --
17 well, the first year of the forecast is the budget for the
18 coming year. And we do not actually issue and finalize that
19 forecast until the actual results of the prior year are
20 completed and then we would put those into the report.

21 Q. So when is the forecast finalized then or
22 accepted?

23 A. Usually in February of the following year
24 after it was started.

25 Q. And the forecast that's accepted in February,

1 it covers what period generally?

2 A. Well, it covers -- the first year of the
3 forecast would be that current year. And the one we're
4 talking about, it's from 2000 through 2004, so we're talking
5 February 2000. And five years ago those forecasts were for
6 30 years, but we -- when we were dealing with IRP
7 requirements and supply types of issues, making those kind
8 of decisions, more recently the forecast period has been
9 shorter.

10 Q. And when you said -- you made reference to IRP
11 requirements. By IRP you mean --

12 A. I believe that's Integrated Resource Plan.

13 Q. Thank you. You said that five years ago the
14 forecast period was for 30 years. Has the forecast period
15 more recently been for 10 years?

16 A. I believe so.

17 Q. Do you know for over what period of time that
18 the forecast has covered the 10-year period? When did that
19 start? When did it go from 30 years to covering a 10-year
20 period?

21 A. I'm referring to page 7 of my testimony on
22 line 13 where I showed some of the forecast periods. And
23 the forecast that was done where -- '96 was the first year
24 that would have been a 20-year forecast. The one the next
25 year was 20 years. And then the one from 1998 to 2007 would

1 have been a 10-year forecast. So I believe that was the
2 first one that was 10 years.

3 Q. Again, the first year for the 10-year forecast
4 was?

5 A. The forecast that covered 1998 to 2007 would
6 have been one that was prepared in 1997 and finished in
7 early '98.

8 Q. And when did the company go to using a
9 five-year forecast?

10 A. The most recent forecast was the first one to
11 do that.

12 Q. And when you say "the most recent forecast,"
13 is that the forecast that was provided to Staff as an update
14 to Data Request No. 133?

15 A. Yes, it is.

16 Q. And prior to that updated data request, the
17 forecast -- or at least what the Staff had received were for
18 10-year periods?

19 A. The previous forecast was from 1999 through
20 2008. So that was also a 10-year forecast, the original
21 response to DR 133.

22 Q. And, again, the most current forecast, the one
23 that was provided to the Staff as an update to Data Request
24 No. 133 was the first five-year forecast?

25 A. Yes, it was.

1 Q. Okay. Do you recall, do you know when the
2 updated Data Request to No. 133 was provided to the Staff?

3 A. I -- I believe it was sometime in April. I
4 don't have anything up here with me to look at the exact
5 date.

6 Q. Why was the five-year forecast issued, the one
7 that was provided to the Staff in April?

8 A. Do you mean why was a forecast done or why was
9 it a five years?

10 Q. Well, first, why was a forecast done?

11 A. As I said before, a forecast is done every
12 year. And part -- one of the purposes of that is to provide
13 information to the rating agency. We put a book together
14 for them in February so we felt like it needed to be updated
15 for that.

16 Q. And why was the forecast changed from a
17 ten-year period to a five-year period?

18 A. I believe there were two primary reasons for
19 that. The first would be the pending merger that -- there
20 was not a planning horizon for St. Joseph Light & Power
21 management to look at, that the results of that forecast
22 were going to be something that would be used for planning
23 and managing beyond -- on a stand-alone basis with the plans
24 for a merger in place.

25 And, secondly -- oh, the fact that the

1 forecast that we did before that we had used, I think,
2 12/31/2005 as an estimated date when we thought there might
3 be deregulation. And that is I guess anybody's guess. We
4 didn't have a lot of good information to make really good
5 assumptions about that. So it made sense to cut the
6 forecast period off without going into that unknown.

7 Q. Are the \$2 million rate increases that are
8 planned for 2002 and 2004 absent the merger which appears in
9 the five-year forecast, calculated as balancing amounts to
10 meet a target return on common equity?

11 A. In a very rough manner, that would be true.
12 In a -- yeah, a target return on equity was calculated and a
13 revenue deficiency. And then we looked at that and made
14 some judgments so you wouldn't have -- there would be
15 regulatory lag, you wouldn't have a perfect matching and
16 what period would it seem likely the rate increases would be
17 affected based on that.

18 MR. DOTTHEIM: Various parts of my questions
19 from this point forward deal with documents that have been
20 marked highly confidential. We haven't yet had to go
21 in-camera. I don't know whether this line of
22 cross-examination will cause that to occur. Hopefully,
23 Ms. Pullen can indicate if that's the case or Mr. Comley may
24 be able to do that with some assistance from other personnel
25 from St. Joseph Light & Power.

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For example, I was going to ask Ms. Pullen what was the target return on common equity that was utilized in developing the \$2 million rate increases that are shown for 2002 and 2004.

MR. COMLEY: Your Honor, the questions tread upon highly confidential information and should be considered in-camera.

JUDGE WOODRUFF: Let's go ahead and go into in-camera session then. Anyone that's in the room that needs to leave, please do. Everyone look around and tell me if somebody's here that doesn't need to be.

1 JUDGE WOODRUFF: At this point we are off
2 camera.

3 MR. CONRAD: What I was going to say, this
4 doesn't need to be -- I've checked and I think Mr. Brubaker
5 will be available in the morning, but we would really like
6 to get him closed out. I don't think anybody else has
7 questions in any of the other areas from what I was given to
8 understand in conversation with counsel earlier today.

9 Would your Honor be able to check early on in
10 the morning and see if any of the Bench has any questions
11 for him in any of the other areas and put him on?

12 JUDGE WOODRUFF: Sure. We can do anything you
13 want to do with that.

14 We're adjourned then until 8:30 tomorrow
15 morning.

16 WHEREUPON, the hearing was adjourned until
17 8:30 a.m. July 12, 2000.

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