

Exhibit No.:  
Issue: Synergy Tracking  
Witness: Jerry D. Myers  
Sponsoring Party: UtiliCorp United Inc.  
Case No.: EM-2000-369  
Date Prepared: August 23, 2000

MISSOURI PUBLIC SERVICE COMMISSION  
Case No. EM-2000-369

Surrebuttal Testimony

of

Jerry D. Myers

Jefferson City, Missouri                      Exhibit No. 13  
Date 9-14-00 Case No. EM-2000-  
Reporter JM 369

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF JERRY D. MYERS  
ON BEHALF OF UTILICORP UNITED INC.**

**CASE NO. EM-2000-369**

1 Q. Please state your name.

2 A. My name is Jerry D. Myers.

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

4 A. Yes, I am.

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

6 A. To rebut certain points made by the Missouri Public Service Commission Staff ("Staff")

7 and The Office of The Public Counsel, ("Public Counsel") witnesses with regard to

8 UtiliCorp United Inc.'s ("UtiliCorp") ability to track and identify merger savings in

9 connection with the proposed merger of UtiliCorp and The Empire District Electric

10 Company ("EDE").

11 Q. Does this surrebuttal testimony differ substantially from that filed by you in connection

12 with Case No. EM-2000-292?

13 A. No. However, in this testimony I will clarify some issues that are discussed in the

14 testimony in Case No. EM-2000-292. These points of clarification are contained under

15 the heading of "Points of Clarification" later in this testimony.

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

17 A. Yes, the EDE business will be set up as a separate business unit(s) in UtiliCorp's

18 financial system. This is consistent with how we have established the Missouri Public

19 Service ("MPS") and other divisions of UtiliCorp. The Staff is familiar with how that

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

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

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

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

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

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

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

22 A. There are several avenues relied upon by UtiliCorp in ensuring financial information is  
23 consistently prepared. First, UtiliCorp has published a code block catalog (furnished in

1 data request EDE No. 83 in Case No. EM-2000-292). This provides the values to be used  
2 by employees in coding payment vouchers, time sheets or general journal entries.

3 Secondly, each employee was trained at the time the system was implemented to ensure  
4 there was a good understanding of the system and the code block. Third, each  
5 department manager prepares an annual budget and is required to follow up on significant  
6 variances from that budget. This process would highlight potential coding errors.

7 Fourth, there is a centralized department responsible for maintaining and changing code  
8 block values and who also maintains a centralized help desk. And last, supervisor  
9 approval is required on payment vouchers, timesheets and most general journal entries.  
10 This approval includes a review of the coding used.

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

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

13 Q. Please proceed.

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

18 Q. Will the system track merger-related savings specifically?

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

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

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

6 Q. Would the result be 100% accurate?

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

10 Q. What baseline will be used for EDE operations?

11 A. UtiliCorp has recommended using EDE's 1999 budget as the baseline in the merger  
12 application. The Staff has suggested using actual information for a prior year, for  
13 example, 1998. UtiliCorp is open to working with the Staff and Commission in  
14 establishing a mutually agreeable baseline, either based on budgeted or actual  
15 information, as adjusted.

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

18 A. Yes. Attached to my testimony is Schedule JDM-1. This was provided to the Staff and  
19 the Public Counsel during the time of my informal interview and was also supplied via a  
20 data request response. This schedule provides a hypothetical departmental example of  
21 the approach. It does not use actual numbers and assumes costs will increase 2.5% per  
22 year. Costs may or may not increase by this amount and may, in fact, decrease over the  
23 five-year period. This schedule is offered simply to illustrate the approach.

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

2 A. Line 1 of Schedule JDM-1 sets out the baselines that are to be agreed upon by UtiliCorp,  
3 Staff, and other parties. For purposes of this example, we are indicating we will use the  
4 1999 budget, which is then inflated by 2.5% per year. That, of course, is dependent on  
5 the baselines agreed to by the parties, and or ordered by the Commission. Line 2 is the  
6 base costs to be incurred by UCU prior to the merger with EDE.

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

8 A. These incremental costs represent costs that will be necessary for UtiliCorp to absorb the  
9 operations of EDE. We have opted to track these separately from those costs of  
10 UtiliCorp, pre-merger. The total of lines 2 and 3 represent the total costs of UtiliCorp,  
11 post-merger. A more detailed discussion of the tracking of these incremental costs is  
12 included in my direct testimony.

13 Q. Why are you tracking these incremental costs?

14 A. These costs are tracked for two reasons. First, UtiliCorp believes it would be useful  
15 information that could possibly be used for benchmarks in future activities. Additionally,  
16 as we proposed in our regulatory plan, the customers of MPS should not benefit from the  
17 EDE merger and, as a result, allocations of corporate costs to MPS should not include the  
18 incremental costs of absorbing EDE operations.

19 Q. What is shown on line 4?

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

22 Q. What is shown on Line 5 of Schedule JDM-1?

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

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

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

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

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

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

13 POINTS OF CLARIFICATION

14 Q. Mr. Myers, will changes to the UtiliCorp PeopleSoft system be necessary to enable  
15 UtiliCorp to track savings?

16 A. No changes will be necessary. I would like to refer to my Schedule JDM-1. Using this  
17 schedule I can discuss each line and how they relate to system requirements.

18 Q. Please go ahead.

19 A. First, Line 1 is the EDE baseline that will be agreed to by UtiliCorp and the Staff or  
20 ordered by the Commission. The EDE baseline will not be in the system. Line 2 is  
21 UtiliCorp's base cost that would have been incurred absent a merger. These will be  
22 contained in the system. Line 3 is the incremental costs that UtiliCorp will incur in  
23 bringing EDE operations under the supervision of UtiliCorp. These amounts will be

1 tracked in the system according to the process discussed in my direct testimony, filed in  
2 this case.

3 Q. How will the system be changed in order to track Lines 2 and 3?

4 A. The system will not require any programming changes. As discussed in my direct  
5 testimony, activity numbers will need to be established for each department that is  
6 incurring incremental costs. This is not a program change to the system but merely  
7 adding an additional item to an already existing account code structure. This occurs on a  
8 routine basis already.

9 Q. Has there been any formal documentation of these changes?

10 A. No, none other than that contained in my direct testimony.

11 Q. Why not?

12 A. First of all, the transaction has not been approved and the baseline in Line 1 of Schedule  
13 JDM-1 has not been agreed to by the parties or ordered by the Commission. Upon  
14 learning this, the communication of the procedures and establishment of the activity  
15 numbers for those departments affected can be accomplished in very short order.

16 Q. Does this conclude your surrebuttal testimony?

17 A. Yes, it does.



**UTILICORP UNITED INC**  
**The Empire District Electric Company Merger**  
**EM-2000-369**

**Dept Example With Assumed Escalator of 2.5%**

Line No.	Description	1999	2000	2001	2002	2003	2004
	<u>EDE Baseline</u>						
1	'99 Budget inflated by 2.5%	1,000	1,025	1,051	1,077	1,104	1,131
	<u>UtiliCorp Base Costs</u>						
2	'99 Budget inflated by 2.5%	3,000	3,075	3,152	3,231	3,311	3,394
	<u>UtiliCorp Incremental</u>						
3	Estimate inflated by 2.5%	300	308	315	323	331	339
4	Sub Total	3,300	3,383	3,467	3,554	3,643	3,734
5	Portion allocated to EDE 25%	825	846	867	888	911	933
6	Total Savings	175	179	184	188	193	198

**Schedule JDM-1**

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

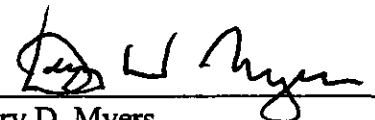
In the Matter of the Joint Application of     )  
UtiliCorp United Inc. and The Empire     )  
District Electric Company for Authority to     )  
Merge The Empire District Electric     )  
Company with and into UtiliCorp United     )  
Inc., and, in Connection Therewith, Certain     )  
Other Related Transactions.     )

Case No. EM-2000-369

County of Jackson     )  
                                      )  
State of Missouri     )

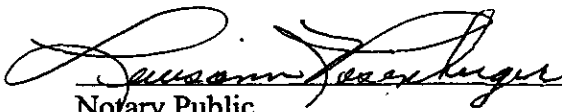
**AFFIDAVIT OF JERRY D. MYERS**

Jerry D. Myers, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled surrebuttal testimony; that said testimony was prepared by him 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.

  
\_\_\_\_\_  
Jerry D. Myers

Subscribed and sworn before me this 17<sup>th</sup> day of August, 2000.

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

  
\_\_\_\_\_  
Notary Public

My Commission Expires:

12/08/02