

Exhibit No.:

Issue:

Overview,
Discovery Problems,
Jurisdictional Allocations ,
Current Deferred Income Tax,
UCU's Affiliated
Relationship with MPS

Witness:

Steve M. Traxler

Sponsoring Party:

MoPSC Staff

Type of Exhibit:

Direct Testimony

Case Nos:

EO-97-144 and EC-97-362

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

STEVE M. TRAXLER

PUBLIC SERVICE COMMISSION

**MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED, INC.**

CASE NOS. EC-97-144 AND EC-97-362

Jefferson City, Missouri
March 1997

**** Denotes Highly Confidential Information ****

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Steve M. Traxler

1 from May 1988 until I assumed my current position as a Regulatory Auditor with the
2 Commission in December 1989.

3 Q. What has been the nature of your duties while employed by the Commission?

4 A. I am responsible for assisting in audits of the books and records of utility
5 companies operating in the State of Missouri.

6 Q. Have you previously testified before this Commission?

7 A. Yes, attached as Schedule 1 is a list of all the cases in which I have filed
8 testimony before this Commission.

9 Q. What is the purpose of your testimony in this proceeding?

10 A. I will address the following areas in my testimony:

- 11 ● The need for an investigation of Missouri Public Service's (MPS or
12 Company) electric earnings.
- 13 ● The underlying reasons for MPS' electric operations overearning
14 position, as well as audit work performed and test year. Additionally,
15 I report the results of Staff's earnings investigation as reflected in
16 Staff's testimony.
- 17 ● The discovery problems encountered by Staff in both dockets, EM-
18 96-248 and EO-97-144.
- 19 ● Staff's concerns regarding Utilicorp United Inc.'s (UCU) improper
20 use of its corporate/affiliated relationship with MPS.
- 21 ● Jurisdictional and departmental allocations.

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- Current and deferred income tax expense, and the level of accumulated deferred income tax in rate base.

Q. Are you sponsoring any adjustments or schedules in this case?

A. Yes, I am sponsoring the following adjustments and schedules:

S-18.1 Annualization of Excess Deferred Income Tax

Schedule 1 Revenue Requirement

Schedule 9 Income Statement

Schedule 10 Adjustments to the Income Statement

Schedule 11 Income Tax

The Need for an Earnings Investigation at MPS

Q. What events initiated Staff's earning investigation of MPS?

A. In the merger application filed by KCPL and UCU, docketed as Case No. EM-96-248, the Applicants requested an incentive regulation plan for the merged company. It has consistently been Staff's position that a company's current earning not be excessive, based on a current cost of service and return on equity investigation, prior to recommending an incentive regulation plan. Thus, an earnings investigation was required as a result of the request for an incentive regulation plan. An earnings investigation of KCPL had already been initiated by Staff in July 1995 and was completed shortly after the announcement of the merger. Staff began requesting information of MPS' earnings on March 28, 1996 in an attempt to fully address the Applicant's request for an incentive regulation plan.

Q. Does MPS file monthly surveillance reports with the Commission Staff?

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1 A. Yes.

2 Q. What is the purpose of the surveillance reports provided to the Staff by MPS,
3 and other utility companies operating in the State of Missouri?

4 A. The purpose of surveillance reports is to provide the Staff with a per books,
5 unadjusted rate of return on jurisdictional rate base for the current year. This calculation
6 provides the Staff with a preliminary indication as to whether the Company's current revenues
7 and rate of return are reasonable based on the current cost of capital.

8 Q. Did the MPS surveillance report for December 1995 indicate that MPS was
9 in an overearnings position with respect to its electric operations in Missouri?

10 A. Yes. After adjusting the rate base calculated by MPS to reflect the impact of
11 cash working capital, MPS' unadjusted rate of return for 1995 of approximately 10.93% was
12 found excessive based on Staff's preliminary estimate of MPS' current cost of capital. This
13 preliminary calculation indicated that MPS' booked jurisdictional revenues (unadjusted) were
14 excessive by approximately \$10 million for 1995.

15 Q. Did your preliminary estimate of \$10 million in excess revenues indicate that
16 a full audit of MPS' current earnings was necessary?

17 A. Yes. A revenue excess of \$10 million to MPS' electric operations is
18 significant. This amount represents 4.1% of MPS' jurisdictional revenue for 1995 and is more
19 than twice the amount the Company received in its last rate case, Case No. ER-93-37.

20 Q. Did you consider the preliminary estimate of MPS' revenue excess of
21 \$10 million to be conservative?

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1 A. Yes, MPS' electric operations have experienced revenue growth in excess of
2 6% per year since 1992. Absent any significant increase in a major expense area, for example
3 fuel cost, the Staff expected MPS' annualized cost of service to result in an excess revenue
4 amount significantly higher than the \$10 million based upon MPS' December 1995
5 surveillance report.

6 Q. Were there any facts discovered early in the audit that led you to believe that
7 MPS' electric revenues were excessive by a significant amount?

8 A. Yes. Early in the audit we became aware that Account 916, Miscellaneous
9 Sales Expense increased from \$1.1 million in 1994 to \$7.5 million in 1995.

10 Through answers to Staff data requests and meetings with MPS personnel, we
11 learned that UCU launched a major marketing campaign in 1995 to promote its new brand
12 name, EnergyOne, and UCU's corporate image as a national provider of energy and non-
13 regulated energy related services and that a substantial portion of the marketing costs incurred
14 were allocated to MPS from UCU.

15 The Staff's Consultant, Jim Dittmer of Utilitech Inc., is sponsoring an
16 adjustment to eliminate these costs from cost of service. The reasons supporting the
17 elimination are covered in more detail in his testimony.

18 In summary, when Staff became aware that UCU was attempting to recover
19 marketing costs related to promoting its image on a national scale as an energy provider and
20 source for non-regulated energy related services, Staff had reason to believe that MPS'
21 electric operations were overearning in excess of the \$10 million reflected in the December
22 1995 surveillance report.

Reasons Underlying MPS' Excess Earnings Position

Q. Please summarize the factors contributing to MPS' electric operations current excess earnings position.

A. A review of MPS' cost of service in its last electric case (Case No. ER-93-37) and its current cost of service, reflected in Staff's accounting exhibits filed in this case, identified the following factors contributing to MPS' current excess earnings position:

- MPS' jurisdictional rate base has not increased significantly since the Staff's direct filing in Case No. ER-93-37 which was based on a test year ending September 30, 1992, updated through April 30, 1993.
- MPS' jurisdictional revenues have increased 6.1% a year from 1992 to 1996.
- MPS' energy and demand costs, as a percent of gross revenue (cost per megawatt hour) are less than in 1992. In other words, MPS' gross margin (revenue less fuel cost) has increased since 1992.
- MPS' Greenwood generating station was converted from oil generation to gas generation in mid-1996. This conversion will result in reduced fuel cost in excess of \$1 million annually.
- The Staff is recommending that the Commission use UCU's actual capital structure in this case instead of the hypothetical capital structure used in Case No. ER-93-37. Using UCU's actual capital structure results in a lower rate of return.

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1 Q. Earlier in your testimony you stated that the elimination of \$6 million of
2 marketing costs allocated from UCU was a significant factor in determining the total level of
3 excess revenues reflected in Staff's accounting exhibits. In providing the contributing factors
4 for MPS' current excess earnings position, why did you not include Staff's proposed
5 disallowance of marketing costs allocated from UCU?

6 A. A utility will experience excessive return on equity under one or more of the
7 following conditions:

- 8 • Revenue growth exceeds the incremental increase in operating costs
9 and return on additional invested capital (Rate Base).
- 10 • The utility is able to reduce its operating costs in relationship to its
11 revenues since its last rate case.
- 12 • Current market conditions and/or capital structure changes dictate a
13 lower return requirement for debt and/or equity.
- 14 • When the annual recovery of depreciation expense is equal to or
15 greater than capital additions to rate base, any revenue growth will
16 usually result in a higher return on equity.

17 UCU's allocation of \$6 million in marketing cost in 1995 did not result in
18 "additional" excess earnings. The allocation of these marketing costs from UCU resulted in
19 an "understatement" on MPS' financial records of the actual excess earnings from MPS'
20 "regulated" electric operations that have resulted from a combination of the conditions just
21 described. In other words, the marketing costs assigned to MPS by UCU caused the excess
22 earnings to appear lower than they would have been absent this allocation.

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1 Q. What is necessary for an earnings audit?

2 A. The same audit process followed in a rate case initiated by a company is also
3 required in an earnings investigation initiated by the Staff or the Office of the Public
4 Counsel (OPC). The current relationship between investment (rate base), revenues and
5 expenses based on existing rates must be determined.

6 The company's cost of service is equal to an annual level of expenses incurred
7 to provide utility services, plus a return to its shareholders for the capital investment (rate
8 base) needed to provide service to ratepayers. For simplicity, bondholders and stockholders
9 will be referred to collectively as shareholders.

10 Q. Please describe how the excess earnings at MPS were determined.

11 A. Accounting Schedule 2, rate base, identifies the investment made by MPS'
12 shareholders used to provide jurisdictional electric service to MPS' customers in Missouri.

13 Accounting Schedule 9 provides the Staff's annualized level of revenues and
14 expenses as of June 30, 1996. The revenue level is based upon rates currently in effect and
15 customers currently on the system as of June 30, 1996. The difference between the
16 annualized level of revenues and expenses represents the Net Operating Income **available**
17 (based on current rates in effect) to provide a return to MPS' shareholders.

18 The **required** Net Operating Income is calculated by multiplying the rate of
19 return being recommended by Staff witness Jay Moore times the rate base. This calculation
20 is represented on Staff Accounting Schedule 1, Revenue Requirement.

21 The **required** return is then compared to the **available** return based on
22 existing rates in effect. If the required return exceeds the available return, an increase in

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1 MPS' rates would be justified. In this case, Staff Accounting Schedule 1 indicates the
2 available return is significantly higher than the return required based on the recommended rate
3 of return calculated by Staff witness Jay Moore.

4 Finally, the difference in the required rate of return and the available rate of
5 return is factored up for income tax impact which converts the excess Net Operating Income
6 to an excess Revenue level that is reflected on line 14 of Staff Accounting Schedule 1.

7 Q. How is the investment, revenue, expense relationship developed?

8 A. The initial step is to select a test year. A test year is a twelve month period
9 that serves as the basis for the establishment of the investment/revenue/expense relationship
10 needed to set rates. Usually, the investment at the end of the test year will serve as the basis
11 for the determination of rate base.

12 There are four types of adjustments that modify the
13 investment/revenue/expense relationship to be forward looking to the period that any revised
14 rates will be in effect: (1) normalization, (2) annualization, (3) disallowance and
15 (4) pro forma.

16 Q. What are normalization adjustments?

17 A. Normalization adjustments reflect the removal of items/events within the test
18 year that are non-recurring. Non-recurring items need to be removed from the test year to
19 make the investment /revenue /expense relationship forward looking. Also, an expense may
20 be recurring, but the level incurred in the test year is significantly higher or lower than the
21 level expected for normal ongoing operations. In this instance, the test year level would be
22 adjusted to reflect a level considered to be a normal level for the purposes of setting rates.

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1 Q. What are annualization adjustments?

2 A. Annualization adjustments refer to items or events that have occurred within
3 the test year and will continue to occur subsequent to the test year. The quantification of
4 dollars associated with the impact of these items/events on the investment/revenue/expense
5 relationship is different subsequent to the test year than it is during the test year because of
6 the occurrence of these items or events.

7 Q. Please describe what you mean by the term "disallowance."

8 A. Disallowances are adjustments that remove from the test year, and ultimately
9 the investment/revenue/expense relationship, the dollar impact of certain company actions:

- 10 • Actions that are improper or imprudent and, therefore, should be
11 discontinued or never should have been initiated at all.
- 12 • Expenditures, without an assertion of imprudence or impropriety
13 (e.g., contributions, donations, lobbying costs), that are removed from
14 test year and assigned to be paid by the owners of the Company
15 because it is considered to be unreasonable for ratepayers to bear
16 costs, through their electric rates, that are not necessary to provide
17 safe and adequate service, or that have no direct benefit to customers.

18 Q. What are pro forma adjustments?

19 A. Proforma adjustments refer to items/events that occur only subsequent to the
20 test year that significantly effect the test year investment/revenue/expense relationship and
21 should be recognized to meet the objective of making the test year forward looking. The
22 main problem with a pro forma adjustment is ensuring that all items subsequent to the test

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1 year have been examined, so that no related offsetting items are omitted. Adequate
2 quantification is a second problem of proforma adjustments, because often the items have not
3 occurred and, therefore, cannot be adequately measured. The quantification of post test year
4 items is more difficult than other adjustments.

5 Q. What is the Staff's test year for its complaint case?

6 A. The Staff's test year is the twelve months ending December 31, 1995, adjusted
7 for known and measurable (pro forma) changes through June 30, 1996.

8 Q. Please define the term "known and measurable."

9 A. A "known and measurable" change is an event that has occurred outside of the
10 selected test year, 1995 in this case, the impact of which can reasonably be determined with
11 a high degree of accuracy. These are examples of "proforma" adjustments described earlier
12 in my testimony.

13 Q. What is the rationale for adjusting the test year for known and measurable
14 events that have occurred outside the test year selected?

15 A. As previously discussed, the objective of a cost of service study is to determine
16 whether a company's current revenues are sufficient to recover its costs of providing service
17 and earn a fair return for its shareholders.

18 In this context, it is a desirable goal in determining the relationship between
19 investment/revenue/expenses to use the most current information available. Adjustments for
20 events subsequent to the test year are made with this in mind.

21 Q. How did Staff determine how far beyond the test year to go to evaluate known
22 and measurable events?

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1 A. In a Company initiated rate case, the Commission is required by law to issue
2 an order within eleven months from the date of the Company's filing. The procedural
3 schedule established by the Commission determines the Staff's filing date for direct testimony.

4 The cut-off date for pro forma adjustments is the latest date that allows the
5 Staff to get the necessary financial data, and data request responses, to make the necessary
6 adjustments and meet its deadline for filing direct testimony.

7 Q. In setting the cut-off date for subsequent events to be included in test year,
8 does it make any difference whether it is a Staff or a company initiated case?

9 A. Yes. In an earning investigation initiated by Staff or OPC, the Commission
10 is not required to issue an order in a specified period of time. The absence of an operation
11 of law date allows more flexibility in deciding the appropriate cut-off date for pro-forma
12 adjustments. However, the desired goal is to complete the earnings investigation as soon as
13 possible based on the most current information available.

14 Q. What was the basis for selecting June 30, 1996 as the cut-off date for making
15 pro-forma adjustments in this case?

16 A. The need to examine MPS' earnings for its electric operations was tied to the
17 KCPL/UCU request for an incentive regulation plan in the merger docket, Case
18 No. EM-96-248. The Staff informed KCPL and UCU early on that a Staff recommendation
19 on the merger would not be filed until approximately 30 days, at best, beyond the date that
20 both companies received shareholder approval of the merger.

21 With the KCPL and UtiliCorp shareholder votes scheduled for August 1996,
22 we expected a result on the vote some time in September 1996. The approximate date of

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1 Staff's recommendation on the merger application and MPS' earnings investigation would
2 have been in late October or early November 1996. Therefore, June 30, 1996 was considered
3 to be the latest cut-off date for pro forma adjustments that could be used with the expectation
4 of the Staff's recommendation being filed in October or November 1996.

5 Q. You mentioned that the anticipated filing date in Case No. EM-96-248 for
6 Staff's recommendation on the KCPL/UCU merger application and MPS' earnings
7 investigation was anticipated to occur in October or November 1996. Please explain why
8 Staff's complaint filing against MPS did not occur until March 3, 1997?

9 A. The Staff has experienced serious discovery problems in both the merger
10 docket, Case No. EM-96-248, and the earnings investigation of MPS' electric operations
11 docket, Case No. EO-97-144. Many of the adjustments in Staff's cost of service (Revenue
12 Requirement) determination, filed with this testimony are based upon incomplete information.
13 The Staff was not able to make an acceptable estimate of MPS' excess earnings position until
14 March 3, 1997. I will provide an overview of the discovery problems that the Staff has
15 experienced in key areas of its revenue requirement analysis. Staff witnesses in this case will
16 explain the discovery problems that they have encountered in this case that has left the Staff
17 no alternative, but to file its case based on incomplete information.

18 Q. If there is no fixed deadline for the filing of its complaint case, why did Staff
19 decide to file prior to receiving all the necessary data request responses?

20 A. MPS is receiving in excess of \$2 million a month of excess earnings, and MPS
21 made it clear that it has had no intention of answering most of Staff's outstanding data
22 requests prior to mid-April 1997 or later. Some of the outstanding data requests were initially

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1 requested in the merger docket, Case No. EM-96-248, and have been outstanding in excess
2 of five months. Given the fact that MPS' electric operations have been in a significant excess
3 earning position for an extended time, at least two years at the date of this filing, Staff thought
4 it necessary to file a complaint against MPS so that the Commission would have the
5 opportunity to address this matter as soon as possible.

6 Q. Given the fact that Staff filed this complaint with incomplete information, what
7 steps were taken to insure that the amount filed for was conservative?

8 A. At the date of the filing, March 3, 1997, the Staff's revenue requirement run
9 (EMS) reflected excess revenues of \$26 million. The Staff filed its complaint case for \$23
10 million to allow for adjustments that are not complete, and the possibility that the responses
11 to data requests, when received, may reduce MPS' excess earnings position. In addition, the
12 Staff had completed an EMS run which used "unadjusted" financial results for the twelve
13 month period ending December 31, 1996. This 1996 per books run reflects excess earnings
14 of over \$18 million for MPS' electric operations. Since reduced fuel costs, revenue growth
15 and the removal of excessive charges allocated by UCU to MPS are not fully reflected in the
16 1996 unadjusted financial statements, the Staff is of the opinion that MPS' excess revenue
17 position would be at least \$23 million if the test year were updated to December 1996.

18 Q. You mention that Staff's revenue requirement run reflected excess revenues
19 of \$26 million on the date Staff filed its complaint, March 3, 1997. What is the final revenue
20 requirement reflected within Staff's testimony?

21 A. As Accounting Schedule 1 reflects, Staff's revenue requirement run continues
22 to demonstrate overearnings well in excess of the \$23 million contained in Staff's complaint.

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Specifically, based upon Staff witness Jay Moore's recommendation of using low to mid-range return on equity (11.05 to 11.55), Staff's EMS run reflects excess earnings of \$24.3 to \$25.7 million.

Discovery Problems in Case Nos. EM-96-248 and EO-97-144

Q. What is the purpose of your testimony in this section?

A. I mentioned earlier that serious discovery problems occurred throughout the course of Staff's audit in terms of getting routine and other information from UCU/MPS in a timely manner. Therefore, Staff had to make its filing based on incomplete information. Witnesses in this case have no alternative, but to make recommendations on some areas of this case based upon incomplete, insufficient, or not yet received, responses to Staff data requests. Even though the Staff has been able to file its direct testimony, the outstanding data request responses are not irrelevant. In fact, the Staff intends to update its case if responses to outstanding Staff data requests warrant an update. Staff witnesses will explain their specific discovery problems in more detail. I will not duplicate these efforts in my testimony. However I think an overview and some specific examples of the discovery problems experienced with MPS may help the Commission understand the need for strong language in Commission Orders to motivate this Company to provide the necessary information on a timely basis, in accordance with the Commission's rules. The areas that I will make note of do not comprise an exhaustive list of areas where problems have occurred.

Q. Please summarize the key areas of the Staff's cost of service analysis which were incomplete as the result of discovery problems.

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1 A. The Staff's recommendations in the following areas are based on incomplete
2 information due to MPS' untimely responses, or complete refusal to provide available
3 information prior to MPS' filing its competitive rate increase case which occurred on
4 March 21, 1997:

- 5 • Weather normalized usage per customer - revenue annualization;
- 6 • Jurisdictional allocation factors;
- 7 • UCU corporate overhead adjustment; and
- 8 • Annualization of property & injuries and damages insurance

9 Q. Briefly summarize the discovery problems which precluded the Staff from
10 making a complete recommendation on the weather normalized usage per customer in
11 annualizing revenues in this case.

12 A. Staff witness, Lena Mantle, issued Data Request No. 4102 on November 6,
13 1996. A **partial** response was received on January 15, 1997, 70 days after the information
14 was requested from MPS.

15 Ms. Mantle sent a memo to the MPS representative, Maurice Arnall on
16 February 5, 1997 explaining the need for the additional information requested and not
17 provided. As of the date of this filing, March 28, 1997, MPS has not provided the additional
18 information requested. This information has been outstanding for 4.7 months.

19 Q. Briefly describe the discovery problems which precluded the Staff from making
20 a complete recommendation regarding the demand factor and other allocation factors used
21 to allocate MPS' cost of service between electric, gas and nonjurisdictional operations.

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1 A. Staff witness, Syed Ahmad of the Commission's Energy Department, is
2 assigned the responsibility for determining the proper demand allocation factor to allocate
3 MPS' production and transmission plant and plant related expenses between state retail
4 operations and FERC wholesale operations.

5 Mr. Ahmad issued Data Request No. 2913 in the merger docket, Case
6 No. EM-96-248, on August 13, 1996. The merger docket was closed by Commission order
7 on October 18, 1996. As of October 18, 1996, no response was provided to Data Request
8 No. 2913. This response had been outstanding 77 days before being reissued in the current
9 docket, Case No. EO-97-144, as Data Request No. 2901. A partial response was received
10 on February 10, 1997, almost 6 months after the information was requested in Case
11 No. EM-96-248. Complete information has not been provided as of the filing date of this
12 testimony, March 28, 1997. Mr. Ahmad also issued Data Request No. 2907 on January 30,
13 1997. The information provided in response to Data Request No. 2907 was not responsive
14 to the question asked and is still outstanding as of the date of this filing.

15 Q. Were you also responsible for determining some of the departmental and
16 jurisdictional allocation factors other than the demand factor?

17 A. Yes. I was responsible for determining departmental and jurisdictional
18 allocation factors for all costs, except the demand allocator and the allocation of UCU's
19 corporate overhead costs.

20 Q. Please briefly explain the discovery problems you encountered in this area.

21 A. The jurisdictional and departmental allocation factors (other than demand and
22 UCU corporate overhead costs) used by MPS in developing its December 1995 surveillance

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1 report provided to the Staff were based on the same methodology used in MPS' last rate
2 proceeding, Case No. ER-93-37. From a theoretical standpoint, I believe that the allocation
3 method used in that case to be reasonable. However, it is still necessary to audit the
4 mathematical calculations of the allocation factors to determine that the individual factors are
5 correct or have not changed. MPS provided its departmental and jurisdictional allocation
6 factors in response to Data Request No. 47 (attached as Schedule 2). In Data Request
7 No. 155 (attached as Schedule 3), I asked MPS to provide the workpapers supporting the
8 allocation factors provided in Data Request No. 47. The response to Data Request No. 155
9 does not provide one mathematical calculation or a source document that would allow me to
10 audit the accuracy of the allocation factors requested in Data Request No. 155. I sent a
11 memo to Maurice Arnall on January 31, 1997 (attached schedule 4) requesting that MPS
12 provide the workpapers supporting the allocation factors provided in response to Data
13 Request No. 47. As of the filing date of this testimony, March 28, 1997, I have still not
14 received this information. A simple request for workpapers supporting allocation factors
15 calculated by MPS personnel has been outstanding in excess of 2 months.

16 Q. Briefly give an example of the discovery problems encountered by the Staff's
17 consultant, James Dittmer, in the area of corporate overhead costs.

18 A. Mr. Dittmer encountered many discovery problems related to the UCU
19 corporate overhead issue. I have included one example to help the Commission understand
20 the unusual discovery problems that Staff has encountered in this case.

21 Mr. Dittmer issued Data Request No. 832 in Case No. EM-96-248 on
22 September 12, 1996. This data request asked MPS to provide the cost incurred in the year

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1 1995 for responsibility centers that had been eliminated at MPS as a result of the
2 centralization process that had taken place at UCU in 1995 and 1996. This data request was
3 reissued in the earnings investigation docket, Case No. EO-97-144 as Data Request No. 626.
4 As of the date of the filing of this testimony, March 28, 1997, this information has not been
5 provided and has been outstanding for over 6 months. This information is needed in
6 determining an understanding regarding non-recurring costs of MPS. Mr. Dittmer cannot
7 finalize his recommendation until MPS provides this information.

8 Q. Provide a brief explanation of some of the discovery problems encountered by
9 Staff in determining an annualized level of property and injuries and damages insurance.

10 A. Staff witness Robert O'Keefe has the responsibility for determining an overall
11 level of property and injuries and damages insurance cost to be included in Staff's cost of
12 service analysis. I have also been personally involved in this area. The discovery problems
13 in this area can be described as a blatant refusal to provide the requested information given
14 that the UCU employee responsible for providing the information admitted to Staff that the
15 requested information is readily available.

16 Q. What information has been requested by Mr. O'Keefe?

17 A. UCU and MPS, like most large utilities in Missouri, fulfill their insurance
18 requirements for property and liability insurance through a combination of self insurance and
19 premiums paid to outside insurance companies. Determining the current annual cost for
20 business insurance requires the following information from UCU/MPS, as with any other
21 large utility in Missouri:

- 22 ● Current Premium Costs;

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- 1 ● Three years or more of actual cash self-insurance payments for paid
- 2 claims; and
- 3 ● Additional cost components booked to property insurance and injuries
- 4 and damages.

5 Q. What is the basis for your statement that UCU employees admitted to Staff
6 that most if not all of the needed premium and actual payment information was readily
7 available?

8 A. A meeting was held on February 27, 1997, with Mr. Dennis Teague, UCU's
9 corporate risk manager, Maurice Arnall, Allison Moten, Carol Lowndes, Peggy Wilson, Ken
10 Jones, Robert O'Keefe and myself.

11 As explained in Mr. O'Keefe's testimony, the Staff had attempted to obtain
12 current premium data and paid loss data in numerous data requests. Mr. Teague indicated
13 at the February 27 meeting that paid claims by business unit and type of claim were readily
14 available for up to ten years for some of the claims data. Mr. Teague also has responsibility
15 for negotiating premiums paid to insurance companies.

16 Q. Did the Staff identify for MPS the outstanding data requests that could be
17 answered by information referred to by Mr. Teague?

18 A. Yes. Mr. O'Keefe issued a memo (attached as Schedule 5) the same day of
19 the meeting, February 27, 1997, indicating which Staff data requests could be answered by
20 the information referred to by Mr. Teague.

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1 Q. Did MPS indicate at the meeting that it would attempt to follow up
2 "immediately" in providing the information that Mr. Teague identified as being readily
3 available?

4 A. Yes. I asked Mr. Teague the following question, "Let me ask you a question.
5 With regard to your reference knowing what paid claims are, actual by business unit for two
6 years, has the information been supplied to us?" Mr. Teague's response was as follows, "To
7 my knowledge, I thought that you would have received that information. Perhaps you have
8 not. **I have it in front of me here.**" (Emphasis added) Mr. Ken Jones with MPS made the
9 following statements, ". . . Which data request was that? . . . **we'll follow up on that**
10 **immediately**" (emphasis added). These quotes were taken from the transcribed notes of the
11 meeting. Mr. O'Keefe provided MPS a list of the outstanding data requests that could be
12 answered by the information available from Mr. Teague on the same day as the meeting. We
13 finally received the requested information on March 24, **twenty-five days** after the meeting
14 in which a MPS representative indicated that he would "follow up immediately" in getting us
15 the information.

16 Q. You mentioned previously that MPS has indicated to the Staff that the
17 Company has no intention of answering Staff's data requests in accordance with the
18 Commission's rule which requires a response within 20 days. How did MPS notify the Staff
19 of its intentions?

20 A. Attached as Schedule 6 to this testimony is a copy of the memo that has been
21 received **weekly** beginning February 3, 1997.

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1 Q. Has Staff notified the Commission of the numerous discovery problems
2 encountered in both the merger docket and this earnings investigation docket, Case
3 No. EO-97-144?

4 A. Yes, Mr. Dittmer, Mr. Featherstone and I discussed the discovery problems
5 in considerable detail in our "Verified Statements" filed in response to MPS' request for a
6 discovery moratorium in this case.

7 Q. Why have you chosen to revisit this issue in direct testimony in this case, Case
8 No. EO-97-144?

9 A. The inability to get information on a timely basis has left the Staff no
10 alternative, but to file its complaint case based on incomplete information. We cannot present
11 all of the necessary facts to the Commission if we cannot get them from the Company. In this
12 testimony I have described only a limited number of examples in key areas of our cost of
13 service analysis. There is no excuse for having to wait 4 or 5 months for information or have
14 outstanding data requests for this length of time. When the Commission's rules provide for
15 a 20-day response time, a delay of 4 to 5 months in responding to Staff data requests is
16 completely unacceptable.

17 Q. Please summarize your limited discussion of the discovery problems which
18 have impacted key areas of the case.

19 A. Summarized below are areas of the Staff's case which have been impacted by
20 untimely or non-responses to Staff data requests:

Direct Testimony of
Steve M. Traxler

Subject	Number of Months from Response Date (or number of months still outstanding)	Status at March 28, 1997
Staff Data Request No. 4102 Normalized Usage/Customer	2.3 Months	Partial Response
Staff Data Request No. 4102 Normalized Usage/Customer	4.7 Months	Outstanding
Staff Data Request No. 2901 Jurisdictional Allocations/Demand	5.9 Months	Partial Response
Staff Data Request No. 2901 Jurisdictional Allocations/Demand	7.5 Months	Outstanding
Staff Data Request No. 155 Jurisdictional Allocation - Other	2.5 Months	Outstanding
Staff Data Request No. 626 UCU Overhead Cost Allocation	6.5 Months	Outstanding
Staff Data Request No. 107 Property Insurance/Injuries & Damages	2.3 Months	Received March 24, 1997
Staff Data Request No. 3804 Cost of Capital	2 months	Outstanding

Q. What is your personal experience in working on rate case audits involving MPS?

A. With one exception, I have been assigned to every electric rate case initiated by MPS since 1978. I was the lead auditor in their last case filed in 1992, Case No. ER-93-37.

Q. In any of MPS's previous electric rate cases that you were assigned to, did

Direct Testimony of
Steve M. Traxler

1 MPS fail to comply with the Commission's rule requiring an average response time of 20 days
2 to Staff data requests?

3 A. No. Prior to dockets EM-96-248 and EO-97-144, MPS, to my knowledge,
4 has always understood its obligation to respond to Staff discovery on a timely basis. As I
5 have explained, many of the data requests that have not been responded to in accordance with
6 the Commission's rules in the current docket have been asked in every prior electric rate case
7 initiated by MPS since 1978. Mr. Empson has suggested in his verified statement, filed in
8 MPS's motion for a discovery moratorium, that MPS was not obligated to respond to Staff
9 discovery in accordance with the Commission's rules because the Staff "initiated" this case,
10 instead of MPS. Some clear language is needed from the Commission to aid Mr. Empson in
11 his lack of understanding of the Commission rules for responding to Staff discovery.

12 Q. In your opinion what is the underlying reason behind MPS' lack of
13 cooperation in providing the necessary information to Staff?

14 A. I will not address the other excuses provided by Mr. Empson in his "Verified
15 Statement" filed in the Company's request for a discovery moratorium. Mr. Dittmer,
16 Mr. Featherstone and I addressed this issue in our response to the Company's motion for a
17 discovery moratorium.

18 I do not agree with Mr. Empson's excuses, but even if one were to agree that
19 there was some justification for some delay in responding to Staff's discovery, I do not think
20 that any reasonable person can justify a delay of 3 to 6 months in getting responses to data
21 requests, most of which are routinely asked of every electric utility in the State and, generally,
22 responded to on a timely basis.

Direct Testimony of
Steve M. Traxler

1 The only logical explanation for the delay that Staff has experienced in this
2 case is a management decision to delay the Staff from filing as long as possible. MPS is
3 recovering over \$2 million a month in excess revenue, and would appear to have every
4 intention to delay this excess earning complaint case as long as possible.

5 Finally, it should be noted that due to the lack of timely responses on the part
6 of MPS, numerous Staff witnesses have reserved the right to update certain issues when
7 responses are received. In general, I would point out that Staff believes that it should be
8 afforded such an opportunity. Anything short of such an opportunity would result in a
9 fundamental unfairness.

10 UCU's Improper Use of its Affiliated Relationship with MPS

11 Q. What is the purpose of your testimony regarding MPS' affiliated relationship
12 with its parent Company, UCU?

13 A. Mr. James R. Dittmer with Utilitech, Inc. was retained by the Staff with the
14 primary responsibility for determining an appropriate ongoing level of corporate overhead
15 costs allocated from the parent company, UCU, to MPS' regulated electric operations. Mr.
16 Dittmer will be sponsoring the adjustments made in this area, and explain, in detail, the
17 rationale supporting the adjustments in his direct testimony. My testimony in this area will
18 provide additional evidence supporting the Staff's belief that UCU is using its affiliated
19 relationship with MPS to accomplish two corporate objectives:

20 (1) Subsidizing Non-Regulated Activity

21 In allocating significant marketing/promotional costs to its regulated electric
22 and gas customers, UCU is subsidizing its corporate goal to become a major
23 player in providing deregulated energy and energy related services.
24

Direct Testimony of
Steve M. Traxler

(2) Managing its Regulated Earnings

In allocating unnecessary corporate marketing overhead costs, or costs related to non-regulated operations, to its regulated operations, UCU is understating the real earnings of its regulated operations. Understating its Return on Equity (ROE) for its regulated electric and gas operations aids UCU in avoiding excess earnings audits and rate reductions--a corporate goal for UCU since 1988.

Q. What specific costs, allocated from UCU, will you be addressing in this section of your testimony?

A. My testimony will specifically address the marketing/promotional costs allocated from UCU to MPS in 1995 and 1996. Mr. Dittmer's testimony will also address the marketing costs allocated from UCU in addition to all other costs allocated from UCU to MPS. Mr. Dittmer is sponsoring the adjustment which effectively eliminates the majority of marketing/promotional costs allocated from UCU to MPS in 1995. My testimony will provide further evidence that UCU's allocation of a significant amount of marketing/promotional costs beginning in 1995 and continuing into 1996 represents a **management decision** to recover costs from its captive ratepayers which are not related to the provision of regulated utility service.

Q. When did the Staff first become aware that UCU had allocated a significant amount of marketing costs to MPS' electric operations in 1995?

A. It became necessary to initiate an earnings investigation of MPS' electric earnings as a result of the KCPL/UCU request for an incentive regulation plan in their application in the merger docket, Case No. EM-96-248. The Staff began reviewing MPS financial data in the 2nd quarter of 1996. An examination of MPS' electric income statement

Direct Testimony of
Steve M. Traxler

1 for 1995 and prior years revealed a significant increase in sales expense in 1995, specifically
2 in Account 916, Miscellaneous Sales Expense. Account 916, Miscellaneous Sales Expense
3 increased from \$1.2 million in 1994 to \$7.5 million in 1995. The \$6.3 million increase
4 represents a 525% increase from 1994 to 1995. MPS had set up Account, 916.6 in 1995 to
5 record the marketing cost allocated from UCU's marketing department, UtiliCorp Marketing
6 Services (UMS), in 1995. UCU's marketing department, UMS, allocated \$6 million in
7 marketing/promotional costs to MPS' electric operations in 1995.

8 Q. Can the \$6.3 million increase in Miscellaneous Sales Expense in 1995 for
9 MPS' electric operations be characterized as an **unusual** amount?

10 A. Yes. An increase of this magnitude, 525%, especially in a Sales Expense
11 account is an **extraordinary** increase.

12 Q. What types of costs are generally included in the sales expense category under
13 the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts?

14 A. There are four accounts included under the Sales Expense Category. Costs
15 included in these accounts, generally, comprise labor, materials and advertising related to the
16 regulated utility service offered.

17 Q. Have all the marketing/promotional costs recorded in the Sales Expense
18 Accounts just described been included in cost of service in past rate cases involving MPS and
19 other utility companies in Missouri?

20 A. No. Historically, the Commission has supported Staff recommendations for
21 disallowance of advertising costs which can be described as follows:

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Steve M. Traxler

(1) Promotional - advertising used to encourage or promote the use of the energy source the utility is selling when the utility cannot provide cost justification for the ads, (Re: Kansas City Power and Light Company, 28 Mo. P.S.C. [N.S.] 228, 75 PUR4th 2, [1986] [KCPL]);

(2) Institutional - advertising used to improve the Company's public image; and

(3) Political - advertising which is associated with political issues.

Q. Can the \$6 million of marketing/promotional costs allocated from UMS to MPS in 1995 be characterized as promotional and institutional (image building)?

A. Yes. In addition to being related to the promotion of UCU as a provider of non-regulated energy related services on a national scale, the evidence will show that the prudence of such allocated costs must also be questioned. Specifically,

- The marketing costs allocated from UMS to MPS exceed any reasonable level of sales expense incurred by MPS prior to 1995 in providing electric service to Missouri ratepayers.
- The marketing costs allocated from UMS to MPS in 1995 far exceed any reasonable level of sales expense necessary for regulated operations in Missouri as evidenced by costs incurred by the other major electric utility companies in Missouri in 1995.
- UCU's promotion of its new brand name, EnergyOne, is related primarily to promoting non-regulated energy related services. However, at least during 1995, the marketing costs allocated from UMS were allocated only to UCU's regulated subsidiaries. UCU's non-regulated subsidiaries/divisions were left out of the allocations process.
- The sales expense allowed by the Staff for recovery in rates is comparable to the level incurred by MPS prior to 1995 and the levels being incurred by other electric utility companies in Missouri.

Q. What activity initiated by UCU in 1995 gave rise to the significant level of marketing costs incurred by UCU's marketing department, UMS?

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1 A. Mr. Dittmer's testimony, pages 43-50, provides a detailed explanation of
2 UMS' expenditures during 1995. A brief description of the costs incurred by UMS in 1995
3 is reflected below:

- 4 • Promotion of the Energy One brand name;
- 5
- 6 • Studies of customer energy needs in anticipation of deregulation of the
7 electric industry;
- 8
- 9 • Promotion of UCU's corporate image;
- 10
- 11 • Promotion of non-utility and non-regulated services; and
- 12
- 13 • Promotion of electric and gas load growth.
- 14

15 Q. Did you analyze the level of Sales Expense incurred by MPS prior to 1995 to
16 determine the reasonableness of the Sales Expense level reflected in its financial records
17 during the test year 1995?

18 A. Yes. Reflected below are the total levels of Sales Expense incurred by MPS
19 for its electric operations for the years 1992 through 1995. The average cost per electric
20 customer is also reflected.

Year	MPS Total Sales Expense - Electric	Average Cost Per Customer
1992	\$735,303	\$4
1993	\$915,492	\$5
1994	\$1,161,708	\$6
1995	\$7,494,228	\$41

26

27

28 Q. What does this analysis indicate?

Direct Testimony of
Steve M. Traxler

1 A. The analysis reflects the **extraordinary** increase in Sales Expense in 1995
2 when compared to prior years. The question is why did MPS need to spend \$41 per customer
3 in 1995 for sales and advertising costs when it was only necessary to spend \$5 per customer
4 the previous three years. The answer is that it was not necessary to spend \$41 for every
5 Missouri electric customer in 1995 to provide regulated utility service.

6 Q. Did you also perform an analysis of how MPS' 1995 Sales Expense level
7 compares to the Sales Expense incurred in 1995 by the other major electric utility companies
8 in Missouri?

9 A. Yes. The results of that analysis are reflected below:

Company	Sales Expense Per Customer 1995
St. Joseph Light & Power Company	\$2
Empire District Electric Company	\$6
Union Electric Company	\$3
Kansas City Power & Light Co.	\$8
Missouri Public Service	\$41

16 Source: FERC Form 1

17
18 Q. Please comment on the results of this analysis.

19 A. The average cost per customer for sales and advertising costs incurred by the
20 four other major electric companies in 1995 with service territories in Missouri was \$5 per
21 customer. Again, the question is if the other four major electric companies in Missouri could
22 meet their sales and advertising needs by spending \$5 per customer, why did MPS find it
23 necessary to spend \$41 per customer in 1995?

Direct Testimony of
Steve M. Traxler

1 Q. You mentioned earlier that UMS' 1995 promotional campaign included
2 spending considerable money on promoting the EnergyOne brand name as the provider of
3 choice for non-regulated energy services. Additional money was spent on studying energy
4 needs by location and customer group in anticipation of deregulation of the electric industry.
5 Is it your understanding that UMS did not allocate any marketing costs to UCU's non-
6 regulated subsidiaries or divisions?

7 A. Yes. According to Mr. Dittmer, none of the marketing costs incurred by UMS
8 in 1995 was allocated to UCU's non-regulated subsidiaries/divisions.

9 Q. What is the result of this allocation methodology?

10 A. This allocation methodology accomplishes two corporate goals for UCU:

11 (1) Having today's captive utility customers fund the substantial
12 investment in establishing the EnergyOne brand name, which is being
13 promoted primarily to enhance profits of non-regulated and projected
14 future deregulated energy and energy related products and services.
15 Such strategy, of course, eliminates or significantly limits
16 shareholders' costs and risks associated with UCU's venture to
17 become a national provider of deregulated, non-regulated energy and
18 energy related services.

19 (2) Manage the earnings of its regulated divisions like MPS by
20 understating the real earnings of the regulated divisions. Allocating
21 excessive and/or unnecessary costs from UCU to its regulated division
22 will minimize the possibility of audit and resulting rate reduction.
23 will minimize the possibility of audit and resulting rate reduction.

24 Q. If the Commission allows UCU to recover UMS' marketing costs from captive
25 ratepayers, will it be giving UCU a significant advantage in providing non-regulated services?
26 ratepayers, will it be giving UCU a significant advantage in providing non-regulated services?

27 A. Yes. The implementation of the EnergyOne brand name was based upon
28 UCU's marketing of energy services that have been recently deregulated or are expected to
29 be in the near future.

Direct Testimony of
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1 When a non-regulated firm spends significant amounts in the hope that it will
2 benefit from "future" events, its shareholders bear such risk. The risk is borne by
3 shareholders because the market price of their current products cannot be increased to
4 recover venture capital in a competitive market.

5 Q. You mentioned earlier that one of UCU's corporate objectives is to manage
6 the earnings of its regulated divisions in such a way that excess earnings audits and resulting
7 rate reductions can be avoided. How is UCU's decision in 1995 to allocate an additional
8 \$6 million in marketing costs to MPS' electric operations consistent with its objective to
9 manage the earnings of its regulated divisions so that excess earnings audits and rate
10 reductions can be avoided?

11 A. MPS, like all other large utility companies in Missouri, files surveillance
12 reports with the Commission and Staff. The purpose of this report is to give the Commission
13 and Staff an indication of the rate of return earned on the company's jurisdictional rate base
14 for the most recent year. The rate of return earned based upon unadjusted operations can be
15 compared to recent recommendations for allowable rates of return to get an indication as to
16 whether the company's revenues are excessive.

17 The allocation of \$6 million in marketing/promotional costs incurred in 1995
18 to promote UCU and its brand name, EnergyOne, as the provider of choice for non-regulated
19 energy services had a significant impact on understating the earnings of MPS' Missouri
20 jurisdictional electric operations for 1995. The surveillance report for December 1995
21 provided to the Staff by MPS did not accurately reflect the level of excess earnings for MPS's
22 electric operations.

Direct Testimony of
Steve M. Traxler

1 Q. What evidence do you have that illustrates that one of UCU's corporate
2 objectives is to manage the earnings of its regulated divisions in such a way so as to avoid
3 excess earnings audits and resulting rate reductions?

4 A. ** _____

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31 Source: Transcribed notes from 1988 Officers Conference.

32 _____

33 _____

34 _____

Direct Testimony of
Steve M. Traxler

1 In that meeting, Mr. Green promised that not only would Missouri ratepayers
2 not be adversely affected by UtiliCorp's merger and acquisition strategy, they would benefit
3 because all benefits of the corporate strategy would flow to ratepayers.

4 Q. Did Mr. Green ever reiterate his commitment to the Commission that the net
5 benefits of the corporate strategy would flow to Missouri customers?

6 A. Yes, on page 45 of Mr. Green's rebuttal testimony in Case No. ER-90-101,
7 Mr. Green makes the following statement:

8 I have made a commitment to this Commission that the net
9 benefits of our strategy would flow to Missouri customers
10 while they would be insulated from negative impacts. This
11 promise has been kept.

12
13 Q. Is Mr. Green's promise to flow the net benefits of UCU's corporate strategy
14 to ratepayers consistent with UCU's objective to "manage" the earnings of its regulated
15 divisions in order to avoid excess earnings audits and any resulting rate reductions?

16 A. No. When earnings become excessive due to efficiencies of scale resulting
17 from centralizing corporate overhead functions, renegotiation of fuel contracts, or lower
18 capital costs, a potential benefit for ratepayers should be a reduction in rates.

19 Q. Is a rate reduction the only solution recommended by the Staff for dealing with
20 an excess earnings situation?

21 A. No. For instance, the agreement between the Staff and KCPL in the first
22 quarter of 1996 resulting from the Staff's earnings investigation of KCPL, included a
23 combination of a rate reduction and increase in depreciation rates.

Direct Testimony of
Steve M. Traxler

1 The Staff's recommendation in this case also includes a recommended
2 \$3.5 million increase in depreciation rates.

3 Q. Are UCU's recent actions in managing earnings consistent with UCU's earlier
4 commitments to pass along all net benefits of the Company's merger and acquisition
5 strategies?

6 A. No. I believe recent actions are directly at odds with earlier commitments to
7 flow through to customers the benefits of corporate strategies.

8 In addition, UCU's allocation of \$6 million of marketing/promotional costs
9 related to promoting UCU's corporate image and its brand name, EnergyOne, is intended to
10 understate the reported earnings of MPS' electric operations and have MPS' electric
11 customers subsidize UCU's efforts to become a player on a national level in the provision of
12 non-regulated energy related services.

13 Q. What level of Sales Expense is the Staff recommending that MPS be allowed
14 to recover in rates?

15 A. The Staff's recommended level of Sales Expense for this case is \$1,062,712.
16 This level is equal to the actual level incurred by MPS for the year ending December 1996
17 (excluding costs allocated from UMS).

18
19 **JURISDICTIONAL ALLOCATIONS**

20 Q. What was your responsibility in the area of jurisdictional allocations?

21 A. The responsibility for determining a reasonable method to be used for the
22 allocation of common costs among MPS' electric, gas, wholesale and non-regulated

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1 operations was divided between myself, Mr. Ahmad with the Staff's Energy Department and
2 the Staff's consultant, Mr. Dittmer. Mr. Ahmad had responsibility for determining the
3 demand allocation factor used for allocating production and transmission plant and expenses
4 between MPS' electric retail (Missouri jurisdictional) and wholesale (FERC nonjurisdictional)
5 operations. Mr. Dittmer had responsibility for allocating UCU's corporate overhead costs
6 between its regulated and non-regulated operations including MPS.

7 My responsibility was to determine a reasonable allocation method for MPS'
8 remaining rate base and income statement amounts.

9 Q. What allocation method are you recommending?

10 A. MPS provided jurisdictional and departmental allocation factors for 1995
11 based upon the methodology used by MPS in its last rate case, ER-93-37. The methodology
12 used by MPS appears to assign costs to the different jurisdictions based upon the cause of the
13 cost. However, I have been unable to get workpapers supporting MPS' calculations as I
14 explained earlier in this testimony. I cannot make a final recommendation until I receive this
15 information.

16
17 **INCOME TAX EXPENSE**

18 Q. Please describe your calculation of MPS' annual level of current income tax
19 expense.

20 A. Staff's annualized level of current income tax expense is based upon the Staff's
21 (1) adjusted pretax operating income, (2) annualized level of interest expense and
22 (3) normalized amount for book and tax timing differences.

Direct Testimony of
Steve M. Traxler

1 Q. How was interest deduction arrived at?

2 A. The Staff's deduction for interest expense is calculated by multiplying the
3 Staff's recommended weighted cost of debt by the Staff's recommended rate base. This
4 approach, interest synchronization, was used by the Staff in MPS' last rate case as well as
5 many other cases for other companies in Missouri.

6 Q. How were the tax timing differences used in the Staff's calculation
7 determined?

8 A. All timing differences, with exception of cost of removal, were based upon
9 amounts included in MPS' 1995 FERC Form 1 report filed annually with the Commission.

10 Q. How was the timing difference for cost of removal calculated?

11 A. The tax deduction for cost of removal was based upon a four-year average of
12 the actual amounts incurred from 1992 through 1995.

13 Q. How did Staff calculate its recommended level of deferred income tax expense.

14 A. The Staff calculated its recommended level of deferred income tax expense
15 based upon the tax timing differences which require normalization treatment under Internal
16 Revenue Service (IRS) regulations.

17 Q. Please explain Income Statement adjustment S-18.

18 A. Income Statement adjustment S-18 reflects the amortization of the excess
19 deferred taxes resulting from the change in the federal income tax rate under the Tax Reform
20 Act of 1986. MPS is using the Average Rate Assumption Method (ARAM) to amortize the
21 excess deferred tax amounts.

22 Q Does this conclude your direct testimony?

Direct Testimony of
Steve M. Traxler

1

A. Yes, it does.

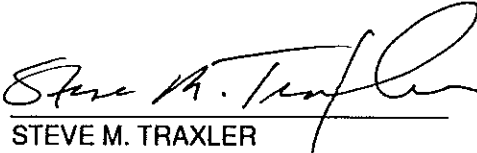
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the Earnings Review of	)	
UtiliCorp United Inc., d/b/a Missouri Public	)	Case No. EO-97-144
Service.	)	
and	)	
 The Staff of the Missouri Public Service	)	
Commission,	)	
	)	
Complainant,	)	Case No. EC-97-362
	)	
v.	)	
	)	
UtiliCorp United, Inc., d/b/a	)	
Missouri Public Service	)	
	)	
Respondent.	)	

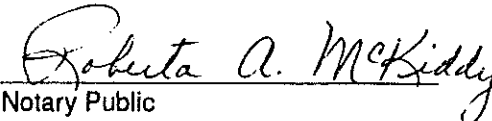
AFFIDAVIT OF STEVE M. TRAXLER

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Steve M. Traxler, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 39 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


STEVE M. TRAXLER

Subscribed and sworn to before me this 38th day of March, 1997.


Notary Public

My Commission Expires: ROBERTA A. McKIDDY
Notary Public, State of Missouri
County of Cole
My Commission Expires 09/11/99

Steve M. Traxler

SUMMARY OF RATE CASE INVOLVEMENT

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1978	Case No. ER-78-29	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1979	Case No. ER-79-60	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1979		Elimination of Fuel Adjustment Clause Audits (all electric utilities)		
1980	Case No. ER-80-118	Missouri Public Service Company (electric)	Direct Rebuttal	Contested
1980	Case No. ER-80-53	St. Joseph Light & Power Company (electric)	Direct	Stipulated
1980	Case No. OR-80-54	St. Joseph Light & Power Company (transit)	Direct	Stipulated
1980	Case No. HR-80-55	St. Joseph & Power Company (industrial steam)	Direct	Stipulated
1980	Case No. TR-80-235	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Contested
1981	Case No. TR-81-208	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1981	Case No. TR-81-302	United Telephone Company of Missouri (telephone)	Direct Rebuttal	Stipulated
1982	Case No. ER-82-66	Kansas City Power & Light Company	Rebuttal	Contested
1982	Case No. TR-82-199	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal	Contested
1982	Case No. ER-82-39	Missouri Public Service	Direct Rebuttal Surrebuttal	Contested
1990	Case No. GR-90-50	Kansas Power & Light - Gas Service Division (natural gas)	Direct	Stipulated

<u>Year</u>	<u>Case No.</u>	<u>Utility</u>	<u>Type of Testimony</u>	
1990	Case No. ER-90-101	UtiliCorp United Inc., Missouri Public Service Division (electric)	Direct Surrebuttal	Contested
1991	Case No. EM-91-213	Kansas Power & Light - Gas Service Division (natural gas)	Rebuttal	Contested
1993	Case Nos. ER-93-37	UtiliCorp United Inc. Missouri Public Service Division (electric)	Direct Rebuttal Surrebuttal	Stipulated
1993	Case No. ER-93-41	St. Joseph Light & Power Co.	Direct Rebuttal	Contested
1993	Case Nos. TC-93-224 and TO-93-192	Southwestern Bell Telephone Company (telephone)	Direct Rebuttal Surrebuttal	Contested
1993	Case No. TR-93-181	United Telephone Company of Missouri	Direct Surrebuttal	Contested
1993	Case No. GM-94-40	Western Resources, Inc. and Southern Union Company	Rebuttal	Stipulated
1994	Case Nos. ER-94-163 and HR-94-177	St. Joseph Light & Power Co.	Direct	Stipulated
1995	Case No. GR-95-160	United Cities Gas Co.	Direct	Contested
1995	Case No. ER-95-279	Empire Electric Co.	Direct	Stipulated
1996	Case No. GR-96-193	Laclede Gas Co.	Direct	Stipulated
1996	Case No. WR-96-263	St. Louis County Water	Direct Surrebuttal	Contested
1996	Case No. GR-96-285	Missouri Gas Energy	Direct Surrebuttal	Contested

DATA INFORMATION REQUEST
MO.PUB. EARNINGS INVESTIGATION
CASE NO. EO-97-144

Requested From: MAURICE ARNALL

Date Requested: 10/31/96

Information Requested:

PLEASE UPDATE OR PROVIDE THE NECESSARY SOURCE DOCUMENTS AND INSTRUCTION FOR THE STAFF TO UPDATE THE FOLLOWING AMOUNTS USED IN THE 1995 SURVEILLANCE RPT FOR AMOUNTS AS OF JUNE 30, 1996.

(1) DEFERRED INCOME TAXES - AAO - RATE BASE

(2) UNAMORTIZED 3% ITC BALANCE - RATE BASE

(3) INVESTMENT TAX CREDIT - NET - INCOME STATEMENT

(4) MISCELLANEOUS DEFERRED DEBITS - AAO BY ACTIVITY NO. - RATE BASE

(5) UPDATED INCOME & RATE BASE ALLOCATION FACTORS IF AVAILABLE FOR 1996 (ATTACHED SCHEDULE)

(6) PROVIDE ALLOCATED COMMON PLANT BY ACCOUNT SHOWING ALL ALLOCATED & DIRECTLY ASSIGNED AMOUNTS AT JUNE 30, 1996

(REFERENCE DR 48, EM 96-248)

Requested By: STEVE TRAXLER

Information Provided: _____

See attached

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EO-97-144 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the MO.PUB. EARNINGS INVESTIGATION office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to MO.PUB. EARNINGS INVESTIGATION and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By: _____

Maurice Arnall

Date Response Received: _____

Prepared By: _____

Allocation Factors - Utility

Basis	Description	Electric	Gas
1			
2			
3			
4			
8	Sales	86.89%	13.11%
9	Salaries & Office Exp	90.00%	10.00%
10			
11	Insurance	92.49%	7.51%
12	Injuries & Damages	94.02%	5.98%
13	Benefits	84.71%	15.29%
14			
15	A & G Maintenance	84.68%	15.32%
16	Ad Valorem Taxes	92.54%	7.46%
17			
18	Net Plant in Service	91.60%	8.40%
19	Def TAX - Accel Amort	86.48%	13.52%
20	Payroll - Production	100.00%	0.00%
	Transmission	83.87%	16.13%
	Distribution	76.02%	23.98%

Allocation Factors - Jurisdictional

Basis	Description	Juris	Non-Juris
1	100% Jurisdictional	100.00%	0.00%
2	100% Non-Jurisdictional	0.00%	100.00%
3	Demand	96.43%	3.57%
4	Transmission	96.43%	3.57%
5	Distribution	99.69%	0.31%
6	Total Plant	97.79%	2.21%
7	KWH	95.75%	4.25%
8			
9	Customer Acct	99.996%	0.004%
10	Total Payroll	98.59%	1.41%
11	Other Utilities	95.75%	4.25%
13	Weighted T&D	99.04%	0.96%

MISSOURI PUBLIC SERVICE
DETAIL OF TOTAL PLANT IN SERVICE LISTED ON THE SURVEILLANCE REPORT
DECEMBER 1995

FERC A/C	Description	Prop Under Cap Leases A/C 101.00	Plant in Service A/C 101.10 or 118.10	Plt in Ser- Retirement Pending A/C 101.90 or 118.90	Plant Utilized not in CPR A/C 101.97	Plant Utilized in CPR A/C 101.98	Total	GRAND TOTAL
	TOTAL A/C 118		58,851,609	(105,459)	139,828	1,754,854		\$ 58,440,832
188.90 MISCELLANEOUS DEFERRED DEBITS (relating to Accounting Authority Orders)								
Activity No.								
901585	Electric Deferral Prior to 10/90						2,713,805	
901641	Sibley Rebuild Deferral - 1992						1,883,310	
901642	Sibley Western Coal Deferral - 1992						901,367	
901568	Non-Juris Electric Deferral Prior to 10/90						124,915	
901569	Gas Deferral Prior to 10/90						787,352	
901570	Gas Deferral After 9/90						83,385	
	Total Miscellaneous Deferred Debits (AAO)							<u>\$ 6,274,114</u>
	TOTAL PLANT IN SERVICE							<u>\$ 950,883,953</u>

NPSC-11

	S:\SURVRPT\BASIS\DFTAXAAO.XLS		
	Deferred Taxes - AAO		
	December 1995		
	Electric	Gas	Common
283.00	(555,123.31)	(178,350.38)	0.00
283.01	(74,983.22)	(24,101.28)	0.00
283.02	0.00	(255,520.00)	0.00
283.03	0.00	(33,059.00)	0.00
283.04	(345,896.00)	0.00	0.00
283.05	(45,146.00)	0.00	0.00
	(1,021,148.53)	(491,030.66)	0.00

Total
1,512,179

UTILICORP UNITED INC
CASE NO. EO-97-144
DATA REQUEST NO. MPSC-47

DATE OF REQUEST: 10/31/96

DATE RECEIVED: 10/31/96

QUESTION: Please update or provide the necessary source documents and instruction for the staff to update the following amounts used in the 1995 surveillance RPT for amounts as of June 30, 1996.

- (1) Deferred income taxes - AAO - rate base
- (2) Unamortized 3% ITC balance - rate base
- (3) Investment Tax Credit - net - income statement
- (4) Miscellaneous deferred debits - AAO by activity no. - rate base
- (5) Updated income & rate base allocation factors if available for 1996 (attached schedule)
- (6) Provide allocated common plant by account showing all allocated & directly assigned amounts at June 30, 1996

(Reference DR 47, EM-96-248)

RESPONSE:

ATTACHMENTS: 1, 2, 3, 4, 5, 6

ANSWERED BY: Vic Nixdorf

Deferred Taxes - AAO			
6/30/96			
	Electric	Gas	Common
283.00	(539,523.31)	(170,058.38)	0.00
283.01	(72,535.22)	(22,799.28)	0.00
283.02	0.00	(243,574.00)	<i>1991</i> 0.00
283.03	0.00	(31,187.00)	<i>1991</i> 0.00
283.04	<i>1992</i> (322,004.00)	0.00	0.00
283.05	<i>1992</i> (41,396.00)	0.00	0.00
	(975,458.53)	(467,618.66)	0.00

Amortization of 3% ITC

	<u>TOTAL</u>	<u>ELECTRIC</u>	<u>GAS</u>
JUN	6,760	6,456	304
	624,960	595,252	29,708
JUL	6,760	6,456	304
	618,200	588,796	29,404
AUG	6,760	6,456	304
	611,440	582,340	29,100
SEP	6,760	6,456	304
	604,680	575,884	28,796
OCT	6,760	6,456	304
	597,920	569,428	28,492
NOV	6,760	6,456	304
	591,160	562,972	28,188
DEC	6,760	6,456	304
	584,400	556,516	27,884
JAN 96	6,760	6,456	304
	577,640	550,060	27,580
FEB	6,760	6,456	304
	570,880	543,604	27,276
MAR	6,760	6,456	304
	564,120	537,148	26,972
APR	6,760	6,456	304
	557,360	530,692	26,668
MAY	6,760	6,456	304
	550,600	524,236	26,364
JUN	6,760	6,456	304
	543,840	517,780	26,060

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MPS

MISSOURI PUBLIC SERVICE
NET INCOME LEDGER
JUNE 1996

PAGE: 121
ACCOUNT NO. 411.40
COMMON

411.40 - PROV-DIT-ITC UTL-FED		COMMON		BALANCE FORWARD		
REFERENCE	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE
DN DLO1023	73,400.00-	73,400.00-		73,400.00-	73,400.00-	73,400.00-
DN DL10023			73,400.00-			
TOTAL BY MONTH	73,400.00-	73,400.00-	73,400.00-	73,400.00-	73,400.00-	73,400.00-
MTD BALANCE	73,400.00-	146,800.00-	220,200.00-	293,600.00-	367,000.00-	440,400.00-
TOTAL DOLLARS POSTED						440,400.00-
BALANCE TO DATE						440,400.00-
TOTAL BALANCE FOR FERC --- 411.40						440,400.00-

Misc. Deferred Debits (relating to Accounting Authority Orders)

Activity No.	Description	Total
901565	Electric Deferral Prior to 10/90	2,622,091
901641	Sibley Rebuild Deferral - 1992	1,615,784
901642	Sibley Western Coal Deferral - 1992	875,615
901566	Non-Juris Electric Deferral Prior to 10/90	120,691
901569	Gas Deferral Prior to 10/90	760,810
901570	Gas Deferral After 9/90	81,007
	<i>Total Miscellaneous Deferred Debits (AAO)</i>	<u><u>\$6,075,998</u></u>

12/95	ELEC ALLOC	GAS ALLOC
UTILITY ALLOCATION FACTOR	FACTOR	FACTOR
1 100 % ELECTRIC	100.00%	0.00%
2 100 % GAS	0.00%	100.00%
3 100 % NON-UTILITY	0.00%	100.00%
4		
5 CUST ACCTS W/O BAD DEBTS	75.63%	24.37%
6 CUST ACCTS - BAD DEBTS	85.27%	14.73%
7 CUST SERVICES	81.43%	18.57%
8 SALES	88.22%	11.78%
9 SALARIES & OFC SUPP	87.49%	12.51%
A & G RENTS		
TRANSPORTATION O & M		
DEPR COMMON PLANT		
AMORT COMMON PLANT		
P/R % P/R TAXES		
10 OUTSIDE SERV		
11 INSURANCE	89.97%	10.03%
12 INJ & DAMAGES	80.44%	19.56%
13 BENEFITS	85.89%	14.11%
14 GENERAL EXP		
15 A & G MAINT	91.75%	8.25%
16 AD VALOREM TAXES	92.41%	7.59%
17 MERCHANTS LICENSE		
18 NET PLANT IN-SERVICE	91.28%	8.72%
CORPORATE FRANCHISE		
19 DEF TAX-ACCEL AMORT	74.97%	25.03%
20 PAYROLL - PROD	100.00%	0.00%
21 - TRANSMISSION	84.94%	15.06%
22 - DISTRIBUTION	77.65%	22.35%

JURISDICTIONAL ALLOCATION	JURIS ALLOC	NON-JURIS
	FACTOR	ALLOC FACTOR
1 100% JURISDICTIONAL	100.00%	0.00%
2 100% NON-JURIS	0.00%	100.00%
3 DEMAND	95.95%	4.05%
4 TRANSMISSION	95.95%	4.05%
5 DISTRIBUTION	99.67%	0.33%
6 TOTAL PLANT	97.59%	2.41%
7 KWH update @ 12/95	95.75%	4.25%
8		
9 CUSTOMER ACCTS	99.996%	0.004%
10 TOTAL PAYROLL	98.38%	1.62%
11 OTHER UTILITIES	95.75%	4.25%
12		0.00%

(6)

**Missouri Public Service
Allocated Rate Base**

Jun-96

		Total Company	Electric*	Elec Juris**	Elec Non-Juris**	Gas	Allocation Method
Plant In Service							
101	Electric	839,359,872	839,359,872	819,131,299	20,228,573	0	6
101	Gas	65,562,372	0	0	0	65,562,372	Direct
118	Common	58,077,474	50,811,982	49,587,413	1,224,569	7,265,492	6, 9
Total Plant in Service		962,999,718	890,171,854	868,718,712	21,453,142	72,827,864	
Reserve for Depreciation							
108,111	Electric	290,282,792	290,282,792	283,286,977	6,995,815	0	6
108,111	Gas	13,315,752	0	0	0	13,315,752	Direct
108,119	Common	30,425,747	26,619,486	25,977,956	641,530	3,806,261	6, 9
Total Reserve		334,024,291	316,902,278	309,264,933	7,637,345	17,122,013	
Net Plant in Service		628,975,427	573,269,576	559,453,779	13,815,797	55,705,851	

* Jurisdictional allocations utilize Basis 6 - Total Plant

Juris 97.59%

Non-Juris 2.41%

** Utility allocations utilize Basis 9 - Salaries and Wages

Electric 87.49%

Gas 12.51%

No. 155

DATA INFORMATION REQUEST
MPS EARNINGS INVESTIGATION
CASE NO. EO-97-144

Requested From: MAURICE ARNALL

Date Requested: 01/10/97

Information Requested:

PROVIDE ALL WORKPAPERS SUPPORTING THE CALCULATION OF THE UPDATED DEPARTMENTAL AND JURISDICTIONAL ALLOCATION FACTORS PROVIDED IN RESPONSE TO DR 47.

Requested By: STEVE TRAXLER

Information Provided:

See attached

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EO-97-144 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their location (2) make arrangements with requestor to have documents available for inspection in the MPS EARNINGS INVESTIGATION office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to MPS EARNINGS INVESTIGATION and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By:

Maurice Arnall

Date Response Received: _____

Prepared By: _____

**UTILICORP UNITED INC
CASE NO. EO-97-144
DATA REQUEST NO. MPSC-155**

DATE OF REQUEST: 01/08/97

DATE RECEIVED: 01/08/97

QUESTION: Provide all workpapers supporting the calculation of the updated departmental and jurisdiction allocation factors provided in response to DR 47.

RESPONSE:

The most current factors used for utility and jurisdictional allocations are those detailed and supported in DR 47.

ANSWERED BY: Vic Nixdorf

MEMO

To: Maurice Arnall
From: Steve Traxler
Subject: Response to DR's 106 & 155
Date: March 28, 1997

Data Requests 106 & 155 are being returned because the response does not answer the question asked. Data Request 155 asks for the specific mathematical calculations supporting the calculation of the departmental and jurisdictional allocation factors provided in response to DR 47. Your response to DR 155 suggests that the allocation factors provided in response to DR 47 were supported by information supplied in that response. I have provided a copy of the response to DR 47 with this MEMO. There are 20 separate allocation factors. None of these are supported by a work paper which provide the calculation of the factor. Without having a work paper which provides the numbers, mathematical calculation, and source of the numbers, it is impossible for me to audit the calculation of the allocation factors. In addition I had to wait 21 days to receive a response that does not provide any of the information I need to audit the allocation factors provided in response to DR 47.

Data Request 106 asks for ledgers by activity code for accounts 924 & 925. None of the ledgers provided were by activity code. In order to limit the additional delay in getting this information, we will limit this part of the request to providing an activity ledger for accounts 924 & 925 for 1995. The activity ledger for 1996 for these accounts has been requested in another DR.

The description of the insurance policies (Item 1) appears to be outdated. All of the policies listed have an expiration date of 12/1/96 or prior. This description is only current if every policy listed was renewed for the same coverage amounts and no new policies have been added or deleted for the 1996 - 1997 year.

The Cost of Risk Factors (Item 2) appears to be outdated. The term for the costs reflected is 12/1/1995 to 12/1/1996. Seven of the policies reflected on the description summary (Item 1) have expiration dates of 12/1/1996. Since Item 2 does not provide cost amounts beyond 12/1/1996, it appears that the current cost for the period 12/1/1996 - 12/1/1997 has not been provided. Our question asks for the most current premiums in effect.

It also appears that the cost data supplied in Item 2 includes something in addition to actual premium amounts. The current information on Item 2, when provided, should reflect separate amounts for premium cost and any other accrual amount that UCU may include in a Cost of Risk Factor. DR 106 asked for current, actual premium data. If my interpretation of the response to DR 106 is incorrect please call me.

In summary, this is the second MEMO, I have written in two days to address DR responses which clearly don't provide the information asked for. I hope that you and I can

Maurice Arnall
Page 2
March 28, 1997

eliminate this problem so that it is not necessary to get our legal people involved.

MEMO

To: Maurice Arnall
From: Robert S. O'Keefe
Subject: Information Requested
Date: February 27, 1997

The following reports were referenced in our meeting with Dennis Teague of 02/27/97, as being readily available.

- Paid Loss Reports for UCU and MPS for the last ten years
- The most current insurance premiums sheet that Mr. Teague referenced in the meeting

These reports will fulfill the following parts of the following Data Requests previously asked and not yet responded to.

<u>Data Request</u>	<u>Days Outstanding</u>
DR 107 part 2	70
DR 106 payment schedule	70
DR 165 part 2	42
DR 208 part 4	34
DR 211 part a	28

To: Steve Traxler, 737-7541
David Mansfield
Robert O'Keefe
David Woodsmall, 573-751-1847
Jim Dittmer, 525-5258

From: Maurice L. Arnall *MA/CL*

Date: March 17, 1997

RE: Data Request Responses

The following data requests have been received by UtiliCorp within the last ten (10) days:

1200-1210
821-824

In accordance with 4 CSR 240-2.090 (2), I am notifying you that we will be unable to respond to these data requests within twenty (20) days for the following reasons:

1. The volume of open requests, including these new ones, is such that our limited staff cannot answer all of these requests in this time period even if we worked on them full time;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273, GR-96-192, and EC-97-362.
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests has been taken up by scheduling and attending the interviews requested by Staff in EO-97-144.

UtiliCorp will make every effort to answer the above listed data requests as soon as possible, but in any event will answer all of them by April 21, 1997.



To: Steve Traxler, 737-7541
David Woodsmall, 573-751-1847
Kenneth Christie, 573-751-0429

From: Maurice L. Arnall *MLA/KA*

Date: March 11, 1997

RE: Data Request Responses

The following data requests have been received by UtiliCorp within the last ten (10) days:

294
297-302
4104

In accordance with 4 CSR 240-2.090 (2) I am notifying you that we will be unable to respond to these data requests within twenty (20) days for the following reasons:

1. The volume of open requests, including these new ones, is such that our limited staff cannot answer all of these requests in this time period even if we worked on them full time;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273, GR-96-192, and EC-97-362.
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests has been taken up by scheduling and attending the interviews requested by Staff in EO-97-144.

UtiliCorp will make every effort to answer the above listed data requests as soon as possible, but in any event will answer all of them by April 21, 1997.

We object to data request 296 because it pertains to gas operations and EO-97-144 is an electric earnings investigation.

UTILICORP UNITED
ENERGY ONE

To: Steve Traxler, 737-7541
Jim Dittmer, 525-5258
David Woodsmall, 573-751-1847

From: Maurice L. Arnall *MLA/ gkm*

Date: February 28, 1997

RE: Data Request Responses

The following data requests have been received by UtiliCorp within the last ten (10) days:

288-295 (We have not yet received data request 294)
815-820

In accordance with 4 CSR 240-2.090 (2) I am notifying you that we will be unable to respond to these data requests within twenty (20) days for the following reasons:

1. The volume of the requests is such that our limited staff cannot answer all of these requests in this time period even if we worked on them full time;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273 and GR-96-192;
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests will be taken up by scheduling and attending the interviews requested by Staff in EO-97-144.

UtiliCorp will make every effort to answer the above listed data requests as soon as possible, but in any event will answer all of them by April 14, 1997.



To: Steve Traxler, 737-7541
Robert O'Keefe
Jim Dittmer, 525-5258
David Woodsmall, 573-751-1847

From: Maurice L. Arnall

Date: February 25, 1997

RE: Risk Management Data Requests and Interview Request

I have reviewed the data requests (answered as well as pending) relating to the Risk Management area and your request for another meeting with Dennis Teague. In recognition of your stated desire to gain a better understanding of the process, we have arranged for an informal discussion meeting with Dennis and others this Thursday, February 27, 1997. The purpose of this meeting is to discuss the process by which Risk Management costs reach the Missouri accounts. Since this will be an informal meeting with multiple participants, it will not be transcribed. It is apparent from data requests 289 and 290 that you already have a fairly good understanding of the process. Thursday's meeting will not go into the specific details of the Risk Management accounting process since this is the subject of requests 289 and 290. Those discussions will be deferred until the requests are answered.

In accordance with 4 CSR 240-2.090 (2) I am notifying you that we will be unable to respond to data requests 289 and 290 within twenty (20) days for the following reasons:

1. The volume of pending requests is such that our limited staff cannot answer all of them in the twenty days allowed by Commission regulations;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273 and GR-96-192;
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests will be taken up by scheduling and attending the interviews requested by Staff in EO-97-144;
5. These particular requests require a significant amount of work to be performed by the UtiliCorp Accounting Services staff in Raytown. This staff is currently heavily involved in the preparation of various year end reports including the annual report to shareholders, the FERC Form 1, the Missouri Commission annual report and others. It would be unduly burdensome to work on responses to these requests until this other work is complete. This staff will be unable to resume work on data requests until after March 31, 1997.

UtiliCorp will make every effort to answer these data requests as soon as possible, but in any event will answer both them by April 30, 1997.

UTILICORP UNITED
ENERGY ONE

To: Steve Traxler, 737-7541
Jim Dittmer, 525-5258
Jay Moore
David Woodsmall, 573-751-1847

From: Maurice L. Amall *MA/afm*

Date: February 20, 1997

RE: Data Request Responses

The following data requests have been received by UtiliCorp within the last ten (10) days:

242
277-287
780-812

In accordance with 4 CSR 240-2.090 (2) I am notifying you that we will be unable to respond to these data requests within twenty (20) days for the following reasons:

1. The volume of the requests is such that our limited staff cannot answer all of these requests in this time period even if we worked on them full time;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273 and GR-96-192;
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests will be taken up by scheduling and attending the interviews requested by Staff in EO-97-144.

UtiliCorp will make every effort to answer the above listed data requests as soon as possible, but in any event will answer all of them by April 7, 1997 or later.



To: Steve Traxler, 737-7541
Jim Dittmer, 525-5258
David Woodsmall, 573-751-1847

From: Maurice L. Arnall

Date: February 4, 1997

RE: Data Request Responses

The following data requests have been received by UtiliCorp within the last ten (10) days:

2907
239
248
249
756 - 768
252 - 254

In accordance with 4 CSR 240-2.090 (2) I am notifying you that we will be unable to respond to these data requests within twenty (20) days for the following reasons:

1. The volume of the requests is such that our limited staff cannot answer all of these requests in this time period even if we worked on them full time;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273 and GR-96-192;
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests will be taken up by scheduling and attending the interviews requested by Staff in EO-97-144.

UtiliCorp will make every effort to answer the above listed data requests as soon as possible, but in any event will answer all of them no later than March 31, 1997.

SCHEDULE 6-6

UTILICORP UNITED
ENERGY ONE

To: Steve Traxler
Jim Dittmer
Jay Moore
David Woodsmall 523 751 1847

From: Maurice L. Arnall

Date: February 3, 1997

RE: Data Request Responses

The following data requests have been received by UtiliCorp within the last ten (10) days:

206 - 210
3801 - 3818
738 - 752
211 - 212
214 - 247
753 - 755
250

In accordance with 4 CSR 240-2.090 (2) I am notifying you that we will be unable to respond to these data requests within twenty (20) days for the following reasons:

1. The volume of the requests is such that our limited staff cannot answer all of these requests in this time period even if we worked on them full time;
2. Our staff also has other matters which need attention including, but not limited to, GA-97-132, GR-95-273 and GR-96-192;
3. UtiliCorp is preparing a comprehensive competitive rate filing scheduled to be filed by March 31, 1997. Personnel who have had the responsibility for responding to data requests are the same who have the responsibility for preparing the competitive filing;
4. Some of the time available for responding to data requests will be taken up by scheduling and attending the interviews requested by Staff in EO-97-144.

UtiliCorp will make every effort to answer the above listed data requests as soon as possible, but in any event will answer all of them no later than March 31, 1997.

12/27/96

14:20

UTILITECH, INC. → 8164678810

NO. 014

087

UTILICORP d/b/a MISSOURI PUBLIC SERVICE
DATA INFORMATION REQUEST
CASE NO. EO-97-144

No. 704

Requested From: Maurice Ansell
Date Requested: December 27, 1996
Information Requested:

The 1995-1999 Budget Guidelines for Missouri Public Service (DR 376 from EO-97-144) state, in part, that "[f]lexible budgets are to be prepared consistent with previously issued guidelines, for Base, Contingency and Excess conditions." Please provide complete copies of the "flexible budgets" as well as "previously issued guidelines" for the Base, Contingency and Excess conditions.

Requested By: Jim Dittmer

Information Provided: See attached

The attached information provided to the Missouri Public Service Commission Staff in response to the above data information request is accurate and complete, and contains no material misrepresentations or omissions, based upon present facts of which the undersigned has knowledge, information or belief. The undersigned agrees to immediately inform the Missouri Public Service Commission Staff if, during the pendency of Case No. EO-97-144 before the Commission, any matters are discovered which would materially affect the accuracy or completeness of the attached information.

If these data are voluminous, please (1) identify the relevant documents and their locations (2) make arrangements with requestor to have documents available for inspection in the UTILICORP/MPS Raytown office, or other location mutually agreeable. Where identification of a document is requested, briefly describe the document (e.g. book, letter, memorandum, report) and state the following information as applicable for the particular document: name, title, number, author, date of publication and publisher, addresses, date written, and the name and address of the person(s) having possession of the document. As used in this data request the term "document(s)" includes publication of any format, workpapers, letters, memoranda, notes, reports, analyses, computer analyses, test results, studies of data, recordings, transcriptions and printed, typed or written materials of every kind in your possession, custody or control within your knowledge. The pronoun "you" or "your" refers to UTILICORP/MPS and its employees, contractors, agents or others employed by or acting in its behalf.

Signed By: Maurice Ansell

Date Response Received: _____

Prepared By: _____

SCHEDULE 7-1

**UTILICORP UNITED INC
CASE NO. EO-97-144
DATA REQUEST NO. MPSC-704**

DATE OF REQUEST: 12/27/96

DATE RECEIVED: 12/27/96

QUESTION: The 1995-1999 Budget Guidelines for Missouri Public Service (DR 376 from EO -97-144) state, in part, that "flexible budgets are to be prepared consistent with previously issued guidelines, for Base, Contingency and Excess conditions." Please provide complete copies of the "flexible budgets" as well as "previously issued guidelines" for the Base, Contingency and Excess conditions.

RESPONSE: MPS did not submit flexible budgets. The "previously issued guidelines" were originally issued with the 1994 budget process and are attached.

ATTACHMENTS: Untitled "budget guidelines" (1 page)

ANSWERED BY: Allison Moten, UtiliCorp Regulatory Services

The base level reflects expenditures necessary to meet minimum regulatory, legislative, fiduciary, customer service, and safety requirements and maintain the long term corporate values and principles identified at the July Presidents' meeting. We are a company that believes in building long-term value that attempts to not sacrifice short-term gain for long-term value, therefore we should not sacrifice this belief for short-term gains. Attached is a listing of general spending areas with guidelines and examples to help you develop this case.

The contingency level is a level or levels between budget and base, and is determined individually by each division to achieve improved earnings with minimal effect on division operations on a short-term basis. For example, it might include accounting adjustments, increased capital allocations, capital asset sales, etc. This very well could result in two contingency levels given the types of items which may improve earnings and the adverse ramifications they might have on our business.

The approved level should be targeted at the Division's authorized rate of return or whatever other level is appropriate based on circumstances unique to each division. This level should represent a general enhancement of corporate values. This level will be the approved budget by the parent company.

The excess earnings plan represents a well thought out plan to utilize excess earnings through additional expenses or investments that each division could trigger which further enhances corporate value long-term. Examples could be additional training, accelerated maintenance, accelerated accounting adjustments, new business start up, preparing for the next down turn in business, etc.

Each division's flexible budget presentation should include a discussion of the value judgments made by division/subsidiary management. At each level management should be able, by budget line item, to explain and rationalize the dollar amounts submitted under the base case scenario. It is also recognized that contingency savings will decrease as the year progresses; the overall level of contingency savings available at the end of each quarter should be identified.