

Exhibit No.:
Issue: Distribution Operations
Witness: Stephen L. Pella
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Sponsoring Party: UtiliCorp United Inc.
Case No.:

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Stephen L. Pella

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Examiner RL

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEPHEN L. PELLA
ON BEHALF OF UTILICORP UNITED INC.**

CASE NO.

1 Q. Please state your name and business address.

2 A. My name is Stephen L. Pella and my business address is 20 W. 9th St., Kansas City, MO
3 64105.

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

5 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as Vice President of Energy
6 Delivery.

7 Q. Would you briefly describe your educational background and employment history?

8 A. I received a Bachelor of Science degree, with a major in mathematics and minors in
9 computer science and sociology, from the University of Nebraska at Lincoln in 1973.

10 After graduation I worked in the computer services area for the Boeing Company as a

11 systems analyst. In 1977 I began employment with Enron, then known as Northern

12 Natural Gas, as a systems analyst and project manager. In 1983, I was transferred to

13 Enron's Peoples Natural Gas division, which was acquired by UtiliCorp in 1985. During

14 my tenure at Peoples and UtiliCorp, I served in a number of capacities including Director

15 of Information Systems, General Manager of Information and Technical Services, Vice

16 President of Integrated Services, Vice President of Administration and Vice President of

17 Energy Delivery Services prior to being named to my present position in 1997.

18 Q. What are your current duties and responsibilities with UtiliCorp?

1 A. I am responsible for UtiliCorp's electric and gas distribution services. This includes
2 oversight of network operations, asset management, customer services, marketing and
3 sales, and purchasing and materials management. My role includes the recent assignment
4 as co-lead of the distribution transition teams, responsible for the integration of The
5 Empire District Electric Company ("Empire") with UtiliCorp.

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

7 A. I will briefly describe the electric distribution facilities of the two companies and discuss
8 how the combined company will operate the electric distribution system of Empire. I will
9 also describe the gas distribution facilities of Missouri Public Service ("MPS"). In
10 addition, I will provide an overview of how UtiliCorp intends to manage the operations of
11 the Empire's water systems.

12 Q. Please provide a general description of UtiliCorp's existing distribution systems.

13 A. UtiliCorp owns and operates gas distribution systems in eight states and electric
14 distribution facilities in four states. We serve approximately 828,000 gas and 365,000
15 electric customers in the U.S. Our service territory is largely rural and suburban and is
16 comprised of 22,879 miles of gas distribution pipes and 15,200 miles of electric
17 distribution line.

18 Our MPS operations serve almost 202,000 electric and 48,000 gas customers in Missouri.

19 These customers are served by 1,029 miles of gas distribution main and by 6,344 pole
20 miles of electric distribution line. The Missouri gas and electric distribution properties
21 are serviced by 326 customer and network field employees.

22 Q. How do the Missouri electric distribution facilities compare to those of Empire?

1 A. In many respects both distribution systems are quite similar. All are well maintained and
2 geographically dispersed. All have a history of low cost, customer focused service, and
3 are therefore complementary in their operational approach. The merger will provide a
4 good fit with UtiliCorp's existing operations and are consistent with our strategy of
5 acquiring electric and gas utility operations where synergies and economies of scale can
6 be realized.

7 UtiliCorp's MPS operations cover a territory that is larger and slightly more densely
8 populated than Empire. Empire has a central urban core area surrounded by a large rural
9 service territory. It serves 24 customers per pole mile compared to 32 customers per pole
10 mile for MPS. Both companies have high customer satisfaction ratings and good
11 reliability as measured by customer surveys. A more comprehensive comparison of
12 distribution service statistics is presented in Schedule SLP-1.

13 Q. What will result from the fact that the systems are similar in nature?

14 A. This will make it easier to obtain synergies in the operation of the electric distribution
15 facilities.

16 Q. Please explain.

17 A. Over the years, UtiliCorp has refined the methods used in operating its distribution
18 system and for transitioning those methods to newly acquired properties. There are, of
19 course, a number of factors that impact our ability to enhance the new properties. The
20 fact that Empire is in close proximity to our own service territory certainly makes it easier
21 to share services and apply our distribution model.

1 Further, the extent to which an acquired company already resembles UtiliCorp's model
2 impacts our ability to bring added value. For example, Empire, over the past few years,
3 has done an excellent job in reducing costs without impacting service and reliability.

4 Q Have you examined all areas of operations?

5 A. Yes we have, and a few select areas in the placement and utilization of field offices will
6 provide some potential although at a relative nominal level of cost savings. The greatest
7 opportunities for adding value to the distribution operations of these two companies is
8 through economies of scale and value added services that can economically be added
9 because of a larger mass.

10 In this regard, UtiliCorp understands very well how to operate in a geographically
11 dispersed territory. And we understand the important differences between a metropolitan
12 model of operation and a rural model where multiple skillsets and centralized dispatching
13 are critical to success.

14 Q. How does UtiliCorp intend to operate the water system at Empire which serve 4,500
15 customers?

16 A. UtiliCorp will manage the day to day operations of the water system in the Missouri
17 communities of Aurora, Marionville and Verona in much the same fashion as it is
18 currently being operated at Empire. UtiliCorp will integrate the water operations right
19 along with the electric operations under its its distribution model used for its existing
20 electric and gas systems. This will not directly effect the day to day operations which
21 will be handled by a dedicated supervisor with an assigned maintenance crew. This
22 supervisor will report through the regional network operations management group. The
23 local customer service field support will report through the regional customer operations

1 management group. The other customer support functions will be integrated with the
2 existing UtiliCorp centralized work centers and systems. These platforms, described in
3 detail below, include all of the other customer interfaces like billing and service dispatch,
4 work management, materials management, and financial systems. Each will be tailored
5 to meet the specific requirements particular to a water system.

6 Q. What background and experience does UtiliCorp bring to the merged company with
7 respect to operating a water system?

8 A. Various operating divisions of UtiliCorp, including WestPlains Energy, Peoples Natural
9 Gas, and MPS have owned and/or operated water systems over the past couple of
10 decades.

11 Q. Will Empire customers see any benefits from application of the UtiliCorp model?

12 A. Yes. UtiliCorp believes that in order to be successful, we must concentrate on the needs
13 of our customers. We have established a Customer Care program that focuses on the core
14 customer values of access, image, performance and results. Definition of these core
15 values and our written commitment to our customers is detailed in Schedule SLP-2. In
16 order to meet this commitment, it has been necessary to identify and develop a number of
17 enabling systems.

18 UtiliCorp began this development process in 1995 and since that time has made
19 significant investments to improve the reliability and responsiveness of our assets. A
20 good portion of this investment was through our Project BTU ("Building Tomorrow's
21 UtiliCorp") re-engineering effort. Through Project BTU, UtiliCorp has been upgrading
22 its customer service capability across its service territories. Features include 24-hour per
23 day and 7-day per week customer service center availability; billing and information

1 systems designed and implemented to provide greater account detail and address Year
2 2000 computer issues; new materials management systems; computer-aided dispatching
3 that allows service technicians to operate more remotely and efficiently; a facilities
4 management and mapping enabler ("FAME") that provides automated mapping
5 technology directly interfaced with systems operations; and additional technology
6 advancements to improve communications and service to customers. Conversion of the
7 newly merged properties to these systems will begin upon approval of this transaction
8 and will enable more responsive customer service and efficient operations.

9 Q. Can you provide more details of the re-engineering projects?

10 A. All the re-engineered systems have either been implemented or are in their final stage of
11 implementation. I will briefly summarize some of the major systems that will benefit our
12 new customers.

13 **Customer Service Centers** - UtiliCorp receives almost 3 million inquiries each year
14 from its customers. Creation of three customer service centers that have standardized
15 processes, consistent technology and uniform training will make it easier for our
16 customers to contact us and receive consistent service. One of these centers is located in
17 Missouri, one in Nebraska and one in Michigan, thereby providing immediate back-up in
18 the event of a system failure. These centers offer "first touch" solutions, with the
19 objective of providing appropriate assistance on the first try to customers seeking
20 information or assistance. Centers utilize standardized equipment and procedures with
21 skills based routing of calls, thereby matching the call type with the employee's greatest
22 skill, and are monitored for performance through specific measures.

1 **Computer Aided Dispatching** - enables UtiliCorp to centralize and automate the
2 scheduling and dispatching of field work and streamline the order fulfillment process.
3 Customer service representatives can access the work schedules and skillset of our field
4 crews and thereby make accurate scheduling commitments that fit the customers'
5 schedule. Errors in scheduling are reduced substantially through automation and over
6 500 field technicians' vehicles are equipped with mobile data terminals so they can
7 receive work orders with account detail and changes without returning to a field office.
8 UtiliCorp plans to use mobile computing to transmit and complete over 1.3 million
9 customer service order per year while eliminating paper processing. This is particularly
10 beneficial in the rural territories we serve where company personnel have to cover a wide
11 geographical territory.

12 **Customer Information System** - enables the automation and integration of virtually
13 every aspect of customer account management into a single system across the company.
14 This system increases the efficiency and accuracy of gathering meter data, calculating
15 bills, provision of billing data, detailed revenue analysis and performance of credit and
16 collection processes. Resolution of customer billing inquiries is enhanced through
17 readily available information and greater account detail.

18 **Facilities Management and Mapping** - allows engineering, operations and other
19 personnel to electronically view the existing systems, optimize design of system
20 extensions, and model and analyze the system. The computer mapping interfaces with
21 various systems which enables system analysis, outage reporting, and eventual project
22 estimating and work scheduling.

1 **Financial Systems** - redesign of a standardized general ledger system integrated with
2 other systems for on-line information uses the same platform as Empire. This
3 consistency should ease the transition, maintain consistent information and enable us to
4 implement uniform customer service oriented processes more rapidly.

5 Q. What will happen with respect to the operation of the electric distribution systems.

6 A. They will be combined.

7 Q. Please explain.

8 A. As indicated in the testimony of a number of other witnesses, generation will be jointly
9 dispatched, the transmission assets will be operated as a single system, and enterprise
10 support functions will be combined. Likewise, in order to take advantage of all synergies
11 to the extent possible, distribution operations will be combined under my direction.

12 Q. Will system reliability be impacted by any of these changes?

13 A. No. An independent customer opinion survey conducted for Empire and regional
14 utilities confirmed that Empire scored above the average in providing reliable and
15 dependable electric service. The UtiliCorp systems have all operated well above the
16 norm in terms of service reliability. As a combined entity, UtiliCorp will strive to
17 provide quality and reliable service. We understand that our customers expect safe and
18 reliable service and we are committed to meeting their expectations. To that end, we
19 have established reliability performance metrics that are monitored and reported monthly
20 to senior management. UtiliCorp is committed to implementing this same reporting
21 process at Empire that will shore up any inconsistencies of data inputs to ensure
22 information that is comparable across all of UtiliCorp. Furthermore, UtiliCorp will take

1 the appropriate actions warranted where performance is below reliability benchmarks per
2 industry standards.

3 Q. How do you plan to implement the changes necessary to combine these entities?

4 A. Transition teams have been formed to confirm synergies identified during our original
5 due diligence reviews, identify additional opportunities and develop an implementation
6 plan.

7 Q. As co-lead of the distribution transition teams, what are your responsibilities?

8 A. I have joint responsibility for all facets of the respective distribution transition teams. To
9 help carry out that responsibility, we have created five sub-teams that are focusing on
10 Network, Customer, Marketing and Sales, Supply Chain Management (purchasing,
11 materials, fleet and facilities), and Community and Economic Development. Each of
12 those groups, under the supervision of the co-leaders, will create a detailed work plan to
13 create and implement a new process design and integrated operations. Their work
14 includes development of work process flows, organization structure development,
15 position identification, work force integration, identification of additional value added
16 opportunities, and establishment of performance metrics. In her testimony in this
17 proceeding, UtiliCorp witness Vicki Heider discusses more fully the transition planning
18 process.

19 Q. What effect will this merger have on the electric and gas customers of MPS?

20 A. The existing customers of MPS will not be harmed in any way by the merger of these two
21 companies. The customers of MPS will accrue the benefits of a company that 1) will
22 expand its "operating utility intelligence"; and 2) will improve its "major outage response
23 time". For example under part 1: the addition of the Empire employee base will add

1 creative and experienced human resources to assist UtiliCorp in its evolution to building
2 better work processes and practices to serve customers. Under part 2, the customers of
3 MPS will benefit from the increased availability of readily deployable resources from
4 Empire to respond to major storm outages.

5 Q. What will be the impact on employees by the implementation of the recommendations of
6 the transition team?

7 A. The greatest impact on employees will likely occur as a result of the combination of
8 corporate and administrative activities with UtiliCorp's existing operations. As I
9 indicated earlier, we anticipate that distribution operations will also be combined into one
10 business unit with consistent processes. Some operational efficiencies are likely to be
11 realized by improving work processes and eliminating duplicate activities. However, we
12 will still need the services of the vast majority of our field employees in order to deliver
13 the level of safety, reliability and customer service that is expected. Moreover, while
14 some positions may ultimately be eliminated, that does not equate to termination of
15 employees. Impacted employees will be offered the opportunity and encouraged to apply
16 for other openings within UtiliCorp. Those unable to find employment within UtiliCorp
17 or who choose not to relocate will be offered coverage as defined in the Empire severance
18 package.

19 Q. Will employee benefits be reduced?

20 A. No. By terms of the agreement with Empire, existing benefit plans will remain in place
21 for a period of eighteen months. Following this period of time, UtiliCorp will offer
22 benefits to Empire employees that are substantially comparable to those they currently

1 enjoy by integrating Empire employees into UtiliCorp's existing benefit plans. The
2 benefits information is discussed in detail in Mr. Brownings direct testimony.

3 Q. What will be the impact on Joplin and other communities currently served by Empire?

4 A. There should be no adverse impact. Community and civic involvement along with
5 economic development have long been important to UtiliCorp. We recognize the
6 significant economic development and community support activities being provided by
7 Empire and are committed to continuing support for economic development and
8 community activities in the future. In fact, our merger agreement with Empire
9 specifically states that UtiliCorp will maintain charitable contributions and economic
10 development spending at no less than the current levels. A five-member community
11 advisory board will be appointed for the Empire service territory. The board will meet
12 quarterly with UtiliCorp representatives to guide our community support efforts in the
13 Empire service area. Additionally, UtiliCorp intends to move forward with the expansion
14 of its Community Advisory Council program into the Empire service territory. This
15 program is a two way communication forum for representatives of major communities and
16 UtiliCorp to provide mutually beneficial support to each other.

17 Q. Do you have any final comments?

18 A. Yes. I truly believe this transaction is a win-win proposition. The merger will bring
19 additional career opportunities and enhanced benefits for employees. And customers will
20 receive the safe, reliable service they expect. As new processes are implemented, we
21 should see stable or improved customer service. Since it is my understanding that
22 separate rate areas will be maintained, customers in the Empire service territory will
23 retain their relatively low rates and through synergies gained from the merger with

1 UtiliCorp will realize lower rates in comparison to what they otherwise would have
2 experienced without the merger.

3 Q. Does this conclude your direct testimony?

4 A. Yes, it does.

Comparison of Distribution Operations

<u>Category</u>	<u>UtiliCorp - Total</u>	<u>UtiliCorp - Missouri</u>	<u>Empire</u>
Electric customers	365,000	201,745	143,000
Gas Customers	828,000	48,379	N/A
Water Customers	N/A	N/A	4,500
Dist. Pole miles	15,200	6,344	6,008
Dist. Gas main	22,879	1,029	N/A
Employees	2,900	546	626
Elec. Distribution			
O&M per customer	\$105.86	\$106.85	\$117.62

CUSTOMER CARE

CUSTOMER VALUES

Access	Convenient, simple, quick
Image	Pleasant, professional, consistent
Performance	Accurate, single contact point
Results	Commitments met, done right the first time

OUR COMMITMENT TO CUSTOMERS

- We will be convenient and easy to do business with.
- We will be pleasant and professional in conducting ourselves.
- We will offer consistent solutions; simple and easy to understand.
- We will strive to complete activities right the first time and to the best of our ability.
- We believe in and will offer you flexible choices.
- We will make you part of the solution.
- We will provide service at the best possible cost.
- We will continually value our relationship with you.
- We will respect your privacy.
- We will provide you the opportunity to be heard.

CUSTOMER CARE EXAMPLES

- 95% of calls answered on the first attempt
- Customer menu options for bill due dates and payments
- Direct customer access to meter and billing information
- Flexible payment arrangements
- Schedule appointments to meet customer needs
- Provide timely and valuable information