

Exhibit No.:  
Issue: Retired Employee Benefits  
Witness: Myron W. McKinney  
Sponsoring Party: The Empire District Electric  
Company  
Case No.: EM-2000-369  
Date Prepared: August 23, 2000

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

Surrebuttal Testimony

of

Myron W. McKinney

Jefferson City, Missouri

Exhibit No. 2  
Date 9-14-00 Case No. EM 2000-  
Reporter mt 369

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF MYRON W. MCKINNEY  
ON BEHALF OF THE EMPIRE DISTRICT ELECTRIC COMPANY**

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

1 Q. Please state your name.

2 A. Myron W. McKinney.

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

4 A. The Empire District Electric Company ("Empire") as President and Chief Executive Officer.

5 Q. Are you the same Myron W. McKinney who caused to be prepared and filed in this  
6 proceeding certain direct testimony on behalf of Empire in connection with its proposed  
7 merger with UtiliCorp United Inc. ("UtiliCorp")?

8 A. Yes.

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

10 A. The purpose is to provide information regarding the benefits which will be available to  
11 existing Empire retirees, current Empire employees who choose to retire within an 18-month  
12 period following completion of the merger between Empire and UtiliCorp, surviving spouses  
13 of Empire retirees, and employees who are disabled, all in response to rebuttal testimony  
14 filed in this case by certain of Empire's retired employees.

15 Q. Were you the individual responsible for negotiation of the Merger Agreement on behalf of  
16 Empire?

17 A. Yes. The Empire Board of Directors directed me to negotiate the Merger Agreement when it  
18 appeared there was a strong interest on the part of UtiliCorp to merge the two companies.

19 Q. Did you have certain guiding principals regarding the negotiations?

1 A. Yes. Throughout the discussions it was Empire's goal to try to balance the interests of its  
2 customers, shareholders, and employees, both active and retired. One of our particular  
3 concerns was continued accessibility to group health care for current employees and retirees.

4 Q. Did you find the philosophy regarding retiree health care to be the same between the  
5 companies?

6 A. No. At Empire there is significant subsidization of retiree health care, and this approach has  
7 been maintained for many years as a matter of policy.

8 Q. Does the collective bargaining agreement ("CBA") effective on and after November 1, 1999,  
9 between Empire and Local Union 1474 of the International Brotherhood of Electrical  
10 Workers ("Local 1474") contain any reference to retiree health care-related issues, plans,  
11 benefits or premiums?

12 A. No it does not. Further, the CBA's preamble states, in part:  
13 The Company hereby recognizes the Union as the sole and exclusive representative  
14 of the unit comprising the Production employees of the Company as established in  
15 N.L.R.B. Case 17-R-1441, and the unit comprising the Transportation, Transmission  
16 and Distribution employees of the Company as established in N.L.R.B. Case 17-R-  
17 1288, and the unit comprising the Full-Time Meter Reader employees of the  
18 Company as established in N.L.R.B. Case 17-RC-2500, and the unit comprising all  
19 Full Time-Water Department employees of the Company as established in N.L.R.B.  
20 Case 17-RC-2950, and the unit comprising the Stores Department of the Company as  
21 established in N.L.R.B. Case 17-RC-11105, same constituting the bargaining units  
22 for purposes of collective bargaining with respect to rates of pay, wages, hours of  
23 employment, and other conditions of employment." (emphasis added)

1 The CBA does not provide for representation of retired employees by Local 1474.

2 Q. Has Local 1474 attempted to negotiate retiree health care-related issues, plans, benefits or  
3 premiums?

4 A. Yes, from time to time Local 1474 has attempted to negotiate health care benefits for retired  
5 employees. However, at no time have the parties adopted a collective bargaining agreement  
6 that contains any health care-related issues, plans, benefits or premiums for retired  
7 employees or their spouses.

8 Q. Does the CBA provide a mechanism for addressing disputes if Empire and an employee do  
9 not agree as to its interpretation?

10 A. Yes. The CBA contains a detailed grievance procedure for both employee complaints and  
11 Empire and Union differences over the meaning, interpretation or application of the CBA, or  
12 any clause thereof. This process begins with negotiation. If this does not resolve the dispute,  
13 an arbitration process is identified by the CBA.

14 Q. What has UtiliCorp's past practice been in regard to retiree health care?

15 A. UtiliCorp has not chosen to subsidize health care cost for its retiree group and has no  
16 provision for additional health care insurance at the time a retiree becomes age 65 and  
17 Medicare becomes the primary insurer. This difference in philosophy became a significant  
18 matter in the merger negotiations. In fact, at a negotiation session held on April 7, 1999,  
19 UtiliCorp was informed that making provisions for the health care of Empire retirees was a  
20 deal breaker and that there must be some agreement which incorporated a compromise for  
21 this group. After considerable discussion over the next several days, a compromise  
22 agreement was reached which is reflected in the Merger Agreement.

23 Q. Where is it reflected in the Merger Agreement?

1 A. It is stated in Section 6.13.

2 Q. What are the major points of that compromise agreement?

3 A. A transition plan was developed which provides for an 18-month freeze in health care  
4 coverage and premiums starting at the time the merger is closed; a phase-in approach for  
5 future premium increases; and guaranteed access to health care coverage.

6 Q. How will the transition be implemented?

7 A. Health care coverage and premiums for Empire employees who have retired, or who retire  
8 during the 18 months after the merger closes (or for the length of time required by the union  
9 contract for union employees), will not change during the freeze period. Once the freeze  
10 period is over, however, retiree premiums will begin to increase annually by 15% of the  
11 difference between what the retiree currently pays and the actual cost of the health care  
12 premium at that time.

13 Q. Can you tell us now what each increase will be?

14 A. No. Since the retirees' premium is determined by age and years of service, it is very difficult  
15 to determine exactly what the individual change will be. This is especially true as we also do  
16 not know what the future health care costs for the group will be. Notably, however, health  
17 insurance premiums for Empire retirees have regularly increased over the last several years.  
18 In fact, over the last five years the premiums paid by retirees have increased by an average of  
19 about 6.5% annually.

20 Q. Will premium increases for Empire retirees continue in the future?

21 A. Yes. This will be true whether or not the merger takes place. With the merger, however, the  
22 rate of increase will be more than retirees have experienced historically. However, the  
23 Merger Agreement provides guaranteed access to health insurance, with a gradual increase in

1 the premium over a period of several years. In addition, Medicare is available to many  
2 retirees. The implementation plan provides for Empire retirees to have continued access to  
3 Medicare supplemental insurance just as they currently do, but subject to the phase out of the  
4 premium subsidy.

5 Q. What will happen to health care coverage for surviving spouses and those on disability?

6 A. UtiliCorp has agreed to continue lifetime coverage for existing surviving spouses, and  
7 spouses of any employee who retires prior to, or within the freeze period following, the  
8 merger. Premiums will escalate over time as previously described. Employees who are on  
9 disability will continue to be treated as employees through that time, and as retirees after that  
10 time. After the freeze, their premiums will also be escalated over time, but they are to  
11 receive coverage for life.

12 Q. How do you characterize this compromise agreement?

13 A. I believe it is reasonable.

14 Q. Why?

15 A. While no doubt from the retirees' point of view it would have been desirable to continue the  
16 plan exactly as it exists today, I was unable to reach that agreement in the negotiating process  
17 and it is likely that the present circumstances cannot continue in any event. The compromise  
18 agreement that was reached, however, does guarantee access to health care and does phase in  
19 the premium increases over a period of time. In addition, UtiliCorp's retiree medical plan  
20 includes access through age 65 to dental and vision care, which Empire's plan does not  
21 provide. Also, it should be understood that, while Empire has provided significant insurance  
22 premium subsidies in the past, as indicated, there is no guarantee that Empire could continue  
23 to do so in the future. In fact, as indicated, the likelihood exists that the Empire retirees will

1 face increased health care premiums irrespective of the outcome of this merger application.

2 Given all of these circumstances, while the merger will bring about an increase in health care  
3 premiums for retirees, I believe it is a reasonable outcome.

4 Q. What will happen to retiree life insurance?

5 A. The life insurance plan will not change for existing retirees or those who retire within the 18-  
6 month window previously mentioned. I have caused to be prepared the attached graph,  
7 Schedule MWM-1, which illustrates the effect of the merger on life insurance coverage for  
8 existing UtiliCorp retirees, existing Empire retirees, and future Empire retirees. As you can  
9 see from the second line, existing Empire retirees continue to receive subsidized life  
10 insurance after the merger is completed.

11 Q. Are there any limitations on, or eligibility requirements for, retiree health and life insurance?

12 A. The limitations and eligibility requirements are those contained in the applicable benefit plan  
13 documents and union contracts.

14 Q. Are there other areas you would like to discuss in this surrebuttal testimony?

15 A. Yes. Office of the Public Counsel witness, Ryan Kind, on page 78, line 7 of his rebuttal  
16 infers that retirement benefits will be impacted by the Merger Agreement. Such is simply  
17 not the case. Existing Empire retirees will continue to receive their monthly pension checks  
18 exactly as they do today. Employees who retire within 18 months following the merger will  
19 retire on the Empire Retirement Plan and will receive pension benefits consistent with that  
20 Plan. Employees who join UtiliCorp will be eligible to retire under the UtiliCorp Plan and  
21 will receive credit for all prior service with Empire in determining retirement benefits.

22 Q. Does Mr. Kind reach any other conclusions with which you disagree?

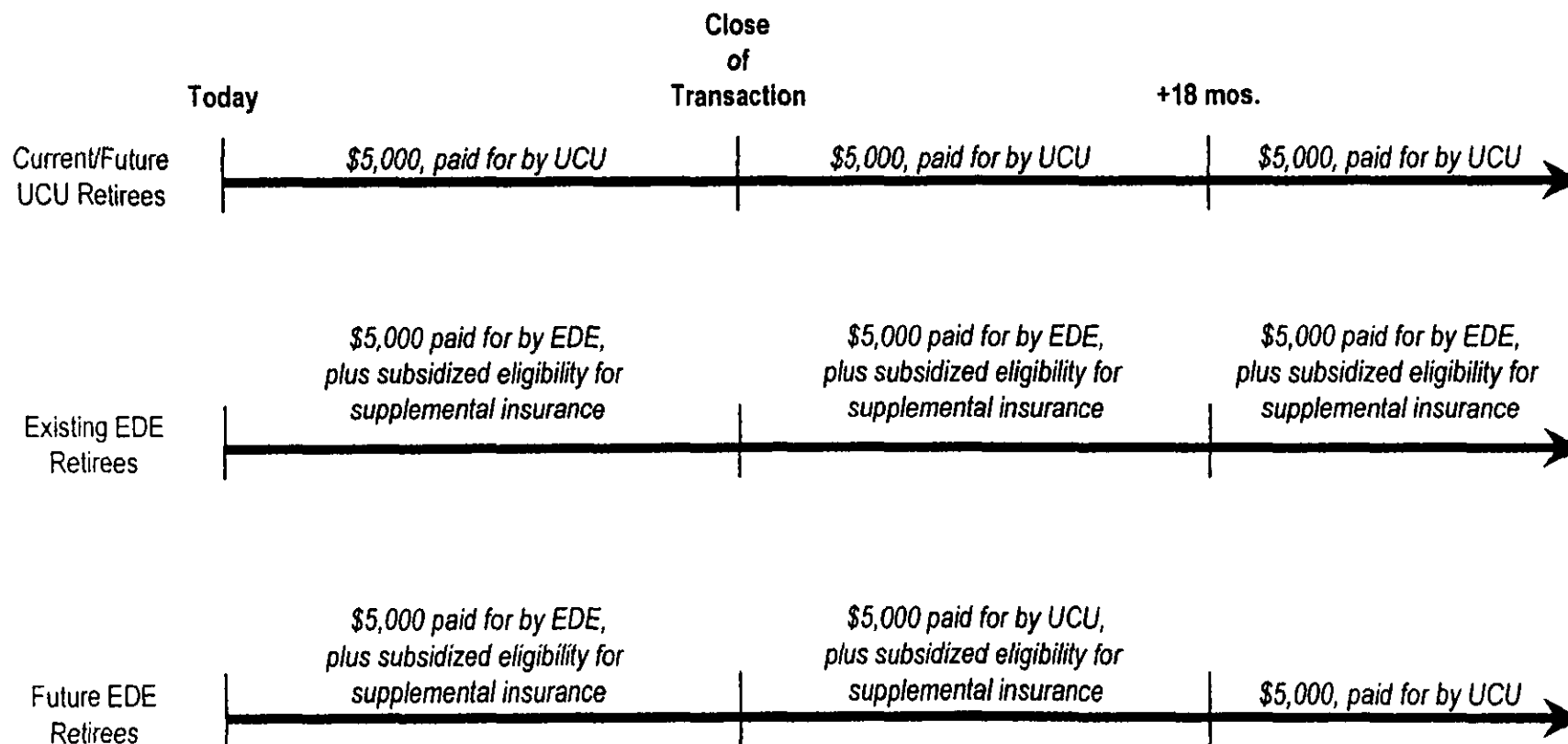
1 A. Yes. On page 78, lines 14 through 20 of his rebuttal, Mr. Kind expresses concern that  
2 taxpayers may have to assume some portion of the health care costs for Empire retirees.  
3 While I appreciate his concern regarding the cost of government programs to the taxpayer,  
4 Mr. Kind fails to explain just how this might occur in this situation. Obviously, the retirees  
5 who become eligible for Medicare will adopt Medicare as the primary provider and this  
6 would have occurred with or without the merger. While some possibility might exist that  
7 some Medicaid funds could go to this group, Mr. Kind certainly offers no examples or proof  
8 of such occurrence. Instead, what Mr. Kind is suggesting is that the companies continue  
9 their current plans and that the retirees pay no larger portion of their premium, thus assuring  
10 that future ratepayers are burdened with these costs.

11 Q. Does this conclude your surrebuttal testimony?

12 A. Yes, it does.



## Retiree Life Insurance Eligibility Level, Depending Upon Timing of Retirement



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

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

County of Jasper       )  
  )  
State of Missouri       )


Case No. EM-2000-369

**AFFIDAVIT OF MYRON W. MCKINNEY**

Myron W. McKinney, **being first duly sworn**, deposes and says that he is the witness who sponsors the accompanying testimony entitled surrebuttal testimony; that said testimony was prepared by him and or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

  
Myron W. McKinney

Subscribed and sworn before me this 10th day of August, 2000.

  
Notary Public

My Commission Expires:

