Exhibit No.:	
Issue:	Synergy Savings
Witness:	Vern J. Siemek
Type of Exhibit:	Direct Testimony
Sponsoring Party:	UtiliCorp United Inc.
Case No.:	

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Vern J. Siemek

December 1999

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF VERN J. SIEMEK
ON BEHALF OF UTILICORP UNITED INC.

CASE NO.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Vern J. Siemek. My business address is UtiliCorp United, 20 West 9th Street, Kansas City, Missouri 64199-3287.

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

A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as Director of Business Services for UtiliCorp Energy Delivery ("UED") with responsibilities for financial analysis, including assignments on acquisition investigations. UtiliCorp currently conducts its business in Missouri as Missouri Public Service ("MPS").

Q. Briefly describe your educational background and employment history.

A. I earned a Bachelor of Science degree in Business Administration with Distinction from the University of Nebraska at Lincoln in 1973 and am now a Certified Public Accountant in Nebraska.

I was named to my current position in October 1994.

From 1987 to 1994, I held the position of Manager of Business Development for Peoples Natural Gas ("Peoples") in Omaha, Nebraska, a UtiliCorp division with operations in Colorado, Iowa, Kansas, Nebraska and Minnesota.

From 1984 to 1987, I was in charge of the Regulatory Affairs group for Peoples.

Before joining Peoples, I was employed for eleven years by an international accounting firm, Arthur Andersen & Co, in the Regulated Industries division in various capacities, including five years as an audit manager. As part of my responsibilities, I supervised the audits of regulated companies and the reviews of annual reports to the Federal Energy Regulatory Commission.

Q. Have you ever testified before regulatory commissions?

A. Yes. I have testified before the Kansas Corporation Commission and the Iowa Utilities Board.

PURPOSE AND SUMMARY OF TESTIMONY

Q. What is the purpose of your testimony?

A. My testimony outlines the synergies which are anticipated to be developed from the combination of UtiliCorp and The Empire District Electric Company ("Empire") (collectively, the Companies).

Q. Please summarize your testimony.

A. In this testimony, I will describe the total estimate of synergies and costs for the Companies from all sources. I will also describe the development of specific elements of certain Empire synergies and costs.

Q. Have you attached any schedules to your testimony?

A. Yes. Schedule VJS-1 provides a summary of the synergies, net of costs to achieve those synergies, for the average of years 1 through 5 after completing the transaction and for the average of years 6 through 10. These amounts reflect current dollars, which means that normal inflation has been included. Schedule VJS-1 also reflects the cost of 50% of the acquisition premium that is proposed to reduce the synergies to Empire customers in years 6 through 10.

Schedule VJS-2 provides detail of the costs incurred to achieve the identified merger savings.

Schedule VJS-3 provides a summary of merger synergies for Empire for several detailed areas in constant dollars. Most of these synergies remain at a constant level in 1999 dollars after 2002 once they have been fully implemented. Cost allocations and cost transfers offsetting allocations are also listed.

Schedule VJS-4 provides a ten year summary of benefits and payroll tax synergies for Empire, reflecting inflation.

Q. Why did you select ten years for the summary?

A. Ten years is the typical period for quantifying acquisition or merger benefits. Also, it is likely that the nature and shape of regulation will have changed by 2010. Other methods may then be necessary to equitably split the costs of realizing the synergies from this transaction. We also believe that it would be more palatable to the Commission to approve our proposal for a term shorter than 30 or 40 years. However, present industry conditions and regulations may still be in place at that time. If so, UtiliCorp may request an extension of its proposed approach.

SUMMARY OF SYNERGIES ANALYSIS

Q. Please explain Schedule VJS-1.

A. Schedule VJS-1 summarizes the synergies, net of costs to achieve those synergies, for the average of the first 5 years after completing the transaction (the first column), and for the average of years 6 through 10 (the last column). These amounts reflect inflation over the 1999 base year. Schedule VJS-1 also reduces the net synergies by the cost of 50% of the acquisition premium.

Section I includes the Operating Costs synergies for the periods. Line 1 reflects the generation/dispatching synergies based on the testimony of UtiliCorp witness Robert W. Holzwarth. Lines 2 through 4 are detailed later in my testimony. Line 5 (Conversion to UtiliCorp Benefits) are detailed on Schedule VJS-4 and are primarily from the testimony of UtiliCorp witness Robert B. Browning. Those synergies represent the estimated impact on employee benefits and payroll taxes. Line 6 is the total of lines 1 through 5.

Section II includes the Savings and Costs related to the Capital Costs and investments needed to realize the synergies in Section I. Line 1 in this section includes the depreciation of the capital expended for:

1) the transmission line interconnection ("Interconnect") to be built to realize generation dispatching synergies (UtiliCorp witness Richard C. Kreul will address the need for those capital costs in his Direct Testimony),

2) the costs to install and connect the Supervisory Control and Data Acquisition system ("SCADA") to tie Empire into the UtiliCorp SCADA system (Mr. Kreul will address the need for those capital costs in his Direct Testimony), and

3) the benefits from the capital reductions that I will cover later in my testimony.

Line 2 in Section II represents the amortization of the transaction and transition costs that I will address later in my testimony. These are the costs incurred to achieve the synergies.

Line 3 in Section II is the return on the capital expenditures being depreciated in Section II. Line 1. The return/capital costs were estimated using the Commission Staff-recommended capital structure for Empire in Empire's most recent electric rate case with the approved 10.75% equity return rates from the last MPS electric rate case and the estimated current long-term debt rate of 7%.

Line 4 in Section II represents the return on the unamortized transaction and transition costs being amortized on Line 2 with the same capital assumptions as Line 3. This line has no values since UtiliCorp is proposing to absorb this element of the costs.

Line 5 in Section II is the summation of the Capital Synergies (Costs).

Section III simply nets the two prior sections to compute an average synergy.

Section IV details the costs allocated in and transfers of costs out of Empire to calculate the average net allocation cost to Empire.

Section V nets the Total Synergies in III against the Allocations in Section IV to determine the Total Synergies, net of costs to achieve and allocated costs.

Section VI details the costs of the premium incurred to accomplish this transaction, including the pretax amortization of the premium over 40 years and the return on the unamortized investment.

Section VII represents the 50% of the total premium that is being proposed to reduce the synergies to Empire customers.

Section VIII is the synergies net of 50% of the pricing in year 6-10 that is achieved by subtracting the Empire share of premium costs (Section VII) against the Total Synergies in Section V. The result is about $3.0 million in years 6 through 10. The exact timing may be slightly different than the calendar years reflected here from the implementation date of the rate case triggered by State Line Combined Cycle generating plant as Mr. John McKinney discusses in his testimony.

COSTS TO ACHIEVE THE SYNERGIES

Q. Please define "costs to achieve".

A. Costs to achieve are defined as any costs needed to ensure that the transaction can be completed or synergies implemented. Those costs include estimated employee relocation costs, severance costs, and retention payments. Costs to achieve also include conversion costs for computer systems to new computer systems, as well as the costs of facilities needed to realize generation synergies. Cost to achieve also include the legal costs and banker fees to accomplish the transaction. All of these costs are necessary to realize the synergies from the transaction.

Q. What are the Costs to Achieve all these projected synergies?

A. Total costs to achieve the savings are approximately $33 million and are detailed on Schedule VJS-2. The estimated workforce transition costs are shown on line 13 and total $11.2 million. These costs include estimated relocation costs, severance costs, mapping conversion costs, and retention payments. Estimated costs to convert Empire computer systems to UtiliCorp's systems are $2.7 million. These conversion costs include the costs to convert the customer billing, financial systems and new equipment. The cost of converting Empire computer systems to UtiliCorp systems were estimated by UtiliCorp's Information Technology function. Transaction costs were estimated to be $19.3 million, which includes the legal fees, bond solicitation costs, and Empire's investment bank fees to complete the transaction. These are the costs incurred to both achieve the combination and to implement the synergies.

Q. How do you characterize the deduction of the Costs to Achieve from the synergies before developing any rate reductions for the customers?

A. It is appropriate.

Q. Why?

A. It is appropriate to deduct the Costs to Achieve because the synergies would not exist without incurring each of those costs. Failure to deduct those costs overstates the synergies.

Q. Please explain.

A. Utility mergers and acquisitions can produce substantial benefits to customers in the form of operational synergies and cost savings which in turn can reduce rates or mitigate rate increases. Such benefits to customers, however, will not materialize without costs being incurred and risks being assumed.

Q. What kinds of costs are you referring to?

A. Costs are necessarily incurred to effectuate the combination and additional costs are incurred to realign the workforce to produce many of the synergies.

Q. Who bears the risk of those costs?

A. In any merger transaction, shareholders frequently assume some of the risk that the merged entity will achieve the strategic, financial and operational benefits set forth as the rationale for the proposed combination. To the extent these objectives are not attained (e.g. failing to realize cost savings), shareholders suffer from eroded equity value and/or lower returns.

Q. Can the shareholder be compensated for this risk?

A. Yes.

Q. How?

A. To compensate for this risk and to reflect the shareholders' willingness to fund the costs necessary to realize potential cost savings, the costs to achieve both these savings and the underlying transaction should be fully recovered before the resulting net cost savings are calculated and subsequently shared between customers and shareholders.

Q. How are the Costs to Achieve treated in these calculations of synergies?

A. Most of the Costs to Achieve were amortized over the first ten years of the combined operations. The bank fees and bond solicitation costs were amortized over forty years. During years 6 through 10, those amortizations reduced the synergies. This reduction is accomplished in Section II, Line 2 of Schedule VJS-1

DETAILED SYNERGIES

Q. Please describe the information contained on Schedule VJS-3.

A. Schedule VJS-3 summarizes the projected synergies in constant 1999 dollars for various cost categories developed by several of the transition teams. These synergies remain level once fully implemented, unless otherwise noted. Section I includes general and administrative expenses, Section II includes distribution operating expenses, and Section III includes transmission operating expenses. These are each described later in my testimony. Section IV includes the allocations impacts that will be realized during the implementation and ultimate integration of Empire into UtiliCorp.

Q. Are there allocations impacts of this transaction?

A. Yes. They are shown on schedule VJS-1.

Q. Please describe them.

A. Line 1 costs allocated (in) to Empire represents Enterprise Support Functions, Internal Business Unit departments and Corporate Assets allocations that will be allocated to Empire from the post-merger UtiliCorp support functions under the existing procedures of UtiliCorp.

Line 2 represents resources or costs transferred from Empire to UtiliCorp Enterprise Support departments ("ESF"), which departments will support Empire in the future. UtiliCorp's Enterprise Support Functions (like Treasury) generally support all business units of UtiliCorp.

Line 3 represents resources or costs transferred from Empire to UtiliCorp Intra Business Unit departments ("IBU") like call centers that support specific business units like UtiliCorp Energy Delivery.

Source of Detailed Synergies:

Q. Please describe how the synergies were developed.

A. The specific roles and responsibilities of the transition teams which developed the synergies are addressed in the direct testimony of UtiliCorp witness Vicki M. Heider. The seven transition teams (Electric Supply, Distribution, Transmission, Regulatory/Legislative, Finance/Accounting, Human Resources, and Information Technology) reviewed the 1999 Empire budgets for their respective areas and estimated the costs to be retained or to be eliminated after the merger. The teams included Empire management personnel familiar with the details of their budgets and operating needs, as well as UtiliCorp management personnel and supervisors familiar with the UtiliCorp processes and existing support structures. The work of the Electric Supply team was more complex because of dispatching savings and will be covered separately by Mr. Holzwarth.

Q. Why was the 1999 budget used as the starting point for transition teams?

A. A common starting point was needed for all the teams. The 1999 budget represented the best current estimate on costs for Empire.

Q. Are there any overall comments that apply to all of the transition team reviews?

A. Yes. In some cases, vacancies that have occurred since the merger was announced have purposely not been filled. Empire management has indicated that those positions would have been filled absent the transaction and thus are properly considered as merger-related synergies. Current operations are filling that functional responsibility during the transition by temporarily increasing the work load of remaining staff, contracting out some functions, hiring temporary staff to bridge until the closing, and hiring new staff only as a last resort. Ultimately, this will reduce the number of actual personnel reductions and the resulting severances and is prudent, as long as service to the customers does not deteriorate in the short term.

To be most effective, the transition teams' reviews were based on the UtiliCorp organization structure. As a result, shifts in organizational units were made to facilitate that review and aid the transition review and planning. For example, the Empire unit for Environmental and Safety was split so that Environmental functions were reviewed by the UtiliCorp transition team responsible for Environmental (Regulatory/Environmental) and the Safety was reviewed by the transition team responsible for Safety (Human Resources).

Q. Have personnel decisions been made?

A. No. In estimating payroll savings and severances, specific positions were eliminated, even though personnel decisions have not yet been made. To estimate the payroll synergies and severances, the demographics of the current incumbents of the eliminated positions were used as an approximation of the payroll synergies and severance costs that would ultimately be saved or incurred. Actual synergies and severances will depend on the specific personnel decisions reached. Positions can be eliminated by various methods that do not necessarily eliminate personnel such as filling other positions vacated by attrition or retirement or by transferring personnel to positions in other parts of the company.

Generation Synergies:

Q. Do the generation synergies reflected pertain exclusively to the UtiliCorp/Empire transaction?

A. No. Mr. Holzwarth's testimony develops the synergies as if the merger with St. Joseph Light and Power Company ("SJLP") is also completed.

Empire General and Administrative Synergies and Transfers to ESF/IBU

Q. Please describe the overall results of the review of the General and Administrative departments/functions of Empire.

A. The transition teams findings indicate that combining the companies would result in substantial savings from Empire's current General and Administrative costs which can be seen on Schedule VJS-3.

Q. Please describe the general nature of the savings in this area.

A. There are three major reasons for the savings. The first is eliminating activities needed by Empire as a stand-alone entity that are not needed separately as a division of UtiliCorp. Examples of this type of synergy are:

- External financial reporting (financial officers, audit fees and separate annual and quarterly reports)
- Treasury functions like raising capital and shareholder communications,
- Human Resources functions like developing and managing benefits plans, and
- Information Systems for billing, financial reporting and managing operations.

The second major area of savings are from reduced supervision levels needed because UtiliCorp would add only the personnel needed to actually process Empire-related work without requiring additional supervision. Areas where this type of synergy can be accomplished are as varied as:

- Disbursements
- Payroll processing,
- Benefits administration
- Engineering standards

The third major area of savings to Empire is due to the transfers of the reduced level of processing costs to UtiliCorp ESF departments. Since Empire will be allocated costs of those departments, the transfer of direct costs is treated as a direct savings to Empire to properly reflect the net effect on Empire. For example, consider the case if an accounts payable clerk is transferred from Empire to the UtiliCorp Accounts Payable department to process Empire invoices. A portion of the total Accounts Payable department will be allocated to Empire under the UtiliCorp allocations procedures, so the cost of Account Payable (including the cost of the clerk) will end up at Empire. If the clerk's salary was also considered as a direct cost of Empire, then Empire would have been charged twice for the same support! To reflect the effect of the allocations, the initial transfer of the clerk (and similar costs transferred to UtiliCorp) needs to be considered a savings to Empire.

Regulatory/Legislative Synergies:

Q. Please summarize the synergies projected by the Regulatory/Legislative transition team review.

A. The team estimated that Operating and Maintenance synergies of $344,000 could be achieved starting in 2001.

Q. How were the reductions determined?

A. The synergies come from reducing the number of Regulatory/Environmental positions by 3, with some related nonpayroll costs for a total of $344,000 of synergies. The costs to be retained of the 1999 Regulatory budget of $351,000 were estimated at $119,000 for a savings of $232,000. Those savings were from reduced staffing needs for joint jurisdictions, and joint legislative efforts. In addition, approximately $112,000 of environmental costs could be eliminated from training, memberships, and other expenses that are duplicated within UtiliCorp.

Q. Are there any capital synergies in Regulatory/Environmental?

A. Yes, a minimum savings of $500,000 of capital costs for compliance with NOx environmental standards was estimated that is possible by using one site to attain the NOx emission reductions for both companies. The ultimate savings could be much higher if the equipment to comply with the standards can be built a one site rather than several sites.

Q. Could these synergies have been realized absent the merger?

A. No. The savings of $344,000 of expenses and $500,000 of capital are directly related to the position reductions, functional consolidations, and joint siting potential that would result from the merger.

Information Technology Synergies:

Q. Please summarize the synergies projected by the Information Technology transition team review.

A. The team estimated that annual operating cost synergies of $956,000 could ultimately be achieved by 2001, at a one-time cost of $2.7 million for system conversions.

Q. How were the reductions determined?

A. The majority of the synergies come from eliminating the separate departments for Empire and utilizing staff for existing and projected vacancies of approved UtiliCorp positions. The synergies were determined by the net difference from the Empire the 1999 IT budget of $2,034,000 to the continuing costs under UtiliCorp. That budget was first reduced by the expected non-merger related savings of $379,000 for converting the current Empire mainframe system to a network server environment. This synergy was not considered merger-related since the conversion was already underway. The remaining budget dollars were replaced by the expected operating costs under UtiliCorp for additional hardware of \$151,000, additional personnel at UtiliCorp costing \$210,000 and deskside support costs of \$337,500 for a new annual cost of \$698,500. This results in net Information Technology savings of \$956,000 from the 1999 Budget level. The conversion timetable is based on completing the transaction by July 1, 2000.

Q. Could these synergies have been realized absent the merger?

A. No. These savings are directly related to the elimination of the need for a separate Management Information System (Information Technology) department at Empire that would result from the merger.

Human Resources Synergies

Q. Please summarize the synergies projected by the Human Resources transition team review.

A. Excluding employee benefits, the team estimated that O&M synergies of \$600,000 could ultimately be achieved by 2001.

Q. How were the reductions determined?

A. The majority of the synergies come from reducing the number of HR and Safety positions by 6.5, with some nonpayroll costs related to the positions and to general training/consulting work that would no longer be needed on a separate basis. The position reductions occur from bringing the Empire benefit and employee programs, for the most part, into the UtiliCorp plans so that separate management is no longer needed.

Q. Could these synergies have been realized absent the merger?

A. No. These savings are directly related to the reductions that would result from the merger.

Finance/Accounting Synergies:

Q. Please summarize the synergies projected by the Finance/Accounting transition team review.

A. The team estimated that O&M synergies of $2,729,000 and recurring annual capital synergies of $932,000 could ultimately be achieved by 2001.

Q. How were the O&M synergies determined?

A. Processing Empire transactions after the acquisition was estimated to require 9 positions. All other positions were considered as synergies. Remaining nonpayroll costs after the acquisition were estimated to include $1,101,000, mainly for insurance, Transfer agent fees, Dividend Reinvestment plan fees, and reports to shareholders. All remaining costs were considered synergies.

Q. How were the recurring capital synergies determined?

A. The capital synergies were from two areas, insurance capitalized and A&G capitalized. UtiliCorp would not capitalize the $540,000 annually of insurance costs that Empire does currently, but would include that cost as an expense. The benefit from the insurance cost reduction on O&M from the merger was lost when the accounting by Empire is conformed to UtiliCorp's. However, the change in procedure does result in a lower capital cost under UtiliCorp since the $540,000 formerly capitalized by Empire will no longer be capitalized, which results in an annual capital savings to Empire customers.

In a similar fashion, A&G Capitalized is now significantly less under UtiliCorp because the level of A&G and the capitalized portions are much less than under Empire. This results in an annual capitalized reduction of about $392,000.

Q. Could these synergies have been realized absent the merger?

A. No. These savings are directly related to the position reductions and nonpayroll costs eliminated that would result from the merger.

Remaining Reviews:

Q. Are there any other Empire functions included in General and Administrative costs?

A. Yes, there are some Empire functions reviewed separately. These functions fell outside the transition teams, so were reviewed separately.

Q. Please summarize these functions and the results of the review:

A. The Empire functions are as follows:

The functions include the Administrative and General -Executive groups, the Corporate Communication group, and the Administrative and General R&D costs. These groups include most legal costs, donations and Chamber of Commerce dues. The 1999 budget for these functions was $2,524,000, with ongoing costs after the merger expected to be $801,000, resulting in synergies of $1,723,000.

Q. Could these synergies have been realized absent the merger?

A. No. These savings are directly related to the position reductions and nonpayroll costs eliminated that would result from the merger.

Distribution Operations

Q. Please summarize the synergies projected by the Distribution transition team review.

A. The team estimated that operating cost synergies of $4,628,000 could ultimately be achieved by 2002, with additional capital savings varying by year based on Empire capital projections. The majority of the synergies come from reducing the number of Distribution operations positions by approximately 114, with some related nonpayroll costs. Most of these reductions are from combining supervisory positions into existing MPS and UED organizations, taking advantage of more efficient technology such as the UtiliCorp call center in Raytown, and from utilizing existing UtiliCorp support operations like engineering and storerooms. The reductions were realized over several years to allow the orderly transition of responsibilities in the multiple areas effected.

Q. How were the Distribution reductions determined?

A. There are approximately 400 positions within Empire that would be considered Distribution employees under the UtiliCorp operational platform. Those positions were reviewed by the transition teams and its supporting functional groups to determine the projected needed level of staffing.

Q. Could these synergies have been realized absent the merger?

A. No. These savings are directly related to the position and cost reductions that would result from the merger.

Transmission Synergies:

Q. Please summarize the synergies projected by the Transmission transition team review.

A. The team estimated that O&M synergies of $774,000 could ultimately be achieved by 2002. The majority of the synergies come from reducing the number of Transmission operations positions by 16. Most of these reductions are from combining supervisory and support positions into existing MPS and UED organizations, and from utilizing existing UtiliCorp support operations like engineering and dispatching. The reductions were projected over several years to allow the orderly transition of responsibilities in the multiple areas effected.

Q. How were the reductions determined?

A. There are approximately 44 positions within Empire that would be considered Transmission employees under the UtiliCorp operational platform. Those positions were reviewed position by position by Transmission management and supervisory personnel from both companies to determine the projected needed level of staffing.

Q. Could these synergies have been realized absent a merger?

A. No. These savings are directly related to the position reductions that would result from the merger.

Q. Please explain Schedule VJS-4.

A. Schedule VJS-4 summarizes the benefits-related impacts of the merger from Mr. Browning's testimony. In addition, Schedule VJS-4 reflects the estimated payroll taxes saved from the reduced positions, as well as the reclassification of the one-time curtailment cost of the employee retiree medical plan as a transition cost. The reclassification better matches the benefits of the curtailments to the periods in which the benefits are derived.

Q. Will the operations of the Empire Water Utility be impacted by the synergies/reductions you have described?

A. No. The operational reductions were focused on the electric operations, so no reductions specific to the Water Utility were included in the transition team recommendations. The water operations would benefit from the decreased costs in the Administration and General functions.

Q. Mr. Green's testimony indicated that an initial rate reduction was no longer being proposed for Empire customers. One of the reasons involved reduced projected Empire rate increases. Could you explain this change in more detail?

A. Yes. The original projections provided by Empire projected two rate increases to be in effect by January 1, 2002, with a combined revenue increase of $19.2 million. These rate cases were based on increases in purchased power contracts, and the costs of the State Line Combined Cycle generation plant.

Q. What is the present situation with respect to those rate increases?

A. Currently, a single rate case is forecast with an effective date in mid-2001. This case results in a rate increase of about $12 million versus the $19.2 million previously projected for 2002.

Q. Does this conclude your direct testimony?

A. Yes.

Summary of Synergy Benefits, Net of Costs to Achieve

UtiliCorp/Empire District Electric Company

(Current Dollars in 000's)

		Average Years 1-5	Average Years 6-10
I	**Operating Costs Current Dollars**		
	1 Dispatching/Generation Savings	$ 17,929	$ 21,648
	2 General & Administrative Savings	$ 7,016	$ 7,938
	3 Distribution Savings	$ 4,681	$ 5,783
	4 Transmission Savings	$ 747	$ 967
	5 Conversion to UtiliCorp Benefits and payroll taxes	$ 4,316	$ 5,690
	6 Total O&M	$ 34,689	$ 42,026
II	**Capital Savings (Costs):**		
	1 Depr - Interconnect/SCADA/T&D	$ (277)	$ 196
	2 Amort of Transaction/Transition Costs	$ (2,962)	$ (2,962)
	3 Return on Interconnect SCADA /T&D	$ (558)	$ 1,655
	4 Return on Transaction/Transition Costs	$ -	$ -
	5 Total Capital Savings (Costs)	$ (3,797)	$ (1,111)
III	**Total Synergies, net of Cost to Achieve**	$ 30,892	**$ 40,915**
IV	**Enterprise Support Functions Allocated (In) Current Dollars**		
	1 Empire Direct Costs transferred to ESF	$ 4,491	$. 5,081
	2 Empire Direct Costs transferred to IBU	$ 2,612	$ 2,955
	3 Support Functions Allocated (In)	$ (24,262)	$ (27,451)
	4 Net Allocations (costs) savings to EDE	$ (17,159)	**$ (19,415)**
V	**Total Synergies, net of Costs to Achieve and Allocated Costs**	**$ 13,733**	**$ 21,500**
VI	**Premium Costs**		
	1 Return on Premium	$ (29,389)	$ (25,418)
	2 Amortization of premium	$ (6,988)	$ (6,988)
	3 Reflect non-tax deductibility of premium	$ (4,659)	$ (4,659)
	4 Total Premium cost	$ (41,036)	$ (37,065)
VII	**Empire share of premium costs**	**$ (20,518)**	**$ (18,533)**
VIII	**Synergies, net of 50% of premium** (Line V less VII)	**$ (6,785)**	**$ 2,967**

Summary of Costs to Achieve Synergies
Transition/Transaction Costs for
Empire District Electric Company

		Total (Costs)
1	Distribution severance	($1,303,700)
2	Officers Severance/retention	($1,406,000)
3	Transmission severance and relocation	($316,000)
4	Paid advisory board - Three years	($250,000)
5	Cost of mapping conversions	($2,000,000)
6	Severance payments for non-officer key employees	($998,800)
7	Gen Admin subgroups - Fin Acctg Severance and retention	($1,262,000)
8	Human Resources-Severance	($20,000)
9	Information Technology-Severance	($476,000)
10	Regulatory/Environmental Legislative severance	($152,800)
11	Generation Severances	($266,000)
12	Curtailment costs for retiree medical plan	($2,732,000)
13	Total Transition Costs	($11,183,300)
14	IT Transition cost	($2,702,500)
15	Bankers Fees-Empire	($7,347,000)
16	Bond Solicitation	($5,852,000)
17	Legal costs	($3,275,000)
18	Proxy vote costs	($300,000)
19	Other Transaction Costs	($2,500,000)
20	Total Transaction Costs	($19,274,000)
21	Total Costs to Achieve Synergies	($33,159,800)

EDE Operation and Maintenance
Distribution and Transmission Synergies
(Constant Dollars in 000's)

		2001	2002
	Preliminary Transition Team Findings:(Excluding benefits & payroll taxes)		
I	General & Administrative Savings		
1	Regulatory/Legislative	$ 344	$ 344
2	Information Technology	$ 956	$ 956
3	Human Resources	$ 600	$ 600
4	Fin/Acctg	$ 2,729	$ 2,729
5	Corp Comm/Public Affairs	$ 1,723	$ 1,723
6	Total General & Administrative	$ 6,352	$ 6,352
II	Distribution Savings	$ 2,578	$ 4,628
III	Transmission Savings	$ 260	$ 774
IV	**Allocations related Synergies (costs)**		
1	Costs Allocated (in) to EDE	$ (21,967)	$(21,967)
2	Costs Transferred to UCU-ESF	$ 4,066	$ 4,066
3	Costs Transferred to UCU-IBU	$ 2,365	$ 2,365
4	Net allocation(costs)	$ (15,536)	$(15,536)

Empire District Electric Synergies from Benefits and Payroll Taxes

(Current Dollars in 000's)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	10 Year Total
1 Retiree Medical Bargaining Plan	$ 30	$ 59	$ 91	$ 123	$ 143	$ 165	$ 191	$ 211	$ 233	$ 258	$ 1,504
2 Retiree Medical NonBargaining Plan	$ (2,310)	$ 1,580	$ 2,028	$ 2,073	$ 2,187	$ 2,308	$ 2,433	$ 2,568	$ 2,705	$ 2,848	$ 18,420
3 Pension Costs NonBargaining Plan	$ 268	$ 659	$ 769	$ 834	$ 908	$ 991	$ 1,085	$ 1,189	$ 1,305	$ 1,433	$ 9,441
4 Pension Costs Bargaining Plan	$ 151	$ 215	$ 284	$ 311	$ 340	$ 372	$ 406	$ 443	$ 484	$ 527	$ 3,533
5 All other benefit plans	$ 626	$ 285	$ 468	$ 468	$ 468	$ 468	$ 468	$ 468	$ 468	$ 468	$ 4,655
6 Payroll Tax Savings	$ 490	$ 682	$ 699	$ 716	$ 734	$ 752	$ 771	$ 791	$ 810	$ 831	$ 7,276
7 Reclassify Curtailment on Retiree Medical											
8 NonBargaining Plan to Transition Costs	$ 2,537	$ 270	$ (75)								$ 2,732
9 Total Synergies	$ 1,792	$ 3,750	$ 4,264	$ 4,525	$ 4,780	$ 5,056	$ 5,354	$ 5,670	$ 6,005	$ 6,365	$ 47,561