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Exhibit No.:
Issue: Impact of Merger on A&G
Expense, KGE Assumptions for
Capacity Sales
Witness: Steve M. Traxler
Sponsoring Party: MoPSC Staff
Case No.: EM-91-213

MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

THE KANSAS POWER AND LIGHT COMPANY
CASE NO. EM-91-213

SUPPLEMENTAL REBUTTAL TESTIMONY
OF
STEVE M. TRAXLER

FILED
MAY - 6 1991
PUBLIC SERVICE COMMISSION

Jefferson City, Missouri
May, 1991

1 SUPPLEMENTAL REBUTTAL TESTIMONY

2 OF

3 STEVE M. TRAXLER

4 KANSAS POWER AND LIGHT COMPANY

5 GAS SERVICE DIVISION

6 CASE NO. EM-91-213

7 Q. Are you the same Steve M. Traxler who has previously
8 filed rebuttal testimony in this proceeding?

9 A. Yes, I am.

10 Q. What is the purpose of this supplemental rebuttal
11 testimony?

12 A. The purpose of this testimony is to address the
13 surrebuttal testimony of Company witness Steven L. Kitchen. In his
14 surrebuttal testimony, Mr. Kitchen proposes an alternative method for
15 determining post-merger administrative and general (A&G) expense and
16 merger savings subject to sharing between stockholders and
17 ratepayers. Since this alternative proposal was not discussed in
18 KPL's direct testimony, I did not have the opportunity to address
19 this proposal in my rebuttal testimony that was previously filed.

20 Q. What is your understanding of Mr. Kitchen's proposed
21 alternative method for determining post-merger A&G expense and merger
22 savings subject to sharing?

23 A. Kansas Power and Light's (KPL's) post-merger A&G
24 expense for ratemaking purposes would be determined by increasing or
25 decreasing the base year A&G expense (December 31, 1990) by the
26 annual percentage change in A&G expense for fifteen utility
27 companies.

1
2 In any test year in which KPL's actual Missouri A&G expense
3 was less than the base adjusted by the index, KPL is proposing that
4 the difference be considered merger savings and be shared equally
5 between the stockholders and ratepayers.

6 Q. How did KPL choose the fifteen utilities used in
7 calculating the average annual increase in A&G expense?

8 A. According to Mr. Kitchen's surrebuttal testimony:

9 Midwestern gas distribution and combination gas/electric
10 utilities were screened to find companies comparable to
11 KPL, either in size or service territory.

12 The ten utilities with the highest and lowest growth rates were
13 excluded from the analysis.

14 Q. Have you been able to determine how KPL determined
15 that the twenty five utilities included in their analysis were
16 comparable to KPL either in size or service territory?

17 A. No. I asked KPL to provide the basis for selection;
18 for example, number of customers, net plant in service, or service
19 territory. In response to Staff Data Request No. 808, KPL stated
20 that:

21 The companies in the index example were selected because
22 their service territory was situated in the Midwest and/or
23 their size was similar to KPL's.

24 This response does not provide any indication of what the term size
25 relates to in KPL's analysis. Comparability based upon size could
26 mean many different things, i.e., net plant, customers, number of
27 employees, revenue or total assets.

28 Q. Have you been able to ascertain how KPL determined
that other utilities with gas operations in the Midwestern states

1 represented in their analysis were not comparable to KPL, and
2 therefore should be excluded from the analysis?

3 A. No. In response to Staff Data Request No. 808, KPL
4 stated that:

5 Utilities not included in the index were excluded because
6 the information was not available at that time or the
7 utilities were deemed to not meet the criteria stated at 1.

8 Clearly, KPL's analysis did not include the total population of
9 companies with gas operations because the information for all
10 companies was not available.

11 In addition, for the companies for which KPL did have data,
12 it is not known which companies were excluded or what measurement of
13 size was used to determine that they were not comparable to KPL.

14 Q. Were you provided a copy of the results of KPL's
15 analysis of the A&G expenses of the utilities selected with gas
16 operations?

17 A. Yes. KPL's analysis for the years 1988, 1989 and 1990
18 is attached to this supplemental rebuttal testimony as Schedule 2.

19 Q. What were the results of KPL's analysis for the years
20 1988, 1989 and 1990?

21 A. The annual rate of increase for A&G expense for the
22 companies in KPL's analysis is reflected below:

<u>YEAR</u>	<u>RATE OF INCREASE</u>
1988	6.10%
1989	5.88%
1990	6.25%

1 Q. How does the growth rate for KPL's A&G expense in
2 Missouri compare to the average rate of increase in their A&G
3 analysis?

4 A. KPL's growth rate for A&G expense in Missouri is
5 significantly higher in each of the years from 1988 through 1990 than
6 the growth rates resulting from the Company's A&G analysis. The
7 increases in A&G expense for Missouri from the years 1988, 1989 and
8 1990 are reflected below:

<u>YEAR</u>	<u>RATE OF INCREASE</u>
1988	8.12%
1989	9.09%
1990	11.48%

12 Comparison of KPL's rate of increase for its Missouri A&G expense to
13 the rate of increase resulting from the Company's A&G study supports
14 my belief as stated in my rebuttal testimony that savings in the A&G
15 area did not result from the merger between KPL and the former Gas
16 Service Company.

17 Q. On page 20 of Mr. Kitchen's surrebuttal testimony, he
18 states that a utilities' A&G costs are sometimes materially affected
19 by items that are unforeseen and that the effect of these unforeseen
20 items should be excluded from the indexing procedure if the index is
21 to work fairly. Will KPL's proposed indexing methodology make it
22 feasible for KPL and/or the Commission Staff to determine what
23 changes in utilities' A&G costs were due to unforeseen and/or unusual
24 circumstances, so that the impact of such a change could be excluded
25 from the calculation of an average rate of increase for A&G expense?

1 A. No, it will not. The source of information for KPL's
2 A&G analysis was obtained from Uniform Statistical Reports, commonly
3 referred to as the FERC Form 2 report. The amount of A&G expense by
4 FERC account is included in this report for the current year and
5 previous year. The FERC report does indicate the dollar amount of
6 any substantial change in A&G expense from year to year. However, it
7 does not provide any explanation of what caused the change to occur.
8 Without more detailed information, neither KPL or the Commission
9 Staff could determine whether or not any material change in a
10 company's A&G expense were due to unforeseen or unusual
11 circumstances.

12 Q. What is the source for the additional information
13 required to determine if a material change in a company's A&G expense
14 were due to unforeseen or unusual circumstances?

15 A. The information required to make that determination
16 would have to be supplied by the utility in question.

17 Q. In your opinion, what is the likelihood of KPL or the
18 Commission Staff obtaining a detailed explanation as to why a
19 company's A&G expense may have changed materially in any given year?

20 A. This information could be obtained by the Commission
21 Staff from Missouri companies whose books and records are subject to
22 audit. However, obtaining this type of information from companies
23 outside the state of Missouri is highly unlikely, in my opinion.

24 A large percentage of a company's A&G expense is made up of
25 salaries and benefits for its management and executive personnel.
26 This information is generally considered highly confidential and
27 would not be subject to public disclosure. This type of information
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1 is supplied to the Missouri Commission Staff usually under strict
2 non-disclosure agreements. Another area that would likely be
3 considered highly confidential is the detailed information supporting
4 a company's accrual for injuries and damages claims included in
5 Account 925. A company's estimated expense for injuries and damages
6 is based upon its assessment of a future liability for injuries and
7 damages claims which may be currently in litigation or negotiation.
8 From a practical standpoint, Mr. Kitchen's belief that KPL's proposed
9 A&G indexing methodology will allow KPL and/or the Staff to eliminate
10 the impact on A&G expense of unusual or unforeseen circumstances is
11 only realistic with regard to utility companies operating in the
12 state of Missouri.

13 Q. How many companies in KPL's A&G analysis were Missouri
14 companies?

15 A. KPL's analysis of twenty five companies included only
16 seven with operations in Missouri.

17 Q. Do you agree that all seven Missouri utilities
18 included in KPL's A&G analysis should be used to determine the level
19 of KPL's post-merger A&G expense includable for ratemaking purposes?

20 A. No, I do not. I have analyzed the increase in A&G
21 cost per customer for all Missouri companies having gas operations in
22 Missouri. In addition, I have compared the companies that have been
23 subject to acquisition and merger since 1984 to those companies which
24 have not been involved in merger activity from 1984 to 1990.
25 Schedule 1, attached to this supplemental rebuttal testimony,
26 reflects this analysis. A summary of this analysis is reflected
27 below:
28

Supplemental Rebuttal Testimony of
Steve M. Traxler

<u>MERGER COMPANIES</u>	<u>RATE OF INCREASE FOR A&G COST PER CUSTOMER</u>
United Cities Gas	20.30%
Arkansas Western	13.64%
UtiliCorp-Missouri Public Service	11.94%
KPL Gas Service	<u>11.70%</u>
AVERAGE	14.40%
	=====
<u>NON-MERGER COMPANIES</u>	
St. Joseph Light & Power	(3.13%)
Union Electric	5.32%
Laclede Gas	<u>(1.01%)</u>
AVERAGE	1.18%
	=====

The above summary indicates that the annual rate of increase in A&G cost per customer is significantly higher for companies subject to acquisition and merger since 1984 than those who were not.

For this reason I do not believe that it is appropriate to include the companies involved in recent merger activity in an index calculation which will be used to determine KPL's A&G expense for ratemaking purposes after the merger.

Q. Why has your analysis and KPL's A&G analysis been limited to the A&G expense category as opposed to the overall operating costs of the individual companies?

A. This proposed merger is a combination of the electric operations of an all electric utility, KGE, with the electric operations of KPL. I agree with Mr. Kitchen's statement on page 11 of his direct testimony that:

We anticipate that savings to our Missouri customers will result primarily from administrative and general economies of scale and scope.

1 Q. What index are you proposing should be used to
2 determine KPL's maximum A&G expense subject to ratemaking
3 consideration after the merger?

4 A. As discussed in my rebuttal testimony, I am
5 recommending KPL's maximum A&G expense, for ratemaking purposes, be
6 determined by increasing the base year ending June 30, 1990 by the
7 historical inflation rate as published by DRI.

8 Q. Is it true that KGE utilized the projected inflation
9 rates published by DRI in determining its budget assumptions which
10 were incorporated in KPL's Merger Report?

11 A. Yes. In addition, Mr. Flaherty of Deloitte & Touche
12 indicated in an interview with the Staff that a DRI index was used to
13 inflate merger savings in the Merger Report.

14 Q. In your opinion, does the use of a DRI inflation index
15 result in an A&G expense amount for ratemaking purposes which is
16 unrealistic?

17 A. No. In fact three other Missouri utilities which have
18 not been involved in any significant merger and acquisition activity
19 since 1984 have been able to limit their A&G expense growth rate, on
20 a combined basis, at a rate which is less than the average DRI
21 inflation index for the period 1985-1990, as indicated below:
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Supplemental Rebuttal Testimony of
Steve M. Traxler

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Average Rate of
Increase in A&G
Expense
1985-1990

St. Joseph Light & Power Co.	1.01%
Union Electric Company	5.75%
Laclede Gas	<u>-1.00%</u>
AVERAGE	1.92%
	=====

Average DRI Inflation Rate 1985-1990	3.30%
	=====

Q. Does this conclude your supplemental rebuttal
testimony?

A. Yes, it does.

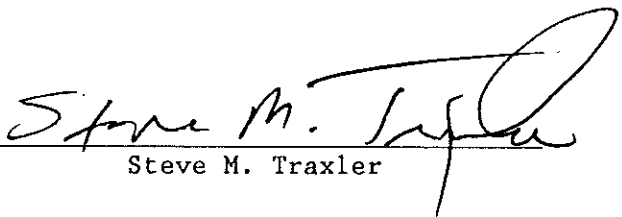
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of the application of The Kansas)
Power and Light Company and KCA Corporation for)
approval of the acquisition of all classes of the) Case No. EM-91-213
capital stock of Kansas Gas and Electric Company)
to merge with Kansas Gas and Electric Company,)
to issue stock and incur debt obligations.)

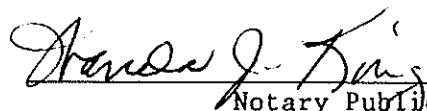
AFFIDAVIT OF STEVE M. TRAXLER

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 supplemental rebuttal testimony in question and answer form, consisting of ___ pages to be presented in the above case; that the answers in the foregoing supplemental rebuttal 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 6th day of May, 1991.


Notary Public
WANDA J. KING
NOTARY PUBLIC STATE OF MISSOURI
COLE CO.
COMMISSION EXPIRES SEPTEMBER 1991

My Commission expires 9/4/91

KANSAS POWER & LIGHT COMPANY
A & G COST PER CUSTOMER COMPARISON
CASE NO. EM-91-213

	A & G EXPENSE PRE-MERGER	A & G EXPENSE 1990
OSAGE NATURAL GAS -1987	71,708	
GREAT RIVER GAS -1988	1,075,327	
BOWLING GREEN -1990	69,394	
UNITED CITIES GAS		1,531,038
	1,216,429	1,531,038
AVERAGE NO. CUSTOMERS	13,761	12,318
A & G COST PER CUSTOMER	88	124
AVG. PERCENTAGE INCREASE PER YEAR		20.30%

	A & G EXPENSE PRE-MERGER	A & G EXPENSE 1990
ASSOC. NAT. GAS -1987	2,035,455	
ARKANSAS WESTERN		2,902,082
AVERAGE NO. CUSTOMERS	42,210	42,710
A & G COST PER CUSTOMER	48	68
AVG. PERCENTAGE INCREASE PER YEAR		13.64%

	A & G EXPENSE PRE-MERGER	A & G EXPENSE 1990
MO. PUB. SERVICE -1984	2,231,783	
UTILICORP		3,897,454
AVERAGE NO. CUSTOMERS	39,450	40,141
A & G COST PER CUSTOMER	57	97
AVG. PERCENTAGE INCREASE PER YEAR		11.94%

	A & G EXPENSE PRE-MERGER	A & G EXPENSE 1990
GAS SERVICE -1984	11,399,078	
KPL GAS SERVICE		21,370,503
AVERAGE NO. CUSTOMERS	403,375	444,302
A & G COST PER CUSTOMER	28	48
AVG. PERCENTAGE INCREASE PER YEAR		11.70%

	A & G EXPENSE 1984	A & G EXPENSE 1990
ST JOSEPH LIGHT & POWER	222,471	241,474
AVERAGE NO. OF CUSTOMERS	4,529	6,053
A & G COST PER CUSTOMER	49	40
AVG. PERCENTAGE INCREASE PER YEAR		-3.13%

	A & G EXPENSE 1984	A & G EXPENSE 1990
UNION ELECTRIC COMPANY	3,114,772	4,345,151
AVERAGE NO. OF CUSTOMERS	104,697	110,714
A & G COST PER CUSTOMER	30	39
AVG. PERCENTAGE INCREASE PER YEAR		5.32%

	A & G EXPENSE 1984	A & G EXPENSE 1990
LACLEDE GAS COMPANY	24,272,843	23,142,378
AVERAGE NO. OF CUSTOMERS	550,811	589,100
A & G COST PER CUSTOMER	44	39
AVG. PERCENTAGE INCREASE PER YEAR		-1.81%

A&G ANALYSIS

COMPANY	1989 A&G	1990 A&G	% INCR	MIDSECTION WEIGHTED AVERAGE
ST. JOE	418,533	241,474	-42.30%	
ILLINOIS POWER	22,193,567	19,897,432	-10.35%	
LACLEDE	25,731,647	23,142,378	-10.06%	
NO INDIANA PUB SERV	46,386,920	43,220,536	-6.83%	
UNION ELECTRIC	4,602,576	4,345,151	-5.59%	
MIDWEST ENERGY (IOWA PUBLIC)	17,634,875	17,697,749	0.36%	
GREAT PLAINS	1,561,332	1,572,596	0.72%	
WISCONSIN ENERGY (WIS)	11,337,868	11,544,319	1.82%	
IOWA SOUTHERN	1,446,082	1,477,981	2.21%	
OKLAHOMA NATURAL GAS	24,604,595	25,208,591	2.45%	
PEOPLES GAS LIGHT	63,701,441	66,200,604	3.92%	
ENSERCH	66,160,633	69,235,744	4.65%	
ARKANSAS WESTERN	9,197,508	9,762,876	6.15%	
KPL	45,450,166	49,054,282	7.93%	
WISCONSIN PUB SERV	5,945,530	6,418,342	7.95%	6.25%
IOWA-ILLINOIS	8,196,526	8,896,359	8.54%	
GREELEY GAS	4,095,701	4,544,608	10.96%	
INTERSTATE POWER	3,032,054	3,387,334	11.72%	
CILCO	8,416,608	9,446,334	12.23%	
WICOR (WI GAS)	28,525,479	33,560,842	17.65%	
UTILICORP	3,283,520	3,897,454	18.70%	
CIPS	8,623,508	10,366,525	20.21%	
IOWA ELECTRIC	6,647,856	8,056,716	21.19%	
UNITED CITIES	20,254,822	25,406,038	25.43%	
KN ENERGY	27,522,199	36,716,069	33.41%	

A&G ANALYSIS

COMPANY	1988 A&G	1989 A&G	% INCR	MIDSECTION WEIGHTED AVERAGE
WISCONSIN ENERGY (WIS)	13,119,155	11,337,868	-13.58%	
KN ENERGY	30,866,832	27,522,199	-10.84%	
GREAT PLAINS	1,731,484	1,561,332	-9.83%	
IOWA-ILLINOIS	8,862,408	8,196,526	-7.51%	
IOWA ELECTRIC	7,160,593	6,647,856	-7.16%	
LACLEDE	26,116,602	25,731,647	-1.47%	
WICOR (WI GAS)	28,542,004	28,525,479	-0.06%	
INTERSTATE POWER	2,931,554	3,032,054	3.43%	
UNITED CITIES	19,316,544	20,254,822	4.86%	
WISCONSIN PUB SERV	5,663,802	5,945,530	4.97%	
ENSERCH	62,588,585	66,160,633	5.71%	
ILLINOIS POWER	20,862,327	22,193,567	6.38%	
UTILICORP	3,074,517	3,283,520	6.80%	
CIPS	8,071,114	8,623,508	6.84%	
MIDWEST ENERGY (IOWA PUBLIC)	16,389,366	17,634,875	7.60%	5.88%
CILCO	7,789,123	8,416,608	8.06%	
IOWA SOUTHERN	1,336,847	1,446,082	8.17%	
PEOPLES GAS LIGHT	58,656,135	63,701,441	8.60%	
KPL	41,568,397	45,450,166	9.34%	
GREELEY GAS	3,566,852	4,095,701	14.83%	
OKLAHOMA NATURAL GAS	20,988,940	24,604,595	17.23%	
NO INDIANA PUB SERV	38,497,865	46,386,920	20.49%	
ARKANSAS WESTERN	7,039,700	9,197,508	30.65%	
UNION ELECTRIC	3,497,650	4,602,576	31.59%	
ST. JOE	233,874	418,533	78.96%	

A&G ANALYSIS

COMPANY	1987 A&G	1988 A&G	% INCR	MIDSECTION WEIGHTED AVERAGE
WISCONSIN PUB SERV	6,163,570	5,663,802	-8.11%	
ILLINOIS POWER	22,462,472	20,862,327	-7.12%	
INTERSTATE POWER	3,039,413	2,931,554	-3.55%	
NO INDIANA PUB SERV	39,420,115	38,497,865	-2.34%	
OKLAHOMA NATURAL GAS	21,484,171	20,988,940	-2.31%	
IOWA SOUTHERN	1,352,536	1,336,847	-1.16%	
MIDWEST ENERGY (IOWA PUBLIC)	16,501,016	16,389,366	-0.68%	
CIPS	8,048,892	8,071,114	0.28%	
GREAT PLAINS	1,715,302	1,731,484	0.94%	
IOWA-ILLINOIS	8,725,677	8,862,408	1.57%	
PEOPLES GAS LIGHT	57,382,221	58,656,135	2.22%	
UNION ELECTRIC	3,419,292	3,497,650	2.29%	
ST. JOE	228,961	235,874	3.02%	
LACLEDE	25,290,356	26,116,602	3.27%	
KN ENERGY	28,251,798	30,866,832	9.26%	6.10%
ENSERCH	57,207,917	62,588,585	9.41%	
KPL	37,846,294	41,568,397	9.83%	
CILCO	7,079,258	7,789,123	10.03%	
IOWA ELECTRIC	6,300,318	7,160,593	13.65%	
GREELEY GAS	3,085,276	3,566,852	15.61%	
UTILICORP	2,619,699	3,074,517	17.36%	
WICOR (WI GAS)	23,919,198	28,542,004	19.33%	
WISCONSIN ENERGY (WIS)	10,890,642	13,119,155	20.46%	
UNITED CITIES	13,671,688	19,316,544	41.29%	
ARKANSAS WESTERN	n/a	7,039,700	ERR	