

UTILICORP UNITED INC.

BEFORE THE PUBLIC SERVICE COMMISSION OF THE STATE OF MISSOURI

FILED²

OCT 19 1999

Missouri Public
Service Commission

In the matter of the Joint Application of)
UtiliCorp United Inc. and St. Joseph Light)
& Power Company for authority to merge)
St. Joseph Light & Power Company with)
and into UtiliCorp United Inc. and, in)
connection therewith, certain other related)
transactions)

Case No. EM-2000-292

UtiliCorp United Inc. and St. Joseph Light & Power Company Merger

Direct Testimony

October 19, 1999

Exhibit No.:
Issue: Taxes
Witness: James E. Karlin
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

James E. Karlin

October 19, 1999

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF JAMES E. KARLIN
ON BEHALF OF UTILICORP UNITED INC.**

CASE NO.

1 Q. Please state your name and address.

2 A. My name is James E. Karlin and my business address is 10700 E. 350 Highway, Kansas
3 City, Missouri 64138.

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

5 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as the Director of Taxes.

6 Q. Please describe your educational background.

7 A. I graduated from Kansas State University in Manhattan, KS with a Bachelor of Science
8 degree in Accounting. I am a CPA in the State of Kansas. I have attended numerous
9 taxation seminars since 1977.

10 Q. What are your duties and responsibilities at UtiliCorp?

11 A. I am responsible for compliance and planning for income, property, state franchise, sales
12 and use tax, and city franchise taxes. My responsibilities also include audit
13 administration and accounting for taxes.

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

15 A. To discuss the impact of income taxes the merger of UtiliCorp and St. Joseph Light &
16 Power Co. ("SJLP") is expected to have on the combined company.

17 Q. What are the federal income tax consequences of the merger?

1 A. This will be a tax free merger under Internal Revenue Code 368. The tax basis of assets
2 of SJLP will assumed by UtiliCorp. The merged company will become part of the
3 UtiliCorp consolidated federal return.

4 The shareholders of SJLP will not recognize any gain or loss on their shares of stock
5 exchanged for shares of UtiliCorp's stock; they will recognize gain or loss to the extent
6 they receive cash for their shares.

7 Q. What are the state income tax consequences of the merger?

8 A. All state returns follow the federal return in treating the merger as tax free. The tax basis
9 of the assets will be assumed by UtiliCorp. The merged entity will become part of the
10 UtiliCorp's return and be filed in the states where UtiliCorp has business operations.

11 Q. Discuss the impact of Investment Tax Credit reserves of the acquired company.

12 A. There should be no changes to the Investment Tax Credit reserves of the acquired
13 company because this is a tax free merger and not a sale of the assets of the acquired
14 company. The investment credit reserves will be assumed by UtiliCorp and continue to
15 flow back reducing income tax expense over the remaining lives of the assets.

16 Q. Discuss the impact of the deferred income tax reserves of the acquired company.

17 A. There will be no changes to the deferred income tax reserves of the acquired company.
18 Because this is an acquisition of stock of the acquired company through a tax free merger
19 versus a purchase of the assets of the acquired company, the deferred income tax reserves
20 will be assumed by UtiliCorp for the taxes on the differences between the book and tax
21 basis of the assets.

22 Q. What do you expect the impact of the merger to be on the property taxes of the

1 combined company?

2 A. I expect no material amount of change in the property taxes paid by the combined
3 company as compared to the separate companies.

4 Q. Can you elaborate?

5 A. Yes. Property taxes are based upon the fair market value of the Company. The
6 purchase price consisted of two components, the fair market value of the Company and
7 the intangible value created by synergies created by combining SJLP under the
8 management of UtiliCorp. This intangible value is not subject to property taxation.

9 Q. Does this conclude your direct testimony?

10 A. Yes.

11

12

13

14

15

16

17

18

19

20

21

22