

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: Synergy Tracking
Witness: Jerry D. Myers
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

Jerry D. Myers

October 19, 1999

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF JERRY D. MYERS
ON BEHALF OF UTILICORP UNITED INC.**

CASE NO.

1 Q. Please state your name and business address.

2 A. My name is Jerry D. Myers, and my business address is 20 W. Ninth Street, Kansas City,
3 Missouri.

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

5 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") in the Financial Management and
6 Accounting Services Enterprise Support Group. My position is Director of Corporate
7 Accounting and Reporting responsible for the company's general ledger accounting and the
8 external reporting to shareholders and the Securities and Exchange Commission.

9 Q. Please state your educational background and experience.

10 A. I attended Central Missouri State University and received a Bachelor of Science Degree in
11 Business Administration with a major in Accounting in 1975. I am a Certified Public
12 Accountant and a member of the American Institute of Certified Public Accountants and
13 the Missouri Society of Certified Public Accountants. I am currently pursuing a graduate
14 degree in business administration from Rockhurst College in Kansas City. I have almost
15 25 years experience, most of which has been spent working in the utility industry. In 1975,
16 I began working for Arthur Andersen & Co., an international public accounting firm. My
17 primary responsibilities were the conduct and management of audits of regulated
18 companies, primarily in the utility industry. In 1983, I joined The Gas Service Company

1 ("Gas Service") as Director of Internal Audit. In 1984, subsequent to the acquisition of Gas
2 Service by Kansas Power and Light Company ("KPL", now "Western Resources"), I was
3 promoted to Assistant Controller of KPL. I left KPL in 1985 to return to public practice
4 and in 1990 joined UtiliCorp's Missouri Public Service division. Since 1990 I have been
5 responsible for division accounting, Corporate Reporting and Accounting, the Corporate
6 Tax Department and the reengineering effort which developed the current financial system.

7 Q. What is the purpose of your testimony?

8 A. I will provide testimony with respect to UtiliCorp's ability to track the synergies resulting
9 from UtiliCorp's merger with St. Joseph Light and Power Company ("SJLP") as discussed
10 in the testimony of UtiliCorp witness Vern Siemek.

11 Q. As you indicated, in the testimony of Vern Siemek, the synergies resulting from the
12 proposed merger are discussed. How does UtiliCorp propose to track these synergies?

13 A. In order to answer this question, I first would like to discuss some basic features of our
14 financial system.

15 Q. Please go ahead.

16 A. Because of its multi-jurisdictional presence and the various regulatory reporting
17 requirements associated with that, UtiliCorp tracks each business operation that has its own
18 unique rate structure as a separate business unit on the general ledger. For example, in
19 Colorado, we operate both a gas business (People's Natural Gas) and an electric business
20 (WestPlains Energy). Because these operations have unique rate structures and require
21 separate regulatory reporting, we continue to track them separately on our general ledger.
22 The gas operation is reflected as PND and the electric operation is reflected as WCD
23 (distribution) and WCG (generation).

1 Q. Is this relevant to the synergy issue?

2 A. Yes. It shows UtiliCorp has the financial system to support the tracking of costs and
3 revenues specific to SJLP. SJLP will be assigned a separate business unit for its generation
4 and distribution functions.

5 Q. Please discuss how any costs of UtiliCorp operations resulting from the subject transaction
6 and how those costs would be tracked.

7 A. The financial system currently tracks support costs in unique departments which are
8 included in three business units referred to in our Chart of Accounts as UCU, UED and
9 UPS. The costs are allocated to the operating units using a series of allocation steps
10 referred to as Enterprise Support Allocations ("ESF") and Intra-Business Unit Allocations
11 ("IBU"). Costs are allocated using either specific cost drivers like employees or using a
12 general three-factor formula commonly referred to as the Massachusetts Formula.

13 Q. What will the costs to be allocated consist of post-merger?

14 A. Post-merger, the cost pools utilized in the ESF and IBU allocations will consist of the costs
15 necessary to support UtiliCorp's existing operations before the merger and the incremental
16 costs incurred by those support departments to absorb the SJLP operations.

17 Q. How do you propose to track incremental costs of providing operational and managerial
18 support to SJLP?

19 A. Incremental costs can be broadly classified into two categories, payroll and non-payroll.
20 One very important point is that most of the incremental support costs will be payroll in
21 nature. In addition, a substantial portion of the non-payroll costs will be charged directly to
22 the SJLP as being directly related to that business unit. Transition Teams have been
23 organized to integrate the operations of SJLP into the UtiliCorp operation. The teams

1 activities are discussed more fully in the testimony of UtiliCorp witness Vicki M. Heider.

2 One of the many outputs of that team will be an identification of both payroll and non-
3 payroll costs that are expected to become incremental costs of UtiliCorp post-merger.

4 Procedures will be communicated to key Utilicorp departments regarding the proper
5 tracking of these incremental costs.

6 Q. Please elaborate on those planned procedures.

7 A. With regard to payroll related costs, the employee requisition form will be revised so it will
8 indicate that the requisition is for an employee to support the additional work created by the
9 merger with SJLP. The requisition will include documentation explaining the facts and
10 circumstances regarding the position, why it is needed and how it relates to the support of
11 SJLP operations.

12 Q. Can you provide an example of this?

13 A. Yes. We currently have a centralized accounts payable function for our domestic utility
14 business and corporate headquarters. Our experience to date has shown that one person can
15 process 1200 invoices per month. If, as the result of the SJLP transaction, it is estimated
16 that accounts payable will be required to process at least an additional 1200 invoices per
17 month, then at least one additional accounts payable clerk would become necessary and
18 requested using the process discussed previously.

19 Q. How will persons hired to fill these positions requested charge their time?

20 A. Each employee of UtiliCorp currently completes a biweekly timesheet. On these time
21 sheets they are asked to indicate the proper allocation of their productive and non-
22 productive (vacation, holiday, sick, etc.) time. UtiliCorp also utilizes a Project Cost system
23 that allows the tracking of specific activities whether the activity is a capital activity or an

1 activity that is recorded in operations and maintenance. Each department requesting
2 additional personnel to support the incremental operations of SJLP will be assigned an
3 "activity number." This activity number will be specific to that department, for example,
4 "Incremental A/P Personnel-SJLP", and will be used by the Accounts Payable clerk that is
5 hired and designated as providing support to SJLP operations. This activity, along with
6 similar activities related to other departments (payroll, property, human resource,
7 information technology, general ledger, etc.) that were required to hire personnel, will be
8 summarized under one project number, for example, "SJLP Incremental Costs." The
9 "Project" in the Project Cost system is a summation tool that allows for the summarization
10 of multiple activities included under that Project.

11 Q. Who will be responsible to ensure employees are charging their time appropriately?

12 A. The employees immediate supervisor is ultimately responsible for the proper reporting and
13 coding of time for employees under their supervision. The employee, upon hiring, will be
14 instructed by the supervisor on the proper coding of their time. The employee will code
15 their productive time in this manner until instructed otherwise. The work of the Transition
16 Teams will also provide additional support for the reasonableness of the costs being
17 incurred.

18 Q. What occurs when an employee hired to support SJLP operations decides to take another
19 position?

20 A. Upon accepting another position, the employee will discontinue use of SJLP specific
21 coding and begin coding his/her productive time consistent with the new work they are
22 performing. The individual replacing that employee will begin using the SJLP specific
23 coding immediately upon hire.

1 Q. You have discussed direct payroll costs associated with incremental employees. What
2 about the indirect costs of increased ESF and IBU employees such as benefits, payroll
3 taxes, etc.?

4 A. UtiliCorp utilizes automated loadings designed to charge the full cost of that employee
5 (benefits, incentive, payroll taxes) to the same account or activity used by them in charging
6 their direct labor hours. For example, UtiliCorp currently uses a 21% loading factor which
7 represents the estimated cost of employee benefits. This factor is applied to each dollar of
8 direct payroll and charged to the same account/activity as the direct payroll. As a result,
9 any person charging their time to one of the special-purpose activities will also have that
10 time loaded for benefits, payroll taxes, etc.

11 Q. Are there incremental costs other than payroll that will be incurred to support the SJLP
12 operations?

13 A. Yes.

14 Q. How will UtiliCorp account for and track those costs?

15 A. As stated earlier, a significant portion of non-payroll costs will be directly charged to the
16 SJLP operation and would not require allocation. Non-payroll incremental costs that are
17 more generic in nature can be tracked in the same fashion as payroll costs utilizing the
18 same activity numbers established in our discussion of payroll costs. If additional analysis
19 is needed, then costs determined to be incremental during analysis can be transferred to the
20 activity utilizing a general journal entry. An example of a non-payroll cost that may
21 require analysis is the incremental cost of supplies needed to bill SJLP customers. Billing
22 envelopes, for example, would be purchased in bulk and used in the billing process. A cost
23 per bill would be developed and applied to the number of bills sent to SJLP customers. The

1 resulting dollar amount would then be transferred, via journal entry, to the specific activity
2 established for that support function. Costs such as depreciation/maintenance on the billing
3 system would not be considered to be incremental and thus would not require analysis.

4 Q. Please discuss the savings to the stand-alone company and how those savings would be
5 tracked.

6 A. Costs of the stand-alone company pre-merger are being reviewed by the transition teams.
7 Those teams will determine which costs would be necessary to continue to provide quality
8 service to SJLP's customers and which of those costs will become incremental costs to
9 UtiliCorp as discussed above. Since UtiliCorp's financial system will track the operations
10 of SJLP in a separate general ledger business unit, post-merger costs associated with
11 operating that system can be easily determined, including both direct costs as well as
12 allocated costs, and compared to the pre-merger cost level as determined by the transition
13 teams.

14 Q. Does this conclude your prepared testimony?

15 A. Yes it does.