Exhibit No.:
Issues: Corporation Overhead Allocations
Employee Benefits Conversion
Proposed Regulatory Plan
Projected Merger Cost & Benefit
Overview-Regulatory Plan, Cost/Benefit Analysis
Transition Cost Recovery – FAS 106 Curtailment
Prior Regulatory Treatment – Re-engineering Costs
Witness: Steven M. Traxler
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: EM-2000-369

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

# REBUTTAL TESTIMONY

# OF

# STEVEN M. TRAXLER



**UTILICORP UNITED INC.**

**AND**

**EMPIRE DISTRICT ELECTRIC COMPANY**

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

Jefferson City, Missouri
June 2000

****Denotes Highly Confidential Information****

**NP**

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**REBUTTAL TESTIMONY OF**

**STEVE M. TRAXLER**





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**REBUTTAL TESTIMONY**

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**UTILICORP UNITED INC.**

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**EMPIRE DISTRICT ELECTRIC COMPANY**

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

Q. Please state your name and business address.

A. Steve M. Traxler, Noland Plaza Office Building, 3675 Noland Road, Independence, Missouri 64055.

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

A. I am a Regulatory Auditor for the Missouri Public Service Commission (Commission).

Q. Please describe your educational background.

A. I graduated from Missouri Valley College at Marshall, Missouri, in 1974 with a Bachelor of Science degree in Business Administration with a major in Accounting.

Q. Please describe your employment history.

A. I was employed as an accountant with Rival Manufacturing Company in Kansas City from June 1974 to May 1977. I was employed as a Regulatory Auditor with the Missouri Public Service Commission from June 1977 to January 1983. I was employed by United Telephone Company as a Regulatory Accountant from February 1983 to May 1986. In June 1986, I began my employment with Dittmer, Brosch &



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Associates (DBA) in Lee's Summit, Missouri as a Regulatory Consultant. I left DBA in April 1988. I was self-employed from May 1988 to December 1989. I came back to the Commission in December 1989. My current position is Auditor V with the Commission's Accounting Department.

Q. What is the nature of your duties while in the employ of this Commission?

A. I am responsible for assisting in the audits and examinations of the books and records of utility companies operating within the state of Missouri.

Q. Have you previously testified before this Commission?

A. Yes, I have. A list of cases in which I have filed testimony is shown on Schedule SMT-1 of this testimony.

Q. Have you filed testimony in rate proceedings involving a regulated utility company in any jurisdictions besides Missouri?

A. Yes, I have also filed testimony in Kansas, Minnesota, Arizona, Indiana, Iowa and Mississippi.

**Overview of Staff Position on Cost/Benefit Analysis and Regulatory Plan**

Q. Please summarize the Joint Applicants' Merger Application in this case.

A. The Merger Application filed by UtiliCorp United Inc. (UCU) and The Empire District Electric Company (Empire) (together, Joint Applicants) reflects a proposed "regulatory plan" which requests specific treatment of merger savings and costs that can be summarized as follows:

(1) A rate moratorium is being requested for years 1-5 following the effective date of rates established in Empire's State Line combined cycle unit rate case projected to be filed in September 2000.



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(2) Based upon a ten-year analysis of projected merger costs and savings, UCU/Empire are requesting rate base treatment and amortization of 50% of the merger acquisition premium beginning in the sixth year following the requested five-year moratorium.

The UCU/Empire projected cost benefit analysis for years 6-10, purports to show merger savings sufficient to cover merger costs, a return of and return on 50% of the merger acquisition premium and additional savings of at least $3.0 million per year which will be used as a cost of service reduction for Empire ratepayers.

(3) The Joint Applicants are requesting approval of a regulatory plan for specific rate treatment of merger savings expected from the merger. Corporate overhead cost reductions for UCU's division, Missouri Public Service (MPS) resulting from addition of St. Joseph Light and Power Company (SJLP) and Empire are to be "ignored" by the Commission in rate proceedings involving MPS during the ten-year period following merger approval.

The cost reductions to Empire and SJLP resulting from an improved equity ratio after the merger are also to be "ignored" by the Commission in setting rates for the Empire and SJLP divisions in years 6-10 following merger approval.

Finally, the regulatory plan assigns 100% of the energy savings expected from the joint dispatch of the merged company's generating facilities after the merger to Empire and SJLP. MPS ratepayers



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are to receive no benefit from joint dispatch of the MPS, SJLP and Empire generating facilities.

Q. What is the Staff's position regarding the proposed regulatory plan requested by the Joint Applicants?

A. The regulatory plan, in the Staff's view, was developed in an effort to have MPS, Empire and SJLP ratepayers subsidize merger costs and the portion of the merger acquisition premium which cannot be recovered from projected merger savings.

The inequity of the regulatory plan is addressed in my testimony as well as the testimony of Staff witnesses Mark L. Oligschlaeger, Cary G. Featherstone, Dr. Michael S. Proctor and David P. Broadwater.

If the Commission "ignores" for ratemaking purposes, cost reductions from the merger in the form of lower cost of capital for Empire and SJLP and lower corporate overhead cost allocations to MPS, as requested by the regulatory plan, MPS, Empire and SJLP ratepayers will subsidize merger costs and the merger acquisition premium by approximately $110 million over the ten-year period following merger approval calculated as follows:

| | |
|---|---|
| Assign 100% of energy savings to SJLP | $ 6 million |
| Assign 100% of energy savings to Empire | $ 5 million |
| Ignore reduction in UCU overhead costs allocated to MPS | $ 78 million |
| Ignore improved equity ratio for SJLP | $ 8 million |
| Ignore improved equity ratio for Empire | $ 13 million |
| Increased revenue collected due to regulatory plan | $110 million |

The regulatory plan is intended to result in forced subsidization of merger costs and the merger acquisition premium and is, therefore, detrimental to the ratepayers of Empire, SJLP and MPS.



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Q. Provide a brief summary of the Staff's position and recommendation regarding whether savings from the merger will exceed the costs of the merger and whether the proposed regulatory plan should be adopted.

A. After analyzing the assumptions used by UCU/Empire in projecting merger costs and savings, the Staff position is that there are serious flaws in four areas:

(1) Based upon historical experience, the growth rate/inflation rate used in projecting the annual increase in UCU's corporate overhead costs is too low. Understating the growth rate for these costs has resulted in an understatement of the impact of UCU's corporate overhead costs on Empire's and SJLP's earnings after the merger.

(2) The projected savings from employee reductions is overstated as a result of the failure to recognize Empire's normal, stand-alone job vacancy experience. Staff Accounting witness Janis E. Fischer is sponsoring an adjustment to reduce the Joint Applicants' projected savings from employee reduction in order to eliminate this assumption error.

(3) The Joint Applicants' project approximately $198 million in joint dispatch savings to Empire will occur over the ten-year period following merger approval. Staff witness Proctor's position is that approximately 97% of these savings can be achieved by Empire on a "stand alone" basis (no merger assumption) and, therefore, should not be used to offset merger costs in a cost/benefit analysis for this merger.



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(4) In the projected savings from the conversion of Empire employee benefit plans to those of UCU, UCU witness Robert B. Browning assumed that the pre-merger funded status of the Empire pension plan will remain unaffected by the merger. This assumption contradicts the UCU plan to consolidate the Empire and SJLP pension plan assets with those of UCU after the merger.

The Empire and SJLP pension plans are in a much better funded position than the UCU plan, 155% and 223% respectively, compared to 140% for UCU at January 1, 1999. Combining the pension assets will result in a <u>combined</u> funded level of 144% under a UCU/Empire combination and 153% under a UCU/SJLP combination. The change to the post-merger funded status will increase pension cost for Empire and SJLP and reduce the pension cost for all of UCU's other regulated and non-regulated plan members. The Staff estimates the detrimental impact on Empire to be approximately $8.3 million over the ten-year period following the merger closing.

(5) The Joint Applicants are relying on a <u>projected</u> net savings for years 6-10, following the five-year moratorium, to demonstrate that the UCU/Empire merger meets the "not detrimental to the public interest" standard in Missouri.

Both the Joint Applicants' and the Staff's projected cost/benefit analysis for years 1-5 indicate that merger savings will be insufficient to cover merger costs plus a 50% recovery of the merger



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acquisition premium. The Joint Applicants and the Staff's projections are set forth below:

| | UCU/Empire 000's | Staff 000's |
|---|---|---|
| Net Merger Savings/(Costs) Years 1-5 | $ 68,662 | ($ 30,725) |
| Less 50% of Acquisition Premium | ($102,590) | ($102,590) |
| Net (Loss) – Years 1-5 | ($ 33,928) | ($133,315) |

My testimony will generally refer to projected merger costs and savings for years 6-10 because the projected results for these years are alleged to support the Joint Applicants' claim that the proposed UCU/Empire merger satisfies the "not detrimental to the public interest" standard in Missouri.

In summary, I will explain in my testimony that after appropriate adjustments are made to the UCU/Empire projected benefit analysis, the merger costs for years 6-10 <u>exceed</u> merger savings by approximately $1.6 million annually. This is without consideration of recovery of the merger acquisition premium. The Staff's ten-year cost/benefit analysis, Schedule SMT-2, reflects that net merger savings are significantly less than the level required to recover 50% of the merger acquisition premium plus transaction costs, as requested by the Joint Applicants.

Q. Please describe the areas addressed in your rebuttal testimony.

A. My testimony will address the following areas:

- Detrimental aspects of proposed regulatory plan
- Transition Cost Recovery – FAS 106 Curtailment Cost
- Impact of UCU's Re-engineering Project Costs



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- The Staff's projected merger impact on Empire's cost of service resulting from the consolidation of administrative and general, customer service, transmission, distribution and general plant functions and the corresponding allocation of UCU corporate overhead costs to Empire.
- Overstatement of projected merger savings from Employee Benefits Conversion as a result of the failure to calculate FAS 87 pension cost based upon the planned consolidation of Empire and UCU pension fund assets after the merger;
- The Staff's analysis of the **net** result of all projected merger costs and savings, under the Staff's assumptions. This analysis demonstrates that the proposed merger will be detrimental to Empire's ratepayers, absent the Staff's recommended conditions for merger approval.

Q. How does your testimony filed in this Merger Application compare to the testimony you filed earlier concerning the same issues in the UCU/SJLP merger application, Case No. EM-2000-292?

A. This testimony generally addresses the same areas covered in the testimony I filed in Case No. EM-200-292, and accordingly is very similar to my testimony for the UCU/SJLP merger. However, in some areas, I have expanded some of the arguments made on these issue areas beyond those made in my UCU/SJLP rebuttal testimony. In addition, this testimony addresses the areas outlined below:

- Joint Applicants' proposed transition cost treatment for a Financial Accounting Standard (FAS) 106 curtailment cost, pages 21-28.



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- The Commission's prior treatment of UCU's re-engineering project costs in Case No. ER-97-394, pages 28-33.
- Joint Applicants use of the Consumer Price Index for Urban Consumers (CPI-U) for escalating UCU's corporate overhead costs, pages 43-48.
- Results of stranded cost study performed by PriceWaterhouseCoopers related to Empire's current generation assets and capacity contracts, pages 69 and 70.

**Proposed Regulatory Plan**

Q. Why is it necessary to analyze the expected costs and benefits that will result from a merger of St. Joseph Light & Power Company (SJLP), The Empire District Electric Company (EDE or Empire) and UtiliCorp United Inc. (UCU)?

A. The Commission is bound by a Missouri standard regarding the approval of regulated utility company mergers. The Joint Applicants are required to demonstrate that the proposed merger is not detrimental to the public interest. Therefore, to support a merger the Joint Applicants (Empire, SJLP and UCU) and the Staff must be able to conclude and recommend to the Commission that the proposed merger is not expected to result in:

1. Higher utility rates for the customers of SJLP, Empire and UlitiCorp's Missouri division, Missouri Public Service (MPS), as a result of the merger; and
2. Deterioration in the level of customer service.



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Q. Does the "not detrimental to the public interest" standard in Missouri require that any of the Missouri customers of SJLP, UCU or Empire benefit from the proposed merger?

A. No. The Joint Applicants do not have to demonstrate net benefits (savings exceeding costs), or improved customer service. They <u>do</u> have to demonstrate: 1) that costs resulting from the merger will not <u>exceed</u> the savings, resulting in higher utility rates; and 2) that customer service will not deteriorate.

Q. Is it generally true that utility merger applications are presented by the applicants on the basis that merger-related benefits will exceed costs?

A. Yes. In all of the previous major merger applications in Missouri, the Joint Applicants projected that savings would <u>exceed</u> all transaction, transition and consolidation costs plus an amortization of the merger premium acquisition adjustment. The monies which exceeded the recovery of costs were then purported to be used for rate mitigation for customers.

Q. With respect to this proposed merger between UCU and Empire, are the Joint Applicants projecting savings which exceed transaction, transition and consolidation costs plus the merger premium acquisition adjustment?

A. No. Reflected below are the Joint Applicants' projected savings and merger-related costs over the ten-year period following the closing of the merger. The amounts are separated between expected financial results for years 1-5 and 6-10, respectively. Line 13 on page 11 reflects that projected savings will exceed projected transition, transaction and consolidation costs by $68.7 million in the first five years and $107.5 million in the second five years.



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However, when recovery of the acquisition premium is also considered, the Joint Applicants project a $136.5 million net loss in years 1-5 and a $77.8 million net loss in years 6-10. A total net loss is expected of $214.3 million during the first ten years following approval of the merger.

| | **UCU/Empire Projected Merger Costs/Savings** | |
|---|---|---|
| | **Years 1-5 *000's*** | **Years 6-10 *000's*** |
| Operation & Maintenance Consolidation Savings | $173,444 | $210,128 |
| Additional Capital Costs to Implement Consolidation | ( 18,986) | ($ 5,553) |
| Total Savings, Net of Costs to Achieve | $154,458 | $204,575 |
| Increase in Operation & Maintenance Expense - UCU Allocations | ($ 85,796) | ($97,071) |
| Total Savings Less Costs (Excluding Premium Amount) | $ 68,662 | $107,504 |
| Amortization of Total Acquisition Premiums | ($205,179) | ($185,321) |
| Net Loss – Years 1-5 | ($136,517) | |
| Net Loss – Years 6-10 | | ($ 77,817) |
| Net Loss – Years 1-10 | | ($214,334) |

Q. Referring to the Joint Applicants' projected net loss from the merger of $214.3 million during the initial ten years after the merger closing, how can UCU and Empire justify moving forward on a merger which is expected to cost shareholders $214.3 million during the first ten years following the merger closing?

A. Clearly, the Joint Applicants would not be attempting to justify this merger to their shareholders if the projected financial results told the entire story regarding the "regulatory plan" requested in the Merger Application.

The regulatory plan being proposed by the Joint Applicants is explained in detail in the testimony of Staff witnesses Oligschlaeger, Featherstone, Broadwater and Proctor.



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However, I will briefly explain how the proposed regulatory plan would force the existing ratepayers of MPS, Empire and SJLP to subsidize the recovery of the acquisition premium and merger costs that are not recovered through projected savings.

(1) UCU's administrative and general overhead costs, which benefit all of its U.S. regulated and non-regulated divisions/subsidiaries, are currently allocated to 27 separate divisions or subsidiaries. Adding SJLP and Empire to the organization results in an immediate reduction in the allocation percent for these 27 divisions or subsidiaries. UCU's existing Missouri regulated utility division, MPS, is one of the 27 existing entities that would benefit from a reduction in the allocation factor used to assign UCU's overhead costs to MPS.

Under the regulatory plan, the Joint Applicants propose, they are requesting that this cost allocation benefit to MPS be "ignored" in any rate case involving MPS during the first ten years following the merger.

This recommended ratemaking treatment for MPS is nothing more than a backdoor approach to force UCU's existing Missouri customers to subsidize the net loss from the merger referred to previously. This loss results because projected merger savings are insufficient to cover all merger costs plus the acquisition premium.

The Commission is being asked to "ignore" any UCU overhead allocation reduction to MPS resulting from an acquisition of SJLP and/or Empire by UCU for the next ten years.

MPS' allocated share of corporate overhead costs would be reduced by an average of $6.3 million annually as soon as Empire begins absorbing its allocated share of these costs. Schedule SMT-3 reflects the additional cost to MPS ratepayers from this proposal.

Applicants' proposed regulatory plan requires the Commission to "ignore" this cost reduction and, as a result, increase rates for UCU's existing MPS ratepayers by an average of $6.3 million annually. The total increase in MPS rates for the ten-year period following the merger closing is approximately $51 million, shown on line 16 of Schedule SMT-3 attached to this testimony.

The fact that UCU is even considering such an unfair plan for its existing Missouri ratepayers is a clear indication of the insufficient level of merger savings expected from these mergers.

(2) Similarly, the Applicants propose that the Commission "ignore" the capital structure impact in rate cases involving Empire and SJLP during the first ten years following the merger closing. The regulatory plan includes a request that the Commission treat Empire and SJLP as if they were separate Missouri electric utilities with their own capital structure for the purpose of determining the rate of return used in a rate case for the Empire and SJLP divisions.

The Empire and SJLP current pre-merger capital structures have higher equity ratios than would UCU's consolidated capital structure following the merger. If the Joint Applicants can get the Commission to "assume" that the Empire and SJLP pre-merger capital structures still exist for the next ten years, then Empire and SJLP ratepayers will be forced to subsidize the recovery of the merger acquisition premium and merger costs not covered by merger savings. Staff witness Broadwater addresses the detrimental aspects of this regulatory proposal in his rebuttal testimony. This proposal, if adopted, would require Empire's ratepayers to <u>subsidize</u> the acquisition premium and other merger



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costs by approximately $2.5 million annually in the form of higher rates in years 6-10 following the moratorium.

(3) Joint Applicant witness Robert W. Holzwarth addresses the projected merger savings that will result from:

a) jointly dispatching the combined generation units of Empire, SJLP and MPS to obtain efficiency savings; and

b) a projected increase in the sale opportunities on the interchange market resulting in higher interchange profits.

No witness, including Mr. Holzwarth, will deny that savings in the two areas described above require the joint use of the generation assets of Empire and UCU's Missouri division, MPS, assuming a UCU/Empire merger, and that any projected savings from a merger involving SJLP, Empire and UCU result from the joint use of the generation assets of all three utilities. Since the projected benefits from efficiency gains and increased opportunities on the interchange market result from the use of joint facilities, one would logically assume that such benefits would be jointly shared by UCU, SJLP and Empire.

However, the word logical does not apply to the regulatory plan the Applicants propose in this case. With the exception of some capacity cost savings, Mr. Holzwarth is assigning 100% of all energy benefits resulting from the joint dispatch of the combined generation assets to the SJLP and Empire ratepayers. The Commission is being asked to assume that the MPS ratepayers, who have been paying depreciation and a rate of return on MPS' Sibley generating station and other MPS generating facilities for the last 35



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years, have no right to any benefits resulting from the joint use of these facilities after the merger.

This proposal, if adopted, will also result in a forced subsidization of the acquisition premium and merger costs by UCU's existing Missouri ratepayers. Staff witness Proctor addresses this issue in his rebuttal testimony.

(4) The regulatory plan requires the measurement of merger costs and savings for a five-year period following merger approval. The Joint Applicants have not presented any detailed plan as to how they plan to separate non-merger savings from merger savings. Inability to differentiate between non-merger and merger savings will result in an increase in Empire's cost of service when non-merger savings are used to offset merger costs.

Q. Please explain the proposed treatment, under the proposed regulatory plan, for cost of service changes in years 1-5 following the merger closing, versus changes occurring under the proposed regulatory plan in years 6-10.

A. Under the Joint Applicants' proposed regulatory plan, a five-year rate moratorium is being proposed that includes years 1-5 following the effective date of rates set in the State Line combined cycle unit rate case which is anticipated to be filed in September 2000. All merger impacts on cost of service during years 1-5 are not supposed to impact Empire's rate levels.

The Joint Applicants are attempting to demonstrate that the proposed merger meets the "not detrimental to the public interest" standard by guaranteeing a $3 million net benefit to Empire ratepayers in the post-merger rate case with an effective date corresponding to the expiration date of the five-year rate moratorium.

The proposed $3 million net benefit is based upon the "average" net savings projected for years 6-10 following the merger closing. It is important for the Commission to understand that "actual" savings in the test year used for the post-merger rate case will not, under the Joint Applicants' or the Staff's current projections, reflect sufficient net savings to cover 50% of the merger acquisition premium and provide a $3 million net benefit to Empire's ratepayers.

Not only is the Commission being asked by the Joint Applicants to approve the Empire and SJLP mergers today based upon a ten-year projected cost/benefit analysis; it is also being asked to set rates in the post-merger rate cases for both SJLP and Empire based upon projected net savings to occur in years 6-10.

Only by using projected assumptions in the post-merger rate cases for SJLP and Empire, can the Joint Applicants support the "guaranteed" $1.6 million net benefit to SJLP and $3 million net benefit to Empire.

Q. Should the Joint Applicants' inability to demonstrate sufficient "actual" net savings in the post-merger rate cases for SJLP and Empire be a serious concern for the Commission?

A. Yes, it should. Rates established for Missouri utilities have never been based upon projected costs five years into the future. The Joint Applicants' are requesting that the Commission approve the SJLP and Empire mergers today based upon projected assumptions for years 6-10 following the five-year moratoriums in both cases.

Additionally, as proposed by the Joint Applicants, the post-merger rate cases planned for both Empire and SJLP after the end of the five-year moratoriums will



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establish cost of service for those cases based upon projected merger savings for years 6-10 following the five-year moratorium.

Q. What is the basis for your assertion that the proposed regulatory plans for Empire and SJLP require that the cost of service used in setting rates in the post-merger rate cases for Empire and SJLP is to be based upon projected merger costs and savings for years 6-10 following the five-year moratorium requested under both regulatory plans?

A. Joint Applicants witness John W. McKinney, makes the following statements in his direct testimony in Case Nos. EM-2000-292 and EM-2000-369:

> 4. Included in these rate filings will be the complete flow-through of all test-year O&M synergies, adjusted to the forward average level of savings for years 6 through 10 of the regulatory plan, net of the costs to achieve the synergies, resulting from the merger. (McKinney Direct Testimony, EM-2000-292, page 6, emphasis added)
>
> 4. Included in the Post-Moratorium Rate Case filing will be the complete flow-through of all test-year O&M synergies, adjusted to the forward average level of savings for 5 years following the rate moratorium, net of the costs to achieve the synergies, resulting from the merger. (McKinney Direct Testimony, EM-2000-369, page 7, emphasis added)

Q. Should the Commission rely on the Joint Applicants' "guaranteed" net benefit amounts of $1.6 million for SJLP and $3 million for Empire in making a decision regarding the "not detrimental to the public interest" standard?

A. No. The Joint Applicants' readily admit that net benefit amounts guaranteed to SJLP and Empire ratepayers are based on projected merger costs and savings in determining the cost of service to be used in setting rates for SJLP and Empire in the rate cases following the five-year moratoriums. Projected future costs have not



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been included in cost of service for ratemaking purposes in Missouri due to their inherent inaccuracy.

Likewise, a decision as to whether the proposed Empire and SJLP mergers satisfy the "not detrimental to the public interest" standard should also not be based upon reliance on so-called "guaranteed" benefits supported by using <u>projected</u> merger costs and savings for a period ten years into the future.

Q. Does any proposal requiring the tracking of merger savings and costs require a "base year" (or "base line") to be used for the purpose of attempting to measure the amount of net savings/costs resulting from the merger?

A. Yes. In theory, a pre-merger "base year" which reflects pre-merger costs is required to measure merger-related savings.

The Staff is opposed to any proposal that attempts to measure merger costs and savings post merger. The reasons supporting our objections are addressed in detail in the testimony of Staff witnesses Oligschlaeger, Fischer, Proctor and Featherstone.

Q. What "base year" is being proposed by UCU/Empire for the purpose of tracking the merger savings and costs?

A. The 1999 budget for Empire is being proposed for this purpose.

Q. What "base year" is being proposed by the Staff for the purpose of tracking merger costs and savings?

A. The only reason the Staff is recommending any base year for tracking merger savings and costs is to avoid using the Empire 1999 budget, as proposed by UCU/Empire, in the event the Commission rejects the Staff's primary position on this issue. However, in the event the Commission does approve a merger tracking proposal,



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the Staff is recommending that the cost of service calculation used in Empire's pre-merger State Line rate case be used in lieu of the 1999 budget.

Q. Why is the Staff opposed to using the 1999 budget of Empire as a base year to track merger costs and savings?

A. At best, a budget is nothing more than an estimate of projected events 12-14 months in the future. Given the volatility in the purchase power and interchange market today, it is impossible to budget 12-14 months in advance.

The Joint Applicants' recommendation for using the 1999 Empire budget also does not include a recommendation for truing-up budgeted amounts for significant differences between "budgeted" and "actual" 1999 results, which makes it unsuitable as an accurate base year to be used in tracking merger costs and savings.

Q. For year 1999, are you aware of any significant differences between Empire's budget and actual results?

A. Yes. A maintenance outage for the Iatan generating unit was scheduled for the Fall of 1999 and included in the 1999 budget at an amount of $500,000 (Response to Staff Data Request No. 154). The Iatan maintenance outage was canceled later in the year and rescheduled for the Spring of 2000.

This one difference between actual and budgeted results in 1999 alone makes the Empire 1999 budget unsuitable for the purpose of tracking merger costs and savings resulting from a Commission order adopting such a proposal.

Using the 1999 Empire budget unadjusted, would "guarantee" $500,000 in merger savings that do not exist because it includes $500,000 in maintenance expense that was not incurred.



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Q. What are the advantages of using the cost of service calculation for Empire's planned pre-merger State Line rate case as a base year for tracking merger costs and savings?

A. The 1999 Empire budget was not adjusted to reflect any differences between actual and budgeted results for 1999 (Response to Staff Data Request 154). However, the cost of service calculation resulting from Empire's State Line rate case will include adjustments to reflect Empire's most current operating costs which include the following:

Plant in Service
Accumulated Depreciation Reserve
Accumulated Deferred Income Tax Reserve
Materials and Supplies
Prepayments
Fuel Inventories
Deferred Charges Includible in Rate Base
Customer Deposits
Revenue Growth through the known and measurable date
Fuel and Freight Costs
Purchase Power Energy and Demand Costs
Payroll Costs
Payroll Vacancies as a Result of the Merger
Property Taxes
Payroll Taxes
Employer Benefits Costs
Elimination of Merger Costs
Disallowance of Dues, Donations, Charitable Contributions
PSC Assessment
Rate Case Expense
Weather Normalization
Maintenance Normalization
Disallowance of Nonrecurring Y2K Costs
Depreciation Expense
Current and Deferred Income Tax Expense
Cost of Capital/Rate of Return



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Q. Please summarize the Staff's recommendation to use Empire's cost of service calculation from its pre-merger, State Line rate case as a base year assuming the Commission adopts the regulatory plan proposed by the Joint Applicants.

A. The regulatory plan proposed by UCU/Empire includes a recommendation to track merger savings and costs for ten years after closing of the merger. The Joint Applicants intend to demonstrate in Empire's post-merger rate case that **future** merger savings exceed merger costs by an amount which will justify rate base treatment and expense recovery for 50% of the merger acquisition premium. The Staff is strongly opposed to the regulatory plan; however, in the event the Commission approves some form of merger cost/savings tracking proposal, the "base year" required should be the cost of service calculation resulting from a Commission order in Empire's planned pre-merger rate case.

**Transition Cost Recovery – FAS 106 Curtailment**

Q. Are you the primary Staff witness on the recommended treatment for transition costs resulting from the proposed UCU/Empire merger?

A. No. The Staff's primary witness on transition cost recovery is Accounting witness James M. Russo. My testimony in this area addresses only one cost for which the Joint Applicants' are requesting a ten-year amortization for financial reporting and rate recovery. I will address the Joint Applicants' requested ten-year amortization of a Financial Accounting Standard (FAS) 106 curtailment resulting from the merger.

Q. Provide a brief definition of the term "transition cost."

A. Transition costs are also referred to as "costs to achieve" and generally represent costs incurred after the merger closing in order to combine/consolidate the two



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companies. Post-merger costs considered transition costs by the Staff include severance payments to officers or other key employees who will not be retained by the merged company. Retention payments are also made to key employees to retain their services for a pre-determined period of time following the merger closing. Additional transition costs include the information technology (IT) related infrastructure and software conversion costs necessary to consolidate the operations of the combined company. These are all transition costs.

Q. Provide a brief description of FAS 106.

A. FAS 106, Accounting for Postretirement Benefits-Other than Pensions (OPEBs), is the required accounting method for recognizing retiree benefit costs, other than pensions. FAS 106 is used for both financial reporting and ratemaking purposes for SJLP, Empire and UCU's Missouri division, MPS. FAS 106 is the accrual accounting method for retiree medical, dental, vision and life insurance costs expected to be paid by UCU between retirement and death and/or age 65, depending upon the hire date for the employee.

UCU plans to begin converting Empire's FAS 106 benefits to those of UCU following the initial 18-month period after the merger closing.

Q. What is a "plan curtailment" as defined by FAS 106?

A. Paragraph 96 of FAS 106 defines a "plan curtailment" as follows:

> 96. For purposes of this Statement, a curtailment is an event that significantly reduces the expected years of future service of active plan participants or eliminates the accrual of defined benefits for some or all of the future services of a significant number of active plan participants. Curtailments include:



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> a. Termination of employees' services earlier than expected, which may or may not involve closing a facility or discontinuing a segment of a business
>
> b. Termination or suspension of a plan so that employees do not earn additional benefits for future service. In the latter situation, future service may be counted toward eligibility for benefits accumulated based on past service.

Q. What is the primary cause for the projected recognition of a FAS 106 curtailment during years 2001-2003 following the merger closing?

A. UCU expects a reduction in Empire's non-union employee level from 331 at January 1, 2000 to 179 at January 1, 2003. (Response to Staff Data Request No. 175).

The increase in retirees as a result of the planned employee reduction increases the accrued liability for retiree benefit costs under FAS 106. Schedule SMT-4 line 4, reflects the impact on the FAS 106 liability, by year, from 2001 through 2003. The total impact of the plan curtailment, $2,732,422, is reflected on Schedule SMT-4, line 4, Column F.

Q. What is the source for all amounts reflected on Schedule SMT-4?

A. All amounts reflected on Schedule SMT-4 were taken from UCU witness Browning's Schedules RBB-6 and RBB-8.

Q. How is the FAS 106 plan curtailment projected for years 2001-2003 related to the recovery of transition costs in this merger case, EM-2000-369?

A. UCU witness Vern J. Siemek has characterized the $2.7 million FAS 106 Plan Curtailment cost as a transition cost as reflected in Siemek Schedule VJS-2, line 12.

Mr. Siemek is proposing to amortize transition costs over a ten-year period following the merger closing.



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Q. Why is the Staff opposed to treating the FAS 106 curtailment cost as a transition cost to be amortized over a ten-year period?

A. The Staff is opposed to treating the FAS 106 curtailment cost as a transition cost for the following grounds:

1) The FAS 106 curtailment cost occurs during the proposed years 1-5 moratorium following the merger closing. Treating the FAS 106 curtailment cost as a transition cost in years 6-10 violates the regulatory plan proposed by the Joint Applicants in this case. The transition cost treatment proposed by Mr. Siemek will result in recovery of 50%, or $1.4 million of the total curtailment cost, from Empire ratepayers during years 6-10 following the moratorium.

This proposed regulatory treatment is in direct conflict with the intent of the proposed regulatory plan for years 1-5. Under the proposed regulatory plan, Empire's rates were not to be increased or decreased as a result of changes to its cost of service occurring during the moratorium for years 1-5.

FAS 106 OPEBs cost is a <u>normal cost of service</u> item used in setting rates for Empire and every other major utility in Missouri. Including a cost of service change, which occurred during the proposed moratorium period, in rates set after the moratorium violates the regulatory plan proposed by the Joint Applicants.

2) Mr. Siemek's proposed transition cost treatment for the FAS 106 curtailment cost is unfair and inconsistent in that Mr. Siemek is proposing to include only a cost increase in <u>retiree</u> benefits costs, occurring during the moratorium. The headcount reduction, projected for years 1-5 of the moratorium, will result in a significant reduction in <u>employee</u> benefit costs.



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Mr. Siemek has ignored a $3.2 million reduction in employee benefit costs, during the moratorium, which results largely from the same headcount reduction causing the FAS 106 curtailment cost of $2.7 million.

Under Mr. Siemek's proposal, shareholders keep all of the FAS 106 and employee benefits savings during the moratorium. Empire's ratepayers receive none of the savings, but have to pay $1.4 million of the FAS 106 curtailment cost as a result of treating this item as a transition cost, amortized over ten years.

Q. What is the basis for your previous statement that the projected headcount reduction during the years 1-5 moratorium is the primary cause for a significant reduction in employee benefit costs during the moratorium?

A. This assertion is based upon the direct testimony of UCU witness Browning. The savings amounts resulting from the reduction in employee benefit costs reflected on Schedule SMT-4, line 1, were taken from Mr. Browning's Schedule RBB-8.

On page 7, lines 13-17 of his direct testimony, Mr. Browning describes the results reflected on his Schedule RBB-8:

> Active employee health, welfare, 401(k) and Employee Stock Contribution Plan ("ESCP") cost impacts are estimated on Schedule RBB-8. The result of this analysis indicates an overall reduction of associated costs by ($625,583) in 2001, ($285,254) in 2002 and ($467,716) in 2003 and beyond, over the base year costs of 1999. The primary driver for reduced costs is headcount reductions. [emphasis added]

Q. Why is there a direct relationship between an increase in FAS 106 OPEB's cost and the decrease in employee benefit costs for medical, dental, vision, life insurance, etc.?



NP

A. The headcount reductions for Empire's non-union employees projected during the years 1-5 moratorium reduce the non-union employee levels and, at the same time, increase Empire's retiree levels subject to retiree benefits accounted for under FAS 106.

Lower employee levels result in a lower cost for providing medical, dental, vision and life insurance for employees. Correspondingly, the headcount reduction increases the number of Empire retirees receiving these FAS 106 OPEB benefits after retirement.

Mr. Siemek's proposed transition cost treatment for the FAS 106 curtailment cost of $2.7 million increases Empire's cost of service in years 6-10 by 50% of the $2.7 million total, or approximately $1.4 million. However, the corresponding reduction in employee benefit costs projected during the years 1-5 moratorium of $3.2 million is ignored by Mr. Siemek for ratemaking purposes in years 6-10 after the moratorium.

Consistent treatment of both savings and costs would dictate a $50,000 annual reduction in Empire's post-moratorium cost of service, instead of the annual increase of $270,000 proposed by Mr. Siemek.

Q. Are there other savings in FAS 106 OPEB costs that are projected to occur during the proposed years 1-5 moratorium?

A. Yes, very significant savings. The conversion of Empire's FAS 106 OPEB benefits to those of UCU and other assumption changes are projected to result in additional FAS 106 OPEB cost reductions of $8.3 million during the years 1-5 moratorium. Schedule SMT-4, line 2 reflects the Joint Applicants' projected reduction in FAS 106 costs during the years 1-5 moratorium resulting from benefits conversion.

Q. Have these additional FAS 106 savings, projected to occur during the proposed moratorium, also been ignored by Mr. Siemek in proposing to treat the FAS 106 curtailment cost as a transition cost?

A. Yes. Schedule SMT-4, line 3, Column F reflects UCU witness Browning's total projected savings from reductions in both employee and retiree benefit costs during the proposed years 1-5 moratorium.

Under Mr. Siemek's proposal, the UCU/Empire shareholders would retain 100% of the $11.5 million in savings projected for years 1-5. However, Empire's ratepayers would receive <u>none</u> of the savings during the moratorium and would be forced to pay $1.4 million of the FAS 106 curtailment cost in rates set for years 6-10 following the moratorium.

Q. Please summarize your testimony regarding the Joint Applicants' proposed transition cost recovery of the FAS 106 curtailment cost occurring during the proposed moratorium.

A. Under the Joint Applicants' proposed moratorium for years 1-5, Empire's rates are not supposed to be impacted by changes to normal <u>cost of service</u> components considered for ratemaking purposes.

Employee benefit and FAS 106 retiree benefit costs are both normal cost of service components considered for ratemaking purposes.

Mr. Siemek's proposed transition cost treatment for a $2.7 million FAS 106 curtailment cost violates the Joint Applicants' proposed regulatory plan because transition cost treatment will increase Empire's post-moratorium rates by $1.4 million for a change in <u>cost of service</u> occurring during the proposed moratorium for years 1-5.



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However, Mr. Siemek has ignored $11.5 million in savings in the employee and retiree benefits area during the moratorium, which is inconsistent and unfair to Empire's ratepayers.

The Commission should reject Mr. Siemek's proposed transition cost treatment for the FAS 106 curtailment cost projected to occur during the years 1-5 moratorium.

**Re-engineering Project Costs Impact**

Q. On page 11, lines 7-11, of his direct testimony, UCU witness John W. McKinney asserts that UCU's Missouri division, MPS, benefited from the flow-through in rates of past cost reductions resulting from UCU's re-engineering projects. Do you agree with this assertion?

A. No. I do not agree with Mr. McKinney's assertion that the rates established in MPS's last rate proceeding, Case No. ER-97-394, reflected cost reductions from UCU's re-engineering projects. As the Staff witness in Case No. ER-97-394 responsible for quantifying the cost of UCU's re-engineering projects, I can state that Mr. McKinney's assertion is factually incorrect.

Q. Provide a brief explanation of UCU's re-engineering projects that impacted cost of service used in setting rates in Case No. ER-97-394.

A. Re-engineering, or Project BTU (Building Tomorrow's UtiliCorp) as it was called internally by UCU, refers to a decision made in 1995 to invest approximately $117 million in capital costs for the purposes outlined below:

1. Replacement of outdated operating systems;
2. Standardization of operating systems throughout the organization; and



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3. Addition of functionality, flexibility and scalability necessary for UCU to function in a competitive market.

MPS's filing in Case No. ER-97-394 was based upon a request to amortize MPS's allocated share of $26 million in re-engineering costs over four years. The re-engineering projects included in MPS's allocated share of $26 million and the amount recommended for rate base treatment by the Staff are reflected below:

| | **MPS Request 000's** | **Included In Rate Base 000's** |
|---|---|---|
| Customer Call Center | $ 1,011 | $ 1,011 |
| Computer Aided Dispatch (CAD) | $ 2,417 | $ 0 |
| Automated Mapping/Facilities Management (AM/FM) | $ 1,582 | $ 0 |
| Customer Information System (CIS) | $ 5,588 | $ 0 |
| Enterprise Support Costs | $ 4,938 | $ 4,938 |
| Project Management (Capitalized Salaries/ Overheads) | $ 6,630 | $ 2,540 |
| Architecture/Infrastructure Costs | $ 4,132 | $ 1,582 |
| **Total** | $26,298 | $10,071 |

Q. Please explain the significant difference between the Staff's recommended rate base amount of $10 million and MPS's request of $26 million.

A. MPS's $26 million request included recovery of $16 million in <u>budgeted</u> project costs. Only $10 million of MPS' $26 million request represented re-engineering project costs in service as of September 30, 1997, the true-up date established for Case No. ER-97-394.

Q. With regard to the $10 million in re-engineering project costs that were included in rate base, did the cost of service used in setting rates in Case No. ER-97-394 also reflect savings related to these projects as asserted by Mr. John McKinney in his direct testimony for this current merger, Case No. EM-2000-369?



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A. With the exception of some minor cost savings resulting from closing a few business offices, none of the projected savings expected from the re-engineering projects were reflected in the cost of service and used in setting rates in Case No. ER-97-394, because none of the projects included in the $10 million recommended by the Staff were completed until <u>after</u> the December 1996 <u>test year</u>. Additionally, no cost of service adjustments made to reflect known and measurable changes through September 30, 1997 included an adjustment reducing cost of service to reflect projected savings from UCU's re-engineering projects.

Q. Is it accurate to state that MPS's customer rates were "increased" as a result of UCU's re-engineering projects in Case No. ER-97-394, as opposed to being "reduced" as asserted by Mr. McKinney in this Case No. EM-2000-369?

A. Yes. Rates established in Case No. ER-97-394 included rate base treatment for $10 million in re-engineering project costs and $581,000 in additional depreciation expense related to these plant additions. The only offsetting savings were the plant/payroll reductions related to closing a few business offices. These cost reductions did not offset the additional revenue requirement impact of increasing rate base and depreciation expense by $10 million and $581,000, respectively.

Mr. McKinney's has produced no evidence to support his assertion in the current case, that MPS' ratepayers have benefited from the "flow through" of savings related to UCU's re-engineering projects.

Q. Please identify the re-engineering projects that were not complete and in service as of September 30, 1997, the true-up date established in Case No. ER-97-394.



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A. As stated previously, $16 million of MPS' requested $26 million in re-engineering costs were not included in rate base in Case No. ER-97-394 because they were not in service as of September 30, 1997. Those projects and their actual completion dates are reflected below:

| | **"Budgeted" Costs 000's** | **In Service Date 000's** |
|---|---|---|
| Automated Mapping/Facilities Management | $ 1,582 | Budgeted 3rd Quarter 2000 |
| Computer Aided Dispatch | $ 2,417 | October 1998 |
| Customer Information System | $ 5,588 | 1st Quarter-2000 |
| Project Management Costs | $ 4,090 | 2nd Quarter 1998 |
| Architecture/Infrastructure | $ 2,550 | 2nd Quarter 1998 |
| "Budgeted" Re-engineering Costs | $16,227 | |

[Source: Kris Paper Rebuttal Schedule KP-1, Case No. ER-97-394 and the response to Staff Data Request No. 595, Case No. EM-2000-292]

Of the total $26 million amount requested by MPS in Case No. ER-97-394, 62% ($16 million) was not in service by the September 30, 1997 true-up date. None of the above projects were even in service by March 6, 1998, the date of the Commission's Report and Order in Case No. ER-97-394.

Q. Have any parties been the beneficiaries of any savings resulting from UCU's re-engineering projects?

A. MPS's customers are paying <u>higher</u> rates as a result from UCU's re-engineering projects, because the cost increase of $10 million in capital costs and $581,000 in depreciation expense included in rates from Case No. ER-97-394 far exceeded the savings from closing a few business offices. Any net savings resulting from UCU's re-engineering projects have therefore benefited UCU's shareholders, not MPS's



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ratepayers. Since any net savings that have occurred have done so after the September 30, 1997 true-up date used in Case No. ER-97-394, these net savings have not yet resulted in lower rates for MPS's ratepayers. UCU's shareholders have received the entire benefit of any net savings as an increase in the earned return on equity and an increase in cash flow since rates were established in Case No. ER-97-394.

Q. Please summarize your testimony regarding Mr. McKinney's assertion that MPS's ratepayers have benefited from the flow-through of savings resulting from UCU's re-engineering projects.

A. On page 11, lines 5-11 of Mr. McKinney's direct testimony he compares the anticipated benefits of the proposed merger between UCU and Empire to the benefits which have been previously flowed through to MPS' customers resulting from UCU's re-engineering projects.

My testimony establishes the following facts that contradict Mr. McKinney's assertion:

(1) Only $10 million of the $26 million total requested by MPS in Case No. ER-97-394 involved projects that were completed and included in rate base. None of the adjustments made to reflect MPS's cost of service as of September 30, 1997 captured cost savings from these projects, with the exception of some business office closings. The savings from some isolated business office closings did not offset the significant increase in cost of service resulting from the inclusion of $10 million in capital costs in rate base and the increase in depreciation expense by $581,000 annually. Rates established in Case No.

ER-97-394 were higher than they would have been, absent consideration of UCU's re-engineering projects.

(2) The remaining $16 million in re-engineering project costs were not completed and in service until well after the Commission's March 6, 1998 Report and Order in Case No. ER-97-394.

Adjustments made to cost of service in Case No. ER-97-394 most certainly did not capture "future" savings expected from these re-engineering projects.

(3) All actual net savings that may have occurred, due to UCU's re-engineering projects, have benefited UCU's shareholders through increased equity returns and cash flow occurring after the March 6, 1998, effective date for rates established in Case No. ER-97-394.

Q. Will SJLP and Empire experience a reduction in cost of service as a result of UCU's significant investment in re-engineering project costs?

A. No. Including SJLP and Empire in UCU's corporate overhead allocation process after the merger, results in an increase in general plant of $16 million for SJLP and $28 million for Empire. The general plant amounts allocated to SJLP and Empire from UCU include the capital costs related to UCU's re-engineering projects.

The post-merger revenue requirement impact on SJLP and Empire ratepayers is approximately $2.3 million and $3.9 million annually, respectively. Schedule SMT-5 reflects the calculation of the $3.9 million increase for Empire.



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**Projected Savings/Costs from Consolidating Transmission, Distribution and Administration and General/Customer Service and General Plant Functions**

Q. Before discussing the Joint Applicants' specific projected merger savings and costs, please explain UCU's corporate structure and method for assigning its corporate overhead costs to its regulated and non-regulated divisions/subsidiaries.

A. UtiliCorp is a multinational corporation with regulated and non-regulated operations in the United States, Canada, New Zealand, Australia and the United Kingdom. UCU has regulated gas and electric operations in the states of Missouri, Kansas, Nebraska, Colorado, Iowa, Michigan and Minnesota.

For a number of years, UCU has pursued a strategy of consolidating common functions for its domestic operations. UCU's international operations are run autonomously and are assumed to have little impact on the allocation of UCU's corporate overhead costs to regulated and non-regulated operations in the United States.

Enterprise Support Functions (ESF) refers to departments such as Executive, Treasury, Finance and Accounting at UCU, which support all of the domestic divisions and subsidiaries, both regulated and non-regulated.

IntraBusiness Unit (IBU) Departments consolidate functions on nine lines of basic businesses at UCU. As an example, management functions for the Electric Transmission function for all states are consolidated at UCU's corporate headquarters. The executive management cost for Production Facilities in Missouri, Kansas and Colorado is consolidated at UCU headquarters, as another example.

Q. How many separate non-regulated operations in the United States are also included in the allocation of ESF overhead costs?



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A. The allocation model, used by both the Staff and the Joint Applicants to estimate the impact of UCU corporate overhead allocations on the cost of service of Empire includes the following non-regulated operations/activities:

- UtilCo. Group, Inc.
- Aquila Energy Corporation
- Aquila Energy Marketing Corporation
- GSS Mid Continent
- PNG Pipeline
- Global Securities Resources
- Service Today-General
- CL-General
- Missouri Pipeline
- Missouri Gas Pipeline
- Regulated Utilities – non-regulated activity
- Omega Pipeline

Q. How are UCU's corporate ESF and IBU overhead costs allocated to its numerous domestic regulated and non-regulated operations?

A. Each ESF and IBU department allocates its costs based upon the calculation of allocation factors using historical data considered to be the primary cost driver for the particular costs incurred.

Most of the ESF Department costs, which benefit all domestic regulated and non-regulated operations, are allocated using a general allocator based upon the average of gross margin, payroll and net plant.

Q. Which Federal Energy Regulatory Energy Commission (FERC) functional expenses categories are consolidated by UCU's centralized structure?

A. The FERC functional expense areas for which consolidation occurs at the UCU headquarters level are reflected below:

- Production/Management Expenses
- Transmission/Management Expenses



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- Distribution/Management Expenses
- Customer Accounts Expense
- Customer Service and Information Expense
- Sales Expenses
- Administrative and General Expenses (A&G)
- Payroll Taxes
- General Plant Investment and Depreciation Costs

The A&G and Customer-related functions are consolidated to a greater degree than the Production, Transmission and Distribution functions.

Q. Did you prepare an analysis in an effort to determine whether UCU's corporate structure had resulted in cost savings for MPS when compared to similar costs for Empire?

A. Yes. In response to Staff Data Request No. 591, Case No. EM-2000-292, UCU provided the UCU corporate overhead costs allocated to MPS from July through December 1999. Approximately 70% of the allocated costs were related to the Customer and A&G functions. I prepared a six-year analysis for the years 1994-1999 for the following expense functions for both SJLP and MPS's electric operations:

- Customer Accounts Functions
- Customer Service and Information Functions
- Sales Functions
- A&G Functions

Schedules SMT-6-1 and SMT-6-2 reflect the results of my six-year analysis for Empire and MPS. The impact of any unusual and/or non-recurring events were excluded from the analysis for both MPS and Empire.

Q. Why was it necessary to adjust the Empire and MPS historical results, in specific years, to eliminate the impact of unusual and/or non-recurring events?



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A. Determining cost of service for ratemaking purposes is based upon the fundamental premise that cost of service should represent the utility's normal, ongoing cost of providing service. Adjustments are routinely made by both the utility company and the Staff to eliminate the impact of unusual and/or nonrecurring events on the cost of service. Any attempt to compare the historical results of one utility company with another, Empire and MPS in this case, also requires consideration of the impact of unusual and/or nonrecurring events.

Schedule SMT-6-1, lines 10 and 11, describe two adjustments made to Empire's historical results for 1995 and 1999. Schedule SMT-6-2, lines 9, 10 and 11 describe three adjustments made to MPS's historical result for 1997, 1998 and 1999.

Q. Do the adjustments referred to in your last answer represent examples of adjustments, which are routinely made in determining cost of service for ratemaking purposes?

A. Yes.

Q. What were the results of your analysis of the Customer Service and A&G functions of UCU's MPS division and Empire?

A. The results of my analysis of MPS's and Empire's electric operations for the years 1994-1999 are reflected below:

| | **1994 - 1999** | |
|---|---|---|
| | **Empire** | **MPS** |
| Average $/Customer-Customer Service A&G Costs | $135 | $201 |



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On an average cost per customer basis, Empire's annual costs for the customer service and A&G functions were $66 less than those of MPS from 1994-1999. Stated as a percentage, Empire's costs were 33% less than MPS's every year, on average.

Q. Do the results of your analysis raise a concern regarding the risk that Empire's annual cost of service may increase after the merger as a result of UCU's corporate structure?

A. Yes they do. In addition to MPS's customer service and A&G costs being higher, UCU's corporate structure presents other risks to Empire's customers that do not exist at the current time for Empire.

Q. What additional risks for Empire's customers result from a merger with UCU?

A. Earlier in my testimony, I listed 12 non-regulated UCU divisions/ subsidiaries that receive an allocated share of UCU's corporate overhead costs. In every instance where a regulated utility consolidates functions that are jointly used by its regulated and non-regulated operations, there is an incentive for the utility to subsidize its non-regulated operations by allocating a disproportionate share of its overhead costs to its regulated operations.

Q. What is your experience involving rate proceedings with UCU's MPS division?

A. Since returning to the Commission in 1989, I have been directly involved as the lead auditor in three rate cases involving MPS: Case Nos. ER-90-101, ER-93-37 and ER-97-394. Two of those cases, Nos. ER-90-101 and ER-97-394, went to hearing.



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Q. Was the fairness of UCU's corporate overhead costs allocation at issue in those proceedings?

A. Yes, in every case since 1990, UCU's corporate overhead cost allocations to MPS has been a seriously contested issue.

As an example, the corporate overhead cost issues raised by the Staff in the most recent MPS case, Case No. ER-97-394 are listed below:

| Overhead Cost | Allocated to MPS |
|---|---|
| Governmental Affairs | $ 399,794 |
| Public Affairs | $ 254,444 |
| TransUCU (Corporate Jet) | $ 515,922 |
| Severence Costs | $ 142,662 |
| Common Plant Allocation | $ 517,000 |
| Mergers & Acquisitions | $ 726,122 |
| Discretionary Bonus | $ 147,787 |
| Ernst & Young Synergy Study | $ 46,627 |
| TotalValue of Issues that went to Hearing | $2,795,358 |
| Marketing Costs Disallowance (accepted by UCU) | $3,763,253 |
| Total Corp. Overhead Issues | $6,558,611 |

The Staff's position on all of the above issues were accepted by the Commission with the exception of the Common Plant Allocation issue.

Q. Do you anticipate having to raise these same issues in future rate proceedings involving the MPS, SJLP and Empire divisions of UCU, assuming UCU's proposed mergers with SJLP and Empire are approved?

A. Yes. Based on past experience, I expect to continue to devote significant time and resources to identify the portion of UCU's corporate overhead costs, allocated to its regulated divisions in Missouri, that have nothing to do with providing regulated electric and gas service in this state.



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Q. Who will bear the costs of outside consultants and Staff resources devoted to auditing UCU's corporate overhead costs in future cases?

A. Although I have not attempted to quantify the costs of auditing UCU's post-merger corporate overhead costs, these audit costs, whatever they are, will be reflected in the SJLP and Empire division's Commission assessment and rate case expense, both of which will be recovered from the SJLP and Empire ratepayers, assuming the proposed mergers are approved. These additional audit costs related to rate cases involving the SJLP and Empire divisions, post-merger, are costs that do not exist for SJLP and Empire ratepayers today.

Q. Earlier in your testimony, you identified the functional cost areas that are impacted by UCU's corporate overhead allocations. How will the allocation of depreciation and carrying costs (rate of return) related to UCU's general plant facilities impact Empire's cost of service?

A. The allocation of UCU's numerous corporate headquarters facilities and significant investment in infrastructure necessary to consolidate its non-regulated and regulated operations in seven states, will increase Empire's cost of service significantly.

Q. Have you calculated the increase to Empire's cost of service resulting from UCU's allocation of general plant investment and related depreciation costs to Empire?

A. Yes. Schedule SMT-5 reflects that Empire's current cost of depreciation and carrying costs (rate of return) related to its investment in general plant is $4.8 million annually, reflected on line 18 of Schedule SMT-5. Line 23 reflects the increase in general plant depreciation expense and carrying costs based upon the projected cost



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increases sponsored by Joint Applicant witness Siemek. Line 23 reflects that Empire's cost of service will increase an additional $3.9 million annually as a result of being allocated a share of UCU's general plant and infrastructure costs. Line 24 illustrates that this increase represents an 81.5% increase over Empire's current cost of service for general plant and related depreciation expense.

Q. In your opinion, do Empire's ratepayers need to pay an additional $3.9 million annually for UCU's General Plant investment costs in order to continue to receive safe and adequate service at just and reasonable rates?

A. No. This specific cost of service increase occurs only as a result of the additional plant investment and infrastructure costs necessary for UCU to consolidate its regulated and non-regulated operations in seven states.

Q. Is there any dispute between the Staff and the Joint Applicants as to whether Empire's cost of service will increase as a result of allocating UCU's corporate overhead costs to Empire after the merger?

A. No. This is one area that both sides agree upon. However, there is significant disagreement as to the magnitude of the incremental increase to Empire's cost of service resulting from UCU's corporate overhead allocations.

Q. What are the differences between the Joint Applicants' and the Staff's projected merger costs and savings resulting from the consolidation of functions in the Transmission, Distribution, Customer Service, A&G, and General Plant functions?

A. Joint Applicant witness Siemek sponsors Schedule VJS-1, which reflects the Joint Applicants' total projected merger costs and savings. Attached to this rebuttal testimony is my Schedule SMT-2, which duplicates witness Siemek's Schedule VJS-1



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and also reflects the Staff's projected merger costs and savings for comparison. The significant differences between Joint Applicants' and the Staff's projected merger costs and savings are reflected on Schedule SMT-2. Lines 2, 3, 4 and 5 of Schedule SMT-2 reflect the projected savings in the Transmission, Distribution, Customer Service, A&G and General Plant functions. The projected merger savings in these functional areas result from projected reductions in personnel and related payroll taxes by consolidating some of Empire's existing operations at the UCU corporate level.

The projected merger costs and savings resulting from consolidating some of Empire's current operations is summarized below as reflected on Schedule SMT-2. Lines 14, 15and 16 of Schedule SMT-2 reflect the increase in Empire's cost of service resulting from consolidating existing functions at Empire and the allocation of UCU's corporate overhead costs allocated back to Empire:

| **Schedule SMT-2 Line No.** | | **Years 6-10** UCU/Empire 000's | **Years 6-10** Staff 000's |
|---|---|---|---|
| 2 | A&G/Customer Service Savings | $ 39,688 | $ 49,388 |
| 3 | Distribution Savings | $ 28,915 | $ 35,983 |
| 4 | Transmission Savings | $ 4,837 | $ 6,018 |
| 5 | Staff Adjustment-1999 Budgeted Positions | $ 0 | ($ 7,215) |
| 7 | Total Merger Savings | $ 73,440 | $ 84,174 |
| 14 | Empire Direct Costs Transferred to ESF Depts. | $ 25,405 | $ 25,405 |
| 15 | Empire Direct Costs Transferred to IBU Depts. | $ 14,777 | $ 14,777 |
| 16 | ESF & IBU Depts. **Allocated Back to Empire** | ($137,253) | ($170,796) |
| 17 | Empire Cost (Increase) from UCU Allocations | ($ 97,071) | ($130,614) |
| | Net Cost **(Increase)** to Empire-Lines 7 & 17 | ($ 23,631) | ($ 46,440) |
| | Average Cost **(Increase)** Per Year | ($ 4,726) | ($ 9,288) |

Q. Do the amounts summarized in your last answer indicate that both the Joint Applicants and the Staff expect a significant increase in Empire's post-merger cost



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of service due to the net impact of consolidation and allocating UCU's corporate overhead costs to Empire?

A. Yes. UCU/Empire is projecting a $23.6 million net increase to Empire's cost of service during years 6-10 after the merger closes which amounts to $4.7 million annually.

The Staff is projecting a $46.4 million net increase in Empire's cost of service, which amounts to $9.3 million annually during years 6-10 following the merger closing. Under the proposed regulatory plan, Empire's rates are not to be impacted by the merger until after the moratorium for years 1-5 expires.

Q. What assumption differences account for the approximate $22.8 million difference between the Staff and UCU/Empire projected cost increase from UCU's corporate overhead allocations and consolidation of existing Empire operations for years 6-10 following the merger closing?

A. UCU witness Siemek has assumed a 2.5% annual inflation rate in projecting the annual increase in: 1) savings, 2) costs transferred from Empire to UCU and 3) UCU corporate overhead costs allocated back to Empire after the merger. I do not consider the 2.5% inflation factor appropriate to apply to UCU's corporate overhead costs.

Q. In your opinion, should the inflation rate assumption for the UCU overhead costs allocated back to Empire after a merger also be representative of UCU's actual historical experience?



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A. Yes. UCU's current historical experience provides the best source of information for determining an appropriate growth/inflation rate for the costs subject to consolidation.

Q. Did you also prepare a historical analysis of UCU's growth rate for corporate overhead costs?

A. Yes. In response to Staff Data Request No. 594, Case No. EM-2000-292, UCU provided the Staff with total ESF and IBU Department costs for 1995-1999 and the amount that was allocated to UCU's MPS division. The results of my analysis are reflected on Schedule SMT-7 and are summarized below:

| **Annual % Increase in UCU ESF & IBU Dept. Costs** | **Average Annual Increase** |
|---|---|
| 1996-1999 - Four-Year Average | 87.6% |
| 1997-1999 – Three-Year Average | 24.4% |
| 1998-1999 – Two-Year Average | 6.3% |

Please note that the above percent increases are not the total for the four-year period, but represent the average annual increase in every year.

MPS' allocated share of UCU's corporate overhead costs has increased from $10.3 million in 1995 to $46.5 million in 1999. A $36.5 million annual increase in four years is significant from any point of view.

Q. Given the actual growth in UCU's corporate overhead costs allocated to MPS and the significant increase being projected by both UCU/Empire and the Staff for Empire as a result of the merger, should the calculation of an appropriate growth/inflation rate favor Empire's current ratepayers?



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A. It certainly should. The "not detrimental to the public interest" standard that applies to this Merger Application addresses the question of whether or not the cost of providing utility service to Empire's customers will increase as a direct result of the merger with UCU. With that in mind, I certainly do not consider Mr. Siemek's 2.5% inflation rate for UCU's corporate overhead costs reasonable given the significant annual cost increases experienced by UCU's Missouri division, MPS, since 1995.

Q. You mentioned previously that Mr. Siemek used a 2.5% growth/inflation assumption for UCU's corporate overhead costs allocated back to Empire. What data did Mr. Siemek rely on as support for the 2.5% growth assumption?

A. Mr. Siemek relied upon the Consumer Price Index for Urban Consumers (CPI-U) published by the Federal Bureau of Labor Statistics.

Q. Does the Staff consider the CPI-U index appropriate for estimating the annual increase of Empire's post-merger cost of service resulting from UCU's corporate overhead allocations?

A. No. When one examines the data used by the Federal Bureau of Labor Statistics in calculating the CPI–U index, it becomes readily apparent that the index has nothing to do with the buying habits of a major electric utility like UCU.

Q. What is the CPI–U intended to measure?

A. Attached as Schedule SMT-8 is a three-page explanation of the CPI index with specific references to the CPI–U recommended by Mr. Siemek for adjusting UCU's corporate overhead costs. This three–page document was obtained from the Federal Bureau of Labor Statistics, the federal agency responsible for its calculation.



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The first paragraph on Schedule SMT-8-1 provides the following definition:

> The Consumer Price Index (CPI) is a measure of the average change in prices paid by urban consumers for a fixed market basket of goods and services. Because the CPI is a statistical average, it may not reflect your experience or that of specific families or individuals, particularly those whose expenditure patterns differ substantially from the "average" urban consumer.

Q. What specific consumer goods and services are measured by the CPI–U index, which is being proposed by Mr. Siemek to adjust UCU's corporate overhead costs to reflect annual increases during the ten-year period following the merger closing?

A. Schedule SMT-8–2 reflects the following goods and services as being included in the calculation of the CPI–U:

| **Expenditure Category** | **Relative Importance to CPI–U Avg.** |
|---|---|
| Food and beverages | 16.3% |
| Housing | 39.6% |
| Apparel and upkeep | 6.3% |
| Transportation | 17.5% |
| Medical Care | 5.8% |
| Entertainment & Recreation | 6.0% |
| Education & Communication | 5.4% |
| Other goods and services | 5.8% |
| | 100% |

Q. In your opinion is it reasonable to consider a major electric utility company to be an "average urban consumer" as defined by the CPI–U index?

A. Certainly not. The expenditures of a major electric utility, which include spending millions of dollars in repairing boiler tube leaks, replacing turbine generator blades or hiring outside contractors to trim trees around power lines, have little to do with the buying habits of an "average urban consumer."



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Any person reading the testimony on this issue should simply consider the following question. What possible relationship exists between expenditures made by an "average urban consumer" for housing, food and beverages, clothing, medical care and entertainment and the expenditures of a major electric utility company like UCU? I think the answer is clear when you examine the historical relationship between MPS' annual increase in allocated costs from UCU and the CPI-U index for the same time period.

Q. How do the CPI-U growth rates for 1996, 1997, 1998 and 1999 compare to MPS's historical growth rates related to corporate overhead costs allocated from UCU?

A. The CPI-U growth rates and MPS's actual growth rates related to UCU's corporate overhead allocations are reflected below:

| | CPI-U Growth Rate | UCU Overhead Allocation to MPS |
|---|---|---|
| 1996 | 3.3% | 160.2% |
| 1997 | 1.7% | 53.7% |
| 1998 | 1.6% | 8.8% |
| 1999 | 2.7% | 3.5% |

It is clear from the above comparison that the CPI-U Index used by Mr. Siemek in calculating UCU's corporate overhead costs bears no resemblance to the actual increases experienced by MPS from 1996 through 1999.

Even the Staff's recommended use of a 5% growth rate could be characterized as too low given MPS's actual experience form 1996 through 1999.

Q. What growth/inflation rate are you recommending be used for the purpose of projecting UCU's corporate overhead costs for the ten-year period following the closing of the merger?



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A. Based on MPS's actual experience regarding allocated Overhead Costs from UCU, I believe that a 5% growth rate is the lowest growth rate that should be used. MPS actual growth rate was 3.5% in 1999 as reflected on Line 4 of Schedule SMT-7. However, based upon MPS' experience in the last three years, a rate of 20% or more could be justified.

The only year since 1995 that MPS's allocated overhead costs from UCU did not exceed 5%, by a significant amount, was 1999.

The primary purpose of analyzing the UCU/Empire projected merger costs and savings is to make a recommendation as to whether a merger with UCU is anticipated to be not detrimental to Empire's ratepayers. I believe a 5% growth rate to be the minimum assumption suitable for this objective. Referring to Schedule SMT-7, once more, the average growth rate for 1998 and 1999 of 6.2% also exceeds my 5% assumption.

Q. What impact did your inflation rate assumption have on the projected savings by UCU/Empire related to the consolidation of the functional expense areas identified on pages 10 and 11 of this rebuttal testimony?

A. Assuming a 5% inflation rate for both merger costs and savings, from consolidation, the Staff's projected savings are higher than those of the Joint Applicants for years 6-10 by $10.7 million as reflected on lines 2, 3, 4 and 5, Column D of Schedule SMT-2.

Q. Referring again to Schedule SMT-2, please explain the adjustment on line 5, Staff Adjustment – 1999 Budgeted Positions.

A. This adjustment is sponsored by Staff witness Fischer and is addressed in detail in her rebuttal testimony. Witness Fischer considers the Joint Applicants'



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projected savings from employee reductions to be overstated as a result of the failure by the Joint Applicants to include a normal vacancy assumption in their synergy analysis.

Q. Does the Staff have any motivation for making a negative recommendation regarding a UCU/Empire merger other than whether the Empire and MPS ratepayers will experience rate increases as a direct result of the merger with UCU (i.e., if merger costs exceed merger savings)?

A. No. The goal of the Staff's analysis of the projected impact of a UCU/Empire merger on Empire and MPS ratepayers is to use assumptions which can be supported by historical experience and which allocate merger costs and merger savings fairly between Empire and MPS ratepayers.

As stated previously, the regulatory plan being proposed by the Joint Applicants will, if adopted, result in higher rates for Empire, SJLP and MPS ratepayers. The detrimental impacts of the proposed regulatory plan are also addressed in the testimonies of Staff witnesses Oligschlaeger, Featherstone, Proctor and Broadwater. I will estimate the approximate detrimental impact on Empire and MPS ratepayers later in this testimony.

Q. Please summarize the analysis performed by both the Joint Applicants and the Staff regarding the impact on Empire's cost of service of consolidating some existing Empire Transmission, Distribution, Customer Service, Administrative & General, and General Plant/Depreciation functions at UCU after the merger.

A. Referring to page 42 of this rebuttal testimony, both the Joint Applicants and the Staff expect a significant increase to Empire's cost of service as a result of consolidating existing Empire functions and allocating UCU's corporate overhead costs



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to Empire. The Joint Applicants reflect an increase of $23.6 million for years 6-10. The Staff's calculations result in an increase of $46.4 million based upon a more reasonable inflation rate assumption for UCU overhead costs allocated back to Empire.

Q. Given that both the Joint Applicants and the Staff are projecting an increase in Empire's cost of service as a result of consolidation and allocation of UCU's corporate overhead costs, how do UCU/Empire address this detrimental impact in their merger application?

A. UCU/Empire is proposing a regulatory plan that results in the forced subsidization of merger costs and the acquisition premiums by MPS, Empire and SJLP ratepayers. The detrimental impact of this proposed regulatory plan is addressed in this rebuttal testimony beginning on page 8 and in the rebuttal testimonies of Staff witnesses Oligschlaeger, Featherstone, Broadwater and Proctor. Additionally, the Joint Applicants are projecting savings in the joint dispatch and employee benefits conversion areas to offset the negative impact from UCU's corporate overhead allocation.

Q. In summary, will UCU/Empire's projected merger savings in the joint dispatch and benefits conversion areas offset the detrimental impact on Empire's cost of service resulting from consolidation of existing Empire functions and allocation of UCU's corporate overhead costs back to Empire?

A. No. UCU/Empire's projected savings in the joint dispatch and benefits conversion areas are significantly overstated and, therefore, will not offset the admitted detrimental impact on Empire's cost of service resulting from functional consolidation of existing Empire operations and the allocation of UCU's corporate overhead costs to Empire. The projected savings in the joint dispatch and benefits conversion areas are



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grossly overstated for the reasons addressed in Dr. Proctor's testimony on projected joint dispatch savings and in my testimony regarding UCU/Empire's projected savings from benefits conversion.

Q. Does a comparison of the residential rates of MPS with those of SJLP, Empire and other electric utility companies in Missouri support a contention that UCU's corporate structure has resulted in higher electric rates for MPS?

A. Yes, I think it does. Reflected below are the residential rates per KWH in 1999 for MPS, SJLP, Empire and the two electric utilities in Missouri with nuclear power plants, Kansas City Power & Light (KCPL) and AmerenUE (Union Electric).

| | **Cents Per KWH** |
|---|---|
| St. Joseph Light & Power Co. | .060288 |
| Empire District Electric Company | .065458 |
| AmerenUE (Union Electric) | .073380 |
| Kansas City Power & Light Co. | .075582 |
| UtiliCorp United (Mo. Public Service) | .075736 |

The SJLP and Empire residential rates are considerably lower than MPS rates and the rates for the two companies with nuclear generating facilities, Union Electric and KCPL.

Q. Please comment on the relationship between MPS' residential rate and those for Union Electric and KCPL.

A. The impact of the significant capital costs of a nuclear generation plan on rates is common knowledge throughout the industry. One would expect KCPL's and Union Electric's rates to be considerably higher than those of SJLP and Empire.

With regard to MPS' rate, the obvious question is why does MPS, with no nuclear investment, have a residential rate which exceeds those of Union Electric and KCPL. It



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is certainly the Staff's view that MPS' higher than expected residential rate is due in part to UCU's corporate structure.

Q. Are both the Joint Applicants and the Staff projecting a significant increase in SJLP's and Empire's cost of service after the merger, as a result of UCU's corporate overhead costs?

A. Yes. UCU is projecting a net increase for Empire after projected savings of $4.7 million annually for years 6-10 following the proposed moratorium. Staff considers the $4.7 million increase to be understated as a result of using a 2.5% growth rate for UCU's corporate overhead costs. The Staff considers the 2.5% growth rate to be unrealistic based upon MPS' historical experience.

Staff is projecting an annual increase in Empire's cost of service of $9.3 million annually as a result of UCU's higher corporate overhead costs net of projected savings.

Q. If UCU/Empire are not successful in realizing their level of projected merger savings in the joint dispatch and benefits conversion areas, will the residential rates of SJLP and Empire increase to a level equal to or higher than those of MPS?

A. Yes. The cost increases to SJLP and Empire resulting from UCU's corporate overhead costs and amortization of the merger acquisition premiums are known and certain costs.

The Joint Applicants projected savings in the joint dispatch and benefits conversion areas are not only speculative, they are based upon erroneous assumptions in the Staff's view.



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In summary, if the SJLP and Empire mergers are approved as structured by the Joint Applicants, it is a certainty, in the Staff's view, that a significant increase in the rates of SJLP and Empire will result.

**Overstatement of Merger Savings from Benefits Conversion**

Q. What merger savings are being projected by UCU/Empire as a result of converting existing Empire benefit plans to UCU benefit plans?

A. Referring to Schedule SMT-2, Line 6, Column C, UCU/Empire is projecting $28.5 million in merger savings during years 6-10, as a result of converting existing Empire benefit plans to those of UCU, following the merger closing.

Q. Do you consider $28.5 million in projected savings from benefits conversion to be realistic?

A. No. The merger savings from Benefits Conversion is overstated as a result of including $4.6 million in Pension Cost reductions, which accrue to all of UCU's other divisions/subsidiaries as a result of combining the pension assets of Empire and UCU after the merger.

Q. What specific assumption by UCU witness Browning has resulted in an overstatement of merger savings related to the conversion of the Empire pension plan to the UCU plan?

A. In calculating the Financial Accounting Standard No. 87 (FAS 87) pension cost for the Empire division, Mr. Browning has assumed that Empire's pension cost would be based upon the funded status of the Empire plan prior to the merger. This assumption is inconsistent with how UCU has treated the pension assets of all other



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regulated acquisitions. Additionally, no UCU/Empire witness has committed to calculating Empire's FAS 87 pension cost based upon its pre-merger funded status.

Q. Is Mr. Browning's pension cost calculation, which is based upon Empire's pre-merger funded status, consistent with a UCU/SJLP data request response regarding the treatment of pension assets after the merger?

A. No. In response to Staff Data Request No. 186, Case No. EM-2000-292, UCU/SJLP stated as follows: "In general since it is most cost effective to merge all trust assets into one trust (eliminates dual trust, audit and administrative costs), it is UCU's <u>intent</u> over time to <u>merge</u> the SJLP pension trusts into the UCU master trust." (Emphasis added.)

Q. Are you aware of any other evidence that would support your conclusion that UCU plans to consolidate the Empire, SJLP and UCU pension assets after the merger?

A. Yes. On May 14, 1999, UCU filed its Merger Registration Statement, See Form S-4, filed by UCU with the Securities and Exchange Commission.

Paragraph (g) of Merger Registration Statement includes the following statement:

> The execution of, and the performance of the transactions contemplated in, this Agreement will not . . . result in the triggering or imposition of any restrictions or limitations on the right of UCU, the Company or any of its Subsidiaries to amend or terminate any Company Employee Plans and **receive** the **full amount** of any **excess assets** remaining or resulting from such amendment or termination, subject to applicable taxes. (emphasis added.)

Q. Does the statement referenced in your last answer lead you to conclude that UCU is serious about protecting its rights to the benefits from the excess assets in the SJLP and Empire pension plans?



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A. Yes. That is quite clear. UCU desires to avoid any restrictions on the use of the <u>excess</u> pension assets in the Empire and SJLP plans.

Q. Please define the term "excess assets" as applied to the assets in a defined benefit pension plan?

A. The legal obligation which must be funded in accordance with the Employee Retirement Income Security Act (ERISA) of 1974 is referred to as the Accumulated Benefit Obligation (ABO), which represents the accrued liability of all benefits earned to date by employees. Required minimum contributions are established under ERISA to ensure funding of the ABO. The market value of assets which exceeds the ABO is considered "excess assets."

When a plan is terminated and a new plan takes its place, ERISA requires that assets equal to the ABO of the old plan be transferred to the new plan. The excess assets above the ABO can be used by the corporation for any purpose it sees fit.

The employees participating in a defined benefit plan have no legal right to the pension assets which exceed the ABO.

Q. Are there any financial benefits to UCU under Mr. Browning's assumption that Empire's pension assets will be kept separate and distinct and not combined with those of UCU after the merger?

A. No. It is unlawful to remove assets from a pension plan for general use, except in the case of a plan termination like that described above. Using the excess assets in Empire's pension fund for general use by the corporation requires a termination of the existing plan and a transfer of assets equal to the ABO to another plan. However, if a termination occurs, UCU could use the <u>excess</u> pension assets for any purpose it desires.



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Referring again to the statement in my previous answer from the Merger Registration Statement, UCU has made it clear that the merger transaction will not restrict it from terminating any employee pension plan in order to receive the full amount of any excess amounts remaining.

This concern is completely inconsistent with UCU witness Browning's assumption that the full amount of Empire's pension assets will be kept separate and not combined with the UCU pension assets for purposes of calculating FAS 87 pension cost after the merger.

Q. Would UCU benefit from the excess Empire pension assets under an asset consolidation assumption, even if 100% of the Empire pension assets are transferred to the UCU fund?

A. Yes. This is the scenario I am addressing in this case based upon UCU's historical experience with other regulated acquisitions.

Since Empire's Pension plan has a higher funding ratio than the UCU Pension plan, (155% at January 1, 1999 compared to UCU of 140% funding at January 1, 1999) adding the Empire pension assets to the UCU plan improves the funded status to 144% for all existing regulated and non-regulated participants in the plan. This results in lower pension costs and increased earnings for the existing plan participants (excluding Empire).

The opposite is true for Empire. Empire's funded status at January 1, 1999 of 155% drops to 144% after the merger if the pension funds are combined. If left unchallenged by the Missouri Public Service Commission, Empire will experience a significant increase in pension cost that must be recovered in rates from Empire ratepayers while all of UCU's <u>other</u> regulated and non-regulated plan members are experiencing a windfall profit at the expense of Empire ratepayers. My testimony in this case quantifies the financial <u>detriment</u> to Empire ratepayers under such an assumption.

Q. Briefly explain why <u>combining</u> the UCU and Empire pension assets for FAS 87 calculations after the merger results in lower pension costs for UCU's other divisions/subsidiaries at the <u>expense</u> of Empire ratepayers.

A. Schedule SMT-9, attached to my rebuttal testimony, reflects the funded status for the Empire and UCU pension plans as of January 1, 1999. The funded status is calculated by dividing the market value of the pension fund assets by the ABO which represents the liability for pension benefits earned to date. The January 1, 1999 funded status for Empire pension plan was the assumption used by UCU witness Browning.

Schedule SMT-9 reflects the following funded status calculations:

| | |
|---|---|
| Funded Status – Empire Pension Plan | 155% |
| Funded Status – UCU Pension Plan | 140% |
| Funded Status – Combined UCU/Empire | 144% |

The Funded Status of a pension plan has a direct impact on annual pension expense calculated under FAS No. 87. FAS 87 is used for determining pension cost for ratemaking purposes for both MPS and Empire.

The expected rate of return assumption used in calculating pension cost under FAS 87 is calculated by applying an expected earned return (from investing the assets) times the market value of the assets at the beginning of the plan year.

The expected rate of return on the pension fund assets from investments income and appreciation is used as an offset to the annual service cost, interest cost and prior service costs included in the FAS 87 calculation.



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A reduction in the funded status of the plan results in an increase in pension cost under FAS 87 as a result of the lower expected income and appreciation.

The reduction in the funded status of Empire's pension plan from 155%, on a stand-alone basis, to 144% on a combined basis will result in an increase in pension cost in Empire's cost of service under a UCU/Empire merger assumption. However, all of UCU's other regulated and non-merger plan participants will experience a reduction in pension costs at the expense of Empire's ratepayers.

UCU/Empire witness Browning has overstated merger savings expected from converting Empire's existing pension plan, by not reflecting the significant increase in pension cost for Empire ratepayers resulting from consolidating the pension assets of Empire and UCU after the merger for purposes of calculating FAS 87 pension cost.

Q. Why is it a valid assumption that UCU will combine Empire pension assets with those of UCU after the merger in contrast to Mr. Browning's "stand-alone" assumption for calculating FAS 87 pension cost?

A. UCU has two incentives for doing so, neither of which considers the detrimental impact on Empire's ratepayers resulting from pension asset consolidation:

(1) As Mr. Browning explains in his direct testimony, UCU plans to convert Empire's benefit plans, including the pension plan, over to the UCU plan. Under such an assumption, it would logically follow that UCU plans to combine the assets of the UCU and Empire pension plans after conversion.

(2) The most important reason for assuming that UCU will combine the Empire and UCU pension assets is UCU's historical treatment involving its other regulated utility divisions. If UCU is permitted to combine the pension

assets of Empire and UCU in calculating FAS 87 pension costs, the earnings for its other divisions/subsidiaries participating in the UCU plan will increase approximately $617,000 annually because of the lower allocated pension costs. Conversely, Empire's pension cost will increase approximately $617,000 annually and that would require an additional revenue recovery from Empire ratepayers.

Q. What has UCU's historical experience been regarding pension plan conversion for its other regulated acquisitions?

A. UCU has the following regulated divisions, all of which were previous acquisitions of existing utility companies, similar to the situation regarding Empire and SJLP:

- Kansas Public Service
- Michigan Gas Utilities
- Peoples Natural Gas – Colorado
- Peoples Natural Gas – Iowa
- Peoples Natural Gas – Kansas
- Peoples Natural Gas – Minnesota
- Peoples Natural Gas – Nebraska
- Northern Minnesota Utilities
- West Plains Energy – Colorado
- West Plains Energy – Kansas
- West Virginia Power - Sold December 31, 1999

Without exception, the pension fund assets for these regulated acquisitions were combined with the UCU pension fund assets at some date following the acquisition by UCU. The combined funded status is the assumption used by UCU in calculating FAS 87 pension cost for all divisions and subsidiaries included in the UCU pension plan.

Q. Please illustrate how the difference in the funded status of the Empire and UCU pension plans impacts pension costs for Empire if UCU and Empire merge.



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A. Schedule SMT-10 reflects the impact on Empire's pension cost for 1999 resulting from reducing Empire's <u>actual</u> funded status of 155% at January 1, 1999 (Schedule SMT-9) to the combined UCU/Empire funded status of 144% (Schedule SMT-9).

Line 9 of Schedule SMT-10 reflects that Empire's pension cost for 1999 would <u>increase</u> $617,384 in 1999 based on an assumed funded status for the combined pension assets of Empire and UCU after the merger of 144%

Q. How did you calculate the total value of UCU witness Mr. Browning's overstated merger savings from benefit plan conversion?

A. In response to Staff Data Request No. 137, Mr. Browning provided the annual growth assumptions he used in calculating the merger savings for pension plan conversion. I used Mr. Browning's growth rates for each year. I applied Mr. Browning's growth rates to the increase in pension cost calculated on Schedule SMT-10 of $617,384. The result was an increase in pension cost to Empire of approximately $8.3 million for the ten-year period after the merger and $4.6 million during years 6-10 following the proposed moratorium.

Q. But isn't it true that UCU's other regulated and non-regulated divisions/subsidiaries would, in fact, be the recipients of $8.3 million in savings under a merger assumption for UCU and Empire?

A. Absolutely, and that is the problem. Mr. Browning has failed to reflect the detrimental impact on Empire's ratepayers resulting from a pension asset combination in a merger with UCU. UCU/Empire are required under the "not detrimental to the public interest" standard in Missouri to demonstrate that the proposed merger will not result in



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increased rates for the MPS and Empire ratepayers as a direct result of the merger. The UCU/Empire Merger Application does not reflect the $8.3 million increase in pension cost to Empire as a result of consolidating the Empire and UCU pension assets during the ten-year period following the merger closing.

Q. Is the Staff recommending, as a condition to the merger, that UCU be required to maintain Empire's pre-merger pension plan funded status in order to eliminate the increase to Empire's cost of service resulting solely from a post-merger decision to combine Empire's pension assets with those of UCU in calculating FAS 87 pension cost?

A. Yes. The detrimental impact of a post-merger decision to combine SJLP's pension assets with those of UCU in calculating FAS 87 pension cost must, in the Staff's view, be addressed now as a condition to the merger.

Additionally, UCU/Empire's projected merger savings in its Application must be reduced by $8.3 million for the ten-year period following the merger approval in order to reflect the increase in pension cost to SJLP ratepayers. Merger savings projected for years 6-10 must be reduced by $4.6 million.

**Results of Staff's Ten-Year Merger Cost/Benefit Analysis**

Q. Are you the Staff witness responsible for summarizing the financial impact of the Staff's recommended adjustments to the UCU/Empire net benefits analysis?

A. Yes. UCU witness Vern Siemek summarized the Applicants' ten-year projected merger costs and savings on Schedule VJS-1 attached to his direct testimony.

I have duplicated Mr. Siemek's summary schedule on Schedule SMT-2 attached to this rebuttal testimony.

Q. Briefly explain how the UCU/Empire and Staff results regarding projected merger costs and savings are reflected on your Schedule SMT-2.

A. The organization of Schedule SMT-2 was set up to mirror Mr. Siemek's Schedule VJS-1 for ease of presentation and comparability. Columns (A) and (B) reflect the summary of the ten-year cost/benefit analysis performed by the Joint Applicants and the Staff.

Q. What is the purpose of Columns on (C) and (D) on Schedule SMT-2?

A. Under their proposed regulatory plan, UCU/Empire are not planning a rate case for the Empire division until the end of year 5 of the moratorium. UCU/Empire, as part of the regulatory plan, have "guaranteed" $3.0 million in net savings to Empire's ratepayers to be reflected in cost of service in that case.

Column (D) reflects the Staff's projected merger costs and savings for years 6-10, which are comparable to the UCU/Empire 6-10 year levels in Column (C).

As addressed earlier in my testimony, the Joint Applicants are attempting to address the "not detrimental to the public interest" standard by "guaranteeing" that rates established in Empire's post-moratorium rate case will include sufficient net merger savings to recover 50% of the merger acquisition premium amortization and provide an additional $3 million in net savings to be used as a cost-of-service reduction in the rate case.

The $3.0 million guaranteed benefit to Empire's ratepayers is based upon <u>budgeted/projected</u> savings for years 6-10 following the moratorium. The Commission is being asked to approve this merger based upon budgeted assumptions ten years into the future.



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Additionally, the Commission is being asked to deviate from cost-based rates in the post-moratorium rate cases for both Empire and SJLP by including projected net merger savings levels for years 6-10. Their requests under the proposed regulatory plans for Empire and SJLP, if adopted, will represent the first time that rates for a Missouri utility are based upon projected assumptions five years beyond the historical test year.

Q. What are the primary areas of disagreement between the Staff and UCU/Empire regarding expected benefits/costs from this merger?

A. The primary areas of disagreement are as follows:

(1) Allocation treatment of joint dispatch; UCU/Empire are assigning 100% of energy cost savings, from joint dispatch, to Empire ratepayers and ignoring the fact that these savings, according to UCU/Empire witness Holzwarth, result from the joint use of MPS and Empire generating assets. With regard to savings that occur, as a result of the merger, Dr. Proctor is correctly allocating these benefits to both MPS and Empire consistent with the joint use of the assets used to generate the savings;

(2) Assumed growth/inflation rates (UCU corporate overhead allocations and consolidation of existing Empire operations);

(3) Whether transition costs and the acquisition premium should be recoverable in rates;

(4) Whether UCU/Empire's projected savings could be accomplished by Empire on its own under a "no merger" assumption. Savings which would occur on their own, without the merger, are non-merger savings and should not be assumed to offset merger costs. Dr. Proctor's primary disagreement with the Joint



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Applicants in the area of joint dispatch savings is that the projected savings can be achieved by Empire on a "stand-alone" basis without the merger.

(5) Overstatement of savings from employee reductions as a result of the failure to recognize a normal job position vacancy rate.

Referring to Line 18 of Schedule SMT-2, the differences in projected net merger savings and merger costs (excluding the acquisition premium) are as follows:

| | **Years 1-10** **$ 000's** | **Years 6-10** **$ 000's** |
|---|---|---|
| UCU/Empire Net Merger Savings/Costs | $176,166 | $107,504 |
| Staff Net Merger Savings/(Costs) | ($ 38,839) | ($ 8,113) |
| Difference between Staff & UCU/Empire | ($215,005) | ($115,617) |

Q. How can you explain the monumental difference in the projected amounts reflected in your last answer?

A. There are five issues that account for such a significant difference in the ten-year projections of the Staff and UCU/Empire which are summarized below:

| | **Years 1-10** **($000's)** | **Years 6-10** **($000's)** |
|---|---|---|
| UCU/Empire Net Merger Savings/Costs | $176,166 | $107,504 |
| **Staff Issues:** | | |
| Proper Allocation of Joint Dispatch Savings to MPS & Empire | ($192,388) | ($102,977) |
| Staff Adjustment-1999 Budgeted Positions | ($ 12,869) | ( 7,215) |
| Increase in Consolidation/UCU Overhead Allocations due to use of Appropriate Growth/Inflation Rate | ($ 21,547) | ($ 15,594) |
| Disallowance of Transaction Costs Assigned to Shareholders | $ 20,120 | $ 14,808 |
| Overstatement of Pension Benefits Conversion | ($ 8,320) | ($ 4,639) |
| Staff Excess of Merger Costs over Merger Savings | ($ 38,839) | ($ 8,113) |



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Q. Are any of the significant differences identified in your last answer related to the proper mathematical calculation of specific amounts?

A. No. In every instance the Staff is challenging the validity of UCU/Empire assumptions as they relate to:

(1) **Fairness** to <u>both</u> Empire and MPS's ratepayers - joint dispatch allocations should result in fair assignment of savings from joint dispatch to MPS and Empire ratepayers.

(2) **Accuracy** based upon historical experience - the growth/inflation rate used for UCU corporate overhead allocations should reflect UCU's historical experience. The 1999 budget should reflect a normal vacancy assumption for unfilled positions.

(3) **Validity** as to whether the cost is something that ratepayers should be paying for in rates – acquisition premium, specific transition costs assignable to shareholders or amounts for non-merger savings should be excluded from a merger cost/benefit analysis. Dr. Proctor considers approximately 97% of UCU witness Holzwarth's joint dispatch energy savings to be non-merger savings available to Empire on a "stand-alone" assumption.

(4) **Contradictory** as to the stated intent of how the merged company plans to treat an item after the merger – Mr. Browning's "stand-alone" assumption regarding Empire's pension assets after the merger contradicts the stated intention of UCU/Empire to <u>combine</u> the pension assets of Empire with those of UCU after the merger. It contradicts UCU's current practice of calculating FAS 87 pension cost based upon a "combined" asset assumption.



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Q. Based on the results of the Staff's analysis of projected merger savings and costs, will this merger as proposed, result in higher rates for Empire's ratepayers?

A. Yes, it is the Staff's position that the UCU/Empire merger savings are significantly overstated. The Staff believes that merger costs will exceed benefits and result in higher rates for Empire ratepayers. Additionally, as stated previously in my testimony, as well as in the testimonies of Staff witnesses Oligschlaeger, Featherstone, Proctor and Broadwater, the proposed UCU/Empire regulatory plan is considered detrimental to the MPS, Empire and SJLP ratepayers.

Staff witness Oligschlaeger addresses the conditions necessary to eliminate the detrimental impact of the UCU/Empire merger on MPS and Empire ratepayers.

I have addressed the detrimental impact of a pension asset consolidation on Empire ratepayers in this rebuttal testimony.

Q. Referring to Schedule SMT-2, please explain the significance of line 25, Column (C).

A. Column (C) reflects Joint Applicants' witness Siemek's summary of projected merger costs and savings for years 6-10, following the five-year moratorium.

As discussed earlier in my testimony, the Joint Applicants are attempting to demonstrate that the UCU/Empire merger meets the "not detrimental to the public interest" standard based upon the projected results for years 6-10 following the moratorium.

Line 24, Column (C) reflects the Joint Applicants $14.8 million in projected net savings for years 6-10 after the recovery of the return on and amortization of the acquisition premium.



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The average annual net savings projected for years 6-10 by the Joint Applicants is $2.9 million, line 25, Column (C) of Schedule SMT-2. The $2.9 million average net savings represents the $3 million "guaranteed" net benefit to Empire ratepayers discussed on page 7 of Joint Applicants' witness John W. McKinney's direct testimony.

Q. Do the Joint Applicants anticipate being able to demonstrate "actual" net savings of $3.0 million in Empire's post-moratorium rate case?

A. No. My rebuttal testimony (page 16-17) reflects Mr. John McKinney's statement identifying the intended use of the "forward average level of savings for 5 years following the rate moratorium." The Joint Applicants are requesting that the Commission adopt a regulatory plan, which requires the use of <u>projected</u> merger costs and savings for ratemaking purposes in the post-moratorium rate cases for both Empire and SJLP.

Q. Does the Staff believe that compliance with the "not detrimental to the public interest" standard can be determined based upon projected assumptions in the post-moratorium rate cases for Empire and SJLP?

A. No. The Commission has never set rates for regulated utilities based upon projected assumptions extending five years beyond the test year used in a rate case.

Q. Does the approval of this merger, based upon projected assumptions, create considerable downside risks to Empire's ratepayers?

A. Yes. Using projected assumptions to demonstrate compliance with the "not detrimental to the public interest" standard carries more downside risk than using such assumptions for setting rates.



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Once a decision is made allowing these two companies to merge based upon projected assumptions, the merger, if consummated, it cannot be reversed in the event that the projected assumptions do not result in the expected net merger savings. The requested recovery of $93 million in merger acquisition costs in years 6-10 is a known and certain cost. The projected merger savings for years 6-10 are not known or certain.

Q. Please summarize the Staff's projected merger costs and savings for years 6-10 and how they compare to the $3 million in net merger savings projected by the Joint Applicants.

A. Line 18, Column (D) of Schedule SMT-2 reflects that merger costs are projected by the Staff to <u>exceed</u> savings by $8.1 million for the five-year period 6 through 10. Adding the 50% recovery of the acquisition adjustment results in net merger <u>costs</u> of $101 million for years 6-10.

The Staff's position is that the net savings from this merger will not be remotely close to being sufficient to cover merger costs and the requested 50% recovery of the merger acquisition premium.

Q. In your view, does the proposed merger between UCU and Empire make economic sense to the shareholders of UCU?

A. No. The merger savings are not sufficient to cover merger costs and the merger acquisition premium. Even if we assume that the merger generates 100% of the projected savings and the regulatory plan is approved, merger savings will not recover the costs of this merger projected for the ten-year period following the merger closing.

Q. What is the basis for the assumption in your previous answer that even if the Commission adopts the Joint Applicants' proposed regulatory plan and accepts all



NP

assumptions used for their ten-year cost/benefit analysis, merger savings and the additional revenue recovered under the regulatory plan will not recover merger costs plus the return on, and amortization of, the acquisition premium.

A. The net loss to UCU's shareholders during the ten-year period following the merger closing can be calculated as follows:

| | **Total Years 1-10 ($000's)** |
|---|---|
| Joint Applicants' projected Net Merger Savings | $176,166 |
| Additional revenue from MPS ratepayers, resulting from adoption of regulatory plan (Ignore reduction in Corporate Overheads to MPS) | $ 50,630 |
| Additional revenue from MPS ratepayers from assigning 100% of Energy Savings to Empire | $ 4,859 |
| Additional revenue from Empire ratepayers resulting from adoption of regulatory plan (Ignore Cost of Capital reduction to Empire) | $ 12,500 |
| Total Net Merger Savings and Revenue from regulatory plan | $ 244,153 |
| Ten-Year Amortization of, and Return on, Acquisition Premium | ($390,500) |
| Net (Loss) to UCU Shareholders | ($146,347) |

Q. Given the uneconomic nature of the proposed UCU/Empire merger, even under the Joint Applicants' assumptions, is it Staff's opinion that UCU gave considerable consideration to the value of Empire's generation assets under a deregulation assumption?

A. Yes. It is clear, based on the Joint Applicants' own assumptions, that this merger is not economic for a minimum of ten years following the merger closing in a regulated environment. It is, therefore, likely that UCU management placed considerable value on a deregulated market assumption.



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Q. Has the Staff seen evidence, which supports the supposition that UCU has valued the Empire acquisition based upon the future value of Empire's generation assets in a deregulated market?

A. Yes. In response to Staff Data Request No. 19, Case No. EM-2000-145, (In the Matter of the Application of the Empire District Electric Company for Permission and Authority to Transfer a Partial, Undivided Interest in Certain Generation Facilities, Land and Related Property) UCU/Empire provided a stranded cost study performed by PriceWaterhouseCoopers. PriceWaterhouseCoopers is also the firm retained by UCU to perform the benefits conversion analysis for the Empire and SJLP merger cases. The results of the PriceWaterhouseCoopers study indicated **________________ ________** related to Empire's existing generation assets and purchase power capacity contracts as reflected below:

**______________________________________ __________
______________________________________ __________
__________________ __________**

Q. Should Empire's ratepayers be required to pay a return on, and amortization of, an acquisition premium, which results in part from UCU's anticipated valuation of Empire's generation assets assuming deregulation?

A. No. Any additional profits that UCU may receive from operating Empire's generation assets in a deregulated market will accrue solely to shareholders. Any acquisition premium related to these anticipated profits should, therefore, be borne solely by shareholders.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.



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**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, Filed. | ) ) ) ) ) ) ) | EM-2000-369 |

AFFIDAVIT OF STEVEN M. TRAXLER

STATE OF MISSOURI )
) ss.
COUNTY OF COLE )

Steven M. Traxler, is, of lawful age, and on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 70 pages to be presented in the above case; that the answers in the foregoing 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.

Steven M. Traxler

Subscribed and sworn to before me this 21st day of June, 2000.

Sharon S. Wiles

SHARON S WILES
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. AUG. 23,2002

## *Steve M. Traxler*

## SUMMARY OF RATE CASE INVOLVEMENT

| Year | Case No. | Utility | Type of Testimony | |
|---|---|---|---|---|
| 1978 | Case No. ER-78-29 | Missouri Public Service Company (electric) | Direct Rebuttal | Contested |
| 1979 | Case No. ER-79-60 | Missouri Public Service Company (electric) | Direct Rebuttal | Contested |
| 1979 | | Elimination of Fuel Adjustment Clause Audits (all electric utilities) | | |
| 1980 | Case No. ER-80-118 | Missouri Public Service Company (electric) | Direct Rebuttal | Contested |
| 1980 | Case No. ER-80-53 | St. Joseph Light & Power Company (electric) | Direct | Stipulated |
| 1980 | Case No. OR-80-54 | St. Joseph Light & Power Company (transit) | Direct | Stipulated |
| 1980 | Case No. HR-80-55 | St. Joseph & Power Company (industrial steam) | Direct | Stipulated |
| 1980 | Case No. TR-80-235 | United Telephone Company of Missouri (telephone) | Direct Rebuttal | Contested |
| 1981 | Case No. TR-81-208 | Southwestern Bell Telephone Company (telephone) | Direct Rebuttal Surrebuttal | Contested |
| 1981 | Case No. TR-81-302 | United Telephone Company of Missouri (telephone) | Direct Rebuttal | Stipulated |
| 1982 | Case No. ER-82-66 | Kansas City Power & Light Company | Rebuttal | Contested |
| 1982 | Case No. TR-82-199 | Southwestern Bell Telephone Company (telephone) | Direct Rebuttal | Contested |
| 1982 | Case No. ER-82-39 | Missouri Public Service | Direct Rebuttal Surrebuttal | Contested |

| Year | Case No. | Utility | Type of Testimony | |
|---|---|---|---|---|
| 1990 | Case No. GR-90-50 | Kansas Power & Light - Gas Service Division (natural gas) | Direct | Stipulated |
| 1990 | Case No. ER-90-101 | UtiliCorp United Inc., Missouri Public Service Division (electric) | Direct<br>Surrebuttal | Contested |
| 1991 | Case No. EM-91-213 | Kansas Power & Light - Gas Service Division (natural gas) | Rebuttal | Contested |
| 1993 | Case Nos. ER-93-37 | UtiliCorp United Inc. Missouri Public Service Division (electric) | Direct<br>Rebuttal<br>Surrebuttal | Stipulated |
| 1993 | Case No. ER-93-41 | St. Joseph Light & Power Co. | Direct<br>Rebuttal | Contested |
| 1993 | Case Nos. TC-93-224 and TO-93-192 | Southwestern Bell Telephone Company (telephone) | Direct<br>Rebuttal<br>Surrebuttal | Contested |
| 1993 | Case No. TR-93-181 | United Telephone Company of Missouri | Direct<br>Surrebuttal | Contested |
| 1993 | Case No. GM-94-40 | Western Resources, Inc. and Southern Union Company | Rebuttal | Stipulated |
| 1994 | Case Nos. ER-94-163 and HR-94-177 | St. Joseph Light & Power Co. | Direct | Stipulated |
| 1995 | Case No. GR-95-160 | United Cities Gas Co. | Direct | Contested |
| 1995 | Case No. ER-95-279 | Empire Electric Co. | Direct | Stipulated |
| 1996 | Case No. GR-96-193 | Laclede Gas Co. | Direct | Stipulated |
| 1996 | Case No. WR-96-263 | St. Louis County Water | Direct<br>Surrebuttal | Contested |
| 1996 | Case No. GR-96-285 | Missouri Gas Energy | Direct<br>Surrebuttal | Contested |
| 1997 | Case No. ER-97-394 | UtiliCorp United Inc. Missouri Public Service (electric) | Direct<br>Rebuttal<br>Surrebuttal | Contested |
| 1998 | Case No. GR-98-374 | Laclede Gas Company | Direct | Settled |

| Year | Case No. | Utility | Type of Testimony | |
|---|---|---|---|---|
| 1999 | Case No. ER-99-247<br>Case No. EC-98-573 | St. Joseph Light & Power Co. | Direct<br>Rebuttal<br>Serrebuttal | Settled |
| 2000 | Case No.<br>EM-2000-292 | UtiliCorp United Inc. and<br>St. Joseph Light & Power Merger | Rebuttal | Case<br>Pending |

## Utilicorp / Empire Electric Company
## Summary of Synergy Benefits, net of Costs to Achieve

### **UCU / Empire** Projected Merger Cost / Benefit Analysis

| | **UCU / Empire** Projected Merger Cost / Benefit Analysis | **UCU/Empire** Total All 10 Years **000's** (A) | **Staff** Total All 10 Years **000's** (B) | **UCU/Empire** **Total** Years 6 - 10 **000's** (C) | **Staff** Total Years 6 - 10 **000's** (D) |
|---|---|---|---|---|---|
| | **Operating Costs - Current Dollars** | | | | |
| 1 | Dispatch / Generation Savings | $ 197,885 | $ 5,496 | $ 108,238 | $ 5,261 |
| 2 | General & Administrative / Customer Accounts Savings | $ 74,766 | $ 88,084 | $ 39,688 | $ 49,388 |
| 3 | Distribution Savings | $ 52,319 | $ 61,915 | $ 28,915 | $ 35,983 |
| 4 | Transmission Savings | $ 8,572 | $ 10,166 | $ 4,837 | $ 6,018 |
| 5 | Staff Adjustment - 1999 Budgeted Positions | $ - | $ (12,869) | $ - | $ (7,215) |
| 6 | Conversion to Utilicorp Benefits | $ 50,030 | $ 41,709 | $ 28,450 | $ 23,811 |
| 7 | Total O & M Savings | $ 383,572 | $ 194,502 | $ 210,128 | $ 113,246 |
| | **Capital Savings (Costs)** | | | | |
| 8 | Depreciation - Interconnect / SCADA / T&D | $ (408) | $ (408) | $ 978 | $ 978 |
| 9 | Amortization of Transaction / Transition Costs | $ (29,618) | $ (9,498) | $ (14,808) | $ - |
| 10 | Return on Interconnect SCADA / T&D | $ 5,487 | $ 5,487 | $ 8,277 | $ 8,277 |
| 11 | Return on Tmasaction / Transition Costs | $ - | $ - | $ - | $ - |
| 12 | Total Capital Savings ( Costs ) | $ (24,539) | $ (4,419) | $ (5,553) | $ 9,255 |
| 13 | **Total Synergies, net of Costs to Achieve** | $ 359,033 | $ 190,083 | $ 204,575 | $ 122,501 |
| | **Net Enterprise Support Functions Allocated to Empire** | | | | |
| 14 | Empire Direct Costs transferred to ESF Departments | $ 47,859 | $ 47,859 | $ 25,405 | $ 25,405 |
| 15 | Empire Direct Costs transferred to IBU Departments | $ 27,838 | $ 27,837 | $ 14,777 | $ 14,777 |
| 16 | ESF and IBU Departments **Allocated Back to Empire** | $ (258,564) | $ (304,619) | $ (137,253) | $ (170,796) |
| 17 | Net UCU Corpoarate Overhead Depts. Allocated to Empire | $ (182,867) | $ (228,923) | $ (97,071) | $ (130,614) |
| 18 | **Total Synergies, net of Costs to Achieve and Allocated Costs** | $ 176,166 | $ (38,839) | $ 107,504 | $ (8,113) |
| | **Premium Costs** | | | | |
| 19 | Return on Premiun | $ (274,034) | $ - | $ (127,088) | $ - |
| 20 | Amortization of Premium | $ (69,880) | $ - | $ (34,940) | $ - |
| 21 | Reflect non-tax deductibility of Premium | $ (46,586) | $ - | $ (23,293) | $ - |
| 22 | Total Premium Cost | $ (390,500) | $ - | $ (185,321) | $ - |
| 23 | **SJLP Share of Premium Costs - 50 %** | $ (195,250) | $ - | $ (92,661) | $ - |
| 24 | **Synergies, net of 50 % of Premium** | $ (19,084) | $ (38,839) | $ 14,844 | $ (8,113) |
| 25 | **Average per Year** | $ (1,908) | $ (3,884) | **$ 2,969** | **$ (1,623)** |

| | | |
|---|---|---|
| 26 | Inflation Rate - UCU ESF / IBU Dept. Costs and Savings Estimates | 5.0% |
| 27 | Inflation Rate - Empire Costs Transferred to UCU | 2.5% |

## Utilicorp / Empire Electric Merger

## Merger Case No. EM 2000-369

### Additional Revenue collected from MPS Ratepayers under the Proposed Regulatory Plan

| Line No. | | | Year | Annual Reduction UCU Allocated Costs to MPS |
|---|---|---|---|---|
| 1 | Projected Reduction in ESF Department Costs allocated to MPS - Empire Merger | | | $ (2,509,000) |
| 2 | Projected Reduction in IBU Department Costs allocated to MPS - Empire Merger | | | $ (1,853,000) |
| 3 | Total Projected Reduction in Corpoarte Overhead Costs alloacted to MPS | | 1999 | $ (4,362,000) |
| 4 | Growth Rate assumption for UCU Corporate Overhead Costs | 5.0% | 2000 | $ (4,580,100) |
| 5 | | Merger Approval | 2001 | $ (4,809,105) |
| 6 | | | 2002 | $ (5,049,560) |
| 7 | | MPS - New Rates | 2003 | **$ (5,302,038)** |
| 8 | | | 2004 | **$ (5,567,140)** |
| 9 | | | 2005 | **$ (5,845,497)** |
| 10 | | | 2006 | **$ (6,137,772)** |
| 11 | | | 2007 | **$ (6,444,661)** |
| 12 | | | 2008 | **$ (6,766,894)** |
| 13 | | | 2009 | **$ (7,105,238)** |
| 14 | | | 2010 | **$ (7,460,500)** |
| 15 | Reduction in UCU Costs allocated to MPS - due to the **Empire Merger** | | | **$ (50,629,741)** |
| 16 | Additional Revenue collected from MPS - due to **"Ignoring"** MPS cost reduction | | | **$ 50,629,741** |
| 17 | Avg. **Annual** Increase in MPS Rates | | | **$ 6,328,718** |

Utilicorp / Empire Merger
Case No. EM 2000-369

## Analysis of Early Retirement Impact on Employee and Retiree Benefit Costs

| | Description | 2001 | 2002 | 2003 | 2004 | 2005 | Total |
|---|---|---|---|---|---|---|---|
| | | (A) | (B) | (C) | (D) | (E) | (F) |
| 1 | Reduction in Employee Benefit Costs - Headcount Reductions | $ (482,637) | $ (597,594) | $ (718,048) | $ (718,048) | $ (718,048) | $ (3,234,375) |
| 2 | Reduction in FAS 106 costs - Conversion of Empire to UCU Benefits | $ (227,733) | $ (1,850,108) | $ (1,953,667) | $ (2,073,214) | $ (2,186,640) | $ (8,291,362) |
| 3 | Total Savings - Benefits Conversion & Headcount Reduction | $ (710,370) | $ (2,447,702) | $ (2,671,715) | $ (2,791,262) | $ (2,904,688) | **$(11,525,737)** |
| 4 | Increase in Accrued FAS 106 costs - Headcount Reduction | $ 2,537,319 | $ 269,620 | $ (74,624) | $ - | $ - | $ 2,732,315 |
| 5 | **Net Savings** during **Moratorium** - Years 2001-2005 | $ 1,826,949 | $ (2,178,082) | $ (2,746,339) | $ (2,791,262) | $ (2,904,688) | $ (8,793,422) |

Source: Browning Schedules RBB-6 and RBB-8, EM 2000-369

**UtiliCorp United, Inc.\ Empire Electric Company Merger**

**Analysis of General Plant & Depreciation - December 31, 1999**

| Line No. | Account Number | Missouri Plant-in-Service December 31, 1999 | Depreciation Rate | Depreciation Expense |
|---|---|---|---|---|
| 1 | 389.000 | $ 615,532 | 0.00% | $ - |
| 2 | 390.000 | $ 7,749,603 | 4.68% | $ 240,238 |
| 3 | 391.000 | $ 6,127,851 | 4.67% | $ 428,950 |
| 4 | 392.000 | $ 5,114,761 | 9.00% | $ 317,115 |
| 5 | 393.000 | $ 296,526 | 4.57% | $ 14,826 |
| 6 | 394.000 | $ 1,837,109 | 3.67% | $ 80,833 |
| 7 | 395.000 | $ 743,645 | 3.00% | $ 25,284 |
| 8 | 396.000 | $ 7,966,612 | 6.71% | $ 310,698 |
| 9 | 397.000 | $ 8,137,002 | 4.76% | $ 398,713 |
| 10 | 398.000 | $ 156,009 | 3.88% | $ 5,616 |
| 11 | Total | $ 38,744,650 | **4.22%** | $ 1,822,273 |

| Line | Description | | |
|---|---|---|---|
| 12 | Empire - Investment in Gneral Plant at December 31, 1999 | | $ 38,744,650 |
| 13 | Less Accumlated Depreciation Reserve at December 31, 1999 | | $(16,285,134) |
| 14 | Net Investment in General Plant - Empire | | $ 22,459,516 |
| 15 | Carrying Cost based upon Rate of Return in Case No. ER 97 - 81 | | 13.100% |
| 16 | Annual Revenue Requirement on Empire's Investment in General Plant | | $ 2,942,197 |
| 17 | Add annual Depreciation Expense - Empire | | $ 1,822,273 |
| 18 | Total Annual Cost - Depreciation and Rate of Return on General Plant | | $ 4,764,469 |
| 19 | UCU Investment in General Plant allocated to Empire (Siemek Workpaper VJS 4-3) | $ 27,900,000 | |
| 20 | Annual Depreciation Expense - Average Depr. Rate - DR 297, EM 2000-292 | **1.42%** | |
| 21 | Increase in Empire's annual Depreciation Expense on General Plant | $ 396,180 | |
| 22 | Rate of Return on Empire's Share of UCU's General Plant (Siemek WP I -2 D) | $ 3,488,000 | |
| 23 | Total Increase in Empire's Cost of Service - UCU's General Plant Allocation | | $ 3,884,180 |
| 24 | Percent Increase in Empire's Cost of Service | | **81.5%** |

Source: DR 1, EM 2000-369
DR 513, EM 2000-369

Utilicorp / Empire Electric Company
Merger Case No. EM 2000-369

**Analysis of Customer and Administrative & General Expenses - Empire Electric**

| Line No. | Description | Empire 1994 | | Empire 1995 | Empire 1996 | Empire 1997 | Empire 1998 | | Empire 1999 |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Customer Accounts Expense | $ 3,711,807 | | $ 3,915,023 | $ 4,270,740 | $ 4,364,206 | $ 4,984,506 | | $ 4,161,501 |
| 2 | Customer Assistance & Information | $ 831,716 | | $ 855,179 | $ 776,689 | $ 728,135 | $ 654,212 | | $ 739,734 |
| 3 | Sales Expense | $ 702,753 | | $ 632,258 | $ 673,062 | $ 701,258 | $ 710,585 | | $ 615,722 |
| 4 | Administrative & General Expense | $ 10,610,072 | **(1)** | $ 12,528,819 | $ 9,756,894 | $ 9,548,227 | $ 9,969,497 | **(2)** | $ 10,544,649 |
| 5 | Total Electric Expense - FERC 900 Accounts | $ 15,856,348 | | $ 17,931,279 | $ 15,477,385 | $ 15,341,826 | $ 16,318,800 | | $ 16,061,606 |
| 6 | Retail Electric Customers | 111,616 | | 115,993 | 119,100 | 121,653 | 123,918 | | 126,496 |
| 7 | Average Cost per Electric Customer - Missouri | $ 142 | | $ 155 | $ 130 | $ 126 | $ 132 | | $ 127 |
| 8 | Average Annual Cost per Customer - 1994 - 1999 | | | | | | | | $ 135 |
| 9 | Source: DR 507and 512 EM 2000-369 | | | | | | | | |

10 **(1)** Excludes $3.7 million for Voluntary Early Retirement Program - DR 163

11 **(2)** 1999 reduced by $ 4.7 million to eliminate merger costs - (DR 512, EM 2000-369)

Utilicorp / Empire Electric Company
Merger Case No. EM 2000-369

**Analysis of Customer and Admistrative & General Expenses - Missouri Public Service (MPS)**

| Line No. | Description | MPS 1994 | MPS 1995 | MPS 1996 | | MPS 1997 | | MPS 1998 | | MPS 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Customer Accounts Expense | $ 4,842,570 | $ 4,491,960 | $ 5,575,264 | | $ 6,538,346 | | $ 5,996,988 | | $ 5,202,667 |
| 2 | Customer Assistance & Information | $ 882,226 | $ 553,207 | $ 200,073 | | $ 214,789 | | $ 206,480 | | $ 279,671 |
| 3 | Sales Expense | $ 1,161,708 | $ 7,215,960 | $ 1,259,448 | | $ 1,089,909 | | $ 982,933 | | $ 785,570 |
| 4 | Administrative & General Expense | $ 24,807,282 | $ 28,085,547 | $ 34,962,936 | (1) | $ 33,960,655 | (2) | $ 29,979,356 | (3) | $ 30,582,707 |
| 5 | Total Electric Expense - FERC 900 Accounts | $ 31,693,786 | $ 40,346,674 | $ 41,997,721 | | $ 41,803,699 | | $ 37,165,757 | | $ 36,850,615 |
| 6 | Retail Electric Customers | 179,970 | 184,144 | 188,614 | | 192,931 | | 197,418 | | 202,124 |
| 7 | Average Cost per Electric Customer - Missouri | $ 176 | $ 219 | $ 223 | | $ 217 | | $ 188 | | $ 182 |
| 8 | Average Annual Cost per Customer - 1994 - 1999 | | | | | | | | | $ 201 |

9 (1) Reduced 1997 Rents Expense by $2.7 million to eliminate non-recurring accounting change. (DR 291)

10 (2) Increased 1998 926 expense $4.4 million to eiliminate Deferred Credit write off related to prior years. (DR 277)

11 (3) Increased 1999 925 expense $1.6 million to eliminate prior year reserve adjustment (DR 298).

Utilicorp / Empire Electric Merger
Case No. EM 2000-369

## Analysis of UCU Corporate Overhead Costs - allocated to MPS

| Line No. | UCU Corporate Overhead Costs - allocated to MPS | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|
| 1 | ESF Department Costs allocated to MPS | $ 9,304,100 | $ 25,407,000 | $ 31,560,797 | $ 30,501,487 | $ 34,368,908 |
| 2 | IBU Department Costs allocated to MPS | $ 1,010,882 | $ 1,428,779 | $ 9,696,027 | $ 14,403,754 | $ 12,105,621 |
| 3 | Total Costs UCU Overhead Costs allocated to MPS | $ 10,314,982 | $ 26,835,779 | $ 41,256,824 | $ 44,905,241 | $ 46,474,529 |
| 4 | **Percent Increase per Year** | | **160.2%** | **53.7%** | **8.8%** | **3.5%** |
| 5 | Average Increase - 1996 - 1999 | | | 4 yr. Average | 1996 - 1999 | 87.6% |
| 6 | Average Increase - 1997 - 1999 | | | 3 yr. Average | 1997 - 1999 | 24.4% |
| 7 | Average Increase - 1998 - 1999 | | | 2 yr. Average | 1998 - 1999 | 6.3% |

Source: Data Request 594, EM 2000-292

# The Consumer Price Index--Why the Published Averages Don't Always Match An Individual's Inflation Experience

The Consumer Price Index (CPI) is a measure of the **average** change in prices paid by urban consumers for a fixed market basket of goods and services. Because the CPI is a statistical average, it may not reflect your experience or that of specific families or individuals, particularly those whose expenditure patterns differ substantially from the "average" urban consumer.

Because it is not practical to obtain a census of prices for all consumer transactions in the United States, the CPI uses a carefully designed set of samples to estimate prices. These samples are the product of accepted statistical procedures to make the CPI representative of the prices paid for all goods and services purchased by urban consumers. Some of these samples include:

- Urban areas selected from all U.S. urban areas,
- Selected households within each selected urban area,
- Retail establishments from which these consumers purchased goods and services,
- Specified and unique items--goods and services purchased by these consumers, and
- Housing units selected from each urban area for the shelter component of the CPI.

Therefore, the CPI is an average of many diverse households and not a reflection of any particular one.

While several factors can result in the national CPI being different from *your* price experience, one major factor is how *you* actually spend your money. Estimates of expenditures reported in the Consumer Expenditure Survey for each consumer good or service are used to produce "expenditure weights" for the CPI. These weights give each good or service in the CPI an importance relative to all the other goods and services in the market basket. For example, an increase of 5 percent in housing costs is more important than the same increase for telephone charges, because most consumers spend more for housing than for telephone service. Similarly, if you spend more than the average person on medical care and recreation, and prices rise sharply for these goods and services, the increase in your personal expenditures and personal price index would be larger than the increase for the average consumer. Because the CPI is a comprehensive measure, it contains items that are included in some individuals' buying patterns and excluded from others. For example, if you are a homeowner, you are more likely to buy major appliances such as refrigerators and laundry equipment than would a renter.

The CPI divides the consumer market basket into eight major groups of goods and services. You can estimate the approximate difference in *your* expenditure pattern by estimating your relative expenditures for major groups of consumer goods and services. You could then compare them to the CPI groups' relative importance data, which are approximately the weights used in CPI estimation. For example, the approximate weights for the eight major groups in the CPI for All Urban Consumers (CPI-U) are listed below under the CPI-U average column. If your expenditure pattern is sharply different from the CPI average, the same price changes for the same expenditure categories would result in different price change measures for the total market basket. An example of a hypothetical expenditure pattern for a consumer with high expenditures for medical care appears in the tabulation that follows.

| Expenditure category | Relative Importance<br>CPI-U average (Dec.1999) | Hypothetical individual |
|---|---|---|
| Total (all items) | 100.0 | 100.0 |
| Food and beverages | 16.3 | 20.5 |

| | | |
|---|---|---|
| Housing | 39.6 | 25.0 |
| Apparel | 4.7 | 4.5 |
| Transportation | 17.5 | 13.5 |
| Medical care | 5.8 | 25.0 |
| Recreation | 6.0 | 4.0 |
| Education and communication | 5.4 | 3.0 |
| Other goods and services | 4.7 | 4.5 |
| Total, all items | 100.0 | 100.0 |

Let's assume that there is a price increase of 5 percent for food and beverages and 10 percent for medical care costs, with no price changes for the other expenditure categories. This would result in a price index increase in the national CPI of 1.5 percent. However, it would result in an increase of 3.5 percent for the hypothetical individual's price index. The calculations for the national CPI and the hypothetical individual are shown in the following two tabulations.

**National CPI-U average**

| Expenditure category | Relative Importance, CPI-U average (Dec.1991) | | Relative price change | | New relative expenditure |
|---|---|---|---|---|---|
| Food and beverages | 16.3 | x | 1.05 | = | 17.1 |
| Housing | 39.6 | x | 1.00 | = | 39.6 |
| Apparel | 6.3 | x | 1.00 | = | 4.7 |
| Transportation | 17.5 | x | 1.00 | = | 17.5 |
| Medical care | 5.8 | x | 1.10 | = | 6.4 |
| Recreation | 6.0 | x | 1.00 | = | 6.0 |
| Education and communication | 5.4 | x | 1.00 | = | 5.4 |
| Other goods and services | 5.8 | x | 1.00 | = | 5.8 |
| Total, all items | 100.0 | | | | 102.5 |

102.5/100.0 = 2.5 percent increase

**Hypothetical individual**

| Expenditure category | Relative Importance, hypothetical individual | | Relative price change | | New relative expenditure |
|---|---|---|---|---|---|
| Food and beverages | 20.5 | x | 1.05 | = | 21.5 |
| Housing | 25.0 | x | 1.00 | = | 25.0 |
| Apparel | 4.5 | x | 1.00 | = | 4.5 |
| Transportation | 13.5 | x | 1.00 | = | 13.5 |
| Medical care | 25.0 | x | 1.10 | = | 27.5 |
| Recreation | 4.0 | x | 1.00 | = | 4.0 |
| Education and communication | 3.0 | x | 1.00 | = | 3.0 |
| Other goods and services | 4.5 | x | 1.00 | = | 4.5 |
| Total, all items | 100.0 | | | | 103.5 |

103.5/100.0 = 3.5 percent increase

The area in which you live also can affect your price experiences. You should not expect the national or a regional CPI to always mirror your price experiences. It is possible, for example, that sharp price increases in one area are offset by lower prices in other areas, resulting in a more moderate price change published for the Nation or a region. Because the typical consumer does not have enough time to seek out the lowest price for each good or service purchased, he or she may pay more for a good or service than would another consumer in a retail outlet in a different part of the metropolitan area, region or country.

Another factor in whether you think the CPI reflects your price experience is that most consumers notice price changes in those goods and services purchased frequently. These items, such as food, clothing, and gasoline, have relatively large price swings because of the seasonal influences in supply and demand. Less attention is paid to many items (such as most household appliances) that are purchased infrequently, which often have relatively stable prices.

The CPI is used extensively to adjust incomes, lease payments, retirement benefits, food stamp and school lunch benefits, alimony, and tax brackets. The CPI, because of the many ways in which it is used, affects nearly all Americans. Because the CPI is based on the buying habits of the "average" consumer, it may not be a perfect reflection of your individual price experience. However, the CPI is the most economically feasible method for providing a statistic that is the most useful in all it's applications.

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For further information, access the CPI internet site.

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**CPI Home Page**

**BLS Home Page**

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*Last modified: May 8, 2000*
*URL: http://stats.bls.gov/cpifact5.htm*

Utilicorp / Empire Merger
Case No. EM 2000-369

## Analysis of **UCU** and **Empire** Pension Plans - Funded Status

| Line No. | | Empire Total | Funded Status % |
|---|---|---|---|
| 1 | Market Value of Assets - Jan. 1, 1999 | $ 94,990,193 | **155%** |
| 2 | Accumulated Benefit Obligation | $ 61,161,774 | |
| 3 | Excess of Assets over ABO | $ 33,828,419 | |

| | | Utilicorp | |
|---|---|---|---|
| 4 | Market Value of Assets - Jan. 1, 1999 | $220,468,431 | **140%** |
| 5 | Accumulated Benefit Obligation | $157,764,000 | |
| 6 | Excess of Assets over ABO | $ 62,704,431 | |

| | | Utilicorp/Empire Combined | |
|---|---|---|---|
| 7 | Market Value of Assets - Jan.1, 1999 | $ 315,458,624 | **144%** |
| 8 | Accumulated Benefit Obligation | $ 218,925,774 | |
| 9 | Excess of Assets over ABO | $ 96,532,850 | |

**Source: DR 139 - EM 00-369**
**DR 165 - EM 00-292**

## Utilicorp / Empire Merger Case EM 00-369

**Increase** in Annual **Pension Cost** to **Empire** Customers
Resulting from Dillutive effect of Combining Pension Fund Assets

| Line No. | | | |
|---|---|---|---|
| 1 | Empire Pension Asset Balance - January 1, 1999 | | $94,990,193 |
| 2 | Expected Rate of Return Assumption | | 9.00% |
| 3 | Reduction to Pension Cost - **Empire Stand Alone** | | $8,549,117 |
| 4 | Empire Pension Asset Balance - January 1, 1999 | | $94,990,193 |
| 5 | Dillutive Impact of Combining Pension Fund Assets with UCU | | ($6,859,825) |
| 6 | Empire Assets adjusted to reflect **UCU, Empire Combined** - Funded Status of | 144% | $88,130,368 |
| 7 | Expected Rate of Return Assumption | | 9.00% |
| 8 | Reduction to Pension Cost - **Empire/UCU combined** | | $7,931,733 |
| 9 | **Increase in Annual Pension Cost to Empire Customers** | | **$617,384** |

Source: DR 139 EM 2000-369