

Exhibit No.:

Issues: Merger Overview
Electric Utility Industry Merger History
History of the UCU/EDE Merger
Financial Theory of Utility Merger
Surveillance Data Reporting
Witness: Roberta A. McKiddy
Sponsoring Party: MoPSC Staff
Type of Exhibit: Rebuttal Testimony
Case No.: EM-2000-369

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

ROBERTA A. MCKIDDY

UTILICORP UNITED INC.

AND

EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. EM-2000-369

Jefferson City, Missouri
June 2000

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ROBERTA A. McKIDDY**

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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **ROBERTA A. McKIDDY**

4 **UTILICORP UNITED INC.**

5 **AND**

6 **THE EMPIRE DISTRICT ELECTRIC COMPANY**

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

8
9 Q. Please state your name.

10 A. My name is Roberta A. McKiddy.

11 Q. Please state your business address.

12 A. My business address is P.O. Box 360, Jefferson City, Missouri 65102.

13 Q. What is your present occupation?

14 A. I am employed as a Financial Analyst for the Missouri Public Service
15 Commission (Commission). I accepted this position in May 1998. Prior to my
16 appointment to the Financial Analysis Department, I served in an administrative support
17 position with the Utility Services Division, Accounting Department.

18 Q. Were you previously employed before you joined the Commission's staff
19 (Staff)?

20 A. Yes, I was employed by the State Emergency Management Agency for the
21 state of Missouri. I also have previous experience in the areas of accounting, insurance,
22 real estate lending and consumer protection.

23 Q. What is your educational background?

1 A. In July 1997, I earned a Bachelor of Science degree in Business
2 Administration with an emphasis in Finance from Columbia College. In October 1998, I
3 began pursuing a Master of Business Administration degree with William Woods
4 University in Jefferson City. I completed my MBA program on June 8, 2000.

5 Q. What is the purpose of your testimony?

6 A. The purpose of my testimony is to report on certain financial and
7 economic aspects of the application of UtiliCorp United Inc. (UCU) to acquire and merge
8 with The Empire District Electric Company (EDE). I have been asked to review and
9 report on the following aspects of the merger:

- 10 1. the recent history of mergers in the electric utility industry and how
- 11 UCU's offer for EDE compares to that history;
- 12 2. the financial theory of utility mergers and how UCU's offer for EDE
- 13 compares to that theory; and
- 14 3. surveillance data reporting requirements.

15 Q. Have you prepared any schedules in support of your testimony?

16 A. Yes. They are identified as Schedules 1 through 4.

17 Q. How does your testimony filed in this Merger Application compare to the
18 testimony you filed earlier concerning the same issues in the UtiliCorp/St. Joseph Light
19 & Power Company (SJLP) merger application, Case No. EM-2000-292?

20 A. This testimony is very similar to the testimony I filed earlier in Case No.
21 EM-2000-292, but it is not identical in that the instant testimony does reflect some of the
22 different terms contained in the UCU/EDE Merger Agreement compared to the
23 UCU/SJLP Agreement.

1 Q. Please summarize your testimony and findings concerning the merger of
2 UCU and EDE in this proceeding.

3 A. On May 11, 1999, Standard & Poor's (S&P) placed its rating of EDE
4 ("A/A-2") on CreditWatch with negative implications following the announcement that
5 UCU will acquire EDE. The negative CreditWatch of EDE reflects the weaker credit
6 profile of the much larger UCU. UCU's credit ratings ("BBB") were affirmed. This
7 reflects the UCU's use of equity as its purchase currency and the relative small size of the
8 transaction in comparison to the UCU's overall operations. S&P expects the ratings of
9 EDE to be equal to UCU once the merger is completed. What this will imply for EDE is
10 a possible higher level of risk were it to operate separately with its own credit rating after
11 the proposed merger. Should the corporate bond rating resulting from the merger be
12 "Baa" or "BBB", the cost of debt for EDE could be expected to increase. However, there
13 would be an offset to this increase in the cost of debt. The merged entity would have
14 significantly less equity recorded on its books on a post-merger basis. Therefore, the
15 result would be an overall cost of capital for UCU that is below the pre-merger overall
16 cost of capital for EDE.

17 Q. Please summarize your findings regarding the recent history of mergers in
18 the electric utility industry.

19 A. Over the past ten years, 38 electric Investor-Owned Utilities (IOUs) have
20 merged with other utilities in the industry. From 1986 to 1995, the number of IOUs
21 decreased from 282 to 244. This trend appears to be continuing in preparation for open
22 competition. In the first quarter of 2000, there have been eight investor-owned utilities
23 that have announced mergers and/or acquisitions.

1 Q. Please summarize your findings regarding the recent history of mergers in
2 general.

3 A. According to an article entitled, "Raiders of the Lost Decade: '80s-Style
4 Mergers Return," published in the March 29, 2000 issue of the Wall Street Journal,
5 350 hostile or unsolicited transactions took place in 1999. There were also approximately
6 1,100 leveraged buyout transactions. In addition, there were an estimated 100 "jumped
7 deals," or deals challenged by a bid from another company. The statistical data presented
8 in this article was obtained from Salomon Smith Barney and Thomson Financial
9 Securities Data and recognized mergers in all industries worldwide.

10 Also as part of my analysis, I reviewed financial information related to
11 completed and pending electric utility mergers and acquisitions obtained from Electric
12 Utility Weekly, Goldman Sachs, CA Turner Utility Reports and Telescan. A copy of this
13 information is attached as Schedule 2. Review of this information revealed that the
14 exchange ratios associated with these mergers ranged from a minimum value of
15 0.23 times to a maximum exchange ratio of 1.67 times, with an average exchange ratio of
16 1.06 times. The exchange ratio is the number of shares of the acquiring company
17 received by the shareholders of the acquired (target) company for one share of the
18 acquired company. The implied market-to-book ratios of the acquired companies ranged
19 from a low of 0.57 times to a high of 3.14 times, with an average of 2.17 times.

20 I also reviewed additional financial information, which is attached to my
21 testimony as Schedule 3, related to pending electric utility mergers and acquisitions
22 obtained from the sources referenced above. The range of premiums associated with
23 these mergers range from a low of 9.00 percent to a high of 38.82 percent, with an

1 average premium of 27.51 percent. The premium percentage is the target company's
2 implied value in excess of its current market price at the time of the merger
3 announcement. The exchange ratios from the pending mergers range from 0.6 to
4 1.12 times, with an average of 0.86. All but two of these mergers employed the purchase
5 method of accounting treatment.

6 The premium percentage related to the UCU acquisition of EDE is
7 38.82 percent (based on a closing price for EDE stock at May 10, 1999 of \$21.25). UCU
8 is offering \$29.50 worth of UCU common stock for each share of EDE's common stock.
9 The Merger Agreement also contains a provision under which the value of the merger
10 consideration per share will decrease should UCU's common stock price fall below
11 \$22.00 per share at closing and will increase if UCU's common stock price rises above
12 \$26.00 per share at closing. Empire stockholders may also elect to take cash or stock, but
13 total cash paid to Empire stockholders cannot exceed 50 percent of the total merger
14 consideration and the stock that may be issued in the merger cannot exceed 19.9 percent
15 of the then outstanding common stock of UCU. An exact exchange ratio cannot be
16 calculated until the close of this merger. However, we can calculate an exchange ratio
17 based on UCU's stock price at the close of business on May 10, 1999. The exchange
18 ratio for EDE at the time of the merger announcement would be 1.22 times (based on an
19 offer price of \$29.50 per share for each EDE share and an implied value for UCU stock
20 of \$24.187). The average premium represented by the eight transactions presented on
21 Schedule 3 is 27.51 percent. The premium percentage offered by UCU for EDE
22 (38.82%) is substantially higher than this average.

1 Q. Please summarize the sections of your testimony related to merger
2 rationale.

3 A. A synopsis of the reasons for the merger provided by EDE's President and
4 Chief Executive Officer Myron W. McKinney on page 4, lines 13 through 21, of his
5 direct testimony is as follows:

- 6 • The merger will result in a combined company that will be well positioned to
7 succeed in the increasingly competitive energy marketplace.
- 8 • The combined enterprise can more effectively participate in the increasingly
9 competitive market for the generation of power.
- 10 • Through the elimination of duplicate activities, there will be reductions in
11 operating and maintenance expenses.
- 12 • The inherent increase in scale and market diversification will provide
13 increased financial stability and strength, which could not be achieved without
14 the combination of the companies.

15
16 However, the reasons for the merger provided to the shareholders of EDE
17 in the EDE's Proxy Statement dated July 29, 1999 are somewhat different. A synopsis of
18 those reasons are provided below:

- 19 • Attractive premium over the historical trading prices of EDE's common stock.
- 20 • Higher dividend rate than what EDE has historically received.
- 21 • Increased market diversification and the resulting increased financial stability
22 and strength of the combined entity.
- 23 • Cost savings from a reduction in operating and maintenance expenses and
24 other factors.
- 25 • More effective participation in the competitive market for the generation of
26 power.
- 27 • Significant non-utility operations of UCU, which will allow the combined
28 entity to pursue further non-utility diversification.

29
30 In reading published material outside of this proceeding related to merger
31 savings, it appears that claimed synergies, in general, are rarely realized.

32 Q. Has the Staff reviewed the merger savings and benefits alleged by the
33 Joint Applicants in their direct testimony and schedules?

1 A. Yes. Various Staff witnesses have reviewed component pieces of the
2 estimated merger savings amounts put forth by the Joint Applicants and have addressed
3 this topic in their rebuttal testimony. Overall, the Staff believes that some level of merger
4 savings should be produced by the merger above and beyond savings that could be
5 produced by UCU and EDE on a stand-alone basis. However, the amount of incremental
6 merger savings cannot be accurately quantified prior to the merger, or accurately
7 measured after the merger takes place. Please refer to the testimony of Staff witnesses
8 Mark L. Oligschlaeger, Cary G. Featherstone and Janis E. Fischer for a complete
9 discussion of this matter.

10 Q. Please summarize the section of your testimony related to the financial
11 theory of utility mergers and how UCU's offer for EDE compares to that theory.

12 A. There are two basic methods that can be used to account for business
13 combinations: the purchase method or the pooling-of-interest methods. In the purchase
14 method, the total value paid or exchanged for the acquired firm's assets is recorded on the
15 acquiring company's books. UCU intends to employ the purchase method in this merger
16 transaction. The proposed merger will also be considered a horizontal merger, which
17 simply means that one firm in a particular industry is acquiring another firm in that same
18 industry. Electric companies, in general, are already vertically integrated and providing
19 operating economies, which improve the overall delivery of service to the ratepayers
20 through the generation, transmission and distribution components of their respective
21 operations.

22 Staff believes evaluating the cash flows from proposed synergies when
23 netted against the amount of any acquisition premium and transaction/transition costs

1 provide a firm with the ability to determine whether there is any positive incremental gain
2 associated with the combination of the two firms through a merger or acquisition. A
3 transaction cost would be a cost that occurs up front such as fees to financial advisors. A
4 transition cost would be a cost that occurs after the closing date of the merger or
5 acquisition such as integration costs, severance payments or relocation costs. When an
6 acquisition premium is involved, acquiring another firm only makes sense if there is
7 some specific reason to believe that the acquired firm will somehow be worth more in the
8 acquiring firm's possession than it is currently on a stand alone basis. It is my opinion
9 that the rationale for this merger appears to be slanted toward the shareholder and not the
10 ratepayer. This opinion is based on information presented through testimony filed by the
11 Companies' witnesses, as well as information obtained from EDE's Annual Shareholder
12 Report and Proxy Statement. It is a fact that UCU's management has an ultimate
13 fiduciary responsibility to the shareholders and to creating maximum shareholder wealth.

14 Q. Please summarize the section of your testimony related to surveillance
15 data reporting.

16 A. It is Staff's belief that the Commission should order UCU to continue
17 submitting separate surveillance data reports on a total company basis. The Staff also
18 believes the Commission should order MPS (stand-alone basis) and EDE (stand-alone
19 basis) to continue submitting separate surveillance data reports regardless of the outcome
20 of this merger proceeding. If this merger is approved, it is UCU's intent to operate EDE
21 as a separate division of UCU and maintain separate rates for it. Should this merger be
22 approved by the Commission, the Staff believes MPS' and EDE's continued submission
23 of separate surveillance data reports will be necessary to ensure that the ratepayers of the

1 state of Missouri are protected from any over-earnings by MPS or EDE. It will also
2 provide the Staff with data helpful in making a preliminary assessment of the effects of
3 the pending merger of UCU and EDE.

4 **Merger Overview**

5 Q. Please briefly describe the operations of EDE.

6 A. EDE is a Kansas corporation organized in 1909. EDE is an operating
7 public utility engaged in the generation, purchase, transmission, distribution, and sale of
8 electricity in Missouri, Kansas, Oklahoma and Arkansas. EDE is engaged primarily in
9 the sale of electricity in parts of southwestern Missouri, southeastern Kansas,
10 northeastern Oklahoma and northwestern Arkansas. The service territory encompasses
11 about 10,000 square miles and has a population of more than 330,000. Electric service is
12 supplied retail to about 143,000 customers in 119 incorporated communities and to
13 various unincorporated areas, as well as wholesale to four municipalities and two rural
14 electric cooperatives. EDE's generating facilities consist of the Asbury station, the
15 Riverton plant, the Empire Energy Center, the State Line Power Plant, and the Ozark
16 Beach Hydroelectric Plant. The utility also has a 12 percent ownership share in Iatan
17 Unit 1, a coal-fired facility operated by Kansas City Power & Light Company (KCPL).
18 In addition to its electric operations, EDE also provides water service to three towns in
19 Missouri.

20 EDE has arrangements for power purchases with Associated Electric
21 Cooperative, Inc., Kansas Gas & Electric Company (a wholly owned subsidiary of
22 Western Resources, Inc.), and Southwestern Public Service Company (now part of New
23 Century Energies Inc.) into 2001. In addition, EDE has a long-term contract with

1 Western Resources, Inc. for the purchase of capacity and energy from the coal-fired
2 Jeffrey Energy Center through May 31, 2010.

3 EDE's retail rates are subject to the jurisdiction of the Missouri Public
4 Service Commission and, to a much lesser extent, the Kansas Corporation Commission,
5 the Oklahoma Corporation Commission, and the Arkansas Public Service Commission.
6 Wholesale rates are regulated by the Federal Energy Regulatory Commission (FERC). In
7 1998, 93 percent of EDE's revenues came from retail customers; the remaining 7 percent
8 were received from wholesale transactions. [Source: Standard & Poors, Global Utilities
9 Rating Service, April 1999.]

10 Q. Please briefly describe the operations of UCU.

11 A. UCU is a Delaware corporation with principal office and business
12 headquartered at 20 W. Ninth Street, Kansas City, Missouri 64138. UCU was formed in
13 1985 from the former Missouri Public Service Company. Since that time, UCU has
14 grown in North America through regulated and non-regulated energy acquisitions totaling
15 nearly \$1.3 billion. At March 31, 1999, UCU had total assets of \$6.4 billion.

16 UCU is an international energy company with regulated electric and gas
17 utility operations (about three-quarters of earnings) in the United States, Canada,
18 Australia, and New Zealand; and non-utility gas gathering and processing and energy
19 marketing and trading (about one-quarter of earnings). UCU conducts business in
20 Missouri through its MPS operating division and provides electric and natural gas utility
21 service to customers in its service areas in Missouri subject to the jurisdiction of the
22 Commission. [Source: Standard & Poors, Global Utilities Rating Service, Utility Credit
23 Report, January 2000.]

1 In North America, UCU serves about 1.5 million utility customers in eight
2 states and two Canadian Provinces. Specifically, UCU serves electric and gas utility
3 customers in Missouri, Kansas, Iowa, Nebraska, Colorado, Michigan, and Minnesota
4 through seven divisions: Missouri Public Service, Kansas Public Service, Peoples Natural
5 Gas, West Plains Energy, Northern Minnesota Utilities, Michigan Gas Utilities. (UCU
6 recently sold West Virginia Power to Allegheny Power, a unit of Allegheny Energy. The
7 deal closed January 2000.) Customers in British Columbia are provided service through
8 West Kootenay Power, a Canadian subsidiary.

9 UCU's subsidiary Aquila Energy provides natural gas and electricity to
10 industrial and wholesale customers in nearly all of the contiguous 48 states. It is also
11 active in Canada. UCU's subsidiary Aquila Gas Pipeline Corporation (AGP) gathers,
12 transports and processes natural gas and natural gas liquids in Texas and Oklahoma.
13 AGP became privately owned by UCU in 1999.

14 International investments include a 34 percent ownership share (down
15 from 49.9 percent as a result of a public offering in 1998) in the Australian electric
16 distribution utility United Energy Ltd. and a 79 percent ownership interest in the New
17 Zealand electric distribution utility Power New Zealand Ltd. (PNZ). UCU operates both
18 utilities. UCU restructured its New Zealand holdings in a series of transactions in late
19 1998. In the United Kingdom, wholly owned United Gas Ltd. and two joint ventures in
20 which UCU is a 25 percent equity partner provide gas-marketing activities.

21 Q. What impact on the bond ratings of the two Companies is predicted as a
22 result of the merger?

1 A. On May 11, 1999, S&P placed its ratings of EDE ("A/A-2") on
2 CreditWatch with negative implications following the announcement that UCU will
3 acquire EDE. The negative CreditWatch on EDE reflects the weaker credit profile of the
4 much larger UCU. UCU's credit rating ("BBB") was affirmed. The affirmation of
5 UCU's credit rating reflects the UCU's use of equity as its purchase currency and the
6 relative small size of the transaction in comparison to the UCU's overall operations.
7 According to S&P, the ratings of EDE are expected to be equal those of UCU as long as
8 the merger is completed as proposed. In essence, this is saying that if EDE continued to
9 operate separately with its own credit rating, it would be "BBB." [Source: S&P, Utilities
10 and Perspectives, February 14, 2000, page 5.]

11 Q. If the Companies merge and the resultant bond rating is below that
12 currently in place for EDE, would EDE's cost of debt increase?

13 A. Yes. All else being equal, a lower bond rating would indicate a higher
14 level of risk. In turn, investors would require a higher return in order to compensate them
15 for accepting such higher level of risk. Staff witness David P. Broadwater of the
16 Financial Analysis Department of the Commission will discuss the impact to overall cost
17 of capital in his rebuttal testimony.

18 Q. What capital cost impact would result from a lower bond rating?

19 A. Schedule 1 shows Moody's A-rated and Baa-rated utility bond yields over
20 the past ten years. During that time period, bond yields have fallen more than 300 basis
21 points from above 10 percent to a level now near 7 percent. The bond yield levels are
22 shown on the left axis of the graph. Also shown on Schedule 1 is the bond yield
23 differential between Moody's A-rated utility bonds and Baa-rated (equivalent to Standard

1 & Poor's "BBB" rating) utility bonds. The scale for the yield differential between "A"
2 and "Baa" utility debt is shown on the right axis of the graph. Over the entire 10 year
3 period, the average yield differential between "A" and Baa" rated utility debt has been
4 28 basis points (0.28 percent) and has ranged from a low of 5 basis points (0.05 percent)
5 to a high of 47 basis points (0.47 percent). Over the past five years, the differential has
6 been approximately 32 basis points (0.32 percent). However, over the past 12 months,
7 the differential has been approximately 23 basis points (0.23 percent). Therefore, should
8 the corporate bond rating resulting from the merger be "Baa" or "BBB", the cost of debt
9 for EDE could be expected to increase. However, there will likely be an offset to this
10 increased cost of debt. The merged entity would have significantly less equity recorded
11 on its books on a post-merger basis than EDE does currently on a stand-alone basis.
12 Therefore, the result would be an overall cost of capital for UCU that is below the
13 pre-merger overall cost of capital for EDE.

14 Q. If the effect of a lower bond rating is a greater cost of debt, how would
15 overall capital costs decrease?

16 A. One of the main components in the calculation of a bond rating is the
17 financial ratio analysis. The amount of debt employed by a company and its ability to
18 repay principal and interest on that outstanding debt directly impacts the credit rating
19 assigned by a rating agency such as S&P. As part of the ratio analysis performed by
20 bond rating agencies, financial benchmarks are defined for debt classification. For
21 example, S&P has identified a financial benchmark median of 53.00 percent total debt to
22 total capital for a "BBB" rated company. In comparison, S&P has identified a financial
23 benchmark median of 48.25 percent total debt to total capital for an "A" rated company.

1 Financial ratio medians are the average of ratios derived from S&P's financial projections
2 for companies rated both publicly and confidentially. (NOTE: EDE's total debt to total
3 capital ratio for the 12-months ended June 30, 1999 as published by S&P was
4 51.90 percent. In contrast, UCU's total debt to total capital ratio for the 12-months ended
5 June 30, 1999 was 60.50 percent.) The other important factor that must also be taken into
6 consideration is the tax deductibility of the interest payments on the company's
7 outstanding debt. When a company's cost of debt and equity are analyzed on a pre-tax
8 basis, one must remember that the company must earn one dollar in revenue to cover
9 each dollar paid in interest expense on the outstanding debt. However, for each dollar the
10 company must earn for the common shareholder, the company must earn approximately
11 \$1.62. (\$1.00 times a tax factor of 1.6231)

12 It may be helpful to define how S&P assesses a credit rating "Outlook."
13 In determining a rating Outlook, S&P gives consideration to any changes in the economic
14 and/or fundamental business conditions. A rating Outlook is not necessarily a precursor
15 of a rating change or future CreditWatch action. "Positive" indicates that a rating may be
16 raised. "Negative" means a rating may be lowered. It may also be helpful to define the
17 true role of a credit rating as defined by S&P:

18 A Standard & Poor's issue credit rating is a current opinion of the
19 creditworthiness of an obligor with respect to a specific financial
20 obligation, a specific class of financial obligations or a specific financial
21 program (including ratings on medium-term note programs and
22 commercial paper programs). It takes into consideration the
23 creditworthiness of guarantors, insurers, or other forms of credit
24 enhancement on the obligation and takes into account the currency in
25 which the obligation is denominated.

26
27 A credit rating is not a recommendation to purchase, sell or hold a
28 particular security. The rating performs the isolated function of credit risk
29 evaluation, which is only one element of the entire investment

1 decision-making process. A rating cannot constitute a recommendation
2 inasmuch as it does not take into consideration other factors, such as
3 market price and risk preference of the investor.
4

5 Ratings do not create a fiduciary relationship between S&P and users of
6 the ratings since there is no legal basis for the existence of such a
7 relationship.
8

9 It is commonplace for companies to structure financing transactions to
10 reflect S&P's credit criteria so they qualify for higher ratings....Many
11 companies go one step further and incorporate specific rating objectives as
12 corporate goals...S&P does not encourage companies to manage
13 themselves with an eye toward a specific rating. The more appropriate
14 approach is to operate for the good of the business as management sees it,
15 and to let the rating follow.
16

17 Issue credit ratings are based, in varying degrees, on the following
18 considerations:
19

- 20 • Likelihood of payment – capacity and willingness of the obligator to
- 21 meet its financial commitment on an obligation in accordance with the
- 22 terms of the obligations;
- 23 • Nature of and provisions of the obligation;
- 24 • Protection afforded by, and relative position of, the obligation in the
- 25 event of bankruptcy, reorganization, or other arrangement under the
- 26 laws of bankruptcy and other laws affecting creditors' rights.
27

28 **Electric Utility Industry Merger History**

29 Q. What has been the trend for mergers and acquisitions in the electric utility
30 industry over the past ten years?

31 A. Over the past ten years, 38 electric investor-owned utilities (IOUs) have
32 merged with other utilities in the industry. In 1986, there were 282 IOUs, of which 182
33 were "major" IOUs. By 1995, there were 244 IOUs remaining, of which 179 were major
34 IOUs. In the first quarter of 2000, there have been eight investor-owned utilities that
35 have announced mergers and/or acquisitions. Although there were 244 operating
36 companies in 1995, consolidation is greater than the numbers indicate. Some of these

1 operating companies are subsidiaries of holding companies. For example, Alabama
2 Power, Georgia Power, Gulf Power, Mississippi Power and Savannah Electric and Power
3 are subsidiaries of the Southern Company, a registered holding company. Major
4 investor-owned utilities are defined as having, in the past three consecutive years, one or
5 more of the following qualities: (1) 1 million megawatt hours of annual sales,
6 (2) 100 megawatt hours of annual sales for resale, (3) 500 megawatt hours of annual
7 power exchanges delivered; or (4) 500 megawatt hours of annual wheeling for others.
8 [Source: Energy Information Administration, Department of Energy, *Financial Statistics*
9 *of Major U.S. Investor-Owned Electric Utilities 1995, DOE-EIA-0437(95/1)* (Washington,
10 DC, December 1996)]

11 Q. Have you reviewed data related to electric utility mergers?

12 A. Yes. I have obtained information on completed and pending mergers and
13 acquisitions from the American Public Power Association (APPA), a service organization
14 for the nation's 2,000 community owned, locally controlled, not-for-profit electric
15 utilities. I have also obtained certain financial information relating to these mergers and
16 acquisitions from: Electric Utility Weekly, a publication of the McGraw-Hill Companies;
17 a Goldman Sachs study dated September 1998; CA Turner Utility Reports dated
18 January 31, 2000; and Telescan Inc. A copy of this information is attached as
19 Schedules 2 and 3.

20 Q. For purposes of this testimony, please define the following terms as they
21 are used on your Schedule 2: (1) acquisition; (2) purchase; and (3) merger.

22 A. In researching information related to completed and pending mergers, I
23 obtained a majority of my information from the APPA. Therefore, I will provide the

1 definitions as they are used by APPA in reporting information related to the mergers and
2 major acquisitions of investor-owned utilities:

3 (1) *Acquisition* – one company buying another company whether it is through a
4 cash or stock transaction.

5
6 (2) *Purchase* – APPA uses this term interchangeably with the term “acquisition.”

7
8 (3) *Merger* – used to describe two companies that are combining to create an third
9 company with one name or two companies combining who will share control
10 of the new company.

11
12 [Source: E-mail correspondence with Diane Moody, APPA, April 25, 2000.]
13

14 Q. Please describe the information contained on Schedule 2.

15 A. The information on Schedule 2 covers the period 1987 through 1999. The
16 information included on this schedule relating to acquisition, purchase and major
17 transactions is: (1) date of transaction; (2) type of transaction; (3) industry; (4) acquiring
18 company; (5) target company; (6) resulting company name; (7) ticker symbol;
19 (8) exchange ratio; (9) implied value; (10) book value as of the date of the merger
20 announcement; and (11) market-to-book.

21 The exchange ratio is the number of shares of the acquiring company
22 received by the shareholders of the acquired company for one share of the acquired
23 company. (The acquired company is commonly referred to as the “target” company.)
24 For stock-based transactions, the implied value is the effective trading price of the
25 acquired company as of the date of the merger closing. The market-to-book ratio for
26 purposes of this analysis equals the implied value divided by the book value, which in
27 this case is the value at the time of the merger announcement.

28 The exchange ratios for the listed transactions ranged from a minimum
29 value of 0.23 times to a maximum exchange ratio of 1.67 times, with an average

1 exchange ratio of 1.06 times. The implied market-to-book ratios of the acquired
2 companies ranged from a low of 0.57 times to a high of 3.14 times, with an average of
3 2.17 times.

4 Q. Please describe the information contained on Schedule 3.

5 A. Data presented for pending mergers is similar to the data presented for the
6 completed mergers and is attached to this testimony as Schedule 3. The implied stock
7 prices reflected on this schedule, however, represent the stock prices reported on the date
8 of the merger announcement, rather than as of the date of merger closing. Also, included
9 on this schedule is a column labeled "Premium". In the context of my testimony,
10 "premium" percentage is defined as the target company's implied value in excess of its
11 current market price at the time of merger announcement. This percentage provides a
12 measure of how much the acquiring company is willing to pay in excess of the current
13 market price (at time of merger announcement) in order to initiate the merger agreement.
14 The range of premiums range from a low of 9.00 percent to a high of 38.82 percent, with
15 an average premium of 27.51 percent. The exchange ratios for the pending mergers
16 range from 0.6 to 1.12 times, with an average of 0.86. According to Goldman Sachs,
17 only two of the mergers employed the pooling-of-interest method of accounting
18 treatment. The other transactions employed the purchase method of accounting
19 treatment.

20 Q. What is the current trend for electric utility mergers as well as mergers in
21 general?

1 A. In an article published by the Wall Street Journal in its March 29, 2000
2 issue, the Journal reported that merger strategies of the 1980s were beginning to repeat
3 themselves in 2000. Leveraged buyouts and hostile bids are on the rise.

4 The article went on to state that hostile or unsolicited mergers and
5 acquisitions topped the \$700 billion mark (approximately 350 transactions) in 1999.
6 Leveraged buyouts (LBOs) for that same period were approximately \$100 billion
7 (approximately 1100 transactions). "Jumped deals," or deals challenged by a bid from
8 another company, reached approximately \$300 billion (an estimated 100 transactions).
9 According to Thomson Financial Securities Data, "In the U.S., buyouts are expanding on
10 last year's torrid pace, with 49 LBO's valued at \$6.88 billion announced so far this year.
11 That compares with 36 deals valued at \$1.88 billion announced in last year's first quarter
12 and 50 deals valued at \$6.5 billion in the fourth quarter. Unsolicited deals are also
13 growing, with 43 deals announced in the first quarter of 2000, up from 29 deals
14 announced in the fourth quarter." Saloman Smith Barney and Thomson Financial
15 Securities Data (TFSD) supplied this worldwide volume information to the Wall Street
16 Journal. TFSD is part of Thomson Financial, a US \$1.2 billion provider of information
17 services and work solutions to the worldwide financial community.

18 Q. How does the proposed UCU/EDE merger compare to the mergers as
19 shown on Schedule 3?

20 A. As stated previously, the premium percentage related to the UCU
21 acquisition of EDE is 38.82 percent. UCU is offering \$29.50 worth of UCU's common
22 stock for each share of EDE's common stock. The agreement also contains a provision
23 under which the value of the merger consideration per share will decrease should UCU's

1 common stock price fall below \$22.00 per share at closing and will increase if UCU's
2 common stock price rises above \$26.00 per share at closing. EDE stockholders may also
3 elect to take cash or stock, but total cash paid to Empire stockholders cannot exceed
4 50 percent of the total merger consideration and the stock that may be issued in the
5 merger cannot exceed 19.9 percent of the then outstanding common stock of UCU. An
6 exact exchange ratio cannot be calculated until the close of this merger. However, an
7 exchange ratio can be calculated based on the stock prices at the close of business on
8 May 10, 1999. The exchange ratio for EDE at time of the merger announcement would
9 be 1.22 times (based on an offer price of \$29.50 per share for each EDE share and an
10 implied value for UCU stock of \$24.187). The average premium represented by the eight
11 transactions shown on Schedule 3 is 27.51 percent. The premium percentage offered by
12 UCU for EDE is substantially higher than the average and, in fact, is the highest shown in
13 Schedule 3. EDE's book value at December 31, 1999, as quoted in its 1999 Annual
14 Report, was \$13.44. Taking the implied value of \$29.50 divided by the book value at
15 December 31, 1999 of \$13.44, the market-to-book ratio for EDE is 2.19 times. This is
16 just slightly above the average market-to-book ratio for the sample group, which is 2.07
17 times.

18 **Merger Rationale**

19 Q. What reasons does EDE provide supporting the merger?

20 A. In testimony filed on behalf of EDE, its President and Chief Executive
21 Officer, Mr. Myron W. McKinney, provides the following reasons for supporting the
22 merger with UCU [McKinney Direct Testimony, page 4, lines 13 through 21]:

- 23 • The merger will result in a combined company that will be well positioned to
24 succeed in the increasingly competitive energy marketplace.

- 1 • The combined enterprise can more effectively participate in the increasingly
- 2 competitive market for the generation of power.
- 3 • Through the elimination of duplicate activities, there will be reductions in
- 4 operating and maintenance expenses.
- 5 • The inherent increase in scale and market diversification will provide
- 6 increased financial stability and strength, which could not be achieved without
- 7 the combination of the companies.
- 8

9 Q. Did EDE provide any additional reasons in support of the merger?

10 A. Yes. EDE's Board of Directors provided the following list of reasons for
11 the merger in EDE's Proxy Statement dated July 29, 1999:

- 12 • The merger consideration offers EDE stockholders an attractive
- 13 premium over the trading price of its common stock prior to the
- 14 announcement of the merger;
- 15 • As a result of the merger, EDE stockholders will most likely benefit
- 16 from increased dividends;
- 17 • EDE stockholders will benefit by participating in the combined
- 18 economic growth of the service territories of UCU and EDE, and from
- 19 the inherent increase in scale, the market diversification and the
- 20 resulting increased financial stability and strength of the combined
- 21 entity;
- 22 • There will likely be cost savings from a reduction in operating and
- 23 maintenance expenses and other factors;
- 24 • The combined enterprise can more effectively participate in the
- 25 increasingly competitive market for the generation of power; and
- 26 • UCU has significant non-utility operations and, as a larger financial
- 27 entity following the merger, should be able to manage and pursue
- 28 further non-utility diversification activities more efficiently and
- 29 effectively than Empire could as a stand-alone entity.
- 30

31 Q. What is the likelihood that these benefits will be realized?

32 A. In reading published material outside of this proceeding related to merger
33 savings, it appears that claimed synergies, in general, are rarely realized. (The
34 information reviewed was not exclusive to electric utilities or the utility industry.) It
35 should be remembered that UCU's management has an ultimate fiduciary responsibility
36 to the shareholders and will thus make decisions in the interest of creating maximum

1 shareholder wealth. Shareholder wealth is measured by the market value of the
2 shareholders' common stock.

3 Q. Has the Staff reviewed the merger savings and benefits alleged by the
4 Joint Applicants in their direct testimony and schedules?

5 A. Yes. Various Staff witnesses have reviewed component pieces of the
6 estimated merger savings amounts put forth by the Joint Applicants and addressed this
7 topic in their testimony. Overall, the Staff believes that some level of merger savings
8 should be produced by the merger above and beyond savings that could be produced by
9 UCU and SJLP on a stand-alone basis. However, the amount of incremental merger
10 savings cannot be accurately quantified prior to the merger, or accurately measured after
11 the merger takes place. Please refer to the testimony of Staff witnesses
12 Mark L. Oligschlaeger, Cary G. Featherstone and Janis E. Fischer for a complete
13 discussion of this matter.

14 Q. What has happened to UCU and EDE's respective stock price since the
15 announcement of this merger?

16 A. On May 10, 1999, UCU's stock price closed at \$24.187. On June 5, 2000,
17 UCU's stock price closed at \$20.250. This is a decrease of 16.28 percent. EDE's stock
18 price closed at \$21.25 on May 10, 1999. On June 5, 2000, EDE's stock closed at
19 \$23.687. This is an increase of 11.47 percent. One should keep in mind that UCU has
20 offered \$29.50 worth of UCU's common stock for each share of EDE's stock.

21 One factor contributing to the decline in UCU's stock price is the general
22 overall trend in the utilities market. According to Value Line's Selection & Opinion
23 dated April 14, 2000, the Dow Jones Averages for Utilities decreased from 311.55 at

1 April 30, 1999 to 292.65 at April 6, 2000 (18.90 points or 6.066 percent). In comparison,
2 the Dow Jones Industrial Averages increased from 10,789.04 at April 30, 1999 to
3 11,114.27 at April 6, 2000 (325.23 points or 3.014 percent). The Dow Jones Industrial
4 Average (DJIA) is based on the stock prices of 30 large, well-established industrial
5 corporations. The DJIA is calculated by adding the prices of the 30 stocks and dividing
6 by a number that reflects prior stock dividends and splits. A one-point movement in the
7 DJIA is equal to about a \$0.07 per share movement in the price of an average stock in the
8 DJIA [Source: Moyer, R. Charles, McGuigan, James R., Kretlow, William J.,
9 "Contemporary Financial Management," 1995].

10 In an informal transcribed interview between the Staff and UCU witness
11 Robert K. Green held on March 17, 2000, Mr. Green offered the following explanation
12 for the decline in UCU's stock price:

13 ...I think it's the old economy. I mean, if you look at airlines, chemicals,
14 any basic industry, they're trading at seven to nine times earnings. The
15 whole industry is down. Retail investors are moving to anything fiber and
16 dot-com and the new economy. And it's pulled all the values in the old
17 economy down.
18

19 In addition, I think when they look at utilities there is a fair degree of
20 uncertainty with regard to deregulation, so that makes them potentially
21 steer clear. And then I guess the third big factor I would highlight would
22 be a need on our part to continue to grow, because a larger market cap
23 company typically receives a higher multiple. That's pretty clear. Then
24 that will give us a lower cost of capital and benefit everybody.
25

26 So that's ... I mean, we've hit our earning targets for three years in a row.
27 If you go back over two years or three years and look at our performance
28 against the industry, we do somewhat better than the industry. But it's
29 where we are. There's no fundamental inside UtiliCorp, and I was just in
30 Wall Street kind of going through this with some of our investors and the
31 analyst community. And there's no fundamental inside the company
32 that's caused our stock to go down. It's the sector. It's the old economy.
33 It's utilities and deregulation. (Green Transcript, pp. 67-68)
34

History Of The UCU/EDE Merger

Q. When did UCU and EDE begin discussions regarding the possibility of a merger?

A. According to EDE's Proxy Statement dated July 29, 1999, preliminary discussions began in June 1998 around the time EDE signed an agreement to market natural gas in its service area for UCU's subsidiary, Aquila Energy.

Q. What transpired between the two Companies from August 1998 to May 7, 1999?

A. According to EDE witness Myron W. McKinney's testimony on page 5, lines 5-19,

Subsequent discussions to assess areas of common interest led to a meeting in the fall of 1998 where the possibility of a business combination was discussed.

Subsequent meetings between the companies, legal advisors, and Empire's financial advisors over the next few months resulted in a meeting in Kansas City, Missouri, where UtiliCorp presented its views on the business rationale for a combination of the two companies and its views on the valuation of Empire, accounting and tax treatments, forms of consideration, social issues, and advantages for both organizations.

Further meetings over the next several weeks resulted in the drafting of a proposed merger agreement that was received by Empire around March 15, 1999. Empire's Board of Directors was briefed periodically regarding the progress of the negotiations. The negotiation of the final agreement was completed in early May. On May 7, Empire's Board of Directors met to consider the merger offer.

Following a comprehensive discussion, along with presentations by Cahill Gordon (Empire's legal advisors) and Salomon Smith Barney (Empire's financial advisors), the Board agreed to adjourn until Monday, May 10.

Q. When did UCU and EDE first agree to merge?

1 A. UCU and EDE announced on May 11, 1999 that the two companies had
2 signed a definitive agreement to merge in a transaction that valued EDE's equity at
3 approximately \$850 million.

4 Q. Please briefly summarize the terms and conditions of the merger between
5 UCU and EDE.

6 A. EDE witness Myron W. McKinney provides the following explanation of
7 the terms and conditions of the merger in his direct testimony on page 7, lines 6 through
8 23 and page 8, lines 1 through 4:

9 In exchange for each share of Empire common stock, Empire shareholders
10 will have the option to receive either \$29.50 in cash or shares of UtiliCorp
11 common stock with an average trading price of \$29.50. The amount of
12 cash or value of stock received by Empire stockholders will increase or
13 decrease if the average trading price of UtiliCorp common stock is above
14 \$26.00 or below \$22.00 prior to the effective time of the merger.
15 Additionally, no more than 50% of the shares of Empire common stock
16 can be converted into cash and the total number of shares of UtiliCorp
17 common stock issued to Empire stockholders is limited to 19.9% of the
18 outstanding shares of UtiliCorp common stock. Therefore, if too many
19 Empire stockholders elect to receive cash or if too many Empire
20 stockholders are to receive stock and the limitations are exceeded, the
21 amount of cash or the number of shares of stock actually received by each
22 Empire stockholder may differ from the consideration elected.
23

24 **Financial Theory Of Utility Mergers**

25 Q. Please briefly explain the two types of accounting for business
26 combinations that are used to combine the resources of one utility company with the
27 resources of another utility company.

28 A. There are two basic methods that can be used to account for business
29 combinations: the purchase method or the pooling-of-interest method. In the purchase
30 method for regulated utilities, the total value paid or exchanged for the acquired firm's

1 assets in excess of net book value is recorded on the acquiring company's books in an
2 "Acquisition Adjustment" account.

3 To illustrate, suppose Firm A acquires Firm B, thereby creating a new
4 firm, AB. Suppose Firm A pays \$18 million in cash for Firm B. Also, suppose the
5 money is raised by borrowing the full amount. The net fixed assets in Firm B, which are
6 carried on the books at \$8 million with working capital worth \$2 million. Firm A thus
7 pays \$8 million in excess of the estimated market value of these net assets
8 [\$18 million - (\$8 million + \$2 million)]. This amount is considered an acquisition
9 adjustment.

10 Under the pooling-of-interests, the assets of the acquiring and acquired
11 firms are pooled, meaning that the balance sheets are just added together. To illustrate,
12 suppose that Firm A buys Firm B by giving B's shareholders \$18 million worth of
13 common stock. The new firm is then owned jointly by all the stockholders of the
14 previously separate firms. In the pooling-of-interests method, the acquired company's
15 assets are recorded on the acquiring company's books at their cost (net of depreciation)
16 when originally acquired. Thus, any difference between the purchase price and the book
17 value is not recorded on the acquiring company's books, and no acquisition adjustment
18 account is created.

19 Q. In this case, the proposed merger is a purchase transaction. Why do the
20 reasonableness of the purchase price and premium paid need to be addressed in this
21 proceeding?

1 A. A discussion of the proposed merger and its accounting as a purchase
2 transaction will be offered through rebuttal testimony presented by Staff witness
3 Charles R. Hyneman of the Accounting Department.

4 Q. In this particular merger application, is UCU seeking to recover the
5 acquisition adjustment in rates?

6 A. Yes. In direct testimony presented by UCU witness Robert K. Green, he
7 states the following on page 17, lines 1 through 4:

8 ...Utilicorp proposes the combination of a traditional regulatory lag
9 mechanism – a five year rate freeze for the Empire unit – with a
10 subsequent partial premium in rate base and cost of service treatment of
11 the amortization.
12

13 Q. What is the Staff's position with regard to the recovery of merger
14 premiums in utility rates?

15 A. A discussion of the Staff's position in regard to recovery of merger
16 premiums in utility rates is addressed in the rebuttal testimony presented by Staff
17 witnesses Cary G. Featherstone, Mark L. Oligschlaeger and Michael S. Proctor.

18 Q. What is a horizontal merger?

19 A. A horizontal merger occurs when one firm in a particular industry acquires
20 another firm in that same industry. The firms compete directly with each other in their
21 product markets. The two firms produce the same type of good or service.

22 Q. Please give an example of a horizontal merger.

23 A. UCU's merger with SJLP is an example of a horizontal merger.

24 Q. In contrast, what is a vertical merger?

1 A. A vertical merger occurs when one firm in a particular industry acquires a
2 supplier or customer.

3 Q. Please give an example of a vertical merger.

4 A. An example of a vertical merger would be an oil producer acquiring a
5 petrochemical firm that uses oil as a raw material.

6 Q. How do you define "synergies"?

7 A. Synergy is defined as a condition wherein the whole is greater than the
8 sum of its parts; in a synergistic merger, the post-merger value exceeds the sum of the
9 separate companies' pre-merger values. Synergy can arise through four primary sources:
10 (1) operating economies, which result from economies of scale in management,
11 marketing, production, or distribution; (2) financial economies, including lower
12 transaction costs and better coverage by security analysts; (3) differential efficiency,
13 which implies that the management of one firm is more efficient and that the weaker
14 firm's assets will be more productive after the merger; and (4) increased market power
15 due to reduced competition. [Source: Eugene F. Brigham and Joel F. Houston,
16 "Fundamentals of Financial Management," published by Harcourt Brace College
17 Publishers, 1998.]

18 Q. Is it important to make the comparison between the present value of cash
19 flow from synergies and the present value of cash flow required for transaction/transition
20 costs and the merger premium?

21 A. Yes. Evaluating the cash flows from alleged synergies when netted
22 against the amount of an acquisition premium and transaction/transition costs provide a
23 firm with the determination of whether there is any positive incremental gain associated

1 with the combination of the two firms through a merger or acquisition. When an
2 acquisition premium is involved, acquiring another firm only makes sense if there is
3 some specific reason to believe that the acquired firm will somehow be worth more in the
4 acquiring firm's possession than it is currently on a stand alone basis. For example,
5 suppose Firm A is contemplating acquiring Firm B. The acquisition will be beneficial if
6 the combined firm has value that is greater than the sum of the values of the separate
7 firms. A successful merger thus requires that the sum of the values of the whole exceed
8 the sum of the parts. The difference between the value of the combined firm and the sum
9 of the values of the firms as separate entities is the incremental net gain from the
10 acquisition. To determine the incremental value of an acquisition, the incremental cash
11 flows need to be known. These are the cash flows for the combined firm less what A and
12 B could generate separately. Therefore, the incremental cash flow for evaluating the
13 merger is the difference between the cash flow of the combined company and the sum of
14 the cash flows for the two companies considered separately.

15 **Surveillance Data Reporting**

16 Q. What is surveillance data reporting?

17 A. Surveillance data reporting is a tool that is used by the Commission Staff
18 to closely monitor the finances of public utilities for over-earnings.

19 Q. How is such financial information maintained and used by the
20 Commission Staff?

21 A. The Commission's Financial Analysis Department tracks and analyzes
22 financial information submitted by public utilities within the jurisdiction of the

1 Commission through the assistance of a Surveillance Reporting and Tracking System
2 (SURTS).

3 Q. What type of calculations does the Commission Staff perform using the
4 submitted financial information?

5 A. There are currently 24 calculations performed by the Commission's
6 Financial Analysis Department based on the financial information submitted by selected
7 public utilities within the jurisdiction of the Commission. Some of the key calculations
8 performed include: (1) return on 12-month ended rate base based on Missouri
9 jurisdictional operations; (2) return on average common equity; (3) pre-tax interest
10 coverage; (4) capital structure components as a percentage of total capital; and
11 (5) Missouri jurisdictional revenues (excess)/deficit.

12 Q. Does the Commission have authority to obtain surveillance data from the
13 public utilities within the jurisdiction of the Commission?

14 A. Yes, pursuant to Section 393.140(9) for electrical, gas, water and sewer
15 corporations and Section 392.210.1 for telecommunications companies.

16 Q. Do UCU and EDE currently submit surveillance data reports to the
17 Commission's Financial Analysis Department?

18 A. Yes. EDE began submitting surveillance data reports with the Commission
19 on or before November 30, 1990. EDE has been very prompt in the submission of these
20 reports.

21 UCU began submitting surveillance data reports to the Commission's
22 Financial Analysis Department on or before October 31, 1990 in conjunction with the
23 submission of surveillance data reports for its division, Missouri Public Service.

1 However, UCU ceased submitting total company information approximately
2 January 31, 1996.

3 Q. Has UCU's failure to submit total company financial data to the
4 Commission's Financial Analysis Department presented problems for the Staff?

5 A. Yes. The Staff believes that it is important to monitor the earnings of
6 UCU to ensure protection of Missouri ratepayers from any over-earnings by the
7 Company.

8 Q. Have past problems with the submission of surveillance data by UCU and
9 MoPUB been resolved satisfactorily at this time?

10 A. Yes. The Staff participated in a conference call with Mr. Gary Clemens of
11 UCU on December 3, 1999 to discuss the issues described above. Mr. Clemens agreed to
12 submit total company information for UCU in the form of a monthly balance sheet and
13 income statement. The Staff also discussed with Mr. Clemens the possibility of UCU
14 including items that normally are considered "rate case" adjustments during the normal
15 course of a rate case proceeding as part of the surveillance data reports. However, this
16 type of information has not been submitted to date.

17 Q. Are there other Missouri jurisdictional utilities that have failed to submit
18 surveillance data reports?

19 A. Yes. Several Missouri jurisdictional utilities are currently in arrears with
20 their surveillance data reports. However, these companies typically notify the Financial
21 Analysis Department Staff of any problems encountered with the submission of the
22 required information. Such problems include, but are not limited to (1) conversion of
23 computer records and (2) year-end audits.

1 Q. Do you believe UCU (total company basis), MPS (stand-alone basis) and
2 EDE (stand-alone basis) should be required to submit separate surveillance data reports
3 as a condition of approval for this merger?

4 A. It is Staff's belief that the Commission should order UCU to continue
5 submitting surveillance data reports on a total company basis. The Staff also believes the
6 Commission should order MPS (stand-alone basis) and EDE (stand-alone basis) to
7 continue submitting separate surveillance data reports regardless of the outcome of this
8 merger proceeding. If this merger is approved, it is UCU's intent to operate EDE as a
9 separate division of UCU and maintain separate rates for it. Should this merger be
10 approved by the Commission, the Staff believes MPS' and EDE's continued submission
11 of separate surveillance data reports will be necessary to ensure that the ratepayers of the
12 state of Missouri are protected from any over-earnings by MPS or EDE. It will also
13 provide the Staff with data helpful in making a preliminary assessment of the effects of
14 the pending merger of UCU and EDE.

15 Q. Does this conclude your rebuttal testimony?

16 A. Yes, it does.

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) EM-2000-369
Company With and Into UtiliCorp United Inc. and, In)
Connection Therewith, Certain Other Related Transactions,))
Filed.)

AFFIDAVIT OF ROBERTA A. MCKIDDY

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Roberta A. McKiddy, is of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 32 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.


Roberta A. McKiddy

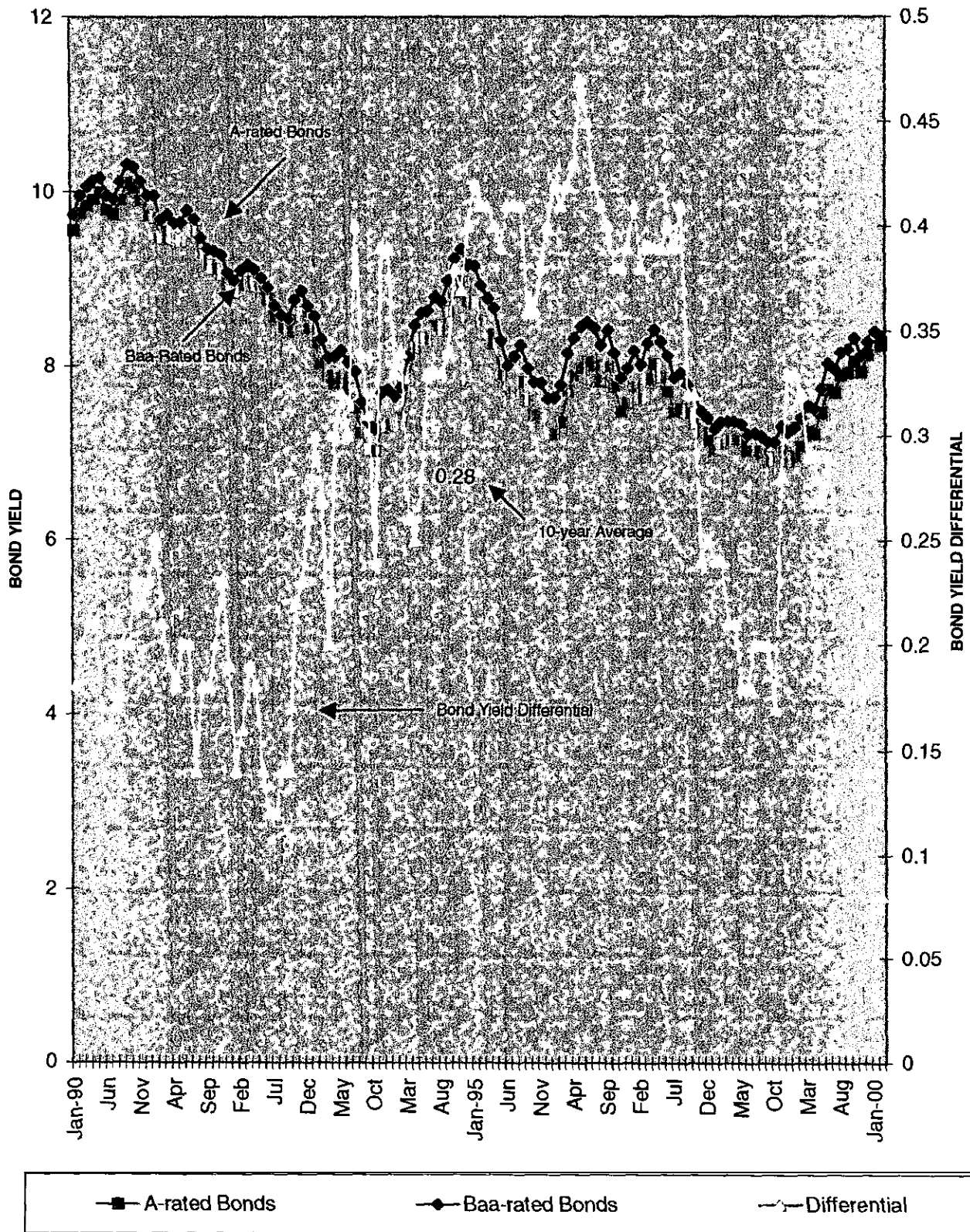
Subscribed and sworn to before me this 20th day of June 2000.



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

UTILICORP UNITED/THE EMPIRE DISTRICT ELECTRIC COMPANY
EM-2000-369

MOODY'S UTILITY BOND YIELDS



**Investor-Owned Utilities: Mergers and Major Acquisitions
For the Period 1987 - 1999**

Page 1

[Source: American Public Power Association (November 8, 1999), Goldman Sachs, CA Turner Utility Reports, Telescan Inc. and Electric Utility Weekly]

Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1999										
Nov-99	purchase	electric	Sierra Pacific Resources	Portland General Electric Co. (owned by Enron)		SRP		N.A.	N.A.	N.A.
3rd Qtr 2000 (11/4/99)	merger	gas	KeySpan Corporation	Eastern Enterprises (holding company for Boston Gas)		KSE		N.A.	N.A.	N.A.
1st Qtr 2000 (10/25/99)	acquisition		Private Investment Group (Includes Berkshire Hathaway)	MidAmerican Energy Holdings				N.A.	N.A.	N.A.
10/18/99	acquisition	electric	AES Corp.	CILCORP, Inc. (parent company of Central Illinois Light Co.)		AES		\$51.38	# \$7.28 (@9/30/99)	7.06 x
4th Qtr 2000 (10/13/99)	acquisition	electric	Consolidated Edison (parent co. of New York, Inc. and Orange & Rockland Utilities, Inc.)	Northeast Utilities (holding co. for Connecticut Light & Power, Public Service Company of New Hampshire and Western Massachusetts Electric Co.)		ED		N.A.	N.A.	N.A.
mid-2000 (10/5/99)	merger	gas	DTE Energy Co. (holding co. for Detroit Edison Co.)	MCN Energy Group Inc. (holding co. for Michigan Consolidated Gas Co.)		DTE MCN		N.A. N.A.	N.A. N.A.	N.A. N.A.
4th Qtr 2000 (9/23/99)	merger		Unicom Corp. (holding company for Commonwealth Energy Co.)	PECO Energy Co.				N.A.	N.A.	N.A.
1/4/00 (9/9/99)	purchase		Allegheny Energy Inc.	West Virginia Power (owned by UtiliCorp United)		AYE		\$26.25	* \$15.36 (@9/30/99)	1.71 x
8/24/99	merger	electric	BEC Energy (holding co. for Boston Edison Co.)	Commonwealth Energy System (holding co. for three electric utilities)	NSTAR	BOSEO NST		\$75.25	* \$22.29 (@12/31/98)	3.38 x
Late 2000 (8/23/99)	acquisition		Carolina Power & Light Co.	Florida Progress Corp. (parent of Florida Power Corp.)		CPD FPC		N.A. N.A.	N.A. N.A.	N.A. N.A.
7/28/99	merger	electric	Sierra Pacific Resources (holding co. for Sierra Pacific Power Co.) (subsidiary of Sierra Pacific Resources)	Nevada Power Co. (subsidiary of Sierra Pacific Resources)		SRP		\$37.81	# \$19.46 (@9/30/99)	1.94 x
7/15/99	acquisition	gas	Carolina Power & Light Co.	North Carolina Natural Gas Corp.		CPL		\$43.00	# \$21.37 (@9/30/99)	2.01 x
7/9/99	acquisition	diversified	Consolidated Edison Inc. (parent of Consolidated Edison of New York)	Orange & Rockland Utilities Inc.		ED		\$44.88	# \$27.66 (@9/30/99)	1.62 x
2nd Qtr 2000 (6/30/99)	acquisition	electric/gas	Energy East Corp. (holding co. for New York State Elec. & Gas Corp.)	CTG Resources Inc. (parent of Connecticut Natural Gas Corp, a gas distributor)		CTG		N.A.	N.A.	N.A.
2nd Qtr 2000 (6/28/99)	acquisition	electric/gas	Wisconsin Energy Corp. (holding co. for Wisconsin Electric Power Co.)	Wicor Inc. (holding co. for Wisconsin Gas Co.)		WEC WIC		N.A. N.A.	N.A. N.A.	N.A. N.A.
3/1/00 (6/15/99)	acquisition	gas	Northeast Utilities	Yankee Energy System Inc. (a gas distribution utility in Connecticut)		NU YES		\$19.38 \$44.38	* \$15.92 * N.A.	1.22 x N.A.
mid-2000 (6/15/99)	acquisition	electric/gas	Energy East Corp. (holding co. for New York State Elec. & Gas Corp.)	CMP Group (holding co. for Central Main Power co.)		NEG CTP		N.A. N.A.	N.A. N.A.	N.A. N.A.
1st Qtr 2000 (6/14/99)	merger	electric/gas	SIGCORP (parent of Southern Indiana Gas & Electric)	Indiana Energy Inc. (parent of Indiana Gas Co., a natural gas distribution company)	Vectren Corp.	SIG IEI		N.A. N.A.	N.A. N.A.	N.A. N.A.

Created March 27, 2000

* Annual Report/Company Profile # Telescan Inc.

* Electric Utility Week

Document Name: Mergers_1987-1999_Ratios

**Investor-Owned Utilities: Mergers and Major Acquisitions
For the Period 1987 - 1999**

Page 2

[Source: American Public Power Association (November 8, 1999), Goldman Sachs, CA Turner Utility Reports, Telescan Inc. and Electric Utility Weekly]

Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1999 - Cont.										
2/2/00 (6/14/99)	merger	gas	Dynegy, Inc. (an energy marketing & natural gas processing and transportation company)	Illinova Corp. (parent of Illinois Power)		DYN Illinova		\$46.75 \$47.50	* *	N.A. \$7.90
Jun-99	acquisition	gas	NISource Inc. (holding co. for Northern Indiana Public Service Co.)	Columbia Energy Group (a natural gas distribution & pipeline company)		NI		N.A.	N.A.	N.A.
May-99	acquisition	electric/gas	OGE Energy Corp. (parent of Oklahoma Gas & Electric Company)	Transok LLC (a gatherer, processor, & transporter of natural gas and a subsidiary of Enogex Inc.)		OGE		N.A.	N.A.	N.A.
1st Qtr 2000 (5/25/99)	acquisition	electric	S. W. Acquisition Corp. (a private investor group)	TNP Enterprises (holding co. for Texas-New Mexico Power Company)		TNP		N.A.	N.A.	N.A.
2nd Half 2000 (5/11/99)	merger	electric	UtiliCorp United Inc.	Empire District Electric		UCU EDE		N.A. N.A.	N.A. N.A.	N.A. N.A.
2/1/00 (4/23/99)	acquisition	electric/gas	Energy East Corp. (holding company for New York Electric & Gas Corp.)	Connecticut Energy Corp. (holding company for Southern Connecticut Gas Co., a gas distribution company)		NEG		\$22.88	#	\$13.57
Mar-99	purchase	gas	Duke Energy	UP Fuels (a natural gas processing & marketing unit of Union Pacific Resources)		DUK		N.A.	N.A.	N.A.
Mar-99	purchase	gas	CMS Energy Corp. (parent of Consumers Energy Co.)	Panhandle Eastern Pipe Line Co. & Trunkline Gas Co. (owned by Duke Energy)		CMS		N.A.	N.A.	N.A.
2nd Qtr 2000 (3/25/99)	merger	diversified	Northern State Power Co.	New Century Energies (a registered holding company that owns Public Service Company of Colorado and Southwestern Public Service Company)	Xcel Energy	NSP NCE		N.A. N.A.	N.A. N.A.	N.A. N.A.
3/12/99	merger		MidAmerican Energy Holdings Co.	CalEnergy Company Inc. (an independent power producer)	Mid-American Energy	MEC		\$27.06	#	\$16.59
mid-2000 (3/5/99)	merger	electric/gas	UtiliCorp United Inc.	St. Joseph Light & Power Co.		UCU SAJ		N.A. N.A.	N.A. N.A.	N.A. N.A.
1/28/00 (2/99)	acquisition	gas	Dominion Resources Inc. (holding company for Virginia Power)	Consolidated Natural Gas Co. (a registered holding co. that has natural gas distribution, pipeline, production & mktg. subsidiaries)		D		\$40.63	#	\$25.51
Feb-99	acquisition	electric/gas	Sempra Energy (parent of San Diego Gas & Electric)	K N Energy, Inc. (a natural gas pipeline & storage company)		SRE KNP		N.A. N.A.	N.A. N.A.	N.A. N.A.
Feb-00	acquisition	gas	NIPSCO Industries (holding co. for Northern Indiana Public Service Co.)	TPC Corporation (a natural gas gathering, processing & marketing company acquired by PacifiCorp through its subsidiary, PacifiCorp Holdings Inc. 4/97)		NI (NISource)		N.A.	N.A.	N.A.
2/1/00 (2/10/99)	acquisition	electric/gas	SCANA Corp. (holding company for South Carolina Electric & Gas Co.)	Public Service Company of North Carolina (a gas distribution utility)		SCG PGS		\$27.06 \$32.50	* *	\$18.56 N.A.
2/12/99	merger	gas	NIPSCO Industries (holding co. for Northern Indiana Public Service Co.)	Bay State Gas Company (a gas distribution, marketing & energy services co.)		NI (NISource)		\$26.19	#	\$10.91

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[Source: American Public Power Association (November 8, 1999), Goldman Sachs, CA Turner Utility Reports, Telescan Inc. and Electric Utility Weekly]

Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1999 - Cont.										
1st Qtr 2000 (2/1/99)	acquisition	electric	New England Electric System (registered holding co. that owns 4 New England distribution utilities)	Eastern Utilities Associates (registered holding co. that owns 3 New England distribution utilities)		NES EUA		N.A. N.A.	N.A. N.A.	N.A. N.A.
1998										
Dec-98	acquisition	electric/gas	American Electric Power Company	Equitable Resources Inc. (a natural gas gathering, processing and storage co.)		AEP		N.A.	N.A.	N.A.
Oct-98	acquisition	gas	CMS Energy Corp. (parent of Consumers Energy Co.)	Continental Natural Gas Inc. (a gas gathering, processing & marketing co.)		CMS		N.A.	N.A.	N.A.
Sep-98	acquisition	diversified	WPS Resources Corp. (holding company for Wisconsin Public Service Corp.)	Upper Peninsula Energy Corp. (holding company for Upper Peninsula Power Co.)		WPS		N.A.	N.A.	N.A.
Aug-98	acquisition	electric/gas	PP&L Resources (parent of Pennsylvania Power & Light Co.)	Penn Fuel Gas, Inc. (a gas distribution company)		PPL		N.A.	N.A.	N.A.
6/26/98	merger	electric/gas	Enova Corp. (parent of San Diego Gas & Electric Co.)	Pacific Enterprises (parent of Southern California Gas Co.)	Sempra Energy		1.50x	\$40.04	\$15.91	2.62 x
May-98	acquisition	electric	Wisconsin Energy Corp. (parent of Wisconsin Electric Power Co.)	Eselco Inc. (holding company for Edison Sault Electric Co.)				N.A.	N.A.	N.A.
5/28/98	merger		Long Island Lighting Co.	KeySpan Energy (parent of Brooklyn Union Gas Co.)	MarketSpan Corp.		.88x	\$29.65	\$20.89	1.42 x
May-98	acquisition		Long Island Power Authority (LIPA) (LIPA was created in 1986 as a political subdivision of the state of New York.)	Long Island Lighting Company				N.A.	N.A.	N.A.
5/4/98	merger	electric/gas	LG&E Energy Corp. (parent of Louisville Gas & Electric Co.)	KU Energy Corp. (parent of Kentucky Utilities Co.)			1.67x	\$44.57	\$17.29	2.58 x
3/21/98	merger		WPL Holdings Inc. (holding company for Wisconsin Power & Light Co.)	IES Industries Inc. and Interstate Power Co. (holding company for IES Utilities Inc.)	Alliant Energy		1.14x 1.11x	\$39.40 \$38.36	\$20.22 \$20.17	1.95 x 1.9 x
1997										
3/1/98	merger	electric	Atlantic Energy Inc. (parent of Atlantic City Electric Co.)	Delmarva Power and Light Co.	Conectiv		(h)	\$20.41(i)	\$15.38	1.33 x
12/31/97	merger	electric	Union Electric	CIPSCO Inc. (parent of Central Illinois Public Service Co.)	Ameren Corp.		1.03x	\$44.55	\$18.92	2.35 x
1st Qtr 2000 (12/22/97)	acquisition	electric	American Electric Power Company, Inc. (each company is a registered holding company that owns electric utility subsidiaries.)	Central and South West Corporation (each company is a registered holding company that owns electric utility subsidiaries.)		AEP CSR		N.A. N.A.	N.A. N.A.	N.A. N.A.
11/10/97	merger	electric	Ohio Edison Co.	Centerior Energy Corp. (parent of The Toledo Edison Co. and The Cleveland Electric Illuminating Co.)	FirstEnergy Corp.		.53x	\$13.55	\$12.97	1.04 x
8/1/97	merger		Public Service Company of Colorado	Southwestern Public Service Co.	New Century Energies		0.95x	\$39.97	\$16.83	2.34 x

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Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market to-Book
1997 - Con't										
8/6/97	acquisition	gas	Houston Industries Inc. (holding company for Houston Lighting & Power Co.)	NorAm Energy Corp. (a natural gas distribution and transmission company)			(f)	\$16.31 (g)	\$5.83	2.60 x
8/5/97	acquisition	electric/gas	Texas Utilities Company (holding company for Texas Utilities Electric Co. and Southwestern Electric Service Co.)	ENSERCH Corp. (a natural gas company)			.23x	\$7.78	(\$1.00)	NM
Jul-97	acquisition	electric/gas	PG&E Corp.	Valero Energy Corp.				N.A.	N.A.	N.A.
Jul-97	acquisition		CalEnergy Company Inc.	New York State Electric & Gas Corp.				N.A.	N.A.	N.A.
7/1/97	acquisition		Enron Corp.	Portland General Corp. (holding company for Portland General Electric)			.98x	\$48.83	\$15.57	3.14 x
Jun-97	acquisition	electric/gas	TECO Energy (parent of Tampa Electric Co.)	Lykes Energy Inc. and West Florida Gas Inc. (Lykes Energy Inc. is privately held and owns Florida's largest natural gas retail distribution co., Peoples Gas System.)				N.A.	N.A.	N.A.
6/18/97	acquisition	gas	Duke Power Co.	PanEnergy Corp. (a natural gas pipeline company)	Duke Energy Corporation		1.04x	\$48.83	\$15.57	3.14 x
Apr-97	merger		DQE (parent of Duquesne Light Co.)	Allegheny Energy Inc. (a registered holding company)				N.A.	N.A.	N.A.
Mar-97	acquisition	water	NIPSCO Industries Inc. (parent of Northern Indiana Public Service Co.)	IWC Resources Corp. (a water utility and energy services provider)				N.A.	N.A.	N.A.
2/10/97	merger	electric/gas	Puget Sound Power & Light Co.	Washington Energy Co. (a gas utility)	Puget Sound Energy, Inc.		.86x	\$22.04	\$10.90	2.02 x
Jan-97	acquisition	electric/gas	PG&E Corp.	Teco Pipeline Inc. (a gas processor and transporter)				N.A.	N.A.	N.A.
1996										
Dec-96	acquisition	electric/gas	PG&E Corp.	Energy Source Inc. (a gas marketer)				N.A.	N.A.	N.A.
Aug-96	acquisition		MidAmerican Energy Co.	IES Industries Inc. (parent of IES Utilities Inc.)				N.A.	N.A.	N.A.
Apr-96	merger	electric/gas	Western Resources Inc.	Kansas City Power & Light Company (NOTE: merger cancelled by KCPL)	Westar Energy			N.A.	N.A.	N.A.
Mar-96	acquisition	electric	New England Electric System (a registered holding company)	Nantucket Electric Co.				N.A.	N.A.	N.A.
Jan-96	merger	electric	UtiliCorp United Inc.	Kansas City Power & Light Company	Maxim Energies Inc.			N.A.	N.A.	N.A.
1995										
Sep-95	merger	electric/gas	Baltimore Gas & Electric Co.	Potomac Electric Power Co.	Constellation Energy Corp.			N.A.	N.A.	N.A.
Sep-95	purchase		Southwestern Public Service Co.	Texas-New Mexico Power Co.				N.A.	N.A.	N.A.

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Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(e)	(b) Book Value	Market-to-Book
1995 - Cont.										
Aug-95	acquisition		PECO Energy Co.	PP&L Resources Inc. (parent of Pennsylvania Power & Light Co.)				N.A.	N.A.	N.A.
6/30/95	merger	electric/gas	Midwest Resources Inc. (holding company for Midwest Power Systems Inc.)	Iowa-Illinois Gas & Electric Co.	MidAmerican Energy Co.		1.47x	\$20.58	\$17.01	1.21 x
Jun-95	purchase		Delmarva Power & Light Co.	Conowingo Power Co. (owned by PECO Energy Co.)				N.A.	N.A.	N.A.
May-95	acquisition	electric/gas	LG&E Energy Corp. (parent of Louisville Gas & Electric Co.)	Hudson Corporation (a gas marketing, transmission & processing company)				N.A.	N.A.	N.A.
May-95	merger	electric	Northern States Power Co.	Wisconsin Energy Corp. (parent of Wisconsin Electric Power Co.)	Primergy Corp.			N.A.	N.A.	N.A.
1994										
Dec-94	acquisition		Washington Water Power Co.	Sandpoint district of Idaho (owned by PacifiCorp)				N.A.	N.A.	N.A.
10/24/94	merger	electric/gas	PSI Resources Inc. (parent of PSI Energy Inc.)	Cincinnati Gas & Electric Co.	CINergy Corp.		1.02x	\$23.40	\$12.25	1.91 x
Jun-94	merger		Sierra Pacific Resources (holding company for Sierra Pacific Power Co.)	Washington Water Power Co.	Altus Corp.			N.A.	N.A.	N.A.
1993										
Dec-93	merger	electric/gas	Iowa Electric Light & Power Co. (operating subsidiary of IES Industries Inc.)	Iowa Southern Utilities Co. (operating subsidiary of IES Industries Inc.)	IES Utilities Inc.			N.A.	N.A.	N.A.
12/31/93	acquisition		Entergy Corp. (registered holding company)	Gulf States Utilities Co.			(f)	\$20.00	\$16.84	1.19 x
Jul-93	acquisition	electric	Texas Utilities Co. (parent of Texas Utilities Electric Co.)	Southwestern Electric Service Co.				N.A.	N.A.	N.A.
May-93	merger	electric	Central and South West Corp. (registered holding company)	El Paso Electric Co.				N.A.	N.A.	N.A.
Mar-93	acquisition		IPALCO Enterprises (parent of Indianapolis Power & Light Co.)	PSI Resources Inc. (parent of PSI Energy Inc.)				N.A.	N.A.	N.A.
1992										
Dec-92	acquisition	electric/gas	Iowa Electric Light & Power Co.	Iowa distribution system & portion of transmission system from Union Electric				N.A.	N.A.	N.A.
Dec-92	purchase	electric/gas	Central Illinois Public Service Co.	NW Illinois distribution property of Union Electric Co.				N.A.	N.A.	N.A.
Jul-92	merger		Iowa Public Service Co. (operating subsidiary of Midwest Resources Inc.)	Iowa Power Inc. (operating subsidiary of Midwest Resources Inc.)	Midwest Power Systems Inc.			N.A.	N.A.	N.A.
6/5/92	acquisition		Northeast Utilities (registered holding company)	Public Service Co. of New Hampshire			(e)	\$4.13	\$7.23	0.57 x
4/28/92	acquisition	electric/gas	UNITIL Corp.	Fitchburg Gas & Electric Light Co.			1.11x	\$39.82	\$24.56	1.62 x

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Closing Date (Announced)	Type of Transaction	Industry	Acquiring Company	Target Company	Resulting Company Name	Ticker Symbol	Exchange Ratio	(a) Implied Value(s)	(b) Book Value	Market-to-Book
1992 - Cont.										
3/31/92	acquisition	electric/gas	Kansas Power & Light Co.	Kansas Gas & Electric Company	Western Resources		.85x	\$33.59 (d)	\$19.27	1.74 x
Mar-92	purchase	electric/gas	Union Electric Co.	Missouri distribution property of Arkansas Power & Light Co.				N.A.	N.A.	N.A.
1991										
Sep-91	acquisition		UtiliCorp United	Centel Corp.				N.A.	N.A.	N.A.
7/1/91	acquisition	electric	IE Industries Inc. (holding co. for Iowa Electric Light & Power Co.)	Iowa Southern Utilities co.	IES Industries Inc.		1.60x	\$41.60	\$24.48	1.70 x
1990										
11/7/90	merger		Midwest Energy Co. (parent of Iowa Public Service Co.)	Iowa Resources Inc. (parent of Iowa Power Inc. formerly Iowa Power & Light Co.)	Midwest Resources Inc.		(c)	NM	\$16.03	NM
Apr-90	acquisition	electric	Eastern Utilities Associates (registered holding company)	Newport Electric Corp.				N.A.	N.A.	N.A.
1989										
1/9/89	merger	electric	PacifiCorp	Utah Power & Light Co.			.91x	\$32.46	\$18.82	1.72 x
1988										
Nov-88	acquisition		Duke Power Co.	Nantahala Power & Light Co.				N.A.	N.A.	N.A.
3/3/88	acquisition	electric	The Southern Company (registered holding company)	Savannah Electric & Power Co.			1.05x	\$24.54	\$12.53	1.96 x
1987										
Mar-87	acquisition	electric	UtiliCorp United	West Virginia Power (parent of Virginia Electric & Power Co.)				N.A.	N.A.	N.A.

(a) For stock-based transactions (except Pinnacle West), this is approximately the trading price on the date that the merger closed.

(b) Book values are as of the date of merger announcement.

(c) Iowa Resources shareholders received 1.235 shares of Midwest Resources. Midwest Energy shareholders received 1.08 shares of Midwest Resources.

(d) In addition to 0.8512 shares of Kansas Power & Light, Kansas Gas & Electric shareholders received \$11.78 in cash per share.

(e) Consists of (1) 0.0988 shares of new Public Service Co. of New Hampshire (PSNH), including stock dividends, which Northeast Utilities (NU) purchased at \$20 per share (equivalent to \$1.98 per original PSNH share); (2) \$1.94 worth of notes per original share, including accrued interest; (3) 0.0695 warrants to purchase NU stock. Each warrant was valued at about \$3, implying a value of about \$0.21 per original PSNH share.

(f) Combination of cash and stock

(g) Those NorAm Energy shareholders electing stock received \$16.00 worth of Houston Industries, Inc. stock for each of their shares. Those NorAm Energy shareholders electing to receive cash received \$16.3051 per share. Accrued interest accounted for the differences between the cash and stock payments.

(h) Each Atlantic Energy shareholder received 0.75 shares of Conectiv Class A stock.

(i) Based on the opening prices of Conectiv and Conectiv Class A stock.

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Date Announced	Acquiring Company	Target Company	Ticker Symbol	Exchange	Implied Value(s)	Premium	Book Value	Market- to-Book
5/11/99	UtiliCorp United Inc.	The Empire Distric Electric Company	EDE	NM	\$29.50	33.82%	13.44	2.19 x
3/5/99	UtiliCorp United Inc.	St. Joseph Light & Power Company (j)	SAJ	NM	\$23.00	35.30%	\$11.76	1.96 x
8/12/98	CalEnergy Company, Inc.	MidAmerican Energy Holdings Company (i)	MEC	NM	\$27.16	35.80%	\$13.94	1.95 x
5/8/98	Consolidated Edison, Inc. (h)	Orange and Rockland Utilities Inc.		NM	\$58.50	38.50%	\$27.69	2.10 x
4/30/98	Nevada Power Company	Sierra Pacific Resources (g)	SRP	(g)	\$37.55	9.00%	\$20.49	1.83 x
12/22/97	American Electric Power Co., Inc. (f)	Central and South West Corporation		0.60	\$31.20	20.00%	\$17.11	1.82 x
12/18/97	NIPSCO Industries, Inc. (e)	Bay State Gas Company		(e)	\$40.00	26.50%	\$17.35	2.31 x
6/10/97	WPS Resources Corporation (d)	Upper Peninsula Energy Corporation		0.90	\$24.64	35.00%	\$11.11	2.22 x
4/7/97	DQE Inc. (NOTE: offer has been withdrawn by DQE)	Allegheny Energy inc. (c)	AYE	1.12	\$33.32	22.80%	\$18.01	1.85 x
2/7/97	Western Resources Inc. (a)	Kansas City Power and Light Company	KLT	(b)	\$34.50	12.40%	\$14.19	2.43 x
3/18/98		(Note: merger has been cancelled by KCPL)						
Average						27.51%		2.07 X

(a) On February 7, 1997, Western Resources (WR) and Kansas City Power & Light Company (KLT) reached a merger agreement. On December 19, 1997, the companies jointly announced that WR wanted to renegotiate the terms of the transaction and a revised agreement was introduced on March 18, 1998. Under the new merger agreement, WR and KLT each would contribute its electric utility business to a new entity, Westar Energy. The exchange of KLT to WR shares was subject to a price collar, with a \$23.50 of value offered if WR shares remain in the \$38.38 - \$47.00 price range over the 20-day trading period prior to closing. Under the collar, the minimum and maximum values of WR stock exchanged per KLT share would be \$21.50 and \$26.25, respectively. The merger required the approvals of the Kansas Corporation Commission, the Missouri Public Service Commission, the Nuclear Regulatory Commission, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, the Internal Revenue Service, and the Department of Justice. The merger was expected to close by mid-1999. However, KCPL cancelled the merger on January 3, 2000 citing falling stock prices for both Western and KCPL as well as problems with Western's Protection One home security company and Oneok, a natural gas producer.

(b) Combination of cash and stock.

(c) On April 7, 1997, Allegheny Energy, Inc. (AYE) and DQE Inc. (DQE) announced an agreement to merge. Each DQE share would be exchanged for 1.12 shares of Allegheny Energy while each AYE share would receive one share of Allegheny Energy. The merger was expected to be a tax-free transaction and would be accounted for under the pooling of interest method. The merger was subject to the approval of a simple majority of AYE and DQE shareholders, the Pennsylvania Public Utility Commission, the Maryland Public Service Commission, FERC, the Securities and Exchange Commission, and the Nuclear Regulatory Commission. Although the merger initially was expected to close in mid-1998, DQE filed notice of its intent to terminate the merger, preferably with the consent of AYE. The merger, however, was terminated without AYE's consent. Legal issues are pending.

(d) On July 10, 1997, WPS Resources Corp. (WPS) announced that it would acquire Upper Peninsula Energy Corp. (UPEN) in a tax-free, stock-for-stock transaction. Each share of UPEN common stock will be exchanged for 0.90 shares of WPS common stock. The transaction is subject to the approvals of UPEN shareholders, the SEC, Hart-Scott-Rodino and the FERC. The merger is expected to close in the second half of 1998.

- (e) On December 18, 1997, NIPSCO Industries Inc. announced that it had entered into a definitive merger agreement to acquire Bay State Gas Company (BGC) in a stock and cash transaction worth \$780 million in equity and \$240 million in debt and preferred stock. The merger will occur as a purchase accounting transaction that will include \$250 million in goodwill to be amortized over 40 years. NI will acquire BGC stock at \$40 per share and BGC shareholders will have the option to receive up to 50% of the purchase price in cash. The \$40 purchase price represents a 35% premium to the average price over the past 30 trading days. Completion of the merger is targeted for late 1998 after approval of BGC's common shareholders, the Federal Energy Regulatory Commission, Securities and Exchange Commission, and state regulators in Maine, Massachusetts, and New Hampshire.
- (f) On December 22, 1997, American Electric Power Company (AEP) and Central and South West Corporation (CSR) announced an agreement to merge into American Electric Power Company Inc. Each CSR would be exchanged for 0.60 shares of AEP. The merger is expected to be a tax-free transaction and will be accounted for under the pooling of interest method. The merger will be subject to the approval of a majority of outstanding shares of both companies and the regulatory approvals of the Arkansas Public Service Commission, the Louisiana Public Service Commission, the Texas Public Utility Commission, the Oklahoma Corporation Commission, the Securities and Exchange Commission, the FERC, and the Nuclear Regulatory Commission. Closing is expected within 12-18 months.
- (g) On April 30, 1998, Nevada Power Company (NVP) and Sierra Pacific Resources (SRP) announced an agreement to merge into Sierra Pacific Resources Corporation. Under the agreement, Nevada Power shareholders will have the option of receiving 1.00 shares of the new company's stock or \$26.00 cash per Nevada Power share. Sierra Pacific Resources shareholders have the option of receiving 1.44 shares of the new corporation's stock or \$37.55 cash per Sierra Pacific Resources share. Following the transaction, each company's shareholders will own 50% of the new company. The merger is expected to be a taxable transaction and will be accounted for under the purchase method. The transaction is subject to the approvals of a simple majority of the outstanding shares of both companies, the Public Utilities Commission of Nevada, the Securities and Exchange Commission, and the Federal Energy Regulatory Commission. The companies expect to close the merger by April 1999.
- (h) On May 11, 1998, Consolidated Edison, Inc. (ED) announced an agreement to acquire Orange and Rockland Utilities, Inc. Under the terms of the agreement, Consolidated Edison will pay \$58.50 for each Orange and Rockland share. The transaction will be taxable, accounted for under the purchase method, and subject to the approvals of majority of Orange and Rockland shareholders, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, and the public utility commissions of New York, New Jersey, and Pennsylvania. The companies expect to close the transaction by May 1999.
- (i) On August 12, 1998, CalEnergy Company (CE) announced an agreement to acquire MidAmerican Energy Holdings Company. Under the terms of the agreement, CalEnergy will pay \$27.15 per MidAmerican Energy share. The transaction will be taxable, accounted for under the purchase method, and subject to the approvals of a majority of both companies shareholders, the Federal Energy Regulatory Commission, the Securities and Exchange Commission, and the Iowa Utilities Board. The companies expect to close the transaction in first-quarter 1999.
- (j) On March 4, 1999, St. Joseph Light & Power Company's (SAJ) stock closed at \$16.875. On March 5, 1999, UtilCorp United Inc. announced it would merge with SJLP. Under the terms of the agreement, UCU will pay \$23.00 per SAJ share. The companies expect to close the transaction in mid-2000.

NM - not meaningful

UTILICORP UNITED INC./THE EMPIRE DISTRICT ELECTRIC COMPANY
BACKGROUND OF THE MERGER TRANSACTION
CASE NO. EM-2000-369

Date	Description
August 1998	Mr. John R. Baker, a member of the board of directors of UtiliCorp, and Mr. Myron W. McKinney, President and Chief Executive Officer of Empire, met to continue to assess areas of common interest between the two companies.
10/21/98	Subsequent telephone conversations between Mr. Baker and Mr. McKinney led to a meeting in Kansas City on October 21, 1998, where the possibility of a business combination was discussed.
10/98 - 1/99	Mr. Baker and Mr. McKinney held several telephone conversations to continue discussions regarding a possible business combination.
1/14/99	Representatives of Empire and UtiliCorp met at UtiliCorp's headquarters in Kansas City. At this meeting, UtiliCorp presented its views on the business rationale for a combination of the two companies and its views on the valuation of Empire, alternative forms of consideration, accounting and tax treatments associated with those alternative forms of consideration, social issues and advantages for both organizations.
1/27/99	Mr. McKinney met with Mr. Baker, Mr. Green, Mr. Howell and Mr. James G. Miller, Senior Vice President of UtiliCorp, in Kansas City to respond to certain aspects of the issues presented at the January 14 meeting.
2/3/99	Messrs. Howell and Miller called Mr. McKinney on February 3, 1999 to further discuss issues raised, including valuation, at the January 27 meeting. Messrs. Howell and Miller reported that UtiliCorp was willing to continue discussions with Empire on the terms previously discussed with a period of exclusivity.
2/4/99	Empire's regular quarterly board meeting was scheduled for February 4, 1999, and Mr. McKinney requested that UtiliCorp respond prior to that meeting. On February 4, 1999, the Empire board received a report from Empire management on the discussions to date with representatives of UtiliCorp. Empire management recommended to the board that discussions with UtiliCorp continue on an exclusive basis.
2/11/99	Mr. McKinney met with Mr. Baker, Mr. Howell and Mr. Miller in Kansas City to discuss an appropriate period for continuing negotiations on an exclusive basis, as well as scheduling for due diligence and for preparation of a merger agreement.
3/10/99	A meeting at which Empire had an opportunity to review UtiliCorp's business was held at UtiliCorp's headquarters in Kansas City on March 10, 1999.
3/15/99	The companies commenced negotiating a merger agreement.
3/16 - 3/22/99	Legal advisors for both UtiliCorp and Empire commenced legal due diligence investigations and the companies' other representatives and advisors continued due diligence investigations.
3/29/99	The Empire board was briefed at a telephonic meeting regarding the status of negotiations concerning the merger and the draft merger agreement.
4/1/99	Meeting held in Kansas City to continue negotiating the terms of the merger.
4/7/99	Meeting held in Kansas City to continue negotiating the terms of the merger.
4/22/99	The Empire board of directors was updated regarding the merger negotiations at its quarterly meeting.
5/7/99	The Empire board of directors met in St. Louis, Missouri to consider the proposed merger. Mr. McKinney informed the board that an offer to merge Empire into UtiliCorp had been received. Salomon Smith Barney made a presentation to the Empire board concerning Salomon Smith Barney's evaluation of the fairness of the consideration to be received by Empire's stockholders in the proposed merger. Following a comprehensive and detailed discussion of various matters including the merger agreement, the Empire board's duties and Salomon Smith Barney's presentation.
5/10/99	The Empire board met to continue its consideration of the proposed merger. After reviewing matters considered at this and prior meetings and considering the fairness opinion, as well as management, the board approved, by a unanimous vote, the merger agreement and the merger of Empire and UtiliCorp.
5/11/99	The merger agreement was executed and delivered by both companies following the meeting of the Empire board of directors on May 10, 1999.
5/11/99	The merger was publicly announced.

Source: The Empire District Electric Proxy Statement dated July 29, 1999