

Exhibit No.:  
Issue(s):  
Witness/Type of Exhibit:  
Sponsoring Party:  
Case No.:

Corporate Allocations  
Dittmer/Rebuttal  
Public Counsel  
ER-2001-672

## **REBUTTAL TESTIMONY**

**OF**

**JAMES DITTMER**

**FILED<sup>3</sup>**  
JAN 08 2002  
Missouri Public  
Service Commission

Submitted on Behalf of  
the Office of the Public Counsel

**UTILICORP UNITED, INC.**

**Case No. ER-2001-672**

January 8, 2002

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the tariff filing of Missouri )  
Public Service ("MPS") a division of )  
UtiliCorp United Inc., (UtiliCorp") to )  
implement a general rate increase for )  
retail electric service provided to customers )  
in the Missouri service area of MPS )

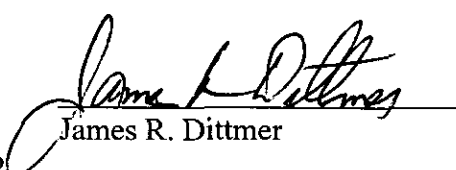
Case No. ER-2001-672

**AFFIDAVIT OF JAMES R. DITTMER**

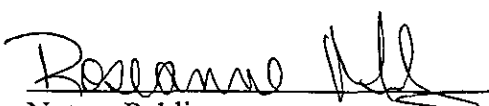
STATE OF Missouri )  
 ) SS  
COUNTY OF JACKSON )

James R. Dittmer, of lawful age and being first duly sworn, deposes and states:

- 1) My name is James R. Dittmer. I am a Senior Regulatory Consultant working for the firm of Utilitech, Inc. This testimony I am presenting herein is offered on behalf of the Missouri Office of the Public Counsel
- 2) Attached hereto and made a part hereof for all purposes is my rebuttal testimony consisting of pages 1 through 21. Attachments 1 and 2.
- 3) I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.

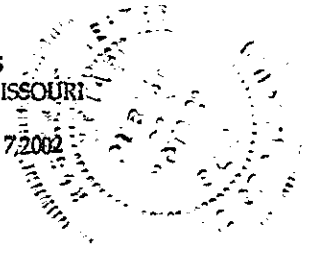
  
James R. Dittmer

Subscribed and sworn to be this 4<sup>th</sup> day of January 2002

  
Notary Public

My commission expires 12-7-02

ROSEANNE MERTES  
NOTARY PUBLIC STATE OF MISSOURI  
JACKSON COUNTY  
MY COMMISSION EXP DEC 7 2002



1                                   **REBUTTAL TESTIMONY**  
2                                                           **OF**  
3                                   **JAMES R. DITTMER**  
4                                   **UTILITCORP UNITED INC.**  
5                                   **CASE NO. ER-2001-672**  
6

7       **Q.     PLEASE STATE YOUR NAME AND ADDRESS.**

8       A.     My name is James R. Dittmer. My business address is 740 Northwest Blue  
9               Parkway, Suite 204, Lee's Summit, Missouri 64086.  
10

11      **Q.     BY WHOM ARE YOU EMPLOYED?**

12      A.     I am a Senior Regulatory Consultant with the firm of Utilitech, Inc., a  
13               consulting firm engaged primarily in utility rate work. The firm's engagements  
14               include review of utility rate applications on behalf of various federal, state and  
15               municipal governmental agencies as well as industrial groups. In addition to  
16               utility intervention work, the firm has been engaged to perform special studies  
17               for use in utility contract negotiations.  
18

19      **Q.     ON WHOSE BEHALF ARE YOU APPEARING?**

20      A.     Utilitech, Inc. has been retained by the Office of the Public Counsel for the  
21               State of Missouri (hereinafter "OPC") to review limited areas of UtiliCorp  
22               United, Inc.'s ("UCU") application to increase electric rates to customers  
23               located within the Missouri Public Service ("MPS") division service territory.  
24               Specifically, I was requested to review and investigate UCU "corporate  
25               overhead" or "common allocable" costs included within the development of the

1 MPS service territory's electric retail jurisdictional revenue requirement  
2 determination. As a result of the investigation I have been able to perform to  
3 date, I am sponsoring this rebuttal testimony on behalf of the Missouri Office of  
4 the Public Counsel.

5  
6 **Q. PLEASE BRIEFLY STATE WHAT ISSUES OR TOPICS YOU WILL BE**  
7 **ADDRESSING WITHIN YOUR REBUTTAL TESTIMONY?**

8 A. In the 1997 UCU rate proceeding I identified a number of corporate overhead  
9 costs that I believed to be inappropriate for recovery from retail ratepayers.  
10 Additionally, I addressed the issue of proper assignment or allocation of certain  
11 UCU department costs to UCU's significant international operations as well as  
12 to its continuing mergers and acquisitions ("M&A") activities. I believe that in  
13 a few instances UCU has voluntarily removed in this case costs which this  
14 Commission ultimately agreed to be objectionable for rate recovery in UCU's  
15 1997 rate proceeding. I further note that, while certain organizational changes  
16 have occurred since the 1997 rate case, the MPSC Staff has at least partially  
17 employed a method of allocating certain UCU corporate overhead costs to UCU  
18 international operations which this Commission ultimately adopted in the 1997  
19 rate case.

20  
21 However, UCU continues to advocate recovery of certain overhead costs found  
22 objectionable by this Commission in the 1997 rate case. I am supportive of the  
23 MPSC Staff's proposal to allocate additional costs – beyond that reflected

1 within the Company's proposed retail cost of service -- to UCU's international  
2 operations. However, based upon analysis to date, I believe the Staff's  
3 allocation is conservative, and furthermore, fails to consider the substantial  
4 efforts undertaken by some UCU corporate departments in support of UCU's  
5 ongoing efforts to merge with and/or acquire other businesses. Accordingly,  
6 the purpose of this testimony is to rebut certain elements of UCU's revenue  
7 requirement development for its MPS electric service territory as well as to  
8 offer comments regarding the very conservative approach undertaken by the  
9 MPSC Staff in its proposed assignment of certain overhead costs to  
10 international operations.

11  
12 Specifically, within this rebuttal testimony I will address the need to eliminate  
13 certain Trans UCU costs as well as certain legislative advocacy and monitoring  
14 costs allocated to UCU's MPS electric division. Further, I will be providing  
15 comments that lead to a conclusion that Staff's allocation of UCU overhead  
16 costs to international operations is conservative for many departments, and in all  
17 likelihood, should be substantially increased to better reflect all the efforts  
18 undertaken for international activities, mergers and acquisitions activities as  
19 well as other below-the-line activities occurring within these ESFs.

1           **QUALIFICATIONS**

2       **Q.    BEFORE DISCUSSING IN GREATER DETAIL THE ISSUES YOU**  
3           **BRIEFLY DESCRIBED ABOVE, PLEASE STATE YOUR**  
4           **EDUCATIONAL BACKGROUND?**

5       A.    I graduated from the University of Missouri - Columbia, with a Bachelor of  
6           Science Degree in Business Administration, with an Accounting Major, in 1975.  
7           I hold a Certified Public Accountant Certificate in the State of Missouri. I am a  
8           member of the American Institute of Certified Public Accountants, and the  
9           Missouri Society of Certified Public Accountants.

10  
11       **Q.    PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.**

12       A.    Subsequent to graduation from the University of Missouri, I accepted a position  
13           as auditor for the Missouri Public Service Commission. In 1978, I was  
14           promoted to Accounting Manager of the Kansas City Office of the Commission  
15           Staff. In that position, I was responsible for all utility audits performed in the  
16           western third of the State of Missouri. During my service with the Missouri  
17           Public Service Commission, I was involved in the audits of numerous electric,  
18           gas, water and sewer utility companies. Additionally, I was involved in  
19           numerous fuel adjustment clause audits, and played an active part in the  
20           formulation and implementation of accounting staff policies with regard to rate  
21           case audits and accounting issue presentations in Missouri. In 1979, I left the  
22           Missouri Public Service Commission to start my own consulting business.  
23           From 1979 through 1985 I practiced as an independent regulatory utility

1 consultant. In 1985, Dittmer, Brosch and Associates was organized. Dittmer,  
2 Brosch and Associates, Inc. changed its name to Utilitech, Inc in 1992.

3  
4 My professional experience since leaving the Missouri Public Service  
5 Commission has consisted primarily with issues associated with utility rate,  
6 contract and acquisition matters. For the past twenty-two years, I have appeared  
7 on behalf of clients in utility rate proceedings before various federal and state  
8 regulatory agencies. In representing those clients, I performed revenue  
9 requirement studies for electric, gas, water and sewer utilities and testified as an  
10 expert witness on a variety of rate matters. As a consultant, I have filed  
11 testimony on behalf of industrial consumers, consumer groups, the Missouri  
12 Office of the Public Counsel, the Missouri Public Service Commission Staff, the  
13 Indiana Utility Consumer Counselor, the Mississippi Public Service  
14 Commission Staff, the Arizona Corporation Commission Staff, the Arizona  
15 Residential Utility Consumer Office, the Nevada Office of the Consumer  
16 Advocate, the Washington Attorney General's Office, the Hawaii Consumer  
17 Advocate's Staff, the Oklahoma Attorney General's Office, the West Virginia  
18 Public Service Commission Consumer Advocate's Staff, municipalities and the  
19 Federal government before regulatory agencies in the states of Arizona,  
20 Michigan, Missouri, Ohio, Florida, Colorado, Hawaii, Kansas, Mississippi,  
21 New Mexico, Nevada, New York, West Virginia, Washington and Indiana, as  
22 well as the Federal Energy Regulatory Commission.

1     **Q.   HAVE YOU AND OTHER MEMBERS OF YOUR FIRM BEEN**  
2     **INVOLVED IN PREVIOUS UTILICORP UNITED D/B/A MISSOURI**  
3     **PUBLIC SERVICE ELECTRIC RATE CASES?**

4     A.   I and/or other members of the firm have been involved in some capacity in  
5     every Missouri Public Service Company electric rate review for the past twenty-  
6     five years, both before and after it became a division of UtiliCorp. This list of  
7     cases would encompass participation in rate increase cases filed by Missouri  
8     Public Service, as well as involvement in three earnings  
9     investigations/complaint cases wherein rate reductions were negotiated or  
10    ordered. Also, and I believe significantly in this particular instance, the firm  
11    and I were retained as consultants to the Missouri Public Service Commission  
12    ("MPSC") staff in the 1997 UCU rate case. My primary responsibility in that  
13    engagement on behalf of the MPSC Staff was the review of UCU "corporate  
14    overhead" or "common costs." Finally, I note that other members of my firm  
15    were involved in the UCU common cost allocation issues in at least the two  
16    UCU rate proceedings which immediately preceded the 1997 rate case.

17  
18    **TRANS UCU COSTS**

19    **Q.   PLEASE CONTINUE BY DISCUSSING THE TRANS UCU COSTS**  
20    **REFLECTED WITHIN THE DEVELOPMENT OF THE UCU MPS**  
21    **SERVICE       TERRITORY       REVENUE       REQUIREMENT**  
22    **DETEMINATION.**



1     A.     For a number of years, UCU has owned or leased one or more aircraft. During  
2           the 2000 test year UCU leased two aircraft. One of the two aircraft was used  
3           primarily as a shuttle for employees between Kansas City and Omaha,  
4           Nebraska. The other aircraft, a corporate jet, was used primarily for executive  
5           officers, senior management as well as UCU Board of Director members to  
6           travel throughout much of the United States, Canada and at least one trip to  
7           England.

8  
9           As in the last case, all of the costs of the aircraft incurred during the 2000 test  
10          year were initially charged to the Trans UCU Department. Variable costs  
11          incurred during the test year related to the aircraft were charged to other  
12          departments utilizing the aircraft based upon a rate designed to recover only  
13          such variable costs. In the last case, the variable rate was developed on a cost-  
14          per-flight-hour basis for the leased jet. However, responses to date in the instant  
15          case are not sufficiently detailed to determine whether this exact methodology is  
16          still being employed. However, conceptually it appears that UCU continues to  
17          attempt to charge departments on a direct basis to recover only – or primarily –  
18          variable costs.

19  
20          Residual and largely fixed aircraft costs are allocated to domestic business units  
21          based upon the three factor Massachusetts formula. In calendar year 2000,  
22          Missouri electric operations were charged directly a very small amount of  
23          variable costs but were allocated \$864,065 of residual fixed costs from Trans

1 UCU. I should note that such amount consists primarily of fixed aircraft costs,  
2 but a portion is thought to consist of Trans UCU "Travel Services" costs.

3 **Q. DO YOU BELIEVE ALL TRANS UCU COSTS ALLOCATED OR**  
4 **ASSIGNED TO THE MPS SERVICE TERRITORY SHOULD BE**  
5 **PROPERLY RECOVERD FROM MISSOURI RETAIL CUSTOMERS?**

6 A. No. First, by way of background, prior to the 1997 rate case, UCU never sought  
7 full recovery of its corporate aircraft costs. In other words, prior to the 1997  
8 rate case, the Company voluntarily recorded below-the-line the residual or fixed  
9 costs which it now charges to other departments based upon the Massachusetts  
10 formula. In fact, at the beginning of the 1997 earnings investigation UCU  
11 indicated in data request responses that the residual costs of the planes were not  
12 being recovered from ratepayers.

13  
14 During the 1997 case, the Company ultimately made a decision to argue  
15 vigorously for full recovery of MPS' Massachusetts-formula-driven-portion of  
16 fixed, residual aircraft costs. During the discovery stage of the 1997 rate case,  
17 the Company was unable to produce any study justifying the purchase or use of  
18 the aircraft – the cost for which it was seeking full recovery of for the first time.  
19 During the rebuttal stage of the 1997 rate case a Company witness attempted to  
20 qualitatively defend the use and full cost recovery of UCU's corporate aircraft.  
21 Additionally, the summary results of a very dated generic study (i.e., not UCU  
22 specific) prepared for the General Aviation Manufacturers Association, Inc. and

1 the National Business Aircraft Association, Inc. was presented by UCU as  
2 justification for its corporate aircraft expense.

3  
4 In the 1997 rate case I performed an analysis that indicated that the variable cost  
5 alone for Trans UCU flights was comparable to coach, and in many cases first  
6 class, airfare that could have been incurred for flights taken on corporate  
7 aircraft. Based upon lack of economic study or documentation presented by  
8 UCU, as well as the analysis that I had performed regarding the cost of  
9 commercial aircraft, I argued in the 1997 rate case that the residual fixed costs  
10 of UCU's corporate aircraft should not be recovered from ratepayers.

11  
12 Ultimately this Commission agreed with the Staff's recommendation to disallow  
13 the recovery of fixed or residual aircraft costs from MPS retail ratepayers,  
14 concluding that the UCU evidence presented was insufficient to support the  
15 inclusion of the residual costs in rates

16  
17 **Q. HAS UCU ATTEMPTED TO JUSTIFY IN PREFILED DIRECT**  
18 **TESTIMONY THE FULL RECOVERY OF TRANS UCU RESIDUAL**  
19 **COSTS WHICH ARE REFLECTED WITHIN TEST YEAR**  
20 **OPERATING RESULTS?**

21 A. No. Additionally, I requested in this case – as I did in the 1997 rate case – any  
22 and all studies addressing the original purchase or lease of any corporate  
23 aircraft, as well as any feasibility studies addressing the continuing use of

1 corporate leased or owned aircraft costs since the original purchase or lease  
2 (OPC Data Request No. 803). The Company responded that "this information  
3 is not available." Thus, the Company has not offered in testimony or through  
4 discovery in this case any new evidence that might refute the Commission's  
5 findings in the last UCU rate case.

6  
7 **Q. WHAT IS YOUR SPECIFIC RATE RECOMMENDATION**  
8 **REGARDING TRANS UCU AIRCRAFT COSTS?**

9 A. As in the last case, I recommend that the residual aircraft costs allocated to the  
10 MPS electric service territory during the 2000 test year vis-à-vis the  
11 Massachusetts formula be eliminated. As noted earlier, some \$864,065 of  
12 residual Trans UCU costs was allocated to the MPS electric service territory. I  
13 believe that some portion of this cost represents expenditures for "Travel  
14 Services." I do not oppose recovery of Travel Services costs. Additionally, it is  
15 possible that there maybe additional costs included within the "residual"  
16 category beyond merely fixed aircraft costs that I would not find objectionable  
17 for retail rate recovery. Finally, I note that the "total electric" amount should be  
18 allocated to "Missouri retail" operations utilizing appropriate factors. If I am  
19 able to obtain a better breakdown of Trans UCU residual costs allocated to the  
20 MPS electric service territory through outstanding discovery, I shall revise and  
21 supplement my recommendation herein to eliminate only the residual fixed  
22 aircraft costs allocated to MPS electric operations.

1           **GOVERNMENTAL AFFAIRS AND LEGISLATIVE**  
2           **MONITORING COSTS**

3  
4       **Q. PLEASE CONTINUE BY STATING YOUR NEXT OBJECTION TO**  
5       **COSTS INCLUDED WITHIN MPC'S RETAIL COST OF SERVICE.**

6       A. I take exception to MPC's inclusion of costs for legislative monitoring and  
7       lobbying activities included within the Company's retail cost of service.  
8       Specifically, it is my contention that a significant portion of costs recorded  
9       within Department 4050 – Governmental Affairs and Department 6376 –  
10      Legislative Services – Missouri consists of legislative monitoring and lobbying  
11      activities which have consistently and routinely been disallowed by this  
12      Commission for recovery from ratepayers. Accordingly, I am recommending  
13      that 100% of costs from Department 4050 – Governmental Affairs allocated to  
14      the MPS electric service territory be disallowed for rate recovery and that 50%  
15      of costs from Department 6376 – Legislative Services – Missouri be, similarly,  
16      disallowed for rate recovery.

17  
18      **Q. YOU STATED IN YOUR PREVIOUS ANSWER THAT THIS**  
19      **COMMISSION HAS CONSISTENTLY AND ROUTINELY**  
20      **DISALLOWED COSTS COMPARABLE TO THAT WHICH YOU ARE**  
21      **PROPOSING TO DISALLOW IN THE INSTANT CASE. COULD YOU**  
22      **PLEASE EXPAND UPON AND SUBSTANTIATE SUCH STATEMENT?**

23      A. Yes. In the 1997 rate case, on behalf of the MPSC Staff, I advocated that all of  
24      the cost of a Washington, DC based law firm and 50% of all remaining costs  
25      charged to the Government Affairs ESF (Enterprise Support Functions) be

1 disallowed as legislative monitoring and lobbying costs. I contended in that  
2 case, as I do in the instant case, that the activities undertaken by the  
3 Washington, DC-based law firm Wiley, Rein and Fielding consisted primarily,  
4 if not exclusively, of legislative monitoring and lobbying. Regarding the  
5 remaining Governmental Affairs costs included in the 1997 case, I eventually  
6 concluded that approximately 50% of the Department's time in that case was  
7 incurred to undertake allowable "communication" activities. Ultimately, the  
8 Commission agreed with this Staff recommendation to disallow 100% of the  
9 Wiley, Rein and Fielding costs and 50% of remaining charges to the  
10 Governmental Affairs Department.

11  
12 In the 1993 rate case which preceded the 1997 rate case, the Commission also  
13 disallowed all costs identified as being associated with legislative monitoring  
14 and lobbying, stating in relevant part:

15 Staff proposes a 100% disallowance of this [Public Affairs] RC as a  
16 matter of ratemaking policy, stating that legislative monitoring and advocacy  
17 efforts should be charged below-the-line. The Commission agrees. (Remand  
18 Order page 29)  
19

20 In addition to these most recent, MPS-specific rate orders, by virtue of  
21 experience as a former MPSC Staff member and a frequent consultant to the  
22 MPSC Staff and the OPC, I am of the opinion that such costs are routinely  
23 eliminated in other Missouri rate cases.  
24

1     **Q.    IS THE DISALLOWANCE THAT YOU ARE RECOMMENDING IN**  
2     **THE INSTANT CASE IDENTICAL IN CONCEPT TO THAT WHICH**  
3     **YOU PROPOSED, AND WHAT THIS COMMISSION ULTIMATELY**  
4     **ADOPTED, IN THE 1997 UCU RATE CASE?**

5     A.    It is intended to be. The UCU organization has changed since the 1997 rate  
6     case, such that all the legislative activities whose costs were charged to only one  
7     ESF in 1997 are now charged to several different Departments. Specifically,  
8     Department 4050 exclusively undertakes "federal" legislative activities.  
9     Separate "state" departments have now been established to capture legislative  
10    costs that are primarily attributable to only one state (i.e., Department 6476  
11    captures primarily or exclusively "Missouri" legislative activities. Other states  
12    have a separate department established for their respective legislative activities.)

13  
14    During the test year, all Wiley, Rein and Fielding invoices which I reviewed  
15    were charged to Department 4050. I understand that Wiley, Rein and Fielding  
16    is routinely engaged to assist with "federal" matters – so this account  
17    assignment is logical.

18  
19    **Q.    WHAT JOB OR ACTIVITY DESCRIPTION HAS UCU GIVEN TO**  
20    **DEPARTMENTS 4050 AND 6376?**

21    A.    The job description for Department 4050 is as follows:

22           Monitor activity at congressional level and advise company about any  
23           potential impacts on our business. Contract federal government service firm; we  
24           manage, monitor and report.  
25

1 The job description for Department 6376 states the following:

2 Expenses related to monitoring and communicating legislative activity  
3 in the state of Missouri affecting any of UCU's utility business. Those expenses  
4 include travel, entertainment, memberships to professional organizations,  
5 wages, benefits, training, office rent, and other outside services, (legal, contract  
6 lobbyists). Work is not performed outside of the United States.  
7

8 Additionally, for Department 6376 the Company provided the Job Standards for  
9 the State Director of Legislative Services. That description has been affixed as  
10 Attachment No. 1 to this testimony. From the job description one can observe  
11 that the position exists to monitor, lobby and communicate various legislative  
12 proposals. There is no comparable job description for Department 4050  
13 inasmuch as apparently there were no internal employees reporting to this  
14 department.  
15

16 **Q. ARE YOU OF THE OPINION THAT THE ACTIVITIES UNDERTAKEN**  
17 **BY WILEY, REIN AND FIELDING DURING THE 2000 TEST YEAR**  
18 **CONSIST OF THE LEGISLATIVE MONITORING AND LOBBYING**  
19 **FUNCTIONS THAT YOU, AND ULTIMATELY THIS COMMISSION,**  
20 **FOUND OBJECTIONABLE FOR RECOVERY THROUGH RATES IN**  
21 **THE 1997 RATE CASE?**

22 **A.** Yes. I have reviewed Wiley, Rein and Fielding invoices for test year activities.  
23 The descriptions offered on the invoices are cryptic to the point that they  
24 provide virtually no information as to what activities are actually being  
25 undertaken. However, in answer to MPSC Staff Data Request No. 271, UCU  
26 provided examples of work products created by Wiley, Rein and Fielding. The



1 response has been designated as "Highly Confidential" by UCU, so I will not  
2 discuss any of the response in detail herein. However, suffice it to say, my  
3 review of such "work product" documents did nothing to dissuade my opinion  
4 from the 1997 rate case – namely, that the firm has been engaged primarily, if  
5 not exclusively, to undertake legislative monitoring and lobbying activities.  
6 Accordingly, as in the last case, I am recommending that 100% of such costs be  
7 eliminated from the MPS electric service territory revenue requirement  
8 determination.

9  
10 **Q. YOU INDICATED IN AN EARLIER ANSWER THAT YOU WERE**  
11 **PROPOSING TO ELIMINATE 100% OF THE COST ALLOCATED TO**  
12 **THE MPS SERVICE TERRITORY FROM DEPARTMENT 4050 – THE**  
13 **DEPARTMENT IN CHARGE OF "FEDERAL" LEGISLATIVE**  
14 **ACTIVITIES AND THE DEPARTMENT TO WHICH THE WILEY,**  
15 **REIN AND FIELDING PAYMENTS ARE CHARGED. ARE THERE**  
16 **OTHER COSTS – BEYOND WILEY, REIN AND FIELDING – THAT**  
17 **ARE CHARGED TO DEPARTMENT 4050?**

18 **A.** Yes. However, the total Wiley, Rein and Fielding charges identified by the  
19 Company as being charged to Department 4050 actually exceed the total net  
20 Department 4050 charges for the test year. This phenomena can exist as a given  
21 department can be occasionally "credited" for certain transactions. For  
22 purposes of my recommendation, I am proposing to simply eliminate 100% of  
23 Department 4050 charges allocated to the MPS service territory, even though

1        arguably a larger adjustment that would eliminate all Wiley, Rein and Fielding  
2        charges allocated to the MPS service territory maybe appropriate. Such an  
3        adjustment, if posted, would actually leave a "negative" expense balance being  
4        credited to Missouri retail electric operations. I am conservatively eliminating  
5        only all of the positive expense charges to Department 4050 with my proposed  
6        adjustment – or in other words, I am not proposing to drive the Department to a  
7        "negative" expense level. Specifically, I am proposing that total test year  
8        charges allocated to MPS from Department 4050, in the amount of \$130,895, be  
9        eliminated. Inasmuch as this is a "total MPS electric" amount, such amount  
10       needs to be appropriately allocated to reflect the retail jurisdictional impact of  
11       eliminating this Department's charges.

12  
13       **Q.    WHY ARE YOU PROPOSING TO ELIMINATE 50% OF**  
14       **DEPARTMENT 6376 COSTS AS BEING RELATED TO LEGISLATIVE**  
15       **MONITORING AND LOBBYING ACTIVITIES?**

16       A.    My intent in this case is the same as it was in the last case -- to eliminate  
17       legislative monitoring and lobbying activities, but to allow for recovery of  
18       certain communication activities. From the job description provided on  
19       Attachment No. 1, I believe a strong argument could be presented that more  
20       than 50% of this Department's activities are incurred for legislative monitoring  
21       and lobbying activities. However, in the interest of conservatism and achieving  
22       consistency with positions taken in the last case, I am recommending that only  
23       50% of this Department's costs be deemed legislative monitoring and lobbying

1 activities with the remaining 50% assumed to be allowable "communication"  
2 activities. In the 2000 test year, UCU charged \$170,895 to above-the-line MPS  
3 electric operating expense accounts. I am recommending that 50% of total test  
4 year Department 6376 cost allocated to the MPS electric retail service territory  
5 be eliminated. As shown on Attachment No. 2, I calculate the Missouri electric  
6 adjustment amount needed to be posted to MPS service territory operating  
7 expenses to be \$126,003.

8  
9 **MPSC STAFF'S ALLOCATION OF CERTAIN ESF COSTS**  
10 **TO INTERNATIONAL ACTIVITIES**

11  
12 **Q. PLEASE CONTINUE BY DESCRIBING YOUR UNDERSTANDING OF**  
13 **THE STAFF'S ADJUSTMENT TO ALLOCATE ADDITIONAL COSTS**  
14 **INCURRED AT CERTAIN ESFS TO UCU'S INTERNATIONAL**  
15 **OPERATIONS.**

16 A. As discussed within the direct testimony of MPSC Staff witness Mr. Charles  
17 Hyneman, the MPSC Staff is recommending that the costs of certain high level  
18 ESFs be allocated in part to international operations vis-à-vis the inclusion of  
19 relevant statistics of the various international holdings within the Massachusetts  
20 formula. Specifically, Staff is recommending that approximately 18% of the  
21 residual costs (i.e., costs not directly assigned to a benefiting division or  
22 subsidiary) of 14 ESFs be allocated to UCU international holdings.

23  
24 **Q. ARE YOU IN AGREEMENT WITH THIS STAFF ALLOCATION?**

1 A. I am continuing to review this issue area. However, based upon information  
2 reviewed to date, my familiarity with this issue gained in the 1997 UCU case, as  
3 well as the direction that UCU continues to head, it would appear that such  
4 allocation is quite conservative.

5  
6 **Q. PLEASE EXPLAIN**

7 A. UCU continues upon a strategy implemented several years ago – namely,  
8 growth through acquisitions and mergers. Further, in recent years, the growth  
9 strategy has focused upon international business opportunities. Legitimate  
10 questions have been raised in previous UCU rate cases as to what level of  
11 efforts senior executives and management devote to domestic utility operations  
12 versus UCU's M&A efforts as well as managing its various international  
13 holdings.

14  
15 In the last case I recommended, and ultimately the Commission determined, that  
16 50% of a handful of ESFs' costs should be eliminated as being related to  
17 unrecorded international activities and/or efforts undertaken regarding M&A  
18 activities. As noted, in the instant case the MPSC Staff has recommended that  
19 approximately 18% of 14 ESFs' costs be allocated to "international"  
20 operations.<sup>1</sup> However, it does not appear that the Staff has given consideration  
21 to the significant and ongoing level of efforts of senior management that

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<sup>1</sup> The UCU organization has been significantly reorganized since the 1997 case. There are many more departments or ESFs now versus the 1997 rate case. Thus, the "handful" of ESFs that I addressed in the 1997 rate case appear to have been expanded in number, although it would appear logical that the tasks undertaken in total remain largely the same today as undertaken in 1997

1           logically must occur in the continuing pursuant to acquire business properties,  
2           and in particular, foreign companies.  
3

4       **Q.   DO EFFORTS OF SENIOR EXECUTIVES AND MANAGEMENT**  
5       **RELATED TO MERGERS AND ACQUISITIONS GET ALLOCATED**  
6       **TO BUSINESS UNITS THROUGH THE MASSACHUSETTS FORMULA**  
7       **OR VIA SOME OTHER ALLOCATION PROCESS?**

8       A.   I am still researching this issue, but believe that to be the case at this time. If  
9       my assumption is correct, it would appear a near certainty that the Staff's  
10      approach has inadequately considered an appropriate assignment or allocation  
11      of senior managements' time to M&A activities. As noted previously, this  
12      Commission has already determined that such M&A efforts should not be  
13      automatically charged to MPS electric retail operations.  
14

15      **Q.   HAVE YOU MADE OTHER OBSERVATIONS WHICH LEAD YOU TO**  
16      **CONCLUDE THAT STAFF'S ADJUSTMENT IN THIS CASE IS TOO**  
17      **CONSERVATIVE?**

18      A.   Yes. First, a comparison of senior executives' time charged to international  
19      and/or M&A activities versus corporate aircraft cost assigned to such activities  
20      appears to indicate some discrepancies. I have a number of data requests  
21      outstanding on this topic. The Company has indicated that it will not be able to  
22      respond to such requests within the Commission's time guidelines for discovery  
23      in this case. Following eventual receipt of such responses, I may supplement

1           this testimony and/or withdraw the allegation that discrepancies have been  
2           observed.

3  
4           Second, when reviewing the corporate aircraft logs, I noted what appears to be  
5           trips by senior management taken for the purposes of political fund raising and  
6           providing speeches to conventions such as Boy Scouts of America. If the  
7           executives' time to attend and perform these activities has not been recorded  
8           below-the-line, as evidence observed to date appears to indicate, some  
9           additional allocation of costs – above that being advocated by the Staff in this  
10          case – would appear justified.

11  
12          To summarize on this issue, in the last case this Commission determined that  
13          50% of the cost of a number of high level ESFs should be considered  
14          “international” or “M&A” related. In the instant case, the MPSC Staff appears  
15          to consider in some respect the continuing efforts of upper management related  
16          to “international” activities, but has failed to adequately consider the significant  
17          effort upper management continues to devote to its ongoing and significant  
18          “M&A” activities. Further, a limited review of certain data request responses  
19          appears to indicate a lack of assignment by senior management to M&A,  
20          international as well as other “below-the-line” activities. Upon receipt of  
21          additional data requests responses and further analysis on the issue, I may file  
22          supplemental testimony suggesting a higher-than-18% allocation of certain ESF  
23          costs to international, M&A and below-the-line functions. For now, however, I

1 will conclude by simply stating that I believe Staff's approach of allocating high  
2 level ESF costs to international activities should be viewed as extremely  
3 conservative.

4  
5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 **A.** Yes, it does.

Job Standards  
State Director  
Legislative Services

1. Develop and implement a legislative issue assessment process which includes:
  - Comprehensive monitoring system of bills introduced and screening capability to identify potential impacts to UCU.
  - Initial assessment of potential impact on UCU positions on issues.
  - Internal "team" of expert sources to develop timely, comprehensive positions on issues and quantify effects of legislation.
  - Preparation and delivery of testimony before appropriate committees.
  - Effective internal communications/updates on issues.
2. Development and execution of 1 and 3 year legislative plans that help facilitate the effective execution of UCU's strategy. Provide timely input on emerging public policy trends which factor into long-term strategy for UCU.
3. Identification of key policy issues, preparation of position papers and company endorsement for execution.
4. Establish open relationships with legislative leadership, service territory legislators, governor's offices, congressional representatives, staffs and key agencies that enable UCU to effectively educate about key issues.
5. Active involvement and facilitation of coalitions of industry and allied companies, associations and agencies.
6. Effective negotiation skills to develop "win-win" outputs from legislative processes.
7. Effective utilization of grassroots involvement in the legislative process.
8. Develop a political contributions plan and implement programs to increase membership recruitment and funding of the state and/or federal PAC's to support plan.
9. Management of expenditures to conform to budget requirements.
10. Maintain good working relationships with other UCU staff and business unit personnel.



**Development of Adjustment to Eliminate Legislative  
Lobbying and Monitoring Costs Allocated from Department  
No. 6376 to the MPS Electric Service Territory**

<u>Line No.</u>	<u>FERC Account No.</u>	<u>Test Year 2000 Totals (OPC DR 806)</u>	<u>Electric Utility Allocation Factors (OPC DR 1191)</u>	<u>Total MPS Electric</u>
1	408100	6,370	86.947%	\$ 5,539
2	417100	(6,195)		
3	426400	26,292		
4	913000	5,746	86.919%	4,994
5	920000	75,351	86.947%	65,515
6	921000	16,974	86.947%	14,758
7	923000	3,000	87.467%	2,624
8	926100	16,484	86.947%	14,332
9	930100	2,932	86.947%	2,549
10	930200	10,795	86.947%	9,386
11	931000	<u>6,950</u>	90.712%	<u>6,304</u>
12	Totals	<u>\$ 164,699</u>		<u>\$ 126,003</u>