

Exhibit No.:

Issues: International
Allocations

Witness: James S. Brook

Sponsoring Party: Missouri Public
Service

Case No.: ER-2001-672

Before the Public Service Commission
of the State of Missouri

Rebuttal Testimony

of

James S. Brook

FILED³
JAN 08 2002
Missouri Public
Service Commission

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
REBUTTAL TESTIMONY OF JAMES S. BROOK
ON BEHALF OF MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED INC.
CASE NO. ER-2001-672**

1 Q. Please state your name and business address.

2 A. James S. Brook, 20 West Ninth, Kansas City, Missouri, 64105.

3 Q. By whom are you employed, and in what position?

4 A. I am employed by UtiliCorp United Inc. ("UtiliCorp"), as Vice President International
5 Regulatory Policy.

6 Q. Have you previously given testimony before the Missouri Public Service Commission
7 ("Commission")?

8 A. Yes. I filed testimony in 1990 in Case No. ER-90-101 and in 1993 in Case No. ER-93-
9 37. I also testified before the British Columbia Utilities Commission on several
10 occasions prior to 1990.

11 Q. What is the purpose of your testimony in this case?

12 A. I am providing rebuttal testimony to address the issue of allocation of non-payroll
13 charges from certain Enterprise Support Function ("ESF") departments to UtiliCorp's
14 international operations, as proposed in the direct testimony of Commission Staff
15 ("Staff") witness Charles R. Hyneman at pages 13 through 20. In addition, my
16 testimony provides rebuttal to the direct testimony of Staff witness Graham A. Vesely
17 on the allocation of payroll-related charges to international operations.

1 Q. Does UtiliCorp directly charge costs from the departments selected by Staff, to
2 international operations?

3 A. Yes. The level of involvement of most departments with international operations is
4 relatively limited. We have implemented specific direct charges as the best way to
5 capture the costs incurred on behalf of those operations.

6 Q. Please address Staff's proposal to allocate the residual in those accounts.

7 A. It is UtiliCorp's policy not to allocate costs to our international operations, beyond the
8 direct charges for services provided. The international operating companies are
9 separate stand-alone corporate entities. However, in the course of considering Staff's
10 proposal, we have examined the possibility of including our international investment
11 subsidiaries in the allocation of these costs. Those companies are the vehicles for
12 UtiliCorp's investment in the international operating companies.

13 Q. Do you agree with Staff's use of this allocation formula ?

14 A. No. There are two primary problems with the Staff's approach. First, the allocation
15 factors should be those in the standard Massachusetts Formula that has been widely
16 and consistently used for such purposes. Those three factors are margin, payroll, and
17 net plant. Second, it should use values from the appropriate UtiliCorp subsidiaries.

18 Q. Have you calculated the Massachusetts Formula on that basis?

19 A. Yes. Schedule JSB-1 shows my calculation, as well as the entities within the
20 corporate structure that are included. The resulting allocation factor is 1.7% to all of
21 UtiliCorp's international businesses.

22 Q. Why is that result so much lower than Staff's 18% allocation factor?

1 A. There are two primary reasons. First, Staff's allocation uses factors which are
2 inappropriate, and which differ from the standard and generally accepted
3 Massachusetts Formula.
4 Second, Staff's allocation factors are taken at the level of the international operations,
5 rather than at UtiliCorp's international investment subsidiaries. They improperly
6 include values from those entities, without proper regard to the fact that all of the
7 international operating companies are separate corporate entities. In most cases, those
8 companies are publicly listed and UtiliCorp has only a partial ownership interest in
9 them. Those international operating companies are fully stand-alone, with their own
10 internal corporate services and executive management. In the limited number of
11 specific cases where services are provided to such companies by UtiliCorp, fully
12 loaded direct charges are being made to them. They are not supported beyond that
13 level, and should not bear further costs.

14 Q. How do the international investment subsidiaries differ from those stand-alone
15 operating companies?

16 A. The investment subsidiaries are supported by UtiliCorp's corporate governance ESF,
17 and their scale more accurately reflects the relative level of business activity. They
18 have assets representing UtiliCorp's investments, and no margin nor payroll.

19 Q. How did you determine the level of asset value to include in the proposed
20 Massachusetts Formula for these investment subsidiaries?

21 A. We used the asset values as reported in the UtiliCorp consolidated FERC Form 1,
22 adjusted to reflect the proportion of the corporate governance effort to the rest of the

1 asset-related costs, such as asset maintenance and capital construction, that are
2 normally present in a broad allocation. Those other asset-related activities do not
3 occur in these international investment subsidiaries.

4 Q. Are there any changes you would make to your position as filed, considering the
5 points raised by Staff testimony?

6 A. Yes. We have applied the revised allocation formula from JSB-1 to the ESF non-
7 payroll costs selected by Staff. The results are shown in JSB-2, parallel to the
8 adjustment proposed by Staff. We propose to allocate \$226,999 (Column F) to our
9 international investment companies, which amounts to 6.9% of the \$3,302,303
10 (Column D) proposed by Staff.

11 Q. Are there any other issues to consider in Staff's proposed international allocations
12 adjustment?

13 A. Yes. In October 2001, UtiliCorp implemented a fully distributed costing ("FDC")
14 process in order to be in compliance with the new Missouri Affiliate Rules. It is my
15 understanding that MPS witness Beverlee R. Agut discussed this new process with
16 Staff and OPC representatives during the pre-hearing conferences in this proceeding.
17 As payroll is direct charged to international operations, an additional "loading" for
18 common support costs such as facilities, human resources, information systems, etc.
19 will be charged. It was agreed that the impact of the FDC process on Missouri Public
20 Service for calendar year 2001 would be included as an overhead allocations true-up
21 item in this case. Therefore, it is inappropriate to include Departments 4010 and
22 4016, which are facilities departments, in the allocation to international operations as

1 costs for these departments will be "loaded" as direct payroll is charged and included
2 in the FDC process. Including them in the international allocations adjustment
3 proposed by Mr. Hyneman would in effect double-up the charges to these operations.
4 Adjustments to the costs of those departments have been changed to zero in Column
5 F of Schedule JSB-2.

6 Q. Please comment on the related payroll adjustments proposed by Staff witness Graham

7 A. Vesely.

8 A. Similar considerations are applicable to the payroll costs. While the amounts are not
9 entirely clear due to the combination of data in Staff's adjustments, we estimate that
10 Staff proposes to reduce Missouri Public Service's ("MPS") allocation of ESF payroll
11 and payroll-related costs by \$194,700, due to proposed increases in allocations to
12 international entities. We propose that adjustment should be reduced parallel to the
13 non-payroll adjustment discussed above. Applying that same 6.9% factor, Staff's
14 adjustment to reduce MPS's payroll and payroll-related costs would be reduced to
15 \$13,434.

16 Q. Does that conclude your rebuttal testimony on these issues?

17 A. Yes.

ESF Cost Allocations \$(000)
Effective July 1, 2001

Department					Mass Formula (YE 12/31/00)					
Chg From	2001 Budget	Chg To	Description	Bus Unit	Lookup Value	Margin	Payroll	Net Plant	Basis/ Percent	
528 (Charge From Product = 999) MASS (USU/AEC/UCS)										
4030	1,213,393									
4031	344,117		General Counsel	UCU						
4035	1,483,826		Chief Financial Officer	UCU						
4040	952,720		Executive	UCU						
4042	19,723		Strategic Planning & Analysis	UCU						
4120	1,113,007		External Communications	UCU						
4130	1,682,915		Treasury	UCU						
4131	1,261,921		Corporate Secretary	UCU						
4132	1,357,733		Shareholder Relations	UCU						
4183	1,718,378		Corp Financial Reporting	UCU						
4185	260,453		Tax	UCU						
TOTAL	11,408,186									
					(Alloc Type 528, Acct 900097)					Dollars Allocated
4211	Corporate - Aquila @ 80%	UCU	AEC-80	279,070	42,616	98,694	16.9%	1,927,983		
4211	Corporate - Aquila @ 80%	UCU	APC-80	83,175	7,449	116	3.8%	433,511		
4211	Corporate - Aquila @ 80%	UCU	AQP-80	84,632	0	320,600	6.8%	775,757		
8012	UCS ESF Allocations	UCS	CLEC	0	0	0	0.0%	-		
6074	EVD Gen/Adm	EVD	EVD	2,576	817	0	0.2%	22,816		
8012	UCS ESF Allocations	UCS	EVE	7,994	9,637	49,903	2.7%	308,021		
8012	UCS ESF Allocations	UCS	EXO	1,003	645	5,902	0.2%	22,816		
8012	UCS ESF Allocations	UCS	ISP	24	0	950	0.0%	-		
5052	Missouri Gas Pipeline	MGC	MGC	2,204	171	23,756	0.4%	45,633		
6144	MI General- MGD	MGD	MGD	51,454	9,071	151,815	5.2%	593,226		
5051	Missouri Pipeline	MPC	MPC	5,224	326	38,966	0.7%	79,857		
6140	MO General- MPD	MPD	MPD	144,727	15,850	502,990	14.0%	1,597,146		
1049	UPS - MO - ESF Allocations	MPG	MPG	76,849	8,995	197,130	6.6%	752,940		
5054	Omega Pipeline	OPC	OPC	4,221	82	3,913	0.2%	22,816		
6148	CO General- PND	PND	PND_CO	16,240	2,792	33,149	1.4%	159,715		
6147	IA General- PND	PND	PND_IA	43,550	9,140	63,071	3.8%	433,511		
6149	KS General- PND	PND	PND_KS	29,844	7,981	80,454	3.4%	387,878		
6145	MN General- PND	PND	PND_MN	50,281	10,739	93,149	4.7%	536,185		
6146	NE General- PND	PND	PND_NE	56,148	11,515	110,241	5.3%	604,634		
6151	MN General- NMU	PND	PND_NMU	12,552	3,008	41,530	1.5%	171,123		
5055	PNG Pipeline	PNP	PNP	501	5	3,165	0.1%	11,408		
8012	UCS ESF Allocations	UCS	PVN	232	0	1,000	0.0%	-		
6152	MO General-SJD	SJD	SJD	26,973	7,985	107,157	3.7%	422,103		
1052	SJG - MO - ESF Allocations	SJG	SJG	18,903	5,692	59,727	2.4%	273,796		
3300	Service Today-General	STI	STI	4,132	6,769	733	1.4%	159,715		
4211	Corporate - Aquila @ 80%	UCU	UCG	0	74	0	0.0%	-		
4211	Corporate - Aquila @ 80%	UCU	UEM	0	2,162	0	0.4%	45,633		
1100	UPG General	UPG	UPG	5,290	27	0	0.2%	22,816		
6141	CO General- WCD	WCD	WCD	35,685	5,724	96,083	3.4%	387,878		
1051	UPS - CO - ESF Allocations	WCG	WCG	24,122	2,164	5,437	1.2%	136,898		
6142	KS General- WKD	WKD	WKD	41,301	5,508	130,384	4.0%	456,327		
1050	UPS - KS - ESF Allocations	WKG	WKG	29,290	4,595	109,129	3.2%	365,062		
International Investments					0	0	127,379	1.7%	193,939	

Investments in Subsidiary Companies (FERC Form 1, page 225, Dec.31, 2000)	802,123
deduct Aquila Energy Corp amount on page 225 (included in Mass. Formula above at #4211)	(151,843)
Amounts invested in International investment subsidiaries	<u>650,280</u>
Weighting for "Corporate Governance" portion of asset management functions:	
Corporate governance costs, net	24,880
International Charge-outs	1,864
Payroll	9,460
sub total, Corporate Governance costs	<u>36,204</u>
Asset maintenance costs (FERC Form 1, page 114, line 5)	44,914
Asset construction costs (FERC Form 1, page 110, line 4)	103,706
total, asset management costs	<u>184,824</u>
Ratio of Corporate Governance to total asset management costs	<u>19.59%</u>
Weighted International Investments for Massachusetts Formula A llocation	127,379

ESF International Non-Payroll Charges

ESF Dept	Dept Title	A Costs, net of direct chargeouts	B Eliminate Capital & Severance	C Net of direct Int'l & eliminations	D Staff Adjustment factor of 17.77%	E Net Costs, domestic	F UCU Adjustment factor of 1.7%	G Net Costs, domestic
Depts Allocated to Int'l by Staff								
4010	Corporate Services - 20W9th	8,231,099	5,086,591	3,144,508	558,858	2,585,650	0	3,144,508
4016	Corp Svcs-850 Main	97,512	4,938	92,574	16,453	76,121	0	92,574
4030	Operations	1,213,393		1,213,393	215,650	997,743	20,628	1,192,765
4031	General Counsel	344,117		344,117	61,158	282,959	5,850	338,267
4035	Chief Financial Officer	2,733,826	1,250,000	1,483,826	263,713	1,220,113	25,225	1,458,601
4040	Executive	952,720		952,720	169,322	783,398	16,196	936,524
4042	Strategic Planning & Analysis	19,723		19,723	3,505	16,218	335	19,388
4120	External Communications	1,113,007		1,113,007	197,809	915,198	18,921	1,094,086
4130	Treasury	1,641,299	(41,616)	1,682,915	299,096	1,383,819	28,610	1,654,305
4131	Corporate Secretary	1,261,921		1,261,921	224,275	1,037,646	21,453	1,240,468
4132	Shareholder Relations	1,357,733		1,357,733	241,303	1,116,430	23,081	1,334,652
4183	Corp Financial Reporting	1,718,378		1,718,378	305,399	1,412,979	29,212	1,689,166
4185	Tax	260,453		260,453	46,289	214,164	4,428	256,025
4499	TransUCU Residual Transfer	3,935,702		3,935,702	699,473	3,236,229	33,060	3,902,642
	sub-total	24,880,883	6,299,913	18,580,970	3,302,303	15,278,667	226,999	18,353,971
UCU proposed adjustment, relative to Staff proposed adjustment							6.9%	
Amount to be included in MPS revenue requirement, at 19.7686% share of net ESF costs						3,020,379	3,628,323	

Footnotes:

Columns A through E : sourced from the schedule prepared by Staff (C.Hyneman)

Column F : The derivation of this Mass. Formula is set out on Schedule JSB-1. Applies to all except 4010, 4016, & 4499.

Column F, departments 4010 & 4016 relate to buildings and equipment supporting many departments beyond this list, including other ESF and USU operations. A final adjustment during true-up will be based on a new full-loading process that was implemented in 2001.

Column F, department 4499, is allocated based on the proportion of direct charges to international relative to other units, excluding ESF.

Column A is net of direct chargeouts to International of \$1.9 million for the listed departments and a further \$11.7 million for all other ESF.

In the matter of Missouri Public Service)
of Kansas City, Missouri, for authority)
to file tariffs increasing electric rates)
for service provided to customers in the)
Missouri Public Service area)

[illegible]

James S. Brook, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of James S. Brook;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

Subscribed and sworn to before me this 2nd day of January, 2002.

Notary Public

08/07/05

