

*Exhibit No.:*  
*Issues:* Merger Savings/Acquisition  
Adjustment; Aries Purchased  
Power Agreement  
*Witness:* Mark L. Oligschlager  
*Sponsoring Party:* MoPSC Staff  
*Type of Exhibit:* Surrebuttal Testimony  
*Case Nos.:* ER-2001-672 and EC-2002-265  
*Date Testimony Prepared:* January 22, 2002

**MISSOURI PUBLIC SERVICE COMMISSION**  
**UTILITY SERVICES DIVISION**

**SURREBUTTAL TESTIMONY**

**OF**

**MARK L. OLIGSCHLAEGER**

**FILED<sup>3</sup>**

**JAN 22 2002**

**Missouri Public  
Service Commission**

**UTILICORP UNITED INC.**  
**d/b/a MISSOURI PUBLIC SERVICE**

**CASE NOS. ER-2001-672 AND EC-2002-265**

*Jefferson City, Missouri*  
*January 2002*



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**d/b/a MISSOURI PUBLIC SERVICE**  
**CASE NOS. ER-2001-672 AND EC-2002-265**

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1           A.     MPS witnesses Siemek and Empson reiterate the Company's position that  
2 St. Joseph Light & Power (SJLP) merger impacts should not be reflected in MPS rates in  
3 this proceeding. If SJLP merger savings impacts are included in MPS rates, the  
4 Company recommends that a portion of SJLP merger costs (acquisition adjustment,  
5 transaction costs and transition costs) also be reflected in MPS rates.

6           They also claim that the Staff is being inconsistent with positions it has taken in  
7 prior testimony by not proposing some sort of mechanism to "share" merger costs  
8 between UtiliCorp and its customers in this proceeding.

9           Q.     Before dealing with that claim specifically, please restate the Staff's  
10 general position on appropriate ratemaking treatment of merger savings and costs.

11          A.     As stated in my direct testimony, the Staff is opposed to rate recovery of  
12 acquisition adjustments and merger transaction costs. Prudently incurred transition costs  
13 may be allowed rate recovery, preferably through a ten-year or more amortization to  
14 expense.

15          The Staff recommends that utilities be allowed the opportunity to retain merger  
16 savings through the means of regulatory lag. In the context of rate proceedings, the  
17 Commission should reflect a utility's actual cost of service in the rate levels it sets,  
18 including the impact of any merger savings it may have incurred.

19          Q.     Are there situations in which regulatory lag may not be an adequate means  
20 by which to allow utilities a reasonable opportunity to retain merger savings for a period  
21 of time?

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1           A.     Yes. In my rebuttal testimony in Case No. EM-2000-292, UtiliCorp  
2     United Inc.'s (UCU or UtiliCorp) and SJLP's Joint Application for the Commission's  
3     approval of the proposed merger, I stated:

4                     ... when a company undergoing a merger faces increasing revenue  
5                     requirements even when estimated net merger savings are factored  
6                     in, rate increase cases may serve to pass on achieved merger  
7                     savings to customers without a chance for the utilities to retain a  
8                     share of merger savings for a reasonable period. In these  
9                     instances, the Staff would not be opposed in concept to proposals  
10                    by utilities to "share" merger savings in the context of a rate  
11                    proceeding. (Page 48.)

12           Q.     Based upon the above language, do you believe the Staff is being  
13     inconsistent, in any way, by not proposing some mechanism for "sharing" merger savings  
14     in this rate proceeding?

15           A.     No. First, it should be pointed out that the Staff explicitly stated that it  
16     would be willing to consider proposals by utilities to share merger savings.  
17     MPS/UtiliCorp has made no proposal to share merger savings in this proceeding. MPS's  
18     position is that 100% of any savings to date from the merger should be retained by UCU,  
19     with none flowing to its customers. MPS has presented no evidence of what actual  
20     savings it believes it has incurred related to the merger, and how those amounts should be  
21     shared. Simply put, MPS is either not interested in sharing merger benefits in this  
22     proceeding or cannot devise a fair proposal that either is of interest to it or reasonable in  
23     the sharing of any merger savings.

24           Q.     Notwithstanding your last answer, do you otherwise believe that the  
25     current MPS rate proceeding fits the circumstances laid out above in your previous  
26     merger testimony?

1           A.     No. As discussed in my direct testimony filed in this proceeding, the Staff  
2 believes its proposed treatment of merger savings in this case allows UCU a reasonable  
3 opportunity to retain merger savings for a period of time for the following reasons:

4                   1)     UtiliCorp can still retain 100% of the merger savings that  
5 relate to its SJLP division up to the point when new rates are set  
6 for that division.  
7

8                   2)     Because this rate proceeding is taking place at a very early  
9 stage of the integration of SJLP into UCU operations, the Staff's  
10 approach of reflecting MPS's actual cost of service through June  
11 30, 2001 in this case will still leave UCU with major opportunities  
12 to create further merger savings in the future for the MPS division  
13 and, in turn, have the opportunity to retain those savings through  
14 regulatory lag.

15           In fact, the rebuttal testimony filed by MPS witnesses in these proceedings  
16 contains evidence that bolsters both of these conclusions by the Staff.

17           Q.     Taking your last point first, why do you assert that the Company's rebuttal  
18 filing supports the Staff's conclusion that further MPS merger benefits are possible after  
19 this rate proceeding is concluded?

20           A.     The Company's rebuttal testimony is somewhat contradictory,  
21 emphasizing the alleged magnitude of all the merger savings being included in the Staff's  
22 case, while at the same time pointing out all of the areas for which SJLP functions have  
23 yet to be fully integrated into UtiliCorp operations. (Refer to the rebuttal testimony of  
24 Mr. Siemek, pp. 2-9; and the entire rebuttal testimony of MPS witness Carl A. Huslig.)  
25 From this testimony, it is reasonable to infer that significant merger savings are possible  
26 once the SJLP merger integration proceeds, and that some portion of those savings will  
27 accrue to the MPS division in the future.

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1 Q. MPS witness Siemek specifically points to the Staff's inclusion of impacts  
2 of joint dispatch of MPS and SJLP in its case as not allowing MPS a reasonable time to  
3 benefit through regulatory lag from joint dispatch savings. Do you agree?

4 A. No. MPS's rebuttal testimony again reveals that, in reality, UCU has yet  
5 to enjoy all of the expected benefits of joint dispatch that it expects to receive in the  
6 future. Mr. Huslig states in his rebuttal testimony that MPS and SJLP have not fully  
7 integrated their transmission systems, which has the impact of not allowing the full  
8 benefits of generation joint dispatch to be enjoyed at this time. Mr. Huslig says:

9 MPS and SJLP are only integrated for up to 150 MW. This  
10 amount does not reserve enough transmission for MPS to serve all  
11 of the SJLP's division entire native load with MPS generation,  
12 especially in the summer months.

13 The 150 MW number was determined by the available AEC  
14 capacity, which is less than what would be needed to fully  
15 integrate the transmission system.

16 UtiliCorp Power Supply would have preferred this number to be at  
17 least 300 MW. (Pages 2-3.)

18 It is clear from Mr. Huslig's testimony that UCU expects greater benefits in the  
19 joint dispatch area once a course of action is chosen (from among the options presented  
20 in Mr. Huslig's rebuttal testimony) to fully integrate MPS's and SJLP's transmission  
21 systems. From this testimony, it also appears that this full integration may not take place  
22 until the end of 2002, at the earliest.

23 Q. Regarding the SJLP division, why does Mr. Siemek assert that UCU will  
24 not have major opportunities to benefit through regulatory lag from merger savings  
25 applicable to the SJLP division?

26 A. Mr. Siemek, at page 17 of his rebuttal testimony, claims that the merger  
27 savings the Staff is proposing to flow to customers in rates in this case constitute

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1 \$90 million over a ten-year period, while the total projected merger savings over the  
2 same time period is \$184 million. Mr. Siemek cites these numbers to support his  
3 contention that the Staff's approach to merger savings in this case "eviscerate" regulatory  
4 lag as a means for UtiliCorp to retain merger savings, and also to imply that the Staff is  
5 taking merger savings properly assignable to the SJLP division and is using them to  
6 reduce MPS's cost of service.

7 Q. Does the Staff agree that MPS witness Siemek's comparisons of merger  
8 savings flowed to customers for a ten-year period and total projected merger savings for  
9 ten years are valid?

10 A. No. First, as discussed in my direct testimony in this case, UCU's  
11 estimates of total merger savings over ten years (developed in 1999 and sponsored by  
12 UCU and SJLP in Case No. EM-2000-292) were based upon any number of assumptions  
13 that are now known to be inaccurate, and thus this estimate is no longer meaningful or  
14 relevant, if it ever was. Accordingly, to make a comparison of merger savings flowed to  
15 customers in this case to that specific merger savings estimate is not meaningful, either.  
16 To respond to the Company's rebuttal filing, I will be citing UCU's estimated merger  
17 savings and cost amounts frequently. References to these numbers should not be  
18 interpreted as agreement by the Staff that these estimates are accurate or should be relied  
19 upon by the Commission.

20 Second, the \$90 million figure cited by Mr. Siemek is not appropriately compared  
21 to the total merger savings estimate of \$184 million in any case; they are "apples and  
22 oranges" numbers.

23 Q. Please explain.



1           A.     Please refer to Schedule VJS-6, attached to Mr. Siemek's rebuttal  
2 testimony in this proceeding. This Schedule is Mr. Siemek's re-worked version of his  
3 Schedule VJS-1 from the UCU/SJLP merger proceeding, and which was attached to his  
4 direct testimony in this proceeding. Schedule VJS-1 was a presentation of UtiliCorp's  
5 total estimated merger costs and savings amounts over the first ten years following the  
6 merger. With one exception, the estimated amounts contained in Schedule VJS-1 from  
7 the merger application case and found on Schedule VJS-6 are identical. Schedule VJS-6  
8 purports to allocate merger savings and costs between the SJLP and MPS divisions of  
9 UCU, based upon the Staff's positions in this case. Line 1 of Schedule VJS-6 shows the  
10 UCU ten-year estimate of total merger savings of \$184 million, broken out by savings  
11 allegedly applicable to the SJLP and MPS divisions of \$128 million and \$56 million,  
12 respectively. Line 1 of Schedule VJS-6 clearly shows that UCU itself believes that the  
13 positions taken by the Staff in this MPS rate proceeding will only effectively assign  
14 \$56 million of these savings to MPS, leaving the remainder to the SJLP division. Based  
15 upon Line 1 of this Schedule, even MPS is indicating that approximately 70% of total  
16 merger savings will be left for the SJLP division by the Staff's approach.

17           Q.     What does this \$56 million of merger savings allegedly assigned to MPS  
18 by the Staff pertain to?

19           A.     This number is UCU's quantification of generation joint dispatch savings  
20 applicable to MPS under the Staff's approach in this case, calculated out for ten years  
21 (i.e., \$5.6 million per year for ten years.)

22           Q.     Does the Staff agree that it is assigning \$5.6 million in joint dispatch  
23 savings to MPS in this rate case?

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1           A.     No.     As indicated in the rebuttal testimony of Staff witness  
2 Michael S. Proctor of the Energy Department in this case, at page 16, the Staff is now  
3 proposing to assign \$5.1 million in joint dispatch savings to MPS (total Company) in this  
4 rate proceeding. This number, multiplied by ten years, is \$51 million. Therefore, Line 1  
5 of Schedule VJS-6 actually overstates the percentage of UCU's total merger savings that  
6 the Staff believes should be assigned to MPS.

7           Q.     If Line 1 to Schedule VJS-6 shows only \$56 million of the \$184 million  
8 estimated ten-year merger savings amount would be assigned to MPS under the Staff's  
9 proposals in this case, why does Mr. Siemek assert that the true merger savings  
10 assignment by the Staff to MPS is \$90 million over ten years?

11          A.     As shown on Line 2 of Schedule VJS-6, Mr. Siemek is adding \$34 million  
12 to the ten-year joint dispatch merger savings the Staff is allegedly flowing to MPS  
13 customers in this rate proceeding. This \$34 million relates to MPS corporate cost  
14 reductions related to the addition of SJLP to UtiliCorp as a consequence of the merger.

15          Q.     How does UCU's quantification of \$34 million in corporate cost  
16 reductions resulting from the merger relate to the earlier cited UCU merger savings ten-  
17 year estimate of \$184 million?

18          A.     Merger savings to MPS from corporate allocations reductions were not  
19 part of UCU's quantification of the \$184 million UCU savings estimate in the first place,  
20 so there is no relationship between the two amounts. That is why it is incorrect and  
21 misleading for Mr. Siemek to add the \$34 million in corporate cost impacts to the joint  
22 dispatch impacts of \$56 million, and then compare that total to the \$184 million merger  
23 savings estimate. That treatment implies that the Staff's treatment of MPS corporate

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1 allocations impacts in this case somehow makes \$34 million of the total \$184 million in  
2 estimated merger savings unavailable to UtiliCorp for possible retention through  
3 regulatory lag in the next ten years. This implication is incorrect.

4 Q. Are there other points that need to be brought to the Commission's  
5 attention regarding Schedule VJS-6 and corporate cost impacts?

6 A. Yes. Line 2 of Schedule VJS-6 shows an alleged ten-year merger benefit  
7 of \$34 million to MPS in the allocation of UCU corporate costs away from MPS to SJLP,  
8 as well as a ten-year merger detriment of \$100 million to the SJLP division in corporate  
9 costs. In short, in terms of impacts on Missouri customers, MPS's own estimated  
10 numbers show an overall merger detriment to Missouri in the corporate costs area.

11 Q. What does this merger detriment mean in terms of UtiliCorp's position  
12 that it is entitled to recover merger costs in rates if any benefits to MPS customers are  
13 flowed through in rates in the corporate costs area?

14 A. The apparent benefit to MPS and detriment to SJLP in the corporate  
15 allocations area are directly related. That is because some of the benefits to the MPS  
16 division in reduced corporate costs are not merger "savings" at all; in reality, they  
17 represent a transfer in corporate costs formerly assigned to MPS and other existing UCU  
18 divisions to the new division of UtiliCorp, SJLP.

19 Reallocating corporate costs among divisions due to a merger does not represent  
20 true merger "savings", in any sense of the word.

21 UCU has not been, and still is not, consistent in how it proposes to tie together the  
22 issue of corporate allocation merger impacts and recovery of merger costs. UCU is  
23 insistent that the corporate allocation reductions experienced for MPS not be flowed

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1 through in rates to MPS's customers' benefit. However, at no point in the merger  
2 application case or in this proceeding has UtiliCorp indicated that it accepts the logical  
3 fallout of that position: that it will also not seek to recover from SJLP customers in rates  
4 the increased corporate costs that clearly will result for that division from this merger.  
5 These positions attempt to put UCU in the win/win situation of seeking to reflect  
6 increased allocations of corporate costs in rates for the future for the SJLP division, while  
7 not reflecting decreased corporate costs in rates for the MPS division. This is inequitable,  
8 and reflects an apparent strategy on UtiliCorp's part of over-recovering corporate cost  
9 allocations in rates to help pay for the costs of the SJLP merger.

10 Q. On page 17 of his rebuttal testimony, Mr. Siemek implies that the  
11 \$28 million in merger savings allegedly available to the SJLP division over ten years,  
12 shown on Line 3 of Schedule VJS-6, is a miniscule number, caused by an  
13 over-assignment of merger savings to the MPS division by the Staff. Do you agree?

14 A. No. Again, Schedule VJS-6 depicts the true situation clearly. If  
15 \$28 million in merger savings over ten years for the SJLP division is somehow  
16 inadequate, that number is a direct result of UtiliCorp's cost allocation policies which  
17 will result in the assignment of \$100 million in additional corporate costs to that division  
18 in the first ten years following the merger. It is that allocations policy which results in  
19 UCU's asserted minimal net merger savings for the SJLP division.

20 Q. Do you have any other comments on Schedule VJS-6?

21 A. Yes. First, Schedule VJS-6 is made up entirely of estimated merger  
22 savings and cost numbers sponsored by UtiliCorp in the merger case, No. EM-2000-292,  
23 with the exception of Line 5, Transition and Transaction Costs, in which Mr. Siemek has

1 chosen to substitute actual costs incurred for the previously estimated amounts for these  
2 items. It is strange that MPS chose only to update the actual transaction and transition  
3 cost amounts for purposes of this Schedule, as actual amounts are also now available for  
4 Line 6, Premium Costs. As was discussed in my rebuttal testimony in this proceeding,  
5 the actual merger premium paid by UCU for the SJLP properties of approximately  
6 \$109 million exceeded the estimated amount. Yet Mr. Siemek did not update Line 6 for  
7 the actual values of the acquisition adjustment in the same manner he did for Line 5.

8 Q. What else is significant about Schedule VJS-6?

9 A. The Staff notes that Line 6, Premium Costs, represents 100% of the  
10 estimated premium amount for the UCU/SJLP transaction. The amounts on Line 6 seem  
11 to imply a position by UCU that the Commission should assign approximately 76% of the  
12 total acquisition adjustment to the MPS division in this case, with the remainder being  
13 assigned to the SJLP division.

14 Q. If the Commission were to consider allowing MPS to recover some  
15 portion of the acquisition adjustment in this proceeding, would an allocation of 76% of  
16 the total premium to MPS be a reasonable assignment?

17 A. Absolutely not. To begin with, this calculation assumes that the  
18 acquisition adjustment is 100% allocable to UCU's regulated operations. This is  
19 completely inappropriate. UtiliCorp only sought 50% direct recovery of the premium in  
20 its "regulatory plan" it sponsored in the merger application case. (Other elements of the  
21 regulatory plan, if it had been approved, would have allowed UCU to recover  
22 substantially more than 50% of the acquisition adjustment amount through other, indirect,  
23 means.) In their transcribed interviews during the merger application case, both

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1 Mr. Siemek and Mr. John W. McKinney made the argument that the non-regulated  
2 assignment of the acquisition adjustment was part of the 50% of the premium for which  
3 they were not seeking direct recovery.

4 In Schedule VJS-6, UCU seems to have ignored these prior statements.

5 Q. Does Mr. Siemek address the matter of an allocation of the premium to  
6 non-regulated operations at page 21 of his rebuttal testimony?

7 A. Yes. In his testimony, Mr. Siemek states that the non-regulated ventures  
8 of the stand-alone SJLP were minor in nature, and that only a "token" portion of the  
9 premium paid for SJLP can be attributed to non-regulated operations. This entirely  
10 misses the Staff's point about the relationship between UCU's non-regulated operations  
11 and the merger premium. In rebuttal testimony filed in the merger application case, Case  
12 No. EM-2000-292, Staff witness Charles R. Hyneman and I presented evidence of  
13 UtiliCorp's expectations that SJLP's generating assets had a far higher market value than  
14 book value. This meant, in a deregulated generation marketplace, that those plants'  
15 owner could charge higher prices for their output than is now allowed under traditional  
16 regulation. In turn, this meant that potential buyers of these generating assets would be  
17 willing to pay a substantial premium for them. Under no circumstances should the  
18 premium amount associated with this expectation be recovered from regulated customers.  
19 This point was also addressed in my direct and rebuttal testimony in this proceeding, and  
20 in Mr. Hyneman's rebuttal testimony in this case.

21 Q. Is there other evidence that a substantial portion of the premium relates to  
22 expectations of non-regulated gains?

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1           A.     Yes. Schedule 1 to this testimony is Mr. Siemek's workpaper VSJ-1 from  
2 the merger application case. This workpaper provides the support for the numbers  
3 contained on Schedule VJS-1 to Mr. Siemek's direct testimony in Case  
4 No. EM-2000-292, which is attached to his direct testimony in this case, and provides a  
5 year-by-year breakout of expected merger savings and costs for the first ten years of the  
6 merger for the proposed SJLP division. (With very minor exceptions, all merger savings  
7 and costs were to be assigned to the SJLP division under the proposed regulatory plan.)  
8 Again, the amounts in this workpaper also support the amounts contained in  
9 Schedule VJS-6 in this case.

10           The significance of workpaper VJS-1 can be seen by comparing the amounts for  
11 Line V (Total Synergies, net of Costs to Achieve and Allocated Costs) to Line VI-4  
12 (Total Premium cost) for the ten years covered in this analysis. This comparison shows  
13 that when 100% of the premium costs are considered, total premium cost exceeds the  
14 expected merger savings (net of transaction and transition costs) in each of Years 1-10  
15 following the merger. In other words, for this period of time, the merger is projected to  
16 be uneconomic.

17           Q.     Why was UCU willing to pay a merger premium in excess of anticipated  
18 SJLP merger benefits?

19           A.     The Staff believes that UtiliCorp would do no such thing. That leaves two  
20 alternative explanations for the situation shown on workpaper VJS-1: (1) there are  
21 additional regulated merger savings that UCU expects to result from the merger in  
22 Years 1-10 that it has not included in its estimate of merger savings and has not chosen to  
23 disclose to the Commission; and/or (2) there are substantial non-regulated benefits from

1 the merger that UCU has not disclosed to the Commission. Otherwise, the economics of  
2 this merger do not make sense.

3 The Staff believes the second alternative is the more likely explanation for the  
4 apparent non-economic nature of the SJLP merger transaction, the nature of which is  
5 again demonstrated in Mr. Siemek's Schedule VJS-6 in this case (refer to Line 8 of that  
6 Schedule). In any case, the Staff continues to recommend that the Commission not  
7 consider allowing rate recovery for any portion of the acquisition adjustment. Even if the  
8 Commission were to consider rate recovery of any portion of the acquisition adjustment,  
9 the Commission should not do so until UtiliCorp presents evidence of a credible  
10 allocation of the acquisition adjustment to non-regulated operations. Otherwise, there is a  
11 very real risk that UCU's regulated customers will cross-subsidize the non-regulated  
12 operations of UtiliCorp by paying costs properly attributable to non-regulated operations.

13 Q. Are there other reasons why Schedule VJS-6 does not support assignment  
14 of a portion of the acquisition adjustment to MPS customers?

15 A. Yes. Line 6 of Schedule VJS-6 implies that recovery of the acquisition  
16 adjustment should be entirely the responsibility of Missouri UCU electric customers.  
17 Under UCU's own arguments for premium recovery, this is not true. UtiliCorp has  
18 argued in this case that any reflection of reduced corporate allocations in MPS's rates  
19 should lead to an assignment of the merger premium to MPS as well. But MPS is not  
20 alone in benefiting in this way from the SJLP transaction; all existing UCU divisions in  
21 the United States will benefit in the same way to some degree. Therefore, under this  
22 logic, all UCU divisions in Nebraska, Minnesota, Michigan, etc., should pay a portion of  
23 the SJLP merger premium if customers of these UCU divisions are to be given the benefit



1 of reduced allocations of corporate costs to those jurisdictions. Accordingly, under  
2 UCU's merger ratemaking theories, a substantial amount of the regulated portion of the  
3 merger premium is the responsibility of the other jurisdictions where it operates, not just  
4 Missouri.

5 Q. Mr. Empson has attached to his rebuttal testimony in this proceeding his  
6 surrebuttal testimony from the UtiliCorp/The Empire District Electric Company (Empire)  
7 merger application case, No. EM-2000-369. Please summarize your response to this  
8 attachment.

9 A. While Mr. Empson's discussion in this attachment pertains to the Empire  
10 acquisition (which subsequently was terminated by UCU), apparently he believes his  
11 comments pertain as well to the SJLP transaction. As such, Mr. Empson's surrebuttal  
12 testimony in the Empire merger application case can be summarized in relation to the  
13 SJLP transaction as arguing that since the transaction will benefit SJLP customers in  
14 various ways, SJLP customers should pay for the costs incurred by UCU in bringing  
15 about the transaction, including payment of a merger premium.

16 The flaw in Mr. Empson's logic is his refusal to seriously address the indications  
17 that UCU entered into the SJLP transaction for reasons relating to an expectation of non-  
18 regulated benefits. This possibility complicates considerably his depiction of the equity  
19 of charging regulated customers all of the costs of merger and acquisition transactions.  
20 As previously discussed in this testimony, the Staff believes non-regulated benefits were  
21 a significant motivator in UCU deciding to acquire the SJLP properties.

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1           Q.     In his rebuttal testimony at pages 18-20, Mr. Siemek raises what he  
2 considers to be the Staff's failure to address properly other merger costs besides the  
3 acquisition adjustment. What is your response?

4           A.     The Staff is willing to include in its case an amortization of transition  
5 costs, adjusted to remove costs associated with executive severance and benefit costs, as  
6 well as redundant board of director costs. Staff witness Janis E. Fischer in her surrebuttal  
7 testimony in this proceeding sponsors this proposal for recovery.

8           The Staff continues to oppose the recovery of merger transaction costs, for the  
9 reasons discussed by Ms. Fischer in her rebuttal and surrebuttal testimony in this  
10 proceeding.

11          Q.     How is the Staff proposing to allocate SJLP merger transition costs to the  
12 MPS division in this proceeding?

13          A.     The Staff is proposing to use the same allocation factor used to assign  
14 joint dispatch savings to MPS in this rate case, or 78.6%. Please refer to the direct  
15 testimony of Staff witness Proctor, at page 15, for a discussion of how this allocation  
16 factor was derived.

17          The Staff is proposing to use this allocation factor for purposes of this proceeding  
18 only. Use of this factor should not be interpreted as an agreement by the Staff that any  
19 merger savings, in joint dispatch or in other areas, should be assigned in this proportion  
20 to the MPS division in future rate proceedings.

21          Q.     Has the Staff made any other changes to its case in response to  
22 Mr. Siemek's rebuttal testimony?

1           A.     Yes. The Staff has now annualized the transmission interconnection costs  
2 referenced at page 18 of Mr. Siemek's rebuttal testimony, so that twelve months of this  
3 expense are now reflected in the Staff's case.

4           Q.     Please summarize your surrebuttal testimony relating to the merger related  
5 issues in this proceeding.

6           A.     The Staff believes its proposed treatment of merger savings and costs in  
7 this rate case gives UCU a reasonable opportunity to retain benefits from the merger for a  
8 period of time through regulatory lag. The Staff is not proposing to flow a  
9 disproportionate share of total merger savings to ratepayers in this case. The Staff is not  
10 proposing to flow a disproportionate share of merger savings to the MPS division in this  
11 proceeding relative to the SJLP division.

12           UtiliCorp has not supported its fallback position for recovery of an acquisition  
13 adjustment and other merger costs from MPS customers in this case. UCU has not  
14 proposed a reasonable allocation of the acquisition adjustment to its non-regulated  
15 operations. UCU has not proposed a reasonable allocation of whatever portion of the  
16 merger premium relates to the regulated electric operations of MPS. UCU has not  
17 submitted any evidence that this merger transaction is or will be economic from the  
18 perspective of its regulated operations at this time or in the future.

19     **ARIES PURCHASED POWER AGREEMENT**

20           Q.     What criticisms do Company witnesses Ferry and Empson make of the  
21 Staff's direct testimony concerning the Aries unit purchased power agreement (PPA)?

22           A.     Mr. Ferry and Mr. Empson make these arguments:

- 23                   1. The Staff's recommendations in Case No. EM-99-369, that the  
24                   Commission make certain determinations regarding the Aries

unit PPA required under Section 32(k) of the Public Utility Holding Company Act of 1935, are inconsistent with the Staff's position in this proceeding that the costs of the Aries unit PPA should not be fully reflected in MPS rates (Empson rebuttal, pp. 3-6; Ferry rebuttal, pp. 7-8);

2. Contrary to the Staff's direct testimony, the Aries unit PPA is not an "abusive" affiliate transaction, to which the Commission rules regarding affiliate transactions do not apply in any case. The Company portrays the Aries unit PPA contract as being an "arms-length", market based contract (Empson rebuttal, pp. 2-5; Ferry rebuttal, pp. 4-6);
3. The Staff position is that the Aries unit should be rate based for purposes of this case, which is an inappropriate and inflexible approach to meeting MPS's generating needs (Ferry rebuttal, pp. 8-10);
4. The financing arrangements for the Aries PPA have resulted in certain tax benefits which will be enjoyed by MPS customers (Ferry rebuttal, p. 10); and
5. The Staff has mischaracterized the provisions of recent Kansas Corporation Commission (KCC) orders in its direct testimony (Empson rebuttal, pp. 11-12).

Because the Staff's position on the Aries unit PPA issue in its supplemental direct testimony filed on January 15, 2002, is consistent with its preliminary position regarding this matter filed in direct testimony, the Staff will address each of the Company's arguments in turn in this surrebuttal testimony.

Q. Why do the MPS witnesses on this issue believe the Staff's position in this case regarding the Aries unit PPA is inconsistent with the Staff recommendations in Case No. EM-99-369?

A. Mr. Empson and Mr. Ferry assert that the Staff had the opportunity to review the MPS/Merchant Energy Partners – Pleasant Hill (MEPPH) contract for the Aries unit power, and the bidding process that led to the PPA, during the Staff's review of UtiliCorp's filing in Case No. EM-99-369, and the Staff expressed no concerns

1 regarding the Aries unit PPA at that time. In light of the Staff's recommendations in  
2 Case No. EM-99-369, Mr. Ferry, in his rebuttal testimony at page 5, characterizes the  
3 Staff's position to now oppose recovery of the Aries unit PPA in rates as "pure  
4 gamesmanship," and that the Staff's position in this proceeding in effect "whipsaws"  
5 MPS.

6 Q. In your view, did the Staff bind itself in Case No. EM-99-369 to a position  
7 that would prohibit the Staff from challenging MPS's proposed treatment of the Aries  
8 unit PPA costs in this rate proceeding?

9 A. No. As is standard practice in non-rate case applications that have may or  
10 will have implications in future rate proceedings, in Case No. EM-99-369 the Staff  
11 recommended that the Commission condition its approval on, among other things,  
12 reserving the rights of all parties to review all rate aspects of the Aries unit PPA in future  
13 rate proceedings. The Office of the Public Counsel (OPC) filed a similar  
14 recommendation with the Commission (Ferry Rebuttal, Schedule SLF-2). As it is the  
15 Commission's standard approach to not make a ratemaking determination outside of a  
16 rate case, the Commission accepted and adopted the Staff and OPC recommendations.  
17 More importantly, the Company also accepted this language as a condition of the  
18 Commission approving the application filed in Case No. EM-99-369.

19 Q. What was the language used by the Staff and the Commission in Case  
20 No. EM-99-369 regarding the right to consider the Aries unit PPA in determining rates in  
21 future rate proceedings?

22 A. Mr. Ferry has attached to his rebuttal testimony copies of the two Staff  
23 memoranda to the Commission containing the Staff's recommendations in Case

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1 No. EM-99-369 to his rebuttal testimony, as well as the Commission's Order. These two  
2 Staff memoranda are from Dr. Michael S. Proctor and myself and are Schedule SLF-1 to  
3 Mr. Ferry's rebuttal testimony. The Commission Order in Case No. EM-99-369 is  
4 Schedule SLF-3 to Mr. Ferry's rebuttal testimony. Mr. Ferry also attached OPC's  
5 recommendation in Case No. EM-99-369 as Schedule SLF-2 to his rebuttal testimony.

6 In my recommendation to the Commission, I stated, "[t]he Commission's  
7 approval of UtiliCorp's Application should be contingent upon the following condition:

8 ...UtiliCorp shall agree that an order containing the  
9 findings required by the PUHCA with respect to the PSA [power  
10 supply agreement] shall in no way be binding on the Commission  
11 or any party to a future rate or earnings complaint case to contest  
12 the ratemaking treatment to be afforded the PSA.... (Ferry  
13 rebuttal, Schedule SLF-1, p. 7 of 18.)

14 In the Commission Order Regarding Power Sales Agreement in Case  
15 No. EM-99-369, the Commission adopted the language quoted above as a specific  
16 condition to its approval of UtiliCorp's application (Ferry rebuttal, Schedule SLF-3, pp.  
17 3-4 of 6).

18 Q. Does UCU appear to contest in its surrebuttal testimony in this rate  
19 proceeding that in Case No. EM-99-369 all ratemaking aspects of the Aries unit PPA  
20 were reserved to future rate proceedings?

21 A. Yes, despite the fact that UtiliCorp used the following language in its  
22 application to the Commission in Case No. EM-99-369, "UtiliCorp understands that an  
23 order containing the findings required by the PUHCA with respect to the PSA shall in no  
24 way be binding on the Commission or any party to a future rate case to contest the  
25 ratemaking treatment to be afforded the PSA." (Ferry rebuttal, Schedule SLF-1, p. 7 of  
26 18.)

1           Q.     Beyond the approach that rate determinations should not be made outside  
2 of a rate proceeding, are there any other reasons why the Staff could not have formulated  
3 a ratemaking position on Aries unit PPA costs in that case?

4           A.     Yes. UtiliCorp asked for expedited treatment of its application in that  
5 case. It filed that case on March 1, 1999, asking the Commission to issue an order  
6 concerning its application by May 1, 1999. The Commission ordered the Staff and the  
7 Office of the Public Counsel on March 5, 1999 to file their recommendations to the  
8 Commission regarding UCU's application by April 5, 1999. (Ferry rebuttal,  
9 Schedule SLF-3, pp. 1-2 of 6). Any review of the Staff's activities done in response to  
10 UCU's application in Case No. EM-99-369 should be analyzed in the context of this  
11 extremely short timeframe.

12          Q.     Were you personally involved in the Staff's review of UtiliCorp's  
13 application in Case No. EM-99-369?

14          A.     Yes, as evidenced by the fact that I submitted one of the two Staff  
15 memoranda to the Commission containing the Staff's recommendations concerning that  
16 application.

17          Q.     Were you and other Staff members under any constraints in that case?

18          A.     Yes, because of UtiliCorp's request for expedited treatment and the  
19 resulting Commission deadline for the Staff to respond to the application, the Staff was  
20 not able to perform a thorough review of the Aries unit PPA contract. Instead, I  
21 concentrated on assisting in formulating recommended conditions for Commission-  
22 conditional approval that would facilitate the Staff's reviewing of the PPA contract costs  
23 in a subsequent rate proceeding.

1 Q. Do the attachments to Mr. Ferry's rebuttal testimony reflect the nature of  
2 the Staff's abbreviated review of UtiliCorp's application in Case No. EM-99-369?

3 A. Yes. In Dr. Proctor's recommendation to the Commission for Case  
4 No. EM-99-369, the following statements are made:

5 The Staff's limited observation of that process found no evidence  
6 to indicate that an unfair competitive advantage was afforded  
7 MEPPH. (Ferry Rebuttal, Schedule SLF-1, p. 12 of 18).  
8

9 Therefore, the Staff is willing to state that the PSA between MPS  
10 and MEPPH is in the public interest, subject to the conditions and  
11 ratemaking standards discussed below and in the accompanying  
12 recommendation, which will permit a detailed review of the  
13 transaction in the context of a rate increase or earnings complaint  
14 case. (Ibid., pp.15-16 of 18).  
15

16 A determination of which of the options is least cost would involve  
17 a Staff analysis that at best could take several weeks, but more  
18 likely would take several months, to complete. (Ibid., p.18 of 18).  
19 [Emphasis added.]

20 Q. Regardless of whether the Staff performed a ratemaking review of the  
21 Aries unit PPA in Case No. EM-99-369, would it have been good policy for the  
22 Commission to have made ratemaking determinations regarding the Aries unit PPA in  
23 that case?

24 A. No. Such determinations should not be made outside of cases where rates  
25 are being set or where the approval of generating resource decisions is directly at issue.

26 Q. On pp. 4-5 of Mr. Empson's rebuttal testimony, he states why MPS  
27 accepted the "ratemaking risk" that the Staff used as a condition for approval in Case  
28 No. EM-99-369. Please comment.

29 A. In his testimony, Mr. Empson implies that it was a matter of forbearance  
30 for UCU to accept the Commission's caveat reserving rate treatment of the matters  
31 addressed within the application to future rate proceedings. In reality, this condition was



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1 clearly accepted by UtiliCorp prior to the Staff's review of that application, and was  
2 never challenged by UCU during the course of the Staff's and the Commission's review.  
3 If the condition reserving ratemaking rights to future rate proceedings had been  
4 challenged by UCU at the time, the Staff would have conducted a very different and more  
5 time-consuming review of the Aries unit PPA.

6 One element of Section 32(k) of the Public Utility Holding Company Act not  
7 previously addressed by me in testimony would take on greater significance if the Staff  
8 had sought to make a full ratemaking review of the Aries unit PPA in Case  
9 No. EM-99-369. That element requires every state commission having jurisdiction over  
10 the retail rates of an electric utility company entering into a contract to purchase electric  
11 energy at wholesale from an Exempt Wholesale Generator that is an affiliate or associate  
12 company to determine in advance of an electric utility company entering into such  
13 contract "that such commission has sufficient regulatory authority, resources and access  
14 to books and records of the electric utility company and any relevant associate, affiliate  
15 or subsidiary company to exercise its duties under this subparagraph." (Emphasis added.)

16 Q. Did the Staff know the ownership or financing structure of the Aries unit  
17 or the financing of the unit known at the time of the Staff's investigation in Case  
18 No. EM-99-369 in 1999?

19 A. No.

20 Q. Did the Staff make known to UCU, both before the Staff's audit in Case  
21 No. ER-2001-672 commenced and during that audit, that it intended to make a thorough  
22 review of the Aries unit PPA as part of this rate proceeding?

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1           A.     Yes. The Staff conveyed numerous times to UtiliCorp that it intended to  
2 perform a review of the Aries unit PPA in the context of Case No. ER-2001-672.

3           Q.     Please summarize the Staff's response to UCU's contentions that the  
4 Staff's position on rate recovery of Aries unit PPA costs is somehow unfair in light of  
5 actions in past Commission proceedings.

6           A.     The Staff undertook its review of the Aries unit PPA costs in this rate  
7 proceeding in a manner fully consistent with the representations in Case No. EM-99-369,  
8 and in a manner fully consistent with the past practice of both it and the Commission.  
9 The Staff has not engaged in "gamesmanship" and is not seeking to "whipsaw" UCU.  
10 UtiliCorp has taken the position of, after requesting expedited treatment of an application,  
11 now criticizing the Staff for having accommodated UtiliCorp, but not with the result that  
12 UtiliCorp had assumed would follow, despite the conditions that went along with the  
13 accommodation. It is apparent that UtiliCorp is attempting to use the Commission's  
14 approval of its application in Case No. EM-99-369 as a basis for arguing that the  
15 Commission has already ruled on the merits of the Aries unit PPA.

16          Q.     On page 5 of his rebuttal testimony, referring to the Commission's affiliate  
17 transaction rules, MPS witness Ferry states, "Mr. Oligschlaeger carefully sidesteps  
18 alleging that MPS has violated the Commission's rules..." Is the Staff, in fact, alleging  
19 that MPS violated the Commission's affiliate transaction rule,  
20 4 CSR 240-20.015, with respect to the Aries unit PPA?

21          A.     No. Whether the Aries unit PPA violates the affiliate transaction rules or  
22 not, the Commission is of course not precluded from using the standards contained within  
23 that rule when it takes the Aries unit PPA into account in setting rates.

1           Q.     Mr. Ferry emphasizes that the Staff should not have any concerns about  
2 the pricing of the Aries unit PPA, since it uses a market-based rate established through a  
3 competitive bidding process. Does the Staff agree?

4           A.     No. As discussed in both the Staff's direct and supplemental direct filing  
5 on this issue, the Staff believes that affiliate transactions should be assessed for rate  
6 purposes by using a "lower of cost or market" analysis. The Commission's affiliate  
7 transaction rules are premised upon this belief as well. The market price allegedly  
8 established for the Aries unit PPA is only one part of the equation; the Commission needs  
9 to know the cost of the power sold to MPS in order to make a determination of the  
10 reasonableness of the Aries unit PPA prices for rate purposes. Referring back again to  
11 Case No. EM-99-369, the Staff's review of the UCU application focused on the process  
12 used by UCU to determine the market price of power for MPS; the Staff did not examine  
13 issues of the cost of power to MPS at that time. Nor could it have, as the Staff did not  
14 know the ownership and financing structure of the Aries unit at that time.

15          Q.     What does the Staff believe the "cost" of the Aries unit power is?

16          A.     As explained in my supplemental surrebuttal testimony, the Staff believes  
17 that MEPPH's payments to the Aries unit owner, Cass County, MO, represent the best  
18 available valuation of the unit's cost. The basis for this belief is explained in that  
19 testimony. As the cost of the Aries unit power is less than the prices established within  
20 the Aries unit PPA, the Staff believes that the Cass County lease payments represent the  
21 appropriate basis for setting rates in this case for MPS in relation to power obtained from  
22 the Aries unit.

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1           Q.     On page 5 of his rebuttal testimony, Mr. Empson asserts that the Staff is  
2 attempting to use MEPPH's cost of power from the Aries unit, instead of using MPS's  
3 cost of power from that unit, in making its rate recommendation in this matter. Please  
4 comment.

5           A.     Mr. Empson bases this argument on the Commission's affiliate transaction  
6 rules, which he elsewhere argues do not apply to the Aries unit PPA in any event. The  
7 more relevant point, in the Staff's opinion, is why the cost for power from the Aries unit  
8 would be different for MEPPH than for MPS in the first place. The Staff is aware of no  
9 reason why MPS could not have entered into and negotiated the same terms with Cass  
10 County that MEPPH did, and thereby gained the benefit of such terms on behalf of its  
11 customers, as opposed to paying a higher price under the Aries unit PPA in order to give  
12 its non-regulated affiliate higher profit levels. The Staff perceives no reason why MPS  
13 would choose to go through a third party to negotiate a deal with Cass County if MPS  
14 was not affiliated with that third party. The course of action followed by UtiliCorp in this  
15 matter does have the impact of allowing an unregulated UtiliCorp affiliate  
16 (Aquila/MEPPH) to earn higher profits on a transaction that otherwise would have been  
17 reflected in lower rates to customers.

18           Q.     Also on page 5 of his rebuttal testimony, Mr. Empson states, "The Staff  
19 appears to believe that an affiliate is not entitled to make a profit on a transaction even  
20 when its bid, in a competitive bidding process, is the lowest cost option for the  
21 customer." Is this statement true?

22           A.     No. Under the "lower of cost or market" approach, a utility affiliate is free  
23 to make whatever profit it can earn from the affiliate transaction, as long as that level of

1 profit does not increase the price of the good/service above the utility's cost of providing  
2 that good/service to itself.

3 Q. On pages 8-10 of his rebuttal testimony, Mr. Ferry makes several  
4 references to the Staff's position in this case as proposing "rate basing" of the Aries unit.  
5 Is this assertion accurate?

6 A. No. Nowhere in the Staff's direct testimony is it proposed that the  
7 Commission "rate base" the Aries unit for purposes of setting rates in this proceeding.  
8 The Staff is recommending, however, that the Commission order UtiliCorp to analyze the  
9 option of having its regulated electric utilities build and own generation, along with the  
10 option of obtaining power through PPAs, when MPS and SJLP determines the most  
11 economical long-range solution to their future power needs. The rationale for this  
12 recommendation is discussed in my direct testimony and that of Staff Accounting witness  
13 Cary G. Featherstone. Currently, UCU is operating under a policy whereby it does not  
14 even consider utility ownership of generation facilities as an option to obtain power for  
15 future needs.

16 Q. On page 10 of his rebuttal testimony, MPS witness Ferry makes reference  
17 to "favorable tax treatment" on the Aries unit facility, the benefits of which would  
18 ultimately be passed on to consumers. Did the Staff take tax treatment of the Aries  
19 facility into consideration in formulating its position?

20 A. No. First, the Staff is not sure exactly what Mr. Ferry is referring to in  
21 regard to "favorable tax treatment", but assumes it relates to reductions in property taxes  
22 related to Cass County ownership of the facility. Second, the benefits referred to may be  
23 passed on to "consumers" at some point, but it will not be MPS consumers for the term of

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1 the PPA. By UCU's own admission, the price paid by MPS for power under the Aries  
2 unit PPA is a market-based rate, based upon competitive bidding, and which was  
3 established before any known contact UtiliCorp made with Cass County regarding  
4 ownership of the Aries unit. If these tax benefits exist, they are presumably reflected in  
5 the payments to be made by MEPPH to Cass County, and would flow to UCU's bottom  
6 line, not to MPS customers through lower rates.

7 Q. In his rebuttal testimony at pages 11-12, Mr. Empson claims that you have  
8 misinterpreted the meaning of a recent KCC order concerning rate treatment of the  
9 Jeffrey Energy Center (Jeffrey). Is he accurate?

10 A. I believe not. I have attached as Schedule 2 to this testimony the first page  
11 and the following relevant pages of the KCC's "Order on Application", relating to its  
12 Docket No. 01-WPEE-473-RTS, West Plains Energy Kansas (West Plains). Pages 7-9 of  
13 this Order lay out the context of my discussion in direct testimony of the change in  
14 position made by the KCC in how to value the Jeffrey Energy Center (Jeffrey or JEC)  
15 plant for rate purposes for West Plains.

16 The Staff notes that the excerpt of the KCC Order included in Schedule 2 makes  
17 clear that the KCC changed how the Jeffrey unit was to be reflected in West Plains' rates  
18 by imputing "an operating cost in cost of service for the JEC unit as though the JEC unit  
19 had been included in rate base" (Schedule 2-3). UtiliCorp itself proposed this change in  
20 treatment to the KCC. The prior method for reflecting the costs of the Jeffrey unit in  
21 rates had been based upon a KCC Staff "annuity analysis" of Jeffrey lease payments.  
22 The KCC Order also makes clear that this change in methodology was motivated, at least  
23 in part, because of the relative simplicity of basing the amount of lease payments on a

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1 rate base assumption, as opposed to the lease calculation method used before. "...the  
2 Commission is concerned about the complexity of the calculations and future  
3 determinations required of WestPlains, Staff and the Commission" (Schedule 2-4). The  
4 point about the potential difficulty of reflecting lease expense in rates is still relevant to  
5 this case, in light of the extremely complex and convoluted lease/ownership structure that  
6 UtiliCorp has put in place for the Aries unit.

7 Q. Has the Staff recently received any documents from MPS relevant to the  
8 Aries unit PPA issue?

9 A. Yes. On January 21, 2002, one day prior to the filing date for the Staff's  
10 surrebuttal testimony, MPS faxed a copy of what appears to be an operating lease  
11 between Cass County and MEPPH relating to the Aries unit. A copy of the e-mail  
12 notifying the Staff of this document's availability, and the Staff's response, is attached as  
13 Schedule 3 to this testimony. The Staff has not had adequate time to review this  
14 document as of the point in time of this surrebuttal filing. The Staff reserves the right to  
15 address this document, as it pertains to the Aries unit PPA issue, in supplemental  
16 testimony at a later time.

17 Q. Does this conclude your surrebuttal testimony?

18 A. Yes, it does.

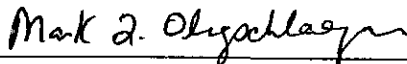
**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

In the Matter of the Application of the Tariff	)	
Filing of Missouri Public Service (MPS)	)	
A Division of UtiliCorp United Inc., to	)	Case No. ER-2001-672
Implement a General Rate Increase for Retail	)	
Electric Service Provided to Customers in the	)	
Missouri Service Area of MPS	)	

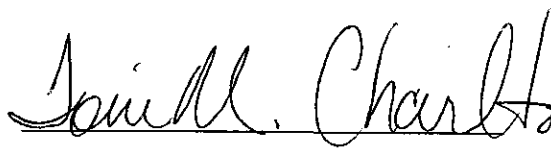
AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI	)	
	)	ss.
COUNTY OF COLE	)	

Mark L. Oligschlaeger, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Surrebuttal Testimony in question and answer form, consisting of 29 pages to be presented in the above case; that the answers in the foregoing Surrebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

  
\_\_\_\_\_  
Mark L. Oligschlager

Subscribed and sworn to before me this 22nd day of January 2002.

  
\_\_\_\_\_

TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004





## Summary of Synergy Benefits, net of Costs to Achieve

## UtiliCorp/Saint Joseph Light and Power

(Dollars in Current 000's)

		(Dollars in Current 000's)					First Five Full Years							Years 6-10		Ten Full Years		
		2001	2002	2003	2004	2005	Total	Average Years 1-5	2006	2007	2008	2009	2010	Totals	Average Years 6-10	Totals	Average	
I	Operating Costs	Current Dollars																
1	Dispatching/Generation Savings	See I.1	\$ 3,820	\$ 4,358	\$ 5,196	\$ 6,021	\$ 6,687	\$ 26,082	\$ 5,216	\$ 7,817	\$ 8,502	\$ 7,274	\$ 6,557	\$ 5,733	\$ 33,883	\$ 6,777	\$ 59,965	\$ 5,997
2	General & Administrative Savings	See I.2	\$ 5,193	\$ 5,599	\$ 6,739	\$ 5,882	\$ 6,029	\$ 28,442	\$ 5,688	\$ 6,160	\$ 6,334	\$ 6,493	\$ 6,655	\$ 6,822	\$ 32,484	\$ 6,497	\$ 60,926	\$ 6,093
3	Distribution Savings	I	\$ 1,385	\$ 1,821	\$ 1,965	\$ 2,014	\$ 2,064	\$ 9,249	\$ 1,850	\$ 2,116	\$ 2,169	\$ 2,223	\$ 2,279	\$ 2,336	\$ 11,122	\$ 2,224	\$ 20,370	\$ 2,037
4	Transmission Savings	I	\$ 315	\$ 548	\$ 562	\$ 576	\$ 590	\$ 2,591	\$ 518	\$ 605	\$ 620	\$ 836	\$ 652	\$ 668	\$ 3,180	\$ 636	\$ 5,772	\$ 577
5	Conversion to UtiliCorp Benefits	See I.5	\$ 1,966	\$ 3,022	\$ 2,976	\$ 3,401	\$ 3,626	\$ 15,021	\$ 3,004	\$ 3,876	\$ 4,152	\$ 4,454	\$ 4,728	\$ 5,003	\$ 22,213	\$ 4,443	\$ 37,234	\$ 3,723
6	Total O&M		\$ 12,709	\$ 15,348	\$ 18,437	\$ 17,894	\$ 18,997	\$ 81,385	\$ 16,277	\$ 20,594	\$ 19,777	\$ 21,079	\$ 20,870	\$ 20,561	\$ 102,882	\$ 20,576	\$ 184,287	\$ 18,427
II	Capital Savings (Costs):																	
1	Depr - Interconnect/SCADA/T&D	See II.1	\$ (285)	\$ (330)	\$ (324)	\$ (318)	\$ (313)	\$ (1,670)	\$ (314)	\$ (307)	\$ (302)	\$ (296)	\$ (290)	\$ (330)	\$ (1,525)	\$ (305)	\$ (3,095)	\$ (310)
2	Amort of Transaction/Transition Costs	I	\$ (1,509)	\$ (1,509)	\$ (1,509)	\$ (1,509)	\$ (1,509)	\$ (7,545)	\$ (1,509)	\$ (1,509)	\$ (1,509)	\$ (1,509)	\$ (1,509)	\$ (1,501)	\$ (7,537)	\$ (1,507)	\$ (15,082)	\$ (1,508)
3	Return on Interconnect SCADA/T&D	I	\$ (896)	\$ (897)	\$ (841)	\$ (788)	\$ (731)	\$ (4,152)	\$ (830)	\$ (877)	\$ (824)	\$ (571)	\$ (519)	\$ (463)	\$ (2,854)	\$ (571)	\$ (7,006)	\$ (701)
4	Return on Transaction/Transition Costs	I	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Total Capital Savings (Costs)		\$ (2,690)	\$ (2,736)	\$ (2,674)	\$ (2,613)	\$ (2,553)	\$ (13,267)	\$ (2,653)	\$ (2,493)	\$ (2,435)	\$ (2,376)	\$ (2,318)	\$ (2,294)	\$ (11,916)	\$ (2,383)	\$ (25,183)	\$ (2,518)
III	Total Synergies, net of Cost to Achieve		\$ 10,019	\$ 12,612	\$ 13,763	\$ 15,281	\$ 16,443	\$ 68,118	\$ 13,624	\$ 18,101	\$ 17,342	\$ 18,703	\$ 18,552	\$ 18,267	\$ 90,966	\$ 18,193	\$ 159,084	\$ 15,908
IV	Enterprise Support Functions Allocated (In) Current Dollars																	
1	SJLP Direct Costs transferred to ESF	See I.2	\$ 2,292	\$ 2,350	\$ 2,409	\$ 2,469	\$ 2,530	\$ 12,050	\$ 2,410	\$ 2,594	\$ 2,659	\$ 2,725	\$ 2,793	\$ 2,863	\$ 13,633	\$ 2,727	\$ 25,683	\$ 2,568
2	SJLP Direct Costs transferred to IBU	I	\$ 922	\$ 1,212	\$ 1,308	\$ 1,341	\$ 1,374	\$ 6,157	\$ 1,231	\$ 1,409	\$ 1,444	\$ 1,480	\$ 1,517	\$ 1,555	\$ 7,404	\$ 1,481	\$ 13,561	\$ 1,356
3	Support Functions Allocated (In)	I	\$ (12,376)	\$ (12,685)	\$ (13,002)	\$ (13,327)	\$ (13,660)	\$ (65,049)	\$ (13,010)	\$ (14,002)	\$ (14,352)	\$ (14,710)	\$ (15,078)	\$ (15,455)	\$ (73,597)	\$ (14,719)	\$ (138,645)	\$ (13,865)
4	Net Allocations (costs) savings to SJLP		\$ (9,161)	\$ (9,123)	\$ (9,285)	\$ (9,517)	\$ (9,755)	\$ (46,842)	\$ (9,368)	\$ (9,999)	\$ (10,249)	\$ (10,505)	\$ (10,768)	\$ (11,037)	\$ (52,559)	\$ (10,512)	\$ (99,401)	\$ (9,940)
V	Total Synergies, net of Costs to Achieve and Allocated Costs		\$ 858	\$ 3,489	\$ 4,478	\$ 5,764	\$ 6,688	\$ 4,255	\$ 8,101	\$ 7,093	\$ 8,198	\$ 7,784	\$ 7,230	\$ 7,681	\$ 36,404	\$ 7,283	\$ 70,284	\$ 7,028
VI	Premium Costs																	
1	Return on Premium	See IV.1	\$ (10,203)	\$ (9,941)	\$ (9,680)	\$ (9,418)	\$ (9,156)	\$ (48,399)	\$ (9,680)	\$ (8,895)	\$ (8,633)	\$ (8,371)	\$ (8,110)	\$ (7,848)	\$ (41,857)	\$ (8,371)	\$ (90,256)	\$ (9,026)
2	Amortization of premium	I	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (11,510)	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (2,302)	\$ (11,510)	\$ (2,302)	\$ (23,020)	\$ (2,302)
3	Reflect non-tax deductibility of premium	I	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (7,673)	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (1,535)	\$ (7,673)	\$ (1,535)	\$ (15,347)	\$ (1,535)
4	Total Premium cost		\$ (14,040)	\$ (13,778)	\$ (13,516)	\$ (13,255)	\$ (12,993)	\$ (67,582)	\$ (13,516)	\$ (12,731)	\$ (12,470)	\$ (12,208)	\$ (11,948)	\$ (11,685)	\$ (61,041)	\$ (12,208)	\$ (128,623)	\$ (12,862)
VII	SJLP share of premium costs		\$ (7,020)	\$ (6,889)	\$ (6,758)	\$ (6,627)	\$ (6,497)	\$ (6,758)	\$ (6,366)	\$ (6,235)	\$ (6,104)	\$ (5,973)	\$ (5,842)	\$ 50%	\$ (6,104)	\$ 50%	\$ (6,104)	\$ 50%
VIII	Synergies, net of 50% of premium		\$ (6,162)	\$ (3,400)	\$ (2,280)	\$ (844)	\$ 192	\$ (2,503)	\$ 1,736	\$ 858	\$ 2,094	\$ 1,811	\$ 1,388	\$ 1,577	\$ 37,999	\$ 1,577	\$ 74,178	\$ 1,577
(Line V less VII)																		

Schedule I

VJS-1  
ANNUAL DETAIL

**THE STATE CORPORATION COMMISSION  
OF THE STATE OF KANSAS**

Before Commissioners:                      John Wine, Chair  
   Cynthia L. Claus  
   Brian J. Moline

In the Matter of the Application of UtiliCorp    )	
United, Inc. d/b/a West Plains Energy Kansas, for    )	Docket No. 01-WPEE-473-RTS
Approval of the Commission to Make Certain    )	
changes in its Rates for Electric Service.        )	

**ORDER ON APPLICATION**

The above-captioned matter comes before the State Corporation Commission of the State of Kansas ("Commission" or "KCC") for consideration and decision upon the rate application filed herein by UtiliCorp United, Inc., d/b/a West Plains Energy Kansas ("Applicant" or "WestPlains"). For reasons discussed below, the Commission sets the Applicant's overall revenue requirement based upon a pro forma operating income of \$15,464,626, a rate base of \$138,812,453 and overall rate of return of 9.2052 percent. The Commission finds that the net effect on the Applicant is a revenue requirement increase of \$3,859,322 from the revenue requirement recently established in Docket No. 99-WPEE-818-RTS.

**I. INTRODUCTION**

1. On December 8, 2000, WestPlains filed a rate application pursuant to K.S.A. 66-117 and Rule 82-1-231 of the Commission Rules of Practice and Procedure. The filing of the rate application was prompted by WestPlains' concerns over the Commission's Order No. 10, dated January 19, 2000, and Order No. 13, issued July 19, 2000, in Docket No. 99-WPEE-818-RTS, which reduced WestPlains' electric rates by \$8.3 million. Application at ¶¶ 6 and 7.

does not support the position of WestPlains that the JEC coal contract renegotiations would not have occurred the same way, with or without UtiliCorp's participation.

15. Furthermore, Staff points out the Centel acquisition was completed before the JEC renegotiations started. [Holloway, Direct at 6]. This fact indicates the lack of participation by Centel was not due to lack of expertise but rather, was due to Centel's efforts to sell its electric operations. [Holloway, Direct at 6]. Staff also points out other owners of JEC brought substantial experience and expertise to the renegotiations. In particular, Mr. Reid brought personal knowledge and experience of the LaCygne negotiations with the same coal supplier, AMAX. [Holloway, Direct at 6]. In addition, Staff points out the renegotiations did not result in substantial cutting of fuel costs. The fuel costs at JEC are among the highest for all of the generation facilities in the state. In particular, JEC delivered coal costs have exceeded the weighted average for all Kansas utility coal plants since 1989, even though this average includes the oldest coal units. [Holloway, Direct at 7-8]. Finally, Staff points out every other coal plant operated by a Kansas utility has experienced similar or greater savings. [Holloway, Direct at 9]. Staff's evidence proves the coal contract renegotiations would have occurred regardless of UtiliCorp's participation and that it is pure speculation to attribute any coal cost savings to the Centel acquisition. Accordingly, the level of merger savings remains as previously established by the Commission and affirmed by the Kansas Court of Appeals.

**B. Proper Level of JEC Lease Expense to be included in WestPlains' cost of service**

16. WestPlains also requests the Commission to reconsider the methodology used to determine the appropriate level of JEC lease costs that can be allowed in rates. In Docket No. 99-WPEE-818-RTS, the Commission determined that the JEC lease payments included an acquisition premium and accepted Staff's annuity (discounted cash flow) analysis of the JEC lease payments to compensate WestPlains for the JEC unit that was originally owned by Centel and the merger savings

attributable to the Centel acquisition itself. [Kuzelka, Direct at 11]. Staff's analysis required a series of intricate calculations to determine a present value of all remaining JEC lease payments over the life of the lease agreement, which incorporates the approved level of merger savings. Staff's annuity analysis of the lease also required intricate calculations to compensate WestPlains for JEC lease prepayments and other deferred credits associated with the JEC lease. [Kuzelka, Direct at 11-15, Exhibit RLK-1 and RLK-2]. The Commission's decision in Docket No. 99-WPEE-818-RTS was affirmed by the Kansas Court of Appeals in *UtiliCorp United, Inc. d/b/a WestPlains Energy Kansas v. KCC*, slip op. 85,716 (Kan.App. December 15, 2000).

17. Staff's annuity analysis of the JEC lease was required to ensure that WestPlains was not compensated for the acquisition premium paid for the Centel properties above the demonstrated level of merger savings. [Kuzelka, Direct at 5-6]. There is nothing inherently wrong or unfair about Staff's annuity analysis. WestPlains has been allowed to recover the acquisition premium it paid Centel but only to the extent that there are demonstrated merger savings. WestPlains is simply not entitled to recover the entire amount of the JEC lease payments because the JEC lease includes the acquisition premium paid by WestPlains for the Centel properties above a reasonable estimate of merger savings attributable to the Centel acquisition itself.

18. Staff's annuity analysis of the JEC lease estimates what Centel would have recovered in its cost of service if the JEC unit had remained in rate base. [Kuzelka, Tr. at 219-20]. WestPlains suggested in its Initial Brief that the Commission should impute an operating cost in cost of service for the JEC unit as though the JEC unit had been included in rate base. WestPlains Brief at 16. Staff properly considered the JEC lease payments because the ownership of the JEC unit was titled in the name of WestPlains' lender, the Wilmington Trust. If the JEC unit had not been titled in the name

of WestPlains' lender, the asset would have been included in WestPlains' rate base at Centel's book value.

19. Staff's annuity analysis of the JEC lease payments is advantageous because it calculates a fixed level payment over the term of the lease. [Kuzelka, Tr. at 184-85]. However, the Commission is concerned about the complexity of the calculations and future determinations required of WestPlains, Staff and the Commission. The alternative method suggested by WestPlains makes that calculation to determine the level of compensation more easily quantifiable and determinable. On cross examination, Staff witness Mr. Kuzelka agreed the total lease payment included in WestPlains' filed cost of service was \$10,359,000. Mr. Kuzelka also agreed that the KCC jurisdictional allocation factor was 86.03 percent. Mr. Kuzelka also agreed that Exhibit RLK-1, Column F, shows the total annual cost of service related to JEC for the test year period if the JEC unit had remained in rate base. [Kuzelka, Tr. at 176-179]. These basic facts and the Commission-approved rate of return allow the Commission to determine the amount of compensation for the JEC unit as though the JEC unit had been included in rate base. This treatment has the advantage of simplicity and clarity. The JEC unit can be treated as any other unit of property in rate base. Accordingly, the Commission finds that the amount of compensation for the JEC unit should be imputed as an operating cost in the cost of service, calculated as though the JEC unit had been included in rate base, and should include the merger savings of \$2,350,000 previously approved by the Commission for a total of \$7,732,000.

**C. JEC Lease Prepayments and Other Deferred Credits related to the JEC Lease**

20. As discussed above, the Commission has selected an alternative methodology to compensate WestPlains for the JEC unit acquired from Centel. This alternative methodology does not rely upon any analysis of JEC lease payments. Rather, the methodology compensates WestPlains

**Oligschlaeger, Mark**

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**From:** Featherstone, Cary  
**Sent:** Monday, January 21, 2002 12:40 PM  
**To:** 'Clemens, Gary'  
**Cc:** Oligschlaeger, Mark; Traxler, Steve  
**Subject:** RE: DR 605

Yes, please fax at (573) 526-4153. Also, would you overnight the Company's response to Data Request No. 605 to Jefferson City in care of me at the Governor Office Building--2nd floor, addressed to Toni Charlton.

Thanks.....

-----Original Message-----

**From:** Clemens, Gary [mailto:GClemens@utilicorp.com]  
**Sent:** Monday, January 21, 2002 9:18 AM  
**To:** Featherstone, Cary  
**Subject:** DR 605

I have the lease you asked for in DR 605. It is 48 pages. Do you want me to fax it to you? Let me know a number and I will take care of it.

Thanks  
Gary Clemens  
Phone: 816-737-7934 Fax 816-737-7505