Exhibit No.:	500 NP
Witness:	Maurice Brubaker
Type of Exhibit:	Rebuttal Testimony
Issue:	Regulatory Plan, Market Power
Sponsoring Party:	Ag Processing Inc a cooperative
Case No.:	EM-2000-292

Before the Public Service Commission
of the State of Missouri

In the Matter of the Joint Application of UtiliCorp United, Inc. and St. Joseph Light and Power Company for authority to merge St. Joseph Light & Power Company with and into UtiliCorp United, Inc. and, in connection therewith, certain other transactions.	)	Case No. EM-2000-292

Rebuttal Testimony of

Maurice Brubaker

On Behalf of
Ag Processing Inc a cooperative

Exhibit No. 500
Date 7-11-00 Case No. EM-2000-292
Reporter AT

Project 7267
May 2000

PUBLIC VERSION

Brubaker & Associates, Inc.
St. Louis, Missouri 63141-2000

Before the Public Service Commission
of the State of Missouri

In the Matter of the Joint Application of UtiliCorp United, Inc. and St. Joseph Light and Power Company for authority to merge St. Joseph Light & Power Company with and into UtiliCorp United, Inc. and, in connection therewith, certain other transactions.)	Case No. EM-2000-292

Rebuttal Testimony of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business address is 1215 Fern Ridge Parkway, Suite 208, St. Louis, Missouri 63141-2000.

Q WHAT IS YOUR OCCUPATION?

A I am a consultant in the field of public utility regulation and president of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A This information is included in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am appearing on behalf of Ag Processing Inc a cooperative (Ag Processing).

Q WHAT IS THE INTEREST OF AG PROCESSING IN THIS PROCEEDING?

A Ag Processing is a large industrial customer, taking both steam and electric service from St. Joseph Light & Power Company (SJL&P).

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A The purpose of my testimony is to analyze the significant impacts of the proposed merger between UtiliCorp United, Inc. (UtiliCorp) and SJL&P (collectively "Applicants") on the customers of SJL&P.

My testimony will focus on the regulatory plan, as well as potential market power issues concerning the transmission and the generation systems of the merged companies. Because UtiliCorp also proposes to merge Empire District Electric Company (Empire) into its overall corporate structure, consideration must be given to the impacts of the combination of all three companies, rather than just the proposal now before the Commission in this docket which involves only the merger between UtiliCorp and SJL&P.

Q PLEASE SUMMARIZE YOUR PRIMARY CONCLUSIONS AND RECOMMENDATIONS.

A My primary conclusions and recommendations may be summarized as follows:

1. The proposed regulatory plan is extremely one-sided and would confer undue benefits on the stockholders of UtiliCorp and SJL&P.

2. There are many benefits that stockholders would receive from the merger, but they have received limited, if any, attention in designing the regulatory plan.

3. If the merger is contingent upon adoption of the regulatory plan proposed by Applicants, then the proposed merger should be rejected.

4. Regardless of any conclusions about the benefits of the merger to electricity consumers, the information provided by Applicants clearly shows that the proposed regulatory plan would be detrimental to steam and natural gas customers. Even if the merger is approved, and major elements of the proposed regulatory plan are approved as well, adjustments must be made to shield the steam and natural gas customers from the net detrimental impacts, which information provided by Applicants indicates would occur.

5. If the merger is approved, strong conditions relating to generation market power, horizontal market power, retail market power and market power legislation should be adopted. These should be consistent with the Stipulation and Agreement approved by this Commission in its September 2, 1999 Order in Case No. EM-97-515, involving the proposed merger of Western Resources, Inc. and Kansas City Power & Light Company.

The Proposed Regulatory Plan

Q WHAT IS THE NATURE OF THE REGULATORY PLAN PROPOSED FOR SJL&P?

A The regulatory plan proposed for SJL&P would pass a small portion of the expected merger savings back to SJL&P's customers. However, customers would not see any decrease from current rate levels for five years. In addition, and this appears to be the key consideration by Applicants, the plan is designed to afford the stockholders of the merged company with quick recovery of the full amount of the merger premium.

Q WHAT IS THE MERGER PREMIUM?

A The merger, or acquisition, premium is the difference between the fair market value of the acquired properties and the amount paid for them. If the book value of the assets acquired is used, at least initially, as an estimate of fair market value, then UtiliCorp is proposing to pay approximately $93 million, or nearly 100%, in excess of the book value of the equity in order to acquire SJL&P.

From an accounting perspective, this amount of acquisition premium is capitalized and carried as an asset on the books of the combined entity. It is then proposed to be amortized to income over a period of 40 years.

Q PLEASE DESCRIBE THE PRIMARY ELEMENTS OF THE PROPOSED REGULATORY PLAN.

A The primary elements of the regulatory plan proposed by Applicants are as follows:

1. A five-year rate moratorium for SJL&P.

2. A rate case during the fifth year of the moratorium, which will contain an accounting of merger savings and define the unamortized amount of the acquisition premium.

3. For ratemaking purposes, include 50% of the unamortized balance of the merger premium in rate base and include the annual amortization of the premium in the expenses allowed for recovery in cost of service.

4. Base the return on the premium on a UtiliCorp capital structure of 60% debt and 40% equity, and the return on the balance of the rate base on an SJL&P capital structure of 47% debt and 53% equity.

5. Minimum reduction in cost of service for years 5-10 of $1.6 million per year.

Q OVER THE PROPOSED FIVE YEAR RATE FREEZE, HOW MANY DOLLARS OF PROJECTED SAVINGS WOULD BE RETAINED FOR THE BENEFIT OF STOCK-HOLDERS?

A Schedule VJS-1, which accompanies the testimony of witness Siemek, shows the averages for the initial five-year period. The total amount over the first five years is equal to five times the yearly averages because the averages shown on Schedule VJS-1 were derived by performing annual estimates, adding together the estimated savings for each of the five years, and then dividing the total by five. The detail of the projections is shown in Company workpapers, in particular in UtiliCorp's response to Staff Data Request No. 1.

For ease of reference, I have attached the summary pages from that data response to my testimony. Referring to that attachment, it can readily be seen (Section I, total) that during the first five years, when rates are proposed to be frozen, UtiliCorp estimates that over $81 million of operating savings would be retained for the benefit of the stockholders. The estimated cost to achieve these savings during that same five-year period amounts to approximately $13 million (Section II, total), which produces Total Synergies net of Cost to Achieve, all retained for the benefit of the stockholders, of approximately $68 million (Section III).

Q WHAT ARE THE COSTS AND SAVINGS THAT ARE SHOWN IN SECTION IV?

A These are labeled "Enterprise Support Functions Allocated (in)". The amounts on Lines 1 and 2 of this Section represent costs for activities that are currently performed by SJL&P that would be performed by the combined organization after the merger. Thus, these appear as cost reductions to SJL&P. In total, for the five-year period, they amount to approximately $18 million of cost that would be transferred away from SJL&P. The catch, however, appears on Line 3 of Section IV – which represents SJL&P's allocated share of corporate level costs from the consolidated organization to SJL&P. This amounts to a total of approximately $65 million over the first five years.

These are not really changes in costs from an overall enterprise point of view, but simply represent a rearrangement of where costs are recorded. In other words, this section of Mr. Siemek's summary shows how SJL&P customers would be affected by the rearrangement of costs and the allocation of costs of corporate level overheads and support functions under the proposed regulatory plan; but it does not represent costs to the overall consolidated enterprise or to stockholders. These are only accounting re-allocations of costs, and have no effect on the bottom line of the overall enterprise.

Q WHAT ARE THE IMPLICATIONS OF THIS?

A The implications are that the benefits to the stockholders from the rate freeze should be evaluated by looking at the totals on Line III, labeled "Total Synergies net of Cost to Achieve." This totals approximately $68 million during the proposed five-year rate freeze. This is more than two-thirds of the initially estimated merger acquisition premium of approximately $93 million.

Q LOOKING AT THE SAME STATISTICS OVER THE SECOND FIVE-YEAR SEGMENT OF THE PLAN, WHAT ARE THE TOTAL SYNERGIES AND THE COSTS TO ACHIEVE?

A During the second five-year period of the plan, UtiliCorp and SJL&P estimate total O&M savings (Section I, total) of $103 million, and capital costs to achieve (Section II, total) of $12 million, producing Total Synergies net of Cost to Achieve of approximately $91 million as shown in Section III. Adding this to the $68 million for the first five-year period creates Total Synergies net of Cost to Achieve of $159 million over the projected ten-year period.

Q **HOW WOULD RATES BE AFFECTED DURING THE SECOND FIVE-YEAR PERIOD?**

A As I understand the proposal, the revenue requirements for SJL&P would be reduced by a minimum of $1.6 million per year, or a total of approximately $10 million over the second five-year period. Thus, during the second five-year period, Total Synergies net of Cost to Achieve that would be retained by the stockholders would be the $91 million noted above minus the $10 million that would go to reduce revenue requirements, or $81 million. Combining this with the $68 million retained by stockholders during the first five-year period, the total amount being retained for the benefit of the stockholders is approximately $149 million; <u>**or almost 15 times the benefit for customers !**</u> Obviously, this "deal" is extremely one-sided in favor of the stockholders.

Q **HOW DOES THE PRESENT VALUE OF THESE RETAINED BENEFITS COMPARE TO THE CURRENTLY ESTIMATED MERGER PREMIUM OF $92 MILLION?**

A Using the Total Synergies net of Cost to Achieve, less the guaranteed revenue requirement reductions during the second five-year period, and assuming for purposes of this calculation a discount rate of 6.82% (which is the net of tax cost of UtiliCorp's claimed rate of return), the net present value of these retained savings amounts to approximately $104 million before income taxes, and $62 million after income taxes. This is a significant recovery in relation to the initially estimated $93 million merger acquisition premium.

Q IS THE AMOUNT OF THE ACQUISITION PREMIUM PRECISELY KNOWN AT THIS TIME?

A No. At this point in time, it is an estimate. As I understand the process, the actual merger premium that will be capitalized and recorded on Applicants' books will be equal to the difference between the acquisition price and the fair market value of the acquired enterprise. If it is assumed that the non-regulated businesses of SJL&P have a value equal to their book value, and if it is assumed that current regulatory practices continue to govern the prices for the sales of electricity, natural gas and steam, then the fair market value of the properties probably closely approximates the book value.

On the other hand, if the sales of electricity become subject to competitive market conditions, the fair market value of the properties will depend on how the retail competition program deals with recovery of generation-related investments. If the book value of SJL&P's generation assets turns out to be less than their market value, then the acquisition premium would be a smaller number.

Q ARE YOU MAKING A PREDICTION ABOUT THE FORM OF RETAIL CUSTOMER CHOICE LEGISLATION OR ABOUT THE LEVEL OF SJL&P'S POTENTIAL STRANDED COSTS, OR NEGATIVE STRANDED COSTS?

A No, I am not. The point I make is simply that no matter how it is addressed, the Commission should avoid "locking in" to a specific number for acquisition premium because there are many factors, not currently defined, which will influence this number. Any regulatory plan should be structured so that it would not interfere with, or could be adjusted in light of, future retail competition laws passed by the Legislature, and program rules adopted to implement such legislation.

Benefits to Utility Stockholders

Q DOES THE PROPOSED MERGER BRING BENEFITS TO THE SHAREHOLDERS OF UTILICORP AND SJL&P?

A Yes, there are many. In fact, the Application, testimony and discovery responses are filled with both generic and specific statements which reveal that there are considerable benefits to stockholders from this proposed combination. Unfortunately, they are given little recognition in the regulatory plan.

Q WHAT ARE SOME OF THESE BENEFITS TO STOCKHOLDERS?

A These benefits include: (1) a stronger and more competitive overall enterprise, (2) a greater ability to provide enhanced returns to stockholders, (3) a reduced risk of incurring high energy prices because of the enhanced diversity of the generation resource portfolio, (4) increased balance to the overall enterprise because of the business diversity, and (5) enhanced financial strength and credit quality.

Q PLEASE ELABORATE ON THE GREATER COMPETITIVE STRENGTH.

A In simple terms, they will be bigger and better able to compete. This is highlighted by Applicants at Pages 6 and 7 of the Merger Application. For example, in Paragraph 12, on Page 6 of the Application, the parties state:

> "The Merger will strengthen the competitive position of UtiliCorp, including its MPS and SJLP operations, not only in Missouri but also in the surrounding region in the midwest."

And, on Page 7, the following appears:

> "• **Competition** – The combined entity will be able to participate more effectively in the increasingly competitive market for the generation of power."

The obvious meaning here is that the larger scale of the organization will provide an increased ability to take market positions and capture market share, and to profit from opportunities that a smaller entity could not effectively exploit.

Q WHAT HAVE APPLICANTS SAID ABOUT THE ABILITY TO PROVIDE ENHANCED RETURNS TO STOCKHOLDERS?

A This is outlined at Page 7 of the testimony of witness Steinbecker. At Lines 10-12, he indicates that UtiliCorp is the right merger partner for SJL&P because:

> "UtiliCorp has the financial strength, the size and the commitment to growth to better provide competitive returns to SJLP share owners and quality service at competitive prices to our customers."

Obviously, SJL&P views the combined entity as one better able to deliver dividends and growth to the stockholders of the combined entity.

Q HOW DOES THE INCREASED GENERATION RESOURCE PORTFOLIO DIVERSITY PROVIDE ADVANTAGES TO STOCKHOLDERS?

A This is addressed in the testimony of witness Holzwarth. He discusses this at Page 5 of his direct testimony in terms of the impact that the unavailability of a single large generating unit might have on power costs. In particular, he observes as follows:

> "The reduced reliance on a single generating unit reduces the probability of the necessity of purchasing replacement energy at market based prices in the event of an outage of that unit."

Q HOW DOES THIS BENEFIT SHAREHOLDERS?

A Obviously, the larger scale of enterprise is better able to tolerate the loss of a single generating resource than is a smaller company where a single resource is a more significant percentage of its total resources. This occurs because the larger entity will have more resources to draw upon to replace the lost capacity. This includes not only other owned generation resources, but also purchased power contracts.

Q WOULDN'T REPLACEMENT POWER COSTS BE FLOWED THROUGH TO CONSUMERS?

A No. Since rates are set in regulatory proceedings, and since there is no provision to adjust the recovery of fuel cost or purchased power costs from customers, any additional costs incurred by a utility, between rate proceedings, are absorbed by the stockholders. Thus, the benefit of the greater diversity of the generation resource portfolio flows primarily to stockholders.

Q **WHAT IS THE NATURE OF THE IMPROVEMENT WITH RESPECT TO BUSINESS DIVERSITY?**

A Logically, business diversity is of value to the stockholders because the increased amount of regulated earnings helps stabilize the potentially more profitable, but also more volatile, earnings from non-regulated businesses.

* * <u>Highly Confidential</u> * *

* * <u>Highly Confidential</u> * *

Q **WHAT ABOUT FINANCIAL STRENGTH AND CREDIT QUALITY?**

A The addition of SJL&P will improve the equity component of the capital structure and reduce the percentage of the earnings that is from unregulated operations.

* * <u>Highly Confidential</u> * *

* * <u>Highly Confidential</u> * *

Q IN COMPOSING THEIR REGULATORY PLAN, HAVE UTILICORP AND SJL&P GIVEN APPROPRIATE ATTENTION OR WEIGHT TO THESE SIGNIFICANT BENEFITS THAT WOULD ACCRUE TO STOCKHOLDERS?

A No. The primary focus of the regulatory plan is to capture and retain the direct monetary savings for the benefit of stockholders, and to limit the flow through of benefits to customers. There is little or no discussion about these additional benefits to stockholders when it comes to the design of the regulatory plan. Rather, the emphasis is on structuring a plan that will provide a high degree of assurance that stockholders will recover the merger premium in as short a time as possible.

Conclusion and Recommendation on Proposed Plan

Q **IN LIGHT OF THE ANALYSIS THAT YOU HAVE DESCRIBED ABOVE, WHAT IS YOUR RECOMMENDATION WITH RESPECT TO THE PROPOSED MERGER AND THE PROPOSED REGULATORY PLAN?**

A If the merger is contingent upon adoption of the regulatory plan proposed by Applicants, then I would recommend that the merger be rejected. As proposed by Applicants, there is little or no benefit to the customers of SJL&P under this proposal.

For example, even though SJL&P's rates have been on a downward trajectory, Applicants propose to deny customers, for a period of five years, any of the benefits of cost reductions that result from the merger, as well as any rate decreases that might have occurred absent the merger.

Second, even after the initial five-year period, Applicants still want to recover substantial amounts associated with the merger premium, and are guaranteeing only extremely minor benefits to customers.

At a minimum, any regulatory plan associated with merger approval, if given, should provide <u>immediate</u> rate reductions to customers. Customers should not be required to wait for five years to see any possible benefits from the merger. And, under to circumstances should Applicants be allowed to recover any transaction costs, transition cost, other costs to accomplish the merger, or any merger acquisition premium unless they have first clearly demonstrated that the savings flowing through to consumers is in excess of these amounts.

Impact of Merger on Steam Customers

Q **HAS SJL&P PROVIDED ANY INFORMATION CONCERNING THE POTENTIAL IMPACT OF THE REGULATORY PLAN ON STEAM CUSTOMERS?**

A Yes. In response to Data Request SJAG-22 (submitted by Ag Processing), SJL&P provided its "draft" allocation of costs and benefits to electric, gas, steam and non-regulated enterprises. For reference, a copy of this response is attached to my testimony.

Q WHAT DOES IT SHOW?

A The best way to get an indication of what it shows is to look at Line V on Page 1 of the response. This shows the average "Total Synergies net of Cost to Achieve and Allocated Costs" for the average of the first five years. The $4,255,000 number ties back to Mr. Siemek's exhibits as the total. Note that whereas the number is positive (i.e., a benefit to consumers) for the electric system, the numbers are negative (in other words a detriment) for steam service, as well as for gas service and for non-regulated operations. Of course, when premium cost recovery is piled on top of this, the impact on steam customers becomes even more detrimental.

Q SHOULD THIS RESULT BE ALLOWED TO OCCUR?

A No. Even if the merger is permitted to go forward and even if the regulatory plan is approved in much the same form as proposed, adjustments to the allocations must be made to ensure that the gas and steam customers do not experience these detriments.

Market Power

Q WHAT IS THE EFFECT OF THE MERGER ON THE ELECTRICITY MARKET?

A Currently, UtiliCorp, SJL&P and Empire are separate entities. They compete with each other in the wholesale market, and when retail competition is introduced, they will be suppliers capable of competing with one another (and with other players) for retail customer load. With the merger, the number of competitors is reduced by one if only the SJL&P or Empire merger is approved, and will be reduced by two if both the SJL&P and the Empire merger are approved. In other words, mergers take competitors out of the market, and the concentration of generation ownership will be much greater than if the mergers are not approved. This means that the ability of the combined companies to exert market power in the electricity market is greater than if each entity is operating independently and competing with each other entity. In fact, as noted above, Applicants admit that one of the motivating factors for the merger is to become larger and a stronger competitor.

Q **ARE THERE ANY TRANSMISSION-RELATED ISSUES?**

A Yes. Obviously, the ability to transport power from generation resources to customer locations is dependent upon the transmission network. If a merger is to be approved, this Commission should take the opportunity to increase the assurance that there will be nondiscriminatory access to the transmission network. Although the specific details of the structure of the organization that is responsible for the transmission network is an FERC issue, the Missouri Commission can certainly condition merger approval upon the accomplishment of certain prerequisites.

Q **HAS THE MISSOURI PSC RECENTLY ADDRESSED THESE ISSUES IN THE CONTEXT OF A MERGER?**

A Yes. These issued were recently addressed in Case No. EM-97-515, the merger proceeding involving Western Resources, Inc. and Kansas City Power & Light Company. Parties to that docket reached a "Stipulation and Agreement" dated July 19, 1999. In an Order dated September 2, 1999, the Commission approved the proposed merger and the Stipulation and Agreement.

Section 13 of this Stipulation and Agreement addresses market power conditions. In particular, it addresses horizontal market power, vertical market power, retail market power and market power legislation.

Q PLEASE GENERALLY DESCRIBE THESE CONDITIONS.

A In general terms, the horizontal market power conditions require the preparation and filing of retail market power studies. Certain assumptions and study methodologies are specified. Also, certain procedures are detailed and there are requirements to involve MPSC Staff, Public Counsel and other participants in the process. Also, certain mitigation measures that may be considered are specified, and the Applicants agreed that they would not appeal, on the basis that the Commission lacked jurisdiction, an order requiring divestiture of generation assets.

The vertical market power provisions require the joining of a Regional Transmission Organization (RTO) conforming to certain specified conditions and having certain features.

The retail market power provisions deal with use of corporate names in the sale of unregulated, as well as regulated, products.

The market power legislation section specifies that the Applicants would not propose, or otherwise support, legislation in Missouri that was designed to prohibit or substantially limit the Commission for addressing market power issues in the manner set forth in the Stipulation and Agreement.

Q WOULD THESE SAME TYPES OF TERMS AND CONDITIONS THAT APPEARED IN THE STIPULATION AND AGREEMENT IN CASE NO. EM-97-515 BE APPLICABLE HERE?

A Yes, they would. While the specific details will of necessity vary because of different physical circumstances, and will need to be negotiated among the parties, the basic overall principles that underlie this Stipulation and Agreement are applicable here as well, and unconditional agreement to them should be a prerequisite of any merger approval.

Q **DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

A Yes.

Qualifications of Maurice Brubaker

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Maurice Brubaker. My business mailing address is P. O. Box 412000, St. Louis, Missouri 63141-2000.

Q PLEASE STATE YOUR OCCUPATION.

A I am a consultant in the field of public utility regulation and president of Brubaker & Associates, Inc., energy, economic and regulatory consultants.

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A I was graduated from the University of Missouri in 1965, with a Bachelor's Degree in Electrical Engineering. Subsequent to graduation I was employed by the Utilities Section of the Engineering and Technology Division of Esso Research and Engineering Corporation of Morristown, New Jersey, a subsidiary of Standard Oil of New Jersey.

In the Fall of 1965, I enrolled in the Graduate School of Business at Washington University in St. Louis, Missouri. I was graduated in June of 1967 with the Degree of Master of Business Administration. My major field was finance.

From March of 1966 until March of 1970, I was employed by Emerson Electric Company in St. Louis. During this time I pursued the Degree of Master of Science in Engineering at Washington University, which I received in June, 1970.

In March of 1970, I joined the firm of Drazen Associates, Inc., of St. Louis, Missouri. Since that time I have been engaged in the preparation of numerous studies relating to electric, gas, telephone and water utilities. These studies have included analyses of the cost to serve various types of customers, the design of rates for utility services, cost forecasts, cogeneration rates and determinations of rate base and operating income.

I have testified before the Federal Energy Regulatory Commission (FERC), various courts and legislatures, and the state regulatory commissions of Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Georgia, Guam, Hawaii, Illinois, Indiana, Iowa, Kentucky, Louisiana, Michigan, Missouri, New Jersey, New Mexico, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, South Dakota, Texas, Utah, Virginia, West Virginia, Wisconsin and Wyoming.

The firm of Drazen-Brubaker & Associates, Inc. was incorporated in 1972 and assumed the utility rate and economic consulting activities of Drazen Associates, Inc., founded in 1937. In April, 1995 the firm of Brubaker & Associates, Inc. was formed. It includes most of the former DBA principals and staff. Our staff includes consultants with backgrounds in accounting, engineering, economics, mathematics, computer science and business.

We have prepared many studies relating to electric, steam, gas and water properties, including cost of service studies in connection with rate cases and negotiation of contracts for substantial quantities of gas and electricity for industrial use. In these cases, it was necessary to analyze property records, depreciation accrual rates and reserves, rate base determinations, operating revenues, operating expenses, cost of capital and all other elements relating to cost of service.

During the past five years, Brubaker & Associates, Inc. and its predecessor firm has participated in over 500 major utility rate cases and statewide generic investigations before utility regulatory commissions in 40 states, involving electric, gas, water and steam rates. Rate cases in which the firm has been involved have included more than 80 of the 100 largest electric utilities and over 30 gas distribution companies and pipelines.

In addition to our main office in St. Louis, the firm also has branch offices in Kerrville, Texas; Plano, Texas; Denver, Colorado; and Chicago, Illinois.

UTILICORP UNITED
DOCKET NO. EM-00-001
DATA REQUEST NO. SJLP-1

DATE OF REQUEST: August 12, 1999

DATE RECEIVED: August 12, 1999

DATE DUE: September 15, 1999

REQUESTOR: Cary Featherstone

QUESTION:

Please provide copies of all documentation and supporting workpapers relating to all merger costs/savings estimates that support UCU/SJLP's application.

RESPONSE: See testimony of Vern Siemek, including Appendix VJS-A, testimony of Robert Browning, and testimony of Robert Holzwarth

ATTACHMENTS: Appendix VJS-A

ANSWERED BY: Vern Siemek

Appendix VJS-A

Summary of Synergy Benefits, net of Costs to Achieve
UtiliCorp/Saint Joseph Light and Power

(Dollars in Current 000's)

		Average Years 1-5	Average Years 6-10
I	**Operating Costs** **Current Dollars**		
	1 Dispatching/Generation Savings	$ 5,216	$ 6,777
	2 General & Administrative Savings	$ 5,688	$ 6,497
	3 Distribution Savings	$ 1,850	$ 2,224
	4 Transmission Savings	$ 518	$ 636
	5 Conversion to UtiliCorp Benefits	$ 3,004	$ 4,443
	6 Total O&M	$ 16,277	$ 20,576
II	**Capital Savings (Costs):**		
	1 Depr - Interconnect/SCADA/T&D	$ (314)	$ (305)
	2 Amort of Transaction/Transition Costs	$ (1,509)	$ (1,507)
	3 Return on Interconnect SCADA /T&D	$ (830)	$ (571)
	4 Return on Transaction/Transition Costs	$ -	$ -
	5 Total Capital Savings (Costs)	$ (2,653)	$ (2,383)
III	**Total Synergies, net of Cost to Achieve**	$ 13,624	$ 18,193
IV	**Enterprise Support Functions Allocated (In) Current Dollars**		
	1 SJLP Direct Costs transferred to ESF	$ 2,410	$ 2,727
	2 SJLP Direct Costs transferred to IBU	$ 1,231	$ 1,481
	3 Support Functions Allocated (In)	$ (13,010)	$ (14,719)
	4 Net Allocations (costs) savings to SJLP	$ (9,368)	$ (10,512)
V	**Total Synergies, net of Costs to Achieve and Allocated Costs**	$ 4,255	$ 7,681
VI	**Premium Costs**		
	1 Return on Premium	$ (9,680)	$ (8,371)
	2 Amortization of premium	$ (2,302)	$ (2,302)
	3 Reflect non-tax deductibility of premium	$ (1,535)	$ (1,535)
	4 Total Premium cost	$ (13,516)	$ (12,208)
VII	**SJLP share of premium costs**	$ (6,758)	$ (6,104)
VIII	**Synergies, net of 50% of premium** (Line V less VII)	$ (2,503)	$ 1,577

Shared synergies Master 1011 NHome Inflated.xls

See Appendix VJS-A for details of calculations.

Prepared October 12 1999

VJS-1

Summary of Synergy Benefits, net of Costs to Achieve

UtiliCorp/Saint Joseph Light and Power

(Dollars in Current 000's)

	2001	2002	2003	2004	2005	First Five Full Years Total	First Five Full Years Average Years 1-5	2006	2007	2008	2009	2010	Years 6-10 Totals	Years 6-10 Average Years 6-10	Ten Full Years Totals	Ten Full Years 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	$ 6,502	$ 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	$ 5,739	$ 5,882	$ 6,029	$ 28,442	$ 5,688	$ 6,180	$ 6,334	$ 6,493	$ 6,655	$ 6,822	$ 32,484	$ 6,497	$ 60,926	$ 6,093
3 Distribution Savings	$ 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	$ 315	$ 548	$ 562	$ 576	$ 590	$ 2,591	$ 518	$ 605	$ 620	$ 636	$ 652	$ 668	$ 3,180	$ 636	$ 5,772	$ 577
5 Conversion to UtiliCorp Benefits See I.5	$ 1,996	$ 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	$ 16,437	$ 17,894	$ 18,997	$ 81,385	$ 16,277	$ 20,594	$ 19,777	$ 21,079	$ 20,870	$ 20,561	$ 102,882	$ 20,576	$ 184,267	$ 18,427
II Capital Savings (Costs):																
1 Depr - Interconnect/SCADA/T&D See II 1	$ (285)	$ (330)	$ (324)	$ (318)	$ (313)	$ (1,570)	$ (314)	$ (307)	$ (302)	$ (296)	$ (290)	$ (330)	$ (1,525)	$ (305)	$ (3,095)	$ (310)
2 Amort of Transaction/Transition Costs	$ (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	$ (896)	$ (897)	$ (841)	$ (786)	$ (731)	$ (4,152)	$ (830)	$ (677)	$ (624)	$ (571)	$ (519)	$ (463)	$ (2,854)	$ (571)	$ (7,006)	$ (701)
4 Return on Transaction/Transition Costs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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	$ 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)	$ (12,375)	$ (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		
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	$ (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	$ (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)	$ (11,946)	$ (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)		
VIII Synergies, net of 50% of premium (Line V less VII)	$ (6,162)	$ (3,400)	$ (2,280)	$ (864)	$ 192		$ (2,503)	$ 1,736	$ 858	$ 2,094	$ 1,811	$ 1,388		$ 1,577		

See Appendix VJS-A for details of calculations.

Shared synergies Master 1011 NHome Inflated.xls

Prepared October 12, 1999

VJS-1
ANNUAL DETAIL

UTILICORP UNITED
DOCKET NO. EM-2000-292
DATA REQUEST NO. SJAG-22

DATE OF REQUEST: December 20, 1999

DATE RECEIVED: December 21, 1999

DATE DUE: January 9, 2000

REQUESTOR: Stuart W. Conrad

QUESTION:

The joint application states, at page 4, that Applicants propose to include 50% of the unamortized balance of the merger premium in the rate bases of SJL&P's electric, gas and industrial steam operations, and to expense the annual amortization of the premium in cost of service. With respect to this statement please provide the following information:

a. A complete explanation of why none of this premium is proposed to be included in the rate base or expenses of Missouri Public Service Company.

b. A description and complete explanation of the rationale for the method to be used for the allocation of premium related investments and expenses to SJL&P's electric, gas and industrial steam operations.

c. A comprehensive discussion and quantification of each and every benefit which you contend will be received by SJL&P's steam customers as the result of the proposed merger.

RESPONSE:

a. The synergies are primarily assigned to SJLP, so the premium expenses are primarily assigned to SJLP.

b. Preliminary Allocations attached.

c. SJLP's steam customers will share in the synergies relating to reductions in SJLP overheads and in any reductions of plant operating costs. See preliminary allocations attached.

ATTACHMENTS: Preliminary Allocations Worksheet

ANSWERED BY: Bev Agut

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Summary of Synergy Benefits, net of Costs to Achieve
UtiliCorp/St. Joseph Light and Power
(Dollars in Current 000's)

			Average Years 1-5	Product Type	Allocation Name	Alloc. Method	ELECTRIC	GAS	STEAM	NON-REG	Total
I	**Operating Costs**										
	1 Dispatching/Generation Savings	$	5,216	Elec-Supply	100% Elec	1	5,216	0	0	0	5,216
	2 General & Administrative Savings	$	5,688	A & G	Mass Form	8	5,226	203	148	111	5,689
	3 Distribution Savings	$	1,850	Elec, Gas, Stm	Net Plant	5	1,785	43	22	0	1,850
	4 Transmission Savings	$	518	Electric-Trans	100% Elec	1	518	0	0	0	518
	5 Conversion to UtiliCorp Benefits	$	3,004	A & G	Mass Form	8	2,760	107	78	59	3,004
	6 Total O & M	$	16,276				15,505	353	249	170	16,277
II	**Capital Savings**										
	1 Depr-Interconnect/SCADA/T&D	$	(314)	Elec-Trans	100% Elec	1	(314)	0	0	0	(314)
	2 Amort of Transaction/Transition Costs	$	(1,509)	All	Mass Form	8	(1,386)	(54)	(39)	(29)	(1,509)
	3 Return on Interconnect SCADA/T&D	$	(830)	Elec-Trans	100% Elec	1	(830)	0	0	0	(830)
	4 Return on Transaction/Transitition Costs	$	0	All	Mass Form	8	0	0	0	0	0
	5 Total Capital Savings (Costs)	$	(2,653)				(2,530)	(54)	(39)	(29)	(2,653)
III	**Total Synergies, net of Cost to Achieve**	$	13,624				12,976	300	211	141	13,624
IV	**Enterprise Support Function Allocated (In) Current Dollars**										
	1 SJLP Direct Costs transferred to ESF	$	2,410	A & G	Mass Form	8	2,214	86	63	47	2,410
	2 SJLP Direct Costs transferred to IBU	$	1,231	A & G	Mass Form	8	1,131	44	32	24	1,231
	3 Support Functions Allocated (In)	$	(13,010)	A & G	Mass Form	8	(11,951)	(465)	(339)	(254)	(13,009)
	4 Net Allocations (costs) savings to SJLP	$	(9,368)				(8,606)	(335)	(244)	(183)	(9,368)
V	**Total Synergies, net of Costs to Achieve and Allocated Costs**	$	4,255				4,370	(35)	(34)	(42)	4,255
VI	**Premium Costs**										
	1 Return on Premium	$	(9,680)	Premium	MIA/EBIT	10	(9,251)	(240)	(189)	0	(9,680)
	2 Amortization of premium	$	(2,302)	Premium	MIA/EBIT	10	(2,200)	(57)	(45)	0	(2,302)
	3 Reflect non-tax deductibility of premium	$	(1,535)	Premium	MIA/EBIT	10	(1,467)	(38)	(30)	0	(1,535)
	4 Total Premium Cost	$	(13,516)				(12,918)	(335)	(264)	0	(13,516)
VII	**SJLP Share of Premium Costs**	$	(6,758)				(6,459)	(168)	(132)	0	(6,758)
VIII	**Synergies, net of 50% of premium** (Line V less VII)	$	(2,503)				(2,089)	(202)	(166)	(42)	(2,503)

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SJLP

UTILITY ALLOCATION FACTOR	SOURCE: FERC Form 1 (1998)	ELEC ALLOC FACTOR	GAS ALLOC FACTOR	STEAM ALLOC FACTOR	NON-UTIL ALLOC FACTOR	TOTAL
1 100% ELECTRIC		100.000%	0.000%	0.000%	0.000%	100.000%
2 100% GAS		0.000%	100.000%	0.000%	0.000%	100.000%
3 100% STEAM		0.000%	0.000%	100.000%	0.000%	100.000%
3a 100% NON-UTILITY		0.000%	0.000%	0.000%	100.000%	100.000%
4 PAYROLL-TOTAL	Page 354-355	16,000,735	932,263	421,112	53,838	17,407,948
A	(incl Constr & Rem)	91.916%	5.355%	2.419%	0.309%	100.000%
4a PAYROLL-EXPENSE	Page 354-355	12,860,729	769,781	389,980	53,838	14,074,328
A	(only E, G & S (other))	91.377%	5.469%	2.771%	0.383%	100.000%
5 NET PLANT INVESTMENT	Page 200-201	167,786,774	4,000,175	2,097,541	0	173,884,490
		96.493%	2.301%	1.206%	0.000%	100.000%
6 CUSTOMERS	Per John Weisensee	62,340	6,337	6		68,683
B		90.765%	9.226%	0.009%	0.000%	100.000%
7 HEADCOUNT	FERC Form 1 backup	332	12	-	-	344
	pg 323	96.512%	3.488%	0.000%	0.000%	100.000%
8 MASSACHUSETTS FORMULA						
MARGIN	Per John Weisensee	63,309,518	2,127,791	2,775,945	3,951,764	72,165,018
%	C	87.729%	2.949%	3.847%	5.476%	100.000%
PAYROLL - EXPENSE		12,860,729	769,781	389,980	53,838	14,074,328
%		91.377%	5.469%	2.771%	0.383%	100.000%
NET PLANT		167,786,774	4,000,175	2,097,541	-	173,884,490
%		96.493%	2.301%	1.206%	0.000%	100.000%
MASS BASIS AVE. %		91.866%	3.573%	2.608%	1.953%	
9 MODIFIED IDENTIFIABLE ASSETS		122,421,150	4,256,000	4,686,000	n/a	131,363,150
(Rate Base, net of RB offsets)		93.193%	3.240%	3.567%	0.000%	100.000%
10 WEIGHTED ASSET/EBIT						
Modified Identifiable assets	50%	122,421,150	4,256,000	4,686,000	n/a	131,363,150
		93.193%	3.240%	3.567%	0.000%	100.000%
EBIT	50%	21,177,360	372,666	72,613	n/a	21,622,639
		97.941%	1.724%	0.336%	0.000%	100.000%
10 AVERAGE WTD ASSET/EBIT		95.567%	2.482%	1.952%		100.000%

A includes latan payroll which we do not consider in allocation base (since all latan charges are electric; none are allocated)
I changed the electric and steam because they were wrong

B average # of customers for 12/98; from December internal report "Comparative Financial and Operating Statement"

C total revenue less fuel, purchased power, gas for resale, cost of goods sold; from December internal report "Comparative Financial and Operating Statement"