

Exhibit No.:

Issues:

Uncollectible Expense,
Revenues,
Merger Savings/
Acquisition Adjustment,
Merger Transaction &
Transition Costs

Witness:

Janis E. Fischer

Sponsoring Party:

MoPSC Staff

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Case No.:

ER-2001-672

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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

JANIS E. FISCHER

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

CASE NO. ER-2001-672

Jefferson City, Missouri
January 2002

****Denotes Highly Confidential Information****

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Service Commission

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JANIS E. FISCHER
UTILICORP UNITED INC.**

**d/b/a MISSOURI PUBLIC SERVICE
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **JANIS E. FISCHER**

4 **UTILICORP UNITED INC.**

5 **d/b/a MISSOURI PUBLIC SERVICE**

6 **CASE NO. ER-2001-672**

7 Q. Please state your name and business address.

8 A. Janis E. Fischer, 3675 Noland Road, Suite 110, Independence, Missouri
9 64055.

10 Q. Are you the same Janis E. Fischer who has previously filed direct
11 testimony in this case?

12 A. Yes, I am.

13 Q. What is the purpose of your rebuttal testimony?

14 A. I will address certain aspects of the Missouri Public Service's (MPS's or
15 Company's) direct filing, including uncollectibles (bad debt) expense, revenues,
16 transition and transaction costs associated with the UtiliCorp United Inc. (UCU) merger
17 with St. Joseph Light & Power Company (SJLP), and estimated merger savings. My
18 testimony will also include comments on the concept of "tracking" of merger savings.
19 The "acquisition adjustment", also referred to as the "merger premium" issue also will be
20 addressed in more detail in the rebuttal testimony of Staff Accounting witnesses
21 Mark L. Oligschlaeger, Cary G. Featherstone and Charles R. Hyneman, as well as Staff
22 witness Michael S. Proctor of the Energy Department.

UNCOLLECTIBLES (BAD DEBT) EXPENSE

Q. How does the Staff's calculation of bad debt expense differ from that of MPS?

A. The Staff used a five-year average of actual bad debt net write-off rates, multiplied by the Staff's normalized revenue, to calculate bad debt expense. MPS used a three-year average of actual bad debt net write-off rates, multiplied by MPS's annualized revenue, to calculate its bad debt expense adjustment.

Q. What effect does the use of a three-year average instead of a five-year average have on the bad debt expense adjustment for this case?

A. The actual dollar difference is a \$210,022 reduction in expense when using the Staff's annualized revenue and a five-year average bad debt net write-off rate were used. The difference in annualized revenue between the Staff and MPS has minimal impact on the adjustment. The difference in using the five-year average (.432852%) versus the three-year average (.499568%) is the primary reason for the dollar difference between the Staff's adjustment and that of MPS.

Q. Why has MPS used a three-year average in this case?

A. The direct testimony of MPS witness Allison K. Moten on page 21 states that MPS used the most current three years, 1997 - 1999, to calculate its bad debt expense adjustment. (MPS later updated its calculation in October 2001 to reflect the years 1998 - 2000 in its adjustment). There is no further explanation for the three-year average being used as opposed to a five-year average. The workpapers provided with the updated case show MPS calculating the bad debt expense with three, five and seven year averages. (See attached Schedule 1.) Use of a three-year average calculation provided

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1 the highest uncollectible rate, a bad debt write-off rate higher than in any of the last eight
2 years except for the year 2000.

3 Q. Why has the Staff chosen to use a five-year average for bad debt expense?

4 A. The Staff followed the same procedure used in the last MPS case,
5 No. ER-97-394, to calculate bad debt expense. The Staff generally uses a five-year
6 average for this item in rate proceedings to normalize fluctuations that may occur in
7 annual expense. Review of MPS's workpapers (Schedule 1) show that there has been
8 considerable fluctuation in the net bad debt write-off rate of MPS over the last five years
9 and that the year 2000 rate (.722472%) was over two times the rate experienced in 1999
10 (.323921%).

11 Q. Does use of a five-year average of the bad debt uncollectible rate best
12 reflect the normal level of bad debt expense for MPS?

13 A. Yes. In the Staff's opinion, the use of a five-year average of MPS's
14 uncollectible rate in calculating bad debt expense best reflects a normal level of bad debt
15 expense for MPS, based on historical results.

16 Q. Does the Staff typically consider adjustments to the results of multi-year
17 averages of expense for normalization purposes?

18 A. Not usually. However, when reviewing data over the last five years, for
19 example the Staff may determine that the expenses in a year under review do not
20 represent normal costs because of an unusual event. In that case, the Staff may decide to
21 remove that year's expense from the calculation and use data from four years to
22 determine an average.

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1 Q. Why didn't the Staff exclude the year 2000 from its bad debt expense
2 calculation?

3 A. Without knowing the reason for the fluctuation in the year 2000
4 uncollectible rate or the reason for the lower uncollectible rate in the year 1999, the Staff
5 did not want to exclude either year from its calculation of an average level of bad debt
6 expense. The Staff's approach by using a five-year average has the impact of smoothing
7 out the results in 1999 and 2000, for uncollectibles to a more normal level; yet the data
8 used is still current and reflects current bad debt expense recognition practices of MPS.

9 **REVENUES**

10 Q. What is MPS's proposed method to annualize customer growth in this
11 case?

12 A. MPS witness Robert D. Adkins explained the Company's proposed
13 method to annualize customer growth to December 31, 2001, on page 7 of his direct
14 testimony:

15 The customer annualization adjustment is the difference between
16 the test year weather normalized revenues and the customer
17 annualized revenues projected at December 31, 2001 customer
18 levels. This method is simple and requires dividing the weather
19 normalized test year rate class revenues by average customers, and
20 then multiplying the result by the projected customers as of
21 December 31, 2001 to obtain customer annualized revenues.
22 Customers are projected based on trends over the past 5 years in
23 this historical monthly customers by rate class.

24 Q. What is the Staff's proposed method of calculating the customer
25 annualization adjustment?

26 A. The Staff's method relies on actual customer counts, known and
27 measurable for each rate class for the test year (January 1, 2000 through

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1 December 31, 2000) and the end of the update period, June 30, 2001. The weather
2 normalized rate class revenues for each month of the test year are divided by the actual
3 customer count for the month. This normalized usage per bill is then multiplied by the
4 difference between the test year month actual customer count and the actual customer
5 count at the end of the update period. The customer annualized adjustment is the
6 cumulative result when each month of the test year is added for a rate class. This method
7 will also be used at the end of the true-up period (January 2002) to calculate the customer
8 annualization adjustment for the true-up audit. The only difference between MPS's
9 method and the Staff's is the Staff's use of actual customer counts by rate class instead of
10 MPS's use of projected customer counts by rate class.

11 Q. Has the Staff ever proposed use of projected customer counts to calculate
12 customer annualization adjustments to set rates in Missouri?

13 A. No. The Staff may rely on projected customer counts in a direct filing in a
14 case where actual customer counts will be known and measurable later, at the end of an
15 update period or true-up audit. In this manner, however, the actual customer counts are
16 substituted for the projected customer counts when the Staff updates its revenue
17 annualization as of the end of the update period and/or true-up date.

18 Q. Did the Staff have difficulties in obtaining consistent information from
19 MPS to use in calculating its customer annualization?

20 A. Yes. The Staff had such difficulties, as detailed in my direct testimony,
21 pages 16-17, because of MPS's implementation of a new method of counting customers.
22 The Staff worked with UCU employee, Mr. Charles Gray, to determine the best approach
23 to use for counting customers. Under the approach selected by the Staff, the total

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1 customer charge dollars billed each month were divided by the customer charge to
2 determine the number of customers in each rate class.

3 Q. Why is this an appropriate way to count customers?

4 A. The Company bills a customer charge based on the number of days that
5 the customer is an active customer during the billing period. For example, if a customer
6 moves out of a rental property on the fifth day of the billing period, that customer would
7 be charged 5/30ths of the normal customer charge. The customer charge total for the
8 month thus represents both full month customers and partial month customers, and the
9 calculation described in my previous answer will therefore yield the total number of
10 equivalent full month customers for each particular billing period. Therefore, the Staff
11 did not have to use an average of beginning and ending customers for each month as is
12 typically done in the customer count analysis performed. The resulting customer charge
13 total in this case is actually a more accurate method of counting customers.

14 Q. Did MPS update its customer annualization adjustment for the update
15 period?

16 A. No. The Staff received MPS's updated case workpapers in late
17 October 2001, which included an adjustment for customer annualization with the same
18 projected customer counts as used in MPS's direct filing. The update adjustment applies
19 the annualized customer revenue levels from the direct filing and adjusts to the
20 Commission's ordered test year, December 31, 2000, instead of the test year MPS used in
21 its direct filing, June 30, 2000. No further analysis of customer data was used to update
22 MPS's annualization. MPS did not provide a customer annualization adjustment to the
23 end of the update period. Schedule 2 (see attached) is a worksheet that compares MPS's

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1 direct filing, update test year workpapers and the Staff's direct filing customer
2 annualization adjustment calculations by rate class. The Company's updated adjustment
3 is still based upon projected customer counts through December 31, 2001, which is not
4 representative of any measurement period in this case; test year, update or true-up period.

5 Q. Why is it the Staff's position to use actual customer counts as opposed to
6 projected customer counts in determining the annualization of customer growth?

7 A. The Staff's approach relies on the most current known and measurable
8 customer count information by rate class as an indicator of ongoing customer levels.
9 Projected customer counts are based on past assumptions of trends that forecast into the
10 future and are less accurate. The Staff does not usually rely on projected data for any
11 cost of service cost determination. A review of MPS's response to Staff Data Request
12 No. 24 demonstrates how inaccurate forecasted customer counts by rate class can be
13 when compared to actual customer counts. (See attached Schedule 3.)

14 Q. Are the customer counts used by the Staff calculated consistently for the
15 test year and the update period?

16 A. Yes. Please refer to my direct testimony, pages 16 through 20, for an
17 explanation of how the Staff determined customer counts. MPS has provided no
18 additional information to refute the customer counts used by the Staff or to suggest that
19 the customer counts used were not appropriate for the analysis of customer growth.

20 Q. Has the Staff completed any additional customer growth analyses?

21 A. Yes. For informational purposes the Staff made a new customer growth
22 calculation, replacing the June 2001 customer counts with November 2001 customer
23 counts supplied during the prehearing conference by MPS, for all the rate classes that it

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1 had annualized for customer growth. The result of the analysis including all the rate
2 classes showed an additional growth of \$1.1 million from the end of the update period to
3 the end of November. The Staff believes that this additional analysis supports its direct
4 filing position for the customer annualization adjustment.

5 Q. Has the Staff received any additional data from MPS to support additional
6 review of customer counts?

7 A. No. The Staff has written additional data requests and asked for updated
8 information on prior data requests. To date, no additional information has been provided
9 to support a change in the Staff's current position or method of counting customers.

10 Q. How will the revised annualized customer growth adjustment be
11 calculated for the true-up audit?

12 A. Both MPS and the Staff will rely on the actual customer counts by rate
13 class as of January 2002 to adjust annualized customer growth from the test year levels.

14 **MERGER SAVINGS/ACQUISITION ADJUSTMENT**

15 **IMPACT OF UCU/SJLP MERGER ON THIS RATE CASE**

16 Q. Did UCU witnesses address in direct testimony how the merger with SJLP
17 would affect this case?

18 A. Yes. MPS witness Gary L. Clemens, beginning on page 3 of his direct
19 testimony, states that if the Commission decides to reflect the impact of the UCU/SJLP
20 merger savings in rates, then merger costs should be reflected as well. Because of the
21 Staff's position that MPS's actual cost of service, including any merger savings, should
22 be used to set rates, I will address the issue of merger savings in my rebuttal testimony.

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1 Q. Did MPS address merger transition and transaction costs in its direct
2 filing?

3 A. Yes. Mr. Clemens states on page 4 of his direct testimony:

4 ...The transition and transaction costs from the SJLP merger will
5 need to be allocated to those divisions receiving the benefit of
6 lower corporate cost, along with apportion of any premium that
7 may have been paid for stock in connection with the merger.

8 I will address the transition and transaction costs later in my rebuttal testimony.

9 Q. Did MPS address "tracking" of merger savings in its direct filing?

10 A. Yes. Mr. Clemens on page 5 makes the following claim:

11 Question: What other consequences result from treating the rate
12 case as though the merger has not taken place?

13 Answer: Future synergies resulting from the SJLP merger will be
14 easily identifiable in this case if UtiliCorp is treated as though the
15 merger did not happen. This rate case can be used to create a
16 baseline for use in subsequent UtiliCorp rate cases.
17

18 The Staff does not believe that by assuming for rate purposes that the merger has
19 not taken place will in any way make it easier to track savings in the future from the
20 UCU/SJLP merger. Staff Accounting witness Steven M. Traxler will discuss the issue of
21 determination of a baseline from which merger savings will be measured in his rebuttal
22 testimony.

23 Q. Did other MPS witnesses address merger related issues in the direct filing?

24 A. Yes. MPS witness Vern J. Siemek in his direct testimony at page 2, states:

25 My testimony in Case No. EM-2000-292 provides an estimated
26 projection of the full impact of the merger when completely
27 integrated. These estimated projections, net of the related costs for
28 incremental support costs and costs to achieve the synergies, may
29 be used as a basis in this proceeding if the second option, discussed
30 by Mr. Clemens, is imposed by the Commission.

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My rebuttal testimony in the UCU/SJLP (Joint Applicants) merger case, No. EM-2000-292 (Merger Case), addressed issues related to the acquisition premium recovery from Missouri ratepayers and the alleged savings estimated by UCU/SJLP to result from the merger. I will address these same issues here in response to the statements made by Mr. Clemens and Mr. Siemek in this case. My rebuttal testimony in the Merger Case relied on responses to Staff Data Requests and transcribed interviews of UCU witnesses held during the spring of 2000.

Q. Does UCU expect any merger savings to occur because of the merger with SJLP?

A. Yes. UCU witness Vern J. Siemek identified the estimated merger savings in his direct testimony in Case No. EM-2000-292 and attached schedules, which are attached in entirety to his direct testimony in this case. UCU claimed the merger with SJLP would result in total estimated savings of \$184.3 million over a ten-year period. UCU believed these merger savings would occur as follows:

<u>Year</u>	<u>Amount in \$</u>
1	\$ 12,709,000
2	15,348,000
3	16,437,000
4	17,894,000
5	18,997,000
6	20,594,000
7	19,777,000
8	21,079,000
9	20,870,000
10	<u>20,561,000</u>
Total	\$184,267,000

[Source: Response to Staff Data Request No. 1, Case No. EM-2000-292]

Based on Mr. Siemek's testimony and that of other Joint Applicant witnesses in the UCU/SJLP merger case, UCU believed it would be able to achieve significant savings

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1 from the merger with SJLP. Furthermore, UCU claimed that it would be able to identify
2 and quantify actual merger synergies to demonstrate in future rate proceedings that these
3 savings exceed the costs related to the merger.

4 Q. Has MPS presented any evidence in this case of actual savings resulting
5 from the SJLP merger?

6 A. No. Neither the direct filing in this case nor responses to Staff data
7 requests have identified actual savings resulting from the SJLP merger. The Staff
8 interviewed Mr. Siemek in October 2001 to gather additional information on the status of
9 the SJLP merger and the "tracking" of merger savings. Mr. Siemek related that UCU has
10 not developed a tracking system yet. See UCU response to Staff Data Request No. 455.
11 (See attached Schedule 4.)

12 Q. Has the Staff reached any conclusions about the estimated merger savings
13 projected by UCU?

14 A. Yes. The Staff believes the estimated merger savings calculated by UCU
15 for Case No. EM-2000-292 should not be relied upon for any reason in this rate
16 proceeding. Estimating or projecting the cost impact of future events is difficult.
17 Predicting what a merged organization will look like and how it will operate is extremely
18 difficult before the fact. The combining of SJLP into the UCU corporate structure has
19 resulted in a completely different organization than existed prior to the merger. Stating
20 with high accuracy what impacts the merger will have on the procedures and processes of
21 providing utility services to post-merger customers is very speculative. Procedures and
22 processes will change in the post-merger organizations, particularly at SJLP.

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1 The elimination of any redundancy in the organizational structure of the separate
2 entities once the merger is completed was an important consideration in planning for the
3 merger, but was highly speculative in nature. How much and to what level merger
4 savings will actually materialize is guesswork. Projecting merger savings for a ten-year
5 period is well beyond a utility's normal planning horizon. It is beyond the practical limits
6 of utilities and regulators, for rate purposes, to identify and quantify with sufficient
7 accuracy the merger savings that will result from the creation of an organization that did
8 not exist until the year 2001. The Staff does not believe the Commission should rely on
9 the estimated merger savings, in part, because of these uncertainties. This point will be
10 discussed in more detail later in my rebuttal testimony.

11 Q. How would Staff characterize MPS's intended use of estimated merger
12 savings in this case filing?

13 A. MPS witness Vern J. Siemek has included his entire testimony from the
14 UCU/SJLP merger in his direct testimony in this case. The Staff believes the estimated
15 merger savings are being used to set the stage for UCU's requested recovery of the
16 merger premium. The Staff opposes rate recovery of the acquisition adjustment.

17 Q. Please describe UCU's proposed "regulatory plan" in the Merger Case.

18 A. To improve the likelihood that an acquisition premium might be recovered
19 from ratepayers in Missouri, UCU proposed only recovery of fifty percent of the
20 acquisition premium in its "regulatory plan" that was rejected by the Commission in Case
21 No. EM-2000-292. This approach allowed UCU to claim that the estimated savings
22 would exceed estimated merger costs, so that a nominal amount of merger savings could
23 be "guaranteed" to ratepayers. For this reason, the estimated merger savings were the

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1 key to the regulatory plan and continue to be for the recovery of an acquisition premium
2 even though the regulatory plan is not in place.

3 **SAVINGS ALLOCATIONS AMONG SJLP AND MPS OPERATIONS**

4 Q. What regulated services does MPS provide in Missouri?

5 A. MPS provides natural gas and electric services to Missouri customers.

6 Q. What regulated services does SJLP provide in Missouri?

7 A. SJLP provides natural gas, electric and steam services to Missouri
8 customers.

9 Q. How does UCU separate the estimated UCU/SJLP merger savings among
10 electric, natural gas and steam operations?

11 A. UCU/SJLP have not provided the Staff with any analysis that separates
12 merger savings for electric, natural gas and steam operations. It was not known in Case
13 No. EM-2000-292 and it is not known at this time how UCU will allocate merger savings
14 among the different industry operations of SJLP.

15 The question was asked in the transcribed interview of UCU witness Siemek in
16 Case No. EM-2000-292:

17 Question by Staff: It's my understanding that the amounts on
18 Schedule 1 of your St. Joseph testimony are all total company.
19 There is no attempt to segregate electric, gas, or steam heat
20 numbers within the schedule, correct?

21
22 Answer by Mr. Siemek: That's correct.

23
24 Question: At some point in the transition team and savings
25 estimation process, would you expect a more formalized attempt to
26 segregate savings, and perhaps—or certainly costs as well,
27 between those functions of St. Joseph Light and Power?

28
29 Answer: I'm not certain that I could say that would be done as part
30 of the transition team reports.

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1
2 Question: And for rate purposes, at some point this number [net
3 merger benefit to St. Joseph customers] will have to be divided
4 into electric, gas, and steam proponents—or components? I'm
5 sorry.

6
7 Answer: Yes.

8
9 Question: But you're not sure when that will be done; it may not
10 be done, for purposes of the merger proceeding, that may be
11 somewhere down the road?

12
13 Answer: Right.

14 SJLP operating and capital budgets were developed with a clear separation of
15 electric, natural gas and steam operations, which is necessary in determining cost of
16 service and rates specific for each group of energy customers. The transition teams did
17 not separate out savings or costs among electric, natural gas and steam operations.

18 Q. What is the essential information necessary to assess the merger's impact
19 on a business function/operating unit basis, which has not been included in UCU's filing?

20 A. The essential pieces of information are:

- 21 1. Savings by function
22 2. Costs by function

23 The financial information in the Joint Applicants' Merger Case did not address
24 the impact of the merger on the various Missouri operating units of the merged Company
25 (i.e., UCU and SJLP). The business functions of the merged Company are:

- 26 • Missouri Gas Operations – SJLP & MPS
27 • Missouri Electric Operations – SJLP & MPS
28 • Missouri Steam Operations - SJLP

29 UCU's direct filing in the Merger Case and in this rate case are based on the
30 implicit assumption that if the acquisition and merger is not detrimental to the public

1 interest on a merged Company basis, then it must be not detrimental to the public interest
2 to the individual operating units of the merged Company.

3 **Estimated Savings/Transition Teams**

4 Q. Are the estimated merger savings presented in the Merger Case filing and
5 in the direct testimony of Mr. Siemek in this case the savings that are likely to be realized
6 from the UCU/SJLP merger?

7 A. No. The savings amounts are nothing more than estimates. They can
8 change with additional analysis, and have through time since the initial due diligence
9 savings estimates were made.

10 Q. Please describe the first attempt made by UCU to estimate the merger
11 savings that would result from the acquisition of SJLP.

12 A. UCU developed an initial estimate of merger savings during its "due
13 diligence" phase of the bidding process for SJLP. This review allowed the bidder, UCU,
14 to examine public and selected internal confidential information so it could make a
15 valuation determination of the merger candidate, in this case SJLP. The due diligence
16 analysis began with review of the SJLP's Federal Energy Regulatory Commission
17 (FERC) Form 1, (Annual Report). UCU may also have used other public documents in
18 this review.

19 According to answers of Mr. Siemek given at his transcribed interview in
20 May 2000 in Case No. EM-2000-292, payroll related savings estimates were established
21 after review of organizational charts of SJLP and the FERC Form 1 (pages 354 and 355)
22 that show the breakout of actual SJLP payroll expenses between various categories.
23 On the non-payroll expense side, UCU had even less information and relied almost

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1 entirely on the FERC Form 1 for actual expenses by account and some of the outside
2 services.

3 Q. Did UCU/SJLP later perform additional analysis of estimated merger
4 savings?

5 A. Yes. Once the Merger Agreement was completed, UCU and SJLP started
6 working on identifying and quantifying estimation of merger savings on a joint basis
7 using what are known as "transition teams." The transition teams, among other assigned
8 tasks, "validated" the initial due diligence estimated merger savings. There were a total
9 of seven teams formed: Human Resources, Finance/Accounting, Regulatory/Legislative
10 Services, Distribution, Transmission, Supply/Generation and Information Technology.
11 According to Schedule VMH-1, Case No. EM-2000-292, "Integration Planning
12 Timeline," attached to the direct testimony of the Joint Applicants' witness
13 Vicki M. Heider, the teams began meeting in July of 1999 and continued to meet through
14 November of 1999, when their initial validation reports were presented to the Transition
15 Team Steering Committee. The transition teams' analyses led to the merger savings
16 estimates included in Mr. Siemek's direct testimony.

17 Q. Were the employee reductions used in calculating the estimated merger
18 savings in place at the time of the Merger Case?

19 A. No. Actual personnel reductions could not be determined until after
20 closing.

21 Q. Have other public utility commissions raised concerns over claimed
22 achievement of merger savings?

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1 A. Yes. Utility regulators in other jurisdictions in which electric utility
2 mergers have occurred have also raised concerns about estimated merger savings. In
3 Docket No. 98-7023, before the Public Utilities Commission of Nevada (Nevada PUC),
4 in the Reapplication of Nevada Power Co., Sierra Pacific Power Co. and Sierra Pacific
5 Resources for Approval of Agreement and Plan of Merger, a Compliance Order was
6 issued by the Nevada PUC:

7 The joint application includes a multi-part regulatory rate plan
8 described by the Joint Applicants as being designed to hold utility
9 customers harmless from any adverse impact on rates associated
10 with the costs of the merger and a proposal for an incentive
11 mechanism through which net merger and related benefits are to be
12 shared between customers and investors.

13
14 ...The Commission finds that the merger savings are
15 estimates...merger cost savings can neither be precisely quantified
16 nor accurately tracked and that the Commission should not rely
17 upon the estimates of merger savings provided by the Joint
18 Applicants. [Emphasis added]

19 The Board of Public Utilities (BPU) for the state of New Jersey, Docket No.
20 EM98070433, in the Orange & Rockland Utilities (RECo) and Consolidated Edison, Inc.
21 (CEI) merger stated their concern about estimated merger savings:

22 We HEREBY DIRECT that RECo file an appropriate Cost
23 Allocation Manual by January 1, 2000 for the Board's
24 consideration.

25
26 The primary area of controversy in this proceeding is the
27 estimate of the net merger savings and the method and timing of
28 the sharing of said savings with RECo's ratepayers. In deciding
29 this issue, the Board is mindful of the similarities of the
30 characteristics of this issue in this case and the recently concluded
31 Conectiv merger case. Both mergers produce merger savings
32 primarily via labor reductions and the streamlining of utility
33 operations. The net-savings are estimated over 10-year periods in
34 both cases and similar categories of costs to achieve the merger
35 were identified. We are however mindful in the instant proceeding
36 of the substantial windfall which will accrue to O&R shareholders
37 by reason of a 38.5% appreciation in the value of their investment

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1 traceable directly to the consummation of this merger resulting in
2 an approximate \$200 million premium, which situation is unique to
3 the instant merger vis a vis Conectiv.
4 [Emphasis added]

5 Public utility commissions in other jurisdictions have questioned the validity of
6 estimated merger savings because they are merely estimates and cannot be relied upon
7 for setting rates. As this Commission is well aware, traditional ratemaking in this
8 jurisdiction relies upon recent historical data to determine a utility's revenue requirement
9 and then set rates appropriately to permit the utility the opportunity to recover
10 prospectively from its customers this determined revenue requirement. Since utilities tie
11 premium recovery to merger savings, commissions realize that tracking and
12 differentiating merger savings from non-merger savings is crucial.

13 Q. Does the Staff have any other concerns about the estimated merger
14 savings?

15 A. Yes:

- 16 • The estimated savings have not been scrutinized even to the
17 level of annual budgets. If budgets cannot be relied upon for
18 ratemaking, neither can estimated savings.
- 19 • The estimated labor savings have several flaws: vacancies due
20 to the merger should not be included in estimated merger
21 savings, vacancies due to normal attrition should not be
22 included in estimated merger savings, non-merger labor
23 reductions will not be identifiable from estimated merger
24 savings.
- 25 • How savings will be allocated among the electric, gas and
26 steam operations of SJLP and the electric and gas operations of
27 MPS.

28 I will address Staff's concerns about these areas in the following sections of my
29 rebuttal testimony.

1 **BUDGET DEVELOPMENT VS. ESTIMATED SAVINGS**

2 Q. Does UCU place importance on the development of its annual budgets and
3 meeting or "besting" annual budget targets?

4 A. Yes. UCU employees are indirectly rewarded for their performance
5 relative to the budget. In response to Staff Data Request No. 154 in Case
6 No. EM-2000-292, UCU witness Robert B. Browning explained that "Ultimately,
7 managing the budget becomes an important step in achieving earnings per share targets."
8 While employees are not directly rewarded for performance against budget, all
9 employees are rewarded for the company achieving or exceeding its earnings per share
10 goal for each year. Mr. Browning also stated that management did not plan to establish
11 goals specifically for achieving expected merger savings.

12 Q. Do employees of UCU devote considerable time developing budgets?

13 A. Yes they do. UCU's response to Staff Data Request No. 149 in Case
14 No. EM-2000-292 provided information pertaining to the budget process. The
15 management of UCU devotes a considerable amount of time to develop budgets that are
16 used to forecast earnings. Attaining budgeted revenues and holding expenses to budgeted
17 amounts enhances the financial position of UCU. The Staff conducted in Case
18 No. EM-2000-292 a transcribed interview of UCU Merger Case witness Jerry Myers to
19 gather additional information related to the savings tracking proposal. According to
20 Mr. Myers' transcribed interview (Tr. 46-49), each project manager is responsible for the
21 coding of expenses and the outcome of the project. (A "project" could be any number of
22 activities so defined and under the direction of an assigned manager.) Managers devote
23 time in analyzing the expense requirements and the revenue projections for their

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1 projects/departments. The process of developing the budget is time consuming and input
2 from many individuals bring the final budget numbers together. Changes in actual
3 activity to the budgeted estimated revenues and expenses are measured monthly.

4 Q. Has the Commission previously allowed rates to be set based on budgets,
5 forecasts or estimates?

6 A. No. The Commission generally requires that rates be set on known and
7 measurable costs, not based upon budgeted amounts. Budgets, forecasts and estimates all
8 have a place in planning future expected results for companies and are used to manage
9 the operations of the company. Budgets are made for the next year and are used as a
10 planning tool and as performance measurements. Operating budgets typically do not
11 extend out in time past one year. Capital budget forecasts may go out for periods of five
12 years. Companies often revise budget and forecast projections annually and sometimes
13 even monthly as circumstances change. Companies monitor budget-to-actual variances
14 in the short term to monitor performance. While a great deal of effort goes into the
15 development of budgets, they remain just that – budgets. They are appropriate tools for
16 cost control, but they do not provide precise information that can or should be relied on to
17 use in the ratemaking process.

18 Q. Were the estimated merger savings comparable to annual budgets in their
19 level of detail?

20 A. No. The merger estimates that UCU asked the Commission to rely on in
21 Case No. EM-2000-292 were based on an analysis that was not even as detailed as the
22 budget process followed by UCU or SJLP. The estimated merger savings were similar to
23 budgets in one way. They were based upon expected events. They were not similar to

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1 budgets in another way. There was no historical data that defined the unique company
2 that the merger created.

3 More importantly, the merger savings estimates were for a period of time that was
4 much longer and much farther out in the future than the typical budget is attempting to
5 monitor. Budgeted projections that extend out one year are not relied upon for rate
6 purposes, let alone projections that extend out ten years into the future. The Staff does
7 not believe that the Commission should rely on projected estimates of savings to
8 substantiate the inclusion of the acquisition premium into rate base for the customers of
9 MPS or SJLP to pay. The estimated merger savings are merely speculative.

10 The estimated merger savings are also very largely dependent upon application of
11 an escalation factor that artificially increases the merger savings estimates throughout the
12 last nine years of the ten-year estimates. The analysis that is applied by UCU or SJLP to
13 the annual budget process would have to be re-done each year of the ten-year period in
14 order to be as detailed.

15 To summarize, budgets have not been used in the rate making process in Missouri
16 because of their inherent lack of reliability. Yet, it is striking that the merger savings
17 estimates the Joint Applicants proposed to set future rates on were much less detailed and
18 concrete than even UCU's and SJLP's annual budgets. The Commission should decline
19 the Joint Applicants' invitation to set rates or allocate costs associated with the
20 UCU/SJLP merger based on preliminary estimates of merger savings before any actual
21 savings have been measured.

1 **MERGER SAVINGS-LABOR**

2 Q. What comments do you have concerning the Joint Applicants' estimated
3 labor savings resulting from the merger?

4 A. There are several important points to discuss related to the estimated labor
5 savings resulting from the merger:

- 6 • Any proposed baseline that includes non-merger related vacant
7 positions will artificially increase merger savings. The costs
8 associated with these vacant positions, when measured against
9 future labor expenses, will inaccurately produce savings that
10 appear to be merger related.
- 11 • Labor reductions have occurred at UCU and SJLP on a stand-
12 alone basis and probably would continue to in the future.
- 13 • These non-merger labor savings will be increasingly hard to
14 distinguish from merger labor savings.

15 Q. Please describe the UCU/SJLP analysis of alleged merger savings related
16 to labor.

17 A. The Joint Applicants provided workpapers and reports issued by the
18 transition teams in response to Staff Data Request Nos. 1 and 109 in Case
19 No. EM-2000-292. Each of the seven transition teams was responsible for review of a
20 portion of the SJLP 1999 budget during the due diligence validation process. The
21 analyses concentrated on the labor expenses of SJLP. Some teams started with the SJLP
22 budget and then deducted positions that they believed would duplicate existing UCU
23 positions. Other teams took the approach of starting at zero dollars and then adding back
24 positions that would be needed. The teams looked at SJLP direct labor costs associated
25 with their specific team's departmental functions.

26 Q. Do projected labor reductions account for a large portion of the estimated
27 merger savings?

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1 A. Yes. A large portion of the alleged savings created by the merger come
2 from SJLP personnel. Mr. Siemek describes these types of estimated savings in his direct
3 testimony attachment, Schedule VJS-A, starting on page 8. Many of the reductions in
4 direct costs to SJLP arise from the fact that the positions and job duties to be eliminated
5 are duplicative of positions and job duties already being performed by personnel at UCU;
6 i.e., supervisory and management positions. SJLP positions that are considered as
7 overhead will be eliminated with those job duties absorbed by UCU. In turn, this will
8 lead to some additional positions at UCU. Then, the post-merger SJLP operating unit
9 will be allocated a portion of UCU's corporate overheads, through the corporate
10 allocation process discussed in the direct testimony of Staff witness Hyneman. In the
11 case of the SJLP merger, most of the incremental support costs assigned to SJLP will be
12 payroll in nature.

13 Q. Did the transition teams provide details to support their labor reductions?

14 A. Unfortunately, the transition team workpapers contained few concrete
15 explanations to explain position reductions in the various departments. Most of the
16 workpapers, especially in the areas of transmission and distribution, contained only the
17 results of decisions reached regarding the numbers of positions to be reduced and no
18 documentation of why each reduction is thought to be reasonable.

19 Q. Were all positions eliminated based on similar analyses?

20 A. No. In some cases, teams were subjective in their decisions and made
21 assumptions that tended to increase the number of positions to be eliminated. Both
22 Mr. Myers and Mr. Siemek supported this "conservative" view keeping the addition of
23 personnel at the UCU corporate level as low as possible. In his March 2, 2000

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1 transcribed interview (Tr. 43), when asked about the elimination of positions, Mr. Siemek
2 gave an example of personnel in the Accounts Payable department being able to process
3 10,000 invoices per person:

4 So, in my case, and the example that I used, we started with, I
5 think, 36,000 combined invoices from the two companies, which
6 would have been three-and-a-half people at UtiliCorp. And we
7 ended up adding three, and assuming that some of those 36,000
8 would go away. And I think that was generally the approach that
9 was taken by each of the transition teams...we were fairly
10 conservative in trying to decide what additional staff we needed to
11 add. [Emphasis added]

12 **NON-MERGER LABOR REDUCTIONS**

13 Q Please explain the Staff's concerns about the projected merger savings
14 generated from reductions in labor costs.

15 A. The Staff believes some of the labor savings included in the UCU/SJLP
16 proposed merger savings were and are actually attainable by UCU and SJLP without the
17 merger, so attributing the savings solely to the merger is misleading.

18 Q. Were UCU and SJLP successful at reducing employee levels and/or labor
19 costs in the past?

20 A. Yes. UCU and SJLP had both been able to reduce employee levels
21 through reorganizations and downsizing. UCU's response to Staff Data Request No. 26
22 in Case No. EM-2000-292 illustrates personnel reductions related to re-engineering. The
23 response to this Staff data request is discussed in further detail later in my testimony.

24 Q. What was the relationship between SJLP's and UCU's past employee
25 reductions and the Merger Case?

26 A. UCU and SJLP alleged that labor savings through employee reductions are
27 a merger benefit and were predicated on the assumption that a merger triggers these

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1 savings. In the past, both UCU and SJLP have been able to attain employee reductions
2 on a stand-alone basis through re-engineering at UCU and on a smaller scale through
3 reorganization at SJLP. The Staff believes that these reductions would have continued
4 absent the merger.

5 The Staff believes that both UCU and SJLP still would have had opportunities to
6 reduce employee counts on a stand-alone basis. However, the Staff also believes that the
7 merger between SJLP and UCU allowed some additional labor savings that would not
8 have occurred absent the merger.

9 Q. Why do you believe SJLP would have had further opportunities to reduce
10 employee counts and/or labor costs on a stand-alone basis, absent the merger?

11 A. Part of UCU's analysis of SJLP, according to a statement made by
12 Ms. Heider in her Merger Case Staff interview, documented the fact that about
13 80 employees of SJLP would be eligible for early retirement within the next two years.
14 This was later verified with UCU's response to Staff Data Request No. 200 in Case No.
15 EM-2000-292. The potential existed for SJLP to use early retirement as a tool to
16 reorganize jobs at SJLP on a stand-alone basis.

17 **MERGER SAVINGS – TRACKING**

18 Q. Please summarize the Staff's position on the "tracking" of merger savings.

19 A. The Staff's position is that "tracking" of merger savings is a nearly
20 impossible task and certainly not practical to do. The Commission should not rely on the
21 concept of "tracking" of merger savings to justify the recovery of the acquisition
22 premium because:

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- 1 • There is difficulty in establishing a proper baseline and in
- 2 distinguishing merger and non-merger related impacts on
- 3 earnings.
- 4 • Human intervention is required to subjectively determine how
- 5 transactions are identified.
- 6 • Tracking has not been successfully done in Missouri.
- 7 • UCU has not provided a detailed or a concrete proposal.
- 8 • SJLP and UCU ceased to exist as stand-alone companies the
- 9 day the merger was announced. It is impossible to identify
- 10 what would have been a non-merger versus merger savings.
- 11 • The merged companies will continue to seek/achieve non-
- 12 merger savings.
- 13 • The sophistication of UCU's accounting system is not relevant
- 14 to the success of tracking. If anything, the system hinders the
- 15 Staff's ability to audit/track expenses.
- 16 • The attempt to track merger savings will be further
- 17 complicated by any future merger and acquisition activity of
- 18 UCU.
- 19 • The attempt to track merger savings will be further
- 20 complicated by any future restructuring of the electric utility
- 21 industry in the state of Missouri.

22 Q. What is meant by merger savings "tracking?"

23 A. Tracking is a post-merger process where it is asserted that specific events
24 relating to the merger can be identified, verified and the amount quantified so that a
25 determination can be made if the merger is successful from a savings/synergies
26 perspective. The differences between these post-merger transactions when compared to
27 the pre-merger baseline of the stand-alone pre-merger companies represent the
28 "purported" merger savings. Systems purportedly capable of tracking merger savings are
29 generally proposed as part of a regulatory plan to allow for "special treatment" of merger
30 savings (i.e., to allow for either direct or indirect recovery of acquisition adjustments).

31 In essence, most tracking methods can be defined as an attempt to compare actual
32 merged results of the combined company to the costs that would have been incurred by

1 the companies if they had remained on a stand-alone basis. Determining both parts of
2 this equation is problematic at best.

3 **Components of the Tracking Equation**

4 Q. What exactly is to be "tracked" in a utility merger?

5 A. In the case of the utility merger, the post-merger expenses will be
6 "tracked" and compared to a "baseline" (also called a "base year") of pre-merger
7 expenses, with the difference assumed by default to be merger savings. The difficulty of
8 separating merger savings from non-merger savings arises. Whether a savings is in fact
9 created because of the merger or could have been created by one or both of the
10 companies on a stand-alone basis becomes a further complication to an already
11 error-prone equation.

12 Q. What is the Staff's position in regard to the "tracking" of merger savings?

13 A. The Staff believes that the "tracking" of merger savings is inherently
14 difficult if not impossible because of the difficulty of determining the components that go
15 into the tracking process or equation. A closer analysis of the "tracking" equation
16 demonstrates this.

17 Q. Why is establishing a baseline for savings tracking purposes so important
18 to the "tracking" equation?

19 A. The pre-merger baseline is a critical component of the equation and its
20 accuracy as a reflection of stand-alone expense levels in turn influences the accuracy of
21 the merger savings in total. The baseline concept is comparable in some ways to the
22 test-year concept in a rate case. In a rate case proceeding, the Staff would determine the
23 test-year based on the most current actual (known and measurable) expenses. In the

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1 Merger Case, the savings estimates reflected in Mr. Siemek's direct testimony were
2 developed using the SJLP 1999 budget as the baseline for merger savings tracking
3 purposes. Mr. Clemens, as stated earlier in my rebuttal testimony, proposed the use of
4 the test year in this case as the baseline for use in measuring merger savings in
5 subsequent MPS rate cases.

6 Q. Are there problems with using the test year in this case (January 1, 2000
7 through December 31, 2000) as a baseline?

8 A. Yes. The inclusion of the impact of the merger into the test year
9 determination of joint dispatch related costs and in other areas where costs are allocated
10 to divisions of UCU could result in misdirecting costs or savings to the UCU/SJLP
11 merger that are not related to the merger at all.

12 Q. Are baseline amounts necessarily valid for future applications?

13 A. No. A problem with the use of a baseline is the always-changing
14 environment of the utility that makes the normalized and annualized expense amounts
15 reflective only of a point in time. As the utility moves out in time to the future, the
16 baseline become less representative and reflective of properly adjusted expense levels
17 that can be used to establish rates, or in the case of tracking, to establish a measurement
18 of merger savings. One cannot assure that a "baseline" will remain valid as an indication
19 of pre-merger expense levels for long. This is true for any baseline, whether it is based
20 on a budgeted level of expenses, actual expenses or a normalized level of expenses.

21 The sound business practice in competitive and regulated environments to always
22 strive for improvements and efficiencies in operating the business is widely accepted.
23 The improvements and efficiencies contribute to changes that reduce baseline/test-year

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1 over time. Stockholders expect no less from management. Businesses in a competitive
2 environment use these efficiencies to gain market share and improve the company's
3 financial statement bottom line. The regulated environment allows utilities to take
4 advantage of regulatory lag when efficiencies precede rate cases to improve their
5 earnings.

6 To summarize, use of baseline for a period of ten years out into the future
7 generates increasingly inaccurate results that simply are not credible. The changes in
8 expense activity each year becomes compounded over time, rendering the
9 baseline/test-year unreliable and unrepresentative past the near term, if in fact it is
10 reliable and representative in the near term.

11 Q. Please discuss the other component of the "tracking" equation.

12 A. The other component of the "tracking" equation is the amount of actual,
13 post-merger expenses that are identified and then subtracted from the baseline to
14 "determine" the amount of merger savings. To lay out the complications of determining
15 this amount for tracking purposes, first I will discuss the concept of tracking expenses for
16 financial reporting purposes.

17 Q. Is this component of "tracking" expenses a concept that is used in
18 accounting?

19 A. Yes. In the direct testimony of Mr. Myers in Case No. EM-2000-292,
20 what he is representing as "tracking" is actually the accounting function that businesses
21 perform to create financial reports. In accounting, actual expenses are "tracked" by
22 account number. The determinations of the account numbers to post transactions are
23 made based on an analysis of the financial transactions. The transactions are posted

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1 based on guidelines and procedures that identify characteristics of accounts and typical
2 transactions to aid someone in the account postings decision. Someone, i.e., a
3 bookkeeper, manager, posting clerk, etc., determines what accounts to post the
4 transactions to. The accuracy of the posting is dependent upon the ability of the person
5 coding the transactions to know what the transactions consist of. Over time, accounting
6 of transactions has become automated as computer software has allowed for more
7 detailed analysis and reporting of accounting functions.

8 The "tracking" of transactions that affect assets, liabilities, expenses and revenues
9 result in a general ledger that identifies transactions by account number/code and
10 summarizes account transaction activity in the financial statements of the company. The
11 Staff analyzes of the general ledger and financial statements of a utility during each rate
12 case audit. The Staff makes adjustments when it determines that it is necessary during
13 the normal course of the audit process. Company personnel also analyze transactions for
14 accuracy and make initial adjustments prior to financial statements being issued.
15 Company internal auditors routinely analyze transactions and accounts for accuracy.
16 External auditors also are employed annually to attest that the financial statements of the
17 utility present fairly the financial position of the company, through an audit of accounts
18 and transactions that usually includes adjustments/corrections to transaction account
19 entries.

20 Q. Why are there always corrections and adjustments to be made to the
21 expense entries/coding that comprise the financial transactions of a company?

22 A. There are always corrections and adjustments because the "tracking" of
23 company expenses becomes subjective when people are required to decide what code to

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1 use when posting accounting transactions. The accounting system facilitates the volume
2 of codes and accounts needed to segregate expenses, revenues, liabilities and assets. Yet,
3 human intervention and subjective judgments still create errors that lead to inaccurate
4 coding. Difficulties in distinguishing the correct accounts for posting transactions occurs
5 in rate cases. Accounting policies and procedures aid in the determination of the correct
6 coding but errors will always be made.

7 Q. Why will the "tracking" of the merger savings be more difficult than
8 "tracking" standard transactions?

9 A. Besides the usual problems with people making subjective judgments
10 about events, possibly causing inaccurate coding of transactions, the additional task of
11 determining what savings are specific to the merger and which are not merger related will
12 also be a subjective process and will likewise be prone to error and misstatement. The
13 most sophisticated computer system used for the accounting function of the company
14 cannot prevent the errors. The errors will occur because of the inability to clearly
15 distinguish between what is a merger related transaction and what is a non-merger related
16 transaction. Being able to project back through the rationale and circumstances behind
17 every event, transaction and circumstance that derives a savings from the pre-merger
18 SJLP and/or UCU stand-alone companies will be almost impossible.

19 Therefore, both parts of the "tracking" equation, the baseline and the
20 identification and quantification of the expense transactions that requires human
21 intervention, proposed by the Joint Applicants are prone to error and cannot be relied
22 upon for determining merger savings for even Year One after the close of the merger.

23 Q. Will UCU have an incentive to attempt to overstate merger savings?

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1 A. Yes. With recovery of its acquisition adjustment dependent upon the
2 identification of merger savings, UCU personnel will have every incentive to identify as
3 much merger savings as possible.

4 **Distinguishing Between Merger and Non-Merger Savings**

5 Q. Please describe the different types of savings that can be generated from a
6 merger.

7 A. In the proposed merger between Kansas City Power and Light (KCPL)
8 and Western Resources Inc., (Western Resources) Case No. EM-97-515,
9 Mr. Thomas J. Flaherty, a partner in the Deloitte & Touche Consulting Group LLC, filed
10 direct testimony on behalf of both companies, which described three types of savings that
11 can arise from a merger:

- 12 1. Created savings – These are savings that are related directly
13 to the completion of a merger and cannot be obtained
14 absent the merger.
- 15 2. Enabled savings – These savings result from the
16 acceleration or unlocking of certain events that can give
17 rise to savings.
- 18 3. Developed savings – Reductions in cost due to
19 management decisions that could have been made on a
20 stand-alone basis are unrelated to the merger.
21
22

23 The distinction between created, enabled and developed savings can be subjective
24 in many cases. The Staff agrees there will be some created savings and possibly enabled
25 savings from the merger due to duplicative jobs and economies of scale. The Staff would
26 argue, though, that there may also be developed savings that will occur after the merger
27 that may be “tracked” as merger savings when in fact it is actually non-merger savings.

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1 In Mr. Flaherty's Schedule TJF-2, page 36 of 75, in his direct testimony filed in
2 Case No. EM-97-515, the following was stated concerning estimated merger savings in
3 that case:

4 Potential areas of benefit, and subsequently, the resulting cost
5 savings, are determined to be merger-related if they are not
6 attainable by any action that management of either company could
7 practically initiate on an independent basis. For example,
8 management of either company could reduce labor costs by
9 eliminating positions as part of a resource and function analysis.
10 [Emphasis added]

11 This statement indicates how important it is to identify cost savings between
12 non-merger and merger related events to properly measure the efficiencies of the merger
13 itself. The statement also identifies how subjective an analysis can become. Mr. Flaherty
14 assumes that a resource and function analysis post merger would identify created savings.
15 The Staff would argue that a resource and function analysis completed by either company
16 party to the merger could have identified potential positions to be eliminated or combined
17 on a stand-alone basis. Companies should always be aware of potential non-merger
18 savings that can be developed through efficiencies created by use of enhanced
19 technology, employee productivity increases, and innovative ideas of management and
20 employee.

21 **Attempts at "Tracking" Merger Savings**

22 Q. Have utility companies in Missouri attempted to track merger savings in
23 the past?

24 A. Yes, in the Kansas Power and Light Company (KPL) merger with Kansas
25 Gas and Electric Company (KGE), Case No. EM-91-213, KPL requested that the
26 Commission approve the merger and institute a program of sharing merger savings

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1 between shareholders and ratepayers with each receiving fifty percent. The
2 Commission's Report and Order in that proceeding stated:

3 The Commission is not opposed to the concept of the
4 savings sharing plan provided that only merger-related
5 savings are shared. The Commission does not wish to
6 discourage companies from actions, which produce
7 economies of scale and savings, which can benefit
8 ratepayers and shareholders alike. However, the
9 commission wishes to ensure that savings, which would
10 have been offset against the cost of service without the
11 merger, benefit ratepayers one hundred percent.
12

13 That the parties to this case be directed hereby to meet for
14 the purpose of attempting to devise a merger savings
15 tracking plan (MSTP) which will ensure that all non-
16 merger savings can be excluded from the merger savings to
17 be shared between ratepayers and shareholders.

18 Q. Was KPL successful in tracking merger savings?

19 A. No. The parties to the case were not able to reach an agreement on how to
20 track the merger savings separately from the non-merger savings. The Commission
21 indicated that if KPL wanted to pursue the tracking system, they could do so in their next
22 rate case.

23 Q. Did KPL (Western Resources) address the cost tracking system in their
24 next rate case?

25 A. Yes, they did. In Western Resource's first rate case, after the KGE/KPL
26 merger, Case No. GR-93-240, KPL concluded that the cost of maintaining the tracking
27 system out weighed the benefits. For further discussion of this history, please see the
28 testimony of Staff witness Featherstone.

29 Q. Describe the subsequent Western Resources/KCPL merger savings
30 "tracking" proposal from Case No. EM-97-515 and why it was proposed.

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1 A. Western Resources/KCPL proposed to use the actual 1995 combined
2 expenses of Western Resources and KCPL as a baseline, and then index that amount to
3 the year for which the merger savings were being calculated. If the indexed base year
4 expenses were higher than the actual expenses incurred in the post-merger period, the
5 difference would be considered merger savings. The difference for non-production
6 operation and maintenance (O&M), production O&M, joint-dispatch savings, capital
7 addition savings and other merger savings would be totaled to arrive at the total merger
8 savings for the indexed year. Western Resources proposed to index non-production
9 O&M expenses to adjust for the impacts of inflation, customer growth and productivity.
10 It also removed medical and dental expenses, transmission for others and net
11 nonrecurring expenses from non-production O&M in its proposed savings tracking
12 analysis.

13 The production O&M indexing formula included only a factor to account for the
14 impact of inflation. For production O&M, Western Resources factored in an inflation
15 adjustment and removed purchased power, fuel, lease expense for the LaCygne 2
16 generating unit, net non-recurring expenses and Wolf Creek decommissioning and outage
17 expenses.

18 The reason behind the proposed baseline and adjustments was to identify an
19 amount of merger savings that could be applied to the regulatory plan proposed by
20 Western Resources. That regulatory plan was essentially an incentive plan, which used
21 different levels of savings to determine the amount of "sharing" of earnings between
22 customers and shareholders. The only importance of the level of merger savings related

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1 to this incentive plan proposed was that the more savings the formula "proved," the
2 higher the retention of earnings by the Company through the incentive plan.

3 Q. What was the Staff's position in regard to the tracking system Western
4 Resources/KCPL proposed to use in determining merger savings?

5 A. The Staff opposed relying on the Western Resources/KCPL method to
6 "measure" merger savings. The Staff believed that the need to determine which
7 adjustments would be necessary to remove non-merger impacts from the actual
8 post-merger results would require some sort of annual audit similar to that of a rate case.
9 A determination of what unusual and nonrecurring events effectively increased or
10 decreased expenses would also need to be made. These events would need to be
11 eliminated so that non-merger activity would not effect the "tracking" of the residual
12 merger savings. Both Western Resources and KCPL recognized that any baseline chosen
13 for tracking purposes must be subject to adjustment to attempt to eliminate non-merger
14 impacts.

15 Q. Did the tracking of merger savings proposed by UCU and SJLP in Case
16 No. EM-2000-292 differ from the tracking proposed in the Western Resources/KCPL
17 merger?

18 A. Yes. While the Staff opposed the Western Resource/KCPL tracking
19 proposal, it was proposed in much more detail and in much more concrete terms than
20 UCU and SJLP put forward for their tracking proposal in the Merger Case. The UCU
21 "tracking" proposal has never been explained in detail beyond the statement that it can be
22 done with accounting software. The baseline is not proposed to be adjusted beyond an

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1 inflation factor. The abbreviated tracking proposal of UCU is even less acceptable to the
2 Staff than the Western/KCPL proposal.

3 Q. Did the subsequent Western Resources/KCPL Merger Stipulation and
4 Agreement allow those companies to attempt to track merger savings for that merger?

5 A. No. The Report and Order in the Western Resources/KCPL merger case,
6 No. EM-97-515, states:

7 The parties further agreed that it is unnecessary to develop a post-
8 merger savings quantification tracking mechanism with respect to
9 the instant merger and that none shall be proposed in future
10 proceedings in Missouri.

11 Q. Is the Staff aware of other attempts by utilities to "track" merger savings?

12 A. Yes. UCU attempted to "track" savings in the Kansas utility jurisdiction
13 following its acquisition of West Plains Energy Kansas (West Plains) from Centel in
14 1991.

15 Q. Was UCU successful in its attempt at "tracking" merger savings?

16 A. No. UCU did not successfully track these savings. When the issue of
17 documenting the actual merger savings was brought before the Kansas Corporation
18 Commission (KCC), UCU attempted to included a multitude of cost savings that the
19 KCC ultimately decided were not merger related.

20 Q. Please summarize the details of UCU's acquisition of West Plains.

21 A. On September 27, 1991, in Docket No. 175,456-U, the KCC allowed UCU
22 to acquire the electric assets of Centel (West Plains) subject to stipulated conditions.
23 West Plain's assets were transferred to UCU at or about net book value. However, West
24 Plain's eight-percent ownership interest in Jeffrey Energy Center was transferred to
25 Wilmington Trust and leased back to UCU. The Stipulation in Docket No. 175,456-U

1 enforced a two-year rate moratorium, a reduction in UCU's initial rate tariffs, a refund to
2 retail ratepayers within the West Plains service territory and prohibited UCU from
3 seeking rate recovery of any acquisition premium beyond the level of savings generated
4 by the acquisition. UCU did not propose a method for identifying and quantify savings in
5 that initial acquisition case. UCU presented little evidence of cost savings apart from
6 general and administrative cost reductions in its prefiled testimony in that case. The
7 determination of any acquisition premium, the recovery of such costs and the issue of an
8 appropriate measuring mechanism for the merger savings were deferred until West Plains
9 next rate case.

10 Q. What were the merger savings issues in the subsequent KCC West Plains
11 rate case, Docket No. 99-WPEE-818-RTS?

12 A. The following excerpts from the KCC Order on Application, dated
13 January 19, 2000, specifically address the merger savings issues in the West Plains case:

14 Page 7, 17. The Applicant identified seven areas of claimed
15 savings to support the recovery of the acquisition premium and
16 submitted that the savings greatly exceeded any acquisition
17 premium paid to Centel. Staff and CURB examined each area of
18 claimed savings and contended that the Applicant failed to show a
19 nexus between the claimed savings and the Centel acquisition...

20
21 Page 8, 18. The largest claimed savings is based upon the position
22 that the Applicant was entirely responsible for the reduced coal
23 costs at the Jeffrey Energy Center... It appears that the primary
24 reason for coal cost savings is Western's motivation to lower its
25 coal costs and that the Applicant benefited from Western's
26 efforts...Moreover, the Applicant failed to carry its burden of
27 proof with respect to these claimed savings and failed to establish
28 that the coal cost savings would not have been created but for the
29 Centel acquisition.

30
31 Page 9, 20. ...The third source of claimed savings is a Power Plant
32 Matrix Agreement, which resulted in staff reductions and
33 increasing plant capacity factors... The evidence does not show

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1 that these savings would not have been realized but for the Centel
2 acquisition or that the savings related to a sharing of personnel
3 with West Plains... It appears that this type of employee reduction
4 was in line with prudent utility management.

5
6 Page 9, 21. The fourth source of claimed merger savings is power
7 plant savings from efficiency programs recently implemented by
8 the Applicant in 1998. Similarly, the Applicant claimed savings in
9 a general work force reduction implemented by the Applicant four
10 years after the Centel assets were acquired. It appears from the
11 evidence that these types of claimed savings are the result of good
12 utility management and consistent with industry standards. The
13 evidence does not establish that these recent corporate changes and
14 restructuring efforts were related to the Centel acquisition.

15
16 Page 11, 24. The final claimed cost savings is a general work
17 force reduction implemented by the Applicant starting in 1995.
18 This reduction is said to involve 60 positions and is claimed to
19 reduce costs by over \$4.6 million... It appears that the workforce
20 reductions were the result of general economic changes in the
21 electric industry that were forcing all electric utilities to make such
22 work force reductions.

23
24 Page 11, 25. ...In addition, the Commission notes that West Plains
25 initially failed to provide adequate evidence and testimony to
26 document their claimed savings and this failure unfortunately
27 complicated and prolonged these proceedings.
28 [Emphasis added]

29 Q. What conclusions did you draw from the West Plains merger savings
30 issues in the KCC cases?

31 A. UCU did not provide more than general merger savings information in its
32 initial West Plains acquisition case. At the time of the 1999 rate case, UCU attempted to
33 claim merger related savings for coal contracts and labor savings that the KCC did not
34 accept as merger-related. UCU's attempt to include non-merger-related savings with
35 merger savings in order to recover the acquisition premium is likely to be replicated in
36 the UCU/SJLP merger.

Joint Applicants' MERGER CASE Proposal for Tracking

Q. Did the Staff review the savings tracking proposal of the Joint Applicants in the Merger Case?

A. Yes, the Staff reviewed the direct testimony in Case No. EM-2000-292 of Company witness Jerry D. Myers who provided testimony to support UCU's purported ability to track the synergies resulting from the merger of UCU and SJLP. The Staff also conducted a transcribed interview of Mr. Myers to gather additional information related to the savings tracking proposal of UCU.

Q. How did UCU propose to "track" the merger savings?

A. Based on UCU witness Myers' direct testimony in Case No. EM-2000-292, UCU will attempt to "track" merger savings generated by the acquisition of SJLP by using PeopleSoft accounting software. UCU uses PeopleSoft for its current accounting system. PeopleSoft is an accounting software application used by many utilities to capture the costs and revenues of the operations of the companies specific to the different business units and the different lines of business. UCU also uses this accounting system to tabulate incremental support costs that are allocated to the operating units through the corporate allocation process. In essence, PeopleSoft is nothing more than a sophisticated bookkeeping system. The PeopleSoft system will be addressed again later in this testimony.

Q. Has the PeopleSoft accounting software implemented by UCU enhanced the Staff's ability to audit MPS in this case?

A. No, on the contrary, the PeopleSoft accounting software has posed additional problems for the Staff to track transactions of MPS through a labyrinth of

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1 codes and allocation factors. There is no reason to believe that SJLP transactions will be
2 any easier to audit under the PeopleSoft system.

3 Q. Did UCU present a detailed proposal for tracking of merger savings in its
4 Merger Case testimony?

5 A. No. Mr. Myers went into some detail to describe the current accounting
6 system utilized by UCU to "track" business operations. He implied that by having the
7 ability to "track" expenses currently would carryover to the "tracking" of merger savings.
8 The Staff disagrees that this analogy is accurate. This situation is further addressed in the
9 rebuttal testimony of Staff Accounting witness Oligschlaeger.

10 However, there was no detailed information in Mr. Myers Merger Case testimony,
11 or elsewhere in the Merger Application, as to the details of how the proposed merger
12 savings tracking system would actually operate.

13 Q. Did Mr. Myers provide additional information about UCU's tracking
14 proposal when interviewed in the Merger Case to explain the tracking process?

15 A. Yes, Mr. Myers provided a document to the Staff during his transcribed
16 interview that illustrated his understanding of how the merger savings would be identified
17 by UCU. (See attached Schedule 5.) This schedule was apparently developed for
18 informational purposes to discuss merger savings tracking during the transcribed
19 interview of Mr. Myers. While UCU no longer intends to use 1999 as a baseline
20 (starting point) for tracking UCU/SJLP merger savings in this rate case, the concept
21 presented still illustrates UCU's proposed tracking method.

22 Q. What does Mr. Myers' Schedule 5 attached to this testimony show?

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1 A. UCU's intent by Schedule 5 is to demonstrate conceptually, using a simple
2 model, how by using the PeopleSoft coding, the "tracking" process could work.

3 Q. Please summarize the contents of Mr. Myers' tracking "document,"
4 Schedule 5 to your rebuttal testimony.

5 A. Mr. Myers' document illustrates the line item components in the merger
6 savings equation: UCU and SJLP 1999 budget baselines, and the UCU incremental costs,
7 all with an inflation (escalation) rate added each year out. While UCU is not proposing
8 the use of the 1999 budgets as a baseline in this rate case, the process would remain the
9 same for calculating savings. The SJLP 1999 budget baseline represents the expenses
10 that SJLP budgeted for 1999. The UCU 1999 budget baseline represents the expenses
11 that UCU budgeted for 1999. The UCU incremental costs represent the SJLP overhead
12 costs that will become part of UCU's Enterprise Support Functions (ESF) and Intra-
13 Business Unit (IBU) allocations that are distributed throughout the UCU organization.
14 ESF and IBU allocation amounts are discussed in Staff witness Hyneman's direct
15 testimony in this case.

16 The UCU baseline and UCU incremental line items will be added together. A
17 portion of the sum of the UCU baseline and incremental amounts will be allocated to
18 SJLP and deducted from the SJLP baseline amount. This difference represents the
19 alleged merger savings. The UCU baseline and incremental amounts will be coded by
20 UCU employees using the PeopleSoft accounting system. The SJLP baseline will not be
21 coded to PeopleSoft. The actual savings will not be coded either, since it represents the
22 difference between the uncoded SJLP baseline and SJLP portion of the sum of the UCU
23 baseline and incremental.

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1 Q. Does Staff believe that the "tracking" method described by Mr. Myers will
2 be able to distinguish between merger and non-merger savings?

3 A. No. The Staff believes that the Myers document does not support a
4 "tracking" system that is intended to or will be able to distinguish between merger and
5 non-merger savings. Non-merger savings, compared to what is included in any proposed
6 baseline, will not be differentiated from merger savings. The changes in costs as the
7 UCU divisions move out in time from when the baseline is set will be indistinguishable
8 from merger savings. In essence, the Myers tracking document shows that "merger"
9 savings will be calculated as the difference between a baseline and post-merger costs
10 allocated to the SJLP division. Changes brought about from additional acquisitions,
11 additional technological efficiencies, and increased productivity among employees will
12 impact the total costs allocated by UCU to the SJLP division and will be
13 undistinguishable from true merger savings according to the method outlined in the
14 Myers document.

15 Q. Mr. Myers used numbers shown in his tracking document (Schedule 5) for
16 illustration only. Did he provide more definitive numbers for the actual merger savings
17 calculations?

18 A. No. According to Mr. Myers, on pages 38 through 41 of the transcribed
19 Merger Case interview, the percentages for UCU baseline and incremental to be allocated
20 to SJLP on Schedule 5 were not calculated. Mr. Myers also did not know if adjustments
21 would be made to the 1999 SJLP baseline amounts to eliminate nonrecurring expenses
22 and other elements not related to merger savings. He didn't know, when asked about the
23 use of an inflation factor, if UCU's or SJLP's actual costs had ever gone down as

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1 opposed to always increasing. The following questions were posed to Mr. Myers in the
2 transcribed interview in relation to Schedule 5:

3 Question to Mr. Myers: What I'm getting at conceptually, I don't
4 understand why you are inflating the baseline year by year from
5 1999 to the year 2004. I'm just trying to understand conceptually
6 why the company is proposing to do that.
7

8 Answer by Mr. Myers: I will tell you my understanding. My
9 understanding is that we're trying to take a snapshot of what the St.
10 Joe operation would have been before the merger, without the
11 merger taking place. Their costs would have been assumed to go
12 up, and I picked three percent for purposes of this illustration.
13

14 Question: Do costs ever go down?
15

16 Answer: Yes, they do.
17

18 Question: Has UCU's cost ever gone down, actual cost ever gone
19 down?
20

21 Answer: I cannot answer that (Tr. 40-41).

22 When asked how the savings to SJLP could be assigned to SJLP specifically for
23 financial reporting purposes, Mr. Myers on pages 69 through 73 of the interview stated
24 that the system could do that, but that he hadn't looked at how it would be done. When
25 asked if Mr. Myers was familiar with the terms "non-merger" and "merger related"
26 savings, he said, "vaguely." When asked how non-merger savings would be
27 distinguished from merger savings in the PeopleSoft system, Mr. Myers stated,
28 "...I would guess from time to time there would have to be reviews made of some of that
29 information."

30 Individuals would have to make judgments about any adjustments that would be
31 made to the UCU baseline and incremental amounts (lines 4 and 6 on Schedule 5). When
32 asked, "Will it [the PeopleSoft accounting system] be able to and is it planned to be able
33 to track the non-merger related savings and make a distinction between those that are

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1 merger related. Has that been discussed?" Mr. Myers responded that it had not been
2 discussed, but the system would have the capability of "tracking" those costs (Tr. 73-75).
3 In other words, if someone could make the distinction between non-merger related and
4 merger related savings and tell PeopleSoft where to capture it, UCU's accounting system
5 could "track" the savings. Of course, PeopleSoft will not make that distinction. UCU
6 employees must attempt the task of making those distinctions.

7 Q. Besides the information contained in Schedule 5, did Mr. Siemek also
8 attempt to explain in the merger case how UCU's system for "tracking" of merger
9 savings would occur?

10 A. Yes. The table below follows the example given by Mr. Siemek, in
11 response to Staff Data Request No. 170 in Case No. EM-2000-292, to explain how the
12 synergy analysis of the transition teams would be utilized in the tracking of merger
13 savings for the UCU/SJLP merger. The example provided by Mr. Siemek hypothetically
14 explains how the direct labor costs then expensed to SJLP on a stand-alone basis would
15 be eliminated, and become "merger savings." The following is an excerpt from Mr.
16 Siemek's response to Staff Data Request No. 170:

- 17 A. Assume a St. Joseph department of 10 positions at a cost of
18 \$500,000.
19
20 B. The same work can be accomplished by an existing UCU
21 department of 20 positions costing \$1,000,000 by adding 4
22 staff at a cost of \$200,000.
23
24 C. The augmented UCU department of 24 positions at a cost of
25 \$1,200,000 is allocated on an established basis that allocates
26 33% of its costs to the St. Joseph unit at a cost of \$400,000.
27
28 D. The synergies in this case are \$100,000 (the original St. Joseph
29 \$500,000 less the post-merger allocation of \$400,000). That
30 difference is simple to validate by retaining the original

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budgets for St. Joseph department (appropriately inflated) to
compare to the costs then being charged to St. Joseph.

I have included the following table to demonstrate the example provided by
Mr. Siemek in response to Staff Data Request No. 170, in Case No. EM-2000-292:

<u>SJLP Positions</u>	<u>SJLP Dollars</u>	<u>UCU Positions</u>	<u>UCU Dollars</u>
Pre-merger 10	\$500,000	Pre-merger 20	\$ 1,000,000
Post-merger 0	\$ 0	Post-merger 24	\$ 1,200,000
Add Allocation	\$400,000	Subtract Allocation	- \$ 400,000
Total Post-merger	\$400,000	Total Post-merger	\$ 800,000
Synergies to SJLP	\$100,000	Synergies to other UCU Divisions	\$ 200,000

[Source: See attached Schedule 6]

Q. Do you have any comments on Mr. Siemek's example?

A. Yes. This "example" does not provide a means to identify how
non-merger savings factors will affect the savings calculation. Savings that are unrelated
to the SJLP merger, such as savings from other UCU mergers, savings generated from
past and future re-engineering projects, savings from employee productivity
improvements and savings from advances in technology will affect the savings
calculation of Mr. Siemek, as set out in his "example" from the response to Staff Data
Request No. 170 from the Merger Case. In particular, all these items would affect the
amount of allocated UCU overhead expenses to the SJLP division. The calculation of
merger savings will also be affected by any changes in allocations in the ESF and/or IBU,
as well as the allocation of regulated and non-regulated business operations. All of these
non-merger impacts would effect the calculation of merger savings under the method
described in Mr. Siemek's response to Staff Data Request No. 170. There would need to
be some way of identifying these non-merger impacts and eliminating them from the

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1 analysis. However, the Joint Applicants did not propose any method for distinguishing
2 these amounts. No such method has been proposed in this rate proceeding and the Staff
3 has not been shown that it can be done, and questions whether it is possible at all.

4 Q. Does the Staff understand that either the Myers tracking system
5 (Schedule 5 to this testimony) or Mr. Siemek's response to Staff Data Request No. 170,
6 in Case No. EM-2000-292 (attached Schedule 6), both previously discussed, was
7 intended to constitute a formal proposal for a savings tracking methodology by UCU?

8 A. No. The Staff's interview of Mr. Siemek in October 2001 for this
9 proceeding, as previously discussed, confirms that a tracking methodology has not been
10 implemented to "track" SJLP merger savings.

11 **Examples of Non-Merger Savings**

12 Q. In this section of testimony, what is the Staff attempting to demonstrate?

13 A. The Staff will show that both UCU and SJLP implemented expense
14 reduction efforts prior to their merger, and intended to continue to do so. The relevance
15 of these matters to the proposed tracking system concept of UCU is that the Staff believes
16 that the beneficial results of future non-merger cost reduction efforts by UCU will be
17 "captured" by the merger savings tracking system, and will be inappropriately ascribed to
18 the merger and thereby used by UCU to allow it to recover its acquisition adjustment.

19 Q. How did the Joint Applicants propose to recover the acquisition
20 adjustment?

21 A. The regulatory plan proposed by the Joint Applicants relied on a sharing
22 of savings generated by the UCU/SJLP merger. All reductions from baseline expense
23 levels would be considered merger related. The reductions in expense would have offset

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1 fifty percent of the acquisition premium. SJLP customers were to be guaranteed a
2 portion of savings after the recovery of the acquisition premium "hurdle" level of savings
3 were attained.

4 Q. What leads you to believe that UCU will seek to include
5 non-merger savings with merger savings in its current "tracking" proposal?

6 A. My opinion is based on the response of Mr. Siemek in the March 2, 2000
7 transcribed interview:

8 Question of Mr. Siemek: With that kind of adjustments, say, to
9 throw out a cost that would be deemed to be uncontrollable, is that
10 something that should be or would be considered by UtiliCorp and
11 other parties in looking at the bottom-line numbers?

12 Answer by Mr. Siemek: Well, actually, I think that type of
13 distinction is less important under the regulatory plan that we've
14 proposed. In other proposals that I've seen, it becomes very
15 significant exactly what the merger synergies are, because it sets a
16 return on equity level or determines how much of the premium you
17 can collect or net against the synergies.
18
19

20 In our plan, we've tried to avoid that complexity. And so really
21 the only reason, I think, that we need to quantify the merger, the
22 specific merger-related savings, is to make sure that we reach the
23 threshold or hurdle rate of \$1,577,000 in years six through ten.
24 And then it's only important because if we don't reach that hurdle
25 rate, we've guaranteed that—there will be that much of an impact
26 on the customers.
27

28 The distinction between merger synergies and other synergies, or
29 other costs, is not very important, other than that hurdle rate.
30 Because under the scenario and regulatory plan that we've
31 proposed, those synergies or costs get passed through to the
32 customer in that year six through ten, anyway. So if we get out to
33 the year seven and the medical costs are lower than what the
34 projections are, then there are additional synergies, and we've
35 already met the threshold, then the revenue requirements for the
36 customers of St. Joe will be less as a consequence, whether it's
37 merger related or not.
38

39 Question: Okay.

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1
2 Answer: So I think that eliminates a lot of the contention that
3 we've typically seen, for example, in the Western case on the KG
4 and E synergies, where it became very critical whether a synergy
5 was merger related or not. In our case, it doesn't make any
6 difference as long as we meet.
7

8 Question: That hurdle--
9

10 Answer: --that hurdle rate. And even that makes no difference, to
11 customers because we're already committing to having that
12 guaranteed reduction in the revenue requirements (Tr. 81-83).

13 Mr. Siemek clearly did not see a need to separate merger savings from
14 non-merger savings. This is contrary to the policy the Commission has stated in the past
15 in the Report and Order from Case No. EM-91-213, respecting the KGE/KPL merger
16 which will be discussed later in this testimony.

17 Q. Why does it matter whether merger savings are separated from
18 non-merger savings in a tracking system?

19 A. Ratepayers typically receive the benefits of non-merger savings through
20 cost of service determinations that ultimately are reflected in rates as a result of a rate
21 proceeding. Without separating merger savings from non-merger savings, the flow of
22 non-merger savings which, regardless of the merger, should all flow through to the
23 ratepayers, would not occur, if they are being used as a justification for recovery of an
24 acquisition adjustment. At some point, customers are entitled to the savings provided by
25 prudent utility management. While generally, the utility keeps the savings for a period of
26 time due to regulatory lag, customers will eventually enjoy the benefit of those cost
27 reductions after a rate proceeding which still may result in a net increase in rates. When
28 costs increase, customers are generally asked to pay for those increased costs through
29 increased rates. It is equally expected when costs decrease for customers to have those

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1 reductions reflected in rates. Simply put, regardless of what the appropriate treatment for
2 merger savings is determined to be, customers are entitled to non-merger savings.
3 Accordingly, these savings must be separated from merger related savings under any
4 tracking system.

5 Q. Why is it important to distinguish between merger and non-merger related
6 savings in particular if recovery of an acquisition adjustment is being requested?

7 A. It is critical to identify, verify and quantify the merger-related savings
8 from the non-merger-related savings to make a decision on recovery of the acquisition
9 adjustment. This can be thought of as a cost/benefit type of analysis where the costs of
10 the merger, in this example, the acquisition adjustment, must be compared to the benefits,
11 in this example, the merger savings. If both merger and non-merger savings were
12 included in this comparative analysis, you will get unrealistic and inaccurate results.

13 Q. Does the business strategy of UCU contribute to the inability to separate
14 savings related to the merger from non-merger savings?

15 A. Yes. As stated in UCU's 1993 Annual Shareholders Report
16 "...the company actively seeks expansion opportunities in both the regulated and non-
17 regulated segments of the industry." UCU is operated as a merger and acquisition
18 company. It has had growth through acquisitions strategy for almost two decades. The
19 constant influx of change within UCU contributes to the complexity of the organization
20 and the difficulty in attributing changes in expense levels to one factor (e.g., the SJLP
21 merger) as opposed to other factors.

22 For example, suppose UCU were to acquire another major domestic utility
23 through a merger transaction this year or next. This hypothetical merger would impact

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1 the financial results of UCU significantly. It would be very difficult, if not impossible, to
2 attribute the amount of the earnings impact from this additional merger separately from
3 the SJLP merger, and from other possible influences. The mergers that are apparently an
4 important part of UCU's business strategy create layers of merger expenses and merger
5 savings that become increasingly difficult to identify separately.

6 Q. Has UCU communicated its philosophy related to generating savings and
7 efficiencies?

8 A. Yes. An example is a quote from the UCU 1996 Annual Shareholders
9 Report from UCU's Chief Executive Official, Richard C. Green, Jr.:

10 Our continual push to improve the efficiency of electric and gas
11 utility operations is having a positive effect on Energy Delivery
12 financial results. This mature business has attained a strong
13 competitive position by controlling costs...Our electric and gas
14 utility operations will benefit...from ongoing efforts to reduce
15 operating expenses.

16 Q. Can the Staff cite examples of non-merger savings that UCU anticipates in
17 the next few years?

18 A. Yes. UCU, in response to Staff Data Request No. 82, in Case No.
19 EM-2000-292 provided **

20 _____
21 _____
22 _____
23 _____

24 _____ ** The explanation as to how UCU plans to
25 attain this improved efficiency was not provided, but the Staff believes that this is an
26 example of a non-merger savings that can be generated by UCU on a stand-alone basis.

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1 Q. As an example of potential non-merger savings, might the use of the
2 PeopleSoft for Human Resources (HR) application by UCU result in cost savings?

3 A. Yes, I believe it could. I asked UCU in Staff Data Request No. 198, in
4 Case No. EM-2000-292, to identify any expected/anticipated savings to be realized
5 through the implementation of PeopleWorks Phase III. This is a software package to
6 enhance PeopleSoft applications through additional options. Although UCU's response
7 stated that PeopleSoft HR was implemented in January 1999, it also stated that no
8 savings would be realized from the implementation of PeopleWorks so that no savings
9 would need to be segregated from savings associated with either merger with SJLP or
10 Empire.

11 This contradicts PeopleSoft's statement from its web page promotional
12 documents. PeopleSoft illustrates examples of ways cost savings can be generated
13 through efficiencies created by the implementation of its software. For example:

14 A Duke Energy PeopleSoft Profile, states that the use of
15 PeopleSoft in its HR function has allowed them to need fewer
16 people creating economies of scale and productivity.
17

18 As an other example: Entergy stated in another PeopleSoft Profile
19 that HR allowed them to cut their human resource staffing by 30%.

20 These savings will be available to UCU when the Employee Service Station is
21 implemented. The self-service functionality of the HR software allows employees access
22 to their personnel data through a HR home page.

23 UCU also stated in response to Staff Data Request No. 198, Case
24 No. EM-2000-292, that the basis for approval of the PeopleWorks Phase III wasn't cost
25 savings. However, if these savings occur, they will flow through the allocations
26 associated with HR functions and be distributed to all divisions of UCU that received

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1 allocations from HR. SJLP will receive an allocation from HR. Under the Staff's
2 understanding of the proposed tracking system, these non-merger UCU savings will be
3 passed through to SJLP with the allocation process and become "merger savings" related
4 to SJLP.

5 Q. Did the Staff identify any additional potential stand-alone savings for
6 SJLP?

7 A. Yes. Automated meter reading (AMR) was a savings area that SJLP could
8 have realized on a stand-alone basis. A Project Status Report, October 1, 1999, from the
9 Information Technology Transition Team in response to Staff Data Request No. 107 in
10 Case No. EM-2000-292, listed the upgrade of the ITRON meter reading system that SJLP
11 was implementing on a stand-alone basis. Technological advances would have allowed
12 SJLP opportunities to generate savings with AMR systems in the future on a stand-alone
13 basis, just like any other utility could experience.

14 Another area of potential savings for SJLP is set out in SJLP's response to Staff
15 Data Request No. 82 in Case No. EM-2000-292, excerpt from page 9:

16 **
17 _____
18 _____
19 _____
20 _____
21 _____
22 _____ **

23 Clearly, it appears that SJLP could have been able to generate savings through the
24 implementation of an Internet bill paying system. In addition, SJLP could have used this
25 Internet system to enhance non-regulated business activities.

26 Another example of a cost savings that SJLP could have implemented on a stand-
27 alone basis was to convert its fleet replacement policy to a five-year/125,000 mile plan.

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1 This was an operational requirement of the UCU/SJLP distribution transition team, to be
2 implemented on "Day One" of the merger. The impact of this change of policy was
3 intended by the Joint Applicants to be included in merger related savings, while SJLP
4 could have realized this as a non-merger savings if it had implemented this fleet
5 replacement policy on its own.

6 **NON-MERGER SAVINGS – RE-ENGINEERING PROJECTS**

7 Q. Do some of UCU's past non-merger savings resulting from
8 reorganization/re-engineering mimic those projected from the merger?

9 A. Yes, in some cases they do. UCU provided information about its
10 reorganization and strategic planning effort in response to Staff Data Request Nos. 26
11 and 192 in Case No. EM-2000-292. Several excerpts from the response to Staff Data
12 Request No. 26 in Case No. EM-2000-292 demonstrate that re-engineering savings were
13 approached in much the same way as merger savings:

14 The focus in this area was on reduction of redundancy and in
15 gaining of efficiencies.
16

17 Based on the findings of the "Recommended State" study,
18 significant savings could be expected. O&M savings (exclusive)
19 of transition costs would be \$35-40 million or roughly 20%. Much
20 of these savings would result from a decrease in personnel, which
21 is estimated to be approximately 840 employees.

22 UCU recognized that there are opportunities within the UCU organization on a
23 stand-alone basis to create savings absent mergers.

24 Q. Can you cite examples from the UCU re-engineering effort of targeted
25 non-merger savings?

26 A. Yes, I can. The Companies' response to Staff Data Request No. 192, in
27 Case No. EM-2000-292, included a copy of Project BTU, Building Tomorrow's

1 UtiliCorp, Business Case, August 26, 1996. (Project BTU was the name of the UCU
2 re-engineering process.) The following savings were referenced with the report:

- 3 • Improve efficiency of UtiliCorp's labor and material resources in
4 design, construction and maintenance of the distribution network,
5 allowing for lower operating costs
- 6 • The initiative of Project BTU will significantly reduce costs of
7 operations
- 8 • BTU will reduce the time it takes to execute basic business
9 activities
- 10 • Line and service crew productivity will increase through enhanced
11 planning and scheduling capabilities
- 12 • The business focus of the Customer Service Center is to create the
13 most efficient and standardized customer service/sales call center
14 environment in the industry
- 15 • In 1995, the estimated cost per call for call centers in Michigan and
16 Missouri was \$1.85. The improvements in the system are expected
17 to contribute to meeting the future team goal of \$1.18. This would
18 represent a 36% decrease

19 Assuming similar cost-saving efficiencies will be employed in the future, it will
20 be difficult or nearly impossible to differentiate these types of non-merger savings from
21 merger savings as they extend out in time. Where re-engineering non-merger savings end
22 and merger savings begin will be nearly impossible to separate, let alone "track."

23 Q. Does UCU continue to benefit through cost savings today as a result of the
24 re-engineering which began in 1994?

25 A. Yes. Most of the benefits didn't occur until late 1997. Some of the
26 re-engineering projects were implemented later than that. The Missouri Customer
27 Information System (CIS) was put into place during the first half of 2000. The benefits
28 from changes in CIS will potentially contribute to non-merger savings for years to come.

29 Q. Has SJLP also implemented management efforts to reorganize its business
30 and reduce costs?

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Janis E. Fischer

1 A. SJLP responded in the following manner to Staff Data Request No. 193 in
2 Case No. EM-2000-292: "There has been no formal reengineering of the Company since
3 1994. Changes in the organization have occurred in the ordinary course of business.
4 Specific documentation of these changes and their impact are not available." In response
5 to Staff Data Request No. 16 in Case No EM-2000-292, SJLP stated, in relation to
6 employee attrition: "In 1996, our restructuring resulted in eight positions being
7 eliminated and three new positions were added resulting in five positions being
8 eliminated." This demonstrated that the Company has reduced costs in the past with the
9 elimination of labor positions. This type of savings was also possible in the future for
10 SJLP.

11 Q. Does the Staff believe that merger savings can be segregated from savings
12 generated from re-engineering or other cost saving methods employed by the companies
13 on a stand-alone basis?

14 A. No. The Staff believes that there is no mechanism available to truly
15 separate these savings. The UCU/SJLP merger savings tracking "proposal" cannot be
16 relied upon because the estimates contain savings generated from re-engineering and
17 other cost saving methods.

18 A commitment to achieve the levels of savings does not mean that the level of
19 savings, if achieved, are totally merger-related. If merger savings are less than
20 anticipated, it is possible that management can engage in other activities to achieve the
21 same level of savings by using non-merger-related decisions. It is conceptually possible
22 that UCU can use additional work management techniques such as activity

1 standardization and technology substitution that are available to it on a stand-alone basis
2 to produce additional savings. Such savings are not merger-related.

3 Q. Why are re-engineering programs implemented and how do they generate
4 savings?

5 A. Re-engineering programs are implemented for a variety of reasons. Some
6 of the reasons are improvements in coordination, systems reliability, performance
7 standards and reductions in costs. Re-engineering is a process in which an organization
8 reanalyzes their operations to determine where efficiencies can be created. The
9 organization reviews benchmarks and sets goals to incorporate changes to improve its
10 competitive position within the industry. Costs savings are often realized from
11 re-engineering programs.

12 Q. Does the Staff believe that merger savings can be segregated from savings
13 generated from re-engineering or other cost saving methods employed by the companies
14 on a stand-alone basis?

15 A. No. The Staff believes that there is no mechanism available to truly
16 separate these savings.

17 **ACCOUNTING SYSTEMS AND TRACKING**

18 Q. Please describe the PeopleSoft system that will be used by UCU in an
19 attempt to "track" merger savings.

20 A. PeopleSoft's web page provides promotional information describing the
21 benefits and capabilities of the system. PeopleSoft has a specialized software package to
22 aid utilities in measuring performance. The software is part of the financial system
23 designed to enhance decision-making and organizational performance. It is also an

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1 activity based costing system, which allows companies to analyze costs, revenues and
2 determine profitability. PeopleSoft touts itself to be an accounting system that can help
3 utilities in a deregulated world. The system is designed for deregulated functions. UCU
4 has been using PeopleSoft since September 1997 and has incorporated its use into the
5 Company's analysis of business unit costs and revenues for all United States domestic
6 business operations.

7 Q. Does the PeopleSoft accounting system make the decision where costs
8 should be booked and how costs are accounted for?

9 A. No. UCU employees make those decisions. PeopleSoft provides a means
10 to categorize expenses to very specific cost centers. Individuals within UCU that are
11 responsible for projects or groups of activities have the authority to code transaction
12 expenses to specific accounts. Individuals must be relied upon to create the codes for
13 each specific project and identify the proper coding for each invoice/source document so
14 the flow of expenses to the proper project occurs. A review process ensures that proper
15 codes are used.

16 Q. Did UCU have an accounting system before PeopleSoft?

17 A. Yes. An accounting system was used to tabulate expenses and revenues
18 into an income statement, and assets and liabilities in a balance sheet. Additional reports
19 could be generated based on the coding of transactions. Accounting systems of this type
20 have been developed over the years as automation/computerization have improved.

21 Q. Have utilities always had some type of accounting systems?

22 A. Yes. For as long as utilities have been supplying utility services to
23 customers they have had some type of accounting system in place to keep an accounting

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1 of revenues and expenses, and assets and liabilities. The accounting systems of the past
2 and the accounting system of the present all have one thing in common, they all require
3 human intervention to properly quantify and identify where costs should be booked and
4 how these costs should be treated. PeopleSoft is no different.

5 Q. Did UCU attempt to portray that it has a mechanism to "track" merger
6 related savings?

7 A. Yes. That is exactly how UCU attempted to portray PeopleSoft. UCU
8 wanted the Commission to believe that it has a system in place that can "track" merger
9 savings.

10 Mr. Myers stated in his transcribed interview (Tr. 53) that the PeopleSoft
11 accounting system was capable of "tracking" merger savings because the system is very
12 complex and sophisticated. PeopleSoft may be a sophisticated accounting system but it
13 will not be able to "track" merger savings. In fact, neither this accounting system nor any
14 other can actually "track" merger savings. UCU personnel must tell the accounting
15 system through the coding process what the merger savings will be and then PeopleSoft
16 will capture the costs once personnel determine what categories and where the costs
17 savings should be identified. It is the subjective human component of the "tracking" that
18 will prevent the system from accurately distinguishing merger savings from non-merger
19 savings. PeopleSoft is not the problem. The problem is inherent to the human
20 intervention required for the coding of every possible merger and non-merger related
21 transaction.

22 Q. Did Mr. Myers admit to this?

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1 A. Yes. During the transcribed interview (Tr. 60 and 65-67), Mr. Myers
2 stated that the coding process involved human intervention.

3 Q. Did the Staff obtain from the Joint Applicants any other information
4 concerning information systems and savings tracking processes gathered by the Staff?

5 A. Yes, during the March 2, 2000 transcribed interview of Mr. Siemek, the
6 following discussion took place:

7 Question by Staff: Referring again to Mr. Myers' document (see
8 attached Schedule 5) he gave us yesterday, the last number reflects
9 a calculation of merger savings which is derived from the lines
10 above it.

11 Answer by Siemek: Yes.

12 Question: And I guess my question to you is: Is it intended that this
13 process will produce a number automatically that should be viewed
14 as a merger savings amount for a particular 12 -month period, or
15 will human judgement still have to be entered into it to say, "Is this
16 a reasonable amount? Does this need further adjustments? This
17 expense change has nothing to do with the merger, so let's take it
18 out," and so on. I know that's a pretty long question.

19 Answer: Well, I believe the intent is that the merger synergies will
20 have to be calculated from pieces from different systems. Again,
21 we had the three different types of costs that each would have
22 different baseline numbers. So I believe that you would have to
23 manually compile those or put them together to see what the
24 resulting merger savings are. To that extent, I don't think there is
25 one system that you can press a button and it will automatically
26 derive. There are very few systems like that that I'm aware of,
27 anyway. So I'm not sure that's even a possibility (Tr. 80-81).

28 The information gathered by the Staff repeatedly points to the fact that human
29 intervention will be required to track merger savings. The subjective task of identifying
30 what is merger related and what is a stand-alone non-merger transaction will be
31 monumental, if not impossible.
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1 **MERGER TRANSACTION & TRANSITION COSTS**

2 **TRANSACTION COSTS ASSOCIATED WITH SJLP MERGER**

3 Q. Please define "transaction costs."

4 A. Transaction costs are expenses that are incurred by the combining
5 companies prior to the close of the merger and are necessary to consummate the merger.
6 These include fees charged by the investment bankers related to the transaction; fees for
7 outside consultants for legal, accounting and public relations services; and other
8 merger-related costs directly associated with the acquisition. Since these costs are
9 directly associated with the acquisition, they should be included with the acquisition
10 premium. The costs identified as transaction costs by UCU mirror those listed in
11 Accounting Principle Board (APB) Opinion No. 16 which defines costs of a business
12 combination accounted for by the "purchase" method as direct costs of the acquisition
13 (paragraph 76 of APB 16). APB Opinion 16 also states that costs of registering and
14 issuing equity securities are a reduction of the otherwise determinable fair value of the
15 securities. Indirect and general expenses related to acquisitions are deducted as incurred
16 in determining net income. Under the "purchase" method of accounting for a business
17 combination, direct out-of-pocket and incremental costs of the combination, including
18 finders' fees and fees paid to outside consultants for accounting, legal, engineering
19 investigations and appraisals, are considered direct costs of the acquisition. The merger
20 transaction of UCU and SJLP was accounted for under the "purchase" method.

21 Q. In Case No. EM-2000-292 how did UCU and SJLP account for actual
22 transaction costs of the merger?

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1 A. UCU and SJLP accounted for transaction costs by booking them to
2 Account 186.2, Miscellaneous Deferred Debits, which is defined in the FERC Uniform
3 System of Accounts (USOA) as follows:

4 To include all debits not elsewhere provided for, such as
5 miscellaneous work in progress, and unusual or extraordinary
6 expenses, not included in other accounts, which are in process of
7 amortization and items the proper final disposition of which is
8 uncertain.

9 Q. In Case No. EM-2000-292, how did the Joint Applicants propose to treat
10 for rate purposes transaction costs associated with the merger?

11 A. The Companies proposed to defer and amortize the transaction costs over
12 ten years for financial reporting and rate purposes. The Joint Applicants' response to
13 Staff Data Request No. 45 in Case No. EM-2000-292 stated:

14 ... Briefly, all transaction and transition costs should be offset and
15 amortized over ten years. The synergies created from the merger
16 should be offset by that amortization before any rate reductions are
17 made. Carrying costs on that investment by UCU are not being
18 requested. Effectively, the synergies help pay for the transition
19 and transaction costs.

20 Q. What was the estimated level of transaction costs for this merger?

21 A. The Companies' response to Staff Data Request No. 96 in Case
22 No. EM-2000-292 referred to Schedule VJS-2 and Appendix VSJ-A of the direct
23 testimony of Mr. Siemek in that case. Schedule VJS-2 listed transaction costs of
24 \$2,575,000 for banker fees and \$2,000,000 for other costs. The total of transaction costs
25 for Schedule VJS-2 was \$4,575,000. Schedule VJS-2 also included transition costs
26 which I will discuss later in my rebuttal testimony. Schedule VJS-2 is included in
27 Mr. Siemek's direct filing in this case as part of Schedule VJS-A.

1 Q. What amount of transaction/transition costs have actually been recorded
2 by UCU/SJLP through the test year?

3 A. In response to Staff Data Request No. 130 in this case (see attached
4 Schedule 7), UCU provided an update for Schedule VJS-2. The update identifies test
5 year actual transaction costs, actual costs through the update period ending June 30, 2001
6 and estimated future costs if applicable. The total of transaction costs posted during the
7 test year was \$2,079,234. The transaction costs for the merger from its inception total
8 \$5,619,612, with no further costs anticipated.

9 Q. What is the Staff's general position on rate treatment of transaction costs
10 incurred by UCU/SJLP?

11 A. The Staff believes that, in general, prudently incurred actual transaction
12 costs of UCU/SJLP should be considered direct costs of the acquisition and should
13 therefore be treated in the same manner as the acquisition premium. Absent the merger,
14 these transaction costs would not have been incurred. As explained in other Staff
15 testimony, the Staff further believes that the UCU/SJLP acquisition adjustment is not the
16 responsibility of the ratepayers to pay under the premise of making the "shareholders
17 whole." Likewise, the recovery of transaction costs, as stated in APB Opinion 16, are
18 associated with the amortization of the acquisition premium in purchase transactions and
19 therefore should not be the responsibility of the ratepayers. The Staff believes that the
20 shareholders should absorb the transaction costs since they are seeking the merger as a
21 way to increase the value of their investment. The risks that arise as a result of the
22 merger should be taken by the shareholders since they are the parties responsible for the

1 merger and the transaction costs represent known costs associated with the risks of the
2 merger.

3 **TRANSITION COSTS (COSTS TO ACHIEVE)**

4 Q. Has UCU asked for recovery of transition costs (costs to achieve) in its
5 direct filing in this case?

6 A. No. UCU has not included an adjustment for Transition Costs in this case.
7 However, as mentioned earlier in my rebuttal testimony, Mr. Clemens has stated that
8 UCU will request recovery of transition and transaction costs from UCU divisions
9 benefiting from the merger.

10 Q. What is the Staff's position on the recovery of Transition Costs?

11 A. The Staff is not opposed to a recovery of prudently incurred transaction
12 costs through an amortization to expense. However, if UCU seeks recovery of the
13 Transition Costs during this case proceeding that are included in Mr. Siemek is
14 Schedule VJS-A, Schedule VJS-2 (See attached Schedule 7) the Staff would ask the
15 Commission to disallow several categories:

- 16 • Officers Severance/Retention
- 17 • Paid Advisory Board-Three Years
- 18 • Supplemental Executive Retirement

19 Q. What is the Paid Advisory Board?

20 A. The Paid Advisory Board will be an advisory board comprised of the
21 former board members of SJLP's Board of Directors.

22 Q. Why does the Staff propose the exclusion of \$421,200 estimated for the
23 Paid Advisory Board from being recovered from ratepayers?

Rebuttal Testimony of Janis E. Fischer

A. The Staff has not seen any documentation that would indicate this advisory board will be providing any benefit to the ratepayers.

On page 25 of the transcript of the March 23, 2000, informal interview of Terry F. Steinbecker, CEO of SJLP, Mr. Steinbecker states that the role of the advisory board has not been specifically sorted out at that time. He further states:

Furthermore, the Merger Agreement (Schedule 1 to UCU witness Robert K. Green's testimony in the Merger Case) further indicates that the Advisory Board will be involved in advising UCU on such matters as charitable contributions and economic development activities in the SJLP, Missouri area. This type of activity on the Advisory Board's part further argues for below-the-line treatment of the Advisory Board fees. Charitable contributions have traditionally never been allowed in customer rates by this Commission, and economic development expenses are subject to a cost/benefit test before inclusion in rates.

Q. Why does Staff propose the exclusion of \$1,725,672 for the estimated additional funding of the Supplemental Executive Retirement Plan (SERP)?

A. The Staff believes SERP expenses should not be recovered as a transition cost, because costs to fully fund the SERP for SJLP officers appear to be generally of the same nature as executive severance “golden parachutes.” Also, when the Staff requested an explanation from the Company in Staff Data Request No. 205, in Case No. EM-2000-292, as to why SERP costs were included in “cost to achieve,” UCU failed to provide any

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Janis E. Fischer

1 explanation in its response for SERP inclusion. The total \$1,725,672 was posted to the
2 books and records during the test year.

3 Q. Please provide some of the details of the SJLP Severance Agreements and
4 the UCU Change in Control Agreement (i.e., agreements governing executive separation
5 costs).

6 A. In the case of SJLP's Severance Agreements, the President and Chief
7 Executive Officer, Vice President-Energy Supply, Vice President-Finance Treasurer and
8 Assistant Secretary, Vice President-General Counsel and Secretary, and
9 Vice President-Customer Services of the Company were included. The agreements
10 provided the executives with approximately three times their annual salary when a
11 change in control occurred. UCU supplied the estimated severance and retention cost by
12 officer for SJLP in Schedule VJS-2.2 in response to Staff Data Request No. 1 in Case No.
13 EM-2000-292. A copy of SJLP's employment contract for officers was provided to Staff
14 in response to Staff Data Request No. 17 in Case No. EM-2000-292, and a copy of
15 SJLP's amended and restated contract was provided in response to Staff Data Request
16 No. 231 in Case No. EM-2000-292.

17 Q. Had there been any changes made to the SJLP executive separation
18 program prior to the merger?

19 A. Yes. The firm Arthur Andersen was hired to review the existing
20 severance program at SJLP. They issued a report in November of 1998 entitled, "Review
21 of Change-in-Control Compensation Provisions." ** _____
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Q. Please explain why the Staff believes that executive separation costs of \$3,584,400 should not be recovered in rates.

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A. Executive severance packages within an organization are compensation packages that typically guarantee payments to top executives and key employees on the occasion of a takeover, merger or some other related situation to ensure officers' neutrality. The industry refers to these severance packages as "golden parachutes." Payment of such "golden parachutes" does not have any direct correlation or benefit to ratepayers. Instead, these are the costs that benefit only a very few employees, and are primarily created for their personal protection. Staff further believes these costs are shareholder costs, because these severance packages are also designed to ensure the officers' neutrality in considering potential takeovers, sales and acquisitions. The Staff's position, therefore, is that no recovery of these costs from ratepayers is warranted.

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Q. Please summarize your conclusions on savings estimates and tracking.

A. My conclusions and position are the following:

- The Staff's position is that the estimated SJLP merger savings presented by UCU/SJLP should not be relied upon.
- Tracking merger savings is very difficult to accomplish. The tracking mechanism discussed by UCU/SJLP does not appear to be able to distinguish stand-alone savings from merger savings

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

NP

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 JANIS E. FISCHER

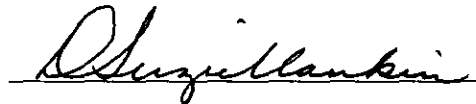
STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

Janis E. Fischer, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 67 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

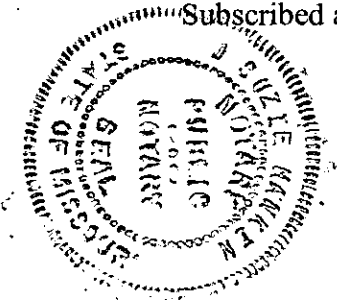


JANIS E. FISCHER

Subscribed and sworn to before me this 24 day of January 2002.



D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21, 2004



MPS
Bad Debt History

Description	AC 904		Actual Total Net Write-offs	Elec Util Factor, #6	Net Write-offs (Elec Only)	Effective Uncoll. Rate
	Electric Retail Revenue - Net of Unbilled	Uncollect. Exp. as Recorded (ELECTRIC)				
YE 12/31/91	228,419,000	34,435	541,036		0	0.000000%
YE 12/31/92	219,388,000	422,649	311,019		0	0.000000%
YE 12/31/93	244,309,233	356,802	456,595	88.410%	403,676	0.165231%
YE 12/31/94	251,231,074	404,799	633,520	88.410%	560,095	0.222940%
YE 12/31/95	262,884,895	552,213	764,313	88.410%	675,729	0.257044%
YE 12/31/96	269,772,258	1,306,801	950,381	85.270%	810,390	0.300398%
YE 12/31/97	280,527,595	1,782,167	1,201,324	85.270%	1,024,369	0.365158%
YE 12/31/98	288,689,333	1,186,932	1,531,342	85.270%	1,305,775	0.452312%
YE 12/31/99	285,434,428	841,362	1,188,668	77.783%	924,582	0.323921%
YE 12/31/00	290,215,025	2,453,824	2,468,764	84.930%	2,096,721	0.722472%

Average Effective Uncollectible Rate:

Over Last 7 years (94-00)	0.377749%
Over Last 5 years (96-00)	0.432852%
Over Last 3 years (98-00)	0.499568% CS-43

UtiliCorp United dba Missouri Public Service
Case No. ER-2001-672
Comparison of Annualized Revenue by Rate Class

Line	Rate Class	MPS Direct Filing			MPS Direct Filing Updated			PSC Staff Direct Filing		
		Weather/Growth		Adjustment	Weather/Growth		Adjustment	Weather Growth		Combined
		Normal/Annualized	6/30/00 Actual		Normal/Annualized	12/31/00 Actual		Norm Adjust	Adjustment	
1	60/MO860	115,259,507	110,968,714	4,290,793	115,259,507	117,554,126	(2,294,619)	(2,084,932)	606,662	(1,478,270)
2	70/MO870	39,860,567	30,385,128	9,475,439	39,860,567	34,152,680	5,707,887	373,451	3,129,737	3,503,188
3	310/MO710	12,700,752	11,341,234	1,359,518	12,700,752	12,067,127	633,625	(103,881)	190,777	86,896
4	311/MO311	32,694,000	30,809,221	1,884,779	32,694,000	32,332,051	361,949	(209,701)	4,230,082	4,020,381
5	316/MO716	164,299	0	164,299	164,299	118,007	46,292	(1,619)	1,230	(389)
6	320/MO720	36,516,375	34,469,368	2,047,007	36,516,375	36,203,309	313,066	(236,626)	1,275,537	1,038,911
7	325/MO725	1,494,985	1,556,648	(61,663)	1,494,985	1,604,852	(109,867)	(8,643)	88,485	79,842
8	330/MO730	20,195,808	19,949,887	245,921	20,195,808	19,672,285	523,523		208,840	208,840
9	335/MO735	20,725,313	21,729,175	(1,003,862)	20,725,313	21,516,559	(791,246)		(105,717)	(105,717)
10	340/MO740	3,198,357	3,308,403	(110,046)	3,198,357	3,608,162	(409,805)	(69,246)	20,274	(48,972)
11		<u>\$282,809,963</u>	<u>\$264,517,778</u>	<u>\$18,292,185</u>	<u>\$282,809,963</u>	<u>\$278,829,158</u>	<u>\$3,980,805</u>	<u>(\$2,341,196)</u>	<u>\$9,645,907</u>	<u>\$7,304,711</u>

UtiliCorp United dba Missouri Public Service
Case No. ER-2001-672
Comparison of Customer Counts

<u>Line</u>		<u>Customer Count</u> <u>Adkins</u>	<u>MPS System</u> <u>Count</u>	<u>PSC Staff</u> <u>Bill Count</u>	<u>Customer Count</u> <u>Adkins</u>	<u>MPS System</u> <u>Count</u>	<u>PSC Staff</u> <u>Bill Count</u>
1	Rate Class	60/MO860			70/MO870		
2	Jan-00	144,331	144,331	144,269	32,090	32,090	32,058
3	Feb-00	144,490	144,490	144,444	32,342	32,342	32,334
4	Mar-00	144,924	145,672	144,367	32,791	32,622	32,391
5	Apr-00	143,692	145,956	141,261	32,891	32,989	32,073
6	May-00	145,680	146,505	144,222	33,536	33,513	33,103
7	Jun-00	145,124	146,274	144,029	33,814	33,807	33,205
8	Jul-00	145,100	146,148	144,546	33,677	33,663	33,251
9	Aug-00	145,588	146,718	142,158	34,552	34,348	33,300
10	Sep-00	145,030	146,030	144,533	34,323	34,436	33,947
11	Oct-00	144,935	146,215	144,196	34,513	34,685	34,161
12	Nov-00	143,708	146,070	144,282	35,211	34,996	34,710
13	Dec-00	144,774	146,244	144,484	35,256	35,248	34,645
19	Jun-01	145,476		144,675	36,817		36,202
20	Dec-01	146,176			38,535		
21	Rate Class	310/MO710			311/MO711		
22	Jan-00	15,722	15,722	15,722	7,902	7,902	7,903
23	Feb-00	15,646	15,646	15,646	7,919	7,919	7,918
24	Mar-00	15,282	15,282	15,188	8,045	8,045	7,670
25	Apr-00	15,826	15,826	15,265	7,931	7,931	7,931
26	May-00	16,251	16,251	16,189	8,044	8,044	8,126
27	Jun-00	15,926	15,926	15,679	8,057	8,057	8,069
28	Jul-00	16,129	16,129	16,067	7,869	7,869	7,922
29	Aug-00	16,186	16,186	15,774	8,113	8,113	8,153
30	Sep-00	16,522	16,522	16,070	8,121	8,121	8,086
31	Oct-00	16,363	16,363	16,042	8,195	8,195	8,163
32	Nov-00	15,915	15,915	15,668	8,171	8,171	8,187
33	Dec-00	15,929	15,929	15,714	8,013	8,013	7,952
39	Jun-01	16,834		16,034	8,130		9,072
40	Dec-01	17,186			8,155		
41	Rate Class	316/MO716			320/MO720		
42	Jan-00	8	8	7	963	963	964
43	Feb-00	8	8	7	968	968	969
44	Mar-00	8	9	6	946	946	875
45	Apr-00	9	8	7	968	968	1,004
46	May-00	8	7	6	967	967	991
47	Jun-00	7	8	7	949	949	974
48	Jul-00	8	8	8	923	923	946
49	Aug-00	8	7	7	965	965	998
50	Sep-00	7	7	7	961	961	969
51	Oct-00	7	7	7	959	959	991
52	Nov-00	7	7	7	943	943	963
53	Dec-00	7	7	7	908	908	903
59	Jun-01	7		7	942		998
60	Dec-01	7			969		
61	Rate Class	325/MO725			340/MO740		
62	Jan-00	24	24	25	1,063	1,063	1,059
63	Feb-00	22	22	23	1,064	1,064	1,060
64	Mar-00	20	20	21	990	990	996
65	Apr-00	22	22	23	1,059	1,059	1,082
66	May-00	22	22	24	1,035	1,035	1,054
67	Jun-00	21	21	22	1,032	1,032	1,070
68	Jul-00	22	22	24	1,005	1,005	1,028
69	Aug-00	22	22	22	1,039	1,039	1,086
70	Sep-00	22	22	21	1,053	1,053	1,043
71	Oct-00	22	22	24	1,044	1,044	1,089
72	Nov-00	22	22	23	1,014	1,014	1,027
73	Dec-00	20	20	22	1,010	1,010	1,015
74	Jun-01	20		24	1,010		1,058
75	Dec-01	20			997		

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPSC-455

DATE OF REQUEST: October 24, 2001
DATE RECEIVED: October 24, 2001
DATE DUE: November 13, 2001
REQUESTOR: Janis Fischer

QUESTION:

Please verify the following statements made by Mr. Vern Siemek in his 10/24/01 meeting with Staff:

- a) "UCU is not attempting to track SJLP acquisition savings at this time."
- b) "UCU has not determined at this time what the appropriate "baseline" would be for purposes of measuring or tracking SJLP acquisition merger savings."
- c) "It is not important from UCU's perspective to develop a specific synergies tracking system for the SJLP acquisition until an SJLP division rate proceeding is initiated or filed."

Please modify or clarify these statements as appropriate, if needed.

RESPONSE:

- a) Substitute this clarification for the sentence above: "UCU has not yet completed all the procedures necessary to completely track acquisition savings at this point in time. It was generally determined that synergies in 2001 would be lower than original projections for 2001 due to the delay in Closing from July 1, 2000 to January 1, 2001 that delayed many transition activities into 2001 that were originally assumed to occur in the second half of 2000. Synergies were also reduced by the delays in receiving FERC approvals for market-based sales and for joint dispatching."
- b) Substitute this clarification for the sentence above: "There has been no affirmation as yet that UCU will continue with the originally proposed 1999 budget for most operating and maintenance expenses or consider other alternatives such as the Staff proposal in the merger application hearings. The possibility of modifying existing company precedent to eliminate potential disagreements with Staff would most likely be addressed in connection with a rate filing for SJLP."
- c) Substitute this clarification for the sentence above: "The need to have a fully developed process in place is driven by future rate cases. UtiliCorp has the ability to implement the modifications necessary to do so at any time between the Closing and future rate case as resources allow. Many elements have already been put in place but the completion of all

elements of the process are not required immediately and can be implemented as time and resources allow."

ATTACHMENTS: None

ANSWERED BY: Vern Siemek

Dept Example

Line No.	Description	1999	2000	2001	2002	2003	2004
1	SJLP Baseline						
2	'99 Budget inflated by 3%	1,000	1,030	1,061	1,093	1,126	1,159
3	UCU Baseline						
4	'99 Budget inflated by 3%	3000	3,090	3,183	3,278	3,377	3,478
5	UCU incremental						
6	Estimate inflated by 3%	300	309	318	328	338	348
7	Sub Total	<u>3,300</u>	<u>3,399</u>	<u>3,501</u>	<u>3,606</u>	<u>3,714</u>	<u>3,826</u>
8	Portion allocated to SJLP	25% 825	850	875	901	929	956
9	Merger Savings	<u>175</u>	<u>180</u>	<u>186</u>	<u>191</u>	<u>197</u>	<u>203</u>

**UTILICORP UNITED
DOCKET NO. EM-2000-292
DATA REQUEST NO. SJLP-170**

DATE OF REQUEST: January 31, 2000

DATE RECEIVED: January 31, 2000

DATE DUE: February 19, 2000

REQUESTOR: Janis Fischer

QUESTION:

1. How will the synergy analysis of the Transition Teams be utilized in the tracking of merger savings? Please provide details for each of the Transition Teams.
2. How will UCU demonstrate in year six following the close of the merger, that savings have exceeded costs?
3. How will UCU differentiate between SJLP and EDE savings throughout the years following the merger closings?
4. How is UCU currently measuring merger savings related to the SJLP/UCU and EDE/UCU transactions? Please identify specific examples of savings from the SJLP/UCU and EDE/UCU transactions that can be traced back to the general ledger/financial statements.

RESPONSE: 1 *See testimony of Jerry Meyers. The usefulness of the transition reports in tracking is similar for all the teams for the operating and transition cost elements. As a result, a general example covers most of the synergies for the transition teams of Regulatory, Finance/Accounting, Human Resources, Information Technology, Distribution Operations, Transmission, and the O&M portion of Generation. The approved and final reports of those transition teams will be used as a roadmap to ensure that expected costs and savings materialize.*

Assume that a report calls for the elimination of an SJLP department with an increase of 4 staff at UtiliCorp. The elimination can be easily verified, along with the severances. The elimination is compared to the allocated costs from UtiliCorp to determine the synergies.

A simple example illustrates the concept:

EXAMPLE:

- A. Assume an SJLP department of 10 positions at a cost of \$500,000.
- B. The same work can be accomplished by an existing UtiliCorp department of 20 positions costing \$1,000,000 by adding 4 staff at a cost of \$200,000.
- C. The augmented UtiliCorp department of 24 positions at a cost of \$1,200,000 is allocated on an established basis that allocates 33% of its costs to the SJLP unit at a cost of \$400,000.
- D. The synergies in this case are \$100,000 (the original SJLP \$500,000 less the post-merger allocation of \$400,000). That difference is simple to validate by retaining the original budgets for SJLP department (appropriately inflated) to compare to the costs then being charged to SJLP.

The operating departments of SJLP should be even clearer, because those departments are still identified with SJLP. The current staffing will be reduced, and the remaining departments identified as SJLP Operations can be compared to the original departments to identify the savings.

The generation synergies not related to operations and maintenance are slightly more complex but have the benefit of using an agreed-to software model that both UtiliCorp and staff have tested and used before.

2. See Jerry Meyers testimony. And response to 1 above.

The comparison of synergies can be simply stated as the current costs of SJLP and Empire operations, (each determined separately and appropriately inflated), less the allocated costs from Utilicorp for performing those functions for SJLP and Empire at the 'General Ledger Business Unit' level.

3. The existing departments and their costs are identified for each of the two (SJLP and Empire). Because each will be maintained as a separate entity (a General Ledger Business Unit) in the UtiliCorp accounting system, the offsetting allocations to each entity will also be identified. The net result is the synergies for each entity.

4. The mergers have not been accomplished, nor have intended reorganizations been approved or accomplished. As a result, merger savings or synergies are not being measured.

ATTACHMENTS: None

ANSWERED BY: Vern Siemek

Case No. ER-2001-672

Response to DR 130

Update of actual and expected merger costs from VJS-2.

Line	Description	FERC Account	EM-01-292 Est. Costs	Test Year 12/31/2000 Actual	6 Months 6/30/2001 Actual	Grand Total Actuals	Expected to be Incurred	Expected Total Costs	Variance from EM-01-292 Est. Costs
1	Distribution Severance	186	\$ 876,739		\$ 464,777	\$ 464,777	\$ 197,939	\$ 662,717	\$ (214,022)
2	Officers Severance/Retention	186	\$ 3,232,913	\$ 3,584,400		\$ 3,584,400		\$ 3,584,400	\$ 351,487
3	Transmission Severance	186	\$ 392,148		\$ 84,095	\$ 84,095	\$ 234,973	\$ 319,068	\$ (73,080)
4	Paid Advisory Board-Three Years	930.2	\$ 432,000		\$ 70,200	\$ 70,200	\$ 351,000	\$ 421,200	\$ (10,800)
5	Fund Supplemental Exec Retirement	926	\$ 1,620,000	\$ 1,725,672		\$ 1,725,672		\$ 1,725,672	\$ 105,672
6	Retention Payments for Non-Officers	186	\$ 566,000	\$ 565,266		\$ 565,266	\$ 100,255	\$ 665,521	\$ 99,521
7	Gen Admin Subgroups - Fin Acctg	186	\$ 185,832		\$ 252,925	\$ 252,925		\$ 252,925	\$ 67,093
8	Human Resources-Severance	186	\$ 204,000		\$ 189,780	\$ 189,780		\$ 189,780	\$ (14,220)
9	Human Resources-Retention	186	\$ 27,000			\$ -		\$ -	\$ (27,000)
10	Information Technology-Severance	186	\$ 476,104		\$ 188,625	\$ 188,625	\$ 68,950	\$ 257,575	\$ (218,529)
11	Regulatory/Legislative sever/relocation	186	\$ 28,500		\$ 65,620	\$ 65,620		\$ 65,620	\$ 37,120
12	Corporate Communications	186	\$ -		\$ 131,338	\$ 131,338		\$ 131,338	\$ 131,338
13	Relocations	921	\$ -			\$ -	\$ 26,083	\$ 26,083	\$ 26,083
14	Other	186	\$ -		\$ 30,000	\$ 30,000		\$ 30,000	\$ 30,000
15	Generation Severances	186	\$ 489,000		\$ 239,426	\$ 239,426		\$ 239,426	\$ (249,574)
16	Pricing/Market Research Severances	186	\$ 142,735		\$ 71,500	\$ 71,500		\$ 71,500	\$ (71,235)
17	Payroll Taxes	186	\$ -				\$ 33,156	\$ 33,156	\$ 33,156
18	FERC Market Power Update	186	\$ -		\$ 120,673	\$ 120,673		\$ 120,673	\$ 120,673
19	SFAS 106 Curtailment Cost	926	\$ -		\$ 723,816	\$ 723,816	\$ 723,816	\$ 1,447,631	\$ 1,447,631
20	MAPP Exit Fee	186	\$ -			\$ -	\$ 207,265	\$ 207,265	\$ 207,265
21	Duplicate Call Center Costs	903	\$ -		\$ 81,571	\$ 81,571	\$ 59,239	\$ 140,810	\$ 140,810
22						\$ -		\$ -	\$ -
23	Total Transition Costs		\$ 8,672,971	\$ 5,875,338	\$ 2,714,345	\$ 8,589,684	\$ 2,002,677	\$ 10,592,360	\$ 1,919,389
24									
25	IT Transition Cost		\$ 1,835,000		\$ 1,572,000	\$ 1,572,000	\$ 300,000	\$ 1,872,000	\$ 37,000
26									
27	Bankers Fees		\$ 2,575,000	\$ 866,670		\$ 2,565,366		\$ 2,565,366	\$ (9,634)
28	Other Transaction Costs		\$ 2,000,000	\$ 1,212,565	\$ 69,263	\$ 3,054,246		\$ 3,054,246	\$ 1,054,246
29									
30	Total Transaction Costs		\$ 4,575,000	\$ 2,079,234	\$ 69,263	\$ 5,619,612	\$ -	\$ 5,619,612	\$ 1,044,612
31									
32	Total Costs to Achieve Synergies		\$ 15,082,971	\$ 7,954,573	\$ 4,355,608	\$ 15,781,296	\$ 2,302,677	\$ 18,083,972	\$ 3,001,001