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Acquisition Adjustment
Witness: Mark L. Oligschlager
Sponsoring Party: MoPSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

MARK L. OLIGSCHLAEGER

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

CASE NO. ER-2001-672

*Jefferson City, Missouri
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MARK L. OLIGSCHLAEGER

UTILICORP UNITED INC.

d/b/a MISSOURI PUBLIC SERVICE

CASE NO. ER-2001-672

Q. Please state your name and business address.

A. Mark L. Oligschlaeger, P.O. Box 360, Suite 440, Jefferson City, Missouri
65102.

Q. Are you the same Mark L. Oligschlaeger who has previously filed direct
testimony in this proceeding?

A. Yes, I am.

Q. What is the purpose of this rebuttal testimony?

A. The purpose of this testimony is to address the direct testimony filed by
Missouri Public Service (MPS or Company) witnesses Gary L. Clemens and Vern J. Siemek
concerning the issue of merger savings/acquisition adjustment. MPS is a division of
UtiliCorp United Inc. (UtiliCorp or UCU).

Q. Why are the issues of merger savings and the acquisition adjustment a concern
in this proceeding?

A. MPS witness Clemens raised these issues at pages 3-5 of his direct testimony.
In that testimony, Mr. Clemens explains that it is MPS's preference that the financial impacts
of the recent UtiliCorp/St. Joseph Light & Power Company (SJLP) merger be ignored for
ratemaking purposes in this proceeding. As an alternative, Mr. Clemens states that, if certain

1 purported merger savings are reflected in rates for MPS in this case, a portion of the merger
2 costs associated with the SJLP transaction should also be reflected in rates. These merger
3 costs include the acquisition adjustment, transaction costs and transition costs associated with
4 the UCU/SJLP merger.

5 Q. How did Company witness Siemek address the issue of merger savings in
6 direct testimony in this rate proceeding?

7 A. Mr. Siemek's direct testimony in this proceeding contained as an attachment
8 his direct testimony and schedules filed in Case No. EM-2000-292, the application by UCU
9 and SJLP (Joint Applicants) for approval of the merger transaction. Mr. Siemek's direct
10 testimony in the merger case contained the Joint Applicants' estimates of merger savings and
11 costs, and the cost/benefit analysis that purported to show the merger was economic
12 (i.e., cost beneficial from a rate perspective) to SJLP customers under the Joint Applicants'
13 proposed "regulatory plan".

14 Q. Did the Staff audit and investigate the Joint Applicants' claimed merger
15 savings estimates in the merger application?

16 A. Yes. The Staff submitted numerous data requests to the Joint Applicants
17 concerning merger savings estimates, and also conducted interviews with certain of the Joint
18 Applicants' witnesses on this topic in Case No. EM-2000-292. Some of these interviews
19 were transcribed by court reporters. The individuals interviewed reviewed the resulting
20 transcripts for accuracy.

21 Q. What is the Staff's position on merger savings and merger cost matters in this
22 case?

1 A. These matters were addressed in my direct testimony in this proceeding. To
2 summarize, the Staff has attempted to reflect MPS's actual cost of service through the end of
3 the test year update period (June 2001) in its rate recommendation. The Staff is opposed to
4 any rate recovery of acquisition adjustments or merger transaction costs. The Staff is not
5 opposed in general to recovery of merger transition costs, if the recovery is in the form of an
6 amortization of these costs to expense.

7 Q. Please provide an overview of the UCU-SJLP merger transaction.

8 A. On October 19, 1999, UCU and SJLP filed with the Commission an
9 application to authorize a merger of the two companies. The proposed transaction called for
10 SJLP to lose its separate corporate identity and become an operating division of UtiliCorp.
11 The Commission granted its approval for the SJLP acquisition in its Report and Order in
12 Case No. EM-2000-292. The merger closed in late December 2000.

13 Q. Please generally describe the Joint Applicants' proposal in Case No.
14 EM-2000-292 for rate treatment of purported merger savings and costs.

15 A. The Joint Applicants' "regulatory plan" was set out in the direct testimony of
16 UCU witness John W. McKinney in Case No. EM-2000-292, and was further identified in
17 the testimony of other Joint Applicant witnesses in that case. In summary, the regulatory
18 plan called for a five-year rate moratorium for the SJLP division, with a rate case to be filed
19 in Year Five following the merger. The Joint Applicants proposed that they be allowed to
20 recover a return of and on 50% of the acquisition adjustment in that rate proceeding, and that
21 SJLP's pre-merger capital structure still be used for rate purposes in that and subsequent
22 post-merger cases. The Joint Applicants claimed that, by "tracking" actual merger savings
23 incurred as a result of the UCU/SJLP transaction, they would be able to guarantee that a

1 minimum merger benefit to SJLP division customers of \$1.6 million would be reflected in
2 rates in the Year Five rate case. Under the proposed regulatory plan, almost all of the
3 expected merger savings would be assigned to the SJLP division for rate purposes.

4 The proposed regulatory plan, as it applied to UtiliCorp's MPS division, called for
5 MPS's corporate allocation factors to be "frozen" so that the impact of the SJLP transaction
6 on MPS's allocated portion of UCU corporate costs would not be flowed through to MPS
7 customers in future rate proceedings for a period of ten years.

8 The Staff opposed the Joint Applicants' regulatory plan in the merger case, and the
9 Commission in its Report and Order approving the merger rejected the regulatory plan.

10 Q. What are acquisition adjustments?

11 A. "Acquisition adjustment" is a term used respecting regulated companies
12 referring to amounts paid for property in excess of or less than the original net book value of
13 the property in question. Acquisition adjustments are sometimes also referred to as
14 "acquisition premiums" or "merger premiums."

15 Q. Why does the Staff oppose recovery of acquisition adjustments in rates?

16 A. The reasons for the Staff's position on this issue are stated in this testimony,
17 and in the rebuttal testimony of Staff Accounting witnesses Cary G. Featherstone and Charles
18 R. Hyneman, as well as in the rebuttal testimony of Staff witness Michael S. Proctor of the
19 Energy Department.

20 Q. Is UCU's decision to purchase the assets of SJLP equivalent to any other
21 investment that UCU might make in providing service to utility customers that would be
22 includable in rate base?

1 A. No. Mr. McKinney in his direct testimony at page 15 in Case No.
2 EM-2000-292 implied that UCU's investment in SJLP is analogous to UCU's investment in
3 "real assets." An example of a "real asset" investment would be building a power plant to
4 meet customer needs. The analogy does not hold.

5 Construction of power plants generally is required in order for the utility to provide
6 safe and adequate service to ratepayers. Mergers and acquisitions, in contrast, are rarely if
7 ever required in order for utilities to serve customers, and certainly the Joint Applicants in the
8 merger proceeding did not allege that the public interest required them to enter into the
9 merger transaction. Rather, the merger transaction by all appearances was a voluntary action
10 by both UCU and SJLP managements that was triggered by both managements' perception
11 of their shareholders' interests. This is not to deny that SJLP and UCU customers may also
12 benefit in some respects by this merger, but rather that the primary emphasis of both UCU
13 and SJLP managements in their merger decisions were their shareholders. This has crucial
14 ramifications in how the acquisition adjustment, and other direct merger costs, should be
15 treated for rate purposes, and assigned between the customers and shareholders of the
16 merging utilities.

17 Q. Should customers be directly responsible for recovery of any portion of
18 acquisition adjustments in rates?

19 A. No. The process of entering into mergers and acquisitions inherently is
20 primarily driven by the requirements and interests of utility shareholders. For this reason,
21 acquisition adjustments should be treated as a below-the-line item and assigned to
22 shareholders. This general Staff position is reinforced by the evidence in the UCU/SJLP
23 merger case that UCU was motivated, at least in part, to enter into this transaction by the

1 perception that benefits in nonregulated areas of its operations were expected to occur as a
2 result of this transaction. The issue of allocation of the acquisition adjustment to
3 nonregulated operations is also addressed in the rebuttal testimony of Staff witness Hyneman
4 in this case.

5 Q. If UCU were seeking to recover only 50% of the SJLP acquisition adjustment
6 from its customers in the merger application, would it be reasonable to assume that UCU is
7 seeking to recover the other 50% of the acquisition adjustment from its nonregulated
8 operations?

9 A. Both Mr. McKinney and UCU witness Vern J. Siemek made this argument in
10 their transcribed interviews with the Staff and the Office of the Public Counsel (OPC) during
11 the merger proceeding. However, the Joint Applicants presented no evidence in Case No.
12 EM-2000-292 and have presented no evidence in this proceeding: (1) respecting what an
13 appropriate assignment of the acquisition adjustment would be to nonregulated operations, or
14 (2) why more than 50% of the total acquisition adjustment should not be assigned to
15 nonregulated operations.

16 It should also be noted that the Staff presented evidence in the SJLP merger case that
17 UCU would receive recovery of far more than 50% of the acquisition adjustment under its
18 proposed regulatory plan, when all of the indirect recovery mechanisms within the regulatory
19 plan were taken into account.

20 Q. Is there any evidence that a substantial portion of the acquisition adjustment
21 arising from the SJLP transaction may relate to perceived nonregulated benefits of the
22 transaction from the perspective of UCU?

1 A. Yes. In Joint Applicant witness Robert K. Green's direct testimony in the
2 merger application, he made a statement that UCU had considered transferring the generation
3 assets of both MPS and SJLP into an exempt wholesale generator (EWG). (An EWG is an
4 unregulated affiliate of a regulated electric utility or other entity where the EWG sells electric
5 power at wholesale but not at retail.) Further, Mr. Green said that a portion of the acquisition
6 premium would have also been transferred to the EWG if the creation of an EWG had taken
7 place. According to Mr. Green, UCU chose not to establish an EWG at that time due to
8 concerns respecting how property taxes would be assessed on the EWG generation.

9 Q. What is the relevance of the EWG question to the issue of the acquisition
10 adjustment allocation?

11 A. It is clear from a number of sources that SJLP's existing generating assets are
12 considered to be low-cost units, with a potential market value in an unregulated electricity
13 generation marketplace in excess of their net book value. Please refer to Staff Witness
14 Hyneman's rebuttal testimony for a detailed discussion of this topic. As shown be the
15 evidence presented by Mr. Hyneman, the expected additional profits that SJLP could make in
16 sales of electricity in a competitive market compared to the regulated rates set by the
17 Commission would be undeniably attractive to potential buyers of SJLP, including UCU.

18 The perceived value of these assets in the future for UCU is one reason why
19 UtiliCorp was willing to pay a sizeable merger premium for the SJLP properties. That
20 perceived value, and its impact on the premium, is not dependent upon UCU's political, legal
21 and strategic decisions regarding the timing of when to make regulatory filings to get
22 approval to set up an EWG. In short, if UCU indicates it would have been appropriate to
23 allocate part of the acquisition adjustment to nonregulated operations, i.e., an EWG, if that

1 affiliate had been created and approved, it is just as appropriate to allocate a portion of the
2 acquisition adjustment to nonregulated operations in the situation in which an EWG has not
3 been formed. This is the case because the perceived future value of the generating assets is
4 present under either scenario, and therefore contributed to the premium amount.

5 Q. Do all merger and acquisition transactions result in acquisition adjustments?

6 A. No. Acquisition adjustments only result from transactions that are accounted
7 for using the "purchase" method of accounting. Purchase transactions are in essence sales of
8 assets by one entity to another. Some merger transactions were accounted for using the
9 "pooling of interests" method of accounting, and represented, conceptually, a combining of
10 shareholder interests by two previously separated firms through an exchange of stock. No
11 additional investment was recorded on the combined entity's books when a pooling
12 transaction was entered into, so there is no acquisition adjustment for this type of merger.
13 The UCU/SJLP transaction is being accounted for as a purchase transaction.

14 Q. Would it have been possible for the UCU/SJLP transaction to be structured as
15 a pooling transaction, and thus to eliminate the possibility of an acquisition adjustment?

16 A. Yes. In fact, the initial public announcement of the UCU/SJLP merger
17 transaction made reference to the fact that this combination was to be accounted for as a
18 pooling. It was only several months later that the Joint Applicants determined that pooling
19 accounting was not possible, because of some stock options issued by UCU in late 1998.
20 The circumstances in which the Joint Applicants abandoned pooling accounting for their
21 merger are discussed in the rebuttal testimony of Mr. Hyneman.

22 Q. Is the option of accounting for a merger transaction as a pooling still available
23 to combining companies?

1 A. No, not for transactions initiated after June 30, 2001. However, at the time the
2 SJLP transaction was initiated and closed by the Joint Applicants, the option of treating that
3 transaction as a pooling for accounting purposes was still fully available to the Joint
4 Applicants.

5 Q. Does the Staff believe that, in general, utilities undergoing mergers and
6 acquisitions have sought different rate treatment of merger costs and savings for pooling
7 transactions compared to purchase transactions?

8 A. Yes. In general terms, utilities undergoing pooling transactions typically
9 offered regulatory plans that were much more benign from a customer perspective than those
10 utilities seeking approval of purchase transactions. This difference is understandable, when
11 one takes into account the need for utilities with "purchase" transactions to seek to offset the
12 detrimental financial statement impact on its earnings of the premium amortization amount
13 and the return on the premium.

14 Q. Please provide an example of utilities asking for different regulatory
15 treatments for mergers accounted for as poolings as opposed to purchases.

16 A. An excellent example is the proposed UCU merger with Kansas City Power &
17 Light Company (KCPL) in 1996, for which approval was sought from this Commission in
18 Case No. EM-96-248. That transaction was to be accounted for as a pooling of interests.
19 (UCU and KCPL later abandoned their merger bid when Western Resources, Inc.
20 successfully outbid UCU for the KCPL properties.)

21 In Case No. EM-96-248, UCU and KCPL proposed a regulatory plan for that merger
22 which included the following terms:

- A two percent rate reduction, for both KCPL and UCU Missouri customers, effective immediately upon closing of the merger;

- Establishment of an alternative regulation/sharing plan, with customer sharing to begin at a 12.00% return on equity;
- Accelerated depreciation for the Wolf Creek Nuclear Generating Station.

The contrast between the proposed regulatory plan in the UCU/KCPL transaction and the regulatory plan offered by the Joint Applicants in the merger proceeding could hardly be starker. In Case No. EM-96-248, UCU was willing to offer customers an immediate rate reduction upon closing of the transaction, the opportunity to receive annual rate credits after the merger was closed through operation of an alternative regulation sharing plan, and future rate benefits to customers through a proposal for accelerated depreciation during the term of the regulatory plan. The regulatory plan offered by UCU and SJLP in the merger application would have denied SJLP customers any immediate or deferred benefits of the merger (through pass-through of any achieved merger savings) for at least five full years after closing of the merger. Then, after five years, SJLP customers would have been expected to pay directly in rates for a portion of the acquisition adjustment.

The reasons why UCU was willing to offer customers much better terms related to merger benefits in 1996 than in the SJLP merger case are not entirely clear. The Staff believes, though, that a major reason (and probably primary reason) for the difference is the simple fact that the UCU/KCPL transaction was intended to be a pooling, while the UCU/SJLP transaction is a purchase transaction.

Q. What are the implications in this rate proceeding of UtiliCorp's decision to structure the SJLP acquisition as a purchase transaction for financial reporting purposes?

A. This merger did not have to be structured as a purchase accounting transaction. If this transaction had been structured as a pooling, the Commission would not have to be concerned with rate issues concerning an acquisition adjustment. If the interests of

1 its customers had been paramount to UCU, greater efforts would have been made by it to try
2 to ensure that pooling accounting was available. This is not to argue that the reasons for
3 which purchase accounting was ultimately deemed to be appropriate by the Joint Applicants
4 are trivial or unimportant; only that clearly the interests of their shareholders drove the
5 structure and the terms of this merger. The Staff is also not arguing that UCU's emphasis on
6 the interests of its investors in making this transaction is inappropriate or improper. The
7 point is that UCU's investors should bear financial responsibility for the acquisition
8 adjustment resulting from a voluntary decision to use purchase accounting for the
9 transaction. The ultimate decision of the Joint Applicants to set up this merger as a purchase
10 should have no customer impact whatsoever, as that decision should properly be considered
11 as a shareholder issue.

12 Q. Did the purchase/pooling choice have any relationship to the amount of
13 benefits potentially available to customers from this merger?

14 A. Not at all. Whether this merger was accounted for as a pooling or a purchase
15 did not change the Joint Applicants' merger savings estimates or actual merger savings at all.
16 In short, there are no greater customer savings or benefits associated with purchase
17 accounting to offset the greater costs the companies are seeking to have their customers
18 shoulder as a result of the UCU/SJLP merger being treated as a purchase transaction.

19 Q. Is the position of UCU to seek recovery of part of an acquisition adjustment in
20 this proceeding appropriate?

21 A. No. The voluntary nature of merger and acquisition transactions in the
22 electric industry makes clear that utilities cannot justify recovery of acquisition adjustments
23 on the basis of such transactions being necessary for the provision of safe and adequate

1 service. Therefore, utilities must advocate inclusion of merger premiums in rates on the basis
2 of cost/benefit analysis; i.e., that the cost savings passed on to customers as a result of the
3 merger transaction outweigh the increase in rates associated with the acquisition adjustment.
4 However, viewing rate treatment of merger premiums in the context of cost/benefit analysis
5 turns out to be inherently biased against the interests of utility customers.

6 The amount of an acquisition adjustment is known with certainty once a merger
7 transaction is closed, and therefore its impact on customers if allowed in rates in rate base
8 and/or as an element of expense is also known and certain at that time. Merger cost savings,
9 in contrast, are very speculative, and difficult, perhaps impossible, to accurately measure.
10 Merger savings are subject to contentious disputes in rate case hearings. One can never be as
11 sure of the amount of the savings component on the cost/benefit analysis as one can be of the
12 amount of "cost" component, the premium. Utilities will have a strong incentive to make
13 excessive and speculative claims for merger savings in attempts to justify rate recovery of
14 acquisition adjustments. It will always take a leap of faith to make a determination that
15 merger savings exceed merger costs, and that determination inherently places the risk of
16 attaining merger savings on customers rather than utilities. For this reason, the Staff views
17 recovery of acquisition adjustments in rates as inappropriate, because of the very high
18 likelihood that customers' rates are actually being increased as a result of the inclusion of
19 merger premiums in customers' rates.

20 Q. Should any further information be provided by UCU regarding its proposal for
21 recovery of its acquisition adjustment?

22 A. Yes. Given the evidence presented by the Staff in the merger application case
23 and this proceeding, concerning UCU's perception of significant merger benefits in

1 nonregulated areas, a genuine proposal respecting treatment of the acquisition adjustment
2 would require the following:

3 1. A description and quantification of expected merger savings/benefits
4 synergies in nonregulated areas of operations; and

5 2. A proposal for allocation of an appropriate amount of the acquisition
6 adjustment to nonregulated operations, with detailed support provided.

7 Without this type of evidence presented, any recovery of an acquisition adjustment in
8 rates places a significant risk on the utility customers of subsidizing the nonregulated
9 operations for the benefit of the shareholders. No evidence of the nature identified above has
10 been presented by UCU in either the merger case or the instant rate case.

11 Q. Is it possible to include acquisition adjustments in rates and still verify that
12 customers are benefited overall by inclusion of merger savings in rates?

13 A. Inclusion of acquisition adjustments in rates can only be demonstrated to be
14 beneficial to customers if utilities have the ability to "track" (i.e., identify and quantify)
15 merger savings. However, the Staff believes that accurate identification and quantification of
16 merger savings is extremely difficult and, perhaps, impossible.

17 Q. Why is it difficult to identify and quantify actual achieved merger savings?

18 A. Conceptually, the difficulty is that it requires a comparison between actual
19 financial results achieved after a merger and what the financial results would have been for
20 an entity if the merger had never taken place. Of course, no one can "know" what would
21 have happened if a merger had not taken place if, in fact, a merger does take place. This
22 requires guesswork on someone's part to come up with a hypothetical scenario in order to
23 quantify actual merger savings. This guesswork can take two basic forms: first, an

1 assumption that the involved entity's financial results at the time the merger was entered into
2 would have essentially been "frozen" in place from that point on or, second, that some way
3 can be found to accurately project prospectively and retrospectively what the entity would
4 have done on a stand-alone basis (i.e., what savings will be or would have been achieved,
5 what major decisions will be or would have been made, etc.). The first assumption is
6 unrealistic, in that no business entity stands frozen in place for an extended period of time.
7 The second assumption involves subjective speculation as to what a business concern will do
8 or would have done when faced with a set of hypothetical facts and circumstances not
9 actually known prospectively, or necessarily even accurately known retrospectively.

10 For a regulatory commission to believe that tracking merger savings is possible is to
11 invite subjective, self-serving speculation in rate proceedings, with no objective facts or
12 standards available to guide the utility commission in judging the savings tracking claims put
13 before it, once the agency places itself in the box of deciding that tracking merger savings is
14 possible.

15 Q. Given the conceptual difficulties in measuring merger savings, how did the
16 Joint Applicants in the merger proceeding propose to overcome them?

17 A. They did not, as the Joint Applicants made no serious proposal in the merger
18 case as to how their tracking system would work. While Mr. McKinney devoted several
19 pages of his direct testimony in Case No. EM-2000-292 to a very general discussion of how
20 savings tracking would conceptually work to guarantee merger benefits to customers, the
21 only other discussion of the proposed savings tracking system in the merger proceeding can
22 be found in one short question and answer in the direct testimony of UCU witness Jerry D.
23 Myers. Neither Mr. McKinney nor Mr. Myers gave any substantive description of how

1 savings tracking is actually going to be accomplished. The bulk of Mr. Myers' testimony, in
2 fact, concerned UCU's ability to track merger costs (not savings) using state-of-the-art
3 accounting systems. The reader was asked to assume that modern accounting and financial
4 reporting systems are sophisticated enough to accomplish after-the-fact measurement of
5 merger savings. However, the problem with merger savings tracking is not lack of
6 sophistication of accounting systems, but the inherent lack of knowledge people have of the
7 financial impact of events and actions that did not occur. The best accounting system in the
8 world cannot cure that problem.

9 Q. Has UCU done any further work to develop a system to track merger savings
10 since Case No. EM-2000-292?

11 A. No. In an interview held on October 24, 2001 with Mr. Clemens and Mr.
12 Siemek, it was stated to the Staff that tracking of SJLP merger savings was not being
13 performed at this time. While Mr. Siemek and Mr. Clemens conveyed that UCU still
14 intended to develop and propose a tracking system, they believed that it was not crucial to
15 have a tracking system in place until the time of the next SJLP division rate increase
16 proceeding. The Response to Staff Data Request No. 455 states:

17 UCU has not completed all of the procedures necessary to completely
18 track acquisition savings at this point in time. It was generally determined
19 that synergies in 2001 would be lower than original projections for 2001
20 due to the delay in Closing from July 1, 2000 to January 1, 2001 that
21 delayed many transition activities into 2001 that were originally assumed
22 to occur in the second half of 2000. Synergies were also reduced by the
23 delays in receiving FERC approvals for market-based sales and for joint
24 dispatching.

25
26 The complete Response to Staff Data Request No. 455 is attached to the rebuttal
27 testimony of Staff witness Fischer in this case as Schedule 4.

1 Q. To your knowledge, has UCU determined the actual merger savings achieved
2 to date as a result of the SJLP merger?

3 A. No. The Response to Staff Data Request No. 248 indicates that, through the
4 end of the update period (June 2001), that UtiliCorp has not tracked actual merger savings
5 associated with the SJLP transaction.

6 Q. To your knowledge, has UCU developed any new estimates of merger savings
7 related to the SJLP transaction since Case No. EM-2000-292?

8 A. No.

9 Q. What is the relevance in this proceeding of the merger savings and costs
10 estimates attached to Mr. Siemek's direct testimony in this proceeding?

11 A. They have no relevance whatsoever.

12 Q. Please explain.

13 A. At the time the merger savings estimates were developed in 1999, the amounts
14 contained in Mr. Siemek's testimony in Case No. EM-2000-292 were presumably intended
15 as the Joint Applicants' best guess as to the resulting merger savings and costs if the SJLP
16 transaction were completed. The Staff had many general and specific criticisms of the
17 estimates that it expressed in its testimony in the merger application case, and to some extent
18 has reiterated in its rebuttal testimony in this rate increase case. However, beyond those
19 criticisms, it is now clear that any number of the bases on which Mr. Siemek's savings and
20 cost estimates were calculated were based upon erroneous assumptions. For this reason,
21 even disregarding the Staff's other criticisms, the evidence introduced by MPS in this
22 proceeding as to expected savings and costs related to the merger cannot be considered as
23 accurate concerning the economics of the SJLP transaction. To state this in a different

1 manner, the savings and cost estimates sponsored by Mr. Siemek cannot be applied to or
2 inserted into this case, even if the Commission were to accept in entirety UCU's conceptual
3 positions on appropriate ratemaking for merger savings and merger costs.

4 Q. Please provide some examples of problems with Mr. Siemek's estimates of
5 merger savings and costs.

6 A. All references in this discussion to the estimates in Mr. Siemek's direct
7 testimony in Case No. EM-2000-292 relate to his Schedule VJS-1 within that testimony.
8 (Again, this Schedule, as well as the other contents of Mr. Siemek's direct testimony in Case
9 No. EM-2000-292, has been attached to Mr. Siemek's direct testimony in this case, Case
10 No. ER-2001-672.) The problems with the merger savings and cost estimates attached to
11 Company witness Siemek's direct testimony in this proceeding include the following:

12 1. The savings and cost estimates in the dispatching/generation (Line I-1)
13 and corporate allocated cost areas (Section IV) in Mr. Siemek's
14 Schedule VJS-1 were calculated on the assumption that a three-way
15 merger would take place (Oligschlaeger Rebuttal, p. 4, Case No. EM-
16 2000-292). In other words, UCU assumed it was combining with both
17 SJLP and The Empire District Electric Company (Empire) when it
18 developed its SJLP merger savings estimates for generation/joint
19 dispatch and corporate allocated costs. UCU ultimately did not
20 complete the planned acquisition of Empire, so these estimates were
21 based on an incorrect assumption.

22 2. As noted in Mr. Siemek's direct testimony in this case (p.3, lines 5-6),
23 UCU was not able to implement joint dispatch of MPS and SJLP

1 generating resources as fast as assumed in its earlier estimation of
2 savings. Therefore, first year joint dispatch savings will be less than
3 projected by UCU in Schedule VJS-1, even if its proposed method for
4 calculating joint dispatch savings is ultimately accepted by the
5 Commission.

6 3. In regard to the corporate allocated costs impact of the merger, the
7 direct testimony of Company witness Beverlee R. Agut at pages 4-5 in
8 this proceeding indicates that there has been changes made to the
9 process for allocating and assigning corporate costs among UCU
10 divisions effective in 2001, which would have not been taken into
11 account at the time the estimated impacts of the merger on corporate
12 allocations contained in Schedule VJS-1 were calculated.

13 4. An agreement was reached during the hearings in Case No.
14 EM-2000-292 as to how the pension plans for UCU and SJLP would
15 be combined and accounted for after the merger (Tr. 957-965). The
16 calculation of merger savings associated with the line item
17 "Conversion to UtiliCorp Benefits" in Schedule VJS-1 (Line I-5) is
18 inconsistent with this agreement.

19 5. Actual levels of transaction and transition costs (Line II-2) related to
20 the SJLP merger have differed from the level assumed by UCU in Mr.
21 Siemek's direct testimony in this proceeding in Schedule VJS-1.
22 Refer to the rebuttal testimony of Staff witness Fischer for further
23 discussion of these changes.

1 6. The actual acquisition adjustment amount incurred by UCU in
2 acquiring SJLP was higher than what was assumed in Mr. Siemek's
3 merger savings and cost analyses (Section VI of his Schedule VJS-1).
4 The assumed acquisition adjustment at the time of the merger case
5 approximately \$93 million (Direct testimony of UCU witness Dan J.
6 Streek, p. 4, Case No. EM-2000-292). The actual acquisition
7 adjustment amount is approximately \$109 million (UCU Response to
8 Staff Data Request No. 381, Case No. ER-2001-672).

9 7. The required financial reporting for mergers and acquisitions has
10 changed since the time Mr. Siemek's direct testimony was prepared in
11 the merger application. In particular, the new financial reporting
12 requirements should have an impact on how "goodwill" (for regulated
13 entities, the acquisition adjustment) is amortized to expense for
14 financial reporting purposes starting in 2002. Under these new
15 financial reporting requirements, companies will no longer have to
16 amortize goodwill expense on their income statements on an annual
17 basis. MPS has provided no evidence concerning whether these
18 financial reporting changes will have any impact on the cost/benefit
19 data included in Mr. Siemek's testimony from Case No. EM-2000-
20 292.

21 8. The savings and cost estimates in Schedule VJS-1 are for total UCU
22 operations. Mr. Siemek's testimony does not indicate what portion of
23 each savings and cost line item, if any, is allocable to the MPS

1 division. Nor has Mr. Siemek or anyone else indicated how such
2 estimates should be allocated to MPS. UCU has provided no evidence
3 that this merger is economic from the perspective of MPS customers.

4 9. The savings and cost estimates in Schedule VJS-1 apply to total UCU
5 operations. In Missouri alone, UCU has electric (MPS and SJLP),
6 natural gas (MPS and SJLP) and steam heat (SJLP only) operations.
7 UtiliCorp has provided no evidence of what savings are specifically
8 applicable to its Missouri electric operations. As a result, UCU has
9 provided no evidence that this merger is economic from the
10 perspective of Missouri electric customers. Please refer to the rebuttal
11 testimony of Staff witness Fischer for further discussion of this point.

12 10. The savings and cost information contained in Schedule VJS-1
13 pertains to UCU regulated operations only, and does not reflect any
14 information concerning UCU's expectations of merger benefits in the
15 nonregulated areas of its operations. Without that information being
16 provided, one cannot assess what an appropriate allocation of the
17 acquisition adjustment to UCU regulated operations would be based
18 upon the information contained in Schedule VJS-1.

19 Q. Please summarize your testimony as it relates to the merger savings and cost
20 estimates contained within Mr. Siemek's direct testimony in this proceeding.

21 A. These estimates are outdated and irrelevant, and should not be used under any
22 circumstances by the Commission in setting rates for MPS in this proceeding. The estimated
23 amounts by Mr. Siemek do not demonstrate that the merger is economic for UCU regulated

Rebuttal Testimony of
Mark L. Oligschlaeger

1 operations in total, or for any subset of UCU regulated operations, such as MPS electric
2 customers.

3 Q. Does this conclude your rebuttal testimony?

4 A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI


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

AFFIDAVIT OF MARK L. OLIGSCHLAEGER

STATE OF MISSOURI)	
)	ss.
COUNTY OF COLE)	

Mark L. Oligschlaeger, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 21 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


MARK L. OLIGSCHLAEGER

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



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

