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| Issues: | Recovery of Acquisition Premium and Sharing of Merger Savings |
| Witness: | Michael S. Proctor |
| Sponsoring Party: | MO PSC Staff |
| Type of Exhibit: | Rebuttal Testimony |
| Case No.: | ER-2001-672 |
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**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY OPERATIONS DIVISION**

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Missouri Public
Service Commission

# REBUTTAL TESTIMONY

# OF

# MICHAEL S. PROCTOR

# UTILICORP UNITED, INC.
# D/B/A/ MISSOURI PUBLIC SERVICE

# CASE NO. ER-2001-672

**Jefferson City, Missouri**
**January 2002**

# TABLE OF CONTENTS

**REBUTTAL TESTIMONY**

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**MICHAEL S. PROCTOR**

**UTILICORP UNITED INC.**
**D/B/A MISSOURI PUBLIC SERVICE**
**CASE NO. ER-2001-672**

Q. What is your name and business address?

A. My name is Michael S. Proctor. My business address is 200 Madison Street, P.O. Box 360, Jefferson City, Mo. 65102-0360.

Q. Are you the same Michael S. Proctor that filed direct testimony in this case?

A. Yes, I am.

Q. In this instant case, what is the purpose of your rebuttal testimony?

A. My rebuttal testimony addresses the issue of the ratemaking treatment of the acquisition premium (also called acquisition adjustment or merger premium) with respect to the merger of UtiliCorp United Inc. (UCU) and Saint Joseph Light & Power Company (SJLP). Specifically, I disagree with the position of Company witness Gary L. Clemens and Vern J. Siemek who argue for recovery of a portion of the acquisition premium as a cost of the merger. As a policy matter, the Staff has always opposed the inclusion of an acquisition premium as an adjustment to revenue requirements. In addition, my rebuttal testimony addresses alternative methods for sharing merger savings.

Q. What are your conclusions and recommendations with respect to the acquisition premium?

A. My rebuttal testimony on the acquisition premium is the same as what I submitted in the UCU/SJLP merger case (Case No. EM-2000-292). This testimony includes an explanation of the components of the acquisition premium, as well as the policy implications of treating the acquisition premium as a merger cost and allowing rate recovery. My *conclusion* is that a new Commission policy of treating the acquisition premium as a merger cost and allowing a recovery of that premium would remove incentives for utilities to minimize the amount of acquisition premiums. Of equal importance is that such a policy would not mirror what occurs for non-regulated businesses.

Q. If the Commission were to allow UtiliCorp to share a portion of the merger savings, what are your recommendations?

A. My recommendations are that any sharing plan be implemented over a short period of time (the next three years), that it be independent of the amount of the acquisition premium, and that it not be based only on *ex ante* estimates of merger savings such as those included in Mr. Siemek's direct testimony.

**<u>MERGER-RELATED ACQUISITION PREMIUM</u>**

Q. What is meant by the term "acquisition premium?"

A. An acquisition premium is defined as the amount paid to shareholders of the company being acquired that is in excess of the net book value of that company's assets. In Mr. Robert K. Green's direct testimony in the merger case, he calculates the premium to be the difference between the $23/share offered by UCU and accepted by SJLP's shareholders compared to $11.76/share for the book value of SJLP's assets. With approximately 8.2 million weighted average common shares outstanding, Mr. Green calculates the total amount of the acquisition premium to be

[($23/share)*(8.2 x $10^6$ shares)]-[($11.76/share)*(8.2 x $10^6$ shares)]
=
[$188.6 x $10^6$]-[$96.4 x $10^6$]
=
**$92.2 x $10^6$**

Q. Can this acquisition premium be divided into distinct components?

A. Yes. The acquisition premium can be divided into two distinct components. The first component is the difference between the market price per share and the price per share representing the book value of SJLP's assets. The second component is the difference between what will be paid by UCU to acquire SJLP and the market price per share. At the time SJLP shareholders accepted the UCU offer, the market price of their common stock was at $17.125/share. Using this price to quantify the two components gives:

*Component 1*: **Market Value – Book Value**
($17.125/share-$11.76/share)*(8.2 x $10^6$ shares) = **$44.0 x $10^6$**

*Component 2*: **Acquisition payment – Market Value**
($23.00/share-$17.125/share)*(8.2 x $10^6$ shares) = **$48.2 x $10^6$**

Q. What is meant by the "market value" of a stock?

A. Market price of a stock on a given day is the price at which the stock has traded on that day. Market price is determined by transactions that occur *at the margin* between those holding the stock and willing to sell the stock at a price that is at or below the market price (sellers) and those who are willing to buy the stock at a price that is at or above the market price (buyers). If there are a large number of transactions taking place on any given day, then an individual holder of the stock should be able to sell shares at the market price, and therefore can value the stock at its market price. In this context, the market value of a stock is represented by its market price.

Q. What then is an explanation for the difference between the market value and the book value of the stock?

A. For any shareholder, the value of a stock is determined by three fundamental factors:

1) The income the stock is expected to produce;

2) The opportunity cost of alternative investments; and

3) The individual's preference for risk.

Stock can produce income either in the form of dividend payments or in the form of capital gains (losses). Opportunity cost from alternative investments represents what the shareholder believes can be earned in income by selling the stock in question and investing in another alternative. Risk is the probability distribution around expected earnings, for both the stock in question as well as for alternative investments. When the Commission sets just and reasonable rates, it makes a determination of the Return On Equity (ROE) as the earnings which shareholders require as a return on the book value of the stock. The allowed ROE is in part determined by what has occurred with market prices of the stock and stocks of similar risk over a recent period of time. In this sense, recent opportunity costs and evaluation of risk are taken into account. Yet, a determination of the market valuation of ROE using even recent historical data on market prices, gives only a snapshot of a dynamic process that is constantly changing. If for example, the allowed ROE determined in this manner is actually above what the market requires, then the expected earnings for the utility would be greater than anticipated in the

ROE calculation, and the price which shareholders would require in order to offer shares on the market would increase. Economists would call this an upward shift in the supply curve (e.g., a decrease in supply) for the stock. This upward shift in the supply curve will cause the market price for the stock to increase.

The allowed ROE determined from historical data at a given point in time can also be greater than what the market requires at a later time because of a subsequent downward shift in opportunity cost (i.e., earnings potential from alternative investments are falling). In addition, expected earnings for the utility can increase because of cost savings coming from either declining rate base or decreases in annual expenses.

Regulatory lag is the time between these changes occurring and the time the regulatory process implements the results of these changes through new rates. In a world of "perfect regulation," rates would be adjusted each day to reflect changes in ROE from changing market expectations, and there would be no difference between the market value and the book value of the stock. But we do not live in a world of "perfect regulation," and the market adjusts to these imperfections through the daily changes in market prices.

Q. When the assets of a utility are sold, should the difference between market value and book value of the stock be included as a recoverable cost of the merger?

A. The difference between market value and booked value of the stock of the acquired utility should <u>not</u> be considered as a recoverable cost of the merger. The reason is quite simple. If the merger is not detrimental to the public interest, then the earnings potential of the utility being purchased should not get worse due to the merger. Because the market value of the stock represents the market's evaluation of the earnings potential of the utility and since that potential has not become worse, the merger results in the same, if not better, earning potential for the entity purchasing the utility in question.

To state this differently, if the Commission does not allow rate base to be increased by the amount of the difference between market and book value, then there would be no change in the rate base of the acquired utility. Holding everything else constant, the earning potential of the acquired utility would not have changed from what existed prior to the merger. If new shareholders could have acquired the stock of the utility at its market price, they would have paid the market's evaluation of the earning potential of that stock that is either the same or better than what it was prior to the merger. In essence, there is no loss of value to the new shareholders that needs to be recovered through some mechanism designed to increase earnings, such as putting the difference between market and book value in rate base in the form of an acquisition adjustment.

Q. While the merger has not worsened the earnings potential, don't existing shareholders have this same earnings potential but at an investment cost equal to book value that is lower than the market price paid by the acquiring entity and its shareholders?

A. No. It is incorrect to assume that existing shareholders paid book value for their shares. In fact, there is no way from publicly available information to measure what existing shareholders paid for their shares, and certainly there is no reason to believe that current shareholders paid book value for their shares. Beyond the question of not knowing what existing shareholders paid for their shares, what they have historically paid for shares is a sunk cost to the investor. Sunk costs are not relevant either to current investment decisions (to sell or not sell shares in the daily market), or with respect to what is required as an offer price for the shareholders of the acquired utility to sell their shares to the acquiring entity.

Q. Why would the acquisition payment be different from market value?

A. Market price is determined based on the supply and demand for the stock on a given day, with quantities being exchanged representing only a small fraction of the total stock outstanding. In order for this merger to take place, at least two-thirds of current shareholders of SJLP stock must have agreed to the sales price being offered by UCU. Acquisition price represents the offer price that was expected to induce at least two-thirds of current SJLP shareholders to sell based on their overall evaluation of expected earnings, opportunity costs and required risk premiums. While market price represents a price at which a small fraction of shareholders are willing to sell their shares, to increase the willingness to sell from that small fraction to two-thirds of outstanding shares will demand a higher offer price.

Q. In your opinion, when the assets of a utility are sold, should the difference between acquisition payment and market value of the stock be included as a recoverable cost of the merger?

A. The difference between acquisition payment and market value of the stock of the acquired utility should <u>not</u> be considered to be a recoverable cost of the merger. The reason is the same as for the difference between market value and book value. In essence, while the market value represents the value placed on future earnings at the margin, the acquisition payment represents the value placed on future earnings by at least two thirds of the existing shareholders. In essence, each individual shareholder makes an evaluation of the price at which he or she would sell his or her stock based on expectations of future earnings, opportunity cost of other investments and risk preference. If ranked from lowest to highest asking price, the lowest asking price would be slightly above the current market price and the acquisition price would be at or above the asking prices for two-thirds of current shareholders.

There are additional similarities between the determination of the market price and the acquisition price on the demand side of the offer. In the case of market price, the investors are looking at alternative investment opportunities and making offers based on their evaluation of those opportunities relative to earnings for the specific company in question. Likewise, companies that are considering mergers or acquisitions are looking at alternative investment opportunities and set their bid price based on what they see as their opportunity costs in the market compared to their earning potential from the utility on which the offer is made. The reason that a company seeking to merge is willing to make an offer that is higher than what the rest of the investment market is willing to offer is that it sees higher earnings potential, has a lower opportunity cost or has a different risk preference.

Q. In non-regulated businesses, does this future earnings potential include some recovery of the difference between acquisition payment and either market value or book value of the stock?

A. No. Non-regulated businesses do not operate in this fashion. Instead, they would simply look at the earnings potential from acquiring the business and compare that to other opportunities in making a decision as to how much to offer to acquire the business in question. If that offer were accepted, then the merger would take place subject to the approval of the Securities and Exchange Commission (SEC). However, it is important to realize that if there are synergies from the merger that will increase the earnings potential of the merged company when compared to the separate companies, that increase in earnings potential can play a role in the price that the acquiring company is willing to offer the shareholders of the company being acquired.

Q. In what ways does this compare to what happens with regulated companies?

A. There should be no difference. The company seeking to acquire a regulated company must perform an evaluation of the expected earnings it anticipates from that company including some expectation of increased earnings from the synergies anticipated from the merger. Based on this evaluation, the company determines the price per share that it is willing to offer the regulated company's shareholders. If that price were accepted, then the merger would take place subject to regulatory approval. The difficult part of this comparison is what expectations should the acquiring utility have concerning increased earnings from the synergies anticipated from the merger.

It is important to note that this order of causality problem needs to be divided into the correct causal sequence. The incorrect causal chain is the one presented by UCU in its direct testimony in the UCU/SJLP merger case: *the acquisition premium causes a certain level of recovery of the synergies from the merger.* The correct causal chain is that: *a certain level of recovery of the synergies from the merger causes a cap on the offer price for the acquisition.*

Q. What then is the impact of a policy that would base the level of recovery of synergies from the merger on the level of the acquisition premium?

A. The effect of such a policy would be an increase in the price that companies would be willing to offer to merge with other companies. Suppose, as was the case for SJLP, there were several companies bidding to acquire the regulated company. With a "known" regulatory policy of allowing recovery of an acquisition premium, all of the companies would be willing to bid higher because of the higher expected earnings that would result from there being a regulatory policy of allowing the recovery of the acquisition premium. The expected synergies from the merger should place a cap on what any company would be willing to offer, but if recovery of the acquisition premium is included in those potential earnings, what should be the true cap on bids is no longer relevant. In non-regulated mergers, the bidding would stop when the company expecting the next to highest synergies from the merger was no longer willing to bid. But when recovery of the acquisition premium is "guaranteed" as a regulatory policy, it is impossible to determine where the bidding will stop.

Q. Would higher acquisition prices result in mergers taking place that might not otherwise take place?

A Yes. It is very likely that a regulatory policy that allows recovery of the acquisition premium and fosters offering higher acquisition prices would result in more mergers being proposed. However, this is not a good thing. As a general economic principle, whether or not offers of merger should take place should be based on the potential economic gain in the market from the merger, and not on a regulatory policy of adding earning incentives to the market through allowing recovery of an acquisition premium. In effect, regulatory policy should be based on a parallel to what would happen in competitive markets, and as indicated above, mergers in non-regulated businesses offer no recovery of an acquisition premium.

Q. Would a policy of not allowing the recovery of an acquisition premium result in mergers not taking place that otherwise would have resulted in savings to ratepayers?

A. If there is regulatory denial of the acquisition premium, a merger may not be consummated where the offered acquisition premium is based on the assumption of recovery of a portion of the acquisition premium. However, such a situation is not relevant for Missouri because this Commission has not previously allowed recovery of an acquisition premium and therefore it would be presumptuous to make an offer based on the assumption of recovery.

**POLICY IMPLICATIONS FOR VARIOUS METHODS OF SHARING MERGER SAVINGS**

Q. Does exclusion of an acquisition premium as a merger cost imply that there should be a policy of not allowing utilities any retention of the synergies from the merger?

A. No, that is not my conclusion. The Commission may allow some sharing of the savings from the merger between shareholders and ratepayers. But any policy of sharing merger savings should not be based on the amount of the acquisition premium. There are other options available for sharing the savings. For example, regulatory lag allows the merged utility the opportunity to recover some of the merger savings. Likewise, a rate freeze (moratoriums in rate increase/earnings complaint cases) over a three year period after the merger is completed allows companies (in declining cost circumstances) the opportunity to pay off the merger costs and retain a portion of the immediate savings resulting from the merger. After the rate freeze period, the Staff would file a complaint case to lower rates to match the lower cost levels including capturing actual merger savings that are in place at that time. This rate freeze period also allows the merged entity the time needed to implement its merger plan and begin to accrue some of the merger savings.

Q. Is a three year rate freeze a possibility for this merger involving Missouri Public Service?

A. With the addition of significant levels of new purchased power and new leases on generation capacity that are replacing older, lower cost contracts, it appears that MPS is not in a declining cost situation, and MPS has subsequently filed for a rate increase in this instant case. However, the Staff has filed a complaint case requesting a significant rate decreases, and therefore, a rate moratorium over the next three years appears to be a viable alternative for MPS. In addition, it appears that SJLP is in a declining cost situation, so that a rate moratorium at SJLP is also a viable alternative for allowing the merged entity to retain and "share" a portion of the synergies from the merger. The key to such a rate moratorium for MPS and SJLP is to arrive at a reasonable level for rates that will be in place over the next three years. To determine a reasonable level for these rates, UCU should provide an estimate of the merger savings it expects to retain by having those rates in place for the next three years.

Q. What other alternative regulatory plans can be implemented for sharing merger savings between shareholders and ratepayers?

A. Sharing plans require a determination of three elements. The first element is whether or not the merger savings that are shared are based on estimates made prior to the merger (*ex ante*), or will depend on after-the-fact estimates (*ex post*) of merger savings. The second element is the percentage sharing between shareholders and ratepayers that will be applied. The third element is the length of time over which the sharing of the savings would apply.

Q. Can you illustrate how these various determinates would actually apply?

A. Yes. For the first illustration assume that it is determined that an *ex ante* estimate of merger savings will be used, that there will be a 50% sharing between shareholders and ratepayers and that this sharing will apply for a three-year period. After the merger is completed and before the three-year sharing period is up, in all MPS filings for rate increases, there would be added to normally included cost of service an amount equal to 50% of the estimated annualized merger savings. After the three-year sharing period, this adder would no longer be included in MPS's cost of service. Changing either the percentage or the period of time has an obvious impact. The higher the percentage going to shareholders and/or the longer the period of time, the greater will be the amount of overall merger savings going to shareholders and resulting in higher rates.

Q. If this ex ante procedure is followed, is there any guarantee of actual savings from the merger?

A. With the *ex ante* approach, there is no guarantee of actual savings from the merger. If actual costs go up from the merger and the benefits expected in terms of savings do not occur, then the utility's costs are higher than what was projected for the merger. To make matters worse, on top of these higher costs are added the 50% of so-called shareholder "savings." In essence, *ex ante* procedures put the ratepayer at risk by adding a *certain cost* that is to be offset by *uncertain savings* and providing no incentives for utilities to achieve those savings. I would characterize such a plan as being detrimental to ratepayers' interest.

Q. Is this *ex ante* method for sharing merger savings the approach being proposed by the Company in this case?

A. From the direct testimony of Mr. Clemens and Mr. Siemek, it appears that the Company will take this *ex ante* approach if the divisional allocation of UCU *corporate costs* includes SJLP. At pages 4 and 5 of his direct testimony, Mr. Clemens states: "If the Commission Staff would pursue the second option, then our position would be to include for rate recovery the merger transition and transactions costs and a portion of the merger premium as well." The "second option" is to include allocation of *corporate costs* to SJLP. In addition, at page 3 of his direct testimony, Mr. Siemek states: "These estimated projections, net of the related costs for incremental support costs and costs to achieve the synergies, may be used as a basis in this proceeding if the second option, discussed by Mr. Clemens, is imposed by the Commission." While neither Mr. Clemens nor Mr. Siemek make specific proposals, it appears that if allocations of *corporate costs* to SJLP are included, they will argue for the inclusion of estimate of merger savings to be added to the MPS cost of service. If this is the case, then their proposal would be for a sharing of merger savings based on an *ex ante* estimates, and the Staff would oppose such a sharing plan for the reasons previously stated, that such a sharing plan is detrimental to the ratepayers' interest by adding certain costs and uncertain benefits.

Q. How does the ex post procedure work?

A. For the second illustration, instead of using an *ex ante* estimate of annualized merger savings, the merger savings would be estimated *ex post* for the test year of the rate case. The word "estimated" *ex post* savings is used rather than "measured" *ex post* savings on purpose. Because merger savings are the difference between what would have happened without the merger and what actually happened, and since what would have happened without the merger is not measurable, it is impossible to measure merger savings on an *ex post* basis. Unless very explicit formulas for estimating merger savings *ex post* are set out ahead of time, any future rate case that includes merger savings will involve additional testimony regarding each party's estimate of the merger savings. Thus, one of the major drawbacks of the *ex post* approach is the difficulty for the regulatory process involved in the determination of merger savings.

To illustrate where *ex post* estimates of merger savings might be used, an example is in the energy cost savings that come from joint dispatch of generation. In this application, methods for estimating the energy costs savings from joint dispatch would be set out as part of the sharing plan. This would involve assumptions regarding the estimation of what energy costs would have been without the joint dispatch and comparing them to what these costs are with the joint dispatch. Estimating what energy costs would have been without the joint dispatch depends on applying certain assumptions about what the test year would have been absent the merger.

Q. In the Staff's calculation of energy costs, is there an estimate of what the energy costs would have been absent the merger?

A. For this instant case the Staff calculated both stand-alone and joint dispatch costs for the MPS and SJLP divisions. The difference between the sum of the stand-alone energy costs and the joint dispatch energy costs is an *ex post* estimate of merger savings. With revisions to the joint dispatch run, Mr. David Elliott of the Commission Staff estimates this overall savings to be $6.5 million. This savings is allocated between the MPS and SJLP divisions in proportion to their stand-alone costs, leaving the MPS division with a $5.1 million share of the savings, and Missouri retail customers would be allocated 95.67% or $4.9 million of these savings.

Q. Should *ex post* estimates be compared to expected merger savings?

A. Generally, it is a good idea to combine the *ex ante* and *ex post* estimation of merger savings. This approach is what could be termed *benchmarking*. Benchmarking simply means that *ex post* estimates of historical test year costs are compared to the *ex ante* estimate of what these costs were expected to be. In addition to an *ex ante* estimate of merger savings, benchmarking also requires an *ex ante* estimate of what the cost will be without the merger (forecasts of future budgets without a merger). The sum of these two *ex ante* estimates provides a benchmark against which actual test year costs are measured. For example, suppose overhead costs for two utilities are estimated to be $15 million prior to the merger and with the merger a claim is made for an expected $3 million in savings. Thus, the *ex ante* estimate of overhead costs is $12 million. After the merger is completed, MPS files a rate case and the overhead costs are $13 million rather than the estimated $12 million. Instead of sharing 50% of the $3 million in expected merger savings by adding $1.5 million to its test year cost of service, MPS is required to subtract 50% of the difference between estimated and actual test year overhead costs from what is added for purposes of merger savings sharing. Specifically, instead of adding $1.5 million to its test year costs, it can only add $1.5 million minus

50% of the difference between $13 million actual and $12 million estimated (0.5*(13-12) = $0.5 million). In this example, instead of adding $1.5 million to the $13 million in overhead expense ($1.5+$13.0 = $14.5), MPS can only add $1 million to the $13 million in overhead expense, putting $14 million into test year revenue requirements rather than $14.5 million. Notice that this is equivalent to measuring the savings as being the difference between projected costs of $15 million and test year costs of $13 million, and allowing 50-50 sharing on the difference of $2 million.

On the other side of benchmarking, if the utility does better than the benchmark, it is allowed to increase the adder by 50% of the difference. For example, if test year expenses are $11 million dollars, $1 million below the benchmark of $12 million, then MPS is allowed to add 50% of this $1 million to the $1.5 million of shareholders' share of expected savings. Thus, the test year revenue requirements for overhead expense would be the test year expense of $11 million plus the $1.5 million of shareholders' share of expected savings plus the $0.5 million for being below the benchmark. The total included in revenue requirements would be $13 million. Again, notice the same results are reached by measuring the savings as being the difference between projected costs of $15 million and test year costs of $11 million, and allowing 50-50 sharing on the difference of $4 million.

The policy concept behind benchmarking is that it gives the utility an additional incentive to maximize merger savings. This type of policy is most appropriate with respect to costs that can be fairly closely controlled by the utility, such as the number of employees working in the corporate functions.

Q. Is the benchmarking procedure preferable to either *ex ante* or *ex post* procedures?

A. In my opinion, as a method for sharing potential merger savings as a part of a merger application, benchmarking is preferable because it holds the utility to the estimates of savings used to justify the merger. The difficulty with benchmarking is in making a determination that the forecasted budget levels for costs absent the merger are reasonable.

Q. Are there other alternatives that avoid the problems of estimating savings from the merger?

A. Yes, there are. However, these approaches involve what are called either "*alternative regulation*" plans, "*incentive ratemaking*" plans or "*performance based ratemaking*" plans. An example of this approach is the settlement approved by the Commission for the Union Electric Company merger with Central Illinois Public Service Company to form Ameren. In this regulatory sharing plan, after a one-time $30 million rate decrease, electric rates were frozen and there was a grid by which profits above certain levels were shared between shareholders and ratepayers. The problems of inability to measure merger savings were circumvented by not attempting to measure such savings. Instead, the focus of this type of regulatory sharing plan is on measurement of overall earnings. In essence, an alternative form of regulation was used to allow Union Electric Company to recover some portion of the estimated savings from the merger. An initial three year sharing plan was in effect at the time of the merger, and this sharing plan was extended an additional three years after a rate decrease reflecting the average level of normalized earnings over the first three years.

The type of regulatory sharing plan implemented for Union Electric Company is not directly related to the merger or to merger savings. In essence, these types of sharing plans can just as easily be used for any utility as alternatives to traditional rate of return regulation. The advantage of alternative regulation plans is that they do not isolate and attempt to track specific elements of cost.

Q. Are you recommending that the Commission adopt some form of regulatory sharing plan for the purpose of the UCU/SJLP merger?

A. No. My rebuttal testimony is meant to provide the Commission with attributes that will allow it to evaluate any specific proposal for sharing that UCU may propose in response to the Staff's filing in this case. Specifically, from the direct testimony of Mr. Clemens and Mr. Siemek it appears that UCU will propose an *ex ante* form of a sharing plan, and the Staff opposes this approach.

Q. Does this complete your rebuttal testimony?

A. Yes, it does.

**BEFORE THE PUBLIC SERVICE COMMISSION**

**OF THE STATE OF MISSOURI**

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| In The Matter Of The Tariff Filing Of Missouri Public Service (MPS) A Division Of UtiliCorp United Inc., To Implement A General Rate Increase For Reatil Electric Service Provided To Customers In The Missouri Service Area Of MPS | ) ) ) ) ) ) | Case No. ER-2001-672 |

**AFFIDAVIT OF MICHAEL S. PROCTOR**

**STATE OF MISSOURI** )
) **ss**
**COUNTY OF COLE** )

Michael S. Proctor, 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 19 pages of Rebuttal testimony 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 to the best of his knowledge and belief.

Michael S Proctor
Michael S. Proctor

Subscribed and sworn to before me this 7th day of January, 2002.

Dawn L. Hake
Notary Public

DAWN L. HAKE
Notary Public – State of Missouri
County of Cole
My Commission Expires Jan 9, 2005

My commission expires