

Exhibit No.:

Issues: SJLP Merger Costs  
to Achieve

Witness: Vern J. Siemek

Sponsoring Party: Missouri Public  
Service

Case No.: ER-2001-672

Before the Public Service Commission  
of the State of Missouri

Rebuttal Testimony

of

Vern J. Siemek

**FILED<sup>3</sup>**  
JAN 08 2002  
Missouri Public  
Service Commission

## **TABLE OF CONTENTS**

<b>STATUS OF INTEGRATION OF SJLP.....</b>	<b>2</b>
<b>MERGER-RELATED SYNERGIES AT MPS.....</b>	<b>9</b>
<b>MERGER-RELATED COSTS AT MPS.....</b>	<b>18</b>

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
REBUTTAL TESTIMONY OF VERN J. SIEMEK  
ON BEHALF OF MISSOURI PUBLIC SERVICE,  
A DIVISION OF UTILICORP UNITED INC.  
CASE NO. ER-2001-672**

1 Q. Please state your name and business address.

2 A. My name is Vern J. Siemek. My business address is UtiliCorp United, 20 West Ninth  
3 Street, Kansas City, Missouri 64199-3287.

4 Q. Are you the same Vern J. Siemek who sponsored direct testimony in this proceeding before  
5 the Missouri Public Service Commission ("Commission")?

6 A. Yes.

7 Q. What is the purpose of your rebuttal testimony in this case involving UtiliCorp's request to  
8 increase the electric rates for its Missouri Public Service ("MPS") operating division?

9 A. My testimony will:

10 1. Respond to the direct testimony of Office of the Public Counsel ("OPC") witness  
11 Russell W. Trippensee and his statements regarding integration of the MPS and  
12 recently merged St. Joseph Light & Power ("SJLP") systems.

13 2. Address the current status of the integration of MPS with SJLP.

14 3. Respond to various Commission Staff ("Staff") witnesses, including Mark  
15 Oligschlaeger, Steve Traxler, Charles Hyneman, Graham Vesely and Michael  
16 Proctor and to OPC witness Ted Robertson who support adjustments to reduce the  
17 revenue requirement of MPS for the estimated merger-related synergy impacts.

1           4. Correct those Staff and OPC adjustments to reflect the costs incurred to achieve  
2           those merger-related synergies, should the Commission adopt Staff's and OPC's  
3           position to reflect those merger-related synergies in this case.

4           **Status of Integration of SJLP**

5   Q.   Are the MPS and SJLP operating divisions "fully integrated" at this time?

6   A.   No. By "fully integrated", I mean that the two formerly independent operating systems are  
7       seamlessly joined and operated as a single system in all respects and with all support  
8       applications. Separate facilities and labor forces can also effect "full integration". As will  
9       be explained, there are numerous remaining requirements before the MPS and SJLP  
10      operating systems can be considered "fully integrated".

11 Q.   Why is this testimony being offered at this time?

12 A.   In its Order Regarding Motion to Reject Tariff and Motion to Dismiss dated October 2,  
13      2001, the Commission said that UtiliCorp had the burden of proof to provide sufficient  
14      competent and substantial evidence as to whether the degree of integration of MPS and  
15      SJLP is such that the Commission may treat the formerly independent service areas  
16      separately for ratemaking purposes. The Commission's order was in response to an issue  
17      raised by the Office of the Public Counsel subsequent to and unanticipated at the time of  
18      the filing of MPS's direct testimony in this proceeding on June 8, 2001.

19 Q.   Please explain why the MPS and SJLP operations are not "fully integrated".

20 A.   It has not been very long since the UtiliCorp/SJLP merger was closed. The closing took  
21      place December 31, 2000, and literally hundreds of activities are needed to fully integrate

1 the MPS and SJLP systems. In some cases, complete integration activities (like staffing in  
2 Distribution Operations) were not scheduled to be completed until 2003.

3 Q. Why will complete integration of staffing not be completed until 2003?

4 A. Ensuring that the right positions are reduced is one reason. The second reason is that union  
5 'bumping' rules can mean that position reductions may take up to a year to be reflected in  
6 an organization as senior union members 'bump' members with lower seniority in order to  
7 retain a position with the company. "Bumping" can occur several times before any one  
8 position's impact can be realized in the reorganization. The time available to 'bump', as  
9 well as the time needed to retrain the new employee, contributes to the time needed to  
10 completely accomplish the integration process.

11 Q. What are some of the other areas of operations of the MPS and SJLP divisions that are not  
12 yet fully integrated?

13 A. One major area where the two operations are not fully integrated is addressed by the  
14 testimony of MPS witness Carl A. Huslig and concerns the lack of any fully functional and  
15 permanent transmission interconnection between the two systems. A second similar area is  
16 the distribution operational dispatching, which is also addressed by Mr. Huslig.

17 Q. Are there other factors which could delay full integration of the two operations?

18 A. Yes, there are several. Clearly, maintaining current customer services at consistently high  
19 levels is a higher priority than being able to achieve full integration of the operations.

20 Second, supporting computer applications may need to be revised or data converted that is  
21 not in a usable or friendly format. The effort needed to accomplish the revisions in  
22 comparison to the immediately realizable benefits may cause delays as higher priority

1 activities are maintained. Third, practices and procedures may require additional training  
2 as well as significant and continuing contact with local officials before they can be  
3 considered fully integrated. Fourth, some integration activities require special regulatory  
4 filings to secure approval. Part of the evolving situation with the transmission  
5 interconnection discussed by Mr. Huslig involves the complete assessment by multiple  
6 regulatory bodies of the various alternatives and organizational structures that may be  
7 available to determine an optimum solution. Lastly, the emphasis on current and  
8 continuing operations, together with the significant change in personnel and document  
9 location, has resulted in more difficulty in researching historical information. This lack of  
10 seamless transition from historical records to current records can hamper resolving  
11 questions and fulfilling data requests.

12 Q. Can you provide some examples of computer applications not yet fully integrated?

13 A. Yes. Automated mapping is not yet completely available in the SJLP service area. The  
14 application used by SJLP links customers in the Customer Information System to the SJLP  
15 mapping program based on customer meter numbers. The application used by MPS links  
16 customers to individual transformer numbers. The MPS system cannot use meter numbers,  
17 so all SJLP transformers need to be assigned a unique identifier before the system for  
18 automated mapping can be implemented. Staff turnover at SJLP has also resulted in some  
19 delays in inputting the information on new facilities. Current projections are that the  
20 backlog will be completed, the transformer identifiers completed and input and the  
21 necessary review and corrections of the data will be completed in May 2002.

1 Another example of an application not yet fully integrated is the SJLP Lake Road industrial  
2 steam system (ENPRO). ENPRO has not yet been integrated into MPS's production cost  
3 model (RealTime). The system, when integrated in mid-2002, will allow joint dispatching  
4 of the electric and industrial steam requirements for the SJLP Lake Road 900 pound  
5 system. Other examples of applications not yet fully integrated are the various energy and  
6 demand forecasting models, resource plans, and load resource design systems. These  
7 systems are based on the UtiliCorp Customer Information System. SJLP was converted to  
8 the UtiliCorp Customer Information System in late summer of 2001. Numerous detailed  
9 modifications to the models are necessary to accommodate the SJLP tariffs and system  
10 characteristics.

11 Q. Can you provide some examples of delays involving local officials?

12 A. Yes. Economic Development activity is a good example. Staffing changes required  
13 additional internal training that was not completed until July. Replacing SJLP practices  
14 with the new UtiliCorp practices and procedures requires multiple meetings and  
15 interactions with community leaders and staff in the 89 communities in the SJLP service  
16 territory. In those meetings, we review the new scope and offerings available for Economic  
17 Development support in the SJLP service territory and solicit community input for  
18 applications like the Location One Information System that gives prospecting companies  
19 key information about available facilities and local contacts.

20 Q. Can you provide some examples of regulatory interactions needed for full integration?

21 A. Yes. Facilities Extension Agreements are one example. These are contracts that MPS uses  
22 to formalize the contributions, deposits, and credits for heat pumps, electric water heaters

1 and electric features with builders. The SJLP procedures do not require a contract and  
2 simply waives service line costs if the builder uses electric heat. SJLP tariffs do not  
3 provide for formal agreements or set terms and cannot be changed without a regulatory  
4 proceeding involving the SJLP division. Real-Time Pricing is another example. Real  
5 Time Pricing customers with telemetering can buy power at market-based rates priced on a  
6 day-ahead base. The customer can then flex their load to use more electricity during low  
7 price hours and avoid the higher priced peak usage. SJLP customers currently have no  
8 authority to participate in such a program. A third example is the MPS Voluntary Load  
9 Reduction program. When purchased power costs are forecast at high levels, customers in  
10 the program are contacted with the offer of market-based rates for reductions of usage  
11 during peak periods. SJLP operations currently have no authority allowing participation in  
12 such a program.

13 Q. Will all areas of operations of the newly-merged companies be "fully integrated" at some  
14 point in the near future?

15 A. No. Many areas of the two companies, now operating divisions, will remain separate  
16 indefinitely.

17 Q. What are some of the areas that will remain separate?

18 A. In the merger filing, UtiliCorp committed that the two operations would remain separate  
19 and distinct with some common support functions where efficiencies could be gained. The  
20 service territories of the two operating divisions, MPS and SJLP, are separate and distinct  
21 contiguous electric service areas, as evidenced by **Schedule VJS-2**.

22 Q. Please explain the nature of the transmission facilities of the two operating divisions.



1 A. The transmission facilities of the two operating divisions are separate and distinct, as  
2 clearly shown on the map of the respective transmission systems at Schedule CAH-1 of the  
3 testimony of MPS witness Carl A. Huslig. Currently, the systems are not physically  
4 connected to each other, although a short-term contract with a third party does provide  
5 some ability to interconnect the systems contractually. MPS witness Carl A. Huslig will  
6 also address other interconnection options that are being considered, as well as the  
7 projection for their completion.

8 Q. Please describe the organization of the direct operating personnel of the two operating  
9 divisions.

10 A. There are separate and distinct work forces for the direct network operations. The SJLP  
11 personnel are represented by a separate union local and have their own union labor  
12 agreement distinctly separate from the MPS union labor agreement. The work force of  
13 SJLP was originally sized to meet the needs of serving SJLP customers only, just as the  
14 MPS work force was sized to meet the needs of serving MPS customers only. UtiliCorp  
15 has retained the separate work forces for meter reading, servicemen, and line crews through  
16 the use of SJLP-only operating departments. See my attached **Schedule VJS-3**, which lists  
17 the current SJLP and MPS operating departments.

18 Q. Do the generating plants of the two divisions continue to be separate and distinct?

19 A. Yes. The SJLP and MPS generating facilities are listed on **Schedule VJS-4**. The  
20 generating plants continue to be operated separately by their own crews. That is also  
21 demonstrated by the listing of the current SJLP and MPS operating departments attached as  
22 **Schedule VJS-5**.

1 Q. Are the generating assets of the two operations being jointly dispatched on a fully  
2 integrated basis?

3 A. No. The current operating arrangements impose some constraints on full integration.  
4 Federal Energy Regulatory Commission approval to jointly dispatch the generating plants  
5 was only received on May 31, 2001 and the lack of a long-term physical interconnection  
6 has imposed some constraints that are addressed by Hr. Huslig. Even so, substantial  
7 benefits from joint dispatching were expected in the merger filing and those benefits have  
8 been substantiated in the testimony of Staff witness Michael Proctor.

9 Q. Is there a joint dispatch agreement in place at this time?

10 A. No. Both UtiliCorp and Staff submitted drafts of a joint dispatch agreement in the merger  
11 case, but the order in that case did not address the agreement. UtiliCorp had proposed to  
12 retain most joint dispatching synergies at SJLP to match the proposed location of the  
13 merger-related costs.

14 Q. Will the books and records of the two operating divisions be kept separate?

15 A. Yes. The UtiliCorp accounting system was designed to keep revenues and direct costs  
16 separately by entity to allow the system to properly keep the records for the multiple  
17 jurisdictions that UtiliCorp serves. As a result, that ability is being utilized to separate the  
18 revenues and collections of SJLP and MPS. Direct costs are also accounted for separately,  
19 primarily by operating department, but with the ability to assign additional costs into a  
20 specific area where appropriate.

21 Q. Are any costs incurred centrally that are not directly charged?

1 A. Yes. Support costs for functions such as Treasury, Shareholder Relations, and Customer  
2 Service Centers are incurred centrally and are allocated to operational units or divisions  
3 based on applicable allocation drivers such as number of customers served, or plant  
4 balances. As a result, UtiliCorp is able to provide complete income statements and costs  
5 for individual operating units such as MPS or SJLP.

6 Q. What is your conclusion as to the status of the integration of the two operating divisions?

7 A. My conclusion is that the two systems are not yet fully integrated for the reasons stated  
8 above.

9 **Merger-related Synergies at MPS:**

10 Q. Why are the merger-related synergies an issue in this case?

11 A. The Staff has reflected synergies created by the SJLP merger in its proposed adjustments in  
12 this case.

13 Q. What is UtiliCorp's position on merger-related synergies?

14 A. No merger-related synergies should be assigned or allocated to MPS at this time in this  
15 case. If any merger-related synergies are assigned or allocated to MPS, then those merger-  
16 related synergies should first be reduced by the merger-related costs.

17 Q. What is the basis for this position?

18 A. Equity and fairness. We were encouraged by the Commission's order in the  
19 UtiliCorp/SJLP merger case that acknowledged that merger-related synergies will result  
20 from the merger, and by Staff's testimony in the merger case that it was good policy to  
21 allow shareholders some opportunity to retain benefits from mergers and acquisitions. We  
22 were also encouraged by Staff's endorsement of regulatory lag as a generally approved

1 method of accomplishing that retention of synergies and based our filing in this case on  
2 utilizing the regulatory lag concept to retain merger-related synergies.

3 Q. You testified earlier that Staff has reflected synergies created by the SJLP merger in its  
4 proposed adjustments in this case, correct?

5 A. Yes. Staff has proposed three major merger-related synergy adjustments to benefit MPS  
6 customers.

7 Q. What are the three merger-related synergies claimed by Staff?

8 A. The first synergy adjustment totals \$2.8 million and is the estimated synergy created from  
9 the merger by allocating support function costs (including payroll-related adjustments from  
10 Staff witness Vesely and nonpayroll O&M from Staff witness Hyneman) over the number  
11 of UtiliCorp customers and operating divisions. The second Staff synergy adjustment  
12 (\$2,407,542) reflects the reduction of the amount of common plant assigned or allocated to  
13 MPS as a result of including SJLP allocation drivers in the allocation of common plant.  
14 The third Staff synergy adjustment (\$5,641,670) is the synergy directly created by the  
15 merger from joint dispatching.

16 Q. Is there any question that these synergies are merger-related?

17 A. No. The first two synergy adjustments result from including the SJLP allocation drivers in  
18 the allocation process and thus clearly result from owning and supporting SJLP as a result  
19 of the merger. The joint dispatching adjustment is clearly identified as the allocated  
20 synergies as a result of jointly dispatching MPS and SJLP, which is made possible by the  
21 merger. Clearly there is no disagreement that these categories of savings, by definition, are  
22 a direct result of the merger.

1 Q. Should those merger-related synergies be reflected in this rate case?

2 A. No.

3 Q. Why not?

4 A. Staff's adjustments which reflect those merger-related synergies to MPS in this case  
5 effectively deny UtiliCorp any material chance of offsetting the merger-related costs that  
6 were needed to create those synergies. Only in the later part of 2001 were the merger-  
7 related synergies able to be achieved, so the effective realization of most of the synergies  
8 by UtiliCorp is for a period of less than a year.

9 Q. When should the SJLP merger-related synergies be addressed?

10 A. Issues of cost recovery and sharing should be addressed after all the merger-related costs  
11 and synergies can be reviewed comprehensively or after a reasonable period of regulatory  
12 lag. Such a comprehensive view needs a good baseline for both SJLP and MPS costs prior  
13 to the merger. Reflecting merger-related synergies now in this case compromises that  
14 baseline for MPS.

15 Q. Has Staff provided any past guidance on the issue of recovery of merger-related costs  
16 against merger-related synergies?

17 A. Yes. Staff apparently agrees conceptually that some merger-related costs should be  
18 recoverable from synergies. Staff witness Mark Oligschlaeger testified in the  
19 UtiliCorp/SJLP merger case, Case No. EM-2000-292, that it is "... good policy to allow  
20 shareholders some opportunity to retain benefits from mergers and acquisitions... through  
21 traditional regulation as well as with alternative regulation structures." (See Oligschlaeger  
22 rebuttal testimony Case No. EM 2000-292, p. 46).

1 Q. Has Staff in this rate case offset any of the merger-related costs against the synergies  
2 claimed for MPS?

3 A. No.

4 Q. Staff has suggested, at page 29 of Mr. Oligschlaeger's testimony, that regulatory lag  
5 provides an appropriate method for sharing the synergies to allow some cost recovery. Did  
6 Staff cite any instances in which "regulatory lag" may not provide for a fair sharing of  
7 merger savings to a utility?

8 A. Yes. At page 48 of his rebuttal testimony in EM-2000-292, Mr. Oligschlaeger  
9 acknowledged that certain circumstances (like increasing revenue requirements) could  
10 result in passing on "...achieved merger savings to customers without a chance for the  
11 utilities to retain a share of merger savings for a reasonable period (emphasis added). In  
12 these circumstances, the Staff would not be opposed in concept to proposals by utilities to  
13 'share' merger savings in the context of a rate proceeding."

14 Q. What considerations did Staff indicate should be considered in allowing the retention of  
15 benefits?

16 A. In the merger case, Staff witness Oligschlaeger testified, "The Staff's position on such  
17 proposal would depend upon the specific facts and circumstances surrounding the request  
18 at that time. Any future Staff consideration of merger savings sharing proposals would be  
19 tied to production of evidence demonstrating incremental net customer benefits that can  
20 clearly be tied to the SJLP merger, and that would not have been possible without merger  
21 occurring. The amount of any savings retained by the utility should not be tied to the  
22 amount of the consideration paid by UCU for the SJLP properties (i.e. acquisition

1 adjustment). Finally, the Staff would evaluate the past ability of UCU to retain merger  
2 savings through means of regulatory lag before considering any proposals to share merger  
3 savings in rate cases.”

4 Q. Did Staff in the merger case propose any other method to ‘share’ merger savings to  
5 compensate for the merger costs to achieve?

6 A. No.

7 Q. Does MPS’s proposed treatment of the merger-related synergies in this rate case meet these  
8 criteria?

9 A. Yes.

10 Q. Has MPS used a regulatory lag approach in its filing in this proceeding?

11 A. Yes. MPS’s Option 1 approach to this filing is a regulatory lag approach. Option 1 does  
12 not reflect any merger-related synergies in MPS costs in part because there has not yet been  
13 a reasonable period to offset merger-related costs from those merger synergies.

14 Q. You say MPS’s Option 1 reflects MPS costs excluding SJLP impacts on allocation factors  
15 and on power costs. How does that enable UtiliCorp to realize any synergies from the  
16 merger?

17 A. In effect, MPS’s Option 1 uses Staff’s regulatory lag approach by setting MPS costs at the  
18 pre-merger levels. The merger-related synergies just recently developed will be realized (in  
19 accordance with the regulatory lag method) by UtiliCorp until the next MPS rate case to the  
20 extent that they are not further eroded by increasing costs. This is consistent with the  
21 Staff’s regulatory lag approach and would allow UtiliCorp to retain merger savings to  
22 offset merger-related costs.

1 Q. Is there a reasonable period of retaining the savings after reflecting Staff's adjustments?

2 A. No.

3 Q. Do the adjustments proposed by Staff reflect regulatory lag as a solution for retaining  
4 synergies?

5 A. No. Staff's adjustments effectively eviscerate regulatory lag as a solution, since the Staff's  
6 adjustments flow through the bulk of the synergies now in the first year of the merger.  
7 There is virtually no chance for UtiliCorp to recover merger-related costs or share in the  
8 synergies when the significant synergies are reclaimed so quickly.

9 Q. Are you proposing any alternative regulatory plan for UtiliCorp to retain merger synergies  
10 at this time?

11 A. No. Despite the shortfalls and deficiencies in regulatory lag as a means to match merger-  
12 related synergies with merger-related costs, its proper application in this proceeding as  
13 MPS Option 1 will provide a reasonable result.

14 Q. Why couldn't UtiliCorp wait several years to file an MPS case, as Staff suggests, so that  
15 the synergies at issue here could be retained through regulatory lag?

16 A. The projected increases in costs of the MPS division that drove the filing of this rate case  
17 were too great to allow that approach. Staff's testimony cited above recognized that cost  
18 increases could occur that would prevent normal regulatory lag from working effectively.  
19 Staff's anticipation of that situation proved prescient since the MPS situation of  
20 significantly increased purchase power contracts and significant cost increases and  
21 volatility in natural gas costs effectively thwarted any material chance for UtiliCorp to  
22 share in the merger-related synergies.



1 Q. Was Staff aware that MPS had an increasing revenue requirement when this Commission  
2 was hearing the UtiliCorp/SJLP merger case?

3 A. Yes. Staff was aware at that time that MPS needed new generation capacity since the filing  
4 for the affiliate transaction discussed by MPS witness Jon Empson had already been filed.  
5 The Staff was also aware that MPS would be filing this rate case to recover the higher  
6 capacity costs soon after the merger was completed.

7 Q. Staff witness Oligschlaeger, at pages 29-30 of his direct testimony, contends that merger  
8 synergies are too difficult to calculate and thus cannot be accurately identified to be netted  
9 against costs. Do you agree?

10 A. No. In this proceeding, Staff readily calculated the merger-related synergy impacts from  
11 allocations (\$2.8 million), from reallocations of common plant (\$2,407,542), and from joint  
12 dispatching (\$5,641,670).

13 Q. Staff witness Traxler, at pages 6-7 of his direct testimony, contends that new acquisitions  
14 like SJLP should always result in reductions in the regulated costs to existing divisions like  
15 MPS under the UtiliCorp allocation process because the accounting records for those costs  
16 reflect lower allocated costs. Do you agree?

17 A. No.

18 Q. Why not?

19 A. The accounting records frequently are not the final determinant of the costs that should be  
20 included for setting rates. This proceeding (and most rate-setting proceedings) have a  
21 multitude of adjustments imposed on top of the accounting records to achieve the correct  
22 regulatory costs for customers. Weather normalization, disallowed costs, five-year

1 averages, and payroll annualizations are a few of the many examples where adjustments are  
2 made to the underlying accounting records. The underlying accounting is viewed as the  
3 starting point for rate-setting, not the final determinant that Mr. Traxler would have the  
4 Commission accept without question.

5 Q. Witness Traxler, on page 6 of his direct testimony, also mentions the sale of UtiliCorp's  
6 West Virginia properties as one automatic adjustment to the allocations that is expected and  
7 accepted and contends that SJLP should be similarly reflected automatically. Are there key  
8 differences between the SJLP merger and the West Virginia situation?

9 A. Yes. The West Virginia properties consisted of a small electric and gas distribution  
10 operation acquired with little or no premium or acquisition adjustment. It was operated as  
11 an autonomous division with minimal central support (or cost allocation) for many years.  
12 It was only after most support functions were centralized in 1994 that the allocation  
13 synergies to MPS from West Virginia grew. At that point, the remaining unamortized  
14 acquisition costs were so small (especially since there was little premium remaining) that  
15 the synergies being allocated to MPS were not raised as an issue. The acknowledged  
16 synergies from West Virginia were passed on to MPS while UtiliCorp owned West  
17 Virginia. Now that West Virginia is sold, those synergies no longer exist and should no  
18 longer be passed on to MPS. SJLP, on the other hand, is a much larger current acquisition  
19 that will eventually be integrated into a centralized UtiliCorp operation and that required  
20 significant merger-related costs to achieve. The proper treatment of those SJLP synergies  
21 and costs is the issue here. To reject MPS's treatment of SJLP in this case on the basis of a

1 non-comparable historical situation is inappropriate given the easily distinguishable  
2 characteristics of the two situations.

3 Q. Witness Oligschlaeger, on pages 27-29 of his direct testimony, indicates that the projected  
4 ten-year synergies from the SJLP acquisition are \$184 million and that many of those  
5 synergies pertain to the SJLP division. He also indicates on page 30 of his direct testimony  
6 that the merger savings to MPS to date will not exhaust all the merger synergies. He  
7 further indicates on page 31 of his direct testimony that most of the regulatory benefits can  
8 still be gained by UtiliCorp regardless of merger synergies assigned to MPS in this rate  
9 proceeding. The impression left is that the \$184 million will provide ample future  
10 opportunities despite the minor annual synergies claimed for MPS. Do you agree?

11 A. No. The "minor" annual synergies claimed by Staff for MPS total \$90 million over ten  
12 years, without "claiming" any of the costs needed to produce those synergies. The "minor"  
13 \$90 million of synergies claimed for MPS is comprised of the joint dispatching synergies  
14 of \$56 million and the merger-related allocation synergies from support costs and common  
15 plant. Those joint dispatching synergies were originally assigned 100% to SJLP and are  
16 part of the \$184 million of gross synergies. That "minor" \$90 million of synergies far  
17 exceeds the \$28 million of synergies remaining to SJLP (the \$184 of gross synergies less  
18 the joint dispatching synergy to MPS and normal support allocations.) I have summarized  
19 the Synergies Before Costs to Achieve between the two divisions on line 3 of my **Schedule**  
20 **VJS-6**, which illustrates the relative size of the synergies between the two operating  
21 divisions after reflecting Staff's merger-related synergy adjustments.

1       **Merger-related costs at MPS**

2   Q.   If the Commission agrees to reflect the Staff adjustments which pass merger-related  
3       synergies to MPS customers, are additional adjustments necessary?

4   A.   Yes. Staff's adjustments need to be reduced to allow the offset of merger-related costs. I  
5       have summarized the corrections to the Staff's adjustments on line 7 of my **Schedule VJS-**  
6       **6.**

7   Q.   What are those merger-related costs?

8   A.   One element of the Costs to Achieve is the cost to be able to provide for joint transmission  
9       dispatching for the physical interconnection and the Supervisory Control and Data  
10      Acquisition software and hardware platform ("SCADA"). The cost (line 4 of Schedule  
11      VJS-6) was estimated at approximately \$10 million over ten years for depreciation and  
12      return on the investment. Staff did not reflect any of those estimated costs needed to realize  
13      joint dispatching synergies. Allocating those costs on the basis of the Synergies Before  
14      Costs to Achieve assigns \$8 million over the ten years to MPS (or \$800,000 annually).

15  Q.   Did Staff reflect any updated estimate of those costs?

16  A.   No. The test period used by Staff included only one month of the current contract cost of  
17      providing transmission interconnection, which is \$1,980,000 annually. Correcting the test  
18      period using Staff's allocation factor between MPS and SJLP would reduce Staff's joint  
19      dispatching synergy adjustment of \$5.6 million on MPS by approximately \$1.4 million per  
20      year.

21  Q.   What other merger-related costs need to be reflected in Staff's adjustments?

1 A. The estimates of the Costs to Achieve for transition and transaction costs are included in  
2 my direct testimony on Schedule VJS-1 and have been updated in our response to Staff  
3 Data Request 130A as approximately \$18,083,973. Those costs include integration and  
4 merger-related costs, severances and transition/curtailment costs for benefit plans converted  
5 to UtiliCorp plans.

6 Q. How should those merger-related costs be reflected in the Staff's adjustments?

7 A. Those non-premium costs should be amortized over ten years and the appropriate share of  
8 that amortization netted against Staff's calculation. On the basis of the Synergies Before  
9 Costs to Achieve, approximately \$14 million of those costs should reduce Staff's  
10 adjustments over ten years. That is an annual reduction of \$1,400,000 to Staff's adjustment  
11 for merger-related synergies.

12 Q. Has Staff accepted any element of these costs?

13 A. Yes. The severance costs and computer conversion costs are generally accepted.

14 Q. Has Staff disagreed with any element of those costs?

15 A. Staff has not yet accepted what it classifies as "transaction costs".

16 Q. Should transaction costs be included as merger-related costs?

17 A. Yes. Mergers don't happen unless a transaction occurs. Excluding the costs to accomplish  
18 that merger is inconsistent and inequitable when the merger-related synergies are flowed  
19 through to revenue requirements.

20 Q. Are there other merger-related costs needed to achieve the merger-related synergies?

21 A. Yes. The significant carrying cost and amortization of the premium incurred to effect the  
22 merger and obtain the synergies also needs to be considered. Clearly the merger and its

1 synergies could not have occurred without incurring a merger premium. MPS witness Jon  
2 Empson addresses more fully the basis for offsetting the merger-related synergies with the  
3 merger-related premium costs. The average annual cost of that premium for the initial five  
4 years is \$13,516,000 as reflected in Schedule VJS-1 in my direct testimony in this case.

5 Q. How much of the premium-related cost should be applied against merger-related synergies  
6 in this case?

7 A. Allocating the original premium costs over the Synergies Before Costs to Achieve would  
8 reduce the Staff adjustments for merger-related synergies in this case by \$9.8 million  
9 annually.

10 Q. Please explain the net result of the your proposed reductions to the Staff adjustments for  
11 merger-related synergies.

12 A. The total of the merger-related synergies claimed by Staff for MPS in this case approximate  
13 \$9.0 million per year. The allocated costs to achieve those merger-related synergies for  
14 MPS are \$12.0 million per year (without reflecting the updated transmission contract costs  
15 of approximately \$1,980,000 per year). Since the costs at this point exceed the synergies,  
16 no net synergies exist to adjust the MPS revenue requirement in this case. The Staff  
17 adjustments to reflect those synergies should be eliminated. I have summarized the  
18 merger-related synergies and costs on my **Schedule VJS-6**.

19 Q. How does OPC witness Robertson's merger-related synergies adjustment compare to the  
20 projected merger-related costs?

21 A. OPC witness Robertson's adjustment for merger-related synergies to MPS was \$3,383,914,  
22 which is smaller than the \$12.0 million of merger-related costs allocable to MPS.

1 Q. Should OPC's adjustment for merger-related synergies to MPS revenue requirements be  
2 made?

3 A. No. Since merger-related costs still exceed merger-related benefits at this time, no merger-  
4 related synergy adjustment is appropriate.

5 Q. Staff witness Oligschlaeger, on page 33 of his direct testimony, claims that a significant  
6 portion of the premium should be non-regulated. Do you agree?

7 A. No. Nonregulated investments of SJLP were minor. The nonregulated view of the  
8 generation plant was specifically rejected in reviewing the SJLP economic projections.  
9 Values from the generating plants were incorporated specifically into the projected  
10 synergies in the merger filing. No more than a token amount of the premium could be  
11 considered nonregulated and that small amount is already reflected since the entire  
12 premium costs would not be offset against the merger-related synergies.

13 Q. Staff witness Oligschlaeger, on page 32 of his direct testimony, claims that the merger  
14 transaction could have been accounted for as a pooling of interest, which would have  
15 resulted in no premium. Is that true?

16 A. No. In the merger case, UtiliCorp's expert witness Robert C. Kehm of Arthur Andersen  
17 LLP filed comprehensive surrebuttal testimony, attached as my **Schedule VJS-1**, that  
18 discusses this allegation.

19 Q. Please summarize your testimony.

20 A. 1) SJLP and MPS cannot be considered fully integrated because of the considerable  
21 number of areas where the operations of the two divisions are not yet fully  
22 integrated and are treated separately. The projected impact of the merger synergies

1 on MPS should not be reflected in MPS rates at this time since SJLP is not fully  
2 integrated.

3 2) Merger-related synergies should also be retained for a reasonable period to offset  
4 the significant costs incurred by UtiliCorp to achieve that merger and those  
5 synergies.

6 3) If the Commission does choose to reflect those merger-related synergies in MPS  
7 rates in this case, then the appropriate costs incurred to achieve those synergies  
8 should first be netted against those synergies.

9 Q. Does this conclude your rebuttal testimony?

10 A. Yes.



Exhibit No.:

Issue: Purchase Accounting &  
Deferred Taxes

Witness: Robert C. Kehm

Sponsoring Party: UtiliCorp United Inc.

Case No.: EM-2000-292

Date Prepared: June 26, 2000

MISSOURI PUBLIC SERVICE COMMISSION  
Case No. EM-2000-292

Surrebuttal Testimony

of

Robert C. Kehm

Jefferson City, Missouri

**SURREBUTTAL TESTIMONY  
ROBERT C. KEHM**

**UTILICORP UNITED INC.  
CASE NO. EM-2000-292**

**TABLE OF CONTENTS**

	PAGE
I. ECONOMICS OF BUSINESS COMBINATION ACCOUNTING.....	2
II. COULD UTILICORP HAVE USED POOLING?.....	6
III. INCOME TAXES.....	15

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI  
SURREBUTTAL TESTIMONY OF ROBERT C. KEHM  
ON BEHALF OF UTILICORP UNITED INC.  
CASE NO. EM-2000-292**

1 Q. What is your name?

2 A. Robert C. Kehm

3 Q. What is your business address?

4 A. My business address is 2301 McGee Street, Suite 400 Kansas City, Missouri 64108.

5 Q. What is your present occupation and work experience?

6 A. I am a Certified Public Accountant and a partner with Arthur Andersen LLP ("Arthur  
7 Andersen"). I joined Arthur Andersen in December 1972. I became a partner in 1984. I  
8 have served a number of investor-owned utilities, including UtiliCorp United Inc.  
9 ("UtiliCorp") and St. Joseph Light & Power Company ("SJLP"). I am a member of the  
10 American Institute of Certified Public Accountants and the state CPA societies of  
11 Missouri, Kansas, and Nebraska. I am licensed to practice in the states of Missouri,  
12 Kansas, Nebraska, Minnesota, and North Dakota.

13 Q. What is your educational background?

14 A. I graduated from the University of Nebraska – Lincoln with an undergraduate degree in  
15 business and a Masters degree in accounting.

16 Q. Do you have experience with mergers and acquisitions?

17 A. Yes, I have worked on numerous mergers and acquisitions, including several for  
18 UtiliCorp. This work has included, among other matters, due diligence assignments,

1 transaction structuring and determination of the appropriate accounting treatment for  
2 business combinations.

3 Q. Are you familiar with the proposed UtiliCorp acquisition of SJLP?

4 A. Yes, I am familiar with the transaction. I previously served as the audit engagement  
5 partner for UtiliCorp and SJLP when the acquisition was announced. Currently I serve as  
6 the audit engagement partner for SJLP.

7 Q. What is the purpose of your surrebuttal testimony?

8 A. The purpose of my testimony is to address certain accounting matters raised by Mr.  
9 Charles R. Hyneman for the Missouri Public Service Commission Staff ("Staff") in his  
10 rebuttal testimony, with a specific focus on the question of "pooling" versus "purchase"  
11 as it relates to the acquisition adjustment issue.

12 ECONOMICS OF BUSINESS COMBINATION ACCOUNTING

13 Q. What methods can be used by a company to account for a business combination?

14 A. Accounting Principles Board Opinion No. 16 (APB 16), entitled *Business Combinations*  
15 provides two methods to account for a business combination. These are the purchase  
16 method and the pooling-of-interests ("pooling") method.

17 Q. Please explain the primary differences between the two methods.

18 A. The pooling method is intended to present as a single interest two or more common  
19 stockholder interests that were previously independent. A pooling is a stock-for-stock  
20 transaction, meaning the acquiror must use its stock to acquire the stock of the acquiree.  
21 The combined entity values the assets and liabilities of the combining enterprises at  
22 historical cost. Goodwill is not recorded as an asset in business combinations accounted

1 for using this method. In order to apply the pooling method, a business combination  
2 must meet a very specific and restrictive set of criteria. Business combinations that do  
3 not meet all of the pooling criteria are required to use the purchase method.

4 In the purchase method, the acquiror can use cash or stock to effect the combination. The  
5 assets acquired and liabilities assumed of the acquiree company are recorded at their fair  
6 values, rather than historical cost. Goodwill is recorded for the difference between the  
7 consideration paid and the fair value ascribed to the assets and liabilities. Similar to a  
8 pooling, a purchase can be a stock-for-stock transaction.

9 Q. How does a purchase transaction differ economically from a pooling transaction?

10 A. Assuming all things are equal, with the exception of not meeting all the pooling criteria, a  
11 purchase transaction will have the exact same economics as a pooling transaction. In  
12 other words, it will not differ economically.

13 Q. What do you mean by the "same economics?"

14 A. The economics of a business combination equal the amount a willing buyer is willing to  
15 pay a willing seller for its business. If this amount is in excess of the fair value of the net  
16 assets of the business, goodwill is created. This is true in all acquisitions, whether  
17 accounted for as a purchase or pooling. The fact that purchase accounting gives financial  
18 statement recognition to the goodwill does not impact the economics of the transaction.  
19 Similarly, the fact that pooling does not recognize goodwill does not change the  
20 economics of the transaction.

21 Q. Can you illustrate this point?

22 A. Yes. To illustrate this point, I refer to the proposed acquisition of SJLP as follows:

	<u>December 31, 1999</u>	
	(Amounts in thousands, except per share amounts)	
	<u>Pooling</u>	<u>Purchase</u>
Consideration per share of SJLP	\$ 23.00	\$ 23.00
Shares of SJLP outstanding	8,268	8,268
Total consideration	\$190,164	\$190,164
Less: Estimated fair value of SJLP (1)	96,188	96,188
Estimated goodwill acquired	<u>\$ 93,976</u>	<u>\$ 93,976</u>

(1) Assumes the net book value and fair market value of SJLP's net assets are the same.

The above example demonstrates the following:

1. The economics of the transaction are the same: UtiliCorp is paying the same for SJLP, whether or not it is accounted for as a pooling or a purchase.
2. Goodwill is created in both a pooling and a purchase. However, if pooling is used, the goodwill is ignored in the future financial statements of UtiliCorp. This creates an optical illusion. Pooling appears to be a less expensive transaction – no goodwill is shown in the financial statements. However, as the example indicates, that is not the case. The pooling method created the same amount of goodwill as the purchase method.

Q. On page 10, lines 3-7 of Mr. Hyneman's rebuttal testimony, he concludes that the pooling-of-interests method is the preferable method of accounting for a business combination. How do you respond?

A. I do not agree.

Q. Why not?

A. I do not know what criteria Mr. Hyneman is using to conclude that pooling is "preferable." There is considerable discussion regarding whether or not pooling is even appropriate, let alone preferable. This debate is a continuation of arguments raised in

1 1970 when APB 16 was issued. In issuing APB 16, the Accounting Principles Board did  
2 not conclude that pooling was "preferable". In fact, that document outlined the defects of  
3 pooling. The most serious defect identified was that the pooling method did not  
4 recognize the economic substance of the transaction. It also ignores the current market  
5 value of the assets underlying the transaction.

6 The APB also identified the fact that the pooling method was restrictive – it limited  
7 actions companies could take for the betterment of the businesses prior to or after the  
8 transaction. In the current era of change, I do not believe any accounting method which  
9 restricts a company's current and future flexibility to make business decisions could be  
10 deemed to be "preferable".

11 Q. How does pooling restrict a company's flexibility?

12 A. The pooling criteria limit the actions a company can take for a period of two years before  
13 and after the transaction. I will address this in more detail later in my testimony.

14 Q. Are the reported results of operations different if the transaction is a pooling compared to  
15 a purchase transaction?

16 A. Yes. Pooling produces a more favorable book accounting answer than does a purchase  
17 because it ignores the increased depreciation caused by reporting assets at their higher fair  
18 value and the amortization of goodwill. Goodwill is the amount a company is willing to  
19 pay to acquire another company over the fair value of its assets and liabilities. In a  
20 purchase transaction, goodwill is recorded and amortized over a future period. In a  
21 pooling transaction, goodwill is not recorded.

1 Conventional wisdom has held that the equity market for companies whose mergers were  
2 accounted for as poolings was stronger than for those who used the purchase method. A  
3 more significant analysis may conclude otherwise. For example, Mr. Hyneman  
4 references an article "Say Goodbye to Pooling", *CFO Magazine*, February, 1997 in his  
5 testimony on page 13, line 12 to support the prefer ability of pooling. This same article  
6 states the following:

7 According to a growing body of academic research, however, avoiding goodwill through  
8 poolings actually has no positive effect on share prices. In fact, in some cases, the  
9 opposite is true. A recent paper by Michael Davis, associate professor of accounting at  
10 Lehigh University, for example, points out that the stocks of companies that use purchase  
11 accounting show better aggregate performance in the short term (six months) and no  
12 difference in the longer term (one to three years) than companies that have combined  
13 through the pooling method. In addition, the study, which was published in the *Journal*  
14 *of Applied Corporate Finance*, showed that poolers frequently bend over backwards,  
15 often incurring extra costs, to meet the 12 pooling conditions. *Even worse, poolers as a*  
16 *group pay much larger premiums over current market valuations--in one study by Davis,*  
17 *up to 200 percent higher-- than do purchase-method buyers, as the lack of goodwill*  
18 *amortization and the rising value of their stock allows them to pay more for the*  
19 *marginally better reported earnings per share. (emphasis added)*

20 COULD UTILICORP HAVE USED POOLING?

21 Q. What types of assistance has Arthur Andersen provided to UtiliCorp related to this  
22 transaction?

23 A. I and others in my firm have had discussions with UtiliCorp personnel concerning the  
24 structure of this transaction.

25 Q. Has Arthur Andersen provided any written advice to UtiliCorp specifically as it relates to  
26 pooling criteria?

27 A. No. UtiliCorp did not request and we did not provide any written advice regarding the  
28 application of the pooling criteria to this transaction. We did, however, review and



1 provide comments on a document prepared by Mr. Streek and shown on Schedule DJS-2  
2 to his direct testimony.

3 Q. Is it unusual for a client to not request a formal pooling study when a pooling is initially  
4 contemplated?

5 A. No, it is not unusual at all. Given the complexities of the pooling rules, it is time  
6 consuming and expensive for a company to have a study performed. When a company  
7 determines it is unlikely that one of the criteria will not be met, it is not necessarily  
8 prudent to expend additional resources and time to evaluate all the criteria, since failure  
9 to meet any of the criteria will preclude pooling.

10 Q. Are you familiar with the criteria required to be met in order to apply the pooling method  
11 to a business combination?

12 A. Yes. I have been involved in numerous proposed transactions for a variety of companies  
13 that intended to apply the pooling method. I am also familiar with the process of pre-  
14 clearing pooling issues with the SEC. I have had the opportunity to pre-clear issues with  
15 them and in some instances, our clients were successful with their arguments.

16 Q. Could you please provide some background regarding the complexities of the pooling  
17 method?

18 A. In 1970, the Accounting Principles Board issued *APB 16: Business Combinations*. This  
19 accounting standard provided two acceptable methods for accounting for a business  
20 combination. In general, the pooling method was designed to address the unique "merger  
21 of equals" business combination, in which theoretically the companies acquire each other.

22 If the transaction met an extensive set of criteria, they could apply the pooling method.

1 If these criteria were not met, a company would need to apply the purchase method. The  
2 acceptance of two methods of accounting for business combinations was a compromise  
3 solution. Both methods had their proponents and detractors. The APB goes so far as to  
4 identify the "defects" of each method.

5 Q. You stated that pooling requires a company to meet an extensive set of criteria. How  
6 many general criteria are there?

7 A. There are twelve general criteria as defined in APB No. 16, paragraphs 46-48. The  
8 twelve general criteria address three broad principles. First of all, the combining  
9 companies must be independent prior to the transaction. Secondly, a pooling must be a  
10 stock-for-stock transaction. Lastly, there must be an absence of future planned  
11 transactions that would alter the character of the combining businesses. APB 16 was a  
12 compromise of differing views, and, as a result, some of the requirements are arbitrary.  
13 Consequently, the rules have a great deal of room for interpretation that has subsequently  
14 developed through practice.

15 Q. Does the Securities and Exchange Commission ("SEC") have a role in regards to these  
16 pooling criteria?

17 A. Yes. The SEC has taken upon itself the responsibility of developing interpretations to  
18 these rules. SEC opinions regarding pooling matters tend to govern the application of  
19 pooling rules to mergers of SEC registrants. In recent years, the SEC has continued to  
20 narrow its interpretations of the pooling rules. This has resulted in a complex set of SEC  
21 interpretations serving as the authoritative basis for multi-billion dollar transactions.

1 These narrow interpretations have made the ability to pool much more difficult and  
2 constraining.

3 I believe the current SEC view on poolings is that every merger is a purchase unless  
4 proven otherwise. Therefore, companies expecting to complete a pooling can expect  
5 conclusions for all the criteria to be subject to significant challenge. Failure to apply the  
6 pooling rules based on the SEC's interpretation could result in financial hardship if the  
7 SEC ultimately rejects a company's proposed pooling and forces a subsequent  
8 restatement.

9 Q. In order to qualify for pooling, how many of the criteria must be met?

10 A. All of the criteria must be met in order to apply the pooling method.

11 Q. Do some of these criteria restrict the flexibility of a company?

12 A. Many of the criteria are restrictive. As a general rule, a company that wishes to pool  
13 must refrain from certain actions that may result in an alteration of equity or a disposition  
14 of assets for a period of two years before initiation until two years after the  
15 consummation of a pooling transaction. In essence, a company is handcuffed during this  
16 time period. In the current business environment, this four-year period is a significant  
17 amount of time. During this period, it is not unreasonable to conclude that a company  
18 may be restricted from taking actions to improve the financial health of the organization  
19 in order to preserve a pooling transaction and avoid the financial hardship of restating  
20 previously issued financial statements.

21 Q. Did UtiliCorp take any action that precluded it from using the pooling-of-interests  
2 method of accounting?

1 A. Yes. As Mr. Streek reported in his direct testimony (page 3 lines 21-22), UtiliCorp  
2 issued stock options to employees in November, 1998. This represented an "alteration of  
3 equity" under APB 16, paragraph 47, which is prohibited. Paragraph 47c states:

4 None of the combining enterprises changes the equity interest of the voting  
5 common stock in contemplation of effecting the combination either within two  
6 years before the plan of combination is initiated or between the dates the  
7 combination is initiated and consummated; changes in contemplation of effecting  
8 the combination may include distributions to stockholders and additional  
9 issuances, exchanges, and retirements of securities.

10 Q. In regards to paragraph 47c above, what does "in contemplation" mean?

11 A. In the literal sense, "in contemplation" would indicate a lack of independence between  
12 two or more events. One action is made with the intent of impacting another. In apb 16,  
13 "in contemplation" suggests that a company might act to improve its position or the  
14 relative position of its owners. This would be contrary to pooling because the concept of  
15 pooling is the combining of economic interests as though the two companies had always  
16 been together.

17 Q. Has the sec indicated its position regarding "in contemplation"?

18 A. Yes. Subjective concepts, such as "in contemplation of", naturally generate differences in  
19 practice. The SEC appears to be attempting to maximize uniformity in the application of  
20 the pooling rules. The SEC has indicated it spends a significant amount of time  
21 addressing this issue as it relates to the alteration of equity interests. Given the subjective  
22 nature of "in contemplation," the SEC relies extensively on the timing of an event  
23 characterized as an alteration in equity interests. As a general rule, anything falling  
24 within two years of the transaction is presumed to be "in contemplation" of the

1 transaction. It is increasingly difficult to disprove this presumption the closer the event  
2 occurs to the actual transaction.

3 Q. What is your understanding of the sec staff's views regarding the impact of "in  
4 contemplation" specifically as it relates to the alteration of equity interests?

5 A. It is my understanding that the SEC staff takes the position that any change in equity  
6 interests that occurs within two years of initiation of a business combination is presumed  
7 to have been made in contemplation of the combination. In other words, any action  
8 which would result in an alteration of equity in contemplation of the combination would  
9 preclude pooling.

10 Q. Has Arthur Andersen published an interpretation of this?

11 A. Yes. Arthur Andersen has issued a publication which presents an interpretation of this  
12 concept. These interpretations are intended to present our understanding of current  
13 practice. Interpretation 47c-18 of *Accounting for Business Combinations, ninth edition*  
14 addresses the issuance of options, the key considerations of which are summarized as  
15 follows:

- 16 1. Awards or grants made within two years are presumed to be in contemplation of a  
17 combination.
- 18 2. The presumption (in contemplation of the combination) may be overcome if  
19 awards or grants are made under pre-existing plans, and are granted under normal  
20 terms of the plan and in normal amounts. In assessing this, the SEC staff  
21 considers this historical pattern of awards under the plan.
- 22 3. In some situations, factual evidence may support a contention that an issuance  
23 was not in contemplation. Such factual evidence must be clear; the closer the  
24 issuance to the initiation of the combination, the more difficult for any factual  
25 evidence to be persuasive.

1           4. Once an issuance is determined to be in contemplation, the change can only be  
2           "cured" by rescinding the options so long as no option holder has exercised any of  
3           the options issued.

4   Q.     Could the UtiliCorp stock option award be presumed to be in contemplation of the  
5           acquisition?

6   A.     Yes. UtiliCorp issued a stock option award under its 1991 Employee Stock Option Plan  
7           in November of 1998. During the week of November 9, 1998, SJLP representatives  
8           contacted UtiliCorp. By the end of November, UtiliCorp had expressed its intent to make  
9           a bid for SJLP. This is an extremely tight timeline between the award issuance and the  
10          initiation of discussions with SJLP. Clearly, a presumption exists that this award was in  
11          contemplation of the combination. UtiliCorp would bear a heavy burden in proving  
12          otherwise.

13   Q.     Are you aware of any other factual information, other than the timeline included in the  
14           joint proxy statement/prospectus dated May 6, 1999 and the information supporting Mr.  
15           Hyneman's timeline on page 25 of his testimony, that could clearly demonstrate that the  
16           stock options were not issued in contemplation of the acquisition?

17   A.     I am not aware of any other substantive, factual information which could clearly refute  
18           the "in contemplation" presumption.

19   Q.     You stated above the presumption (in contemplation of the combination) may be  
20           overcome if awards or grants are made under pre-existing plans, and are granted under  
21           normal terms of the plan and in normal amounts. Could you please explain what this  
22           means?

1 A. The SEC staff has developed a model for determining whether an award can be  
2 considered "normal". In assessing the "normality" of a stock option award, the SEC staff  
3 looks to the historical pattern of awards. This includes the following:

- 4 1. Who is receiving the awards.
- 5 2. What are the sizes of the awards by employee levels within a company.
- 6 3. Timing of awards.
- 7 4. Terms of the awards, including exercise price, vesting and exercise period.

8 Q. Did UtiliCorp conclude that the award was normal?

9 A. No, it did not.

10 Q. Do you concur with UtiliCorp's opinion?

11 A. Yes, I believe it would be very difficult to prove that the 1998 option award would meet  
12 the definition of "normal". Mr. Hyneman's own testimony suggests that the award was  
13 not "normal" when he states on page 27, line 25 through page 28, line 4:

14 . . . it would be reasonable for the SEC to take into consideration that, unlike most  
15 companies' stock option plans, UtiliCorp's Employee Stock Plan is unusual and options  
16 under this plan are not intended to be issued on a regular basis . . . irregular issuances of  
17 stock options should be considered normal because this conforms to the plan's intent and  
18 the plan's history.

19 I believe the SEC staff would have agreed with Mr. Hyneman: The award was unusual  
20 (only one award in previous 6 years) and the issuances were irregular (no systematic  
21 pattern for granting the award). Accordingly, the SEC staff would have rejected the  
22 notion that the plan was "normal".

23 Q. You have stated that 1.) A presumption exists that the award was in contemplation of the  
24 acquisition, 2.) The presumption cannot be overcome because of the proximity of the

1 option award date to the acquisition agreement, and 3.) It is your belief that the SEC  
2 would not consider the option awarded in November, 1998 to be normal. Can this  
3 problem be "cured"?

4 A. Technically, it can be cured. UtiliCorp could have rescinded the options. However, from  
5 a practical business standpoint it is not curable as UtiliCorp stated in response to Staff  
6 Data Request No. 167:

7 The only cure would have been rescinding or canceling the options. The  
8 Company did not feel this would have been in the best interest of employee  
9 morale and there were still uncertainties with regard to the eventual  
10 consummation of the transaction.

11 Q. What would the impact of the share rescission have been to the employees?

12 A. If the option award had been rescinded, the employees would have forfeited the rights to  
13 1,278,713 options. While they vest in one year, they do not expire until 10 years  
14 following issuance. To an employee, these options have unknown future potential value.  
15 UtiliCorp would have been precluded from issuing or promising (written or unwritten)  
16 any additional compensation to the employees in exchange for the rescission.

17 Q. On pages 28 and 29 of Mr. Hyneman's testimony, he suggests that the reason UtiliCorp  
18 may not be pursuing pooling more aggressively is its intent to sell the generation assets of  
19 SJLP at some point in the future. Could this preclude pooling?

20 A. Yes, selling assets can preclude pooling. However, the relative size of SJLP to UtiliCorp,  
21 makes it unlikely that a disposition of certain assets would preclude pooling. The  
22 significance of a disposal is generally evaluated in terms of the assets, revenues, and  
23 earnings. Significance is also evaluated in terms of the gain or loss on the disposition.  
24 The disposition of SJLP generating assets would not be considered significant and would



1 not preclude pooling unless the gain or loss on the sale exceeded 10% of UtiliCorp's  
2 earnings.

3 Q. On page 23, lines 25-27, Mr. Hyneman states that "UtiliCorp should have vigorously  
4 presented its case to the SEC that the November 1998 stock option issuance was not done  
5 "in contemplation" of the merger." Could UtiliCorp have taken this issue to the sec for  
6 pre-clearance?

7 A. Yes, they could have taken this issue to the SEC for pre-clearance.

8 Q. What would have been the likely outcome of that effort?

9 A. In my opinion it is unlikely that the outcome would have been successful. Based on my  
10 experience and the recent actions of the SEC, the presumption of "in contemplation"  
11 caused by actions taken by a company in the six months prior to the announcement of a  
12 merger are extremely difficult to overcome. UtiliCorp would not likely have been  
13 successful.

14 Given the circumstances, I believe UtiliCorp acted in a prudent manner in addressing this  
15 pooling concern by acknowledging the inability to use the pooling method early, rather  
16 than dedicate additional resources to address all the pooling criteria, identify all the  
17 potential issues requiring SEC clearance, and present its case to the SEC. This process  
18 have been expensive, time-consuming, and most likely not successful.

19 INCOME TAXES

20 Q. As currently structured, the merger of UtiliCorp and SJLP is a tax-free merger under IRC  
21 Section 368(a)(1)(a). On page 69 and 70 of Mr. Hyneman's testimony, he asserts that if

1 the merger is determined to be taxable the deferred taxes of SJLP may be lost. Is this  
2 true?

3 A. No. UtiliCorp is acquiring the stock of SJLP. This includes all the deferred tax assets  
4 and liabilities of SJLP. The ultimate determination of the transaction as being taxable or  
5 non-taxable will not impact the fact that the deferred tax assets and liabilities of SJLP  
6 were acquired by UtiliCorp and will survive the transaction.

7 Q. Does this conclude your surrebuttal testimony?

8 A. Yes.

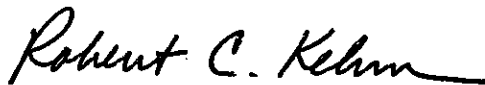
**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of       )  
UtiliCorp United Inc. and St. Joseph       )  
Light & Power Company for Authority to       )  
Merge St. Joseph Light & Power Company       )       Case No. EM-2000-292  
with and into UtiliCorp United Inc., and,       )  
in Connection Therewith, Certain Other       )  
Related Transactions.       )

County of Jackson       )  
  )  
State of Missouri       )

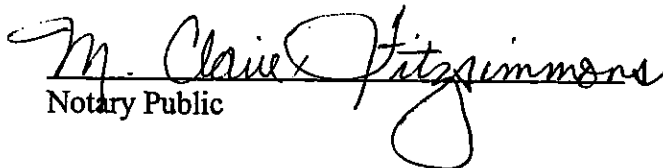
**AFFIDAVIT OF ROBERT C. KEHM**

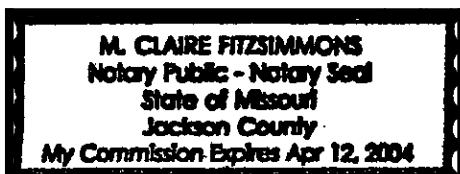
Robert C. Kehm, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled surrebuttal testimony; that said testimony was prepared by him and or under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

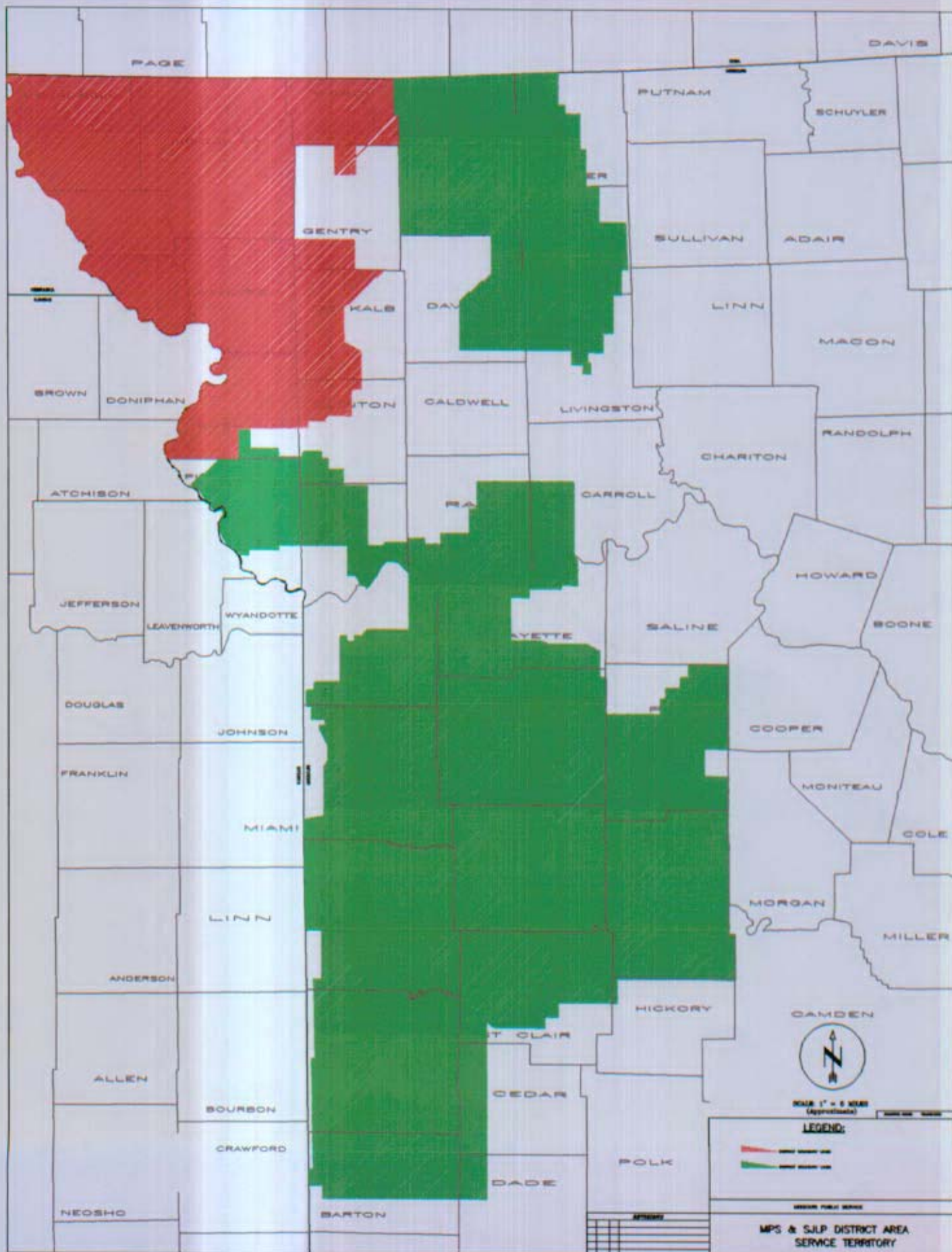


Robert C. Kehm

Subscribed and sworn to before me this 16th day of June, 2000.

  
Notary Public





Schedule VJS-2

## Listing of MPS Direct Operating Departments - Distribution

DeptID	Eff Date	Status	Descr	Manager	Unit	Dept Group	State	Bus Unit_State
4457	01/01/2001	A	Transmission Ops MPD-Gen	Tyrrell,Dan	MPD	9	MISSOURI	MPD_MO
5003	12/01/2000	A	Transmisson Ln Const&Maint-MPD	Baldwin,Larry	MPD	6	MISSOURI	MPD_MO
5004	12/01/2000	A	Sys Protection Const&Maint-MPD	Baldwin,Larry	MPD	6	MISSOURI	MPD_MO
5005	12/01/2000	A	System Operations-MPD	D'Amico,Tia	MPD	6	MISSOURI	MPD_MO
5006	12/01/2000	A	SCADA-MPD MO	Baldwin,Larry	MPD	6	MISSOURI	MPD_MO
5007	12/01/2000	A	Transmission Eng MPD-General	Sauber,Mike	MPD	6	MISSOURI	MPD_MO
5019	12/01/2000	A	Elec Trans Business Ops-MPD	Lukenbill,Doug	MPD	6	MISSOURI	MPD_MO
5024	12/01/2000	A	MPD Telecom	Macey,Dave	MPD	6	MISSOURI	MPD_MO
5041	12/01/2000	A	Gas Transmission Ops MO	Baldwin,Larry	MPD	6	MISSOURI	MPD_MO
5062	01/01/1900	A	General MO Electric Assets	Wallen,Dave	MPD	6	MISSOURI	MPD_MO
5131	01/01/1900	A	General Metro MO Elec Assets	Kirschner,Mark	MPD	8	MISSOURI	MPD_MO
5132	01/01/1900	A	Lee's Summit 1 Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5133	08/01/2001	A	Lee's Summit 2 Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5134	01/01/1900	A	Blue Springs 1 Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5135	01/01/1900	A	Blue Springs 2 Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5136	01/01/1900	A	Belton Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5137	01/01/1900	A	Gen Northern MO Elec Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5138	01/01/1900	A	Platte City Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5139	01/01/1900	A	Liberty Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5140	01/01/1900	A	Trenton Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5142	01/01/1900	A	Gen Southern MO Elec Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5143	01/01/1900	A	Warrensburg Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5144	08/01/2001	A	Nevada Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5145	01/01/1900	A	Clinton Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5146	01/01/1900	A	Sedalia Electric Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5147	01/01/1900	A	MO MPD Substation Elec Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5183	01/01/2001	A	MO MPD Gas Assets	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
5198	01/01/2001	A	Henr/Platte City Gas Asset	Klein,Dan	MPD	8	MISSOURI	MPD_MO
5201	07/01/2000	A	Sedalia Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO

## Listing of MPS Direct Operating Departments - Distribution

5203	07/01/2000	A	Rolla Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5204	07/01/2000	A	Salem Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5205	07/01/2000	A	Rolla/Sal/Owen Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5206	07/01/2000	A	Chill/Trent/Marsh Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5214	08/01/2001	A	Nevada/Clinton Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5215	07/01/2000	A	Owensville Gas Assets	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5216	07/01/2000	A	General MPD MO Elec Ntwrk Ops	Klein,Dan	MPD	5	MISSOURI	MPD_MO
5331	12/01/2000	A	Gen Metro MO Elec Network Ops	Opfer,Brett	MPD	5	MISSOURI	MPD_MO
5332	01/01/1900	A	Lee's Summit 1 Elec Ntwrk Ops	Yates,Steve	MPD	5	MISSOURI	MPD_MO
5333	01/01/1900	A	Lee's Summit 2 Elec Ntwrk Ops	Schumacher,Chid	MPD	5	MISSOURI	MPD_MO
5334	01/01/1900	A	Blue Springs 1 Elec Ntwrk Ops	Gaw,Bob	MPD	5	MISSOURI	MPD_MO
5335	01/01/1999	A	Blue Springs 2 Elec Ntwrk Ops	Button,Mike	MPD	5	MISSOURI	MPD_MO
5336	01/01/1900	A	Belton Elec Network Ops	Kinman,Bob	MPD	5	MISSOURI	MPD_MO
5337	01/01/1999	A	Gen Northern MO Elec Ntwrk Ops	Pearson,Mark	MPD	5	MISSOURI	MPD_MO
5338	01/01/1900	A	Platte City Elec Network Ops	Black,Buddy	MPD	5	MISSOURI	MPD_MO
5339	01/01/1999	A	Liberty Elec Network Ops	Craig,Jim	MPD	5	MISSOURI	MPD_MO
5340	01/01/1900	A	Henri/Lex/Rich Elec Ntwrk Ops	Adams,Larry	MPD	5	MISSOURI	MPD_MO
5341	01/01/1900	A	Trenton Elec Network Ops	Elliott,Chuck	MPD	5	MISSOURI	MPD_MO
5342	01/01/1900	A	Gen Southern MO Elec Ntwrk Ops	Eads,Joyce	MPD	5	MISSOURI	MPD_MO
5343	01/01/1900	A	Warrensburg Elec Network Ops	Watts,Ronda	MPD	5	MISSOURI	MPD_MO
5344	12/02/1998	A	Nevada Elec Network Ops	Loudermilk,Phyllis	MPD	5	MISSOURI	MPD_MO
5345	01/01/1900	A	Clinton Elec Network Ops	Ashby,Gary	MPD	5	MISSOURI	MPD_MO
5346	01/01/1999	A	Sedalia Elec Network Ops	Daugherty,Kim	MPD	5	MISSOURI	MPD_MO
5347	01/01/1900	A	MO Substation Maintenance	Brown,Daniel	MPD	5	MISSOURI	MPD_MO
5373	01/01/1900	A	General MO MPD Gas Network Ops	Bach,Williams	MPD	5	MISSOURI	MPD_MO
5389	03/01/2001	A	Rolla Gas Network Ops	Teter,Steve	MPD	5	MISSOURI	MPD_MO
5390	01/01/1900	A	Henri/Platte Gas Ntwrk Ops	Teter,Steve	MPD	5	MISSOURI	MPD_MO
5392	01/01/1900	A	Chill/Tren/Marsh Gas Ntwrk Ops	Teter,Steve	MPD	5	MISSOURI	MPD_MO
5393	01/01/1900	A	Sedalia Gas Network Ops	Teter,Steve	MPD	5	MISSOURI	MPD_MO
5394	01/01/1900	A	Clinton/Nevada Gas Network Ops	Teter,Steve	MPD	5	MISSOURI	MPD_MO

## Listing of MPS Direct Operating Departments - Distribution

5395	01/01/1900	A	Ro/Sal/Owen Gen Gas Ntwrk Ops	Teter,Steve	MPD	5	MISSOURI	MPD_MO
5397	06/01/2000	A	Materials Mgmt-MO MPD	Teter,Steve	MPD	5	MISSOURI	MPD_MO
5557	12/01/2000	A	Mo Matls Mgt Platte City RDC	Spencer,Mike	MPD	5	MISSOURI	MPD_MO
5573	08/01/2001	A	MO MPD Customer Service	Spencer,Michael	MPD	8	MISSOURI	MPD_MO
5890	01/01/2001	A	General Northern MO CS	Parker,Steve	MPD	5	MISSOURI	MPD_MO
5891	01/01/1900	A	Trenton CS	Parker,Steve	MPD	5	MISSOURI	MPD_MO
5892	01/01/1900	A	Liberty CS	Smith,Kathy	MPD	5	MISSOURI	MPD_MO
5893	01/01/1900	A	Henrietta/Rich/Lex CS	Lewis,Jerry	MPD	5	MISSOURI	MPD_MO
5894	01/01/1900	A	Belton CS	Smith,Kathy	MPD	5	MISSOURI	MPD_MO
5896	04/01/1999	A	Nevada CS	Hall,Eric	MPD	5	MISSOURI	MPD_MO
5897	01/01/1999	A	Warrensburg CS	Bell,Brian	MPD	5	MISSOURI	MPD_MO
5899	01/01/1900	A	Clinton CS	McKee,Sharon	MPD	5	MISSOURI	MPD_MO
5900	01/01/1999	A	Sedalia CS	Bell,Brian	MPD	5	MISSOURI	MPD_MO
5901	01/01/1900	A	Marshall CS	McKee,Sharon	MPD	5	MISSOURI	MPD_MO
5902	01/01/1900	A	General Metro MO CS	Smith,Kathy	MPD	5	MISSOURI	MPD_MO
5903	01/01/1900	A	Blue Springs CS	Parker,Steve	MPD	5	MISSOURI	MPD_MO
5906	01/01/1900	A	Lees Summit CS	Lewis,Jerry	MPD	5	MISSOURI	MPD_MO
5907	01/01/1900	A	Owensville CS	McReynolds,Gerr	MPD	5	MISSOURI	MPD_MO
5908	01/01/1999	A	Rolla CS	Bell,Brian	MPD	5	MISSOURI	MPD_MO
5909	01/01/1999	A	Salem CS	Bell,Brian	MPD	5	MISSOURI	MPD_MO
5910	01/01/1999	A	UED DSM MO Program	Bell,Brian	MPD	5	MISSOURI	MPD_MO
6015	01/01/1999	A	PA Sales MO	Daunis,Matt	MPD	8	MISSOURI	MPD_MO
6039	01/01/2000	A	UED Sales Cons Mkt Reps-MO	Hess,Tim	MPD	8	MISSOURI	MPD_MO
6062	05/01/2000	A	Community Relations USU MPD	Smith,Dan	MPD	8	MISSOURI	MPD_MO
6108	09/01/2001	A	Economic Development-MO	Leonard,Debbie	MPD	8	MISSOURI	MPD_MO
6117	03/01/2001	A	MO General- MPD	Starnier,Brein	MPD	8	MISSOURI	MPD_MO
6140	01/01/1900	A	Hen/Lex/Rich Elec Assets		MPD	8	MISSOURI	MPD_MO
7003	09/01/2000	A	Missouri Gas Technical Svcs	Kirschner,Mark	MPD	5	MISSOURI	MPD_MO
7041	01/01/1999	A	Asset Interface 1- MPS	Dyer,Randy	MPD	5	MISSOURI	MPD_MO
7202	01/01/1900	A	Asset Interface 2- MPS		MPD	5	MISSOURI	MPD_MO

## Listing of SJLP Direct Operating Departments - Distribution

DeptID	Eff Date	Status	Descr	Manager	Unit	Dept Group	State	Business Unit_State
5027	12/01/2000	A	Elec Trans Business Ops-SJD	Macey,Dave	SJD	6	MISSOURI	SJD_MO
5029	12/01/2000	A	Transmission Eng SJD-General	Lukenbill,Doug	SJD	6	MISSOURI	SJD_MO
5031	12/01/2000	A	Systems Operations-SJD	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5033	12/01/2000	A	Transmisson Ln Const&Maint-SJD	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5034	12/01/2000	A	SJD Telecom	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5035	12/01/2000	A	Supervisor SJLP Sub/Transm	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5036	12/01/2000	A	Sys Protection Const&Maint-SJD	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5037	12/01/2000	A	SJD Substation Maintenance	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5039	12/01/2000	A	SCADA-SJD MO	Sauber,Mike	SJD	6	MISSOURI	SJD_MO
5040	12/01/2000	A	Transmission Ops SJD-Gen	Baldwin,Larry	SJD	6	MISSOURI	SJD_MO
5151	12/01/2000	A	Gen SJ Elec Assets	Kirschner,Mark	SJD	5	MISSOURI	SJD_MO
5152	12/01/2000	A	St Joseph Electric Assets	Kirschner,Mark	SJD	5	MISSOURI	SJD_MO
5153	12/01/2000	A	Maryville Electric Assets	Kirschner,Mark	SJD	5	MISSOURI	SJD_MO
5154	12/01/2000	A	Mound City Electric Assets	Kirschner,Mark	SJD	5	MISSOURI	SJD_MO
5185	01/01/2001	A	MO SJD Substation Elec Assets	Kirschner,Mark	SJD	5	MISSOURI	SJD_MO
5217	12/01/2000	A	St Joseph Gas Assets	Klein,Dan	SJD	5	MISSOURI	SJD_MO
5265	07/01/2001	A	SJ Electric Planning & Design	Barchers,Otis	SJD	5	MISSOURI	SJD_MO
5266	07/01/2001	A	SJ Mapping and Drafting	Tiesing,Steve	SJD	5	MISSOURI	SJD_MO
5353	12/01/2000	A	Gen SJ MO Elec Ntwrk Ops	Opfer,Brett	SJD	5	MISSOURI	SJD_MO
5354	12/01/2000	A	St Joseph 1 Elec Network Ops	Opfer,Brett	SJD	5	MISSOURI	SJD_MO
5355	12/01/2000	A	St Joseph 2 Elec Network Ops	Opfer,Brett	SJD	5	MISSOURI	SJD_MO
5356	01/01/2001	A	Maryville/Mound City EI NetOps	Opfer,Brett	SJD	5	MISSOURI	SJD_MO
5357	01/01/2001	A	Maryville Gas Network Ops	Opfer,Brett	SJD	5	MISSOURI	SJD_MO
5366	12/01/2000	A	SJ Elec Measurement	Kazemi,Ebi	SJD	5	MISSOURI	SJD_MO
5570	12/01/2000	A	Materials Mgmt-MO SJD	Spencer,Mike	SJD	5	MISSOURI	SJD_MO
5911	12/01/2000	A	St Joseph CS	Parker,Steve	SJD	5	MISSOURI	SJD_MO
5912	12/01/2000	A	Maryville/Mound City CS	Parker,Steve	SJD	5	MISSOURI	SJD_MO
5913	01/01/2001	A	MO SJD Customer Service	Parker,Steve	SJD	5	MISSOURI	SJD_MO
6123	08/01/2001	A	Community Relations USU - SJ	Ness,Judy	SJD	8	MISSOURI	SJD_MO
6152	01/01/2001	A	MO General-SJD		SJD	8	MISSOURI	SJD_MO



## Generating Units SJLP and MPS

### SJLP Generating Units (includes generation-for-resale)

Unit	Capability MW	Fuel Type	Net 2000 Generation MWH
Iatan	121	Coal	719,406
Lake Road #1	20	Coal/NG/No. 2	43,436
Lake Road #2	25	Coal/NG/No. 2	15,504
Lake Road #3	10	Coal/NG/No. 2	332
Lake Road #4/6	97	Coal	452,177
Lake Road #5	63	NG/No. 2	22,931
Lake Road #6	21	No. 2	998
Lake Rkoad #7	<u>21</u>	No. 2	<u>509</u>
Total	378		1,255,293

### MPS Generating Units (includes generation-for-resale)

Unit	Capability MW	Fuel Type	Net 2000 Generation MWH
Sibley #1	54	Coal	337,559
Sibley #2	54	Coal	324,653
Sibley #3	395	Coal	2,448,150
JEC	178	Coal	1,266,401
JEC Wind	n/a	wind	218
RG #3	74	NG	25,631
Greenwd #1	64	NG/No. 2	42,714
Greenwd #2	64	NG/No. 2	32,895
Greenwd #3	64	NG/No. 2	51,114
Greenwd #4	64	NG/No. 2	54,639
KCI #1	15	NG	836
KCI #2	18	NG	1,191
Nevada	<u>20</u>	No. 2	<u>843</u>
Total	1,064		4,586,844

## Listing of SJLP Direct Operating Departments-Generation

DeptID	Eff Date	Status	Descr	Manager	Unit	Dept Group	State	Business Unit_State
1058	12/01/2000	A	Iatan SJLP	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1059	01/01/2001	A	MO General-SJG	Pella,Steve	SJG	4	MISSOURI	SJG_MO
1060	12/01/2000	A	Lake Road Common	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1061	12/01/2000	A	Lake Road Unit #1 (STM Turbine)	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1062	12/01/2000	A	Lake Road Unit #2 (STM Turbine)	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1063	12/01/2000	A	Lake Road Unit #3 (STM Turbine)	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1064	12/01/2000	A	Lake Road Unit #4 (STM Turbine)	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1065	12/01/2000	A	Lake Road Unit #5 (CT)	Smith,Mike	SJG	2	MISSOURI	SJG_MO
1066	12/01/2000	A	Lake Road Unit #6 (CT)	Smith,Mike	SJG	2	MISSOURI	SJG_MO
1067	12/01/2000	A	Lake Road Unit #7 (CT)	Smith,Mike	SJG	2	MISSOURI	SJG_MO
1070	12/01/2000	A	Lake Road Common Boilers (1-5)	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1071	12/01/2000	A	Lake Road Boiler #1	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1072	12/01/2000	A	Lake Road Boiler #2	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1073	12/01/2000	A	Lake Road Boiler #3	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1074	12/01/2000	A	Lake Road Boiler #4	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1075	12/01/2000	A	Lake Road Boiler #5	Smith,Mike	SJG	1	MISSOURI	SJG_MO
1080	03/01/2001	A	Lake Road Industrial Steam Plt	Smith,Mike	SJG	1	MISSOURI	SJG_MO

## Listing of MPS Direct Operating Departments- Generation

DeptID	Eff Date	Status	Descr	Manager	Unit	Dept Group	State	Business Unit_State
1000	01/01/1900	A	Sibley Unit #1	Rembold,Dan	MPG	1	MISSOURI	MPG_MO
1001	01/01/1900	A	Sibley Unit #2	Rembold,Dan	MPG	1	MISSOURI	MPG_MO
1002	01/01/1900	A	Sibley Unit #3	Rembold,Dan	MPG	1	MISSOURI	MPG_MO
1003	08/01/2001	A	Sibley General	Rembold,Dan	MPG	1	MISSOURI	MPG_MO
1004	03/01/1999	A	Greenwood General	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
1005	01/01/1900	A	Ralph Green	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
1006	01/01/1900	A	Nevada	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
1007	03/01/1999	A	KCI General	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
1010	03/01/1999	A	JEC Unit #1,2,&3-MPS	Hedrick,Terry	MPG	1	MISSOURI	MPG_MO
1023	08/01/2001	A	UPS-General MO	Pella,Steve	MPG	4	MISSOURI	MPG_MO
4341	06/01/2000	A	IT Capital Additions MPG	Heyward,Jim	MPG	9	MISSOURI	MPG_MO
7102	03/01/1999	A	Greenwood Unit I	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
7103	03/01/1999	A	Greenwood II	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
7104	03/01/1999	A	Greenwood Unit III	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
7105	03/01/1999	A	Greenwood Unit IV	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
7106	03/01/1999	A	KCI Plant I	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
7107	03/01/1999	A	KCI Plant II	Dancy,Allan	MPG	2	MISSOURI	MPG_MO
7117	08/01/2001	A	Wind - MPS JEC	Hedrick,Terry	MPG	3	MISSOURI	MPG_MO

# Synergies and Allocations of Costs to Achieve - SJLP/MPS

For Initial Ten Years after Closing  
(Millions of Dollars)

	SJLP		MPS	
1 Projected Gross Synergies	\$	128 A	\$	56 B
2 Support Costs	\$	(100)	\$	34 C
3 Synergies Before Costs to Achieve	\$	28	\$	90
<b>Costs to Achieve:</b>				
4 Depreciation & Return on SCADA and Depr & Trans/Distr capital reductions	\$	(2) D	\$	(8) D
5 Transition and Transaction costs	\$	(4) E	\$	(14) E
6 Premium Costs	\$	(31) F	\$	(98) F
7 Total Costs to Achieve	\$	(37)	\$	(120)
8 Net (Costs) Synergies After Costs to Achieve	\$	(9)	\$	(30)

Note: All estimates from VJS-1 unless noted.

- A Original estimate of \$184 million gross synergies reduced by Staff adjustment for joint dispatching synergies to MPS
- B Ten years of Staff adjustment for joint dispatching synergies assigned to MPS.
- C Ten years of Support costs and Common Plant synergies allocated to MPS.
- D Original estimate allocated on the basis of line 3:

## Ratio of Synergies Before Costs to Achieve (Line 3 above)

		Ratio
SJLP	\$ 28	23.7%
MPS	\$ 90	76.3%
	<u>\$ 118</u>	

- E Updated Costs to Achieve (DR 130A) allocated on the basis of Line 3.
- F Original estimate allocated on the basis of line 3.

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

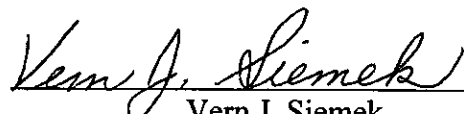
In the matter of Missouri Public Service     )  
of Kansas City, Missouri, for authority     )  
to file tariffs increasing electric rates     )  
for service provided to customers in the     )  
Missouri Public Service area                 )

Case No. ER-2001-672

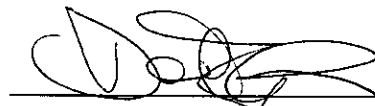
County of Jackson     )  
                               )     ss  
State of Missouri     )

**AFFIDAVIT OF VERN J. SIEMEK**

Vern J. Siemek, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Vern J. Siemek;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.

  
Vern J. Siemek

Subscribed and sworn to before me this 2<sup>nd</sup> day of January, 2002.

  
Notary Public

My Commission expires:

8/07/05

