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Amortization of Prior Deferred Taxes;
UtiliCorp/ St. Joseph Light &
PowerMerger Analysis
Witness: *Steve M. Traxler*
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MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

STEVE M. TRAXLER

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

CASE NO. ER-2001-672

Jefferson City, Missouri
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STEVE M. TRAXLER
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1 **REBUTTAL TESTIMONY**

2 **OF**

3 **STEVE M. TRAXLER**

4 **UTILICORP UNITED INC.**

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

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

7 Q. Please state your name and business address.

8 A. Steve M. Traxler, Noland Plaza Office Building, 3675 Noland Road,
9 Independence, Missouri 64055.

10 Q. Are you the same Steve M. Traxler who previously filed direct testimony
11 in this case?

12 A. Yes.

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

14 A. My rebuttal testimony will address the direct testimony of Missouri Public
15 Service (MPS or Company) witness Gary L. Clemens on the issue of deferred income tax
16 expense, and MPS witness Vern J. Siemek on projected merger savings from the
17 UtiliCorp United Inc. (UCU) and St. Joseph Light & Power Company (SJLP) merger.

18 **DEFERRED INCOME TAX**

19 Q. What is the purpose of this section of your rebuttal testimony?

20 A. This section of my rebuttal testimony will address the difference in
21 method used by the Staff and MPS in calculating straight line tax depreciation.

22 Q. Please define the term, "straight line tax depreciation."

1 A. The Internal Revenue Code (IRC) provides for accelerated methods for
2 recognizing the deduction for depreciation for tax purposes. These accelerated methods
3 allow the utility to depreciate plant investment over a shorter period of time for tax
4 purposes than the period used to depreciate plant investment for financial reporting and
5 ratemaking purposes. The IRC does not allow the utility and/or regulators to recognize,
6 for ratemaking purposes, the additional tax depreciation deduction resulting from using
7 an accelerated tax depreciation method.

8 Straight line tax depreciation is the equivalent of book depreciation for the
9 purpose of calculating deferred income tax expense. The difference between tax
10 depreciation and straight line tax depreciation represents the additional tax depreciation
11 deduction that cannot be recognized currently (flowed through) for ratemaking purposes.

12 Q. In your last answer you defined straight line tax depreciation as the
13 equivalent of book depreciation. Explain the difference between book depreciation and
14 straight line tax depreciation.

15 A. MPS uses the same Commission-approved book depreciation rate for
16 calculating book depreciation and straight line tax depreciation. The only significant
17 difference between book depreciation and straight line tax depreciation results from a
18 difference in the investment amount (basis) that is used to calculate the two depreciation
19 amounts.

20 The book basis of depreciable plant differs from the tax basis of depreciable plant
21 because, prior to the Tax Reform Act of 1986, specific overhead costs were capitalized
22 for financial reporting and ratemaking purposes (included in the book basis of
23 depreciable plant); however, for tax purposes, they were treated as a current tax

1 deduction. Therefore, the tax basis of assets acquired prior to the 1986 Tax Reform Act
2 was less than the book basis due to capitalizing specific overhead costs for book purposes
3 (both for financial accounting and ratemaking) and deducting these overhead costs as a
4 tax deduction in the current year for federal income tax purposes.

5 The 1986 Tax Reform Act eliminated the current deduction for these overhead
6 costs which resulted in capitalizing these overhead costs for both book and tax purposes.

7 Essentially, for assets acquired after the 1986 Tax Reform Act, the book basis and
8 tax basis are the same. Book depreciation expense and straight line tax depreciation
9 expense are essentially the same amount for assets acquired after the 1986 Tax Reform
10 Act.

11 Q. How does MPS compute straight line tax depreciation?

12 A. MPS applies a weighted average book depreciation rate to the tax basis for
13 each class of assets by vintage (year acquired).

14 When the accumulated straight line tax reserve equals the tax basis of the
15 property, MPS discontinues (stops) straight line tax depreciation. For example, assume
16 that a vintage (specific year) had depreciable plant additions of \$100,000 and the
17 weighted average book depreciation rate was 10%. MPS would recognize \$10,000 in
18 straight line tax depreciation annually for ten years. At the end of year ten, the
19 accumulated straight line tax reserve would be equal to the tax basis of the property.
20 No additional straight line tax depreciation would be recognized in year 11 even though
21 the plant investment was still in use and continuing to accrue (recognize) book
22 depreciation for financial reporting and ratemaking purposes.

Rebuttal Testimony of
Steve M. Traxler

1 Q. Why does book depreciation continue to accrue on assets even though the
2 straight line tax reserve indicates full recovery of depreciation?

3 A. Book depreciation is computed by applying a depreciation rate to all assets
4 in a specific Federal Energy Regulatory Commission (FERC) account. No attempt is
5 made to track the accumulated book depreciation reserve by vintage or specific asset.
6 Book depreciation continues to be accrued and recovered for financial accounting and
7 ratemaking purposes until the entire FERC account (all vintage year additions) has an
8 accumulated book depreciation reserve which equals the total plant balance in the
9 account and the Commission orders a zero (0) depreciation rate for that account. This
10 method is often referred to as a Mass Asset accounting method.

11 Q. Why is book depreciation computed on a mass asset balance (all vintages)
12 instead of an individual vintage basis used in computing tax depreciation and straight line
13 tax depreciation?

14 A. The mass account method used for book depreciation simplifies the
15 accounting process. When an asset is retired, no attempt is made to determine the actual
16 accumulated depreciation reserve for that asset.

17 If you retire a \$100,000 plant asset, the book depreciation reserve is reduced by
18 the same \$100,000 amount. The theoretical basis for assuming that the asset is always
19 fully depreciated when retired is that some assets will be retired sooner than their
20 depreciable life and some will be retired later than their depreciable life. The underlying
21 assumption is that in the aggregate, assets being retired early will be offset by an equal
22 amount of assets being retired later.

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1 Q. If, in fact, the amount of assets retired earlier and later than their book
2 depreciation life generally offset one another, will there be any significant difference
3 between book depreciation and straight line tax depreciation (other than the basis
4 difference discussed previously)?

5 A. No. The mass asset accounting method and the vintage method would
6 produce depreciation amounts which would not be significantly different.

7 Q. If the amount of assets retired earlier and later than their depreciation life
8 do not offset one another, can a significant difference occur between book depreciation
9 and straight line tax depreciation when employing the method used by MPS to calculate
10 straight line tax depreciation?

11 A. Yes. As discussed earlier, MPS stops recognizing straight line tax
12 depreciation when the accumulated straight line tax reserve equals the tax basis of the
13 property. Any time that straight line tax depreciation is stopped prior to retirement is an
14 example of an asset vintage which is outliving its book depreciation life. Since the asset
15 is still in service, book depreciation is continuing to be accrued and recovered in rates.
16 As an example, assume \$1,000,000 in assets with a 10% book depreciation rate. At the
17 end of year ten, the accumulated straight line tax reserve would be equal to the tax basis
18 of the property of \$1,000,000 (\$100,000 annually for ten years).

19 Under MPS's method, straight line tax depreciation would be zero (0) in year 11
20 and book depreciation would continue to be \$100,000 because the asset is still in service
21 and no attempt is made under mass asset accounting to discontinue book depreciation on
22 fully depreciated assets.

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Q. Referring to the example in your previous answer, what are the ratemaking implications when a utility continues to recover book depreciation on assets, which are living longer than their depreciable life, and at the same time making the assumption that the additional book depreciation is no longer tax deductible for ratemaking purposes?

A. Straight line tax depreciation represents the tax deduction for book depreciation for ratemaking purposes. Referring to the example in my last answer, book depreciation in year 11 was \$100,000 and straight line tax deduction was zero (0). The revenue requirement of this scenario for ratepayers is calculated below:

	<u>Year 11</u>
1. Book Depreciation	\$100,000
2. Income before Income Tax	(\$100,000)
Add back:	
3. Book Depreciation	\$100,000
Subtract:	
4. Straight Line Tax Depreciation0
5. Taxable Income – Line 2+3+4	0
6. Income Tax – 38.39% of Line 50
7. Net Income – Line 2–6	(\$100,000)
8. Tax Conversion Factor	<u>1.62</u>
9. Revenue Requirement	<u>\$162,000</u>

In summary, every dollar of book depreciation included in cost of service with no corresponding straight line tax deduction results in \$1.62 cash outlay from ratepayers. This inequity occurs solely because a plant asset is actually staying in service longer than the “estimated” life used to compute the book depreciation rate for the asset.

Q. What is the Staff recommendation for calculating straight line tax depreciation so that the inequity described in your last answer can be eliminated?

A. The additional revenue requirement resulting from including book depreciation expense in cost of service without a corresponding tax deduction can be

Rebuttal Testimony of
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1 eliminated by continuing to calculate straight line tax depreciation for all assets which are
2 still in service consistent with the calculation of book depreciation under the mass asset
3 method used under FERC rules.

4 Q. In your experience, what has been the primary argument asserted by
5 Missouri utility companies in opposition to the Staff's method for calculating straight line
6 tax depreciation in this manner?

7 A. The most common argument is that the Staff's proposed method for
8 calculating straight line tax depreciation violates the normalization requirements of the
9 Internal Revenue Code (IRC) related to the use of accelerated methods for calculating tax
10 depreciation for federal income tax.

11 Q. Please define the term "normalization" as it relates to the recognition of
12 tax timing differences.

13 A. A tax timing difference refers to the situation in which the period used to
14 recognize an expense for financial reporting/ratemaking purposes is different from the
15 period used to recognize the cost as a tax deductible expense for federal income tax
16 purposes.

17 "Normalizing" a tax timing difference means that the period used to recognize an
18 expense for financial reporting/ratemaking purposes is also used for recognizing the
19 expense in calculating federal income tax. "Flowing through" a tax timing difference
20 means that the period used for recognizing an expense for federal income tax purposes is
21 also used in calculating income tax for financial reporting/ratemaking purposes. The
22 difference between the period used for recognizing the expense above-the-line in

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determining operating income before tax and the period used for federal income tax is ignored.

Q. Please explain the IRC normalization requirements related to depreciation expense.

A. When using specific accelerated depreciation methods, the tax deduction for depreciation cannot be reflected for ratemaking purposes any quicker than the period used in recognizing book depreciation. A simple example will clarify this point:

Cost of the Plant	\$1,000,000
Estimated Life for Book Depreciation	10 years
Book Depreciation Rate	10%
Accelerated Tax Depreciation Rate	20%
Annual Book Depreciation for 10 years	\$ 100,000
Annual Tax Depreciation for 5 Years	\$ 200,000

In the above example, the deduction for depreciation for calculating federal income tax for ratemaking purposes is limited to \$100,000. If a 12% rate were used for calculating straight line tax depreciation (\$120,000), a violation of the IRC normalization requirements would result because rates would be lower due to a more rapid recognition of the tax deduction for depreciation ($\$120,000 - \$100,000 = \$20,000$) than the period used for recognizing book depreciation which, in the example, is ten years equal to a 10% book rate.

Q. Please explain why the Staff's recommended method for calculating straight line tax depreciation does not result in a violation of the IRC normalization requirements for tax depreciation.

A. Referring again to the example in my previous answer the book depreciation rate was 10%. The Staff is not recommending that the rate used in calculating straight line tax depreciation be increased to something in excess of 10%.

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1 Our position is simply that the 10% rate continues to be used for calculating straight line
2 tax depreciation for as long as the asset is in service consistent with the recognition of
3 book depreciation and recovery of book depreciation in rates.

4 To put it simply, as long as ratepayers are asked to provide additional depreciation
5 recovery for assets which are outliving their "estimated" book depreciation lives, a
6 corresponding straight line tax deduction should also be reflected for ratemaking
7 purposes.

8 Q. Was this matter also a preliminary issue between the Staff and MPS in
9 Case No. ER-97-394, MPS's last rate proceeding?

10 A. Yes. In its initial filing, MPS had stopped calculating straight line tax
11 depreciation on vintage assets whose straight line reserve equaled the tax basis of the
12 property.

13 Q. How was this issue resolved in that case?

14 A. MPS set up a meeting with a tax expert, Mr. A. C. Hagemann, from their
15 outside auditing firm, Arthur Anderson. During this meeting, Mr. Hagemann indicated
16 that he did not consider the Staff's recommended straight line tax method to result in a
17 violation of the IRC normalization requirements. MPS subsequently dropped the issue
18 and the Staff's straight line tax depreciation method was used for ratemaking purposes in
19 Case No. ER-97-394.

20 Q. Has the straight line tax depreciation issue addressed in this rebuttal
21 testimony been heard by the Commission in a previous case?

1 A. Yes. Staff witness Robert E. Schallenberg presented this issue in Case
2 No. ER-93-41, St. Joseph Light and Power Company. The Commission adopted the
3 Staff position on this issue in that case.

4 Q. What will be the result if MPS's method for calculating straight line tax
5 depreciation is adopted by the Commission?

6 A. MPS will benefit from a significant windfall profit of approximately
7 \$7.6 million annually due to allowing the company to recover significant book
8 depreciation expense with no corresponding tax deduction for ratemaking purposes. The
9 purpose of "matching" the straight line tax depreciation amount with the annualized book
10 depreciation expense recovered in rates is to avoid a windfall profit for the utility.

11 Q. Provide an example of how a windfall profit will occur.

12 A. Significant differences occur between the amount of book depreciation
13 recovered in rates and the amount of straight line tax depreciation used in determining
14 deferred income tax under MPS's method because:

15 (1) Under mass asset accounting used in calculating book
16 depreciation expense, no attempt is made to stop depreciation on the asset
17 when the accumulated depreciation reserve equals the book value of the
18 asset. In other words if the depreciation rate is 3.3% based upon an
19 "assumed" 30-year life, no attempt is made to stop depreciating the asset
20 at the end of 30 years. If the asset is actually not retired until year 40, the
21 Company will continue to recover book depreciation in rates for the full
22 40-year period.

1 (2) However, under MPS's straight line tax depreciation
2 method, the straight line tax depreciation calculation stops at the end of
3 the 30-year life "estimate" used in setting the 3.3% book depreciation rate.

4 The result is that ratepayers pay depreciation expense in rates for 40 years but
5 only receive a tax deduction for depreciation in setting rates for 30 years.

6 As an example, let's assume that MPS has an investment in a generating unit of
7 \$50 million. Also assume that MPS's investment in that plant is being depreciated over
8 an approximate life of 30 years resulting in a 3.3% book depreciation rate.

9 Lastly assume that the generating unit is "actually" in service for 40 years. The
10 revenue requirement impact of the difference in the Staff and MPS method for
11 calculating straight line tax depreciation is reflected on Schedule SMT-1.

12 Q. Please explain Schedule SMT-1.

13 A. Schedule SMT-1 reflects the revenue requirement impact difference
14 between the Staff and MPS method for calculating straight line tax depreciation for a
15 \$50 million asset with an estimated life of 30 years and actual life of 40 years.

16 Line 9 reflects that both methods would recognize approximately \$66.7 million in
17 cost of service for annual depreciation expense over the asset's 40-year life, using the
18 mass asset accounting method in accordance with FERC regulations.

19 Line 10 reflects that both methods would recognize a tax deduction (straight line
20 tax depreciation) of \$50 million over the first 30 years of the asset's life. Since the book
21 depreciation rate was based upon an "estimated" 30-year life, the \$50 million asset would
22 be fully depreciated after 30 years.

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1 The difference in the Staff and MPS methods is reflected on Line 11. As
2 previously stated, under mass asset accounting, book depreciation continues for as long
3 as the asset is still in service which is 40 years in the example on Schedule SMT-1.
4 Under the Staff's method, the tax deduction used in setting rates, straight line tax
5 depreciation is also calculated for the full 40 year life of the asset consistent with the
6 mass asset accounting method used for book depreciation.

7 Consistent with the approach, Line 11 under the Staff's method reflects the
8 additional straight line tax depreciation used in setting rates for years 31-40,
9 \$16.7 million. However, under the MPS method, straight line tax depreciation is
10 discontinued when the accumulated straight line tax reserve equals the tax basis of the
11 property. This occurs under MPS's method after year 30.

12 The straight line tax reserve is \$50 million after year 30 (Line 10) which equals
13 the tax basis (cost) of the plant investment of \$50 million on line 5. Under MPS's
14 method, no additional straight line tax depreciation is calculated in setting rates for
15 years 31-40. Line 11 under MPS's method reflects zero (0) straight line tax depreciation
16 for the last ten years of the life of the asset.

17 Line 18 reflects the accumulated revenue requirement impact of MPS's method in
18 calculating straight line tax depreciation. In the example reflected on Schedule SMT-1,
19 MPS will receive a \$10.4 million windfall profit for the failure to calculate straight line
20 tax depreciation on a consistent basis with the mass asset accounting method used for
21 book depreciation.

1 Q. Will the \$10.4 million windfall profit calculated in the example for MPS
2 in your last answer likely occur for other utility companies in Missouri if MPS's position
3 on this issue is adopted in this Case No. ER-2001-672?

4 A. In my opinion, yes. The method used to calculate straight line tax
5 depreciation should not differ from company to company. If the Commission were to
6 adopt MPS's method for calculating straight line tax depreciation in this case, there is no
7 logical reason why the same method should not be used for all other major utility
8 companies in Missouri.

9 Adoption of MPS's method on a consistent basis in Missouri will have significant
10 revenue requirement impacts throughout the state.

11 Q. Is the Staff's recommended method for annualizing straight line tax
12 depreciation similar to the method used by the Staff and utilities alike to annualize the
13 interest expense deduction used for ratemaking purposes?

14 A. Yes it is. The method used by the Staff and Missouri utility companies for
15 computing the interest expense deduction used in calculating current income tax expense
16 is commonly referred to as the Interest Synchronization Method.

17 The term synchronization refers to the matching principle supporting the use of
18 this method in setting rates. The interest synchronization method computes the interest
19 expense deduction by multiplying the weighted cost of debt, included in the proposed
20 capital structure, times the rate base. This method is not intended to match the interest
21 expense deduction on the Company's federal tax return. Rather it is intended to match
22 the tax deduction for interest with the amount of interest expense being recovered in
23 rates. The "matching" principle supporting the use of the interest synchronization

1 method also applies to the Staff's recommended method for annualizing the straight line
2 tax depreciation amount used in calculating income tax for a regulated utility.

3 Q. Please explain the matching principle as it applies to the Staff's method
4 for calculating annualized straight line tax depreciation.

5 A. As previously discussed, under the mass asset accounting method used in
6 Missouri for computing book depreciation, the utility continues to recover annual
7 depreciation on assets as long as they are still in service and the related FERC account is
8 not fully depreciated in total.

9 The Staff's method for computing straight line tax depreciation is consistent with
10 mass asset accounting in that the depreciation tax deduction matches the level of book
11 depreciation included in cost of service in setting rates. The only difference between the
12 straight line tax depreciation amount and annualized book depreciation is related to tax
13 timing differences flowed through (reflected in rates) prior to the 1986 Tax Reform Act.

14 Consistent with the Interest Synchronization Method which "matches" the interest
15 expense deduction, for the income tax calculation, with the interest expense being
16 recovered in rates, the Staff's straight line tax depreciation "matches" the method used in
17 calculating annualized book depreciation recovered in rates.

18 Q. Has the Staff's method for calculating straight line tax depreciation been
19 consistently used in setting rates for other Missouri utility companies?

20 A. Yes. The existing rates for the utility companies listed below are all based
21 upon the Staff's method of calculating straight line tax depreciation:

1. Missouri Gas Energy
2. Laclede Gas Company
3. The Empire Electric Company
4. UtiliCorp – Missouri Public Service Division
5. UtiliCorp – St. Joseph Light and Power Division

AMORTIZATION OF PRIOR DEFERRED TAXES

Q. Briefly explain the nature of prior deferred income taxes that require amortization for financial reporting and ratemaking purposes.

A. There are basically two prior tax timing differences for MPS which require amortization for ratemaking purposes:

(1) Excess deferred taxes resulting from the reduction in the federal corporate income tax rate as a result of the 1986 Tax Reform Act require amortization using the Average Rate Assumption Method (ARAM).

(2) Prior to the 1986 Tax Reform Act, interest, pensions and benefits and payroll taxes, capitalized in plant-in-service and depreciated for determining pre tax operating income, were deductible for tax purposes in the year incurred resulting in a tax timing difference.

For years in which this tax timing difference was normalized for financial reporting and ratemaking purposes, deferred taxes were calculated in the current year and the amortized in subsequent years consistent with the period used in recognition of these costs in booked depreciation expense. The tax deduction for these costs is reflected in rates through the amortization of the deferred tax balance.

1 Q. Since the filing of its direct filing in this case, ER-2001-672, has MPS
2 provided the Staff with additional information regarding deferred taxes reflected in
3 Account 411.1, Provision for Deferred Income Tax – Credits?

4 A. Yes. At the time of the Staff's direct filing, it was the Staff's
5 understanding that the balance in Account 411.1 included only the amortization of excess
6 deferred taxes resulting from the 1986 Tax Reform Act and capitalized expenses prior to
7 1986 which were normalized for ratemaking purposes, both of which require an
8 amortization in order to reflect the tax deduction in rates.

9 In response to Staff Data Request No. 556, MPS identified other tax timing
10 differences which don't require an amortization for ratemaking purposes. As a result of
11 this additional information, the Staff has corrected Adjustment S-98 on Accounting
12 Schedule 9-4.

13 Q. Is there an outstanding Staff data request which may result in an additional
14 correction to Staff's Income Statement Adjustment S-98, Amortization of Deferred
15 Income Taxes?

16 A. Yes. The Staff has asked MPS to quantify the actual amount of the
17 amortization of excess deferred taxes related to the 1986 Tax Reform Act and compare
18 that with the remaining balance included in Account 411.1 for the year 2000. Any
19 difference between the current annual amortization of excess taxes computed using
20 MPS's vintage tax records and the amount included in Account 411.1 in 2000 will
21 require a change in Adjustment S-98, previously discussed.

PROJECTED MERGER SAVINGS – UCU/SJLP MERGER

Q. What is the nature of your rebuttal testimony related to MPS's projected merger savings resulting from the recent UCU merger with the former SJLP?

A. On pages 4 and 5 of his direct testimony, MPS witness Gary L. Clemens states that in the event that the Staff files its direct case reflecting merger savings from the UCU/SJLP merger, MPS would request rate recovery for the merger transition and transaction costs and a portion of the merger premium.

Consistent with this stated approach, MPS witness Vern J. Siemek filed direct testimony in this case, No. ER-2001-672, which includes, as an attachment, a copy of his direct testimony and schedules filed in the UCU/SJLP merger case, No. EM-2000-292. This attachment includes estimates of merger savings and costs sponsored by UCU in the merger case.

My rebuttal testimony in the UCU/SJLP merger case, No. EM-2000-292, was primarily directed at challenging Mr. Siemek's ten-year analysis of projected costs and savings purportedly resulting from the merger.

I have included below, my combined rebuttal testimony filed May 2, 2000 and the Replacement Pages filed July 7, 2000, in Case No. EM-2000-292.

It is still the Staff's position that Mr. Siemek has significantly overstated the future net savings projected to result from the UCU/SJLP merger. Further comments on the estimated merger savings and cost amounts included in Mr. Siemek's direct testimony in this proceeding can be found in the rebuttal testimony of Staff Accounting witnesses Mark L. Oligschlaeger and Janis E. Fischer.

**Rebuttal Testimony of Steve M. Traxler
in UtiliCorp/St. Joseph Light & Power Company
Merger Case No. EM-2000-292**

Q. Please summarize the Joint Applicants' Merger Application in this case.

A. The merger application filed by UtiliCorp United Inc (UCU) and St. Joseph Light & Power Company (SJLP) has two specific requests:

(1) Based upon a 10-year analysis of projected merger costs and savings, UCU/SJLP are requesting rate base treatment and amortization of 50% of the Merger Acquisition Premium beginning in year 6 following merger approval.

The UCU/SJLP projected benefit analysis for years 6-10, purport to show merger savings sufficient to cover merger costs, a return of and return on 50% of the merger acquisition premium and additional savings of \$1.6 million per year which will be used as a cost of service reduction for SJLP ratepayers.

(2) The Joint Applicants are requesting approval of a Regulatory Plan for regulatory treatment for specific savings expected from the merger. Cost reductions for Missouri Public Service, (MPS) in the UCU Corporate Overhead Allocation area as a result of the addition of SJLP are to be "ignored" by the Commission in rate proceedings involving MPS during the 10-year period following merger approval.

The cost reduction to SJLP resulting from an improved equity ratio after the merger is also to be "ignored" by the Commission in setting rates for the SJLP division in years 6-10 following merger approval.

1 Finally, the Regulatory Plan assigns 100% of the energy
2 savings expected from the joint dispatch of the merged company's
3 generating facilities after the merger to SJLP. MPS ratepayers are to
4 receive no benefit from joint dispatch of the MPS and SJLP generating
5 facilities.

6 Q. Provide a brief summary of the Staff's position and recommendation
7 regarding whether savings from the merger will exceed the costs from the merger and
8 whether the proposed Regulatory Plan should be adopted.

9 A. After analyzing the assumptions used by UCU/SJLP in projecting merger
10 costs and savings, the Staff position is that there are serious flaws in three areas:

11 (1) The growth rate/inflation rate used in projecting the annual
12 increase in UCU's Corporate Overhead costs is too low based upon
13 historical experience. Understanding the growth rate for these costs has
14 resulted in an understatement of the impact of UCU's Corporate Overhead
15 costs on SJLP after the merger.

16 (2) The Joint Applicants' project joint dispatch savings of
17 approximately \$60 million over the 10-year period following merger
18 approval. Staff witness Dr. Michael Proctor's position is that
19 approximately 89% of these savings can be achieved by SJLP on a
20 "stand alone" no merger assumption basis and, therefore, should not be
21 used to offset merger costs in a cost/benefit analysis for this merger.

22 (3) In the projected savings from the conversion of SJLP
23 Employee Benefit Plans to those of UCU, UCU/SJLP witness Browning

1 has made the assumption that the pre-merger Funded Status of the SJLP
2 Pension Plan will remain unaffected by the merger.

3 This assumption contradicts the UCU plan to consolidate
4 the SJLP Pension Plan Assets with those of UCU after the merger.
5 Because SJLP's Pension Plan is a much better funded position than the
6 UCU plan, 257% compared to 147% at December 31, 1999, combining
7 the pension assets will result in a combined funded level of 165% for all
8 plan participants after the merger, resulting in a significant increase in
9 SJLP's pension cost and corresponding reduction in the pension cost of all
10 UCU's other regulated and non-regulated members of the plan. Staff
11 estimates the detrimental impact on SJLP to be approximately \$25 million
12 over the 10-year period following the merger approval.

13 In summary, I will explain in my testimony that after adjustments are made to the
14 UCU/SJLP projected benefit analysis, merger costs exceed merger savings by a
15 significant amount which must be addressed by UCU and SJLP in order to eliminate the
16 detrimental impact on SJLP's cost of service.

17 Q. What is the Staff's position regarding the proposed Regulatory Plan
18 requested by the Joint Applicants?

19 A. The Regulatory Plan, in the Staff's view, was developed in an effort to
20 have MPS and SJLP ratepayers subsidize merger costs and the merger acquisition
21 premium which cannot be recovered from projected merger savings.

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1 The inequity of the Regulatory Plan is addressed in my testimony as well as the
2 testimony of Staff witnesses Mark L. Oligschlaeger, Dr. Michael Proctor and David
3 Broadwater.

4 If the Commission "ignores" for ratemaking purposes, cost reductions from the
5 merger in the form of lower cost of capital for SJLP and lower Corporate Overhead cost
6 allocations to MPS, as requested by the Regulatory Plan, MPS and SJLP will subsidize
7 merger costs and the merger acquisition premium by approximately \$34 million over the
8 10-year period following merger approval.

9 The Regulatory Plan is intended to result in forced subsidization of merger costs
10 and the merger acquisition premium and is, therefore, detrimental to the ratepayers of
11 both SJLP and MPS.

12 Q. What is the purpose of your rebuttal testimony in this proceeding?

13 A. My testimony will address the following areas:

- 14 • Detrimental aspects of proposed Regulatory Plan
- 15 • Overview of the Staff's determination of St. Joseph Light & Power's
16 (SJLP's) Cost of Service as of December 31, 1999;
- 17 • Staff's projected merger impact on SJLP's cost of service resulting
18 from the Consolidation of Administrative and General, Customer
19 Service, Transmission, Distribution and General Plant Functions and
20 the corresponding allocation of UCU Corporate Overhead costs to
21 SJLP.

- Overstatement of projected merger savings from Employee Benefits Conversion as a result of the failure to reflect the consolidation of SJLP and UCU Pension Fund Assets after the merger;
- Staff's analysis of the **net** result of all projected Merger Costs and Savings, under the Staff's assumptions, which demonstrates that the proposed merger will be detrimental to SJLP's ratepayers, absent the Staff's recommended conditions required for merger approval.

PROPOSED REGULATORY PLAN

Q. Why is it necessary to analyze the expected costs and benefits that will result from a merger of St. Joseph Light & Power Company (SJLP), Empire District Electric Company (EDE or Empire) and UtiliCorp United, Inc. (UCU)?

A. The Commission is bound by a Missouri statute regarding the approval of regulated utility company mergers. The Joint Applicants are required to demonstrate that the proposed merger is not detrimental to the public interest. It is, therefore, incumbent on the Joint Applicants (SJLP and UCU) and the Staff to conclude and recommend to the Commission that the proposed merger is not expected to result in:

(1) Higher utility rates for the customers of SJLP, Empire and UtiliCorp's Missouri division, Missouri Public Service (MPS), as a result of the merger; and

(2) Deterioration in the level of customer service.

Q. Does the not detrimental to the public interest standard in Missouri require that any of the Missouri customers of SJLP, UCU or Empire benefit from the proposed merger?

1 A. No. The Joint Applicants do not have to demonstrate net benefits (savings
2 exceeding costs), or improved customer service. They do have to demonstrate that costs
3 resulting from the merger will not exceed the savings, resulting in higher utility rates, and
4 that customer service will not deteriorate.

5 Q. Is it generally true that utility merger applications are presented by the
6 applicants on the assumption that merger-related benefits will exceed costs?

7 A. Yes. In all of the previous major merger applications in Missouri, the
8 Joint Applicants projected that savings would exceed all transaction, transition,
9 consolidation costs as well as the merger premium acquisition adjustment. The monies
10 which exceeded the recovery of costs were then purported to be used for rate mitigation
11 for customers.

12 Q. With respect to this proposed merger between UCU and SJLP, are the
13 Joint Applicants projecting savings which exceed transaction, transition, consolidation
14 costs as well as the merger premium acquisition adjustment?

15 A. No. Reflected below are the Joint Applicants' projected savings and
16 merger-related costs over the 10-year period following the closing of the merger. The
17 amounts are separated between expected financial results for years 1-5 and 6-10
18 respectively. Line 21 reflects that projected savings will exceed projected transition,
19 transaction and consolidation costs by \$21.3 million in the first five years and
20 \$38.4 million in the second five years.

21 However, when recovery of the acquisition premium is considered, the Joint
22 Applicants' project a (\$46.3 million net loss) in years 1-5 and a (\$22.6 million net loss) in

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years 6-10. A total net loss is expected of (\$68.9) million during the first 10 years following approval of the merger.

UCU/SJLP Projected Merger		
<u>Costs/Savings</u>		
	<u>Years</u>	<u>Years</u>
	<u>1-5</u>	<u>6-10</u>
Operation & Maintenance Consolidation Savings	\$81,385	\$102,882
Additional Capital Costs to Implement Consolidation	<u>(13,267)</u>	<u>(\$ 11,916)</u>
Total Savings, Net of Costs to Achieve	\$68,118	\$ 90,966
Increase in Operation & Maintenance Expense -		
UCU Allocations	<u>(\$46,842)</u>	<u>(\$ 52,560)</u>
Total Savings Less Costs Excluding Premium Amount	\$21,276	\$ 38,406
Amortization of Total Acquisition Premiums	<u>(\$67,582)</u>	<u>(\$ 61,040)</u>
Net Loss – Years 1-5	<u>(\$46,306)</u>	
Net Loss – Years 6-10		<u>(\$ 22,634)</u>
Net Loss – Years 1-10		<u>(\$68,940)</u>

Q. Referring to the Joint Applicants' projected net loss from the merger of (\$68.9) million during the initial 10 years after the merger closing, how can UCU and SJLP justify moving forward on a merger which is expected to cost shareholders (\$68.9) million during the first 10 years following the merger closing?

A. Clearly, the Joint Applicants would not be attempting to justify this merger to their shareholders if the projected financial results told the entire story regarding the "Regulatory Plan" being requested in the application of the Joint Applicants.

Q. The Regulatory Plan being proposed by the Joint Applicants is explained in detail in the testimony of Staff witnesses Mark L. Oligschlaeger, David Broadwater and Dr. Michael Proctor.

1 However, I will briefly explain how the proposed Regulatory Plan forces the
2 existing ratepayers of MPS and SJLP to subsidize the recovery of the acquisition
3 premium and merger costs which are not recoverable through projected savings.

4 (1) UCU's general and administrative overhead costs, which benefit
5 all of its U.S. regulated and non-regulated divisions/subsidiaries, are currently allocated
6 to 27 separate divisions or subsidiaries. Adding SJLP and Empire to the organization
7 results in an immediate reduction in the allocation percent for the 27 existing entities
8 which receive an allocation of UCU's overhead costs. UCU's existing Missouri
9 regulated utility division, Missouri Public Service (MPS) is one of the 27 existing entities
10 that would benefit from a **reduction** in the allocation factor used to assign UCU's
11 overhead costs to MPS.

12 However, under the proposed Regulatory Plan, the Joint Applicants are requesting
13 that this cost allocation benefit to MPS be "ignored" in any rate case involving MPS
14 during the first 10 years following the merger.

15 This recommended ratemaking treatment for MPS is nothing more than a
16 backdoor approach to force UCU's existing Missouri customers to subsidize the net loss
17 from the merger, referred to previously, which results because projected merger savings
18 are insufficient to cover all merger costs and the acquisition premium.

19 The Commission is being asked to "make believe" that the acquisition of SJLP
20 and/or Empire did not happen regarding any UCU overhead allocation reduction to MPS
21 for the next 10 years.

22 Using UCU's own projections, MPS's allocated share of Corporate Overhead
23 Costs would be reduced by an average \$3.5 million annually as soon as SJLP began

1 absorbing its allocated share of these costs. Schedule SMT-8 reflects the additional cost
2 to MPS ratepayers from this proposal. The Regulatory Plan requires the Commission to
3 “ignore” this cost reduction and increase rates for UCU’s existing MPS ratepayers by an
4 average of \$3.5 million annually as a result. It is my understanding that a MPS rate case
5 is expected to be filed within the next two years. Assuming that the Commission adopted
6 the proposed Regulatory Plan, MPS’s Missouri ratepayers will be forced to subsidize the
7 merger acquisition premium and merger costs by approximately \$28 million during the
8 10-year period being used to project merger costs and savings by UCU/SJLP.
9 Schedule SMT-8 reflects the calculation of the subsidy by MPS ratepayers during the
10 eight-year period after MPS’s next expected rate case.

11 The fact that UCU is even considering such an unfair plan for its existing
12 Missouri ratepayers is a clear indication of the insufficient level of merger savings
13 expected from this merger.

14 (2) A similar “make believe” assumption is being propounded
15 regarding rate cases involving SJLP during the first 10 years following the merger
16 closing. The Regulatory Plan includes a request that the Commission “make believe”
17 that SJLP remains a separate Missouri electric utility with its own capital structure for the
18 purpose of determining the rate of return used in a rate case for the SJLP division.

19 SJLP’s current premerger capital structure has a higher equity ratio than UCU’s
20 consolidated capital structure following the merger. If the Joint Applicants can get the
21 Commission to “assume” that SJLP’s pre-merger capital structure still exists for the next
22 10 years, then SJLP’s customers will also be forced to subsidize the recovery of the
23 merger acquisition premium and merger costs not covered by merger savings. Staff

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1 witness David Broadwater addresses the detrimental aspects of this regulatory proposal in
2 this rebuttal testimony. This proposal, if adopted, requires SJLP's ratepayers to subsidize
3 the acquisition premium and other merger costs by approximately \$6.4 million in the
4 form of higher rates in Years 6-10.

5 (3) Joint Applicants' witness, Robert Holzwarth, addresses the
6 projected merger savings that will result from:

7 (a) jointly dispatching the combined generation units of
8 SJLP and MPS resulting in efficiency savings; and

9 (b) a projected increase in the sale opportunities on the
10 interchange market resulting in higher interchange profits.

11 No witness, including Mr. Holzwarth, will deny that savings in the two areas
12 described above require the **joint** use of the generation assets of SJLP and UCU's
13 Missouri division, MPS, assuming a UCU/SJLP merger, and that any projected savings
14 from a merger involving SJLP, Empire and UCU result from the **joint** use of the
15 generation assets of all three utilities. Since the projected benefits from efficiency gains
16 and increased opportunities on the interchange market result from the use of joint
17 facilities, one would logically assume that benefits would be jointly shared by UCU,
18 SJLP and Empire.

19 However, the word "logical" does not apply to the Regulatory Plan being
20 proposed in this case. With the exception of some capacity cost savings. Mr. Holzwarth
21 is assigning 100% of all energy benefits, resulting from the joint dispatch of the
22 combined generation assets, to the SJLP and Empire ratepayers. The Commission is
23 being asked to assume that the MPS ratepayers, who have been paying depreciation and a

1 rate of return on MPS's Sibley generating station and other MPS generating facilities, for
2 the last 35 years, have no right to any benefits resulting from the joint use of these
3 facilities after the merger.

4 This proposal, if adopted, will also result in a forced subsidization of the
5 acquisition premium and merger costs by UCU's existing Missouri ratepayers. Staff
6 witness Dr. Michael Proctor addresses this issue in his rebuttal testimony.

7 (4) The Regulatory Plan requires the measurement of merger costs and
8 savings for a five-year period following merger approval. The Joint Applicants have not
9 presented any detailed plan as to how they plan to separate non-merger savings from
10 merger savings. Not being able to differentiate between non-merger and merger savings
11 will result in an increase in SJLP's cost of service when non-merger savings are used to
12 offset merger costs.

13 Q. Does any proposal requiring the tracking of merger savings and costs
14 require a "base year" to be used for the purpose of attempting to measure the amount of
15 net savings/costs resulting from the merger.

16 A. Yes. In theory, a pre-merger "base year" which reflects pre-merger costs
17 is required to measure the savings resulting from the merger.

18 The Staff is opposed to any proposal that attempts to measure merger costs and
19 savings after a merger. The reasons supporting our objections are addressed in detail in
20 the testimony of Staff witnesses Mark L. Oligschlaeger, Janis E. Fischer, Dr. Michael
21 Proctor and Cary Featherstone.

22 Q. What "base year" is being proposed by UCU/SJLP for the purpose of the
23 tracking merger savings and costs?

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1 A. The 1999 budget for SJLP is being proposed for this purpose.

2 Q. What "base year" is being proposed by the Staff for the purpose of
3 tracking merger costs and savings?

4 A. The only reason the Staff is recommending any base year for tracking
5 merger savings and costs is to avoid using the 1999 budget, as proposed by UCU/SJLP,
6 in the event the Commission rejects Staff's primary position on this issue. However, in
7 the event the Commission does approve a merger tracking proposal, the Staff is
8 recommending that an updated cost of service calculation through December 31, 1999 be
9 used in lieu of the 1999 budget.

10 Q. Why is the Staff opposed to using the 1999 budget of SJLP for a base year
11 for tracking merger costs and savings?

12 A. At best, a budget is nothing more than a best estimate about events
13 12-14 months in the future at the time the budget is proposed. The volatility in the
14 purchase power and interchange market today is impossible to budget 12-14 months in
15 advance.

16 The Joint Applicants' recommendation for using the 1999 SJLP budget also does
17 not include a recommendation for truing-up budgeted amounts for significant differences
18 between "budgeted" and "actual" 1999 results, which makes it unsuitable as an accurate
19 base year to be used in tracking merger costs and savings.

20 Q. Are you aware of any significant differences between SJLP's 1999 budget
21 and actual results for 1999?

22 A. Yes. A scheduled maintenance outage for the Iatan generating unit was
23 scheduled for the Fall of 1999 and included in the 1999 budget at an amount of

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1 \$1,816,000 (Response to Staff Data Request 223). The Iatan maintenance outage was
2 canceled later in the year and rescheduled for the Spring of 2000.

3 This one difference between actual and budgeted results in 1999 makes the SJLP
4 1999 budget unsuitable for the purpose of tracking merger costs and savings resulting
5 from a Commission order adopting such a proposal.

6 Using the 1999 SJLP budget unadjusted, would "guarantee" \$1,816,000 in merger
7 savings that do not exist because it includes \$1.8 million in maintenance expense that
8 does not exist.

9 Q. What are the advantages of using the Staff's updated cost of service
10 calculation through December 1999 as a base year for tracking merger costs and savings?

11 A. The Staff's recommended rate reduction for SJLP in the recent rate case,
12 ER-99-247, was based upon a test year ending December 31, 1998 updated for known
13 and measurable results through March 31, 1999.

14 Using the results of the audit in Case No. ER-99-247 as a starting point allowed
15 the Staff to perform sufficient auditing regarding significant changes which occurred
16 between March 31, 1999 and December 31, 1999. The Staff's updated cost of service
17 calculations for SJLP's Electric, Gas and Steam operations reflect all known and
18 measurable changes through December 31, 1999. These cost of service calculations also
19 include disallowances for costs that should not be recovered from ratepayers such as
20 merger transaction costs, charitable contributions, dues and donations. The 1999 budget
21 for SJLP is overstated because no such disallowance adjustments are included.

Results of Staff's Updated Cost of Service for SJLP

Q. What was the test year and known and measurable date for the Staff's updated cost of service calculation for SJLP's Electric, Gas and Steam operations?

A. The 1998 test year for SJLP's recent rate case, ER-99-247, was also used in updating SJLP's cost of service through December 31, 1999.

Q. Is there any risk in understating the cost of service for SJLP by using a 1998 test year as opposed to 1999?

A. No. I have heard witnesses attempt to make that argument in similar circumstances. However, as long as the test year is adjusted to reflect all significant material changes which have occurred through the cut-off date (December 31, 1999 in this case), then the adjusted test year will reflect SJLP's current cost of service.

The only way that a 1998 test year or any test year for that matter could understate SJLP's cost of service is if a material change in cost occurred after 1998 that was overlooked and not adjusted for.

Q. Is it your opinion that all material changes in SJLP's cost of service have been reflected in the Staff's cost of service EMS runs as of December 31, 1999?

A. Yes. The updated cost of service calculations include adjustments to reflect current revenue, expense and cost of capital as of December 31, 1999 for the following cost elements:

Plant in Service
Accumulated Depreciation Reserve
Accumulated Deferred Income Tax Reserve
Materials and Supplies
Prepayments
Fuel Inventories
Deferred Charges includible in Rate Base
Customer Deposits

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1 Revenue Growth through December 31, 1999
2 Fuel and Freight Costs
3 Purchase Power Energy and Demand Costs
4 Payroll Costs
5 Payroll Vacancies as a result of the Merger
6 Property Taxes
7 Payroll Taxes
8 Employer Benefits Costs
9 Elimination of Merger Costs
10 Disallowance of Dues, Donations, Charitable Contributions
11 PSC Assessment
12 Rate Case Expense
13 Weather Normalization for 1998
14 Maintenance Normalization
15 Disallowance of Nonrecurring Y2K Costs
16 Depreciation Expense
17 Current and Deferred Income Tax Expense
18 Cost of Capital/Rate of Return

19 Q. Were any unusual adjustments required to eliminate understated expenses
20 as a result of the merger?

21 A. Yes. In all rate cases, both the Staff and the company annualize payroll
22 costs based upon employee levels and wage rates as of the end of the update cutoff date
23 which was December 31, 1999 in this case. However, updating SJLP's payroll through
24 December 31, 1999 produces an annual level of payroll costs which is understated due to
25 the impact of the merger on employee levels as of December 31, 1999. SJLP, like any
26 other company involved in a proposed merger with another company, experienced a
27 significant loss of employees who voluntarily left the company in 1999. As a result,
28 adjustments were made to the Electric, Gas and Steam cases to increase annualized
29 payroll cost to reflect normal, pre-merger operations. The Electric, Gas and Steam cases
30 include adjustments to increase payroll cost by approximately \$850,000 on a total
31 company basis.

1 Q. Do the results of the Staff's Cost of Service EMS runs reflect any material
2 need for rate relief or excess earnings respecting SJLP?

3 A. No. The revenue requirement and/or (excess) as reflected on the Electric,
4 Gas and Steam cost of service EMS runs are as follows:

- 5 • Electric (\$565,601)
- 6 • Gas (\$ 49,857)
- 7 • Steam (\$ 1,337)

8 Q. Are you the only Accounting witness sponsoring adjustments in the
9 updated, Cost of Service EMS runs for SJLP's Electric, Gas and Steam operations filed in
10 this case?

11 A. Yes. Due to the fact that no recommendation is being made regarding a
12 change in rates based upon the results of Staff's updated Cost of Service calculations, I
13 am the only Accounting witness. I have either prepared the adjustments reflected in the
14 cost of service EMS runs or have supervised those who did and can answer questions
15 regarding any Accounting adjustments in the runs.

16 Staff Witnesses Janice Pyatte, Lena Mantle and Tom Lin have also filed rebuttal
17 testimony supporting specific revenue adjustments and the fuel model results supporting
18 Staff's annualization of fuel and purchase power energy costs.

19 Q. Please summarize the primary purpose of updating SJLP's Cost of Service
20 for its Electric, Gas and Steam operations?

21 A. The Regulatory Plan proposed by UCU/SJLP includes a recommendation
22 to track merger savings and costs for five years after closing of the merger. The Joint
23 Applicants intend to demonstrate in SJLP's next rate case that merger savings exceed

1 merger costs by an amount which will justify rate base treatment and expense recovery
2 for 50% of the merger acquisition premium. The Staff is strongly opposed to the
3 Regulatory Plan; however, in the event the Commission approves some form of merger
4 cost/savings tracking proposal, the "base year" required should be the Staff's updated
5 cost of service calculations and not the 1999 budget as proposed by the Joint Applicants.

6 **Projected Savings/Costs from Consolidating Transmission, Distribution and**
7 **Administration and General/Customer Service and General Plant Functions**

8 Q. Before discussing the Joint Applicants' specific projected merger savings
9 and costs, please explain UCU's corporate structure and method for assigning its
10 corporate overhead costs to its regulated and non-regulated divisions/subsidiaries.

11 A. UtiliCorp is a multinational corporation with regulated and non-regulated
12 operations in the United States, Canada, New Zealand, Australia and the United
13 Kingdom. UCU has regulated gas and electric operations in the states of Missouri,
14 Kansas, Nebraska, Colorado, Iowa, Michigan and Minnesota.

15 For a number of years, UCU has pursued a strategy of consolidating common
16 functions for its domestic operations. UCU's international operations are run
17 autonomously and are assumed to have little impact on the allocation of UCU's corporate
18 overhead costs to the regulated and non-regulated operations in the United States.

19 Enterprise Support Functions (ESF) refers to departments such as Executive,
20 Treasury, Finance, Accounting at UCU which support all of the domestic divisions and
21 subsidiaries, both regulated and non-regulated.

22 IntraBusiness Unit (IBU) Departments consolidate functions on a line of business
23 basis at UCU. As an example, management functions for the Electric Transmission
24 Function for all states is consolidated at UCU's corporate headquarters. The executive

1 management cost for Production Facilities in Missouri, Kansas and Colorado is
2 consolidated at UCU headquarters as another example.

3 Q. How many separate non-regulated operations in the United States are also
4 included in the allocation of ESF overhead costs?

5 A. The allocation model, used by both the Staff and the Joint Applicants to
6 estimate the impact of UCU corporate overhead allocations, on the cost of service of
7 SJLP includes the following non-regulated operations/activities:

- 8 • UtilCo. Group, Inc.
- 9 • Aquila Energy Corporation
- 10 • Aquila Energy Marketing Corporation
- 11 • GSS Min Continent
- 12 • PNG Pipeline
- 13 • Global Securities Resources
- 14 • Service Today-General
- 15 • CL-General
- 16 • Missouri Pipeline
- 17 • Missouri Gas Pipeline
- 18 • Regulated Utilities – non-regulated activity
- 19 • Omega Pipeline

20 Q. How are UCU's corporate ESF and IBU overhead costs allocated to its
21 numerous domestic regulated and non-regulated operations?

22 A. Each ESF and IBU Department allocates its costs based upon the
23 calculation of allocation factors using historical data considered to be the primary cost
24 driver for the particular costs incurred.

25 Most of the ESF Department costs, which benefit all domestic regulated and non-
26 regulated operations, are allocated on a general allocator based upon the average of gross
27 margin, payroll and net plant.

28 Q. Which Federal Energy Regulatory Energy Commission (FERC) functional
29 expenses categories are consolidated by UCU's centralized structure?

1 A. The FERC functional expense areas for which consolidation occurs at the
2 UCU headquarters level are reflected below:

- 3 • Production/Management Expenses
- 4 • Transmission/Management Expenses
- 5 • Distribution/Management Expenses
- 6 • Customer Accounts Expense
- 7 • Customer Service and Information Expense
- 8 • Sales Expenses
- 9 • Administrative and General Expenses (A&G)
- 10 • Payroll Taxes
- 11 • General Plant Investment and Depreciation Costs

12 The A&G and Customer-related functions are consolidated to a greater degree
13 than the Production, Transmission and Distribution functions.

14 Q. Did you prepare an analysis in an effort to determine whether UCU's
15 corporate structure had resulted in cost savings for MPS when compared to SJLP?

16 A. Yes. In response to Staff Data Request 591, UCU provided the UCU
17 corporate overhead costs allocated to MPS from July through December 1999.
18 Approximately 70% of the allocated costs were related to the Customer and A&G
19 functions. I prepared a four-year analysis for the years 1995-1998 for the following
20 expense functions for both SJLP and MPS's electric operations:

- 21 • Customer Accounts Functions
- 22 • Customer Service and Information Functions
- 23 • Sales Functions
- 24 • Administration and General (A&G) Functions

25 Q. What were the results of your analysis of the Customer Service and
26 Administrative and General (A&G) Functions of UCU's MPS division and SJLP?

27 A. The results of my analysis of MPS's and SJLP's electric operations for the
28 years 1995-1998 are reflected below:

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	1995 - 1998
	<u>SJLP</u> <u>MPS</u>
Average \$/Customer-Customer Service A&G Costs	\$169 \$200

On an average cost per customer basis, SJLP's annual costs for the Customer Service and Administrative and General Functions were \$31 less than those of MPS from 1995-1998. Stated as a percentage, SJLP's costs were 15% less than MPS's every year on average.

Q. Do the results of your analysis raise a concern regarding the risk that SJLP's annual cost of service may increase after the merger as a result of UCU's corporate structure?

A. Yes they do. In addition to MPS's Customer Service and A&G costs being higher, UCU's corporate structure presents other risks to SJLP's customers which don't exist at the current time for SJLP.

Q. What additional risks for SJLP's customers result from a merger with UCU?

A. Earlier in my testimony, I listed 12 non-regulated UCU divisions/subsidiaries who receive an allocated share of UCU's corporate overhead costs. In every instance where a regulated utility consolidates functions which are jointly used by its regulated and non-regulated operations, there is an incentive for the utility to subsidize its non-regulated operations by allocating a disproportionate share of its overhead costs to the regulated jurisdiction.

SJLP's limited investment in non-regulated operations presents no similar risk to its regulated ratepayers.

Q. What is your experience involving rate proceedings with UCU's MPS division?

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1 A. Since returning to the Commission in 1989, I have been directly involved
2 as the lead auditor in three rate cases involving MPS: ER-90-101, ER-93-37 and
3 ER-97-394. Two of those cases, ER-90-101 and ER-97-394, went to hearing.

4 Q. Was the fairness of UCU's corporate overhead costs allocation at issue in
5 those proceedings?

6 A. Yes, in every case since 1990, UCU's Corporate Overhead Cost
7 allocations to MPS have been a seriously contested issue.

8 As an example, the Corporate Overhead Cost issues raised by the Staff in the
9 most recent MPS case, ER-97-394 are listed below:

10	Governmental Affairs	\$ 399,794
11	Public Affairs	\$ 254,444
12	TransUCU (Corporate Jet)	\$ 515,922
13	Severance Costs	\$ 142,662
14	Common Plant Allocation	\$ 517,000
15	Mergers & Acquisitions	\$ 726,122
16	Discretionary Bonus	\$ 147,787
17	Ernst & Young Synergy Study	<u>\$ 46,627</u>
18	Total Value of Issues that went to Hearing	\$2,795,358
19	Marketing Costs Disallowance (accepted by UCU)	<u>\$3,763,253</u>
20	Total Corp. Overhead Issues	<u>\$6,558,611</u>

21 The Staff's position on all of the above issues were accepted by the Commission
22 with the exception of the Common Plant Allocation issue.

23 Q. Do you anticipate having to raise these same issues in future rate
24 proceedings involving the MPS, SJLP and Empire divisions of UCU, assuming UCU's
25 proposed mergers with SJLP and Empire are approved?

26 A. Yes. Based on past experience, I expect to continue to devote significant
27 time and resources for the purpose of identifying UCU's Corporate Overhead Costs,
28 allocated to its regulated divisions in Missouri, which having nothing to do with
29 providing regulated electric and gas service in this state.

1 Q. Who will bear the costs of outside consultants and Staff resources devoted
2 to auditing UCU's Corporate Overhead Costs in future cases?

3 A. Although I have not attempted to quantify the costs of auditing UCU's
4 post-merger Corporate Overhead Costs, these audit costs, whatever they are, will be
5 reflected in the SJLP and Empire division's PSC Assessment and Rate Case Expense,
6 both of which will be recovered from the SJLP and Empire ratepayers, assuming the
7 proposed mergers are approved. These additional audit costs related to rate cases
8 involving the SJLP and Empire divisions, post-merger, are costs which do not exist for
9 SJLP and Empire ratepayers today.

10 Q. Earlier in your testimony you identified the functional cost areas that are
11 impacted by UCU's Corporate Overhead allocations. How will the allocation of
12 depreciation and carrying costs (rate of return) related to UCU's General Plant facilities
13 impact SJLP's cost of service?

14 A. The allocation of UCU's numerous corporate headquarters facilities and
15 significant investment in infrastructure necessary to consolidate its non-regulated and
16 regulated operations in seven states, will increase SJLP's cost of service significantly.

17 Q. Have you calculated the increase to SJLP's cost of service resulting from
18 UCU's allocation of General Plant investment and related depreciation costs to SJLP?

19 A. Yes. Schedule SMT-2 reflects that SJLP's current cost of depreciation
20 and carrying costs (rate of return) related to its investment in General Plant is \$3,188,986
21 annually, reflected on line 20 of Schedule SMT-2. Line 25 reflects the increase in
22 General Plant depreciation expense and carrying costs based upon the projected cost
23 increases sponsored by Joint Applicants' witness Vern J. Siemek. Line 25 reflects that

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1 SJLP's cost of service will increase \$2.3 million annually as a result of being allocated a
2 share of UCU's General Plant and Infrastructure Costs. Line 26 illustrates that a
3 \$2.3 million increase represents a 71.5% increase over SJLP's current cost of service for
4 General Plant and related Depreciation expense.

5 Q. In your opinion, do SJLP's ratepayers need to pay an additional
6 \$2.3 million annually for UCU's General Plant investment costs in order to continue to
7 receive safe and adequate service at just and reasonable rates?

8 A. Certainly not. This specific cost of service increase occurs only as a result
9 of the additional plant investment and infrastructure costs necessary for UCU to
10 consolidate its regulated and non-regulated operations in seven states.

11 Q. Is there any dispute between the Staff and the Joint Applicants as to
12 whether SJLP's cost of service will increase as a result of allocating UCU's Corporate
13 Overhead Costs to SJLP after the merger?

14 A. No. This is one area that both sides agree upon. However, there is
15 significant disagreement as to how much the incremental increase will be to SJLP's cost
16 of service resulting from UCU's corporate overhead allocations.

17 Q. What are the differences between the Joint Applicants' and the Staff's
18 projected merger costs and savings resulting from the consolidation of functions in the
19 Transmission, Distribution, Customer Service, Administration & General, and General
20 Plant functions?

21 A. Joint Applicants' witness, Vern J. Siemek, sponsors Schedule VJS-1,
22 which reflects the Joint Applicants' total Projected Merger Savings and Costs. Attached
23 to my rebuttal testimony is Schedule SMT-3, which duplicates witness Siemek's

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Schedule VJS-1 and also reflects the Staff's Projected Merger Costs and Savings. The significant differences between Joint Applicants' and the Staff's Projected Merger Costs and Savings are reflected on Schedule SMT-3. Lines 2, 3 and 4 of Schedule SMT-3 reflect the projected savings in the Transmission, Distribution, Customer Service, A&G and General Plant Functions. The projected merger savings in these functional areas result from projected reductions in personnel and related payroll taxes by consolidating some of SJLP's existing operations at the UCU corporate level.

The projected merger costs and savings resulting from consolidating of some of SJLP's current operations is summarized below and is also reflected on Schedule SMT-3. Lines 12, 13 and 14 of Schedule SMT-3 reflect the increase in SJLP's cost of service resulting from consolidating existing functions at SJP and the allocation of UCU's Corporate Overhead costs back to SJLP.

Schedule SMT-3		<u>10-Year Projections</u>	
Line No.		UCU/SJLP 000's	Staff 000's
2	A&G/Customer Service Savings	\$ 60,926	\$ 60,926
3	Distribution Savings	\$ 20,371	\$ 20,371
4	Transmission Savings	<u>\$ 5,771</u>	<u>\$ 5,771</u>
5	Total Merger Savings	\$ 87,068	\$ 87,068
12	SJLP Direct Costs Transferred to ESF Depts.	\$ 25,683	\$ 25,683
13	SJLP Direct Costs Transferred to IBU Depts.	\$ 13,561	\$ 13,561
14	ESF & IBU Depts. Allocated Back to SJLP	<u>(\$138,646)</u>	<u>(\$163,341)</u>
15	SJLP Cost Increase from UCU Allocations	(\$ 99,402)	(\$124,097)
	Net Cost Increase to SJLP	<u>(\$ 12,334)</u>	<u>(\$ 37,029)</u>
	Average Cost Increase Per Year	<u>(\$ 1,233)</u>	<u>(\$ 3,703)</u>

Q. Do the amounts summarized in your last answer indicate that both the Joint Applicants and the Staff expect a significant increase in SJLP's post-merger cost of

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1 service due to the net impact of consolidation and allocating UCU's Corporate Overhead
2 costs to SJLP?

3 A. Yes. UCU/SJLP are projecting a \$12.3 million **net** increase to SJLP's cost
4 of service during the first 10 years after the merger closes which amounts to \$1.2 million
5 annually.

6 The Staff is projecting a \$37 million **net** increase in SJLP's cost of service which
7 amounts to \$3.7 million annually during the 10-year period immediately following the
8 merger closing.

9 Q. What assumption differences account for the approximate \$25 million
10 difference between the Staff and UCU/SJLP projected cost increase from UCU's
11 Corporate Overhead allocations and consolidation of existing SJLP operations?

12 A. There is one assumption differences which account for the Staff's
13 projected cost increase being \$25 million higher over the 10-year period following the
14 merger closing.

15 UCU/SJLP witness Vern J. Siemek has assumed a 2.5% annual inflation rate in
16 projecting the annual increase in: 1) savings; 2) costs transferred from SJLP to UCU; and
17 3) UCU Corporate Overhead costs allocated back to SJLP after the merger. I do not
18 consider the 2.5% inflation factor appropriate for UCU.

19 Q. In your opinion, should the inflation rate assumption for the UCU
20 overhead costs allocated back to SJLP, under a merger assumption, also be representative
21 of UCU's actual historical experience?

22 A. Yes. UCU's and SJLP's current historical experience provides the best
23 source of information for determining an appropriate growth/inflation rate for the costs

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subject to consolidation.

Q. Did you also prepare a historical analysis of UCU's growth rate for Corporate Overhead costs?

A. Yes. In response to Staff Data Request 594, UCU provided Staff with total ESF and IBU Department costs for 1995-1999 and the amount that was allocated to UCU's Missouri regulated MPS division. The results of my analysis are reflected on Schedule SMT-5 and are summarized below:

Annual % Increase in UCU ESF & IBU Dept. Costs	Total UCU	Allocated To MPS
1996-1999 - Four-Year Average	45.7%	45.7%
1997-1999 - Three-Year Average	23.3%	20.0%
1998-1999 - Two-Year Average	14.6%	6.2%

Please note that the above percent increases are not the total for the four-year period, but represent the average annual increase in every year.

MPS's allocated share of UCU's corporate overhead costs has increased from \$10.3 million in 1995 to \$46.5 million in 1999. A \$36.5 million annual increase in four years is significant from any point of view.

Q. Given the actual growth in UCU's Corporate Overhead costs allocated to MPS and the significant increase being projected by both UCU/SJLP and Staff for SJLP, as a result of the merger, should the calculation of an appropriate growth/inflation rate favor of SJLP's current ratepayers?

A. It certainly should. The not detrimental to the public interest standard that applies to this merger application addresses the question of whether or not the cost of providing utility service to SJLP's customers will increase as a direct result of the merger with UCU. With that in mind, I certainly do not believe that using Mr. Siemek's 2.5%

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1 inflation rate for UCU's Corporate Overhead costs is reasonable given the significant
2 annual cost increases experienced by UCU's Missouri regulated, MPS division since
3 1995.

4 Q. What growth/inflation rate are you recommending be used for the purpose
5 of projecting UCU's Corporate Overhead Costs for the 10-year period following the
6 closing of the merger?

7 A. Based on MPS's actual experience regarding allocated Overhead Costs
8 from UCU, I believe that a 5% growth rate is the lowest growth rate that should be used.
9 MPS's actual growth rate was 3.5% in 1999 as reflected on Line 11 of Schedule SMT-5.
10 However, based upon MPS's experience in the last three years, a rate of 20% or more
11 could be justified.

12 The only year since 1995 that MPS's allocated overhead costs from UCU did not
13 exceed 5%, by a significant amount, was 1999.

14 The primary purpose of analyzing UCU/SJLP projected merger costs and savings
15 is to make a recommendation as to whether a merger with UCU is expected to be not
16 detrimental to SJLP's ratepayers. I believe that a 5% growth rate to be the minimum
17 assumption suitable for this objective. Referring to Schedule SMT-5, once more, the
18 average growth rate for 1998 and 1999 of 6.2% also exceeds my 5% assumption.

19 Q. What impact did your inflation rate assumption have on the projected
20 savings by UCU/SJLP related to the consolidation of the functional expense areas
21 identified on pages 10 and 11 of this rebuttal testimony?

22 A. First, let me point out that I have assumed that 100% of the projected
23 savings from consolidation will be realized. The Staff has not made any adjustments to

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1 the Joint Applicants' projected savings amounts reflected on Lines 2, 3 and 4,
2 Columns A, B and C of Schedule SMT-3.

3 Q. Does the Staff have any motivation for making a negative
4 recommendation regarding a SJLP/UCU merger other than whether the SJLP and MPS
5 ratepayers will experience rate increases as a direct result of the merger with UCU
6 (merger costs exceed savings excluding the acquisition premium)?

7 A. No. The goal of the Staff's analysis of the projected impact of a
8 UCU/SJLP merger on SJLP and MPS ratepayers is to use assumptions which can be
9 supported by historical experience and which **allocate** merger costs and merger savings
10 **fairly** between SJLP and MPS ratepayers.

11 As stated previously, the Regulatory Plan being proposed by the Joint Applicants
12 will, with certainty, result in higher rates for both SJLP and MPS ratepayers if adopted.
13 The detrimental impacts of the proposed Regulatory Plan are also addressed in the
14 testimony of Staff witnesses Mark L. Oligschlaeger, Dr. Michael Proctor and David
15 Broadwater. I will estimate the approximate detrimental impact on SJLP and MPS
16 ratepayers later in this testimony.

17 Q. Please summarize the analysis performed by both the Joint Applicants and
18 the Staff regarding the impact on SJLP's cost of service of consolidating some existing
19 SJLP Transmission, Distribution, Customer Service, Administrative & General, and
20 General Plant/Depreciation functions at UCU after the merger.

21 A. Referring to page 26 of this rebuttal testimony, both the Joint Applicants
22 and the Staff expect a significant increase to SJLP's Cost of Service a result of
23 consolidating existing SJLP functions and allocating UCU's Corporate Overhead costs to

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SJLP. The Joint Applicants reflect a 10-year increase of \$12.3 million. My calculation results in a 10-year increase of \$37 million based upon more reasonable inflation rate assumptions for UCU Overhead Costs to be allocated to SJLP.

Q. Is it not true that the Joint Applicants are not assuming a rate increase, under the Proposed Regulatory Plan, during the first five years after the closing of the merger?

A. Yes. Under the Joint Applicants' Proposed Regulatory Plan, SJLP's ratepayers are not at risk of paying higher rates, as a result of the merger, until years 6-10 following the approval of the merger.

Q. What are the projected increases in SJLP's cost of service in years 6-10, under the Staff and UCU/SJLP assumptions for consolidation and UCU Corporate Overhead/Cost Allocations?

A. The projected merger costs and savings for years 6-10 are also reflected as follows on Schedule SMT-3.

Schedule SMT-3
Line No.

		Years 6-10	
		UCU/SJLP	STAFF
		000's	000's
2	A&G Customer Savings	\$ 32,484	\$32,484
3	Distribution Savings	\$ 11,122	\$11,122
4	Transmission Savings	<u>\$ 3,180</u>	<u>\$ 3,180</u>
5	Total Savings from Consolidation	\$ 46,786	\$46,786
12	SJLP Direct Costs Transferred to ESF Depts.	\$ 13,633	\$13,633
13	SJLP Direct Costs Transferred to IBU Depts.	\$ 7,404	\$ 7,404
14	ESF & IBU Depts. Allocated to SJLP	<u>(\$ 73,597)</u>	<u>(\$91,583)</u>
15	Total Costs from Consolidation	(\$ 52,560)	(\$70,546)
16	Net Cost Increase to SJLP	<u>(\$ 5,775)</u>	<u>(\$23,760)</u>
17	Average Cost Increase Per Year – Years 6-10	<u>(\$ 1,155)</u>	<u>(\$ 4,752)</u>

1 Q. Referring to your last answer, are both the Joint Applicants and the Staff
2 also projecting an increase to SJLP's cost of service resulting from consolidation and
3 allocation of UCU's Overhead Costs for Years 6-10 following the closing of the merger?

4 A. Yes. The Joint Applicants are projecting a \$5.8 million net cost increase
5 for Years 6-10. Staff is projecting a \$23.8 million cost increase for the Years 6-10.

6 Q. Given that both the Joint Applicants and the Staff are projecting a cost
7 increase in SJLP's cost of service as a result of consolidation and allocation of UCU's
8 Corporate Overhead Costs, how does UCU/SJLP address this negative impact in their
9 merger application?

10 A. UCU/SJLP are proposing a Regulatory Plan which results in the **forced**
11 **subsidization** of merger costs and the acquisition premiums by both MPS and SJLP
12 ratepayers during the 10-year period following the merger closing. The detrimental
13 impact of this proposed Regulatory Plan is addressed in this rebuttal testimony beginning
14 on page 3 and in the rebuttal testimonies of Staff witnesses Mark L. Oligschlaeger,
15 David Broadwater and Dr. Michael Proctor.

16 Q. In summary, will UCU/SJLP's projected merger savings in the Joint
17 Dispatch and Benefits Conversion areas offset the detrimental impact on SJLP's cost of
18 service resulting from consolidation of existing SJLP functions and allocation of UCU's
19 Corporate Overhead costs back to SJLP?

20 A. Certainly not. UCU/SJLP's projected savings in the Joint Dispatch and
21 Benefits Conversion areas are significantly overstated and, therefore, will not offset the
22 admitted negative impact on SJLP's cost of service resulting from functional
23 consolidation of existing SJLP operations and the allocation of UCU's Corporate

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1 Overhead costs to SJLP. The projected savings in the Joint Dispatch and Benefits
2 Conversion areas are grossly overstated for the reasons addressed in Dr. Proctor's
3 testimony on projected Joint Dispatch savings and in my testimony regarding
4 UCU/SJLP's projected savings from Benefits Conversion.

5 **Overstatement of Merger Savings from Benefits Conversion**

6 Q. What merger savings are being projected by UCU/SJLP as a result of
7 converting existing SJLP benefit plans to UCU benefit plans?

8 A. Referring to Schedule SMT-3, Line 5, Column C, UCU/SJLP are
9 projecting \$37.2 million in merger savings as a result of converting existing SJLP benefit
10 plans to those of UCU over the 10-year period following the merger closing.

11 Q. Do you consider \$37.2 million in projected savings from Benefits
12 Conversion to be realistic?

13 A. No. The merger savings from Benefits Conversion is significantly
14 overstated as a result of including \$25 million in Pension Cost reductions which **accrue**
15 to **all** of UCU's **other** divisions/subsidiaries as a result of **combining** the pension assets
16 of SJLP and UCU after the merger.

17 Q. What specific assumptions by USU/SJLP witness Browning have resulted
18 in an overstatement of merger savings related to the conversion of the SJLP pension plan
19 to the UCU plan?

20 A. In calculating the FAS 87 Pension Cost for the SJLP division, for the
21 10-year period following the merger closing, Mr. Browning has assumed that SJLP's
22 pension cost would be based upon the funded status of the SJLP plan **prior** to the merger.
23 This assumption is inconsistent with how UCU has treated the pension assets of all other

1 regulated acquisitions. Additionally, no UCU/SJLP witness has committed to keeping
2 SJLP's pension assets **separate** from UCU's pension assets after the merger.

3 Q. Is Mr. Browning's pension cost calculation, assuming SJLP's pre-merger
4 funded status, consistent with a UCU/SJLP data request response regarding the treatment
5 of pension assets after the merger?

6 A. No. In response to Staff Data Request No. 186, UCU/SJLP stated as
7 follows: "In general since it is most cost effective to merge all trust assets into one trust
8 (eliminates dual trust, audit and administrative costs), it is UCU's intent over time to
9 merge the SJLP pension trusts into the UCU master trust." (Emphasis added.)

10 Q. Are you aware of any other evidence that would support your conclusion
11 that UCU plans to consolidate the SJLP and UCU pension assets after the merger?

12 A. Yes. On May 14, 1999, UCU filed its Merger Restriction Statement. See
13 Form 5-4 filed by UCU with the Securities and Exchange Commission.

14 Paragraph (g) of Merger Restriction Statement includes the following statement:

15 The execution of, and the performance of the transactions
16 contemplated in, this Agreement will not . . . result in the
17 triggering or imposition of any restrictions or limitations on the
18 right of UCU, the Company or any of its Subsidiaries to amend or
19 terminate any Company Employee Plans and **receive the full**
20 **amount** of any **excess assets** remaining or resulting from such
21 amendment or termination, subject to applicable taxes. (emphasis
22 added.)

23 Q. Does the statement referenced in your last answer lead you to conclude
24 that UCU is serious about protecting its rights to the benefits from the excess assets in
25 SJLP's pension plan?

26 A. Yes. That is quite clear. UCU desires to avoid any restrictions on the use
27 of the excess pension assets in the SJLP plan.

1 Q. Please define the term excess assets as applied to the assets in a defined
2 benefit pension plan?

3 A. The legal obligation which must be funded in accordance with the
4 Employee Income Security Act (ERISA) of 1974 is referred to the Accumulated Benefit
5 Obligation (ABO), which represents the accrued liability of all benefits earned to date by
6 employees. Required minimum contributions are established under ERISA to ensure
7 funding of the ABO. The market value of assets which exceeds the ABO is considered
8 excess assets.

9 When a plan is terminated and a new plan takes its place, ERISA requires that
10 assets equal to the ABO of the old plan be transferred to the new plan. The excess assets
11 above the ABO can be used by the corporation for any purpose it sees fit.

12 The employees participating in a defined benefit plan have no legal right to the
13 pension assets which exceed the ABO.

14 Q. Are there any financial benefits to UCU under Mr. Browning's
15 assumption that SJLP's pension assets will be kept separate and distinct and not
16 combined with those of UCU after the merger?

17 A. No. It is unlawful to remove assets in a pension plan for general use with
18 the exception of a plan termination mentioned above. Using the excess assets in SJLP's
19 pension fund for general use by the corporation requires a termination of the existing plan
20 and a transfer of assets equal to the ABO to another plan. Under a termination
21 assumption, UCU could use the excess pension assets for any purpose it desires.
22 Referring again to the statement in my previous answer from the Merger Registration
23 Statement, UCU has made it clear that the merger transaction will not restrict it from

1 terminating any employee pension plan in order to receive the full amount of any excess
2 amounts remaining.

3 This concern is completely inconsistent with witness Mr. Browning's 10-year
4 assumption that the full amount of SJLP's pension assets will be kept separate and not
5 combined with the UCU pension assets or used for general corporate use after a plan
6 termination.

7 Q. Would UCU benefit from the excess SJLP pension assets under an asset
8 consolidation assumption, even if 100% of the SJLP pension assets are transferred to the
9 UCU fund?

10 A. Yes. This is the scenario I am addressing in this case based upon UCU's
11 historical experience with other regulated organizations.

12 Since SJLP's Pension Plan has a much higher funding ratio than the UCU Pension
13 Plan, (257% at December 31, 1999 compared to UCU of 147% at September 30, 1999)
14 adding the SJLP's pension assets to the UCU plan improves the funded status to 165%
15 for all existing regulated and non-regulated participants in the plan. This results in lower
16 pension costs and increased earnings for the existing plan participants (excluding SJLP).

17 The opposite is true for SJLP. SJLP's Funded Status December 31, 1999 of 257%
18 drops to 165%. If left unchallenged by the Missouri Commission, SJLP will experience a
19 significant increase in pension cost that must be recovered in rates from SJLP ratepayers
20 while all of UCU's other regulated and non-regulated plan members are experiencing a
21 windfall profit at the expense of SJLP ratepayers. My testimony in this case quantifies
22 the financial detriment to SJLP ratepayers under such an assumption.

1 Q. Briefly explain why combining the UCU and SJLP pension assets after the
2 merger results in lower pension costs for UCU's other divisions/subsidiaries at the
3 **expense** of SJLP ratepayers.

4 A. Schedule SMT-6, attached to my rebuttal testimony, reflects the Funded
5 Status for the SJLP and UCU Pension Plans as of January 1, 1999. The Funded Status is
6 calculated by dividing the market value of the Pension Fund Assets by the Accumulated
7 Benefit Obligation (ABO) which represents the liability for pension benefits earned to
8 date. The January 1, 1999 Funded Status for SJLP Pension Plan was the assumption used
9 by UCU/SJLP witness Browning.

10 Schedule SMT-6 reflects the following Funded Status calculations:

11	Funded Status – SJLP Pension Plan	222.3%
12	Funded Status – UCU Pension Plan	139.7%
13	Funded Status – Combined SJLP/UCU	153.1%

14 The Funded Status of a pension plan has a direct impact on Annual Pension
15 Expense calculated under Financial Accounting Standard (FAS) No. 87. FAS 87 is used
16 for determining pension cost for ratemaking purposes for both MPS and SJLP.

17 The **reduction** in the funded status of SJLP's pension plan from 222.3%, on a
18 stand-alone basis, to 153.1% on a **combined** basis will result in a **significant** increase in
19 Pension Cost in SJLP's cost of service under a UCU/SJLP merger assumption. However,
20 all of UCU's regulated and non-merger plan participants will experience a **reduction** in
21 pension costs at the expense of SJLP ratepayers.

22 UCU/SJLP witness Browning has overstated merger savings expected from
23 converting SJLP's existing pension plan, by not reflecting the significant increase in
24 pension cost for SJLP ratepayers resulting from consolidating the pension assets of SJLP
25 and UCU after the merger.

1 Q. Why is it a valid assumption that UCU will combine SJLP pension assets
2 with those of UCU after the merger in contrast to Mr. Browning's "stand alone"
3 assumption for calculating merger savings?

4 A. There are two incentives for doing so, neither of which considers the
5 significant detrimental impact on SJLP's ratepayers resulting from pension asset
6 consolidation.

7 (1) As Mr. Browning explains in his direct testimony, UCU's
8 plans to convert SJLP's benefit plans, including the pension plan, to
9 UCU's plan by July 1, 2001. Under such an assumption, it would
10 logically follow that UCU plans to combine the assets of the UCU and
11 SJLP pension plans after conversion.

12 (2) The most important reason for assuming that UCU will
13 combine the SJLP and UCU pension assets is UCU's historical experience
14 involving its other regulated utility divisions. If UCU is permitted to
15 combine the pension assets of SJLP and UCU, the earnings for its other
16 divisions/subsidiaries participating in the UCU plan will increase
17 approximately \$2.5 million annually resulting from lower allocated
18 pension costs. Conversely, SJLP's pension cost will increase an average
19 of \$2.5 million annually resulting in additional revenue recovery from
20 SJLP ratepayers.

21 Q. What has UCU's historical experience been regarding pension plan
22 conversion for its other regulated acquisitions?

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1 A. UCU has the following regulated divisions, which were previous
2 acquisitions of existing utility companies similar to the situation regarding SJLP:

- 3 • Kansas Public Service
- 4 • Michigan Gas Utilities
- 5 • Peoples Natural Gas – Colorado
- 6 • Peoples Natural Gas – Iowa
- 7 • Peoples Natural Gas – Kansas
- 8 • Peoples Natural Gas – Minnesota
- 9 • Peoples Natural Gas – Nebraska
- 10 • Northern Minnesota Utilities
- 11 • West Plains Energy – Colorado
- 12 • West Plains Energy – Kansas
- 13 • West Virginia Power - Sold 12/31/99

14 Without exception, the pension fund assets for these regulated acquisitions were
15 **combined** with the UCU pension fund assets at some date following the acquisition by
16 UCU.

17 Q. Please illustrate how the difference in the funded status of the SJLP and
18 UCU pension plans impact pension costs for SJLP under a merger assumption with UCU.

19 A. Schedule SMT-7 reflects the impact on SJLP's pension cost for 1999
20 resulting from reducing the actual funded status at January 1, 1999, of 222.3% (Schedule
21 SMT-6) to the combined SJLP/UCU funded status of 153.1% (Schedule SMT-6).

22 Line 9 of Schedule SMT-7 reflects that SJLP's Pension Cost for 1999 would
23 increase \$1,890,697 in 1999 based on an assumed Funded Status for the Combined
24 Pension Assets of SJLP and UCU after the merger, 153.1%.

25 Q. How did you calculate the total value of UCU/SJLP witness
26 Mr. Browning's overstated merger savings from benefit plan conversion during the
27 10-year period following the merger?

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1 A. In response to Staff Data Request 588, Mr. Browning provided his annual
2 growth assumptions used in calculating the merger savings for pension plan conversion.
3 I used Mr. Browning's growth rates for each year. I applied Mr. Browning's growth rates
4 to the increase in pension cost calculated on Schedule SMT-7 of \$1,890,697. The result
5 was an increase in Pension Cost to SJLP of approximately \$25 million over the 10-year
6 period.

7 Q. But isn't it true that UCU's other regulated and non-regulated
8 divisions/subsidiaries would, in fact, be the recipients of \$25 million in savings under a
9 merger assumption for UCU and SJLP?

10 A. Absolutely and that is the problem. Mr. Browning has failed to reflect the
11 detrimental impact on SJLP's ratepayers resulting from a pension asset combination in a
12 merger with UCU.

13 UCU/SJLP are required under the not detrimental to the public interest statute in
14 Missouri to demonstrate that the proposed merger will not result in increased rates for the
15 MPS and SJLP ratepayers as a direct result of the merger. The UCU/SJLP Merger
16 Application does not reflect the \$25 million increase in pension cost to SJLP ratepayers
17 as a result of consolidating the SJLP and UCU pension assets.

18 Q. Is the Staff recommending, as a condition to the merger, that UCU be
19 required to maintain SJLP's pre-merger pension plan funded status in order to eliminate
20 the significant increase to SJLP's cost of service for pension cost resulting solely from a
21 post-merger decision to combine SJLP's pension assets with those of UCU?

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1 A. Yes. The detrimental impact of a post-merger decision to combine SJLP's
2 pension assets with those of UCU must, in the Staff's view, be addressed now as a
3 condition to the merger.

4 Additionally, UCU/SJLP's projected merger savings in its Application must be
5 reduced by \$25 million in order to reflect the increase in pension cost to SJLP ratepayers.

6 **Results of Staff's Analysis of Projected Merger Costs/Savings**

7 Q. Are you the Staff witness responsible for summarizing the financial
8 impact of the Staff's recommended adjustments to the UCU/SJLP net benefits analysis?

9 A. Yes. UCU/SJLP witness Vern J. Siemek summarized the Applicants'
10 10-year projected merger costs and savings on Schedule VJS-1 attached to his direct
11 testimony.

12 I have duplicated Mr. Siemek's summary schedule on Schedule SMT-3 attached
13 to this rebuttal testimony.

14 Q. Briefly explain how the UCU/SJLP and Staff results regarding projected
15 merger costs and savings are reflected on your Schedule SMT-3.

16 A. The organization of Schedule SMT-3 was set up to mirror Mr. Siemek's
17 Schedule VJS-1 for ease of presentation and comparability. Columns (A) and (B) reflect
18 the same projected USU/SJLP amounts for merger costs and savings reflected on Siemek
19 Schedule VJS-1. Column (C) simply adds Mr. Siemek's two, five-year totals to get the
20 10-year total of UCU/SJLP projected merger savings and merger costs.

21 Column (D) provides the Staff's 10-year total of projected merger costs and
22 savings resulting from making adjustments to the UCU/SJLP amounts in areas of

disagreement. Column (E) reflects the total difference between the Staff and UCU/SJLP in the 10-year projected level of merger costs and savings.

Q. What is the purpose of Column on (F) on Schedule SMT-3?

A. Under their proposed Regulatory Plan, UCU/SJLP are not planning a rate case for the SJLP division until year 6 following merger closing. UCU/SJLP, as part of the Regulatory Plan, has guaranteed \$1.6 million in net savings to SJLP's ratepayers to be reflected in Cost of Service in that case.

Column (F) reflects the Staff's projected merger costs and savings for years 6-10 which are comparable to the UCU/SJLP 6-10 year levels in Column (B).

Q. What are the primary areas of disagreement between the Staff and UCU/SJLP regarding expected benefits/costs from this merger?

A. The primary areas of disagreement are as follows:

(1) Allocation Treatment of (Joint Dispatch); UCU/SJLP are assigning 100% of energy cost savings, from Joint Dispatch, to SJLP ratepayers and ignoring the fact that these savings, according to UCU/SJLP witness Holzwarth, result from the joint use of MPS and SJLP generating assets. With regard to savings that occur, as a result of the merger, Dr. Proctor is correctly allocating these benefits to both MPS and SJLP consistent with the joint use of the assets used to generate the savings;

(2) Assumed Growth/Inflation rates (UCU Corporate Overhead Allocations and Consolidation of existing SJLP operations);

1 (3) Whether the costs should be recoverable in rates
2 (Transition Costs and Acquisition Premium); and

3 (4) Whether UCU/SJLP's projected savings could be
4 accomplished by SJLP on its own under a no merger assumption. Savings
5 which would occur on their own, without the merger, are non-merger
6 savings and should not be assumed to offset merger costs. Dr. Proctor's
7 primary disagreement in the area of Joint Dispatch savings is that the
8 projected savings can be achieved by SJLP on a "stand alone" basis
9 without the merger.

10 Q. Referring to Line 16, Columns (C) and (D), the 10-year difference in
11 projected net merger savings and merger costs is as follows:

	<u>\$ 000's</u>
12 UCU/SJLP Net Merger Savings/Costs, Years 1-10	\$59,682
13 Staff Net Merger Savings/Costs, Years 1-10	<u>(\$38,246)</u>
14 10-Year Difference between Staff & UCU/SJLP	<u>\$97,928</u>

15
16 Q. How can you explain such a monumental difference in the 10-year
17 projected amounts reflected in your last answer?

18 A. There are four issues which account for such a significant difference in the
19 10-year projections of the Staff and UCU/SJLP summarized below:

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	Years 1-10 <u>(\$000s)</u>
1 UCU/SJLP Net Merger Savings/Costs	\$ 59,682
2	
3 Proper Allocation of Joint Dispatch Savings to MPS & SJLP	(\$57,679)
4	
5 Increase in Consolidation/UCU Overhead Allocations due	
6 To use of Appropriate Growth/Inflation Rate	(\$24,695)
7	
8 Disallowance of Transaction Costs Assigned to Shareholders	\$ 9,859
9	
10 Overstatement of Pension Benefits Conversion	<u>(\$25,413)</u>
11	
12 Staff Excess of Merger Costs over Merger Savings	<u>(\$38,246)</u>
13	

14 Q. Are any of the significant differences identified in your last answer related
15 to the proper mathematical calculation of specific amounts?

16 A. No. In every instance the Staff is challenging the validity of UCU/SJLP
17 assumptions as they relate to:

18 (1) **Fairness** to both SJLP and MPS's ratepayers - Joint
19 Dispatch allocations should result in fair assignment of savings from joint
20 dispatch to MPS and SJLP ratepayers.

21 (2) **Accuracy** based upon historical experience,
22 growth/inflation rate – UCU Corporate Overhead allocations;

23 (3) **Validity** as to whether the cost is something that ratepayers
24 should be paying for in rates – Acquisition Premium, Specific Transition
25 Costs assignable to shareholders or amounts for non-merger savings which
should be excluded from a merger cost/benefit analysis. Dr. Proctor
considers approximately 89% of witness Holzmarth's Joint Dispatch
Energy Savings to be non-merger savings available to SJLP on a "stand
alone" assumption.

1 (4) **Contradictory** as to the stated intent of how the merged
2 company plans to treat an item after the merger – Browning’s “stand
3 alone” assumption regarding SJLP’s Pension Assets after the merger
4 contradicts the stated intention of UCU/SJLP to combine the Pension
5 Assets of SJLP with those of UCU after the merger.

6 Q. Based on the results of the Staff’s analysis of projected merger savings
7 and costs, will this merger result in higher rates for SJLP’s ratepayers as currently
8 structured?

9 A. Yes, it is Staff’s position that UCU/SJLP merger savings are significantly
10 overstated. Staff believes that merger costs will exceed benefits by a significant amount
11 and result in higher rates for SJLP ratepayers. Additionally, as stated previously in my
12 testimony as well as in the testimonies of Staff witnesses Mark L. Oligschlaeger,
13 Dr. Michael Proctor and David Broadwater, the proposed UCU/SJLP Regulatory Plan is
14 considered detrimental to the MPS and SJLP ratepayers.

15 Staff witness Mark L. Oligschlaeger addresses the conditions necessary to
16 eliminate the detrimental impact of the UCU/SJLP merger on MPS and SJLP ratepayers.

17 I have addressed the detrimental impact of a pension asset consolidation on SJLP
18 ratepayers in this rebuttal testimony.

19 Q. In your view, does the proposed merger between UCU and SJLP make
20 economic sense to the shareholders of UCU?

21 A. The merger savings are not sufficient to cover merger costs and the merger
22 acquisition premium. Approval of the proposed Regulatory Plan will be required in order
23 to recover all of the costs of this merger. If approved, MPS and SJLP ratepayers will

Rebuttal Testimony of
Steve M. Traxler

1 subsidize the recovery of merger costs which will not be recovered from merger savings
2 in an approximate amount of \$34 million for the 10-year period following the merger
3 closing.

4 Q. In your opinion, is it likely that the management of UCU may be valuing
5 this merger, to some extent, on the assumption of the future deregulation of the
6 generation side of the business?

7 A. Yes. Merger savings do not provide benefits to UCU shareholders from
8 this proposed USU/SJLP merger. I think it is highly likely that this merger is being
9 valued based upon the anticipated value of the SJLP generation assets in a deregulated
10 market.

11 Q. What evidence do you have that the value of SJLP's generation assets in a
12 deregulated market will exceed the price paid today by UCU?

13 A. Attached as Schedule SMT-9 to this rebuttal testimony is a summary from
14 Public Utilities Fortnightly published September 1, 1999, labeled Plant Divestitures-Price
15 and Book Value. This table provides the historical relationship to date between the book
16 value and market value of generation assets which have been purchased in a deregulated
17 market.

18 Q. What is the relationship between book value and market value for all
19 generation assets listed on Schedule SMT-9?

20 A. The market to book ratio is as follows based upon Schedule SMT-9:

21	Total Market Price Paid	\$21,170
22	Total Book Value of Assets	9,835
23	Market Value to Book Ratio	<u>2.15</u>

Rebuttal Testimony of
Steve M. Traxler

1 Q. What is the estimated market value of SJLP's generation assets based
2 upon an annual market to book ratio of 2.15?

3 A. SJLP's net book value of its generation assets at December 31, 1999 and
4 the estimated market value of those assets is reflected below:

5		<u>December 31, 1999</u>
6	Book Value of Generation Assets	\$58,961,770
7	Estimated Market to Book Ratio	<u>2.15</u>
8	Estimated Market Value of Generation Assets	\$126,767,805


9 Q. Does this conclude your rebuttal testimony?

10 A. Yes it does.

OF THE STATE OF MISSOURI

AFFIDAVIT OF STEVE M. TRAXLER

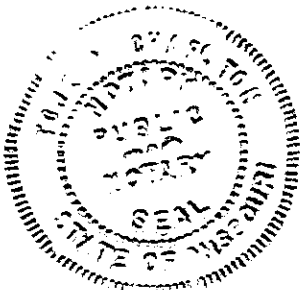
Steve M. Traxler, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, consisting of 62 pages to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


Steve M. Traxler

Subscribed and sworn to before me this 11 day of January 2002.

John H. Chandler

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



**Missouri Public Service
Case No. ER 2001-672**

Staff vs MPS Method for Computing Straight Line Tax Depreciation

Assumptions for Straight Line Tax Calculation Example:

1	Assumed Original Cost of Generating Unit	\$50,000,000		
2	Estimated Life used for Book Depreciation Rate	30 years		
3	Book Depreciation Rate based on Estimated 30 year Life	3.33%		
4	Actual Life of Generating Unit	40 years		
Revenue Requirement Impact - MPS vs Staff Method		MPS	Staff	
5	Original Cost of Generating Unit	\$50,000,000	\$50,000,000	
6	Book Depreciation Rate - based on Estimated 30 yr life	3.33%	3.33%	
7	Annual Book Depreciation Expense	\$1,666,667	\$1,666,667	
8	Actual Life of Generating Unit	40 years	40 years	
9	Total Book Depreciation Recovered in Rates	\$66,666,666	\$66,666,666	(1)
10	Straight Line Tax Depreciation - Years 1- 30 3.33 % Rate	\$50,000,000	\$50,000,000	
11	Straight Line Tax Depreciation - Years 31- 40 3.33 % Rate	\$0	\$16,666,667	
12	Total Straight Line Tax Depreciation over 40 yr Life	\$50,000,000	\$66,666,666	
13	Effective Tax Rate	38.39%	38.39%	
14	After Tax Deduction for S/L Tax Depreciation	\$19,195,000	\$25,593,333	(2)
15	Net Operating Income Impact	(\$47,471,666)	(\$41,073,333)	(1) - (2)
16	Tax Conversion Factor	1.623	1.623	
17	Revenue Requirement over Actual 40 year Life	\$77,051,884	\$66,666,666	
18	Windfall Profit under MPS's Straight Line Method	\$10,385,219		

UtiliCorp United, Inc.\St. Joseph Light and Power Company Merger
EM -2000-292

Analysis of General Plant Depreciation - December 31, 1999

Line No.	Account Number	Total Company Plant-in-Service December 31, 1999	Staff Total Company Adjustments	Staff Adjusted Total Company Plant December 31, 1999	Depreciation Rate	Depreciation Expense
1	389.000	\$ 733,546	\$ -	\$ 733,546	0.00%	\$ -
2	390.000	\$ 10,682,757	\$ (10,167)	\$ 10,672,590	3.10%	\$ 330,850
3	391.000	\$ 1,174,769	\$ 25,393	\$ 1,200,162	7.00%	\$ 84,011
4	391.100	\$ 5,787,154	\$ 78,155	\$ 5,865,309	0.00%	\$ -
5	391.200	\$ 357,436	\$ (18,273)	\$ 339,163	11.60%	\$ 39,343
6	391.300	\$ 1,890,024	\$ 214,475	\$ 2,104,499	14.30%	\$ 300,943
7	392.000	\$ 5,461,845	\$ 190,230	\$ 5,652,075	6.20%	\$ 350,429
8	393.000	\$ 253,933	\$ -	\$ 253,933	5.00%	\$ 12,697
9	394.000	\$ 1,107,393	\$ 12,832	\$ 1,120,225	4.40%	\$ 49,290
10	395.000	\$ 302,042	\$ 6,543	\$ 308,585	3.40%	\$ 10,492
11	396.000	\$ 574,072	\$ (1,960)	\$ 572,112	3.90%	\$ 22,312
12	397.000	\$ 2,629,809	\$ 61,854	\$ 2,691,663	4.90%	\$ 131,891
13	398.000	\$ 161,695	\$ 17,402	\$ 179,097	3.60%	\$ 6,447
14	Total	\$ 31,116,475	\$ 576,484	\$ 31,692,959	4.22%	\$ 1,338,706
15	SJLP - Investment in General Plant at December 31, 1999				\$ 31,692,959	
16	Less Accumulated Reserve for Depreciation				\$ (17,478,624)	
17	Net Investment in General Plant				\$ 14,214,335	
18	Carrying Cost based upon Rate of Return in Case No. ER 99-247				13.0170%	
19	Annual Revenue Requirement on SJLP's Investment in General Plant					\$ 1,850,280
20	Total Annual Cost - Depreciation and Rate of Return on General Plant					\$ 3,188,986
21	UCU Investment in General Plant allocated to SJLP (Siemek Workpaper I - 2 D)				\$ 16,005,000	
22	Estimated Depreciation Expense allocated to SJLP from UCU - DR 297				1.42%	
23	Estimated Annual Depreciation Expense - Response to DR 297, EM 2000-292				\$ 227,000	
24	Rate of Return on SJLP's Share of UCU's General Plant (Siemek WP I -2 D)				\$ 2,052,000	
25	Total Increase in SJLP's Cost of Service - UCU's General Plant Allocation					\$ 2,279,000
26	Percent Increase in SJLP's Cost of Service					71.46%

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

UCU/SJLP Projected Merger Cost / Benefit Analysis

UCU/SJLP Projected Merger Cost / Benefit Analysis						
	UCU/SJLP Total Years 1 - 5 000's (A)	UCU/SJLP Total Years 6 - 10 000's (B)	UCU/SJLP Total All 10 Years 000's (C)	Staff Total All 10 Years 000's (D)	Difference All 10 Years 000's (E) (D)-(G)	Staff Total Years 6 - 10 000's (F)
I Operating Costs - Current Dollars						
1 Dispatch / Generation Savings	\$26,082	\$33,883	\$59,965	\$2,286	(\$57,679)	\$ 1,829
2 General & Administrative / Customer Accounts Savings	\$28,442	\$32,484	\$60,926	\$60,926	\$0	\$32,484
3 Distribution Savings	\$9,249	\$11,122	\$20,371	\$20,371	\$0	\$11,122
4 Transmission Savings	\$2,591	\$3,180	\$5,771	\$5,771	(\$0)	\$3,180
5 Conversion to Utilicorp Benefits	\$15,021	\$22,213	\$37,234	\$11,821	(\$25,413)	\$ 7,587
6 Total O & M Savings	\$81,385	\$102,882	\$184,267	\$101,175	(\$83,092)	\$56,202
II Capital Savings (Costs)						
7 Depreciation - Interconnect / SCADA / T&D	(\$1,570)	(\$1,525)	(\$3,095)	(\$3,095)	\$0	(\$1,525)
8 Amortization of Transaction / Transition Costs	(\$7,545)	(\$7,537)	(\$15,082)	(\$5,223)	\$9,859	\$0
9 Return on Interconnect SCADA / T&D	(\$4,152)	(\$2,854)	(\$7,006)	(\$7,006)	\$0	(\$2,854)
10 Return on Transaction / Transition Costs	\$0	\$0	\$0	\$0	\$0	\$0
11 Total Capital Savings (Costs)	(\$13,267)	(\$11,916)	(\$25,183)	(\$15,324)	\$9,859	(\$4,379)
III Total Synergies, net of Costs to Achieve	\$68,118	\$90,966	\$159,084	\$85,851	(\$73,233)	\$51,823
IV Net Enterprise Support Functions Allocated to SJLP						
12 SJLP Direct Costs transferred to ESF Departments	\$12,050	\$13,633	\$25,683	\$25,683	\$0	\$13,633
13 SJLP Direct Costs transferred to IBU Departments	\$6,157	\$7,404	\$13,561	\$13,561	(\$0)	\$7,404
14 ESF and IBU Departments Allocated Back to SJLP	(\$65,049)	(\$73,597)	(\$138,646)	(\$163,341)	(\$24,695)	(\$91,583)
15 Net UCU Corporate Overhead Depts. Allocated to SJLP	(\$46,842)	(\$52,560)	(\$99,402)	(\$124,097)	(\$24,695)	(\$70,546)
V 16 Total Synergies, net of Costs to Achieve and Allocated Costs	\$21,276	\$38,406	\$59,682	(\$38,246)	(\$97,928)	(\$18,722)
VI Premium Costs						
17 Return on Premium	(\$48,399)	(\$41,857)	(\$90,256)	\$0	\$90,256	\$0
18 Amortization of Premium	(\$11,510)	(\$11,510)	(\$23,020)	\$0	\$23,020	\$0
19 Reflect non-tax deductibility of Premium	(\$7,673)	(\$7,673)	(\$15,346)	\$0	\$15,346	\$0
20 Total Premium Cost	(\$67,582)	(\$61,040)	(\$128,622)	\$0	\$128,622	\$0
VI 21 SJLP Share of Premium Costs - 50 %	(\$33,791)	(\$30,520)	(\$64,311)	\$0	\$64,311	\$0
VII 22 Synergies, net of 50 % of Premium	(\$12,515)	\$7,886	(\$4,629)	(\$38,246)	(\$33,617)	(\$18,722)
23 Average per Year	(\$2,503)	\$1,577	(\$463)	(\$3,825)	(\$3,362)	(\$3,744)

24 Inflation Rate - UCU ESF / IBU Dept. Costs 5.0%
25 Inflation Rate - SJLP Costs Transferred to UCU & Savings Estimates 2.5%

Utilicorp / St. Joseph Light & Power Merger Case
Case No. EM 00-292

SJLP Expense Analysis - 1995 - 1998							
No.	Account		1995	1996	1997	1998	1999
1	560 - 573	Total Transmission Expense	\$ 1,624,423	\$ 1,491,912	\$ 1,261,261	\$ 1,150,141	\$ 1,465,695
2	580 - 598	Total Distribution Expense	\$ 3,813,695	\$ 4,344,038	\$ 4,505,480	\$ 4,182,137	\$ 4,250,512
		Customer Accounts Expenses					
3	901	Customer Accounts Expense	\$47,898	\$38,795	\$85,496	\$77,950	\$69,045
4	902	Meter Reading Expense	\$396,593	\$425,818	\$585,574	\$601,046	\$661,239
5	903	Customer Records & Collection	\$960,564	\$986,774	\$699,775	\$661,530	\$680,519
6	904	Uncollectible Accounts	\$137,847	\$181,653	\$170,724	\$228,050	\$196,000
7	905	Miscellaneous Customer Accounts Expense	\$1,224	\$596			
8		Total Customer Accounts Expenses	\$1,544,126	\$1,633,636	\$1,541,569	\$1,568,576	\$1,606,803
		Customer Service & Information Expenses					
9	907	Supervision	\$63,830	\$56,046	\$48,343	\$65,232	\$60,425
10	908	Customer Assistance Expenses	\$447,100	\$487,520	\$252,305	\$264,338	\$248,082
11	909	Informational & Instructional Advertising Exp.	\$112,707	\$91,270	\$321,720	\$93,768	\$87,113
12	910	Misc. Customer Service & Information Exp.	\$12,105	\$14,918			\$698
13		Total Customer Service & Information Expenses	\$635,742	\$649,754	\$622,368	\$423,338	\$396,318
		Sales Expenses					
14	911	Supervision	\$11,352	\$8,545	\$96,055	\$90,786	\$80,436
15	912	Demonstrating and Selling Expenses	\$120,416	\$128,435	\$451,035	\$545,936	\$375,252
16	913	Advertising Expenses	\$3,413	\$9,891	\$20,794	\$8,445	\$5,013
17	916	Miscellaneous Sales Expense	\$589				
18		Total Sales Expenses	\$135,770	\$146,871	\$567,884	\$645,167	\$460,701
		Administrative & General Expenses					
19	920	Administrative & General Salaries	\$2,975,448	\$3,034,401	\$3,601,995	\$3,879,912	\$3,639,347
20	921	Office Supplies & Expenses	\$853,135	\$732,851	\$1,114,598	\$1,392,324	\$1,665,806
21	922	Administrative Expenses Transferred	(\$178,784)	(\$168,920)	(\$249,060)	(\$245,527)	(\$224,193)
22	923	Outside Services Employed	\$902,890	\$724,547	\$535,492	\$941,148	\$2,612,103
23	924	Property Insurance	\$479,190	\$502,003	\$510,224	\$443,833	\$423,520
24	925	Injuries & Damages	\$841,945	\$508,579	\$452,299	\$581,318	\$444,462
25	926	Pensions & Benefits	\$1,609,491	\$1,062,218	\$1,157,872	\$567,596	\$115,892
26	927	Franchise Requirements					
27	928	Regulatory Commission Expenses	\$151,931	\$142,682	\$139,937	\$147,485	\$186,053
28	929	Duplicate Charges - Credit	(\$137,828)	(\$131,352)	(\$145,994)	(\$108,136)	(\$126,369)
29	930.1	General Advertising Expenses	\$1,237	\$2,309	\$73,943	\$21,299	\$28,222
30	930.2	Miscellaneous General Expenses	\$787,056	\$983,319	\$843,039	\$892,209	\$900,008
31	931	Rents	\$247,478	\$255,088	\$143,622	\$278,657	\$323,151
32	935	Maintenance of General Plant	\$538,742	\$541,628	\$253,268	\$267,262	\$289,362
33		Total Administrative & General Expenses	\$9,071,931	\$8,189,353	\$8,431,235	\$9,059,380	\$10,277,364
34		Taxes Other - Payroll Taxes	\$913,926	\$942,234	\$934,670	\$1,029,633	\$996,659
35		Total - Trans., Distrib., Customer, & A & G Expense	\$17,739,613	\$17,397,798	\$17,864,467	\$18,058,372	\$19,454,052
36		Percent Increase by Year		-1.9%	2.7%	1.1%	7.7%
37		Average Annual Increase 1996 - 1998				0.6%	

UCU / SJLP Merger Case
EM -2000 - 292
Analysis of UCU Overhead Costs - 1995 - 1999

Line No.	Utilicorp ESF and IBU Depart. Costs - Total Company	Total UCU 1995	Total UCU 1996	Total UCU 1997	Total UCU 1998	Total UCU 1999
1	Total Company - ESF Cost Pool	\$41,706,514	\$103,152,000	\$115,883,978	\$123,433,641	\$143,317,641
2	Total Company - IBU Cost Pool	\$2,369,242	\$3,312,259	\$35,327,848	\$55,057,620	\$55,407,117
3	Total Costs Subject to Allocation	\$44,075,756	\$106,464,259	\$151,211,826	\$178,491,261	\$198,724,758
4	Percent Increase by Year		141.5%	42.0%	18.0%	11.3%
5	Annual Increase In Total ESF and IBU Dept. Costs			1996 - 1999 4 Yr. Average		87.7%
6				1997 - 1999 3 Yr. Average		28.9%
7				1998 - 1999 2 yr. Average		14.7%
		Allocated Corp. Costs to MPS 1995	Allocated Corp. Costs to MPS 1996	Allocated Corp. Costs to MPS 1997	Allocated Corp. Costs to MPS 1998	Allocated Corp. Costs to MPS 1999
	UCU ESF & IBU Costs Allocated to Missouri Public Service					
8	ESF Costs - Allocated to MPS	\$9,304,100	\$25,407,000	\$31,560,797	\$30,501,487	\$34,368,908
9	IBU Costs - Allocated to MPS	\$1,010,882	\$1,428,779	\$9,696,027	\$14,403,754	\$12,105,621
10	Total UCU Costs - Allocated to MPS	\$10,314,982	\$26,835,779	\$41,256,824	\$44,905,241	\$46,474,529
11	Percent Increase by Year		160.2%	53.7%	8.8%	3.5%
12	Annual Increase in ESF and IBU Depart. Costs allocated to MPS - MO.			1996 - 1999 4 Yr. Average		87.6%
13				1997 - 1999 3 Yr. Average		24.4%
14				1998 - 1999 2 yr. Average		6.2%

Source: DR 594 - EM 00-292

Schedule SMT - 5

**Utilicorp / SJLP Merger
Case No. EM 00-292**

Analysis of UCU and SJLP Pension Plans - Funded Status

Line No.		SJLP Bargaining	SJLP Non Bargaining	SJLP Total	Funded Status %
1	Market Value of Assets - Jan. 1, 1999	\$34,943,039	\$32,512,829	\$67,455,868	222.3%
2	Accumulated Benefit Obligation	\$13,959,646	\$16,386,377	\$30,346,023	
3	Excess of Assets over ABO	\$20,983,393	\$16,126,452	\$37,109,845	
		=====	=====	=====	
				Utilicorp	
4	Market Value of Assets - Jan. 1, 1999			\$220,468,431	139.7%
5	Accumulated Benefit Obligation			\$157,764,000	
6	Excess of Assets over ABO			\$62,704,431	
				=====	
				Utilicorp/SJLP Combined	
7	Market Value of Assets - SJLP & UCU Combined			\$287,924,299	153.1%
8	Accumulated Benefit Obligation			\$188,110,023	
9	Excess of Assets over ABO			\$99,814,276	
				=====	

Source: 1999 Actuarial Reports - DR 165, EM 00-292

Utilicorp / SJLP Merger Case EM 00-292

Increase in Annual Pension Cost to SJLP Customers
Resulting from Dillutive effect of Combining Pension Fund Assets

Line No.			
1	SJLP	Pension Asset Balance - Jan 1, 1999	\$67,455,868
2		Expected Rate of Return Assumption	9.00%
3		Reduction to Pension Cost - SJLP Stand Alone	<div>-----</div> <div>\$6,071,028</div> <div>=====</div>
4	SJLP	Pension Asset Balance - Jan 1, 1999	\$67,455,868
5		Dillutive Impact of Combining Pension Fund Assets with UCU	<div>-----</div> <div>(\$21,007,745)</div> <div>-----</div>
6		SJLP Assets adjusted to reflect Combined UCU / SJLP funded status of 153.06%	\$46,448,123
7		Expected Rate of Return Assumption	9.00%
8		Reduction to Pension Cost - SJLP/UCU combined	<div>-----</div> <div>\$4,180,331</div> <div>=====</div>
9		Increase in Annual Pension Cost to SJLP Customers	<div>-----</div> <div>\$1,890,697</div> <div>=====</div>

Source: DR 165 EM 00-292
DR 579 EM 00-292

Schedule SMT- 7

Utilicorp / St. Joseph Light & Power Merger

Merger Case No. EM 2000-369

Additional Revenue collected from MPS Ratepayers under the Proposed Regulatory Plan

Line No.		Year	Annual Reduction UCU Allocated Costs to MPS
1	Projected Reduction in ESF Department Costs allocated to MPS - SJLP Merger		\$ (1,349,000)
2	Projected Reduction in IBU Department Costs allocated to MPS - SJLP Merger		\$ (1,045,000)
3	Total Projected Reduction in Corporate Overhead Costs allocated to MPS	1999	\$ (2,394,000)
4	Growth Rate assumption for UCU Corporate Overhead Costs	5.0% 2000	\$ (2,513,700)
5		Merger Approval 2001	\$ (2,639,385)
6		2002	\$ (2,771,354)
7		MPS - New Rates 2003	\$ (2,909,922)
8		2004	\$ (3,055,418)
9		2005	\$ (3,208,189)
10		2006	\$ (3,368,598)
11		2007	\$ (3,537,028)
12		2008	\$ (3,713,880)
13		2009	\$ (3,899,574)
14		2010	\$ (4,094,552)
15	Reduction in UCU Costs allocated to MPS - due to the SJLP Merger		\$ (27,787,162)
16	Additional Revenue collected from MPS - due to "Ignoring" MPS cost reduction		\$ 27,787,162
17	Avg. Annual Increase in MPS Rates		\$ 3,473,395

Table 2: Plant Divestitures—Price and Book Value

Seller/Buyer(s)	Capacity (MW)	Price (\$ MM)	Price (\$ per kW)*	Book Value (\$ MM)	Book Value* (\$ per kW)
1. Bangor/PP&L	96	80	833	24	250
2. BEG/Sithe	1,983	536	270	450	227
3. CMP/FPL	1,185	846	714	240	203
4. ConEd/Southern	984	462	470	79	80
5. ConEd/Southern & Dynegy	814	135	166	151	186
6. ConEd/NRG	1,456	505	347	220	151
7. ConEd/KeySpan	2,168	597	275	330	152
8. ConEd/Orion	1,855	550	296	250	135
9. DQE/AYP	276	N/A	—	N/A	—
10. EIX/AES	3,956	781	197	N/A	—
11. EIX/Houston	2,276	237	104	N/A	—
12. EIX/NRG & Destec	1,020	88	86	N/A	—
13. EIX/Thermo Ecotek	280	10	34	N/A	—
14. EIX/Houston	1,500	43	29	125	83
15. EIX/NRG & Destec	530	30	56	N/A	—
16. Energy East/AES	1,424	950	667	662	465
17. Energy East/Edison Mission	942	900	955	219	232
18. EUA/FPL	16	2	147	N/A	—
19. EUA/Southern	280	75	268	40	143
20. EUA/NRG	160	55	344	30	188
21. GPU/Edison Mission	942	900	955	219	232
22. GPU/Sithe	4,117	1,680	408	814	198
23. GPU/FirstEnergy	83	43	518	16	193
24. MainePSCo/WPS-PDI	92	37	405	12	127
25. Montana Power/PPL	1,556	892	573	552	355
26. NEES/USGen	3,960	1,590	402	1,100	278
27. NiMo/Orion	661	425	643	250	378
28. NiMo/NRG	1,360	355	261	370	272
29. Orange & Rockland/Southern	976	345	353	179	183
30. PG&E/Duke	2,745	501	183	380	138
31. PG&E/Southern	3,065	801	261	432	141
32. PG&E/FPL	1,224	214	175	160	131
33. PGE(Enron)/PPL	323	49	152	32	99
34. PPL/WPS-PDI	467	106	227	64	137
35. Puget/PPL	735	549	747	354	482
36. Sempra/NRG & Dynegy	1,218	356	292	94	77
37. Sempra/San Diego Unified P.D.	693	110	159	40	58
38. Unicom/Southern & Dominion	1,598	250	156	250	156
39. Unicom/Edison Mission	9,772	4,813	493	1,300	133
40. United Illuminating/Wisvest	1,056	272	258	217	205
TOTAL or AVERAGE	59,844	21,170	346*	9,835	160*

*Per-kilowatt values are calculated by backing out the capacity figures for plants with unknown prices or book values.

Source: Edison Electric Institute, *Divestiture Action Analysis*, July 1, 1999.

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