

Exhibit No.:

Issues: International
Allocations

Witness: James S. Brook

Sponsoring Party: Missouri Public
Service

Case No.: ER-2001-672

Before the Public Service Commission
of the State of Missouri

FILED²

JAN 22 2002

Missouri Public
Service Commission

Surrebuttal Testimony

of

James S. Brook

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF JAMES S. BROOK
ON BEHALF OF MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED INC.
CASE NO. ER-2001-672**

1 Q. Please state your name and business address.

2 A. James S. Brook, 20 West Ninth, Kansas City, Missouri, 64105.

3 Q. Are you the same James S. Brook who provided rebuttal testimony in this case?

4 A. Yes.

5 Q. What is the purpose of your surrebuttal testimony in this case?

6 A. I am providing surrebuttal testimony to address the issues raised by Office of the Public
7 Counsel (OPC) Witness James R. Dittmer at pages 17 through 21 of his rebuttal
8 testimony, on the allocation corporate overheads to international activities.

9 Q. Do you agree with his conclusion that Staff's approach for allocating high level ESF
10 costs to international activities is extremely conservative?

11 A. No. To the contrary, UtiliCorp believes that the allocation of the residual costs from the
12 identified Enterprise Support Function (ESF) departments to the international businesses
13 should be considerably less than proposed by Staff. UtiliCorp's reasons are described in
14 my rebuttal testimony and in recent responses to data requests from the OPC.

15 Q. Are the OPC's conclusions based on information different from yours?

16 A. Perhaps. The OPC testimony makes several references to the circumstances of a case that
17 occurred four years ago, and to several requests for new data that it has not yet received
18 from the company. UtiliCorp has made several important and relevant improvements in

1 its accounting systems and processes since that prior case, and the new circumstances
2 warrant new conclusions.

3 Q. What are the primary changes since ER-97-394, the 1997 rate case?

4 A. UtiliCorp has implemented a new 'positive' time reporting process (reference MPSC-
5 0104) and replaced its former 'exception' reporting, which had caused some concerns in
6 the last case. Refinements to the accounting system and related processes have resulted in
7 a considerable improvement to the overall effectiveness of the costing system. In recent
8 years, a much higher level of direct charges has been made to the international
9 businesses. For example, during the 2000 test year, a total of \$13.6 million was charged
10 from all ESF departments to international businesses, compared to \$4.3 million in 1998.
11 (reference MPSC-113).

12 Q. How have the costs of M&A activities been handled in the test year, compared to the
13 prior case?

14 A. Separate departments 4100, 4101 and 4102 have been set up in the company's accounts
15 for the costs of the M&A group, including the Senior Vice President responsible for those
16 efforts. In the 2000 test year, the M&A group charged \$4.4 million to international.

17 Q. Are any of the residual costs of those M&A departments included in the allocations to the
18 Missouri Division?

19 A. Yes, residual costs in Department 4100, Capital Structure & Analysis -- Domestic, were
20 allocated to the domestic business units. These costs represent UtiliCorp's on- going
21 monitoring and analysis of its domestic businesses and their financial structure and

1 performance. During 2000, approximately \$330,000 was allocated to UtiliCorp's
2 domestic business units, out of a total of approximately \$1.6 million spent in this
3 department.

4 Q. What other changes have contributed to this significant increase in the direct charges
5 made to international businesses?

6 A. The company set up new departments in other functions that segregate the services that
7 relate to international. For example, International Regulatory charged \$217,000 to
8 international businesses in the test year.

9 Q. What about the other departments that have been questioned by Staff?

10 A. The accounting for their international costs has also been much more thorough. For
11 example, the Treasury department charged \$226,000 to international in the test year,
12 compared to only \$27,000 in 1998. The accounting, tax, and financial reporting functions
13 set up several new departments (4170 to 4186) to improve focus on accounting for their
14 international costs, and have charged \$1.1 million more to international in the test year
15 than in 1998. It would be very unfair and wrong to disregard these substantial
16 improvements by requiring further arbitrary allocations, as suggested by OPC and
17 proposed by Staff, because it would result in redundant and excessive charges to
18 UtiliCorp's international businesses.

19 Q. Has Mr. Dittmer proposed an adjustment for international operation or M&A activities?

20 A. No.

21 Q. Will you have any additional comments if Mr. Dittmer proposes an adjustment?

1 A. Once a review has been made of any proposed adjustments, I may provide additional
2 comments.


3 Q. Does this conclude your surrebuttal testimony?

4 A. Yes.

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


[illegible]

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


James S. Brook

Subscribed and sworn to before me this 16th day of January, 2002.

of January, 2002.



Notary Public

My Commission expires:

