

Exhibit No.:
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Case No.:

Rate of Return
Burdette/Surrebuttal
Public Counsel
ER-2001-672

SURREBUTTAL TESTIMONY

OF

MARK BURDETTE

Submitted on Behalf of
the Office of the Public Counsel

UTILICORP UNITED, INC.

Case No. ER-2001-672

January 22, 2002

FILED³
JAN 22 2002
Missouri Public
Service Commission

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

In the Matter of the tariff filing of Missouri)
Public Service ("MPS") a division of)
UtiliCorp United Inc., ("UtiliCorp") to)
implement a general rate increase for)
retail electric service provided to customers)
in the Missouri service area of MPS)


Case No. ER-2001-672

AFFIDAVIT OF MARK BURDETTE

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

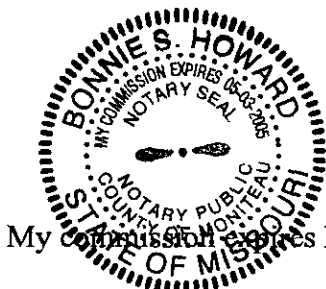
Mark Burdette, of lawful age and being first duly sworn, deposes and states:

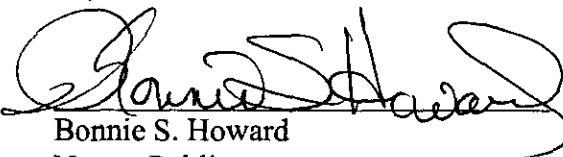
1. My name is Mark Burdette. I am a Financial Analyst for the Office of the Public Counsel.
2. Attached hereto and made a part hereof for all purposes is my surrebuttal testimony consisting of pages 1 through 4.
3. I hereby swear and affirm that my statements contained in the attached testimony are true and correct to the best of my knowledge and belief.



Mark Burdette

Subscribed and sworn to me this 22nd day of January 2002.





Bonnie S. Howard
Notary Public

My Commission Expires May 3, 2005.

1 **SURREBUTTAL TESTIMONY**

2 **OF**

3 **MARK BURDETTE**

4 **UTILICORP UNITED INC.**

5 **CASE NO. ER-01-672**

6
7 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

8 A. Mark Burdette, P.O. Box 7800, Jefferson City, Missouri 65102-7800.

9 Q. ARE YOU THE SAME MARK BURDETTE WHO FILED DIRECT AND REBUTTAL
10 TESTIMONY IN THIS CASE?

11 A. Yes.

12 Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?

13 A. I will comment on the Rebuttal testimonies of UCU witness Dunn and Staff witness
14 Murray.

15 Q. PUBLIC COUNSEL AND STAFF HAVE AGREED TO TRUE UP CAPITAL
16 STRUCTURE FOR UCU IN THIS PROCEEDING, IS THAT CORRECT?

17 A. Yes.

18 Q. ARE YOU AWARE OF ANY POTENTIAL PROBLEMS OR COMPLICATIONS
19 CONCERNING TRUING-UP CAPITAL STRUCTURE?

20 A. Yes.

21 Q. PLEASE EXPLAIN THE POTENTIAL PROBLEMS OR COMPLICATIONS.

22 A. In the Application in Case No. EM-2002-297, which seeks approval for a name change for
23 UCU and is closely associated with the reacquisition of all outstanding shares of Aquila,
24 UtiliCorp asserts:

1
2 The Merger will have no adverse effect on the Missouri customers of
3 UtiliCorp and, consequently, is not detrimental to the public interest.
4 UtiliCorp's Missouri customers will see no change in their day-to-day
5 utility service or rates.... [page 4]

6 UCU is attempting to disconnect the potential name change – the new corporate name to
7 contain the word “Aquila” in some form - from the financial transactions associated with
8 reacquiring the outstanding shares of Aquila – namely, the issuance of common shares of
9 UCU to exchange for the outstanding shares of Aquila. UCU did not seek MPSC approval
10 for the issuance of the new common equity nor for the exchange of shares and resulting
11 reacquisition of Aquila.

12 However, if the additional common equity resulting from the entire reacquisition
13 process (culminating in the request for name change in Case No. EM-2002-297) is included
14 in UCU's consolidated capital structure for true-up in this current rate proceeding, the
15 resulting overall Rate of Return (ROR) calculated will most likely **increase**. If this increase
16 in ROR occurs, the “Missouri customers of UtiliCorp” will indeed experience an adverse
17 effect in the form of increased rates. And the increase in rates would occur without any
18 corresponding increase in utility service. UCU confirms that the reacquisition does not
19 enhance regulated utility service in the Company's Response of UtiliCorp United Inc. to
20 Staff Notice, Motion for Clarification and Request for Compliance with Commission Rule,
21 page 3, which states “None of the products or services provided by Aquila are regulated by
22 the Commission.”

23 Not only would the increase in rates with no increase in service violate the
24 regulatory tenant of “just and reasonable rates”, but it would mean that UCU's assertions
25 and claims made to the MPSC in the Application in EM-2002-297 are accurate only if the
26 Commission considers the name change completely separate from the entire series of
27 financial transactions associated with the reacquisition and merger.
28

1 Q. COULD YOU COMMENT ON MR. DUNN'S REBUTTAL TESTIMONY?

2 A. Yes. Mr. Dunn attempts to rebut my Direct testimony on five points. However, Mr.
3 Dunn's rebuttal analysis perpetuates the errors and inappropriateness of his Direct
4 testimony, while adding an element of irony.

5 Q. PLEASE CONTINUE.

6 A. Mr. Dunn attempts to alter the basic methodology and application of the Discounted Cash
7 Flow Method in order to suit his specific desire for a calculated Return on Equity higher
8 than that which is appropriate. Unfortunately, it is inappropriate to alter accepted and
9 standard financial models simply to influence the results. Mr. Dunn fails to recognize that
10 stock prices and growth rate expectations are determined in the market in response to
11 investors' expectations.

12 Contrary to Mr. Dunn's assertions, I applied the DCF properly to the market-based
13 financial information for UCU and my comparable group.

14 Q. PLEASE COMMENT ON MR. DUNN'S SELECTED COMPANIES AND HIS
15 COMMENTS ON YOUR GROUP OF COMPANIES.

16 A. As I stated in my Direct testimony, all but one of Mr. Dunn's selected companies are not
17 comparable UCU's regulated electric utility operations – they simply don't operate in the
18 same industry and don't earn their revenues from primarily regulated operations. A
19 company's primary source of revenue is a very important element of risk, yet it is a factor
20 which Mr. Dunn ignored. This fact taints his analysis from the very beginning.

21 Rather than choose companies that are comparable to UCU's regulated electric
22 operations, Mr. Dunn selects companies that are not comparable, then attempts to rectify
23 this error with a risk adjustment. It is analytically more sound to begin the process with
24 companies that are comparable.

1 Q. YOU SAID THAT ALL BUT ONE OF MR. DUNN'S SELECTED COMPANIES ARE
2 NOT COMPARABLE TO AN ELECTRIC UTILITY. DOES HE SUPPORT THE ONE
3 COMPANY FROM HIS GROUP THAT IS COMMON ALSO TO YOUR GROUP?

4 A. Ironically, no he does not. In Mr. Dunn's attempt to rebut my group of comparable
5 companies, he actually maligns a company he himself used in his analysis, DPL, Inc. As I
6 state in my Rebuttal testimony (page 7, lines 5-8):
7

8 DPL Inc.: DPL is the only company in Mr. Dunn's group that I also used.
9 C. A. Turner reports that DPL earned 99% of total revenues from the sale
10 of electricity as of December 2001. I eliminated companies that did not
11 earn at least 70% of revenues from the sale of electricity.

12 Amazingly, despite the fact that Mr. Dunn included DPL in his analysis in his Direct
13 testimony, he states the following regarding my group (and Mr. Murray's group) of
14 comparable companies:
15

16 Q. On their face, are these companies comparable to MPS?

17 A. Based on my review of the Value Line reports for each of these
18 companies, I believe there is a serious question about comparability. I base
19 that conclusion on the following:

20 DPL, Inc.....

21 Mr. Dunn then attempts to describe DPL for the purpose of showing it to be not comparable
22 to UtiliCorp or the MPS operating division of UCU.

23 Mr. Dunn not only tries to torpedo one of his own comparable companies, he does
24 so to the only company in his group that is actually appropriate (i.e. comparable) to use in
25 this proceeding. This inconsistency should be an additional harbinger for the MPSC of the
26 flaws contained within Mr. Dunn's analysis and chosen methodologies. His
27 recommendations in this proceeding are, quite simply, not supported by credible analysis or
28 evidence.

29 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

30 A. Yes, it does.