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Witness/Type of Exhibit:

Sponsoring Party:

Case No.:

Corporate Allocations

Dittmer/Surrebuttal

Public Counsel

ER-2001-672

## **SURREBUTTAL TESTIMONY**

**OF**

**JAMES DITTMER**

**FILED<sup>3</sup>**

**JAN 22 2002**

**Missouri Public  
Service Commission**

Submitted on Behalf of  
the Office of the Public Counsel

**UTILICORP UNITED, INC.**

**Case No. ER-2001-672**

January 22, 2002

**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

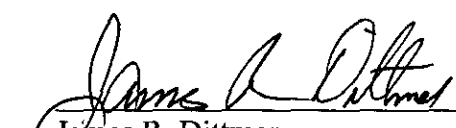
**AFFIDAVIT OF JAMES R. DITTMER**

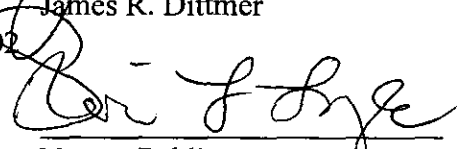
STATE OF Missouri )  
 ) SS  
COUNTY OF JACKSON )

James R. Dittmer, of lawful age and being first duly sworn, deposes and states:

- 1) My name is James R. Dittmer. I am a Senior Regulatory Consultant working for the firm of Utilitech, Inc. This testimony I am presenting herein is offered on behalf of the Missouri 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 11.
- 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.

Subscribed and sworn to be this 21rst day of January 2002

  
James R. Dittmer

  
Notary Public

**SHERRI L. LYLE**  
**NOTARY PUBLIC - NOTARY SEAL**  
**STATE OF MISSOURI**  
**JACKSON COUNTY**  
**MY COMMISSION EXPIRES JAN 19 2003**

My commission expires 1-19-03

1                                   **SURREBUTTAL TESTIMONY**  
2                                   **OF**  
3                                   **JAMES R. DITTMER**  
4                                   **UTILITCORP UNITED INC.**  
5                                   **CASE NO. ER-2001-672**  
6

7       **Q.     PLEASE STATE YOUR NAME AND ADDRESS.**

8       A.     My name is James R. Dittmer. My business address is 740 Northwest Blue  
9             Parkway, Suite 204, Lee's Summit, Missouri 64086.  
10

11      **Q.     BY WHOM ARE YOU EMPLOYED?**

12      A.     I am a Senior Regulatory Consultant with the firm of Utilitech, Inc., a  
13             consulting firm engaged primarily in utility rate work. Utilitech, Inc. has been  
14             retained by the Office of the Public Counsel for the State of Missouri  
15             (hereinafter "OPC") to review limited areas of UtiliCorp United, Inc.'s  
16             ("UCU") application to increase electric rates to customers located within the  
17             Missouri Public Service ("MPS") division service territory.  
18

19      **Q.     HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS CASE?**

20      A.     Yes. I filed rebuttal testimony in this case on behalf of the OPC on January 8,  
21             2002. In that testimony I addressed a number of UCU overhead cost allocation  
22             concerns and issues. Also included in the earlier rebuttal testimony is a  
23             discussion of my qualifications.  
24

25      **Q.     WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

1 A. I shall briefly address some comments, opinions and alternative UCU overhead  
2 cost calculations contained within the rebuttal testimony of UCU witness Mr.  
3 James S. Brook.

4  
5 **Q. PLEASE BRIEFLY DESCRIBE THE REBUTTAL TESTIMONY OF MR.**  
6 **BROOK THAT YOU WILL BE RESPONDING TO.**

7 A. By way of background, Missouri Public Service Commission ("MPSC") Staff  
8 witness Mr. Charles Hyneman recommended within direct testimony that the  
9 cost for a number of high level Enterprise Support Function ("ESF")  
10 departments be allocated in part to UCU's international operations. At this  
11 point in time, UCU's international properties are not allocated any ESF costs –  
12 though they purportedly are directly assigned costs when efforts are undertaken  
13 that directly and exclusively benefit a given international activity or investment.  
14 Mr. Hyneman's specific recommendation is that statistics from UCU's  
15 international operations be included in the development of the general  
16 Massachusetts formula factors to be applied to certain noted, high level ESFs.  
17 The impact of Mr. Hyneman's proposal is that approximately 18% of the non-  
18 direct-assigned costs of noted high-level ESFs be allocated to international  
19 operations.

20  
21 UCU witness Mr. Brook counters in rebuttal to Mr. Hyneman that the level of  
22 involvement in international activities of the noted departments is "relatively  
23 limited." Mr. Brook further points out that specific assignment to international

1 operations – as is currently employed – is adequate or the “best way” to  
2 appropriately charge costs to such international operations. While citing that  
3 the current direct assignment procedure is appropriate, Mr. Brook goes on to  
4 recommend, in light of Staff’s direct testimony, that a revised allocation factor  
5 be developed and applied to certain ESF department costs. The upshot or  
6 outcome of Mr. Brook’s revised or alternative allocation methodology is that  
7 UCU would now propose to allocate 1.7% of certain ESF costs to international  
8 operations versus the Staff proposed 18% allocation of a slightly larger number  
9 of ESF costs to international operations.

10  
11 **Q. HOW DO YOU RESPOND TO MR. BROOK’S REBUTTAL**  
12 **TESTIMONY POINTS?**

13 A. At the outset I would note that I do not fully follow nor understand all of Mr.  
14 Brook’s testimony or calculations. Following the receipt of Mr. Brook’s  
15 rebuttal testimony filed on January 8, 2002, I submitted on January 10, 2002  
16 data requests seeking supporting workpapers, clarification of statements made  
17 as well as calculations performed. As of the time it was necessary to prepare  
18 this surrebuttal testimony, none of the responses to my data requests had been  
19 received. Accordingly, if and when I ultimately receive responses to relevant  
20 data requests, it may be become necessary to file supplemental surrebuttal  
21 testimony on this topic.

1 That stated, from my review to date of Mr. Brook's testimony and calculations  
2 it appears obvious that:

3 1) Mr. Brook's proposed factor development considers only UCU's  
4 investment in international operations, and not the international  
5 operations' payroll and margin statistics employed in the  
6 Massachusetts Formula for purposes of developing domestic  
7 allocations. Exclusion of two out of the three statistics used in  
8 the Massachusetts formula development results in a de minimus  
9 allocation of costs to international operations.

10 2) The de minimus 1.7% allocation of a handful of high level ESF  
11 costs to international operations simply is not reasonable given  
12 the international activities and focus of UCU over recent years –  
13 and as anticipated for the foreseeable future.

14 3) The discussion and calculations offered by Mr. Brook do not  
15 address and appropriately consider the significant efforts that  
16 these noted ESFs devote to mergers and acquisitions. In other  
17 words, neither Staff's original international allocation proposal  
18 nor the Company's revised international allocation proposal give  
19 any weight or consideration to the significant effort that many of  
20 the noted high-level ESFs simply must dedicate to UCU's  
21 ongoing growth-through-acquisition strategy.  
22

1     **Q.     REFERRING TO YOUR FIRST POINT, PLEASE STATE AS BEST YOU**  
2     **ARE ABLE, YOUR UNDERSTANDING OF MR. BROOK'S PROPOSED**  
3     **DEVELOPMENT OF A FACTOR TO CONSIDER INTERNATIONAL**  
4     **OPERATIONS.**

5     A.    The typical Massachusetts formula considers three and sometime four  
6           operational/investment statistics in its development. In UCU's case, margins,  
7           payroll and net plant are considered in the development of this general allocator  
8           – with each statistical component receiving an equal “one-third” weighting. In  
9           his proposal, Mr. Brook appears to calculate a “net plant” factor for  
10          international operations, but then assigns such net plant factor a “one-third”  
11          weighting. The remaining two statistics utilized in the Massachusetts formula  
12          are weighted one-third each as “zero percent” being related to international.  
13          Thus, the one statistic used by Mr. Brook in the factor development – net plant –  
14          is largely diluted by considering two other elements with a “zero” weighting for  
15          international impact.

16  
17    **Q.     WHAT DO YOU FIND OBJECTIONABLE IN MR. BROOK'S**  
18    **PROPOSED INTERNATIONAL ALLOCATION DEVELOPMENT?**

19    A.    Mr. Brook's apparent one-third weighting to the net investment statistic (with a  
20           “zero” value assigned to two-thirds of the allocation development) significantly  
21           dilutes or “waters down” even the investment weighting implicit in his factor  
22           development. Mr. Brook does not adequately explain in testimony why he only  
23           considers “investment” values in his factor development. And as stated earlier,

1 all data request responses and workpapers related to Mr. Brook's rebuttal  
2 remain outstanding as of the time this testimony is being prepared.

3  
4 I am speculating with this next comment – but Mr. Brook may be implicitly  
5 stating that “margins” and “payroll” should not or need not be included in the  
6 development of the Massachusetts Formula as is done with the domestic factor  
7 development because such items are totally under the control of the  
8 “autonomous” international operations. If that is his argument – and again I’m  
9 speculating since he is not very illuminating in his testimony – I would disagree.  
10 The ESFs at issue can be broadly categorized as “strategic direction” or  
11 “corporate governance and reporting” functions. Such ESFs would not be  
12 expected to micro-manage day-to-day operations or short term staffing needs  
13 (i.e., payroll costs) of such international operations. Rather, such ESFs would  
14 be responsible for reporting upon, and more importantly, establishing strategic  
15 direction for such international operations. As such, Mr. Brook’s proposed  
16 “watered down” allocation to international – incorporating a “zero” weighting  
17 to two out of three statistical determinates used in the factor development –  
18 simply does not pass any reasonableness test.

19  
20 **Q. PLEASE EXPAND UPON YOUR SECOND POINT THAT THE DE**  
21 **MINIMUS 1.7% ALLOCATION OF A HANDFUL OF HIGH LEVEL**  
22 **ESF COSTS TO INTERNATIONAL OPERATIONS SIMPLY IS NOT**  
23 **REASONABLE GIVEN THE INTERNATIONAL ACTIVITIES AND**

1           **FOCUS OF UCU OVER RECENT YEARS – AND AS ANTICIPATED**  
2           **FOR THE FORESEEABLE FUTURE.**

3       A.     Prior to 1985, Missouri Public Service Company was basically a pure play  
4           vertically integrated electric and gas utility operating in one state. At that time  
5           and in all prior periods, it would be reasonable to assume that senior  
6           management would devote the majority of its time and efforts to directing the  
7           utility's pure play utility business. Reviewing and approving construction  
8           budgets; directing and reviewing major construction additions; overseeing,  
9           directing or possibly actually negotiating major fuel and labor contracts;  
10          insuring that financial performance would facilitate continued economic  
11          financings to support utility investments; and generally establishing the  
12          direction of the company's "pure utility" functions would be the major elements  
13          of senior utility management's work scope.

14  
15          Today UCU, like certain other diversified utility companies, are focused on  
16          growth in utility as well as non-utility business opportunities. As such, it is  
17          simply not feasible that senior management's duties now resemble those of  
18          "pure play" predecessor utility management teams that existed 15 or more years  
19          ago. In order to achieve the significant growth in international revenues and  
20          investment that UCU has accomplished over the past 17 years, senior  
21          management simply must invest significant time and resources in studying such  
22          investments.

1     **Q.     UCU ARGUES IN THIS CASE, AS IT HAS IN PREVIOUS MPS RATE**  
2           **CASES,     THAT     UCU’S     INTERNATIONAL     INVESTMENTS**  
3           **REPRESENT AUTONOMOUS OPERATING COMPANIES THAT DO**  
4           **NOT REQUIRE THE OVERSIGHT OF UCU’S DOMESTIC DIVISIONS**  
5           **AND/OR SUBSIDIARIES.     DOES SUCH ARGUMENT LEAD TO A**  
6           **CONCLUSION THAT LITTLE OR NO ESF COSTS SHOULD BE**  
7           **ALLOCATED TO INTERNATIONAL OPERATIONS?**

8     A.    I recognize and readily admit that many UCU international investments  
9           represent largely autonomous operations. And to that end, many mid-level and  
10          lower level ESFs that provide operation-specific services should not be  
11          allocated to international operations. Neither the MPSC Staff nor I have  
12          advocated such. What is at issue is the allocation of costs from a relatively  
13          small number of *high-level* ESFs. Specifically, some of the ESFs for which  
14          costs are at issue provide policy, direction and strategic goals for all holdings –  
15          including international -- at the highest level. Others such as the Shareholder  
16          Relations, Corporate Reporting, Treasury (Finance), Corporate Secretary and  
17          Tax Administration provide corporate reporting and corporate governance  
18          functions at the highest, consolidated level – which would of course also  
19          including international holdings. As such, even the “autonomous” international  
20          operations should be charged a reasonable level of costs from such noted  
21          departments.

22    **Q.     IS THERE EVIDENCE TO SUGGEST THAT SENIOR MANAGEMENT**  
23           **SPENDS A SIGNIFICANT AMOUNT OF EFFORT ANALYZING,**

1           **REPORTING UPON, AND DIRECTING INTERNATIONAL**  
2           **MATTERS?**

3       A.    Yes. Staff witness Hyneman has already addressed part of the evidence  
4           supporting the level of efforts that senior management must expend in analyzing  
5           international operations. One need look no further than UCU's Annual Report  
6           to Shareholders to appreciate the attention that senior management simply must  
7           devote to its international investments. Further, a review of UCU Board of  
8           Directors meeting minutes will quickly reveal that senior executive management  
9           as well as the Board of Directors devote a great deal of time and attention to  
10          analyzing international results of operation as well as new business  
11          opportunities. Given the print dedicated in the Annual Shareholder's Report to  
12          describing the goals and results of international operations, as well as the  
13          attention given to international investments in UCU Board of Director meeting  
14          minutes, it is only reasonable to conclude that a portion of the non-directly-  
15          assigned costs of such high level strategic, governance and financial reporting  
16          ESFs should also be allocated to UCU's international investments.

17  
18       **Q.    PLEASE EXPAND YOUR THIRD POINT – THE FACT THAT**  
19           **NEITHER STAFF'S NOR THE COMPANY'S ARGUMENTS OR**  
20           **CALCULATIONS CONSIDER THE SIGNIFICANT TIME AND**  
21           **RESOURCES THESE ESFS DEVOTE TO BUYING AND SELLING**  
22           **PROPERTIES – INCLUDING INTERNATIONAL PROPERTIES --**

1           **THAT LARGELY BY DEFAULT ARE ALLOCATED TO DOMESTIC**  
2           **UTILITY OPERATIONS.**

3       A.    As I discussed in rebuttal testimony, I do not believe that Staff's allocation  
4           position adequately recognizes the considerable efforts that these departments  
5           must devote to buying – and occasionally selling – properties, as well as  
6           investigating and engaging in new product development and business ventures.  
7           Certainly MPS' original and revised allocation methodologies for these high-  
8           level ESFs do not consider or account for such efforts.

9  
10       **Q.    WHAT EVIDENCE EXISTS TO CONCLUDE THAT SUCH HIGH-**  
11           **LEVEL ESFS DEVOTE CONSIDERABLE TIME AND EFFORTS TO**  
12           **EVALUATING PROPOSED MERGERS OR ACQUISITIONS OF**  
13           **PROPERTIES AND OCCASSIONALLY DIVESTITURES OF**  
14           **PROPERTIES OWNED?**

15       A.    Once again, a review of UCU's Annual Shareholders Report as well as UCU  
16           Board of Director's meeting minutes quickly reveals that the Company  
17           continues to embark upon a strategy of growth through acquisitions. Further,  
18           this strategy is expected to continue, as evidenced by recent presentations made  
19           by senior executives to financial analysts.

20  
21       **Q.    ARE ANY OF THE INTERNAL ESF COSTS OF STUDYING OR**  
22           **CONSUMMATING THE NUMEROUS PROPERTY TRANSACTIONS**  
23           **RETAINED OR OTHERWISE DIRECTLY CHARGED TO COST**

1           **CENTERS THAT ULTIMATELY ARE NOT ALLOCATED TO**  
2           **DOMESTIC UTILITY OPERATIONS?**

3       A.    I am still awaiting responses to data requests regarding this topical area. I am of  
4           the opinion that the majority of such internally incurred costs – as opposed to  
5           external costs for lawyers, financial analysts and investment bankers – are  
6           neither retained nor charged to cost centers that avoid allocation to domestic  
7           operations. If and when I receive responses to outstanding data request that  
8           disprove or modify this assumption; I will file supplemental testimony  
9           explaining, retracting and/or modifying this stated opinion as appropriate. As of  
10          the time this testimony had to be prepared, however, I continue to believe that  
11          the internal costs of noted high-level ESFs are largely allocated to domestic  
12          utility operations. As such, I continue to believe that Staff's ESF allocation  
13          recommendation – which only explicitly addresses lack of allocation to  
14          “international” operations – should be viewed as extremely conservative  
15          inasmuch as no consideration has been given to the efforts that these high-level  
16          ESFs are devoting to M&A activities which are being allocated in large part to  
17          domestic utility operations.

18  
19       **Q.    DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

20       A.    Yes, it does.  
21