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 RYAN KIND

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Ryan Kind, of lawful age and being first duly sworn, deposes and states:

1. My name is Ryan Kind. I am Chief Utility Economist 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 36 and Attachments 1 through 6.

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.

Ryan Kind

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

Bonnie S. Howard
Notary Public

My commission expires May 3, 2005.

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SURREBUTTAL TESTIMONY

OF

RYAN KIND

UTILICORP UNITED, INC.

CASE NO. ER-2001-672

Q. PLEASE STATE YOUR NAME, TITLE, AND BUSINESS ADDRESS.

A. Ryan Kind, Chief Energy Economist, Office of the Public Counsel, P.O. Box 7800, Jefferson City, Missouri 65102.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I have a B.S.B.A. in Economics and a M.A. in Economics from the University of Missouri-Columbia (UMC). While I was a graduate student at UMC, I was employed as a Teaching Assistant with the Department of Economics, and taught classes in Introductory Economics, and Money and Banking, in which I served as a Lab Instructor for Discussion Sections.

My previous work experience includes three and one-half years of employment with the Missouri Division of Transportation as a Financial Analyst. My responsibilities at the Division of Transportation included preparing transportation rate proposals and testimony for rate cases involving various segments of the trucking industry. I have been employed as an economist at the Office of the Public Counsel (Public Counsel or OPC) since April 1991.

Q. HAVE YOU TESTIFIED PREVIOUSLY BEFORE THIS COMMISSION?

A. Yes, prior to this case I submitted written testimony in numerous gas rate cases, several electric rate design cases and rate cases, as well as other miscellaneous gas, water, electric, and telephone cases.

Q. HAVE YOU PROVIDED COMMENTS OR TESTIMONY TO OTHER REGULATORY OR LEGISLATIVE BODIES ON THE SUBJECT OF ELECTRIC UTILITY REGULATION AND RESTRUCTURING?

A. Yes, I have provided comments and testimony to the Federal Energy Regulatory Commission (FERC), the Missouri House of Representatives Utility Regulation Committee, the Missouri Senate's Commerce & Environment Committee and the Missouri Legislature's Joint Interim Committee on Telecommunications and Energy.

Q. HAVE YOU BEEN A MEMBER OF, OR PARTICIPANT IN, ANY WORK GROUPS, COMMITTEES, OR OTHER GROUPS THAT HAVE ADRESSED ELECTRIC UTILITY REGULATION AND RESTRUCTURING ISSUES?

A. Yes. I was a member of the Missouri Public Service Commission's (the Commission's) Stranded Cost Working Group and participated extensively in the Commission's Market Structure Work Group. I am currently a member of the Missouri Department of Natural Resources Weatherization Policy Advisory Committee, the Operating Committee of the North American Electric Reliability Council (NERC), and the National Association of State Consumer Advocates (NASUCA) Electric Committee. I have served as the public consumer group representative to the Midwest ISO's (MISO's) Advisory Committee. During the early 1990s, I served as a Staff Liaison to the Energy and Transportation Task Force of the President's Council on Sustainable Development.

I. SUMMARY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will provide Public Counsel's recommendations in the following areas:

- Inclusion of Aries Plant purchased power costs in the cost of service.
- Integration of the transmission systems in the Missouri Public Service (MPS) and St. Joseph Light & Power (SJLP) territories.
- The proposal of UtiliCorp United Inc. (UtiliCorp or the Company) to recover SJLP merger acquisition premium costs in its cost of service as an offset to the merger related savings that Staff and OPC propose including in the Company's cost of service.

Q. PLEASE OUTLINE THE MAJOR TOPICS THAT YOU COVER WHICH ARE RELATED TO UTILICORP'S REGUEST FOR RECOVERY OF THE SJLP MERGER ACQUISTION PREMIUM.

A. My testimony focuses primarily on two major areas associated with UtiliCorp's request for recovery of the SJLP acquisition premium. First, this testimony examines the major factors that have motivated UtiliCorp to acquire SJLP. These factors included the desire of UtiliCorp's senior management and Board of Directors to enhance the value of its shareholder's investment by furthering its strategic objectives of: (1) expanding its mid-continent footprint, (2) acquiring low cost generation assets and purchase power contracts that can either be spun off and sold for a profit (monetized) or used to support Aquila's power marketing activities in the future, and (3) acquiring assets that can be used or leveraged to support telecommunications ventures.

Second, this testimony addresses the reasonableness of UtiliCorp's request to recover the acquisition premium from ratepayers. Within this area, my testimony discusses and provides support for the following points:

- The fairly high acquisition premium being paid for the assets of SJLP was primarily due to the future non-regulated earnings potential of SJLP's generation assets due to its negative stranded costs.

- A large portion of the synergies are in the area of generation and almost any conceivable restructuring legislation in Missouri would transfer the benefits from all of these synergies to UtiliCorp. Restructuring was still considered likely in Missouri at the time of the merger since the California energy crisis had not yet reached its peak and because the Enron bankruptcy had not yet occurred.

- If generation became deregulated at the retail level (as was expected at the time of the merger), UtiliCorp could achieve synergies that accrue solely to the benefit of shareholders by selling the output from SJLP's supply portfolio at market prices that exceed its cost of production and keeping 100% of this profit margin for its shareholders. Alternatively, UtiliCorp could sell these assets for a price that vastly exceeds their book value and keep 100% of the gains for its shareholders. In its merger testimony in Case No. EM-2000-292, UtiliCorp was silent about the prospect for future non-regulated earnings in this area and this silence greatly understates the non-regulated earnings potential that UtiliCorp's management expected to result from the SJLP merger.

- UtiliCorp also expected substantial non-regulated synergies from planned future telephony and cable projects which would benefit from synergies between the telephony assets and utility right of ways of SJLP and UtiliCorp. In its merger testimony, UtiliCorp was also silent about the prospect for future non-regulated earnings in this area and this silence greatly understated the non-regulated earnings potential that UtiliCorp's management expected to result from the SJLP merger.

II. ARIES PLANT AND UTILICORP'S COST OF SERVICE.

Q. DOES UTILICORP'S TESTIMONY ADRESS WHETHER IT SHOULD BE ALLOWED TO RECOVER ITS COST ASSOCIATED WITH PURCHASING POWER FROM THE ARIES PLANT?

A. Yes. UtiliCorp witness Stephen Ferry addresses the MEPPH Pleasant Hill Unit Participation Purchase in his rebuttal testimony.

Q. DOES UTILICORP ADDRESS PUBLIC COUNSEL'S POSITION ON THE MEPPH PLEASANT HILL UNIT PARTICIPATION PURCHASE IN ITS REBUTTAL TESTIMONY?

A. Yes. Mr. Ferry states on page 7 of his rebuttal testimony that "in [Case No. EM-99-369] both the Staff and Office of Public Counsel (OPC) acknowledged in their recommendations to the Commission that the MEPPH capacity was the most cost effective supply option for MPS to meet its capacity and energy obligations."

Q. IS THE ABOVE QUOTE FROM MR. FERRY CORRECT?

A. No. Public Counsel did not make any statements in its recommendations to the Commission in Case No. EM-99-369 that in any way resembled the conclusions that Mr. Ferry is attempting to attribute to OPC. To put it another way, Public Counsel's recommendations in Case No. EM-99-369 did not even come close to an acknowledgement "that the MEPPH capacity was the most cost effective supply option for MPS to meet its capacity and energy obligations." In that case, Public Counsel stated very clearly that it was recommending that the Commission make the determinations required by PUHCA "only upon certain conditions" that included allowing the Commission to make ratemaking determinations about the proposed purchase power contract in a rate proceeding where the Commission could "review and disallow any purchased power cost that are found to be imprudent or unreasonable."

Q. DID PUBLIC COUNSEL CITE ANY PARTICULAR CONCERNS WITH SPECIFIC PROVISIONS OF THE CONTRACT IN ITS RECOMMENDATIONS IN CASE NO. EM-99-369?

A. Yes. OPC's recommendation stated that "Public Counsel has concerns that the pricing adjustment provisions contained in subsections (a) and (b) of section 5.1 of Article 5 constitute an inappropriate shifting of risk to the purchaser, UtiliCorp, United, Inc."

Q. DID MR. FERRY ADDRESS THESE PRICING ADJUSTMENT PROVISIONS IN HIS REBUTTAL TESTIMONY?

A. Yes, Mr. Ferry stated that he believed it is "inappropriate to deny the Company recovery on $0.0253/kw-mo in demand charges because of cost overruns in the construction of the Aries units." He stated further that:

> The terms of the MEPPH PPA permitted MEPPH, in the event of cost overruns, to raise monthly demand charges, subject to a cap. The $0.0253/kw-mo is consistent with the contract. Again, the provisions of the contract permit passing through portions of overruns. These provisions are the same as were presented to the Staff and Commission in the previously mentioned IRP presentation and docket.

Public Counsel would like to emphasize that the provision in the contract to which Mr. Ferry refers, which "permit passing through portions of overruns" are the same provisions that we stated were of particular concern to us when we wrote our recommendation to the Commission in Case No. EM-99-369 stating that "the pricing adjustment provisions contained in subsections (a) and (b) of section 5.1 of Article 5 constitute an inappropriate shifting of risk to the purchaser, UtiliCorp, United, Inc."

These provisions were part of the reason why Public Counsel recommended in Case No. EM-99-369 that the Commission should make the determinations required by PUHCA "only upon certain conditions" that included allowing the Commission to make ratemaking determinations about the proposed purchase power contract in a rate proceeding where the Commission could "review and disallow any purchased power cost that are found to be imprudent or unreasonable."

On page 8 of Mr. Ferry's testimony at line 9 he notes that "the provisions in the contract permit passing through overruns" and states "these provisions are the same as were presented to the Staff and Commission in the previously mentioned IRP presentation and docket."

Q. WHAT IS THE SIGNIFICANCE OF THESE COST OVERRUN CONTRACT PROVISIONS BEING THE SAME AS THOSE THAT WERE PRESENTED TO THE STAFF AND COMMISSION IN CASE NO. EM-99-369?

A. The fact that these overrun provisions were presented previously to the Staff and the Commission is irrelevant to the Commission's determination in this case about what costs, if any, associated with the MEPPH PPA, should be included in UtiliCorp's cost of service in this case. When UtiliCorp filed its application in Case No. EM-99-369, it stated very clearly in paragraph 15 of its application that"

> UtiliCorp understands that an order containing the findings required by the PUHCA with respect to the PSA shall in no way be binding on the Commission or any party to a future rate case to contest the ratemaking treatment to be afforded the PSA.

Q. DOES PUBLIC COUNSEL BELIEVE IT WAS IMPRUDENT FOR UTILICORP TO ENTER INTO A CONTRACT WITH ITS AFFILIATE (MEPPH) THAT ALLOWED THE AFFILIATE TO PASS ALONG COST OVERRUNS TO THE REGULATED UTILITY?

A. Yes. Public Counsel believes that if the Commission decides to include costs from the Aries plant in rates that reflect a demand charge that UtiliCorp pays to its affiliate for power from the Aries plant, then this monthly demand charge should not reflect cost overruns related to the construction of the Aries units. I have never seen a power contract other than the one between UtiliCorp and its affiliate, MEPPH, that placed the purchaser of power at risk for cost overruns related to the construction of the plant from which the power would be produced. It seems very unlikely that such a provision would ever exist between unaffiliated buyers and sellers of wholesale power.

III. DEGREE OF INTEGRATION BETWEEN UTILICORP'S MPS AND SJLP TERRITORIES

Q. DID UTILICORP'S REBUTTAL TESTIMONY CONTAIN REMARKS REGARDING HOW TRANSMISSION ARRANGEMENTS BETWEEN UTILICORP AND SJLP HAVE AFFECTED THE COMPANY'S ABILITY TO INTEGRATE UTILICORP'S OPERATIONS OF ITS SJLP AND MISSOURI PUBLIC SERVICE TERRITORY?

A. Yes. UtiliCorp witness Carl Hulsig addresses this on page 2 of his rebuttal testimony. On that page he describes the three year renewable agreement that UtiliCorp has entered into with Associated Electric Cooperative (AEC) for bi-directional transmission service of up to 150 MW between the MPS and SJLP areas. At lines 18 through 22, Mr. Hulsig claims that 150 MW of transmission service is not enough to fully integrate the MPS and SJLP transmission systems.

Q. DO YOU AGREE THAT THE CONTACT WITH AEC FOR 150 MW IS INSUFFICIENT TO INTEGRATE THE MPS AND SJLP TRANSMISSION SYSTEMS?

A. No. The contract allows for a high degree of integration. Mr. Hulsig tries to show that the 150 MW of service could somehow constrain the way UtiliCorp dispatches its generation resources in Missouri but he provides no evidence of how this contract has limited UtiliCorp's ability to dispatch its resources for economic or reliability purposes. He states that "this amount does not reserve enough transmission for MPS to serve all of the SJLP's entire native load with MPS generation, especially in the summer months."

Q. DOES MR. HULSIG PROVIDE ANY EVIDENCE THAT IT WOULD BE ECONOMICALLY EFFICIENT FOR DIRECT TRANSMISSION LINKS BETWEEN MPS AND SJLP TO BE GREATER THAN THE 150 MW PROVIDED FOR IN THE AEC CONTRACT?

A. No such analysis was included with his testimony.

Q. WOULD IT BE ECONOMICALLY EFFICIENT FOR MPS TO HAVE SUFFICENT TRANSMISSION CAPACITY TO PROVIDE FOR ALL OF THE SJLP PEAK LOAD?

A. This would require a reliability analysis of the SJLP service area that looked at (1) the size and the number of generating units within the SJLP service area, (2) the historical forced outage rates of those units, and (3) the amount of transfer capacity that UtiliCorp has reserved on SJLP interconnections with other transmission systems besides the MPS transmission system. Mr. Hulsig's testimony does not mention whether any of the SJLP units are considered to be "must run" units for reliability or economic reasons and this would have to be considered as well in determining whether it would be desirable for UtiliCorp to have a transmission link to SJLP that exceeds 150 MW.

IV. UTILICORP'S REQUEST FOR MERGER ACQUISITION PREMIUM RECOVERY.

Q. HAS UTILICORP REQUESTED RECOVERY OF ITS SJLP MERGER ACQUISITION PREMIUM IN THIS CASE?

A. Yes. Recovery of the premium has been requested in the rebuttal testimonies of UtiliCorp witnesses Jon Empson and Vern Siemek. On page 10 of his testimony at lines 7 through 15, Mr. Siemek discusses three "merger related synergies claimed by Staff" that he believes should be offset with "merger related costs" the largest of which is the SJLP merger acquisition premium cost. Mr. Siemek states on page 18 of his testimony at line 18 that "Staff's adjustments need to be reduced to allow the offset of merger-related costs."

Q. IS PUBLIC COUNSEL OPPOSED TO INCLUDING SJLP MERGER TRANSACTION COSTS AND ACQUISITON PREMIUM COSTS AS OFFSETS TO THE STAFF ADJUSTMENTS REFERENCED BY MR. SIEMEK IN LINES 7 THROUGH 15 ON PAGE 10 OF HIS REBUTTAL TESTIMONY OR AS OFFSETS TO THE OPC ADJUSTMENTS REFERENCED BY MR. SIEMEK IN LINES 19 THROUGH 22 ON PAGE 20 OF HIS REBUTTAL TESTIMONY?

A. Yes. UtiliCorp witness Siemek states at line 10 on page 21 of his testimony that "no more than a token amount of the premium could be considered non-regulated and that small amount is already reflected since the entire premium costs could not be offset against the merger-related synergies. Public Counsel completely disagrees with Mr. Siemek's assertion that only "a token amount of the premium could be considered non-regulated." This one assertion from Mr. Siemek appears to be UtiliCorp's sole basis for recommending that merger-related savings be offset with acquisition premium costs.

Q. PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THAT FAR MORE THAN A TOKEN AMOUNT OF THE SJLP MERGER ACQUISITION PREMIUM SHOULD BE CONSIDERED NON-REGULATED.

A. Public Counsel believes that UtiliCorp's decision to merge with SJLP was entirely driven by the Company's expectation that the merger would benefit shareholders by providing additional opportunities for non-regulated earnings. In the testimony that follows, I will show what motivates UtiliCorp's business decisions, including the decision to merge with SJLP, and demonstrate how SJLP fits into UtiliCorp's plans for enhancing its non-regulated earnings.

V. FACTORS THAT DROVE THE UTILICORP/SJLP MERGER

A. INDUSTRY TRENDS

Q. WAS THE MERGER PART OF A TREND THAT HAS BEEN TAKING PLACE IN THE ENERGY UTILITY INDUSTRY OVER THE LAST FEW YEARS?

A. Yes. The American utility industry has seen dozens of mergers proposed in the last few years. The energy sector of the utility industry has been a major part of this trend. Most mergers in the energy sector have been between neighboring electric utilities but some have been between energy and gas utilities and others have been between utilities and gas or electric marketers.

Q. WHAT ARE THE MAJOR REASONS FOR THIS RECENT TREND?

A. Utilities are changing the way they do business so they will be ready to take advantage of the major changes that are occurring in the energy utility industry. Increases in the amount of wholesale and retail competition in the utility industry have led utilities to take bold steps like mergers in order to position themselves for this new environment. In the new competitive environment, the financial success of utilities is becoming more dependant upon how well they perform in competitive markets and much less dependant upon the traditional regulatory process. The perception that utilities must be prepared for competitive markets has, however, been less prominent since the California energy crisis and the Enron bankruptcy. Of course, these two events were largely unforeseen at the time UtiliCorp decided to proceed with the SJLP merger.

B. MOTIVATING FACTORS FOR SJLP AND UTILICORP

Q. WHAT DOES PUBLIC COUNSEL BELIEVE THE PRINCIPAL FACTORS WERE THAT DROVE THE UTILICORP/SJLP MERGER?

A. This merger appears to have been driven by the following factors:

- SJLP's desire to be acquired by a larger utility so that its shareholders can receive the acquisition premium windfall that the acquiring utility is expected to pay for the privilege of taking control of the formerly independent utility's operations and assets. The SJLP management and Board of Directors recognized that even though they are a small utility with limited growth potential, an acquirer would be willing to pay a significant premium to gain control of its low cost generating assets and purchased power contracts.

- UtiliCorp's desire to further its mid-continent network strategy by increasing the size of its distribution service territory footprint, acquiring low cost generation assets, and acquiring telecommunications infrastructure and right of ways. This low cost generating capacity can either be used to create a significant steam of earnings over time, since it can be used to generate power at a cost that is well below market prices, or the assets can be sold (monetized) over time to bring earnings to the UtiliCorp bottom line as needed to satisfy investor expectations.

- UtiliCorp's desire to further its merchant strategy by acquiring low cost generation assets that can be used to (1) support Aquila's power marketing or (2) sold to raise capital that can be used to acquire other generating assets closer to more lucrative markets.

- UtiliCorp's desire to prevent its neighboring utilities (Kansas City Power & Light, Western Resources, Inc. and others) from expanding their mid-continent footprint in UtiliCorp's backyard by acquiring SJLP or Empire.

- UtiliCorp's desire to better position itself for competition in the mid-continent region.

Q. HOW COULD THE UTILICORP/SJLP MERGER BETTER POSITION UTILICORP FOR COMPETITION?

A. The merger could place UtiliCorp in a better position for competition by:

- Reducing the prospect of cut-throat competition in regional energy markets by keeping low cost generation assets out of the hands of its local competitors.

- Lowering the cost structure of UtiliCorp and its affiliates.

- Increasing the number of customers to which UtiliCorp has access for selling electricity, natural gas, home security services, telephony, cable TV, internet, and other unregulated services.

- Increasing the amount of market power that UtiliCorp has in the retail merchant function and in retail and wholesale generation markets.

C. UTILICORP'S VALUE CYCLE PHILOSOPHY

Q. YOU MENTIONED UTILICORP'S NETWORK AND MERCHANT STRATEGIES. COULD YOU PLEASE EXPLAIN THOSE STRATEGIES AND HOW THEY RELATE TO THE SJLP MERGER?

A. Yes. First, however, I should explain the framework in which UtiliCorp executes its network and merchant strategies. UtiliCorp refers to this framework as its Value Cycle Philosophy. According to this philosophy, UtiliCorp seeks to: (1) make appropriate investments, (2) optimize those investments, and (3) monetize those investments. As Attachment 1 shows, this philosophy was explained in a slide that was part of UtiliCorp's presentation in its 1999 Year End Conference Call with investment analysts. The purpose of this framework for executing its network and merchant strategies is the creation of value for the corporation and its shareholders.

Q. PLEASE EXPLAIN HOW UTILICORP'S VALUE CYCLE PHILOSOPHY IS BROADER THAN THE MORE WIDELY RECOGNIZED UTILITY STRATEGY OF MERGING TO ACQUIRE ADDITIONAL SIZE AND COST ECONOMIES IN ORDER TO PREPARE FOR COMPETITION.

A. UtiliCorp's Value Cycle Philosophy includes this more widely recognized strategy but also considers other options for enhancing shareholder value such as disaggregating the assets/functions (e.g. generation or telecommunication assets or the retail function) of a newly-acquired vertically integrated utility and either spinning them off or combining them with the assets of other UtiliCorp affiliates.

Q. DOES UTILICORP'S TESTIMONY IN THIS CASE OR IN THE SJLP MERGER CASE DESCRIBE ITS VALUE CYCLE PHILOSOPHY AND ITS NETWORK AND MERCHANT STRATEGIES?

A. No. UtiliCorp's testimony makes no mention of its Value Cycle Philosophy in either case. The Company's direct testimony in the merger case only described limited aspects of its network and merchant strategies. Robert Green's testimony in the merger case contained a brief description of UtiliCorp's network and merchant strategies and Steve Pella's testimony in that case discussed the cost reduction and customer care aspects of the network strategies. For a detailed discussion of these strategies and the Value Cycle Philosophy one must review the presentations that UtiliCorp's senior executives have made to investment analysts.

Q. WHY IS IT IMPORTANT TO LEARN MORE ABOUT UTILICORP'S VALUE CYCLE PHILOSOPHY AND NETWORK AND MERCHANT STRATEGIES IN ORDER TO DETERMINE WHETHER UTILICORP SHOULD BE ALLOWED TO OFFSET MERGER-RELATED SAVINGS WITH ACQUISITION PREMIUM COSTS IN THIS CASE?

A. Unless the SJLP merger is evaluated within the context of UtiliCorp's guiding philosophy and strategies, it is impossible to determine the reasonableness of UtiliCorp's position that it should be allowed to offset merger-related savings with acquisition premium costs in this case. UtiliCorp's guiding philosophy and strategies and the way these strategies have been implemented in the recent past by UtiliCorp shed a substantial amount of light on what motivated UtiliCorp to choose to acquire SJLP.

UtiliCorp has stated in its presentations to utility analysts that it may consider selling some of the SJLP and Empire generating assets. It recently sold a power plant that was part of its West Virginia utility operations. UtiliCorp has broken apart some of the businesses that were a part of its Australian electric utility operations. UtiliCorp has taken advantage of the telecommunications assets that it acquired as part of its Australian electric utility operations and is turning them into a huge profit center. These types of merger synergies and potential windfalls from the sale of low cost generation assets that

UtiliCorp anticipated at the time it chose to merger with SJLP must be taken into account when evaluating UtiliCorp's request for acquisition premium recovery in this case.

Q. YOU STATED THAT UTILICORP'S TESTIMONY IN THIS CASE AND THE SJLP MERGER CASE CONTAIN ONLY A BRIEF DESCRIPTION OF ITS MERCHANT AND NETWORK STRATEGIES. WHAT WERE THE MAIN SOURCES OF INFORMATION THAT YOU FOUND ABOUT THESE STRATEGIES?

A. These strategies, along with UtiliCorp's Value Cycle Philosophy, were described in detail in a couple of conference calls that UtiliCorp senior executives held with financial analysts in the first quarter of this year. On April 15, 2000, Bob Green held a "2000 Conference Call" (the 2000 Call) with Salomon Smith Barney and on February 8, 2000 Rick Green, Bob Green, and Peter Lowe (UtiliCorp CFO) held a "1999 Year End Conference Call" (the 1999 Call) with investment analysts. The 1999 UtiliCorp Annual Report contains additional information on these concepts. Transcripts of the conference calls were available on UtiliCorp's internet web site (http://www.utilicorp.com/) in the Presentations section of the Investor Information Area.

D. UTILICORP'S NETWORK STRATEGY

Q. PLEASE RETURN TO UTILICORP'S NETWORK STRATEGY AND DESCRIBE IT IN DETAIL.

A. UtiliCorp's network strategy is to bring value to its shareholders by investing in energy networks and production assets. This strategy has been implemented in Canada, the U.S., New Zealand, and Australia where UtiliCorp has invested in energy networks. In the 2000 Call, Bob Green described recent developments in its network strategy as follows:

> First of all, our network strategy, where we essentially are taking advantage of the trend towards privatization and liberalization of energy markets around the world. We have bought utilities in Australia, New Zealand and Canada outside the U.S. **We've also acquired two**

> **distribution assets here in the U.S., St. Joe Power & Light and Empire District. We believe we can significantly enhance the value of those assets by disaggregating, breaking apart some embedded businesses, and repositioning them.** We've done that in Australia. Since 1995, our IRR in terms of that investment is over 30% and what we've done is break out the retail energy business and we will joint venture that with Shell at a value significantly above what we paid for it. **We've built a telecom business leveraging our right-of-way in the power business** and we have built a back office business that handles the settlement and billing for other power markets and generators, other participants in the marketplace. There's an analogy for that business and the telecom business; companies like Saval Systems you might have heard about and Cincinnati Bell has a subsidiary that does this. Most of the large telephone companies don't do their own billing and we believe we can outsource most of that billing to this unregulated entity which will ultimately trade at a much higher multiple. So we believe this international network strategy has the potential to create IRRs well above 20%. In Australia we've achieved 30%, and we will continue to aggressively pursue that in deregulating markets like Australia, New Zealand, Alberta, Ontario, and here domestically, as the states deregulate. (emphasis added).

E. PAST IMPLEMENTATION OF THE NETWORK STRATEGY

Q. HAVE YOU REVEWED UTILICORP DOCUMENTS THAT DESCRIBE HOW THE COMPANY HAS APPLIED ITS VALUE CYCLE PHILISOPHY AS IT IMPLEMENTS ITS NETWORK STRATEGY?

A. Yes. In the 1999 Call, Rick Green described the value cycle as follows:

> The other key component of being successful with our mission and vision, on top of taking advantage of open markets, it's to constantly build value. And that is described here in the value cycle. This is a value cycle that you've heard us talk about through the year as to how we invest in opportunities, and immediately they get pushed into optimizing. Whether that means putting our operational template on them, cut costs, enhance revenues, look for emerging opportunities.
>
> Whatever that is, we do that very quickly; and then you have the option to monetize. Grab that value and push it to the bottom line. It consistently over time gives you another whole stream of earnings besides your existing business, your operational activities. (emphasis added)
>
> This has been going on at UtiliCorp for a number of years, starting back with our cornerstone shareholdings down in New Zealand with WEL.

> And we were able to position from those initial investments now to one of the larger investments in UtiliCorp and 30% market share in New Zealand. In '95, we moved to Australia, optimizing the value there by taking the electric company, United Energy, public, and realizing that value before the regulators start to take it back away and reset returns, which will happen in January of '01.
>
> And currently in '99, we continue this value cycle. The West Virginia sale, for example. We were not interested in that sale just because we got a profit on the assets. It was the strategic relationship we were able to develop with Allegheny, and the long-term gas contract that we got for Aquila, that made that a real good value proposition for us. And the Aries plant, our merchant plant that we're developing in Missouri.
>
> Here again bringing in Calpine as a partner allowed us to monetize and bring some of that value to the bottom line. So the consistent building of value is a very important measure, we think, going forward. So when you take advantage of opening markets, and when you constantly focus on building value, it gives you a very nice earnings track record, again with the ability to move that up to 8% and even start to talk and focus on 10%.

The UtiliCorp 1999 Annual Report also describes the value cycle and gives numerous examples of how it has followed this cycle all the way through to the monetization stage for some of its network investments. As UtiliCorp states in its 1999 Annual Report,

> ..."the Value Cycle. We invest, then optimize and monetize.
>
> This means that as we manage properties, whether acquired recently or a long time ago, we are constantly enhancing revenues, cutting costs or applying our operational model to add value. We realize that value by bringing in a partner, asking the public to invest, or developing some other strategic relationship.

Later in its 1999 Annual Report, UtiliCorp gives the following examples of network investments that it has recently or will soon have monetized in order to "realize the appreciated value that we have created":

- UtiliCorp realized a gain on a power plant that it sold in its West Virginia Power service territory and stated that "for us, this was another value cycle opportunity."
- UtiliCorp says it will likely sell part of its United Networks investment in New Zealand as "the next step in the value cycle."

- In January of this year, UtiliCorp sold a 50% interest in its new combined cycle plant that is currently under construction at Pleasant Hill, Missouri in what it characterizes as another application of its value cycle concept.

The 1999 Call contains more details about the success UtiliCorp has had in executing its value cycle philosophy and monetizing its investment in the Pleasant Hill (Aries) plant where Bob Green states that:

> The Aries plant is another good example. We identified an opportunity to build a 600-megawatt plant. We executed a purchase power agreement with our affiliated network business, got it approved by the Commission. We've already sold half that plant before we have a piece of steel on site, for a value of $34 million more than we'd have to put in it. So we created $34 million of value in a combined cycle plant. We expect that to grow over time. And we've already monetized half of it.

F. NETWORK STRATEGY TELECOM SYNERGIES IN AUSTRALIA

Q. DO YOU HAVE ANY FURTHER COMMENTS ABOUT UTILICORP'S NETWORK STRATEGY?

A. Yes, developing telecommunications networks has become a big part of UtiliCorp's network strategy. Bob Green emphasized this in the 1999 Call where he stated "as we look at buying network assets, the telecom overlay will be a key part of the value proposition." Mr. Green also indicated in the 1999 Call that UtiliCorp intends to implement its telecom strategy in conjunction with its purchase of the SJLP and Empire network assets.

Q. HAS UTILICORP ALREADY BEGUN TO EXECUTE ITS TELEPONE STRATEGY IN ANY OF THE PLACES WHERE IT OWNS ENERGY NETWORKS?

A. Yes. In the following passage from the 1999 Call, Bob Green describes the telecom business that UtiliCorp has developed in Australia and its intention to pursue a similar strategy in Missouri by acquiring SJLP and Empire:

> The biggest upside coming out of Australia is our telecom business, UECom. Some of you might remember a gentleman by the name of Harvey Parker, whom we hired from Telstra, to run United Energy. He left after about a year, but he had initiated a teleco strategy for United. We have refocused that strategy, and it has been quite successful.
>
> Today we have about 500 miles of fiber. We're building rings around Melbourne, Sydney and Brisbane. It started out as dark fiber, providing services to the 50 data centers in the United Energy service territory. It has grown from there.
>
> We expect to offer voice services this year. And it really is our biggest venture into telecom. And it is a strategy we think we can replicate. We think we can replicate it in a place like Calgary, taking advantage of our power distribution position. We think we can replicate it in Missouri. Empire has 300 miles of fiber. We think we can implement this strategy in the Empire service territory. We think we can implement it in and around Kansas City. And we're developing the business plan and identifying the right partners to make this strategy most successful in these different markets. But as we look at buying network assets, the telecom overlay will be a key part of the value proposition.
>
> And the business in Australia, just to give you a sense, you've got 500 miles laid; we're only using 30% of the capacity. So in terms of incremental business, there's very little capital cost associated with it, and we expect the EBIT to more than double this year. And it almost tripled in '99. So there is some talk of a potential float of that business. We haven't made any decisions. We're going to look at how we derive the best value in the long run.

In the 2000 Call, Rick Green gives further insights into UtiliCorp's apparent successful implementation of its network and telecom strategies in Australia where he states that "in Australia...[w]e've built a telecom business leveraging our right of way in the power business."

G. UTILICORP'S ENERGY MERCHANT STRATEGY

Q. LET'S TURN NOW TO A DISCUSSION OF UTILICORP'S MERCHANT STRATEGY. PLEASE EXPAIN THIS STRATEGY.

A. UtiliCorp's merchant strategy is to bring value to its shareholders by becoming a leading energy merchant in wholesale gas and electric markets. This strategy has primarily been focused in the U.S. where Aquila has become one of the leading marketers of gas and electricity and UtiliCorp has recently begun pursuing this strategy more aggressively in Europe. UtiliCorp's 1999 Annual Report stresses the importance of Aquila's recent initiative to acquire mid-stream assets such as power plants and gas storage facilities to give it the resources that it needs to support its trading business as the wholesale energy market becomes more competitive. Aquila's investment in the Pleasant Hill plant fits in with this initiative. The acquisition of SJLP's low cost generating assets could also be used to support this initiative in the future as Missouri electric markets are restructured.

Q. DID ROBERT GREEN COMMENT ON UTILICORP'S MERCHANT STRATEGY IN HIS DIRECT TESTIMONY IN THE SJLP MERGER CASE?

A. Yes, on page 4 of his testimony, he stated that:

> our focus on domestic acquisitions has become basically two fold: first, we are interested in utilities that are in the mid-continent region where we currently own and operate utilities and have the platform to realize economies of scale, and second, we are interested in assets that enhance our ability to become a leading energy merchant such as the Katy Storage facility in Texas and the electric combined cycle generation plant now under construction in Cass County, Missouri by UtiliCorp's Aquila Merchant Energy Partner business.

From Mr. Green's statement, its apparent that SJLP's low cost generating assets could easily become a part of UtiliCorp's merchant strategy, if retail generation markets are deregulated in Missouri. Of course, the expectations of whether and when retail generation markets may be deregulated in Missouri have changed substantially since the time that UtiliCorp decided to acquire SJLP.

H. UTILICORP'S GROWTH STRATEGY

Q. HAVE YOU REVIEWED OTHER DOCUMENTS THAT SHOW UTILICORP'S STRATEGIES FOR GROWING THEIR EARNINGS AS THE ENERGY INDUSTRY IN THE U.S. AND WORLD WIDE CONTINUES TO EVOLVE?

A. Yes. There is one other document that I would like to describe and comment on before turning to a discussion of how UtiliCorp's growth and "value cycle" strategies apply to its acquisition of SJLP. The other document that I will discuss is attached to this testimony as Attachment 2. This document was introduced as Exhibit 204 HC in the UtiliCorp/Empire merger hearing (Case. No. EM-00-369). This document is entitled **

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Q. PLEASE REVIEW THOSE ASPECTS OF ** ______________________ ** THAT ARE RELEVANT TO UTILICORP'S REQUEST TO RECOVER THE SJLP MERGER ACQUISITION PREMIUM.

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VI. RELATIONSHIP BETWEEN UTILICORP CORPORATE STRATEGIES, THE SJLP ACQUISITION, AND MERGER PREMIUM RECOVERY IN RATES

A. OVERVIEW

Q. PLEASE EXPLAIN WHY YOU BELIEVE IT IS VERY IMPORTANT FOR THE COMMISSION TO CONSIDER UTILICORP'S CORPORATE STRATEGIES AND THE SPECIFIC CHARACTERISTICS OF SJLP WHEN DECIDING WHETHER TO APPROVE OFFSETTING MERGER-RELATED ADJUSTMENTS WITH" ACQUISTION PREMIUM COSTS."

A. When the Commission considers the UtiliCorp proposal to offset merger-related savings with acquisition premium costs, it should be cognizant of potential shareholder benefits that UtiliCorp expected would be brought about by the opportunities that this merger would give to UtiliCorp for bringing non-regulated earnings directly to its bottom line. At the time UtiliCorp decided to proceed with the SJLP merger, the Company believed these opportunities existed in many areas, almost none of which were acknowledged by UtiliCorp in its merger application. The closest that UtiliCorp came to acknowledging these shareholder benefits in any of its filings in the merger case was the statement on page six of its application that "the merger will strengthen the competitive position of

UtiliCorp, including its MPS and SJLP operations, not only in Missouri, but also in the surrounding region in the Midwest."

UtiliCorp chose to merge with SJLP for a number of factors. Many of these factors are related to UtiliCorp's value cycle philosophy, network strategy, and merchant strategy that were described earlier in this testimony. SJLP had characteristics that made it an attractive candidate for use in the pursuit of these strategies. These characteristics included, its proximity to UtiliCorp's other Missouri service territories (providing transmission and off-system sales synergies), its low cost generating supplies, and its telecommunications assets.

B. SJLP'S LOW COST GENERATING PORTFOLIO

Q. WHAT MATERIALS HAVE YOU REVIEWED THAT ILLUSTRATE UTILICORP'S APPRECIATION OF THE VALUE OF THE LOW COST GENERATING ASSETS THAT SJLP EITHER OWNS OR TO WHICH IT HAS ACCESS?

A. UtiliCorp has acknowledged the value in the SJLP low cost generation assets that it obtained through the merger in: its 1999 Annual Report, in presentations to investment analysts, and internal documents that analyzed the benefits of a potential acquisition of SJLP. In its 1999 Annual Report, UtiliCorp stated that:

> Empire District and Light and Power, among the longest operating [sic] in Missouri, also bring low cost generation assets and cost-effective distribution operations.

In the "1999 Year End Conference Call" (the 1999 Call) with investment analysts, Bob Green stated:

> But take a look at the mid-continent footprint that we're building on the network side of the business. With the St. Joe and the Empire acquisition, we've brought together some very attractive low-cost generation assets, and we have added some contiguous distribution networks that afford us a significant opportunity for synergies and

> efficiencies. 75% of those benefits are going to come from the supply side.

Presentations at two UtiliCorp Board of Directors (BOD) meetings that took place shortly before UtiliCorp presented its final bid to SJLP included comments about SJLP's generating assets. The presentation at the 2/3/99 BOD meeting noted that SJLP is ** ______________________________ **

Q. HAVE YOU REVIEWED ANY MATERIALS THAT HAVE QUANTIFIED THE VALUE OF SJLP'S LOW COST GENERATING SUPPLIES EITHER IN TERMS OF MARKET VALUE, OR IN TERMS OF ITS POTENTIAL CONTRIBUTION TO NON-REGULATED EARNINGS STREAMS, IF GENERATION IS DEREGULATED AT THE RETAIL LEVEL IN MISSOURI?

A. ** ______________________________ ** (See Attachment 3).

Q. IS THERE A GENERALLY ACCEPTED APPROACH TO DETERMINING THE MARKET VALUE OF GENERATION ASSETS?

A. Yes. The market value is generally determined by calculating the contribution to annual earnings that each generating plant is expected to make over the life of the plant and then discounting this stream of future annual earnings to determine the present value of the earnings stream. ** ____ **

Q. PLEASE DISCUSS IN MORE DETAIL THE ** ______________________________ ** ANALYSIS AND THE CONCLUSIONS THAT WERE DRAWN, BASED ON THAT ANALYSIS.

A. ** ____

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C. GENERATIION SUPPLY SYNERGIES

Q. DID UTILICORP'S SJLP MERGER FILING REFLECT THE VALUE THAT ITS SHAREHOLDERS ARE LIKELY TO RECEIVE IN THE FUTURE FROM ACQUIRING SJLP'S LOW COST GENERATION ASSETS?

A. No. The Company did, however, ** **

D. UTILCORP'S OPTIONS TO DERIVE NON-REGULATED EARNINGS FROM SJLP'S LOW COST GENERATING PORTFOLIO

Q. DID UTILICORP'S TESTIMONY IN THE SJLP MERGER CASE OR ITS RESPONSES TO DATA REQUESTS IN THAT CASE DESCRIBE ITS POTENTIAL TO ACHIVE SYNERGIES THAT WOULD ACCRUE SOLEY TO THE BENEFIT OF ITS SHAREHOLDERS?

A. No. Its testimony was completely silent with respect to this issue. Its responses to data requests specifically on this issue (Staff DR Nos. 152 and 228) stated that UtiliCorp has not performed any studies of the potential for merger synergies in the non-regulated area. The Company's response to DR No. 152 even implies that UtiliCorp has not observed any potential for merger synergies in the non-regulated area.

Q. DO YOU BELIEVE THESE DR RESPONSES WERE ACCURATE?

A. No. I don't believe UtiliCorp's response was accurate when it stated that no analysis has been performed by or on behalf of UtiliCorp that contains "estimates of merger savings/synergies applicable to non-regulated business operations after a combination." I also do not believe that UtiliCorp's response to sub-part 3 of Staff DR No. 152 was accurate when it implied that UtiliCorp has not observed any potential for merger synergies in the non-regulated area.

** **

Q. HAVE YOU REVIEWED ANY DOCUMENTS OTHER THAN THAT CONTAINED IN THE ** ** WHICH INDICATES THAT UTILICORP IS CONSIDERING

OPTIONS FOR DERIVIING NON-REGULATED SYNERGIES FROM SJLP'S LOW COST GENERATING PORTFILIO?

A. Yes. The discussion earlier in this testimony where I describe UtiliCorp's Value Cycle Philosophy and its Network and Merchant strategies shows how UtiliCorp's strategic intent regarding investments like the Company's acquisition of SJLP may be applied to SJLP in the future. In fact, both the 1999 Call and the 2000 Call that were discussed earlier contain specific statements regarding future options that UtiliCorp may pursue with its SJLP investment and explains how those options fit into the Company's Value Cycle Philosophy and its Network and Merchant strategies.

Q. PLEASE QUOTE THE SPECIFIC STATEMENTS REGARDING FUTURE OPTIONS THAT UTILICORP MAY PURSUE WITH ITS SJLP INVESTMENT THAT WERE MADE IN THE 1999 AND 2000 CALLS AND PROVIDE ANY NECESSARY EXPLANATIONS.

A. In the 2000 Call, Bob Green makes the following statement:

> First of all, our network strategy, where we essentially are taking advantage of the trend towards privatization and liberalization of energy markets around the world. We have bought utilities in Australia, New Zealand and Canada outside the U.S. **We've also acquired two distribution assets here in the U.S., St. Joe Power & Light and Empire District. We believe we can significantly enhance the value of those assets by disaggregating, breaking apart some embedded businesses, and repositioning them.** We've done that in Australia. Since 1995, our IRR in terms of that investment is over 30% and what we've done is break out the retail energy business and we will joint venture that with Shell at a value significantly above what we paid for it. We've built a telecom business leveraging our right-of-way in the power business...(emphasis added)

In the 2000 Call, Bob Green makes the following statement:

> But take a look at the mid-continent footprint that we're building on the network side of the business. With the St. Joe and the Empire acquisition, we've brought together some very attractive low-cost generation assets, and we have added some contiguous distribution networks that afford us a significant opportunity for synergies and

efficiencies. 75% of those benefits are going to come from the supply side.

> **And over time, we will look to restructure the supply-side assets and potentially take them out of rate base and provide more of an upside. It might be that the easiest path is to sell some of those assets** so we can establish a market value and avoid a stranded cost to base with the regulator; and then redeploy that capital strategically on the energy grid in other generation assets or other growth investments. (emphasis added)

> **And again, this just highlights the service territories that we've acquired with St. Joe and Empire.**

It seems quite clear from the above statements by the most senior UtiliCorp witness in the SJLP merger case, that UtiliCorp was considering the full range of options, including the sale (monetization) of some of its soon to be acquired SJLP generating assets, in order to bring significant unregulated earnings to the bottom line for its shareholders. UtiliCorp is of course, subject to Commission approval under the current regulatory paradigm, free to dispose of its assets as it sees fit.

Q. HAVE YOU SEEN ANY INFORMATION SUBSEQUENT TO THE COMPLETION OF THE SJLP MERGER THAT INDICATES UTILICORP ANTICIPATES TREATING ITS SJLP INVESTMENT JUST LIKE ANY OTHER INVESTMENT THAT IS SUBJECT TO THE VALUE CYCLE PHILOSOPHY OF UTILICORP?

A. Yes, UtiliCorp's President and Chief Operating Officer, Robert Green made the following statement in a presentation to the Edison Electric Institute (EEI) Financial Conference on October 30, 2001:

> **We have talked about the value cycle and as we invest in assets on the energy grid or energy infrastructure we don't have a buy and hold mentality like a traditional utility, we have a shareholder mentality.** We have a capability to manage, rationalize, optimize these investments. And as we do, we harvest the capital and re-deploy it. And by doing so we've been able to drive significantly higher returns, because once we've optimized the assets, the distribution asset in particular, a network asset the upside is limited. So we look to monetize the asset and invest in another asset where we see greater upside. We did that in Australia with the float of United Energy at a value significantly

> above what we paid for the asset, I think we bought that asset for $1.1 billion U.S. and we floated it at $2 billion. So that's the kind of upside that we try to realize. And you've probably heard about our latest investment in the U.K. in the form of Midlands, again it is the same strategy that we developed in Australia, executed in New Zealand, executed in Canada, and now will execute in the U.K. and on the continent as we find assets that we believe we can, um, a significant opportunity to optimize it and then monetize that value. (emphasis added)

The above quote from one of UtiliCorp's senior executives shows that this Company's strategy towards making investments that can contribute to non-regulated earnings through execution of its "value cycle" strategy has not changed significantly in the last few years. One of the slides (See Attachment 6) that accompanied Mr. Green's presentation at the EEI Financial Conference lists SJLP as one of the recent investments to which UtiliCorp is applying its "value cycle philosophy."

E. UTILCORP'S POTENTIAL NON-REGULATED EARNINGS IN THE TELECOM/CABLE TV AREA

Q. EARLIER IN THIS TESTIMONY, WHEN YOU WERE DISCUSSING UTILICORP'S VALUE CYCLE PHILOSOPHY, NETWORK STRATEGY, AND MERCHANT STRATEGY, YOU DISCUSSED THE RELATIONSHIP BETWEEN THE COMPANY'S NETWORK STRATEGY AND ITS TELECOMMUNICATIONS AND CABLE TV INITIATIVES. HOW DOES UTILICORP PERCEIVE A LINK BETWEEN THE TWO?

A. Bob Green described this link in the 1999 Call where he stated "as we look at buying network assets, the telecom overlay will be a key part of the value proposition" and in the 2000 Call where he stated "we've built a telecom business leveraging our right-of-way in the power business."

Q. HAVE YOU SEEN ANY INFORMATION THAT PROVIDES AN ADDITITIONAL INDICATION THAT THE "TELECOM OVERLAY" WAS PART OF WHAT MOTIVATED UTILICORP TO ACQUIRE SJLP?

A. Yes, a number of the statements made by UtiliCorp's senior management indicate that the non-regulated synergies associated with the SJLP merger were a major factor in deciding to pay the premiums necessary to acquire SJLP. I'll start with the comments that Bob Green made in the 2000 Call where he stated that:

> Second, in terms of a near-term upside is our telecom business that's emerging first in Australia. We expect to float a telecom business at a valuation close to the initial investment value in United Energy, the power company we bought back in 1995. We think that should have a big impact on UtiliCorp's share price. **As well, we are aggressively pursing that telecom strategy here domestically**. (Emphasis added)

A significant amount of additional detail about UtiliCorp's domestic telecom strategy was revealed by Bob Green in the 1999 call where he made the following statements:

> The biggest upside coming out of Australia is our telecom business, Secom. Some of you might remember a gentleman by the name of Harvey Parker, whom we hired from Telstra, to run United Energy. He left after about a year, but he had initiated a telecom strategy for United. We have refocused that strategy, and it has been quite successful.
>
> Today we have about 500 miles of fiber. We're building rings around Melbourne, Sydney and Brisbane. It started out as dark fiber, providing services to the 50 data centers in the United Energy service territory. It has grown from there.
>
> We expect to offer voice services this year. And it really is our biggest venture into telecom. And it is a strategy we think we can replicate. We think we can replicate it in a place like Calgary, taking advantage of our power distribution position. **We think we can replicate it in Missouri.** Empire has 300 miles of fiber. (Emphasis added)
>
> We think we can implement this strategy in the Empire service territory. **We think we can implement it in and around Kansas City. And we're developing the business plan and identifying the right partners to make this strategy most successful in these different markets. But as we look at buying network assets, the telecom overlay will be a key part of the value proposition.** (Emphasis added)

> . . .
>
> We will continue to pursue this telecom strategy that has emerged out of Australia. **There is significant potential with the assets we're acquiring at Empire and St. Joe to create an Australian-like telecom play in the mid-continent.** (Emphasis added)
>
> **And as I said, we've got I think 300 miles of fiber at Empire, and a significant business at St. Jo that we think we can build, based on our Australian experience, into a real growth vehicle for UtiliCorp.** (Emphasis added)
>
> . . .
>
> Q: [Investment analyst] I was wondering if you could ballpark for us the level of investments you're looking at making in telecom over the next two to three years. And then also maybe you could provide us a little bit more detail on the New Zealand and Australia regulatory processes and how you see yourselves coming out.
>
> A. [Bob Green] In terms of telecom, just to give you an idea, in Australia, Peter, I think we've invested like $15 million? And we've got a valuation of $300 million. So it's not capital-intensive, and we're only using 30% of the capacity. So as we look at what we might do in Calgary – I mean, **I think that would be an example and then as we look at what we might do with the assets we've acquired through Empire and St. Joe, the capital expenditure is not big.** (Emphasis added)
>
> **I mean, in St. Joe I think we're looking at putting $4 million into the business to fund their expansion.** (Emphasis added)

Q. WHAT KIND OF TELECOM ASSETS DID UTILICORP AND SJLP POSSESS AT THE TIME OF THE SJLP MERGER THAT COULD HAVE BEEN LEVERAGED TO CREATE NON-REGULATED SYNERGIES?

A. At the time of the SJLP merger, UtiliCorp had recently invested in two telecommunications companies near Kansas City and the SJLP service territory. Of course, UtiliCorp already possessed its own right of way and fiber loops that it had installed for internal communications purposes. In UtiliCorp's 1999 Annual Report, the Company stated that SJLP is already in the "telecommunications, data networks" business.

F. SUMMARY OF PUBLIC COUNSEL POSITION REGARDING UTILICORP'S REQUEST FOR SJLP MERGER PREMIUM RECOVERY

Q. PLEASE SUMMARIZE OPC'S POSITION REGARDING UTILICORP'S REQUEST TO OFFSET MERGER-RELATED SAVINGS WITH "ACQUISITION PREMIUM COSTS."

A. UtiliCorp's request that this Commission include merger premium costs in the Company's cost of service and allow these costs to offset merger-related savings should be denied. UtiliCorp freely chose to enter into a merger agreement with SJLP. Consumers were never consulted about their views on this merger. The merger applicants were less than forthcoming in their testimony in the SJLP merger case where they described the expected non-regulated synergies resulting from the merger. A large portion of the synergies are in the area of generation and almost any conceivable restructuring legislation in Missouri would transfer the benefits from all of these synergies to UtiliCorp. Such legislation was widely expected by most industry observers, including UtiliCorp officials, at the time the Company decided to pursue a merger with SJLP. The management and Board of Directors of UtiliCorp chose to merge with SJLP because of a broad range of non-regulated benefits that were expected to result from the merger: These expected non-regulated benefits included:

- Reducing the prospect of cut-throat competition in regional energy markets by keeping low cost generation assets out of the hands of its local competitors.
- Obtaining a lower cost structure for the generation portion of UtiliCorp's regulated operation. All benefits of these reduced costs were expected to flow through to shareholders once retail wheeling was allowed and generation prices are no longer regulated at the retail level in Missouri.

- Increased market power in wholesale and retail generation market would enhance UtiliCorp's future earnings.

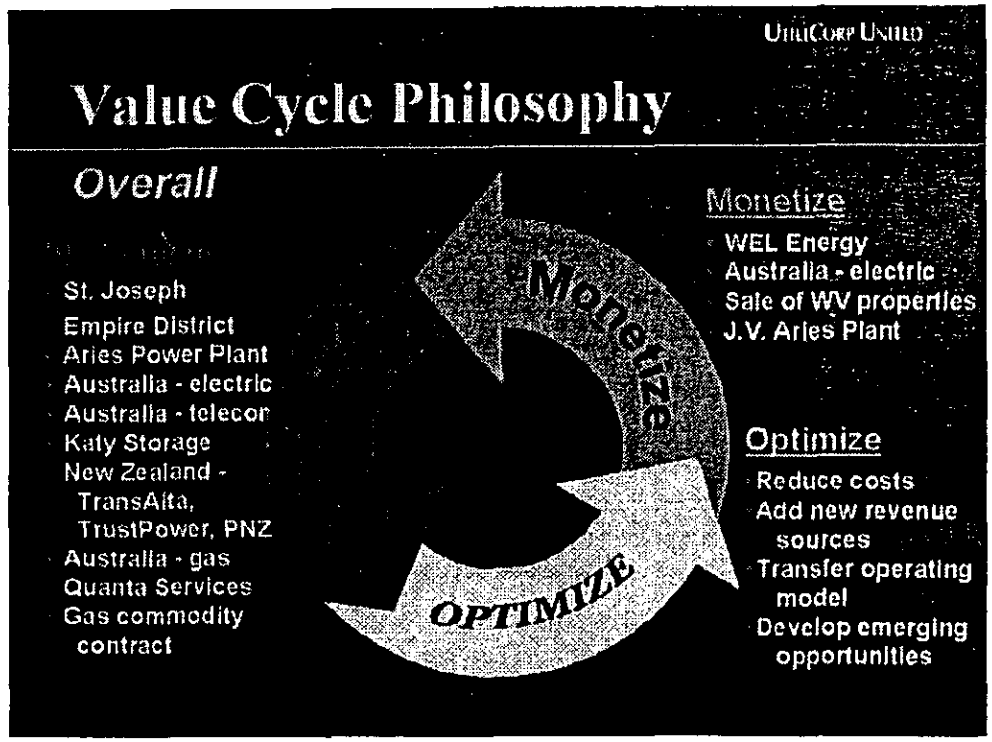
- Revenue enhancements resulting from synergies between the unregulated operations of SJLP and UtiliCorp and between the unregulated and regulated operations of SJLP and UtiliCorp. UtiliCorp's investments in Missouri telecommunications firms was an attempt to facilitate achieving these synergies.

- Cost reductions resulting from synergies between the unregulated and regulated operations of SJLP and UtiliCorp.

If UtiliCorp's proposal to include an acquisition premium in its cost of service ever made sense, it was at a time when utilities were engaged exclusively or nearly exclusively in regulated businesses. For UtiliCorp, that time has long since passed. Mergers today are not prompted by a utility's desire to minimize the cost of providing regulated service; if this was the motivation, the merger would have been proposed decades ago. To the contrary, mergers today are prompted by non-regulated earnings opportunities in areas such as: non-regulated generation service, facilities based telecommunications services, and other value added services. UtiliCorp cited its earnings potential in these non-regulated areas when it explained the motivation for the merger to its shareholders. It would be an extreme injustice to see merger premium costs included in rates when the utility made the decision to pay a premium to acquire a utility not for the purpose of lowering costs for ratepayers, but because it believed the premium costs would pay off in handsome returns to shareholders from non-regulated business opportunities.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. YES.



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ATTACHMENT 1

ATTACHMENT 2

HAS BEEN DEEMED

"HIGHLY CONFIDENTIAL"

IN ITS ENTIRETY

ATTACHMENT 3

HAS BEEN DEEMED

"HIGHLY CONFIDENTIAL"

IN ITS ENTIRETY

ATTACHMENT 4

HAS BEEN DEEMED

"HIGHLY CONFIDENTIAL"

IN ITS ENTIRETY

ATTACHMENT 5

HAS BEEN DEEMED

"HIGHLY CONFIDENTIAL"

IN ITS ENTIRETY

UtiliCorp United

Value Cycle Philosophy

Recent Investments

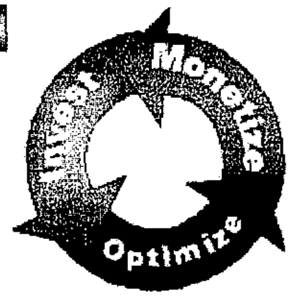
Domestic
- Generation
- Quanta
- St. Joseph

Australia
- UE
- MultiNet
- Allnta

New Zealand
- TransAlta
- Trust Power
- PNZ
- Orion

Canada
- TransAlta

United Kingdom
- Midlands



Optimize
- Transfer operating model
- Develop new revenue sources
- Reduce expenses/implement efficiencies
- Develop emerging opportunities

Monetize

Domestic
- West Virginia
- Aquila IPO

Australia
- UE IPO
- Uecomm IPO
- Sell Retail

New Zealand
- WEL Energy
- Contracting
- UNL

Canada
- Sell Retail

ATTACHMENT 6