Exhibit No.:
Issues: Income Tax &, Acquisition Premium
Witness: John W. McKinney
Sponsoring Party: Missouri Public Service
Case No.: ER-2001-672

Before the Public Service Commission
of the State of Missouri

Surrebuttal Testimony

of

John W. McKinney

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
SURREBUTTAL TESTIMONY OF JOHN W. MCKINNEY
ON BEHALF OF MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED INC.
CASE NO. ER-2001-672

INTRODUCTION

Q. Please state your name.

A. My name is John W. McKinney.

Q. By whom are you employed and in what capacity?

A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as Vice President-Regulatory Services.

Q. Please state your business address.

A. My business address is 10700 East 350 Highway, Kansas City, Missouri 64138.

Q. Did you previously file direct or rebuttal testimony in this case?

A. Yes. I have previously filed rebuttal testimony in this case.

Q. What is the purpose of your surrebuttal testimony?

A. I will be addressing two issues in my surrebuttal testimony. I will first address the rebuttal testimony of Staff witness Steve M. Traxler regarding errors in the Staff's income tax calculation. I will also provide a copy of my direct testimony I filed in the UtiliCorp merger with St. Joseph Light & Power Co ("SJLP"), as a response to the rebuttal filed by Staff witness Cary G. Featherstone.

Income Taxes

Q. Have you reviewed Staff witness Steve Traxler's rebuttal testimony?

A. Yes. I have.

Q. How do you respond?

A. Staff witness Traxler has titled his surrebuttal as **Deferred Income Taxes**. I do not understand this, as UtiliCorp's issue with the Staff's calculation is with the Staff's **Current Income Taxes** not the **Deferred Income Taxes**. To date the Staff has not, to my knowledge, made any improper adjustments to the test year level of Deferred Income Taxes. There were some amounts included by the Staff in their original Accounting Schedules for Deferred Income Taxes that should not have been included. Those amounts are depicted on my Schedule JWM-7, Lines 9 through 13, which is attached to my rebuttal testimony. UtiliCorp has discussed these items with the Staff and the Staff has indicated they will correct their schedules.

UtiliCorp does believe the Staff's current income tax calculation is in error because of erroneous calculation of the "Ratio Method" the Staff has used to determine the proper tax depreciation deduction for current income taxes. UtiliCorp believes the Staff's "Ratio" was been calculated in error and misapplied. My surrebuttal testimony will respond the Staff Witness Traxler's rebuttal and will show the current income taxes error and the reasons therefore.

Q. What subjects does Staff witness Traxler discuss in his rebuttal testimony regarding the income tax issue?

A. Staff witness Traxler discusses many subjects, of which, none address the issue UtiliCorp has with the Staff's calculation. Generally, these subjects can be identified as: 1) proper accounting methods for maintaining property accounting records; 2) depreciation concepts; and, 3) "Normalization" issues.

Q. What is erroneous concerning Staff witness Traxler's discussion of accounting methods for maintaining property accounting records?

A. His statements are not correct as those methods apply to UtiliCorp. I will explain this point later in this testimony.

Q. What is erroneous concerning Staff witness Traxler's discussion of depreciation concepts?

A. Staff witness Traxler spends considerable time discussing how he believes UtiliCorp over depreciates its assets and how it gains a "windfall profit" from this activity. Staff witness Jolie Mathis' testimony, the Staff depreciation witness, proves these statements are not factual or correct.

Q. What is erroneous concerning Staff witness Traxler's discussion of "Normalization"?

A. Staff witness Traxler indicates UtiliCorp's disagreement with the Staff's calculation is because of a "Normalization" requirement and the requirement related to normalization of tax depreciation. UtiliCorp has made no claim of a violation of the Internal Revenue Service normalization requirement. Staff witness Traxler then attempts to support his position by stating that Staff witness Robert E. Schallenberg presented this issue to the Commission in a 1993 case and that the Commission adopted Mr. Schallenberg's position. A review of this earlier case will show that UtiliCorp's issue is not the same as what St. Joseph Light & Power Co. presented in that earlier case. Staff witness Traxler implies that the Commission should accept the

Staff position in this case because his method has been used in other cases. However, the issue the Staff is arguing, Deferred Income Taxes, is not the issue, which UtiliCorp disputes. The dispute UtiliCorp raises has no relation to the evidence presented in other cases. Staff witness Traxler further stretches his theory by now saying that his depreciation method is similar to the Interest Synchronization method used to determine the proper interest deduction so therefore the Staff's method is proper. The Staff is implying that since the actual depreciation deduction for current income taxes cannot be determined, a method like the interest synchronization method had to be found to solve this problem. Here, the actual deductions are available. UtiliCorp has provided this information to the Staff and I have attached various Schedules to this Surrebuttal Testimony that provides that information to the Commission. This should allow for the correction of the Staff's presentation and adjustments can be corrected.

Q. Is there an underlying theory to the direction the Staff has taken?

A. Yes. It appears that the Staff does not believe the utility, UtiliCorp, should be allowed to collect depreciation expense within its cost of service unless that depreciation expense generates a tax deduction at the same time the customer pays the expense in his rates. UtiliCorp believes this is the driving force behind the creation of the "Ratio Method" Staff witness Traxler uses to calculate the Staff's current income taxes. UtiliCorp generally disagrees with this method of trying to create an estimate to use in a rate case when the actual number is available. Actual amounts are always superior to estimates and should always be used in ratemaking when available.

Q. Are there any other subjects with which UtiliCorp disagrees?

A. Yes. UtiliCorp also takes exception to two other items. First, the using of Straight Line Tax Depreciation (ESL) as a deduction for current income taxes and secondly, the "Ratio" the Staff uses to determine this level of ESL depreciation, and Staff witness supports in his rebuttal testimony, as it is mathematically incorrect.

Q. What is the error relating to the Staff's Ratio?

A. The Staff has used improper inputs in their calculation. I have prepared Schedule JWM-8 to show the calculation the Staff has made and the corrected calculation. The amounts I have used for the corrected calculation are included on the Schedule JWM-9, "Depreciable Plant in Service Reconciliation" and Schedule JWM-10, "Reconciliation of Tax Basis Property".

Q. What was the original source for the Staff's numbers in their calculation of the Ratio?

A. The Staff had issued Data Request No. 291, which I have included as Schedule JWM-8, Page 2 of 2. UtiliCorp provided the information as originally requested by the data request. However, after the Staff received the original response to Data Request No. 291 the Staff contact UtiliCorp and indicated they wanted the Total MPS Book Basis and the Total MPS Tax Basis, which was supplied to the Staff on December 31, 2001.

Q. Please continue with your explanation of the Staff's error in the Ratio calculation.

A. The Staff used the information provided on the Data Request No. 291 to calculate the ratio they chose to use in determining their level of Equivalent Straight Line ("ESL") depreciation. This is not the amount the Staff should have used for this calculation for two reasons.

First, the Total Tax Basis of MPS property will at any point in time include MPS's Tax Basis for its gas property, the Tax Basis for all land, the Tax Basis for leasehold improvements, the Tax Basis for all pre-1970 property that was never subject to accelerated depreciation and is fully depreciated for tax purposes and other non-depreciable property, the Tax Basis for the assets included by the Staff for the period January through June, 2001, and other fully depreciated property.

Second, the Total MPS Book Basis does not match the Plant in Service balance the Staff is recommending in this case; therefore it is not appropriate for the Ratio calculation as the Staff is using it.

Q. What amounts should be used?

A. The amounts that should be used are the actual Book depreciation, the actual Tax depreciation and the actual ESL depreciation that is available for the assets included by the Staff in the Plant in Service in this case. If used, the Ratio would not be needed.

Q. Are the actual amounts you just referred to available?

A. Yes.

Q. Have they been provided to the Staff?

A. Yes. They were provided to the Staff in response to a data request before they filed the filing of direct testimony. I included these amounts on Schedules attached to my previously filed rebuttal testimony and I have also included these amounts on Schedule JWM-11 attached to this testimony.

Q. Schedule JWM-11 looks very similar to your Schedule JWM-6 that was attached to your previously filed rebuttal testimony. Is it?

A. Yes. I have corrected a number of the input amounts used on Schedule JWM-6. This Schedule JWM-11 shows the correct Tax basis of property, tax depreciation, the adjustment needed (Schedule "M" adjustment) for current income taxes and the annualized level of deferred taxes relating to depreciation.

Q. Has UtiliCorp informed the Staff, that in UtiliCorp's opinion, the Staff's ratio calculation is in error?

A. Yes. UtiliCorp meet with the Staff and informed them of this error and what the corrected ratio should be. The Staff stated they did not believe the calculation made by UtiliCorp could be mathematically correct and refused to use it.

Q. Should the Commission use the corrected Ratio in the same fashion as the Staff in determining the final revenue requirement?

A. No. As I have stated, the only reason to use this Ratio Method would be if the actual amounts were not available, which they are. A basic concept that I have always used is never use a copy if the original is available and never use an estimate if the actual is known. The Commission in the calculation of the income tax expense should use this concept of "using the actual instead of an estimate" in this case.

Q. At the beginning of your surrebuttal testimony concerning income taxes, you briefly listed a number of items Staff witness Traxler has included in his rebuttal on Deferred Income Taxes in support of the Staff's calculation. Is that correct?

A. Yes. I responded to most of those other items in my earlier surrebuttal.

Q. Is there any further clarification needed?

A. Yes.

Q. Please discuss those subjects.

A. Staff witness Traxler discusses at some length the concept of Mass Asset accounting and indicates that since UtiliCorp uses this accounting method it over-depreciates its assets. Staff witness Traxler even goes to the effort to present an example to show that through the use of Mass Asset accounting, UtiliCorp over depreciates a generating station and would realize millions of dollars of "wind-fall" profits. This is not reality and if Staff witness Traxler was familiar with the depreciation concepts used by the Commission's Staff that completes depreciation studies, he would know his statements were misleading and totally incorrect.

Q. Please explain your basis for this statement.

A. In the process of doing depreciation studies, those individuals completing the study look at various aspects of depreciation and the assets. The depreciation analyst reviews the actual lives the assets are experiencing and compares that to the estimated lives the last time the depreciation lives were set. If the lives are increasing or decreasing appropriate adjustments are made. The depreciation analyst also would review the depreciation reserve that has been provided for the assets to determine if the reserve is too large or small when compared to the remaining life of the assets. Within a group of assets, such as an electric utility's generating stations, the depreciation analyst would review these concepts for each station. The analyst would also review the retirements being made of the property to determine the actual age the assets are realizing. All of these factors are reviewed for one purpose and that is to ensure the assets are depreciated properly and not over or under depreciated.

Q. Do you know what the Staff of this Commission does when they complete a depreciation study?

A. Yes. I have attached as Schedule JWM-12 a copy of the deposition of Jolie Mathis, taken January 15, 2001. The testimony in that deposition details the various items the Staff reviews when the Staff completes a depreciation study. The testimony of Staff witness Mathis on pages 20 through 22 of her testimony in this deposition supports the testimony I have provided regarding depreciation studies and the outcome of those studies. Staff witness Mathis also testified, on page 16 in her deposition, that all electric utilities are required by this Commission's rules to complete these depreciation studies every five years "and at that time those lives are looked at." This again supports UtiliCorp position that it does not over depreciate its assets as claimed by Staff witness Traxler in his attempt to create support for this tax calculation.

Q. Can you offer this Commission any other evidence to rebut Staff's claim UtiliCorp over depreciates its assets, especially its generating assets as implied by the example used by Staff witness Traxler?

A. Yes. UtiliCorp's accounting department under my supervision has prepared Schedule JWM-13, which shows the Net Book Value of the Generating Assets of Missouri Public Service at June 30, 2001. This schedule presents the amount of the Plant in Service, the Depreciation Reserve and the Net Book Value for each generating station by FERC account. UtiliCorp has not over depreciated any of its generating station as of June 30, 2001. With the Commission's rule, the Staff's procedures as testified to by Staff witness Mathis and UtiliCorp accounting policy of stopping depreciation if the reserve equals the original cost, the possibility of over depreciating assets does not exist.

Q. Are there other positions taken by the Staff on income taxes in their rebuttal to which you would like to clarify?

A. Yes.

Q. Please continue.

A. Staff witness Traxler has stated in his rebuttal testimony the reason for the creation of the Ratio Method. That reason, as stated by the Staff in their rebuttal testimony and in meetings with UtiliCorp, is that unless the customers can obtain a tax deduction for depreciation, UtiliCorp should not be able to charge the depreciation expense. Therefore the Staff will create a tax deduction to provide for this issue.

Q. Is this reasoning sound?

A. No.

Q. Why?

A. Let me start with a few general concepts.

First, the Internal Revenue Service ("IRS"), at the direction of the U. S. Congress, is the only agency that determines what items are deductible for income taxes and what items are not. The IRS has stated that certain assets may generate tax depreciation that may be deducted in determining the tax liability of the taxpayer. Each asset only generates so much tax depreciation and when that level of depreciation is consumed the taxpayer must stop depreciating that asset in determining tax liability. Therefore, only Tax Depreciation is deductible in computing income taxes.

Second, since only tax depreciation is deductible for determining the appropriate tax liability, it is clear that Book Depreciation is not deductible and has no relationship to the allowable tax deduction.

Next, the only reason ESL depreciation is developed is to determine how much deferred taxes should be provided for the utility. ESL depreciation is not deductible for current income taxes and should not be used for that purpose.

Q. If the Commission adopts the Staff's recommendations in regards to the calculation of income taxes in this case, what will be the ongoing result for UtiliCorp?

A. If the Commission adopts this tax depreciation method recommended by the Staff, a regulatory asset will be created and will have to be provided for by the Commission in future cases. I have prepared Schedule JWM-14 to illustrate how this will occur. This schedule provides the two calculation methods presented by UtiliCorp and the Staff. The left side of the schedule shows the method for determining the proper tax depreciations to use for current and the resulting deferred calculation. As can be seen, the Tax depreciation and the ESL depreciation both equal the value of the asset at the end of the calculation period.

Q. What is the end of the calculation period you are referring to?

A. UtiliCorp calculates Tax depreciation until the asset is fully depreciated for tax purposes and also calculates ESL depreciation until this amount also equals the original value of the asset. UtiliCorp provides deferred taxes on the difference between the two depreciation methods. Following UtiliCorp's method, the deferred taxes turn around properly over the life of the asset and result in a final balance of zero when all tax benefits has been provided to the customers.

Q. How does the Staff's recommended method differ?

A. Let us use the Staff's premise that some assets last longer than the period that deferred taxes turn around. The Staff's proposed method continues to calculate ESL depreciation until the asset is retired and therefore will prevent UtiliCorp from recovering the investment in assets serving MPS's customers. UtiliCorp witness Dr. Ronald E. White, who has also filed surrebuttal testimony in this case, reviews the Staff's recommended method and the fact that it will lead to UtiliCorp's inability to recover its capital costs.

This Staff method will also cause a creation of negative deferred taxes (as shown on Schedule JWM-14, Line 36), i.e. a regulatory asset that increases rate base. This regulatory asset that is created does not have the ability to turn around or to be amortized, it will continue to be an asset that will require the customers to pay a return. To ensure UtiliCorp is not subjected to a method that prevents capital recovery, the Commission will have to deal with this artificial asset as part of its decision in this case and determine how to amortize the cost to the customers.

Q. Has any other method created by the Staff also resulted in the development of a Regulatory Asset that now must be dealt with by the Staff and the Commission?

A. Yes. In recent rate cases the Staff developed a method of determining the level of pension costs to allow in rates that differed from the real costs, i.e. the method Staff developed in handling FASB 87, and now the Staff is working to find a solution for this problem with UtiliCorp and other utilities.

Q. Would you summarize UtiliCorp position on how the income tax calculation should be made?

A. Yes. As I have said, the ratio is not needed; the actual numbers are available and should be used. However, if the Commission wishes to adopt the Staff's ratio method, I have provided a corrected calculation for this purpose. The Commission does need to keep in mind, that if the ratio is used, it will be creating this new Regulatory Asset that will develop and will increase the cost to future customers and the Commission will have to find a method to provide for this recovery.

Regulatory Treatment of Acquisition Premiums

Q. Have you reviewed the rebuttal testimony of Staff witness Featherstone in regard to his statements concerning acquisition adjustments (premiums)?

A. Yes. Staff witness Featherstone offers his view of the historical perspective relating to acquisition premiums. However, he failed to mention how other commissions have addressed this issue and I believe this information would be helpful to this Commission. I previously prepared such information which was included it in my direct testimony filed in the UtiliCorp / SJLP merger case, Case No. EM-2000-292. I have attached a copy of the section of that direct testimony that relates to the regulatory treatment other commissions have provided acquisition premiums. I have attached this information to my surrebuttal testimony in this case as Schedule JWM-15.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

INCOME TAXES: TAX DEPRECIATION
CALCULATION OF STAFF RATIO: ORIGINAL AND CORRECTED

Line Number	Description	Amounts
1	Staff's Calculation of Ratio:	
2	The Total MPS Book Basis	$ 1,120,481,880
3	The Total MPS Tax Basis	$ 1,085,355,122
4	Ratio (Source: Staff witness Direct Testimony, Page 29, Line 12)	96.865%
5	The above amounts were requested and provided on Staff Data Request #291	
6	on a Supplemental Response dated 12/31/01 (Attached as Schedule: JWM-8	
7	Page 2 of 2)	
8	**CORRECTED STAFF CALCULATION OF RATIO:**	
9	The Total Depreciable Book Basis--Electric Jurisdictional	$ 1,081,018,601
10	(Source: Schedule: JWM-9)	
11	The Total Depreciable Tax Basis--Electric Jurisdictional	$ 925,519,015
12	(Source: Schedule: JWM-10)	
13	**CORRECTED STAFF RATIO**	**85.615%**

UTILICORP UNITED
CASE NO. ER-01-672
DATA REQUEST NO. MPSC-291
Supplement A

DATE OF REQUEST:	September 11, 2001
DATE RECEIVED:	September 11, 2001
DATE DUE:	October 1, 2001
REQUESTOR:	Cary Featherstone

SEE ATTACHED

QUESTION:

1. Please provide the amount of all tax timing differences as of December 31, 2000 and June 30, 2001 for: a) UtiliCorp, b) Missouri Public Service, c) St. Joseph Light & Power.

2. Please reconcile the differences between book basis and tax basis of depreciable property at December 31, 2000 and June 30, 2001.

RESPONSE:

1. **A listing of tax timing differences for 2000 is available for UtiliCorp and Missouri Public Service on Schedule M-1 in the tax returns provided in response to DR 288 for your review. Schedule M-1 for SJLP is provided under separate cover.**

2. **Book-tax differences to basis for 2000 vintage depreciable property are:**

Increase in basis for Contribution in Aid of Construction	**$3,121,180**
Decrease in basis for Capitalized Depreciation	**($601,666)**
Decrease in basis for Meals	**($4,667)**
Decrease in basis for Materials Returned to Stores	**($86,565)**

ATTACHMENTS:

ANSWERED BY: Becky Streeter

Supplemental Response
Dec 31, 2001

The Total MPS Book Basis is $1,120,481,880
The Total MPS Tax Basis is $1,085,355,122

Depreciable Plant in Service Reconciliation
UtiliCorp United Inc. compared to Staff

Line Number	Description	Amounts	notes
1	**Total Plant in Service**	**$ 1,105,956,609**	**(Source: Staff Accounting Schedule 5-5, column (B), Line 111**
2	Greenwood Facilities	(12,565,800)	
3	Intangible Plant	(19,400)	
4	Land	(12,352,808)	
5	ESF allocated to SJLP	4,798,416	
6	**Total Depreciable Plant**	**$ 1,085,817,017**	

Reconciliation of Tax Basis Property
UtiliCorp United Inc. compared to Staff Level

Line Number	Description			Amounts
1	**Electric and Common Assets:**			
2	Total Tax Basis at 12/31/00 ***(Amount used by Staff in Ratio Calculation)***			**$ 1,085,355,122**
3	Less:	Pre 1970 Property that is fully depreciated		(84,392,195)
4		Gas Property 1970 -2000		(80,273,352)
5		Other fully depreciated assets		(20,192,130)
6		Land and other non-depreciable property		(20,551,543)
7	Add:	Assets 1/1/01 through 6/30/01		33,801,297
8			**Total Electric and Common Tax Basis Property as of 6/30/01**	**$ 913,747,199**
9			**Tax Basis Property as of 6/30/01 allocated to Missouri Public Service Electric Retail.**	**$ 893,753,318**
10	**UtiliCorp United Inc. Shared Assets:**			
11	Total Tax Basis at 12/31/00			**$ 146,016,094**
12	Less:	Non-depreciable and fully depreciated assets		(5,184,965)
13	Add:	Assets 1/1/01 through 6/30/01		21,164,299
14			**Total UtiliCorp United Inc. Shared Assets Tax Basis Property as of 6/30/01**	**$ 161,995,428**
15			**Tax Basis Property as of 6/30/01 allocated to Missouri Public Service Electric Retail.**	**$ 31,765,697**
16		**Total Missouri Jurisdictional Electric Tax Basis Property as of 6/30/01**		**$ 925,519,015**

UtiliCorp United Inc.
TAX BASIS, DEPRECIATION, DEFERRED TAXES
12/31/00

Line Number	Vintage	Utility	Property	Tax Depreciable Basis	2001 Tax Depreciation	2001 ESL Depr on Book Rates [2]	Annualized Depreciation for Deferred Taxes
1	1970-2000	Electric	all	843,655,636	30,293,242		
2	2001			33,754,984	1,529,035		
3				$877,410,620	$31,822,277	$34,828,219	
4	1970-2000	Common		36,290,264	2,129,590		
5	2001			46,315	4,746		
6				36,336,579	2,134,336	2,344,937	
7	Electric allocation @ 91.235%			$33,151,678	$1,947,261	$2,139,403	
8	1970-2000	UCU Shared		140,861,936	14,361,599		
9	2001			21,164,299	910,020		
10				$162,026,235	$15,271,619	$10,884,080	
11	Mo. Electric allocation @ 21.89%			$35,467,543	$3,342,957	$2,382,525	
12	Total Missouri Electric			$946,029,841	$37,112,496	$39,350,147	
13	Total Missouri Juris Electric@ 98.154%			**$928,566,130**	**$36,427,399**	**$38,623,744**	
14	tax depr to exp @ .987611				**$ 35,976,100**	**$ 38,145,234**	**$ (2,169,134)**
15	Total Book Basis PIS Missouri Juris [1]			**$ 1,085,817,017**			
16	Total Book Basis Depr Exp Missouri Juris				**$ 47,355,132**		
17	tax basis as % of book		**85.52%**				
18	Schedule M				**$ (10,927,733)**		
19	Deferred Taxes						**$ (832,731)**

20 [1] excludes Greenwood juris amount of $12,565,800, allocation adjustment and other non-depreciable assets

BEFORE THE PUBLIC SERVICE COMMISSION
STATE OF MISSOURI

In the Matter of the tariff filing of Missouri Public Service, a division of UtiliCorp United, Inc., 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 Jefferson City, MO

DEPOSITION OF JOLIE MATHIS,

a witness, sworn and examined on the 15th day of January, 2001, between the hours of 8:00 a.m. and 6:00 p.m. of that day at the offices of the Governor Office Building, Room 810, in the City of Jefferson, County of Cole, State of Missouri, before

MELINDA ADOLPHSON, CSR
ASSOCIATED COURT REPORTERS
714 West High Street
Jefferson City, Missouri 65102
(573) 636-7551

within and for the State of Missouri, in the above-entitled cause, on the part of UtiliCorp, taken pursuant to Notice.

A P P E A R A N C E S

FOR UTILICORP:

DEAN L. COOPER
Attorney at Law
BRYDON, SWEARENGEN & ENGLAND, P.C.
312 E. Capitol Avenue
P.O. Box 456
Jefferson City, MO 65102

FOR THE STAFF OF THE MISSOURI PUBLIC SERVICE:

ERIC ANDERSON
Assistant General Counsel
Governor Office Building
200 Madison Street
Jefferson City, MO 65102-0360

SIGNATURE INSTRUCTIONS:

Presentment and signature waived.

EXHIBIT INSTRUCTIONS:

Copy and attach.

I N D E X

E X H I B I T S

JOLIE MATHIS, being first duly sworn, testified as follows:

DIRECT EXAMINATION BY MR. COOPER:

Q. Please state your name for us.

A. Jolie Mathis.

Q. And do you understand that we're here for a deposition pertaining to Commission Case No. ER-2001-672?

A. Yes.

Q. Now, are you the same Jolie Mathis that filed direct testimony in this case?

A. Yes.

Q. Are there any changes that you plan to make to that direct testimony?

A. Yes.

Q. Could you tell me what those are?

A. On my depreciation rate schedule on Schedule 3 -- I don't know if it would be better to show you the spreadsheet of the highlighted changes than just to go through it step by step.

Q. If you have a spreadsheet with the highlighted changes, perhaps if Eric would consent to make a copy or two, we can just mark it as an attachment to the deposition and go from there.

MR. ANDERSON: That would be fine with me.

THE WITNESS: It might be easier that way.

MR. COOPER: Let's go off the record.

(OFF THE RECORD.)

BY MR. COOPER:

Q. While Mr. Featherstone is making those copies, let's go on to some other questions, and we can come back to that.

A. Sure.

Q. I guess as a followup, are the only changes that you're going to tell me about are going to be changes to what was marked Schedule 3 to your direct testimony?

A. Yes.

Q. So that's the only place you would have changes to your direct testimony?

A. Except for the last page where the final depreciation accrual number would be different, page 10.

Q. Okay. And that would be page 10 of your direct testimony, line --

A. Line 4 would be changed and line 9 would be changed.

Q. What would those changes be?

A. Just a second. Line 4, instead of

28,637,699, it would be 28,288,381. And line 9, instead of 41,703,872, it would be 42,587,738. And instead of 12,173,884, it would be $13,407,068. And actually on line 4 again, that 29,529,998, didn't calculate that. I don't have that right in front of me, but it should be that previous number that I gave you, the 28,288 plus the 892,289.

Q. While we're doing that, Mr. Featherstone brought us copies of your schedule, I believe that you referred to previously?

A. Yes.

MR. COOPER: Let's mark that schedule Exhibit 1 to the deposition.

(EXHIBIT NO. 1 WAS MARKED FOR IDENTIFICATION BY THE REPORTER.)

BY MR. COOPER:

Q. And as I understand it, you would propose or will propose at the hearing that this Exhibit 1 substitutes for the Schedule 3 that was originally in your direct testimony, correct?

A. Yes.

Q. Now, if you would -- I don't know whether the highlighting that you referred to earlier showed up real well, but can you just point out to me where the changes are going to be on this?

A. I want to add to that that it will be included in my surrebuttal testimony, the new schedule.

Q. Okay. Now, going back to my previous question, I guess if you kind of take us through this Exhibit 1, and tell us where the changes are going to be.

A. Sure. Under the Ordered section under Depreciation Rate, those highlighted rates, I added a .2482 percent to those depreciation rates that I originally had filed with my direct testimony. And the reason for that, I failed to include that amount that was ordered in the previous case, in ER-97 -- I forgot the last part of that -- but I just failed to -- there was a data reconciliation in the last case that was approximately $800,000 that was awarded to UtiliCorp, and they chose to take that through the production accounts, and I forgot to include that. So those listed rates are the rates that are currently ordered by the Commission.

Q. And you say highlighted. As I look at this, it's really that there are some rates that are in bold print?

A. I know it's kind of hard to tell, but just in the Ordered section what I have in bold, are the Production Steam and Production Plant Other Accounts under Depreciation Rates, those rates. And the other rates that I have in bold are -- I made a change on the average service life numbers under Staff Proposed. I decided to propose the staff recommended average service lives that were recommended by Staff in ER-97-394, I think is the number.

MR. ANDERSON: Yes.

THE WITNESS: And instead of originally what I had were the ordered lives, but I have instead changed those lives to the Staff proposed lives in the ER-97-394 case.

BY MR. COOPER:

Q. So that's the reason I have an additional column under Staff Proposed; is that correct?

A. Yes. Previously I did not have the Life column. And I have added the Life column that includes Staff's proposed rates -- I mean -- I'm sorry. Staff Proposed Lives out of ER-97-394.

Q. So those are still -- those are lives that came from the depreciation study that was put into evidence by Staff in the prior rate case?

A. Correct.

Q. Now, also on your direct testimony, if we'll just turn back to Schedule 1, I believe that that's a listing of Commission cases where you have filed testimony previously, correct?
A. Yes.
Q. Do you remember or can you tell me in which of those cases you took the stand and testified under cross-examination?
A. I would have to say in none of those cases did I testify and take the stand because my issues were resolved before it went to hearing.
Q. So you have never taken the stand in a Commission case for cross-examination purposes?
A. No, I have not.
Q. Now, would you agree with me that UtiliCorp is required by the Commission to maintain its books and records in accordance of the FERC Uniform System of Accounts?
A. Yes.
Q. Are you familiar with any aspect of the FERC Uniform System of Accounts that addresses net salvage cost to removal and how that should be treated?
A. No, I'm not.
Q. Do you believe that there is no part of

the FERC Uniform System of Accounts that addresses net salvage and cost to removal or are you just not familiar with it?

A. I'm just not familiar with it.

Q. I'm going to ask you some, I guess, really more general depreciation type questions, and hopefully as I go through, what you will do and what I hope you will do, is just kind of respond in a general fashion to these questions.

The first of which is, how would you describe depreciation accounting?

A. It's a method of allocation where you're depreciation -- depreciating the original cost of plant over the life of the plant. So it's a method of equal distribution of the original cost of the plant over the life of the plant.

Q. Within that are you familiar with principles, I guess matching principle and expense recognition principle of accounting?

A. I'm familiar with it, yes.

Q. Well, let's try it this direction: If I were to say that the matching principle of accounting is generally that for any period in which income is recognized, the expenses incurred in generating the recognized revenue should be determined and reported for that period, would that be a general -- would you be in general agreement with that as a statement of the matching principle of accounting?

A. Yes, I would.

Q. Now, in terms of the expense recognition principle, let's kind of go at that in the same way, if I were to describe the expense recognition principle of accounting as cost deferred as assets and subsequently written off as periodic expenses, according to the matching principle should be based on cause and effect whenever a direct causal relationship between the expense and revenue can be identified, would you agree with that description of expense recognition principle?

A. Could you repeat that?

Q. Sure. Cost deferred as assets and subsequently written off as periodic expenses, according to the matching principles should be based on cause and effect whenever a direct causal relationship between the expense and revenue can be identified?

A. I don't know.

Q. Does the phrase "service potential of an asset" mean anything to you?

A. It means what type of service are you going to get out of the property, I guess in terms of depreciation what is expected of the life of the property.

Q. So what's expected in terms of, say, future net revenue over the life of that asset; is that --

A. Well, actually I'm thinking in terms of the output of the utility property and what it can contribute towards the entire plant. I'm thinking more in terms of service production and what it can contribute, I guess.

Q. Would you agree that depreciation expense then in relating it to a service potential would be an estimate of the cost of the service potential consumed during an accounting interval?

A. Yes.

Q. Have you ever heard of amortization accounting?

A. Yes.

Q. Would you agree that amortization accounting is sometimes adopted for general support assets?

A. General support assets?

Q. Yes.

A. What do you mean by support assets?

Q. Well, let's ask it this way: Why don't you tell me what your understanding is of amortization accounting?

A. It may be that you retire an old switch, and you may have, like, a million dollars unrecovered on the books. And it's a process of amortizing that over a period of years.

Q. Over a period of future years?

A. Right.

Q. Do you believe that there's any certain type of property for which that would be more appropriate for than others, or do you think that just any situation like the one you're describing, where an asset has not been fully depreciated at the time of retirement would be an appropriate situation to use that?

A. It would depend on the individual property and -- I lost my train of thought. I'm sorry. I know amortization accounting is something that's not done on a regular basis. It's special circumstances.

Q. Do you consider it important for a regulated utility to maintain proper depreciation rates?

A. Yes.

Q. Why is that?

A. Why do I feel that it's proper for it to maintain proper depreciation rates?

Q. Why is it important?

A. So that the company can recover the original cost of the property, basically to receive the investment that was put in.

Q. How about the other side of it? Are the customers either positively impacted by property depreciation rates or, I guess, negatively impacted by improper depreciation rates?

A. I don't know that I can testify to how the customers are affected.

Q. I think you kind of got into this earlier. It sounded like that it's your opinion that proper depreciation rates are important so that capital recovery can proceed in an appropriate manner; is that correct?

A. Yes.

Q. So I guess going from that then, it's your opinion that the primary purpose of depreciation is the recovery of capital, invested capital; is that correct?

A. Yes.

Q. Let me try some different things. Sometimes there are, I guess, other purposes that people mention as, perhaps, important aspects of depreciation. I guess people differ as to how important they think any of these things are or how appropriate they are, but how about you consider internal cash generation for the company, is that an aspect that you believe is really a consideration for depreciation rates or not?

A. That's not typically something that I look at when doing a depreciation study.

Q. How about the impact of depreciation rates on a company's financial performance such as coverage ratios, earnings per share, that sort of thing, is that something that you would take into account in setting depreciation rates?

A. No.

Q. But the impact that depreciation rates would have on external financing possibilities, would that be something that you would take into account in setting depreciation rates?

A. No.

Q. Let's say that we have -- this is a hypothetical situation. And for the purposes of our hypothetical, let's say that depreciation rates for a specific asset had been set too low. So, for instance, that asset will last 10 years, but at that asset's retirement, after year 10, it won't be fully depreciated. Do you have any opinion as to what the impact of that is? What the financial or rate making consequences are, I guess, one from the company's prospective or, two, from the ratepayer's prospective?

A. Well, I know the company would hopefully, during that 10-year period, come in during a rate case and either perform a depreciation study or Staff would perform a depreciate study to analyze, see if the proper depreciation is prescribed. And if not, assign it a new rate. And I can't say as far as in relation to the customer, that part of the question I wouldn't be able to testify to.

Q. But I guess going back to what you told me earlier, let's say that the company does come back and for whatever reason the rates don't get straightened out during that 10-year period. Earlier you told me that part of depreciation, the purpose of it is to recover capital investment; isn't that correct?

A. Yes.

Q. If an asset only lasts 10 years, but

depreciation rates are such that that capital investment is not recovered over those 10 years, then I guess consistent with what you told me earlier, the company in that situation has had to wait longer than it should have to recover its capital investment. Would you agree with that?

A. Wait longer than it should have?

Q. Well, if -- and maybe you don't agree with this first principle. Let's start with that.

Do you agree that capital -- recovery of capital investment should take place over the life of the subject asset?

A. Yes. And if it's given the appropriate life, then -- well, just yes.

Q. And thus, if that capital recovery does not take place over the actual life of that asset, then the company has had to wait longer for that recovery than ideally it should have. Would you agree with that?

A. No. I wouldn't say the company would have to wait longer if at the end of the 10 years it's not fully recovered. We have a rule where the companies have to come in every five years and file a depreciation study, and at that time those lives are looked at. I don't know if I answered your question or not.

Q. Well, I guess, just going back, and we can just stop at this, if the depreciation process works the way everybody hopes it does, and I understand there's any number of variables, any number of reasons that it might not, but our ideal situation in the example I gave you would be that if our asset lasts 10 years when we get to the end of the 10-year period, depreciation would be completed on the last day of that 10th year, I suppose, or on the last --

A. Right.

Q. The day that the asset is retired?

A. Right.

Q. Originally my question also asked about impacted depreciation rates on customers. Let me explore that just a little bit. It's kind of been my understanding in the past that the Commission, in setting rates, attempts to -- it's almost kind of a cost cause or pay sort of theory that is utilized. And by that I mean that if an asset is in place -- again, we use our same example for 10 years -- the customers that make use of that asset over those 10 years should have to pay for it. Would you agree with that, that the Commission attempts to assign the costs of an asset to those that benefit from the asset?

A. That's ideally what they try to do, yes.

Q. And so going back again in our depreciation theory, if we have the ideal situation where over the 10 year life of our asset, we complete our depreciation process on the 10th year, then hopefully we've met that goal, correct?

A. Yes.

Q. And once again, acknowledging that we're specifically just talking about capital cost recovery here in this example?

A. Right.

Q. Now, if instead we mess with our depreciation rates such that when that asset is retired after year 10, we still have amounts that have yet to be depreciated. And I think you told me earlier that what we're going to do with those probably is we're going to amortize them and recover them into the future, correct?

A. Only if that property was retired at that time.

Q. And that's exactly what I'm -- that's a part of the hypothetical that I'm giving you is that we really do retire it after the 10th year.

So in our example, we're going to have some part of the original investment in that property that lasted 10 years that will be paid for out of rates being paid by people that no longer are benefitting from that piece of property, correct?

A. There may be some.

Q. And that's one of the reasons we like to have this all work out as clean as possible, isn't it, so that we don't have people that are no longer benefitting from an asset, paying for that asset. Would you agree with me?

A. Correct.

Q. Do you see any of the movements -- I guess they move quickly sometimes and more slowly other times -- but any of the movements towards competition as a threat to this idea of capital recovery?

A. I don't know.

Q. Are you familiar with the term "asset impairment write-down"?

A. No, I'm not.

Q. How about normalization accounting?

A. No, I'm not familiar with that.

Q. Not in relation to deferred taxes?

A. No.

Q. Do you have any idea how book depreciation would be related to deferred income taxes?

A. No.

Q. And, thus, probably no idea how deferred income taxes would be related to capital recovery in any way?

A. No.

Q. Now, when you conduct a depreciation study, what are the steps that you would go through to conduct that depreciation study?

A. I would first gather appropriate data and the appropriate format for Gannett Fleming software. After analyzing the data, I would go out to different plant facilities and talk with plant managers about the life of the property, any retirement activity, any plans for additions, major construction projects, then come back and begin looking at individual accounts, prioritizing the ones that make up most of the electric plant or whatever type of plant in service, taking into account the information that I get from the field and doing life analysis. I then use the computer software to come up with the appropriate depreciation rate and depreciation reserve for each account.

Q. Let's talk about depreciation reserve. When you come up with the appropriate depreciation reserve, what do you do with it then? Do you turn around and compare it to something else?

A. Yes. I compare my theoretical reserve with the actual reserve.

Q. And then based upon the relationship of that two, would there either be excess or under recovery or maybe an appropriate amount; is that where that would lead you?

A. That's correct.

Q. And I suppose you do the same thing with the lives, once you have determined what you believe the appropriate lives are, you would look back at the existing lives that are built in to the depreciation rates and decide whether those existing lives are too long, too short or just right, I suppose?

A. Yes.

Q. Now, you got into this a little bit before, but you talked in terms of the fact that a depreciation study is supposed to be submitted by the companies every five years?

A. Yes.

Q. Why is it that, that the companies are directed, in your opinion, to do that every five years or, I guess, kind of alternatively, if you think it is so, why would it be important to go back and redo a depreciation study periodically?

A. It's important for utility companies to update and maintain their records so that when they do come in for a rate case, Staff can properly look at the most recent data and do a most current analysis, current depreciation analysis.

Q. I guess because this maybe is where you're headed, but over time, I suppose, the facts that go into establishing lives, for example, and how the depreciation reserve is played out, those facts will change over time, correct?

A. Yes.

Q. And so by going back to the depreciation study periodically, it allows you to make adjustments to, I guess, provide for those changes in underlying facts, correct?

A. Yes.

Q. Now, you mentioned a few questions back the Fleming software. Is that depreciation software that's put out by Gannett Fleming; is that what you're referring to?

A. Yes. The Gannett Fleming software.

Q. And what is Gannett Fleming? Are you familiar with that company?

A. Well, I know they are based out of Pennsylvania. And the president of the company is one of the professors of depreciation, and I've taken a few classes from him.

Q. Would you agree with me that Gannett Fleming, it's a private corporation primarily engineering in nature?

A. Yes.

Q. And I take it this program is something that they develop and sell; is that correct?

A. Yes.

Q. Are there other programs on the market that would do similar things?

A. Yes, there are. And we did our research on comparing, and we found that Gannett Fleming in our opinion was the best.

Q. But there is a variety of products to choose from anyway that you examined; is that correct?

A. Well, depreciation software is very limited anyway, so I wouldn't say that they are just, like, 20 different softwares out there. It's more like three or four probably. So there's not really a lot to choose from. I think there's -- well, go ahead.

Q. Now, in terms of education or, I guess, work experience, how much, if any, computer software development have you done?

A. I've never done computer software development.

Q. Have you done any writing of computer software?

A. I did some in college.

Q. In terms of some classes that you took?

A. Yes.

Q. Would that be software writing in relation to, say, a class on a specific language, that sort of thing?

A. Yes.

Q. Are you familiar with what computer software UtiliCorp uses to maintain its asset data bases?

A. Is it People Soft?

Q. I certainly hear that name thrown around in different ways. Is that what you believe it to be anyway?

A. I believe that's right, yes.

Q. Let's go back to the Gannett Fleming

software that the Staff uses. Do you believe that there's a copyright held by Gannett Fleming in regard to that software?

A. I think there is, yes.

Q. Do you know whether the Staff has the ability or the right to change that Gannett Fleming program?

A. When you say change the program, what do you mean?

Q. I mean actually get in and manipulate the underlying code.

A. I mean, someone may have that ability, but, no, we don't manipulate the software.

Q. If you did manipulate the software -- scratch that. I'll move on to something else.

If I talk in terms of a statistical life study, what would you believe that to be?

A. Meaning that your study's based on statistical data that is taken from plant accounting data.

Q. If you're going to do a study in that fashion, do you have a minimum amount of data that you would want to have in order to conduct it?

A. Yes. In order to get a good survivor curve fit, we need -- I would say at least from the earliest vintages that you can provide, which in most cases is the early 1900s up to most recent plant activity.

Q. How about if I use the term "actuarial life study", does that mean something different to you from a statistical life study?

A. Well, yes. It is different than statistical.

Q. How so?

A. I guess we use statistical analysis in our depreciation study, but it's an actuarial analysis because we're using actual data, actual retirements and additions that have occurred over the recent years.

Q. Now, in terms of an assembled database, do you have some sort of standard of accuracy that you would look for?

A. I would want the plant balances to be properly coded to fit our format that we're using and the appropriate format that Gannett Fleming uses. We expect all companies to abide by that format. So in that sense, yes.

Q. Well, let's go to that. I mean, what you're talking about is the format of the data. In the past, has the Missouri Commission ever questioned, I guess, the integrity of the underlying of that data that's maintained by UtiliCorp or is the disagreement only with format?

A. We don't have a disagreement with the integrity. We know that the plant data is there. It's a matter of getting it in the appropriate format so that we can do the proper analysis in the Gannett Fleming software.

Q. Let's go back to, I guess, life analysis. If you were to describe life analysis, how would you do that?

A. Well, in the depreciation world, life analysis means looking at plant accounts and determining the appropriate average service life or the average life that that particular account is going to incur.

Q. Is there a difference between life analysis and life estimation or projection life?

A. I would say analyzing and estimating are pretty much the same thing, I would think.

Q. How about projection life, projection curve, what do those refer to?

A. Those refer to the anticipated life of a particular piece of property in the future from the average life or the immediate.

Q. Tell me how you would use life analysis or life estimation in development of your depreciation rates.

A. The input into a depreciation rate formula, which is one minus net salvage over the average service life.

Q. How often do you like to go back to look at service life statistics and consider where those should be adjusted? Is it every five years, as would probably happen with the Commission's rule, or would something less or more be appropriate?

A. Every five years and every time the company files a rate case.

Q. Now, are you familiar -- we talked a little bit -- I asked some questions about deferred taxes earlier, that sort of thing. Are you aware that lives for tax purposes may be different than lives for book depreciation purposes?

A. Yes. My department really doesn't look at tax depreciation though.

Q. And I take it then that you would agree that tax lives are unrelated to the actual life of an asset. Would you agree with that?

A. Yes.

Q. When you're trying to decide what

projection curve or projection life is most appropriate for a plant category, how do you go through that process?

A. Well, I don't typically determine a projection curve. I usually use a survivor curve and match the appropriate life curve to the survivor curve. So -- what was the beginning part of that question?

Q. How do you choose which is most appropriate for a plant category?

A. The Gannett Fleming software takes retirement activity and that is plotted and it actually forms a curve, and you try your best to match that curve to a survivor curve that best matches that plotted curve to come up with the appropriate average service life. And you can do a visual matching or you can do a mathematical matching or a combination of both. Mathematical matching would be the lowest residual matching for the curve.

Q. How do you decide whether to do one, the other or both?

A. You take several things into account. You look at the current life, and you look at just your overall knowledge of what's in the account, take that into consideration. And a lot of times you may have a curve that mathematically says it should be 55 years. But then when you go and actually visually match it, it's not appropriate. And your best matching should be between 80 and 20 percent of the curve. And then at times there isn't enough data in that particular account to have an appropriate fit at all, so it just depends on each account.

Q. You probably hit on this. Maybe it was a part of that, but what information do you believe is most important when you're going through life estimation process?

A. Probably having as much good retirement activity as possible for that account so that you can get enough plots on a curve to get a good fit.

Q. Have you ever heard of an average year of final retirement category?

A. Yes, I have heard of it.

Q. What is that?

A. I don't know.

Q. I wouldn't either. Let me give this a try: What if we said it was a plant category such as structures in which all vintages are expected to retire at a contemporaneous date. Would you agree with that or that doesn't get us any closer?

A. That sounds right, but I don't want to speculate on it. I don't want to say for sure. I'm not sure.

Q. Let me ask you to turn to your direct testimony in Exhibit 1, which we talked about earlier. I'm going to try to convert what I was going to ask about, I guess, Schedule 3 into Exhibit 1, if you would give me just a second here. Okay.

Let's look at Exhibit 1. You have that in front of you, don't you?

A. Yes.

Q. On the second page of that exhibit, will you take a look at -- I guess it's 391.01, 392.02 and 396.07?

A. I assume you're looking at General Common Plant?

Q. I am looking at General Common Plant.

A. Could you repeat those one more time?

Q. Yes. It's 391.01, 392.02 and 396.07.

Now, in all of those instances there appears that there currently is an existing depreciation rate, and your recommended or proposed depreciation rate will go to zero percent, correct?

A. Yes.
Q. Tell me how you arrived at zero percent to be the appropriate depreciation rate.
A. When you compare the plant original cost to the accrued reserve, like, for instance, 391.01, the accrued reserve is 105,000 accrued reporting, and the plant original cost is 87,811, so it is over accrued. And you would need to stop depreciation at that point because you have fully recovered the original cost.
Q. So there will be no more depreciation for 391.01 in general common plant if your recommendation is accepted by the Commission, correct?
A. Yes.
Q. So that $105,000 number won't get any bigger, correct?
A. Right.
Q. Even though there may be assets still assignable to 391.01 that are still used and useful, correct?
A. I think there was an agreement in the previous rate case also regarding this account setting that rate to zero percent, but, yes, that's correct.

Q. And that would be the same thing for the other two accounts we talked about, 392.02, 396.07, in both of those accounts there could still be property that is assignable to those accounts that's still used and useful, but if your recommendation is accepted, there will be no more depreciation that would be accrued as a result of -- or because of your new rate, correct?

A. Yes.

Q. If there is a reserve imbalance, how would you go about eliminating that reserve imbalance?

A. How would I go about eliminating it?

Q. How would you recommend that it be eliminated? Let me suggest a couple of possibilities. One, I think we talked about earlier is an amortization of the imbalance, correct? That's one of the things we talked about in terms of an account where a plant is retired and yet has not been fully depreciated?

A. Yes.

Q. How about remaining life rates, would that be another way to address imbalances?

A. It may be, but we don't do that here at the Missouri Public Service Commission.

Q. Do you believe it's ever appropriate to redistribute depreciation reserves?

A. I don't know.

Q. Have you ever done that?

A. No, I have not.

Q. Do you remember it ever having been proposed?

A. No, I do not.

MR. COOPER: Let's go off the record for a moment.

(OFF THE RECORD.)

BY MR. COOPER:

Q. If I were to talk about a depreciation system having a method, a procedure and a technique, are those things that you would distinguish, method, procedure and technique?

A. Yes.

Q. How would you distinguish between those three?

A. The method would be -- what our Staff uses is the straight-line method, which would be equal amounts of distribution. And then the procedure would be, like, a grouping procedure, like, broad group is what we typically use with a straight line. And then the technique would be whether it's old life or remaining life or average service life.

Q. What's the criteria that you use in choosing the elements, I guess, or the method procedure and technique that you're going to use? Do you independently make that decision or is that a decision that's derived by, I guess, the Commission Staff as a whole?

A. We as a depreciation staff group have been using the whole life broad group and --

Q. Straight line?

A. -- straight-line method consistently since I've been with the Commission.

Q. And I guess the elimination of cost removal net salvage from, I guess, the whole life method, would that be a change in technique?

A. Well, I don't know if you can say it's a change in technique. It's really just a change in how it's -- no, it's not a change in technique.

Q. Is it a departure from how the whole life technique had been applied previously?

A. Well, net salvage is a part of the depreciation rate formula, but it's not part of the technique, if that makes sense.

Q. Do you personally have any method, procedure or technique that you believe to be superior to the ones you're using now?

A. No. I think what we're using now is superior.

Q. So even if, let's say historically, the Staff had used a different method, procedure or technique, you think that you would still believe that straight line, broad group and whole life would be a superior method to some other method that might have been used historically?

A. Let's just say it's the preferred method at the Missouri PSC.

MR. COOPER: Okay. We'll leave that alone. That's enough.

(OFF THE RECORD.)

(PRESENTMENT AND SIGNATURE WAIVED.)

C E R T I F I C A T E

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

I, Melinda Adolphson, Certified Shorthand Reporter, with the firm of Associated Court Reporters, Inc., do hereby certify that pursuant to notice, there came before me,

JOLIE MATHIS,

at the offices of Governor Office Building, Room 810, in the City of Jefferson, County of Cole, State of Missouri, on the 15th day of January, 2002, who was first duly sworn to testify to the whole truth of her knowledge concerning the matter in controversy aforesaid; that she was examined and her examination was then and there written in machine shorthand by me and afterwards typed under my supervision, and is fully and correctly set forth in the foregoing pages; and that the witness and all counsel waived the reading and signing of this deposition in my presence.

I further certify that I am neither attorney or counsel for, nor related to, nor employed by, any of the parties to this action in which this deposition is taken; and further, that I am not a relative or employee of any attorney or counsel employed by the parties hereto, or financially interested in this action.

Given at my office in the City of Jefferson, State of Missouri, this 15th day of January, 2002.

MELINDA S. ADOLPHSON
Notary Public-Notary Seal
STATE OF MISSOURI
County of Cole
My Commission Expires Dec. 3, 2004

Melinda Adolphson

MELINDA ADOLPHSON, CSR

COSTS: (Computation of court costs based on payment within 30 days.)
Pd by Attorney for UtiliCorp:
Pd by Attorney for Staff of the MPSC:

EXHIBIT

1-15-02 ma

Schedule: JWM-12
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UTILICORP UNITED INC d/b/a MISSOURI PUBLIC SERVICE (ER-2001-672)
DEPRECIATION DETERMINATION SPREADSHEET

Account No.	Title	Plant Original Cost Dec-00	Ordered Life (Yr.)	Ordered Net Salvage (%)	Ordered Deprec. Rate (%)	Staff Proposed Life (Yr.)	Staff Proposed Deprec. Rate (%)	Ordered Annual Accrual	Staff's Annual Accrual	Increase/ Decrease Accrual	Accrued Reserve
	Production - Steam										
311.11	Structures & Improvements - JEC	18,078,177	31.0	-13	4.5382%	31.0	3.23%	820,424	583,925	(236,499)	11,716,567
311.12	Structures & Improvements - Sibley	39,588,264	31.0	-13	5.7182%	31.0	3.23%	2,263,736	1,278,701	(985,035)	21,077,649
312.11	Boiler Plant Equipment - JEC	58,099,345	38.8	-9	4.5982%	38.8	2.58%	2,671,524	1,498,963	(1,172,561)	36,257,764
312.12	Boiler Plant Equipment - Sibley	128,707,020	41.2	-9	5.2782%	41.2	2.43%	6,793,414	3,127,581	(3,665,833)	60,168,263
314.11	Turbogenerator Units - JEC	16,751,536	27.0	-7	4.4382%	27.0	3.70%	743,467	619,807	(123,660)	6,714,033
314.12	Turbogenerator Units - Sibley	43,473,502	38.5	-15	4.6482%	38.5	2.60%	2,020,735	1,130,311	(890,424)	27,070,488
315.11	Acessory Electric Equipment - JEC	5,743,116	28.9	-20	4.5582%	28.9	3.46%	261,783	198,712	(63,071)	3,565,189
315.12	Acessory Electric Equipment - Sibley	17,401,442	28.9	-20	5.6082%	28.9	3.46%	975,908	602,090	(373,818)	7,678,873
316.11	Misc. Power Plant Equipment - JEC	1,310,158	32.0	-1	4.3882%	32.0	3.13%	57,492	41,008	(16,484)	342,313
316.12	Misc. Power Plant Equipment - Sibley	632,272	32.0	-1	4.6782%	32.0	3.13%	29,579	19,790	(9,789)	351,101
	Production Plant - Other										
341.00	Structures and Improvements	2,116,970	40.2	-6	6.6482%	40.2	2.49%	140,740	52,713	(88,028)	812,213
342.00	Fuel Holders, Producers, and Access.	1,286,981	32.7	0	6.5187%	32.7	3.06%	83,898	39,392	(44,506)	901,936
343.00	Prime Movers	8,564,608	24.1	-1	8.1682%	24.1	4.15%	699,574	355,431	(344,143)	2,190,096
344.00	Generators	11,286,798	32.0	-5	7.0982%	32.0	3.13%	801,160	353,277	(447,883)	5,177,540
345.00	Accessory Electric Equipment	3,049,611	31.3	-5	7.3982%	31.3	3.19%	225,616	97,283	(128,334)	1,266,657
346.00	Miscellaneous Power Plant Equipment	20,410	36.4	-5	8.6482%	36.4	2.75%	1,765	561	(1,204)	-38,971
	Transmission Plant										
352.00	Structures and Improvements	2,542,201	45.0	-5	2.3300%	45.0	2.22%	59,233	56,437	(2,793)	958,867
353.00	Station Equipment	66,217,353	50.0	-5	2.1000%	46.9	2.13%	1,390,564	1,410,430	19,865	21,578,726
354.00	Towers & Fixtures	332,143	55.0	-60	2.9100%	46.0	2.17%	9,665	7,208	(2,458)	256,208
355.00	Poles & Fixtures	37,393,984	40.0	-60	3.3300%	46.4	2.16%	1,245,220	807,710	(437,510)	12,551,208
356.00	Overhead Conductors & Devices	34,355,154	54.0	-40	2.6900%	53.6	1.87%	889,798	642,441	(247,357)	14,702,171
358.00	Underground Conductors & Devices	57,959	32.0	-25	3.9100%	32.0	3.13%	2,266	1,814	(452)	35,336
	Distribution Plant										
361.00	Structures and Improvements	3,358,505	43.0	-5	2.4400%	47.0	2.13%	81,946	71,536	(10,411)	870,726
362.00	Station Equipment	51,106,979	44.0	0	2.2700%	57.4	1.74%	1,160,128	889,261	(270,867)	15,883,218
364.00	Poles, Towers, and Fixtures	92,065,702	40.0	-70	4.2500%	30.4	2.54%	3,912,792	2,338,469	(1,574,324)	42,613,378
365.00	Overhead Conductors and Devices	57,371,601	50.0	-30	2.6000%	51.6	1.94%	1,491,662	1,113,009	(378,653)	22,104,049
366.00	Underground Conduit	21,222,403	55.0	-10	2.0000%	55.8	1.79%	424,448	379,881	(44,567)	3,968,229
367.00	Underground Conductors and Devices	63,294,293	37.0	-25	3.3800%	35.7	2.80%	2,139,347	1,772,240	(367,107)	16,407,099
368.00	Line Transformers	93,401,295	29.0	-25	4.3100%	28.1	3.56%	4,025,596	3,325,086	(700,510)	28,632,163
369.10	Overhead Services	11,578,164	48.0	-250	7.2900%	48.3	2.07%	844,048	239,668	(604,380)	8,590,893
369.02	Underground Services	34,729,771	28.0	-15	4.1100%	28.0	3.57%	1,427,394	1,239,853	(187,541)	13,583,333
370.00	Meters	20,575,016	40.0	-2	2.6500%	40.3	2.48%	524,663	510,260	(14,403)	9,828,174
370.01	Meters - PURPA Load Research	2,045,596	10.0	0	10.0000%	11.5	8.70%	204,560	177,967	(26,593)	875,806
371.00	Installations on Customer Premises	11,348,008	20.0	-40	7.0000%	19.9	5.03%	794,361	570,805	(223,556)	4,410,581
373.00	Street Lighting and Signal Systems	17,469,827	27.0	-25	4.6300%	30.3	3.30%	808,853	576,504	(232,349)	5,356,085

SCHEDULE 2

UTILICORP UNITED INC d/b/a MISSOURI PUBLIC SERVICE (ER-2001-672)
DEPRECIATION DETERMINATION SPREADSHEET

Account No.	Title	Plant Original Cost Dec-00	Ordered Life (Yr.)	Ordered Net Salvage (%)	Ordered Deprec. Rate (%)	Staff Proposed Life (Yr.)	Staff Proposed Deprec. Rate (%)	Ordered Annual Accrual	Staff's Annual Accrual	Increase / Decrease Accrual	Accrued Reserve
	General Plant										
390.00	Structures and Improvements	7,398,147	45.0	-10	2.4400%	50.3	1.99%	180,515	147,223	(33,292)	605,819
391.00	Office Furniture and Equipment	613,831	13.0	5	3.6000%	17.1	5.65%	22,098	35,939	13,811	72,665
391.01	Off F & E Computer - PURPA	0	10.0	0	10.0000%	13.0	7.69%	0	0	0	0
391.02	Off F & E Computer	2,153,555	10.0	0	10.0000%	13.0	7.69%	215,356	165,608	(49,747)	89,650
391.03	Off F & E Computer - SCADA	0	10.0	0	0.0000%	13.0	0.00%	0	0	0	0
392.00	Transportation Equipment	0	20.0	0	0.0000%	17.3	0.00%	0	0	0	136,146
393.00	Stores Equipment	64,311	18.0	0	5.5600%	23.7	4.22%	3,576	2,714	(862)	54,906
394.00	Tools, Shop and Garage Equipment	2,685,192	16.0	-5	6.5600%	23.6	4.24%	176,149	113,852	(62,297)	2,260,266
395.00	Laboratory Equipment	1,403,653	25.0	0	4.0000%	34.2	2.92%	56,146	40,987	(15,159)	909,736
396.00	Power Operated Equipment	1,685,995	15.0	5	0.0000%	17.9	0.00%	0	0	0	1,013,031
397.00	Communication Equipment	5,520,478	16.0	0	6.2500%	18.8	5.32%	345,034	293,689	(51,340)	4,759,771
398.00	Miscellaneous Equipment	229,406	20.0	0	5.0000%	20.2	4.95%	11,470	11,356	(115)	110,906
	General Common Plant										
390.00	Structures and Improvements	7,281,121	45.0	-10	2.4400%	47.8	2.09%	177,659	152,175	(25,484)	1,090,590
391.00	Office Furniture & Equipment	1,327,022	13.0	5	7.3100%	17.1	5.85%	97,005	77,631	(19,375)	879,768
391.01	Off Furn & Equipment - Computer - New	87,811	9.0	0	11.1100%	13.0	0.00%	9,756	0	(9,756)	105,840
391.02	Off Furn & Equipment - Computer	0	9.0	0	0.0000%	13.0	0.00%	0	0	0	0
392.01	Trans Equip Car Small	3,326,759	9.0	5	10.5600%	9.3	10.75%	351,306	357,627	6,321	2,519,126
392.02	Trans Equip Car Medium	45,148	9.0	5	10.5600%	9.3	0.00%	4,768	0	(4,768)	42,295
392.03	Trans Equip	127,755	20.0	0	5.0000%	17.3	5.78%	6,388	7,384	996	66,555
392.04	Trans Equip - Truck Light	2,207,124	9.0	5	10.5600%	9.3	10.75%	233,072	237,266	4,194	1,798,490
392.05	Trans Equip - Truck - Heavy	3,584,569	13.0	5	7.3100%	15.5	6.45%	262,031	231,204	(30,827)	2,801,188
392.06	Trans Equip - Trailer	696,639	15.0	10	6.0000%	17.3	5.78%	41,793	40,266	(1,533)	531,472
393.00	Stores Equipment	82,717	18.0	0	5.5600%	3.6	27.78%	4,599	22,979	18,380	4,256
396.07	Power Operated Equip - Short Life	1,019,400	7.0	10	12.8600%	7.8	0.00%	131,095	0	(131,095)	1,019,400
396.08	Power Operated Equip - Long Life	1,056,258	15.0	5	6.3300%	17.9	5.59%	66,861	59,045	(7,816)	552,560
397.00	Communications Equipment	2,748,712	20.0	-10	5.5000%	18.8	5.32%	151,179	146,231	(4,918)	1,074,604
398.00	Miscellaneous Equipment	225,360	18.0	0	5.5600%	14.9	6.71%	12,530	15,122	2,592	42,557
Column Totals		1,022,147,116						42,587,738	28,288,381	(14,299,357)	28,247,783

Changed depreciation rates are in bold (in comparison to filed direct testimony spreadsheet)

* .2482% depreciation adder for production accounts in data reconciliation of Case No. ER-97-394

Staff's proposed lives are those recommended by Staff in Case ER-97-394

Schedule: JWM-12
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Ma... C 2

UtiliCorp United Inc.
Missouri Public Service
Case No. ER-2001-672
Net Book Value of Generating Assets
as of June 30, 2001

Generating Station	FERC Acct.	Plant in Service	Depreciation Reserve	Net Plant in Service
MPS Sub 133 Jeffrey Energy Center 1	350001	70	-	70
	352000	45,448	20,243	25,205
	353000	462,871	225,036	237,835
	393000	-	-	-
	398000	-	-	-
MPS Sub 133 Jeffrey Energy Center 1 Total		$ 508,389	$ 245,279	$ 263,109
MPS Sub 233 Jeffrey Energy Center 2	352000	55,178	23,208	31,970
	353000	634,915	319,075	315,840
MPS Sub 233 Jeffrey Energy Center 2 Total		$ 690,093	$ 342,283	$ 347,810
MPS Sub 333 Jeffrey Energy Center 3	353000	574,724	248,027	326,697
MPS Sub 333 Jeffrey Energy Center 3 Total		$ 574,724	$ 248,027	$ 326,697
MPS Unit Greenwood Energy Center	340001	233,662	(11,072)	244,734
	341000	821,655	291,224	530,431
	342000	606,277	523,158	83,120
	343000	-	-	-
	344001	1,289,018	625,955	663,063
	344051	-	-	-
	345000	436,871	83,725	353,146
	346000	-	-	-
	391001	24,357	4,990	19,367
	391003	37,763	(6,796)	44,559
	391004	679	72	607
	392002	38,902	19,787	19,115
	392004	41,617	19,421	22,197
	392006	3,438	876	2,562
	393000	2,158	1,928	230
	394000	64,660	48,621	16,039
	395000	10,340	4,202	6,138
	396001	27,166	27,166	-
	397000	26,184	19,943	6,241
	398000	4,437	2,064	2,374
MPS Unit Greenwood Energy Center Total		$ 3,669,186	$ 1,655,264	$ 2,013,921

UtiliCorp United Inc.
Missouri Public Service
Case No. ER-2001-672
Net Book Value of Generating Assets
as of June 30, 2001

Generating Station	FERC Acct.	Plant in Service	Depreciation Reserve	Net Plant in Service
MPS Unit Greenwood Unit I	314000	-	-	-
	342000	53,000	43,559	9,441
	343000	1,688,484	164,951	1,523,533
	345000	598,014	79,514	518,500
MPS Unit Greenwood Unit I Total		$ 2,339,498	$ 288,024	$ 2,051,474
MPS Unit Greenwood Unit II	342000	53,000	43,559	9,441
	343000	1,627,484	160,566	1,466,918
	345000	16,720	1,125	15,594
MPS Unit Greenwood Unit II Total		$ 1,697,204	$ 205,251	$ 1,491,953
MPS Unit Greenwood Unit III	314000	-	-	-
	342000	53,000	43,559	9,441
	343000	648,928	140,310	508,618
	344001	$ 495,812	$ 70,149	$ 425,663
MPS Unit Greenwood Unit III Total		$ 1,197,740	$ 254,018	$ 943,722
MPS Unit Greenwood Unit IV	342000	53,000	43,559	9,441
	343000	1,220,470	179,834	1,040,635
MPS Unit Greenwood Unit IV Total		$ 1,273,470	$ 223,393	$ 1,050,076
MPS Unit JEC #1	310001	71,564	(3,633)	75,197
	311000	6,290,314	4,632,811	1,657,504
	312001	15,109,426	10,437,388	4,672,039
	314000	4,776,313	1,334,606	3,441,706
	315000	1,807,002	1,348,658	458,345
	316000	263,113	84,768	178,345
MPS Unit JEC #1 Total		$ 28,317,732	$ 17,834,597	$ 10,483,135
MPS Unit JEC #2	310001	71,283	(3,314)	74,597
	311000	4,721,422	3,318,252	1,403,170
	312001	18,683,705	12,518,466	6,165,239
	314000	4,737,661	2,176,007	2,561,654

UtiliCorp United Inc.
Missouri Public Service
Case No. ER-2001-672
Net Book Value of Generating Assets
as of June 30, 2001

Generating Station	FERC Acct.	Plant in Service	Depreciation Reserve	Net Plant in Service
MPS Unit JEC #2 (con't)	315000	1,394,050	979,542	414,508
	316000	343,897	148,325	195,572
MPS Unit JEC #2 Total		$ 29,952,018	$ 19,137,278	10,814,740
MPS Unit JEC #3	310001	3,096	(118)	3,214
	311000	5,510,565	3,472,555	2,038,010
	312001	23,678,825	14,531,051	9,147,774
	314000	5,431,083	2,501,213	2,929,869
	315000	2,316,599	1,395,061	921,538
	316000	83,236	41,554	41,682
MPS Unit JEC #3 Total		$ 37,023,403	$ 21,941,317	$ 15,082,087
MPS Unit JEC #4	314000	1,626,434	802,414	824,020
MPS Unit JEC #4 Total		$ 1,626,434	$ 802,414	$ 824,020
MPS Unit JEC Common	310001	121,320	(4,650)	125,970
	311000	1,678,282	693,756	984,526
	312001	377,020	(365,248)	742,267
	312002	129,837	1,033	128,804
	314000	133,666	161,762	(28,096)
	315000	376,613	(30,397)	407,010
	316000	729,081	67,107	661,974
MPS Unit JEC Common Total		$ 3,545,819	$ 523,362	$ 3,022,456
MPS Unit KCI Plant General	341000	267,036	224,057	42,979
	342000	157,613	83,843	73,770
	343000	385,926	385,926	-
	344001	1,630,606	1,278,501	352,105
	345000	691,297	683,107	8,190
	346000	410	(2,490)	2,900
	394000	3,351	3,351	-

UtiliCorp United Inc.
Missouri Public Service
Case No. ER-2001-672
Net Book Value of Generating Assets
as of June 30, 2001

Generating Station	FERC Acct.	Plant in Service	Depreciation Reserve	Net Plant in Service
MPS Unit KCI Plant General (con't)	395000	1,698	1,447	251
	397000	2,215	1,929	286
	398000	579	340	239
MPS Unit KCI Plant General Total		$ 3,140,731	$ 2,660,012	$ 480,719
MPS Unit KCI Plant I	344001	44,565	3,153	41,413
	345000	11,018	2,967	8,052
MPS Unit KCI Plant I Total		$ 55,584	$ 6,119	$ 49,464
MPS Unit KCI Plant II	344001	39,992	2,829	37,163
	345000	12,970	3,098	9,872
MPS Unit KCI Plant II Total		$ 52,962	$ 5,927	$ 47,035
MPS Unit Nevada Plant	340001	59,905	(1,430)	61,335
	341000	62,121	14,589	47,531
	342000	248,476	102,107	146,369
	343000	940,801	129,279	811,523
	344001	611,711	135,714	475,996
	345000	151,197	32,884	118,313
MPS Unit Nevada Plant Total		$ 2,074,211	$ 413,143	$ 1,661,068
MPS Unit Ralph Green Plant	340001	11,376	(412)	11,788
	341000	966,157	352,712	613,445
	342000	62,614	60,537	2,077
	343000	3,698,302	1,391,460	2,306,842
	344001	6,804,252	3,450,850	3,353,402
	345000	1,130,021	491,552	638,469
	346000	20,000	(35,465)	55,465
	389001	9,361	(982)	10,343
	389003	662	219	442
	390001	88,926	12,247	76,679
	391001	6,971	986	5,985
	393000	4,056	3,044	1,012

UtiliCorp United Inc.
Missouri Public Service
Case No. ER-2001-672
Net Book Value of Generating Assets
as of June 30, 2001

Generating Station	FERC Acct.	Plant in Service	Depreciation Reserve	Net Plant in Service
MPS Unit Ralph Green Plant (con't)	394000	15,854	15,455	400
	395000	4,196	3,169	1,027
	397000	46,661	20,319	26,342
	398000	1,938	766	1,171
MPS Unit Ralph Green Plant Total		$ 12,871,346	$ 5,766,457	$ 7,104,890
MPS Unit Sibley #1	310001	265,963	(24,341)	290,304
	311000	3,866,341	3,249,953	616,387
	312001	24,226,535	15,112,217	9,114,318
	312002	94,931	2,923	92,008
	314000	11,793,396	8,905,171	2,888,225
	315000	3,615,040	1,583,487	2,031,554
	316000	10,939	2,407	8,532
	391003	625	(248)	873
	391004	257	55	203
	394000	14,612	7,687	6,925
	395000	2,300	645	1,655
MPS Unit Sibley #1 Total		$ 43,890,940	$ 28,839,955	$ 15,050,984
MPS Unit Sibley #2	311000	1,378,598	866,166	512,432
	312001	16,348,566	10,017,439	6,331,127
	312002	94,931	2,923	92,008
	314000	9,567,318	4,572,871	4,994,447
	315000	3,141,361	1,270,959	1,870,402
	316000	62,938	45,966	16,972
MPS Unit Sibley #2 Total		$ 30,593,713	$ 16,776,325	$ 13,817,388
MPS Unit Sibley #3	310001	108,657	(7,762)	116,418
	311000	12,807,663	7,769,946	5,037,718
	312001	72,840,813	30,466,905	42,373,908
	312002	225,006	6,928	218,078
	314000	33,992,179	13,053,511	20,938,668
	315000	7,301,306	4,036,190	3,265,117

UtiliCorp United Inc.
Missouri Public Service
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Net Book Value of Generating Assets
as of June 30, 2001

Generating Station	FERC Acct.	Plant in Service	Depreciation Reserve	Net Plant in Service
MPS Unit Sibley #3 (con't)	316000	361,835	195,687	166,148
	345000	-	-	-
	391003	-	-	-
	394000	132,604	130,336	2,268
	395000	9,597	8,347	1,249
	397000	44,338	28,533	15,805
MPS Unit Sibley #3 Total		$ 127,823,999	$ 55,688,621	$ 72,135,377
MPS Unit Sibley Plant General	310001	22,086	(197)	22,283
	311000	22,024,767	9,586,706	12,438,061
	312001	16,910,152	7,943,900	8,966,253
	314000	252,240	242,499	9,741
	315000	3,612,481	1,280,322	2,332,159
	316000	176,771	121,797	54,974
	355000	-	-	-
	390001	303	26	277
	391001	550,005	70,922	479,082
	391003	421,911	(123,412)	545,323
	391004	101,107	12,795	88,312
	391005	40,000	6,295	33,705
	392001	307,802	10,832	296,970
	392002	35,086	9,636	25,451
	392003	31,593	775	30,818
	392004	397,548	61,450	336,098
	392005	564,117	50,871	513,246
	392006	80,075	7,961	72,114
	393000	50,630	33,028	17,601
	394000	1,252,907	934,694	318,213
	395000	281,612	96,875	184,737
	396001	217,923	88,216	129,706
	396002	1,668,118	952,772	715,346
	397000	58,815	40,514	18,301
	398000	9,407	5,505	3,902
MPS Unit Sibley Plant General Total		$ 49,067,456	$ 21,434,781	$ 27,632,675

Tax Depreciation Comparison

Line Number	Year	UTILICORP ACTUAL METHOD Tax Depreciation	ESL Depreciation	Difference	Current Deferred Tax	Accum Deferred Tax	STAFF ESL METHOD Tax Depreciation	ESL Depreciation	Difference	Current Deferred Tax	Accum Deferred Tax
1	1998	$ 1,306,677	$ 596,541	$ 710,136	$ 272,621	$ 272,621	$ 1,306,677	$ 596,541	$ 710,136	$ 272,621	$ 272,621
2	1999	2,515,440	1,212,248	1,303,192	500,295	772,916	2,515,440	1,212,248	1,303,192	500,295	772,916
3	2000	2,326,581	1,203,188	1,123,393	431,271	1,204,187	2,326,581	1,203,188	1,123,393	431,271	1,204,187
4	2001	2,152,358	1,203,188	949,170	364,386	1,568,573	2,152,358	1,203,188	949,170	364,386	1,568,573
5	2002	1,990,678	1,203,188	787,490	302,317	1,870,891	1,990,678	1,203,188	787,490	302,317	1,870,891
6	2003	1,841,543	1,203,188	638,355	245,064	2,115,955	1,841,543	1,203,188	638,355	245,064	2,115,955
7	2004	1,703,210	1,203,188	500,022	191,958	2,307,914	1,703,210	1,203,188	500,022	191,958	2,307,914
8	2005	1,575,678	1,203,188	372,490	142,999	2,450,913	1,575,678	1,203,188	372,490	142,999	2,450,913
9	2006	1,554,771	1,203,188	351,583	134,973	2,585,885	1,554,771	1,203,188	351,583	134,973	2,585,885
10	2007	1,554,423	1,203,188	351,235	134,839	2,720,724	1,554,423	1,203,188	351,235	134,839	2,720,724
11	2008	1,554,771	1,203,188	351,583	134,973	2,855,697	1,554,771	1,203,188	351,583	134,973	2,855,697
12	2009	1,554,423	1,203,188	351,235	134,839	2,990,536	1,554,423	1,203,188	351,235	134,839	2,990,536
13	2010	1,554,771	1,203,188	351,583	134,973	3,125,509	1,554,771	1,203,188	351,583	134,973	3,125,509
14	2011	1,554,423	1,203,188	351,235	134,839	3,260,348	1,554,423	1,203,188	351,235	134,839	3,260,348
15	2012	1,554,771	1,203,188	351,583	134,973	3,395,321	1,554,771	1,203,188	351,583	134,973	3,395,321
16	2013	1,554,423	1,203,188	351,235	134,839	3,530,160	1,554,423	1,203,188	351,235	134,839	3,530,160
17	2014	1,554,771	1,203,188	351,583	134,973	3,665,133	1,554,771	1,203,188	351,583	134,973	3,665,133
18	2015	1,554,423	1,203,188	351,235	134,839	3,799,972	1,554,423	1,203,188	351,235	134,839	3,799,972
19	2016	1,554,771	1,203,188	351,583	134,973	3,934,944	1,554,771	1,203,188	351,583	134,973	3,934,944
20	2017	1,554,423	1,203,188	351,235	134,839	4,069,784	1,554,423	1,203,188	351,235	134,839	4,069,784
21	2018	777,383	1,203,188	(425,805)	(163,467)	3,906,317	777,383	1,203,188	(425,805)	(163,467)	3,906,317
22	2019		1,203,188	(1,203,188)	(461,904)	3,444,413		1,203,188	(1,203,188)	(461,904)	3,444,413
23	2020		1,203,188	(1,203,188)	(461,904)	2,982,509		1,203,188	(1,203,188)	(461,904)	2,982,509
24	2021		1,203,188	(1,203,188)	(461,904)	2,520,605		1,203,188	(1,203,188)	(461,904)	2,520,605
25	2022		1,203,188	(1,203,188)	(461,904)	2,058,702		1,203,188	(1,203,188)	(461,904)	2,058,702
26	2023		1,203,188	(1,203,188)	(461,904)	1,596,798		1,203,188	(1,203,188)	(461,904)	1,596,798
27	2024		1,203,188	(1,203,188)	(461,904)	1,134,894		1,203,188	(1,203,188)	(461,904)	1,134,894
28	2025		1,203,188	(1,203,188)	(461,904)	672,990		1,203,188	(1,203,188)	(461,904)	672,990
29	2026		1,203,188	(1,203,188)	(461,904)	211,086		1,203,188	(1,203,188)	(461,904)	211,086
30	2027		549,847	(549,847)	(211,086)	(0)		1,203,188	(1,203,188)	(461,904)	(250,818)
31	2028							1,203,188	(1,203,188)	(461,904)	(712,722)
32	2029							1,203,188	(1,203,188)	(461,904)	(1,174,626)
33	2030							1,203,188	(1,203,188)	(461,904)	(1,636,529)
34	2031							1,203,188	(1,203,188)	(461,904)	(2,098,433)
35	2032							549,847	(549,847)	(211,086)	(2,309,520)
36		**$ 34,844,712**	**$ 34,844,712**	**0**	**0**	**0**	**$ 34,844,712**	**$ 40,860,652**	**$ (6,015,940)**	**$ (2,309,519)**	**$ (2,309,520)**

Schedule: JWM-14

REGULATORY TREATMENT OF MERGER SAVINGS AND PREMIUM RECOVERY

Q. What is your understanding of the Commission's position regarding rate recovery of premiums or acquisition adjustments?

A. The Commission has stated that it is not opposed to consideration of acquisition adjustment for ratemaking purposes. Specifically, the Commission has indicated that it is not opposed to the concept of a savings sharing plan (as part of an acquisition adjustment request) provided that only merger-related savings are shared. The Commission has said that it does not wish to prevent companies from producing economies of scale and savings which can benefit ratepayers and shareholders alike (Kansas Power & Light / Kansas Gas & Electric Case No. EM-91-213). The Commission has evaluated each merger on its own merits and has concluded that different circumstances have necessitated different approaches or solutions. For example, in one case, an earnings sharing grid was approved with target returns set high enough to allow for full or partial recovery of the premium or acquisition adjustment (Union Electric / Central Illinois Public Service Co. Case No EM-96-149). In still another case, rate freezes were for a period of time that allowed for a full or partial recovery of the acquisition adjustment (Western Resources / Kansas City Power & Light Case No. EM-97-515).

Q. Have other regulatory commissions addressed the questions of premiums, acquisition adjustments or the sharing of merger benefits?

A. A quick reference of the states that have addressed the issue and have allowed at least some recovery of premiums is presented in Figure 2.

Q. Have you reviewed any of the details of the various commissions decisions regarding premiums, acquisition adjustments or the sharing of benefits from mergers?

A. Yes. I have examined summaries of commission proceedings to determine how acquisition adjustments and sharing of savings have been treated in other jurisdictions. The individual cases are described in Schedule: JWM-1 attached to my testimony.

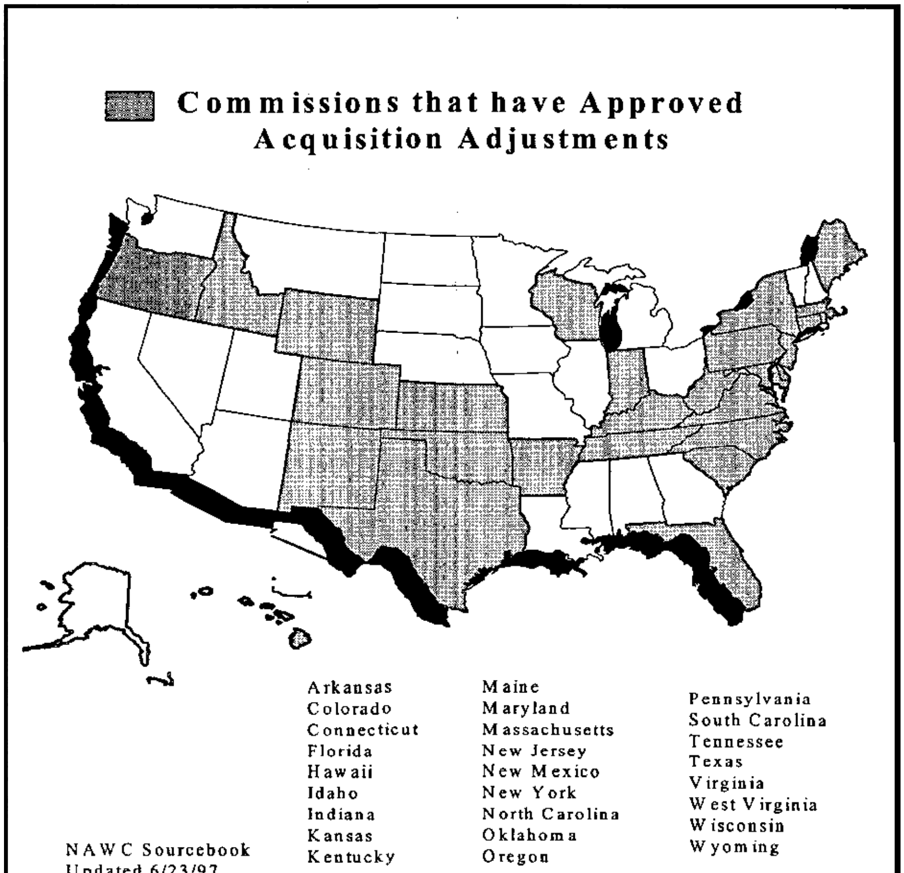

Figure 2

Q. Please summarize the results of your study.

A. As can be seen on Figure 2, a large number of states have permitted rate recovery of a portion of the cost of the involved acquisition. The recovery is generally limited to savings and most of the decisions focused on sharing the net benefits.

Q. Are any of these cases noteworthy for purposes of the UtiliCorp-SJLP merger?

A. Yes. Two decisions are very informative and have direct bearing on this case. In a 1994 proceeding, the Massachusetts Department of Public Utilities ("Department"), set forth generic guidelines and standards for acquisitions and mergers of utilities. Prior to the generic investigation, the Department maintained a policy of disallowing acquisition adjustments. After the generic hearings, the Department determined that where potential benefits for customers exist, it is not in the interest of the customers, the shareholders, or the state to maintain a barrier against mergers.

Also, the Oklahoma Corporation Commission, in an Oklahoma Gas and Electric Company acquisition, established criteria which are pertinent to the UtiliCorp - SJLP transaction. The Oklahoma Commission criteria are as follows:

1. The public interest must be considered.
2. The purchase price must be reasonable.
3. The benefits to ratepayers must equal or exceed the cost of the acquisition premium.
4. The transaction must be conducted at arm's length.

Q. How do these points relate to this merger?

A. They describe this transaction.

Q. Please explain.

A. This transaction is a result of arm's length negotiations between the parties. The transaction meets the test of not being detrimental to the public interest and in fact creates net benefits for customers and shareholders. If this transaction does not take place, benefits which could accrue to the customers of both companies will not be realized.

Q. Have you made a review of accounting publications in connection with your research?

A. Yes, I have. In **Accounting For Public Utilities**, by Robert L Hahne, Gregory E. Aliff, and Deloitte & Touche (1998 ed.), the issue of acquisition adjustments is addressed. The general rule related to the acquisition of utility plant previously used in the utility function is that the rate base component for the plant includes only the original cost of the property to the first owner devoting the property to public service. The excess amount paid is referred to as an acquisition adjustment and is placed in a separate account to be treated for ratemaking purposes as so authorized by the regulatory commission. The necessity of this separate accounting treatment is largely a consequence of certain abuses in the utility industry during the 1920s and 1930s. Commonly owned utilities were able to inflate their rate bases by purchasing affiliated companies at inflated prices. However, rate base treatment and/or cost of service treatment has been allowed by various regulatory commissions under a variety of circumstances.

Q. Under what circumstances?

A. The reasons most commonly cited for allowing rate base treatment of acquisition adjustments are as follows:

1) when acquisitions represent an essential or desirable part of an integration of facilities program devoted to serving the public better;
2) when acquisitions are clearly in the public interest, because operating efficiencies offset the excess price over net original cost; and
3) when acquisitions are determined to involve arm's-length bargaining.

Q. Does the UtiliCorp/SJLP transaction meet these tests?

A. Yes.

Q. Have other commissions considered and employed these standards?

A. Yes. A number of cases exist where rate base and/or cost of service treatment has been allowed as a result of satisfying one or more of the criteria listed above. For example:

The **<u>Tennessee Public Service Commission</u>** in 1969 allowed both rate base and cost of service treatment for acquisition adjustments of a telephone company where the acquisitions were found to be in the best interest of the public and not for the purpose of inflating the rate base.

In a 1955 **<u>Virginia Supreme Court of Appeals</u>** decision, the court ruled that the Virginia State Corporation Commission had properly allowed both rate base and cost of service treatment for an amount paid at arm's length bargaining in excess of original cost.

Q. Are there other such cases ?

A. Yes. For example, as far back as 1946, the **<u>Louisiana Public Service Commission</u>** allowed rate base and cost of service treatment for an electric company's acquisition adjustments stating that the criteria specified above had been met. The Commission stated that:

The owners of a public utility are entitled to earn and receive a fair rate of return upon the money prudently invested in property used and useful in rendering public service. Money is prudently invested, even though it is in excess of the original cost of the property purchased, if the excess of purchase price over original cost was paid as the result of arm's-length bargaining between nonassociated buyer and seller, if the excess was necessary for the integration of the property into a larger and more efficient system, and if the purchase necessitating the excess did or reasonably should have resulted in public benefit by improvement of service to customers or in lowered rates or both better service and lowered rates. This integration cost or excess of purchase price over original cost termed in prescribed system of accounts as 'Utility Plant Acquisition Adjustments' should remain a part of the prudent investment during the life of the physical property to which it was applied, and its extinguishment from the investment when and if required by the Commission, should be accomplished by amortization through annual charges to Operating Revenue Deductions during the life of the property remaining after the date of the purchase which created the excess."

More recently, commissions have begun to apply the sharing principles. Using a different approach, the **Kansas Corporation Commission** in 1992 allowed Western Resources the opportunity to recover an acquisition premium (as well as the return on the premium) incurred in connection with its acquisition of Kansas Gas and Electric Company. However, rather than permitting rate base treatment and amortization in cost of service, the Commission allowed Western Resources to retain part of the anticipated cost savings to be realized in future years from merging the operations of the two companies.

In an interesting case that discusses, what is meant by "Original Cost", the **Vermont Public Service Board** in a gas rate proceeding in 1973 stated that: "Original cost" relates to the cost incurred by the utility purchasing the facility, not the original cost of a prior owner. Assuming prudent investment, the stockholders should be allowed to earn a return on their actual 'out-of-pocket' investment; the fact that the marketplace may place a higher or lower valuation on the property does not affect the amount of the actual price paid by petitioner."

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

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	)))))	Case No. ER-2001-672

County of Jackson)
) ss
State of Missouri)

AFFIDAVIT OF JOHN W. MCKINNEY

John W. McKinney, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Surrebuttal Testimony of John W. McKinney;" 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.

John W. McKinney

Subscribed and sworn to before me this 21st day of January, 2002.

Terry D. Lutes
Notary Public

My Commission expires:

8-20-2004

TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2004