

Exhibit No.:

Issues: SJLP Merger Costs
to Achieve

Witness: Vern J. Siemek

Sponsoring Party: Missouri Public
Service

Case No.:

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Vern J. Siemek

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF VERN J. SIEMEK
ON BEHALF OF MISSOURI PUBLIC SERVICE,
A DIVISION OF UTILICORP UNITED INC.
CASE NO. ER-_____**

1 Q. Please state your name and business address.

2 A. My name is Vern J. Siemek. My business address is UtiliCorp United, 20 West 9th Street,
3 Kansas City, Missouri 64199-3287.

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

5 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as Senior Director of Business
6 Services for UtiliCorp's US Utilities ("USU") with responsibilities for financial analysis,
7 including assignments on acquisition investigations. UtiliCorp currently conducts its
8 business in Missouri through its Missouri Public Service ("MPS") and its St. Joseph Light
9 & Power ("SJLP") operating division.

10 Q. Briefly describe your educational background and employment history.

11 A. I earned a Bachelor of Science degree in Business Administration with Distinction from the
12 University of Nebraska at Lincoln in 1973 and am now a Certified Public Accountant in
13 Nebraska.

14 I was named to my current responsibilities in October 1994.

15 From 1987 to 1994, I held the position of Manager of Business Development for Peoples
16 Natural Gas ("Peoples") in Omaha, Nebraska, a UtiliCorp division with operations in
17 Colorado, Iowa, Kansas, Nebraska and Minnesota.

18 From 1984 to 1987, I was in charge of the Regulatory Affairs group for Peoples.

1 Before joining Peoples, I was employed for eleven years by an international accounting
2 firm, Arthur Andersen & Co, in the Regulated Industries division in various capacities,
3 including five years as an audit manager. As part of my responsibilities, I supervised the
4 audits of regulated companies and the reviews of annual reports to the Federal Energy
5 Regulatory Commission.

6 Q. Have you ever testified before regulatory commissions?

7 A. Yes. I have testified before the Missouri Public Service Commission, ("the Commission")
8 the Kansas Corporation Commission, the Oklahoma Corporation Commission, the
9 Arkansas Public Service Commission and the Iowa Utilities Board.

10 Q. What is the purpose of your testimony?

11 A. To introduce and adopt as my testimony in this case the direct testimony and schedules
12 which I filed with the Commission in Case No. EM-2000-292, the proceeding involving
13 UtiliCorp's merger with St. Joseph Light & Power Company. That testimony is attached
14 hereto as Schedule VJS-A.

15 Q. Why are you filing your direct testimony from Case No. EM-2000-292 in this proceeding?

16 A. In the direct testimony of UtiliCorp witness Gary Clemens, he discusses two options for
17 treating the UtiliCorp merger with St. Joseph Light & Power Company. The second
18 option, which has to assume that the merger has been in place for a full year, requires
19 projecting: 1) the synergies after the merger has been completed and fully effected, 2) the
20 estimated incremental costs for UtiliCorp support functions to support the new operations
21 and 3) the costs to achieve projected synergies, which include the costs to effect the merger.
22 However, since the merger has been in place for only 5 months, it is not possible to
23 accurately measure the actual full year impact of the merger at this time. My testimony in

1 Case No. EM-2000-292 provides an estimated projection of the full impact of the merger
2 when completely integrated. These estimated projections, net of the related costs for
3 incremental support costs and costs to achieve the synergies, may be used as a basis in this
4 proceeding if the second option, discussed by Mr. Clemens, is imposed by the Commission.
5 One major adjustment to those estimated projections experienced already in 2001 is the
6 delay in realizing estimated Dispatching/Generation Savings.

7 Q. Please summarize your direct testimony in Case No. EM-2000-292, schedule VJS-A in this
8 case.

9 A. In that testimony, I describe the total estimate of synergies and costs for UtiliCorp and
10 SJLP from all sources. I also describe the development of specific elements of certain
11 SJLP synergies and costs.

12 Q. Please describe the schedules attached to your testimony in Case No. EM-2000-292 which
13 are part of schedule VJS-A in this case.

14 A. Schedule VJS-1 provides a summary of the synergies, net of costs to achieve those
15 synergies, for the average of years 1 through 5 after completing the transaction and for the
16 average of years 6 through 10. These amounts reflect current dollars, which means that
17 normal inflation has been included. Schedule VJS-1 also reflects the cost of 50% of the
18 acquisition premium proposed to reduce the synergies to SJLP customers in years 6
19 through 10.

20 Schedule VJS-2 provides detail of the costs incurred to achieve the identified merger
21 savings.

22 Schedule VJS-3 provides a summary of merger synergies for SJLP for several detailed
23 areas in constant dollars. Most of these synergies remain at a constant level in 1999 dollars

1 after 2003 once they have been fully implemented. Cost allocations and cost transfers
2 offsetting allocations are also listed.
3 Schedule VJS-4 provides a ten year summary of benefits and payroll tax synergies for
4 SJLP, reflecting inflation.

5 Q. Does this conclude your direct testimony?

6 A. Yes.

Exhibit No.:
Issue: Synergy Savings
Witness: Vern J. Siemek
Type of Exhibit: Direct Testimony
Sponsoring Party: UtiliCorp United Inc.
Case No.:

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Vern J. Siemek

October 19, 1999

Schedule VJS-A

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF VERN J. SIEMEK
ON BEHALF OF UTILICORP UNITED INC.**

CASE NO.

INTRODUCTION

1

2 Q. Please state your name and business address.

3 A. My name is Vern J. Siemek. My business address is UtiliCorp United, 20 West 9th Street,
4 Kansas City, Missouri 64199-3287.

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

6 A. I am employed by UtiliCorp United Inc. ("UtiliCorp") as Director of Business Services for
7 UtiliCorp Energy Delivery ("UED") with responsibilities for financial analysis, including
8 assignments on acquisition investigations. UtiliCorp currently conducts its business in
9 Missouri as Missouri Public Service ("MPS").

10 Q. Briefly describe your educational background and employment history.

11 A. I earned a Bachelor of Science degree in Business Administration with Distinction from the
12 University of Nebraska at Lincoln in 1973 and am now a Certified Public Accountant in
13 Nebraska.

14 I was named to my current position in October 1994.

15 From 1987 to 1994, I held the position of Manager of Business Development for Peoples
16 Natural Gas ("Peoples") in Omaha, Nebraska, a UtiliCorp division with operations in
17 Colorado, Iowa, Kansas, Nebraska and Minnesota.

18 From 1984 to 1987, I was in charge of the Regulatory Affairs group for Peoples.

1 Before joining Peoples, I was employed for eleven years by an international accounting
2 firm, Arthur Andersen & Co, in the Regulated Industries division in various capacities,
3 including five years as an audit manager. As part of my responsibilities, I supervised the
4 audits of regulated companies and the reviews of annual reports to the Federal Energy
5 Regulatory Commission.

6 Q. Have you ever testified before regulatory commissions?

7 A. Yes. I have testified before the Kansas Corporation Commission and the Iowa Utilities
8 Board.

9 **PURPOSE AND SUMMARY OF TESTIMONY**

10 Q. What is the purpose of your testimony?

11 A. My testimony outlines the synergies which are anticipated to be developed from the
12 combination of UtiliCorp and St. Joseph Light & Power Company ("SJLP") (collectively,
13 the Companies).

14 Q. Please summarize your testimony.

15 A. In this testimony, I will describe the total estimate of synergies and costs for the Companies
16 from all sources. I will also describe the development of specific elements of certain SJLP
17 synergies and costs.

18 Q. Have you attached any schedules to your testimony?

19 A. Yes. Schedule VJS-1 provides a summary of the synergies, net of costs to achieve those
20 synergies, for the average of years 1 through 5 after completing the transaction and for the
21 average of years 6 through 10. These amounts reflect current dollars, which means that
22 normal inflation has been included. Schedule VJS-1 also reflects the cost of 50% of the

1 acquisition premium that is proposed to reduce the synergies to SJLP customers in years 6
2 through 10.

3 Schedule VJS-2 provides detail of the costs incurred to achieve the identified merger
4 savings.

5 Schedule VJS-3 provides a summary of merger synergies for SJLP for several detailed
6 areas in constant dollars. Most of these synergies remain at a constant level in 1999 dollars
7 after 2003 once they have been fully implemented. Cost allocations and cost transfers
8 offsetting allocations are also listed.

9 Schedule VJS-4 provides a ten year summary of benefits and payroll tax synergies for
10 SJLP, reflecting inflation.

11 Q. Why did you select ten years for the summary?

12 A. Ten years is the typical period for quantifying acquisition or merger benefits. Also, it is
13 likely that the nature and shape of regulation will have changed by 2010. Other methods
14 may then be necessary to equitably split the costs of realizing the synergies from this
15 transaction. We also believe that it would be more palatable to the Commission to approve
16 our proposal for a term shorter than 30 or 40 years. However, present industry conditions
17 and regulations may still be in place at the end of 10 years. If so, UtiliCorp may request an
18 extension of its proposed approach.

19 **SUMMARY OF SYNERGIES ANALYSIS**

20 Q. Please explain Schedule VJS-1.

21 A. Schedule VJS-1 summarizes the synergies, net of costs to achieve those synergies, for the
22 average of the first 5 years after completing the transaction (the first column), and for the
23 average of years 6 through 10 (the last column). These amounts reflect inflation over the

1 1999 base year. Schedule VJS-1 also reduces the net synergies by the cost of 50% of the
2 acquisition premium.

3 Section I includes the Operating Costs synergies for the periods. Line 1 reflects the
4 generation/dispatching synergies based on the testimony of UtiliCorp witness Robert W.
5 Holzwarth. Lines 2 through 4 are detailed later in my testimony. Line 5 (Conversion to
6 UtiliCorp Benefits) are detailed on Schedule VJS-4 and are primarily from the the testimony
7 of UtiliCorp witness Robert B. Browning. Those synergies represent the estimated impact on
8 employee benefits from staff position reductions and plan changes in Mr. Browning's
9 testimony. In addition to the benefit plans in Mr. Browning's synergies, these synergies also
10 include an estimate of the payroll tax savings from the reduction in the number of positions.
11 Line 6 is the total of lines 1 through 5.

12 Section II includes the Savings and Costs related to the Capital Costs and investments
13 needed to realize the synergies in Section I. Line 1 in this section includes the depreciation
14 of the capital expended for:

- 15 1) the transmission line interconnection ("Interconnect") to be acquired or built to
16 realize generation dispatching synergies (UtiliCorp witness Rick C. Kreul will
17 address the need for those capital costs in his Direct Testimony),
- 18 2) the costs to install and connect the Supervisory Control and Data Acquisition system
19 ("SCADA") to tie SJLP into the UtiliCorp SCADA system (Mr. Kreul will address
20 the need for those capital costs in his Direct Testimony), and
- 21 3) the benefits from the capital reductions from staffing reductions in the Transmission
22 and Distribution areas that I will cover later in my testimony.

1 Line 2 in Section II represents the amortization over ten years of the transaction and
2 transition costs that I will address later in my testimony. These are the costs incurred to
3 achieve the synergies.

4 Line 3 in Section II is the return on the capital expenditures being depreciated in Section
5 II. Line 1. The return/capital costs were estimated using the Commission Staff-
6 recommended capital structure for SJLP in SJLP's most recent electric rate case with the
7 approved 10.75% equity return rates from the last MPS electric rate case and the estimated
8 current long-term debt rate of 7%.

9 Line 4 in Section II represents the return on the unamortized transaction and transition costs
10 being amortized on Line 2 with the same capital assumptions as Line 3. This line has no
11 values since UtiliCorp is proposing to absorb this element of the costs.

12 Line 5 in Section II is the summation of the Capital Synergies (Costs).

13 Section III simply nets the two prior sections to compute an average synergy.

14 Section IV details the costs allocated in and transfers of costs out of SJLP to calculate the
15 average net allocation cost to SJLP.

16 Section V nets the Total Synergies in III against the Allocations in section IV to determine
17 the Total Synergies, net of costs to achieve and allocated costs.

18 Section VI details the costs of the premium incurred to accomplish this transaction,
19 including the pretax amortization of the premium over 40 years and the return on the
20 unamortized investment.

21 Section VII represents the 50% of the total premium that is being proposed to reduce the
22 synergies to SJLP customers.

1 Section VIII is the illustrative rate reduction in year 6-10 that is achieved by subtracting the
2 SJLP share of premium costs (Section VII) against the Total Synergies in Section V. The
3 result is an average rate reduction of about \$1.6 million in years 6 through 10.

4 **COSTS TO ACHIEVE THE SYNERGIES**

5 Q. Please define "costs to achieve".

6 A. Costs to achieve are defined as any costs needed to ensure that the transaction can be
7 completed or synergies implemented. Those costs include estimated employee relocation
8 costs, severance costs, and retention payments. Costs to achieve also include conversion
9 costs for computer systems to new computer systems, as well as the costs of facilities
10 needed to realize generation synergies. Cost to achieve also includes the legal costs of the
11 Companies and banker fees of SJLP to accomplish the transaction. All of these costs are
12 necessary to realize the synergies from the transaction.

13 Q. What are the Costs to Achieve all these projected synergies?

14 A. Total costs to achieve the savings are included on Schedule VJS-2. The estimated
15 workforce transition costs are shown on line 14 and total \$8,672,297. These costs include
16 estimated relocation costs, severance costs, and retention payments. Estimated costs to
17 convert SJLP computer systems to UtiliCorp's systems are \$1,835,000. These conversion
18 costs include the costs to convert the customer billing, automated mapping/facilities
19 management, financial systems and new equipment. The cost of converting SJLP computer
20 systems to UtiliCorp systems were estimated by UtiliCorp's Information Technology
21 function. Transaction costs were estimated to be \$4,575,000, which includes the legal fees
22 of the Companies and banker fees of SJLP to complete the transaction. These are the costs
23 incurred to both achieve the combination and to implement the synergies.

1 Q. Is it appropriate to deduct the costs to Achieve from the synergies before developing any
2 rate reductions to the customers?

3 A. Yes.

4 Q. Why?

5 A. It is appropriate to deduct the costs to achieve because the synergies would not exist
6 without incurring each of those costs. Failure to deduct those costs overstates the
7 synergies.

8 Q. Please explain.

9 A. Utility mergers and acquisitions can produce substantial benefits to customers in the form
10 of operational synergies and cost savings which in turn can reduce rates or mitigate rate
11 increases. Such benefits to customers, however, will not materialize without costs being
12 incurred and risks being assumed.

13 Q. What kinds of costs are you referring to?

14 A. Costs are necessarily incurred to effectuate the combination and additional costs are
15 incurred to realign the workforce to produce many of the synergies.

16 Q. Who bears the risk of those costs?

17 A. In any merger transaction, shareholders frequently assume some of the risk that the merged
18 entity will achieve the strategic, financial and operational benefits set forth as the rationale
19 for the proposed combination. To the extent these objectives are not attained (e.g. failing to
20 realize cost savings), shareholders suffer from eroded equity value and/or lower returns.

21 Q. How can the shareholder be compensated for this risk?

22 A. To compensate for this risk and to reflect the shareholders' willingness to fund the costs
23 necessary to realize potential cost savings, the costs to achieve both these savings and the

1 underlying transaction should be fully recovered before the resulting net cost savings are
2 calculated and subsequently shared between customers and shareholders.

3 Q. How are the Costs to Achieve treated in these calculations of synergies?

4 A. The Costs to Achieve were amortized over the first ten years of the combined operations.
5 During years 6 through 10, that amortization reduced the synergies. This reduction is
6 accomplished in Section II, Line 2 of Schedule VJS-1.

7 **DETAILED SYNERGIES**

8 Q. Please describe the information contained on Schedule VJS-3.

9 A. Schedule VJS-3 summarizes the projected synergies in constant 1999 dollars for various
10 cost categories developed by several of the transition teams. These synergies remain level
11 once fully implemented. Section I includes general and administrative expenses, Section II
12 includes distribution operating expenses, and Section III includes transmission operating
13 expenses. These are each described later in my testimony. Section IV includes the
14 allocations impacts that will be realized during the implementation and ultimate integration
15 of SJLP into UtiliCorp.

16 Q. What are the allocations impacts of this transaction?

17 A. Line 1 costs allocated (in) to SJLP represents Enterprise Support Functions, Internal Business
18 Unit departments and Corporate Assets allocations that will be allocated to SJLP from the
19 post-merger UtiliCorp support functions under the existing procedures of UtiliCorp.

20 Line 2 represents resources or costs transferred from SJLP to UtiliCorp Enterprise Support
21 departments ("ESF"), which departments will support SJLP in the future. UtiliCorp's
22 Enterprise Support Functions (like Treasury) generally support all business units of UtiliCorp.

1 Line 3 represents resources or costs transferred from SJLP to UtiliCorp Intra Business Unit
2 departments ("IBU") like call centers that support specific business units like UtiliCorp
3 Energy Delivery.

4 **Source of Detailed Synergies:**

5 Q. Please describe how the synergies were developed.

6 A. The specific roles and responsibilities of the transition teams which developed the
7 synergies are addressed in the Direct Testimony of UtiliCorp witness Vicki M. Heider.
8 The seven transition teams (Electric/Steam Supply, Distribution, Transmission,
9 Regulatory/Legislative, Finance/Accounting, Human Resources, and Information
10 Technology) reviewed the 1999 SJLP budgets for their respective areas and estimated
11 the costs to be retained or to be eliminated after the merger. The teams included SJLP
12 management personnel familiar with the details of their budgets and operating needs, as
13 well as UtiliCorp management personnel and supervisors familiar with the UtiliCorp
14 processes and existing support structures. The work of the Electric/Steam Supply was
15 more complex because of dispatching savings and will be covered separately by Mr.
16 Holzwarth.

17 Q. Why was the 1999 budget used as the starting point for transition teams?

18 A. A common starting point was needed for all the teams. The 1999 budget represented the
19 best current estimate on costs for the Companies. An initial review indicated that 1999
20 budgets for most departments were very similar to the latest available actuals.

21 Q. Are there any overall comments that apply to all of the transition team reviews?

22 A. Yes. In some cases, vacancies that have occurred since the merger was announced have
23 purposely not been filled. SJLP management has indicated that those positions would

1 have been filled absent the transaction and thus are properly considered as merger-related
2 synergies. Current operations are filling that functional responsibility during the
3 transition by temporarily increasing the work load of remaining staff, contracting out
4 some functions, hiring temporary staff to bridge until the closing, and hiring new staff
5 only as a last resort. Ultimately, this will reduce the number of actual personnel
6 reductions and the resulting severances and is prudent, as long as service to the customers
7 does not deteriorate in the short term.

8 Q. Have personnel decisions been made?

9 A. No. In estimating payroll savings and severances, specific positions were eliminated,
10 even though personnel decisions have not yet been made. To estimate the payroll
11 synergies and severances, the demographics of the current incumbents of the eliminated
12 positions were used as an approximation of the payroll synergies and severance costs that
13 would ultimately be saved or incurred. Actual synergies and severances will depend on
14 the specific personnel decisions reached. Positions can be eliminated by various methods
15 that do not necessarily eliminate personnel such as filling other positions vacated by
16 attrition or retirement or by transferring personnel to positions in other parts of the
17 company.

18 **Generation Synergies:**

19 Q. Are the generation synergies reflected for completing only the SJLP transaction?

20 A. No, I used the data developed in Mr. Holzwarth's testimony as if the merger with The
21 Empire District Electric Company ("EDE") is also completed, since it is probably that both
22 transactions will occur.

SJLP General and Administrative Synergies and Transfers to ESF/IBU

Q. Please describe the overall results of the review of the General and Administrative departments/functions of SJLP.

A. The transition teams findings indicate that combining the companies would result in substantial savings from SJLP's current General and Administrative costs which can be seen on Schedule VJS-3.

Q. Please describe the general nature of the savings in this area.

A. There are three major reasons for the savings. The first is eliminating activities needed by SJLP as a stand-alone entity that are not needed separately as a division of UtiliCorp. Examples of this type of synergy are:

- External financial reporting (financial officers, audit fees and separate annual and quarterly reports)

- Treasury functions like raising capital and shareholder communications,

- Human Resources functions like developing and managing benefits plans, and

- Information Systems for billing, financial reporting and managing operations.

The second major area of savings are from reduced supervision levels needed because UtiliCorp would add only the personnel needed to actually process SJLP-related work without requiring additional supervision. Areas where this type of synergy can be accomplished are as varied as:

- Disbursements

- Payroll processing,

- Benefits administration

1 -Engineering standards

2 The third major area of savings to SJLP is due to the transfers of the reduced level of
3 processing costs to UtiliCorp ESF departments. Since SJLP will be allocated costs of
4 those departments, the transfer of direct costs is treated as a direct savings to SJLP to
5 properly reflect the net effect on SJLP. For example, consider the case if an accounts
6 payable clerk is transferred from SJLP to the UtiliCorp Accounts Payable department to
7 process SJLP invoices. A portion of the total Accounts Payable department will be
8 allocated to SJLP under the UtiliCorp allocations procedures, so the cost of Account
9 Payable (including the cost of the clerk) will end up at SJLP. If the clerk's salary was
10 also considered as a direct cost of SJLP, then SJLP would have been charged twice for
11 the same support! To reflect the effect of the allocations, the initial transfer of the clerk
12 (and similar costs transferred to UtiliCorp) needs to be considered a savings to SJLP.

13 **Regulatory/Legislative Synergies:**

14 Q. Please summarize the synergies projected by the Regulatory/Legislative transition team
15 review.

16 A. The team estimated that Operating and Maintenance synergies of \$145,000 could be
17 achieved starting in 2001.

18 Q. How were the reductions determined?

19 A. The synergies come from reducing the number of Regulatory positions by 1, with some
20 related nonpayroll costs for a total of \$60,000 of synergies. The contracted government
21 services in Missouri and Washington (\$35,000) can be eliminated by utilizing existing
22 UtiliCorp functions. Some savings from the 1999 Budget level were determined not to be
23 merger-related and were not included in the merger savings. In addition, approximately

1 \$50,000 of environmental costs could be eliminated from training, memberships, and
2 other expenses that are duplicated within UtiliCorp.

3 Q. Could these synergies have been realized absent the merger?

4 A. No. The savings of \$145,000 are directly related to the position reductions and functional
5 consolidations that would result from the merger.

6 **Information Technology Synergies:**

7 Q. Please summarize the synergies projected by the Information Technology transition team
8 review.

9 A. The team adopted the purchase investigation report on Information Technology, which
10 estimated that annual operating cost synergies of \$1,023,000 could ultimately be achieved
11 by 2002, at a one-time cost of \$1,835,000 of system conversion costs.

12 Q. How were the reductions determined?

13 A. The majority of the synergies come from eliminating the separate departments for SJLP
14 and utilizing staff for existing and projected vacancies of approved UtiliCorp positions.

15 The synergies were determined by the net difference from eliminating the 1999 IT
16 budgets of \$1,782,000. Those budget dollars were replaced by the expected operating
17 costs under UtiliCorp for additional hardware of \$100,000, telecommunication costs of
18 \$363,000 and deskside support costs of \$296,000 for a new annual cost of \$759,000.

19 This results in net Information Technology savings from the 1999 Budget level of
20 \$1,023,000. Some savings are delayed until existing SJLP systems are converted to
21 existing UtiliCorp system platforms. These conversion are planned to be completed by
22 March 31, 2001 to allow an orderly conversion of the systems. The conversion timetable
23 is based on completing the transaction by July 1, 2000.

1 Q. Could these synergies have been realized absent the merger?

2 A. No. These savings are directly related to the elimination of the need for a separate
3 Management Information System (Information Technology) department at SJLP that
4 would result from the merger.

5 **Human Resources Synergies**

6 Q. Please summarize the synergies projected by the Human Resources transition team
7 review.

8 A. Excluding employee benefits, the team estimated that O&M synergies of \$602,000 could
9 ultimately be achieved by 2001.

10 Q. How were the reductions determined?

11 A. The majority of the synergies come from reducing the number of positions by 6, with
12 some nonpayroll costs related to the positions and to general training/consulting work
13 that would no longer be needed on a separate basis. The position reductions occur from
14 bringing the SJLP benefit and employee programs, for the most part, into the UtiliCorp
15 plans so that separate management is no longer needed.

16 Q. Could these synergies have been realized absent the merger?

17 A. No. These savings are directly related to the reductions that would result from the
18 merger.

19 **Finance/Accounting Synergies:**

20 Q. Please summarize the synergies projected by the Finance/Accounting transition team
21 review.

22 A. The team estimated that O&M synergies of \$2,887,000 could ultimately be achieved by
23 2002.

1 Q. How were the synergies determined?

2 A. Processing SJLP transactions after the acquisition was estimated to require 6 positions.

3 All other positions were considered as synergies. Remaining nonpayroll costs after the

4 acquisition were estimated to include director fees for the advisory board for the three

5 years agreed to in the merger agreement, Edison Electric Institute subscriptions, Harris

6 Trust fees, claims, and charitable contributions at the level agreed to in the merger

7 agreement. All remaining cost were considered synergies.

8 Q. Were there any open issues after the initial review?

9 A. Yes. The cost of insurance premiums and self-insurance reviews are still under review

10 but the entire cost of current policies was originally included as a synergy. Some costs

11 would recur based from plant coverages and self-insurance provision increases (due to

12 higher deductibles), although substantial savings would still occur. As a result, the

13 synergies from the team were reduced by \$175,000 to reflect the cost of property

14 coverages and self-insurance provisions. Also, the costs of the Advisory Board

15 (\$140,000 for the retained costs) were transferred to the Transition and Transaction costs

16 to be amortized over 10 years. After reflecting the Advisory Board costs properly as

17 transaction costs and for only the first 3 years, the synergies were increased by \$140,000

18 per year.

19 Q. Could these synergies have been realized absent the merger?

20 A. No. These savings are directly related to the position reductions and nonpayroll costs

21 eliminated that would result from the merger.

22 **Remaining Reviews:**

1 Q. Are there any other SJLP Areas included in General and Administrative costs?

2 A. Yes, there are some SJLP Areas reviewed separately. Areas are the organizational name
3 for SJLP cost centers comparable to UtiliCorp departments. These SJLP Areas fell
4 outside the transition teams, so were reviewed separately.

5 Q. Please summarize these areas and the results:

6 A. The SJLP areas are as follows:

7 1) Area 55 Corporate Communications/Public Affairs, with a 1999 budget of \$462,000.

8 Legislative costs of \$35,000 were eliminated by the Regulatory/Legislative transition
9 team. Of the remainder, \$150,000 was retained for Community Services and
10 Economic Development. The entire remaining budget of \$277,000 was then
11 eliminated.

12 2) Part of Area 82 Legal included costs for 1999 estimated legal expenses of \$250,000.

13 After discussions with SJLP legal counsel, it was determined that about \$150,000 of
14 these costs were duplicative to UtiliCorp and could be eliminated.

15 3) Area 56, Printing includes several administrative support functions such as inserting
16 brochures and the headquarters mailroom. The 1999 budget was \$197,000 and
17 preliminary review indicated that about \$150,000 of these costs could be absorbed by
18 existing UtiliCorp operations.

19 Q. Could these synergies have been realized absent the merger?

20 A. No. These savings are directly related to the position reductions and nonpayroll costs
21 eliminated that would result from the merger.

22 **Distribution Operations**

1 Q. Please summarize the synergies projected by the Distribution transition team review.

2 A. The team estimated that operating cost synergies of \$1,780,000 could ultimately be
3 achieved by 2004, with another \$168,000 per year in capital savings ultimately realizable.

4 The majority of the synergies (\$1,376,000) come from reducing the number of
5 Distribution operations positions by 39, with some related nonpayroll costs. Most of these
6 reductions are from combining supervisory positions into existing MPS and UED
7 organizations, taking advantage of more efficient technology such as the UtiliCorp call
8 center in Raytown, and from utilizing existing UtiliCorp support operations like
9 storerooms. The reductions were realized over several years to allow the orderly
10 transition of responsibilities in the multiple areas effected.

11 Q. How were the Distribution reductions determined?

12 A. The complete list of the 192 positions within SJLP that would be considered Distribution
13 employees under the UtiliCorp operational platform was reviewed position by position by
14 Distribution management and supervisory personnel from both companies.

15 Q. What is the source of the remaining \$404,000 of operating synergies?

16 A. The Pricing and Market Research department (Area 54) was reviewed separately because
17 it includes several functions like load research and marketing support that are handled by
18 several groups within UtiliCorp. The remaining 1999 budget of the area is \$404,000,
19 after eliminating the functions reviewed by the Regulatory/Legislative transition team.
20 The review indicated that the departments functions could be absorbed by existing
21 UtiliCorp departments at virtually no incremental cost, so the entire \$404,000 was
22 considered a synergy.

1 Q. Could these synergies have been realized absent the merger?

2 A. No. These savings are directly related to the position and cost reductions that would
3 result from the merger.

4 **Transmission Synergies:**

5 Q. Please summarize the synergies projected by the Transmission transition team review.

6 A. The team estimated that O&M synergies of \$509,000 could ultimately be achieved by
7 2002. The majority of the synergies come from reducing the number of Transmission
8 operations positions by 10. Most of these reductions are from combining supervisory and
9 support positions into existing MPS and UED organizations, and from utilizing existing
10 UtiliCorp support operations like engineering and dispatching. The reductions were
11 projected over several years to allow the orderly transition of responsibilities in the
12 multiple areas effected.

13 Q. How were the reductions determined?

14 A. The complete list of the 19 positions within SJLP that would be considered Transmission
15 employees under the UtiliCorp operational platform was reviewed position by position by
16 Transmission management and supervisory personnel from both companies.

17 Q. Could these synergies have been realized absent a merger?

18 A. No. These savings are directly related to the position reductions that would result from
19 the merger.

20 Q. Does this conclude your direct testimony?

21 A. Yes.

22

Summary of Synergy Benefits, net of Costs to Achieve UtiliCorp/Saint Joseph Light and Power

(Dollars in Current 000's)

	Current Dollars	Average Years 1-5	Average Years 6-10
I Operating Costs			
1 Dispatching/Generation Savings		\$ 5,216	\$ 6,777
2 General & Administrative Savings		\$ 5,688	\$ 6,497
3 Distribution Savings		\$ 1,850	\$ 2,224
4 Transmission Savings		\$ 518	\$ 636
5 Conversion to UtiliCorp Benefits		\$ 3,004	\$ 4,443
6 Total O&M		\$ 16,277	\$ 20,576
II Capital Savings (Costs):			
1 Depr - Interconnect/SCADA/T&D		\$ (314)	\$ (305)
2 Amort of Transaction/Transition Costs		\$ (1,509)	\$ (1,507)
3 Return on Interconnect SCADA /T&D		\$ (830)	\$ (571)
4 Return on Transaction/Transition Costs		\$ -	\$ -
5 Total Capital Savings (Costs)		\$ (2,653)	\$ (2,383)
III Total Synergies, net of Cost to Achieve		<u>\$ 13,624</u>	<u>\$ 18,193</u>
IV Enterprise Support Functions Allocated (In) Current Dollars			
1 SJLP Direct Costs transferred to ESF		\$ 2,410	\$ 2,727
2 SJLP Direct Costs transferred to IBU		\$ 1,231	\$ 1,481
3 Support Functions Allocated (In)		\$ (13,010)	\$ (14,719)
4 Net Allocations (costs) savings to SJLP		<u>\$ (9,368)</u>	<u>\$ (10,512)</u>
V Total Synergies, net of Costs to Achieve and Allocated Costs		<u>\$ 4,255</u>	<u>\$ 7,681</u>
VI Premium Costs			
1 Return on Premium		\$ (9,680)	\$ (8,371)
2 Amortization of premium		\$ (2,302)	\$ (2,302)
3 Reflect non-tax deductibility of premium		\$ (1,535)	\$ (1,535)
4 Total Premium cost		<u>\$ (13,516)</u>	<u>\$ (12,208)</u>
VII SJLP share of premium costs		<u>\$ (6,758)</u>	<u>\$ (6,104)</u>
VIII Synergies, net of 50% of premium		<u>\$ (2,503)</u>	<u>\$ 1,577</u>
(Line V less VII)			

Summary of Costs to Achieve Synergies

Transition/Transaction Costs for SJLP

	Total (Costs)
1 Distribution severance	(\$876,739)
2 Officers Severance/retention	(\$3,232,913)
3 Transmission severance	(\$392,148)
4 Paid advisory board - Three years	(\$432,000)
5 Fund Supplemental Exec Retirement Plan	(\$1,620,000)
6 Retention payments for non-officers	(\$566,000)
7 Gen Admin subgroups - Fin Acctg	(\$185,832)
8 Human Resources-Severance	(\$204,000)
9 Human Resources-Retention	(\$27,000)
10 Information Technology-Severance	(\$476,104)
11 Regulatory/Legislative severance/relocation	(\$28,500)
12 Generation Severances	(\$489,000)
13 Pricing/Market Research Severances	(\$142,735)
14 Total Transition Costs	<u>(\$8,672,971)</u>
15 IT Transition cost	<u>(\$1,835,000)</u>
16 Bankers Fees	(\$2,575,000)
17 Other Transaction Costs	<u>(\$2,000,000)</u>
18 Total Transaction Costs	(\$4,575,000)
19 Total Costs to Achieve Synergies	<u><u>(\$15,082,971)</u></u>

SJLP Operation and Maintenance, Distribution and Transmission Synergies

(Dollars in Constant 000's)

		2001	2002	2003
Preliminary Transition Team Findings:(Excluding benefits & payroll taxes)				
I	General & Administrative Savings			
1	Regulatory/Legislative	\$ 145	\$ 145	\$ 145
2	Information Technology	\$ 767	\$ 1,023	\$ 1,023
3	Human Resources	\$ 602	\$ 602	\$ 602
4	Fin/Acctg	\$ 2,887	\$ 2,887	\$ 2,887
5	Fin/Acctg Insurance	\$ (175)	\$ (175)	\$ (175)
6	Fin/Acctg Advisory Board	\$ 140	\$ 140	\$ 140
7	Corp Comm/Public Affairs	\$ 277	\$ 277	\$ 277
8	Legal costs	\$ 150	\$ 150	\$ 150
9	Printing	\$ 150	\$ 150	\$ 150
10	Total General & Administrative	<u>\$ 4,943</u>	<u>\$ 5,199</u>	<u>\$ 5,199</u>
II	Distribution Savings	<u>\$ 1,318</u>	<u>\$ 1,691</u>	<u>\$ 1,780</u>
III	Transmission Savings	<u>\$ 300</u>	<u>\$ 509</u>	<u>\$ 509</u>
IV	Allocations related synergies (costs)			
1	Costs Allocated (in) to SJLP	\$(11,779)	\$(11,779)	\$(11,779)
2	Costs Transferred to UCU-ESF	\$ 2,182	\$ 2,182	\$ 2,182
3	Costs Transferred to UCU-IBU	\$ 877	\$ 1,126	\$ 1,185
4	Net allocation(costs)	<u>\$ (8,720)</u>	<u>\$ (8,471)</u>	<u>\$ (8,412)</u>

SJLP Synergies from Benefits and Payroll Taxes

(Current Dollars in 000's)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1 Retiree Medical Bargaining Plan	\$ 161	\$ 363	\$ 402	\$ 457	\$ 517	\$ 584	\$ 658	\$ 739	\$ 809	\$ 879
2 Retiree Medical NonBargaining Plan	\$ (642)	\$ 360	\$ 219	\$ 494	\$ 560	\$ 637	\$ 729	\$ 835	\$ 935	\$ 1,035
3 Pension Costs NonBargaining Plan	\$ 1,250	\$ 895	\$ 904	\$ 967	\$ 1,035	\$ 1,107	\$ 1,184	\$ 1,266	\$ 1,336	\$ 1,406
4 Pension Costs Bargaining Plan	\$ 42	\$ 67	\$ 72	\$ 70	\$ 66	\$ 63	\$ 59	\$ 54	\$ 49	\$ 44
5 All other benefit plans and payroll taxes	\$ 1,185	\$ 1,337	\$ 1,379	\$ 1,413	\$ 1,448	\$ 1,485	\$ 1,522	\$ 1,560	\$ 1,599	\$ 1,639
6 Total Synergies	<u>\$ 1,996</u>	<u>\$ 3,022</u>	<u>\$ 2,976</u>	<u>\$ 3,401</u>	<u>\$ 3,626</u>	<u>\$ 3,876</u>	<u>\$ 4,152</u>	<u>\$ 4,454</u>	<u>\$ 4,728</u>	<u>\$ 5,003</u>

**UTILICORP UNITED INC. AND
ST. JOSEPH LIGHT & POWER COMPANY
MERGER
CASE NO. EM-2000-292
ERRATA SHEET FOR
VERN J. SIEMEK**

Page four line 6 - Delete second "the"
Page four line 9- Change "benfit" to "benefit"
Page six line 1- Change "rate reduction" to "reduction in the SJLP revenue requirements" reduction
Page six line 3- Change "rate reduction" to "reduction in the SJLP revenue requirements" reduction
Page fourteen line 23- Change "2002" to "2001"
Page seventeen line 3- Change "2004" to "2003"
Page ten line 21-Change "probably" to "probable"

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

[illegible]

Vern J. Siemek, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Vern J. Siemek;" 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.

Vern J. Siemek
Vern J. Siemek

Subscribed and sworn to before me this 21st day of May, 2001.

Mary P. Burroughs
Notary Public

My Commission expires:

6/15/2002

MARY R BURROUGHS
NOTARY PUBLIC STATE OF MISSOURI
JACKSON COUNTY
MY COMMISSION EXP. JUNE 15, 2002