



Missouri Public Service Commission

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May 9, 2000

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DANA K. JOYCE
General Counsel

Mr. Dale Hardy Roberts
Secretary/Chief Regulatory Law Judge
Missouri Public Service Commission
P. O. Box 360
Jefferson City, MO 65102

FILED 2

MAY 09 2000

Missouri Public
Service Commission

RE: Case No. EM-2000-506

Dear Mr. Roberts:

Enclosed for filing in the above-captioned case are an original and eight (8) conformed copies of a STAFF RECOMMENDATION.

This filing has been mailed or hand-delivered this date to all counsel of record.

Thank you for your attention to this matter.

Sincerely yours,

Nathan Williams (handwritten signature)

Nathan Williams
Assistant General Counsel
(573) 751-8702
(573) 751-9285 (Fax)

NW/lb
Enclosure
cc: Counsel of Record

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

FILED²

MAY 09 2000

Missouri Public
Service Commission

In the Matter of the Application of)
UtiliCorp United Inc. for Authority to)
Acquire, Indirectly, the Capital Stock of)
860023 Alberta Ltd., and to Take all Other)
Actions Reasonably Necessary to)
Effectuate Said Transaction.)
)
)
)

Case No. EM-2000-506

STAFF RECOMMENDATION

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and for its recommendation states:

1. In the attached Memorandum, which is labeled Appendix A, the Staff recommends that the Missouri Public Service Commission ("Commission"), subject to certain conditions, approve UtiliCorp United Inc.'s ("UtiliCorp") Application to acquire TransAlta Corporation's ("TransAlta") electric utility distribution and retail business in Canada. The Commission is to grant an application to acquire the stock of a public utility if the acquisition is not detrimental to the public interest. See § 393.190.2, RSMo. 1994, and 4 CSR 240-2.060(12)(C).

2. The Staff's proposed acquisition conditions for this transaction are the following:

- 1) That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate-making purposes, and that the Commission reserves the right to consider the rate-making treatment to be afforded these financing transactions in any later proceeding.
- 2) That the Commission's order shall not be deemed to be precedent for any future financing, even if the facts may be similar.

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- 3) That any adverse financial effects of this acquisition, including all merger and merger-related costs be borne by UtiliCorp's stockholders and not its Missouri customers.
- 4) Corporate cost allocations to Missouri utility operations will not increase as a result of this transaction.
- 5) That all records pertaining to these transactions be maintained at UtiliCorp's headquarters and made available to the Staff as the Staff deems necessary.
- 6) That UtiliCorp be prepared to provide documentation of proper cost allocations to nonregulated entities.
- 7) That UtiliCorp include the cost of any assistance provided to TransAlta from its other operations in its monthly surveillance reports it makes to the Staff.

3. UtiliCorp proposes to acquire TransAlta's Canadian electric utility distribution and retail business through a to-be-created subsidiary—UtiliCorp Canada Corp.—that is to acquire the stock of a to-be-created subsidiary—860023 Alberta Ltd.—into which TransAlta is to have transferred the assets in question.

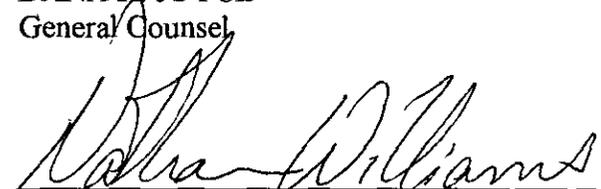
4. UtiliCorp has advised the Staff that it plans to file an amendment to its Application in this case to add a holding company—"New Co"—between UtiliCorp and UtiliCorp Canada Corp. in the structure of the proposed transaction and reallocate a portion of the acquisition debt to this company. Although if the proposed transaction were restructured as UtiliCorp has related, the Staff would not oppose it, until UtiliCorp has filed with the Commission an amendment to its application to restructure the proposed transaction and the Staff has reviewed the amendment filing, the Staff is not making a recommendation on a proposed transaction that is not before the Commission.

WHEREFORE, the Staff recommends that the Commission grant UtiliCorp United Inc. approval to acquire TransAlta Corporation's electric utility distribution and retail business in

Canada by means of the transactions proposed in its Application and subject to the specific conditions enumerated in paragraph no. 2 above.

Respectfully submitted,

DANA K. JOYCE
General Counsel



Nathan Williams
Assistant General Counsel
Missouri Bar No. 35512

Attorney for the Staff of the
Missouri Public Service Commission
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Certificate of Service

I hereby certify that copies of the foregoing have been mailed or hand-delivered to all counsel of record as shown on the attached service list this 9th day of May, 2000.



MEMORANDUM

TO: Missouri Public Service Commission Official Case File,
Case No. EM-2000-506, UtiliCorp United Inc.

FROM: David P. Broadwater, Financial Analysis Department ^{DB} ^{by} ^{SD}
Charles R. Hyneman, Accounting Department ^{CH} ^{by} ^{SD}

R.E. Schallberg 5-9-00
Director, Utility Services Division/Date

Steven Dotz 5/9/00 NW 5/9/00
General Counsel's Office/Date

SUBJECT: Staff Recommendation Regarding UtiliCorp United Inc's Application to
Acquire TransAlta's Electric Utility Distribution and Retail Business.

DATE: May 9, 2000

On February 18, 2000 UtiliCorp United Inc. (UtiliCorp or Company) filed an application with the Missouri Public Service Commission (Commission), seeking authority to purchase the electric utility distribution and retail business of TransAlta Corporation (TransAlta) pursuant to §393.190 RSMo 1994, and 4 CSR 240-2.060(9). UtiliCorp operates in Missouri through its Missouri Public Service division. It should be noted that UtiliCorp currently has two separate merger applications pending before the Commission that, if approved, would significantly increase UtiliCorp's Missouri operations to include the assets and customers of St. Joseph Light & Power Company and The Empire District Electric Company. The Company's applications are docketed as Case Nos. EM-2000-292 and EM-2000-369.

UtiliCorp states on page three of its Application the following;

7. The proposed acquisition of the Business will have no adverse effect on the Missouri customers of UtiliCorp and consequently, is not detrimental to the public interest. 860023 Alberta Ltd. [TransAlta's electric utility distribution and retail business] will be operated as a totally separate entity from UtiliCorp. UtiliCorp's customers will see no change in their day-to-day utility service or rates and said customers will continue to be served effectively and efficiently. Further, the proposed transactions will have no impact on the tax revenues of the Missouri political subdivisions in which any of the structures, facilities or equipment of MPS [Missouri Public Service Company] is located.

Based on the financial statements UtiliCorp submitted as Appendix 4 to the Application, UtiliCorp is proposing to finance the acquisition with approximately 36% common equity and 64% long-term debt (see Attachment A to the Application). The proposed transaction would only increase UtiliCorp's total base by \$419 million or approximately 5%. The Company's pro-forma capital structure consists of 55.51% long-term debt, 7.76% preferred stock and 36.73% common equity. This is consistent with the Company's stated objective of financing its assets with 60% long-term debt and 40% equity.

According to Staff Data Request No. 1, UtiliCorp will record the acquisition of TransAlta's electric transmission and distribution assets using purchase accounting rules. As such, in accordance with the Federal Energy Regulatory Commission's (FERC) Uniform System of Accounts, it will record an acquisition adjustment equal to the acquisition premium (purchase price in excess of net book value) and transaction costs. This acquisition adjustment is estimated to be approximately \$150 million (Appendix 4 to UtiliCorp's Application).

UtiliCorp is not requesting inclusion of this acquisition adjustment in TransAlta's rate base, but expects to recover the approximate \$150 million acquisition adjustment through efficient operations under Performance Based Regulation (UtiliCorp response to Staff Data Request No. 1).

UtiliCorp is not currently aware of the impact of this transaction on cost allocations to its Missouri utility operations. In response to Staff Data Request No. 2, UtiliCorp stated that "we have not yet determined if there will be any common services and related allocations in connection with the operation of the acquired business, or whether the amount of any allocation would differ significantly from the incremental costs incurred to provide such services."

UtiliCorp has structured this acquisition such that UtiliCorp will be purchasing the capital stock of a yet-to-be-formed subsidiary of TransAlta Corporation by the name of 860023 Alberta Ltd. The assets of 860023 Alberta Ltd. will consist of the electric utility distribution and retail business of TransAlta Corporation. UtiliCorp is proposing to purchase the capital stock of 860023 Alberta Ltd. through a yet-to-be-formed wholly-owned subsidiary, UtiliCorp Canada Corp. It should be noted that UtiliCorp has informed Staff that it intends to file a revised Appendix 1 to its Application that would include a New Co as a holding company for UtiliCorp Canada Corp. The financing for this acquisition has not changed, but New Co will now carry some of the debt. The Staff has reviewed this new structure and finds that it does not change the essence of the purchase. Nonetheless, UtiliCorp must make an amended filing and the Staff must review that filing and report to the Commission the result of its review.

The Staff has reviewed the Company's Application and believes that with the following conditions, the transaction described will not be detrimental to the Missouri customers of UtiliCorp. Therefore, the Staff recommends that the Commission, subject to the

following conditions, approve UtiliCorp's presently pending Application to acquire TransAlta's electric utility distribution and retail business:

- 1) That nothing in the Commission's order shall be considered a finding by the Commission of the value of this transaction for rate-making purposes, and that the Commission reserves the right to consider the rate-making treatment to be afforded these financing transactions in any later proceeding.
- 2) That the Commission's order shall not be deemed to be precedent for any future transaction, even if the facts may be similar.
- 3) That any adverse financial effects of this acquisition, including all merger and merger-related costs be borne by UtiliCorp's stockholders and not its Missouri customers.
- 4) Corporate cost allocations to Missouri utility operations will not increase as a result of this transaction.
- 5) That all records pertaining to these transactions be maintained at UtiliCorp's headquarters and made available to the Staff as the Staff deems necessary.
- 6) That UtiliCorp be prepared to provide documentation of proper cost allocations to nonregulated entities.
- 7) That UtiliCorp include the cost of any assistance provided to TransAlta from its other operations in its monthly surveillance reports it makes to the Staff.

Copies: Director – Utility Operations Division
 Director – Utility Services Division
 Director – Research and Public Affairs Division
 General Counsel's Office
 Manager – Accounting Department
 Manager – Financial Analysis Department
 Manager – Electric Department
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 UtiliCorp United Inc.
 Paul A. Boudreau
 Jon Empson

Service List for
Case No. EM-2000-506
May 9, 2000

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