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December 3, 1999

FILED

DEC 3 1999

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

Missouri Public
Service Commission

Re: UtiliCorp United Inc. EM-2000-358
Investment in Electric Utility Distribution Business in Brazil

Dear Mr. Roberts:

On behalf of UtiliCorp United Inc., I deliver herewith an original and fourteen (14) copies of an Application for filing with the Commission in the referenced matter. I would appreciate it if you would see that the copies are distributed to the appropriate Commission personnel. A copy is being hand-delivered to The Office of the Public Counsel this date.

I have also enclosed two (2) extra copies of the Application, each of which I request that you stamp "Filed" and return to the person delivering it to you.

Thank you for your attention in this matter.

Sincerely,

BRYDON, SWEARENGEN & ENGLAND P.C.

By:


Paul A. Boudreau

PAB/aw
Enclosures

cc: The Office of the Public Counsel

BEFORE THE PUBLIC SERVICE COMMISSION **FILED**
STATE OF MISSOURI

DEC 3 1999

In the Matter of the Application of)
UtiliCorp United Inc. for authority to)
acquire, indirectly, an ownership)
interest in Companhia Energetia De)
Pernambuco, an electric utility)
distribution business located in)
Brazil, and to take all other actions)
reasonably necessary to effectuate)
said transaction.)

Missouri Public
Service Commission

Case No. EM-2000-358

APPLICATION

COMES NOW UtiliCorp United Inc. ("UtiliCorp"), pursuant to § 393.190 RSMo. 1994, and 4 CSR 240-2.060(9) and for its Application to the Missouri Public Service Commission ("Commission") states that:

1. UtiliCorp is a Delaware corporation, in good standing in all respects, with its principal office and place of business at 20th West Ninth Street, Kansas City, Missouri 64105. UtiliCorp was authorized to conduct business in Missouri through its Missouri Public Service ("MPS") operating division and, as such, is engaged in providing electrical and natural gas utility services in its service areas subject to the jurisdiction of the Commission as provided by law. UtiliCorp's Certificate of Incorporation and Amended Certificate of Authority as a Foreign Corporation have been filed with the Commission in Case No. EM-87-6 and said documents are incorporated herein by reference, collectively, in accordance with 4 CSR 240-2.060(2)(e), and made a part hereof for all purposes.

2. Pleadings, notices, orders and other correspondence and communications concerning this Application should be addressed to:

Mr. Jon Empson
UtiliCorp United Inc.
1815 Capitol Avenue, 6th Floor
Omaha, NE 68102
Telephone (402) 221-2375

Mr. Paul Perkins
UtiliCorp United Inc.
20 W. 9th Street
Kansas City, MO 64105-1704
Telephone (816) 467-6600

James C. Swearengen
Mr. Paul A. Boudreau
Brydon, Swearengen & England, P.C.
312 East Capitol Avenue
P.O. Box 456
Jefferson City, MO 65102
Telephone (573) 635-7166

3. UtiliCorp is presently engaged in a process designed to lead to the indirect acquisition by it of an ownership interest in an electric utility distribution business located in Brazil. This opportunity has come about as a result Brazil's desire to provide liquidity to the government, improve the economy's overall efficiency, and eliminate the government's burden of investing in infrastructure associated with capital intensive industries. Over the last four (4) years, the Brazilian government has taken several steps to restructure its power sector with the aim of increasing the role of private sector and foreign investment while introducing competition in the industry.

- In 1995, the government enacted legislation that put in place a comprehensive legal framework for the electricity sector.
- Also, in 1995 the government amended its constitution to allow foreign ownership in electric sector concessions.

Over the last three years, the government has sold controlling interests in sixteen (16) distribution plus three (3) generation companies to private sector companies including several Brazilian, European and United States energy concerns. Some general information concerning Brazil's privatization of its electric power business is set forth in three (3) separate documents which are attached hereto collectively as Appendix 1 and incorporated herein for all purposes.

4. The company being offered for sale is Companhia Energetica De Pernambuco ("CELPE"). CELPE is a corporation organized and existing under and by virtue of the laws of Brazil and has its principal office and place of business at A.V. Joao de Barros, 111-Sala-801,

Boa Vista - Recife-PE, CEP: 50050-902. It is an electric utility located in the State of Pernambuco, which is in the northeast region of Brazil. Currently, the State of Pernambuco owns almost the totality of the voting shares and 88.5% of the total stock in CELPE. Electrobras, the federal government's holding company for the electricity sector, and the municipalities of Pernambuco, collectively own 2.3% of the CELPE stock, and the remaining 9.2% is distributed in the stock market. The acquisition of CELPE will be the third privatization of a utility in the region. CELPE serves approximately 1.794 million industrial, commercial and residential customers located in the northeast region of Brazil. Its concession area is comprised of the states of Maranhao, Piaui, Ceara, Rio Grande do Norte, Paralba, Pernambuco, Alagoas, Sergipe and Bahia. These states collectively account for approximately 29% of the population of Brazil.

5. UtiliCorp, through its Brazilian subsidiary, UtiliCorp Brazil Energy Holdings ("UBEH") proposes to participate in the preparation of a bid to acquire all of the capital stock of CELPE. As presently contemplated, UtiliCorp's direct investment in CELPE, through UBEH, may be as much as \$425 million (U.S.) based on an exchange rate of .51 Real/\$1.00 U.S. as reported in the November 1, 1999 edition of The Wall Street Journal. The actual purchase price to acquire CELPE is expected to exceed this amount; however, the balance of the purchase price will be made up by the investment of UtiliCorp's partner(s) in UBEH and by the issuance of non-recourse debt by CELPE. UtiliCorp's investment would represent an approximately 50% ownership interest in CELPE.

6. The timetable for making bids is an aggressive one. Originally, the sale of CELPE was scheduled to close in November of 1999, but its close date was postponed to accommodate the schedules of several prospective bidders. Currently, bids must be submitted by February 15, 2000. The anticipated closing date in the acquisition of CELPE, assuming that UtiliCorp is the successful bidder, is March 15, 2000. The timing of the CELPE transaction was set by the government of Brazil to allow for planned divestitures that will be occurring just before and immediately after its anticipated close date. Because the Brazilian government will

view unfavorably offers conditioned upon regulatory approvals, UtiliCorp must obtain all such approvals, including the approval of the Commission, at the earliest possible opportunity.

7. The proposed investment in CELPE will have no adverse effect on the Missouri customers of UtiliCorp and, consequently, is not detrimental to the public interest. CELPE 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 transaction will have no impact on the tax revenues of the Missouri political subdivisions in which any of the structures, facilities or equipment of MPS is located.

8. The following appendices are attached hereto and made a part of this Application for all purposes:

- | | |
|-------------------|---|
| <u>Appendix 2</u> | Certified copy of Resolutions of the Board of Directors of UtiliCorp (to be late filed) |
| <u>Appendix 3</u> | Financial statements showing the pro forma financial effects of UtiliCorp's investment in CELPE on a consolidated basis |

Because any investment in CELPE will be the result of a competitive bidding process, there is no stock purchase agreement to submit as an appendix to this Application.

9. UtiliCorp will petition the federal Securities and Exchange Commission ("SEC") for an order exempting UtiliCorp Canada Corp. ("UCC"), the parent company of UBEH, for an exemption under Section 3(b) of the Public Utility Holding Company Act of 1935 (the "Act"). In order to obtain the exemption, it will be necessary for state public utility regulatory bodies with jurisdiction over UtiliCorp, including the Commission, to certify to the SEC "that it has the authority and resources to protect ratepayers subject to its jurisdiction and that it intends to exercise its authority." See, 15 U.S.C. § 79z-5b.

10. In connection with the foregoing and in furtherance of obtaining an exemption

under the Act, UtiliCorp requests that the Commission direct its Executive Secretary to issue a certification letter, consistent with the above requirement, to the SEC. Attached hereto, marked Appendix 4 and made a part hereof for all purposes, is a form letter for the Commission's consideration. Said letter will satisfy the SEC requirements under the applicable provisions of the Act. The Commission has granted UtiliCorp similar relief in its Case No. EM-95-84¹ and in Case No. EM-95-303.²

11. In light of the ambitious timetable for closing the sale of CELPE as described in paragraph 6 *supra*, UtiliCorp must be in a position to submit its bid for CELPE no later than February 15, 2000. Accordingly, UtiliCorp requests that the Commission issue its order approving this Application by January 21, 2000, bearing an effective date of February 1, 1999, eleven (11) days after the issuance thereof.

WHEREFORE, UtiliCorp requests that the Commission issue an Order bearing an effective date of no later than February 1, 1999:

- (1) authorizing the acquisition by UtiliCorp, through its subsidiary, UBEH, of up to and including 50% of the capital stock of CELPE;
- (2) directing its Executive Secretary to send to the SEC a letter certifying the Commission's authority and resources to protect Missouri ratepayers and its intention to exercise said authority in substantially the form of Appendix 3 hereto;
- (3) authorizing UtiliCorp to execute and perform in accordance with the terms of all

¹ See, *Order Approving Stock Purchase* dated November 21, 1994. (Investment in Power New Zealand)

² See, *Order Approving Stock Purchase* dated July 11, 1995. (Investment in United Energy in Australia)

documents and to take or cause to be taken any and all other actions reasonably necessary to effectuate the transaction described herein;

- (4) finding that the proposed transaction is not detrimental to the public interest; and
- (5) granting such other relief deemed by the Commission to be just and proper in the circumstances.

Respectfully submitted,



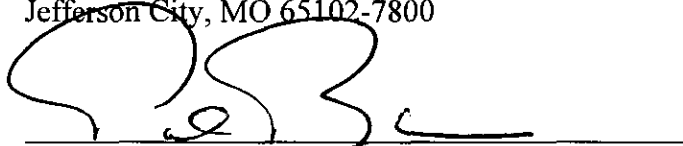
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P.O. Box 456
Jefferson City, MO 65102-0456
(573) 635-7166

Attorneys for UtiliCorp United Inc.

Certificate of Service

I hereby certify that a true and correct copy of the above and foregoing document was sent by U.S. Mail, postage prepaid, or hand-delivered, on this 3rd day of December, 1999, to:

The Office of the Public Counsel
Truman Building, Room 250
P.O. Box 7800
Jefferson City, MO 65102-7800



AFFIDAVIT

State of Nebraska)
) ss
County of Douglas)

I, Jon Empson, having been duly sworn upon my oath, state that I am the Senior Vice President of Regulatory, Environmental and Legislative Affairs of UtiliCorp United Inc., that I am duly authorized to make this affidavit on behalf of UtiliCorp United Inc. and that the matters and things stated in the foregoing Application and appendices thereto is true and correct to the best of my information, knowledge and belief.

Jon Empson

Subscribed and sworn before me this 29 day of
November, 1999.

Shula A. Nelson
Notary Public

My Commission expires:



Bolivia-Brazil Gas Pipeline Investment Opportunities



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Investment opportunities

- ▶ The South and Southeast of Brazil have virtually exhausted all the viable major hydroelectric potential in the region. New sources of primary energy are required.
- ▶ Thermoelectric plants are attractive for private sector generation. Capital costs are relatively low, projects can be implemented quickly and allow for savings in transmission investments, given that gas-fired thermal plants can usually be located close to urban demand
- ▶ Eletrobrás, the Brazilian federal government's energy holding company, foresees significant construction of gas-fired stations in the South-Southeast and Center-West regions. According to the current Eletrobrás 10-year Expansion Plan, eight thermoelectric plants totaling 5,030 MW are provisionally planned along the gas pipeline, implying investments of around R\$3 billion. An administrative decree (No. 509 of 12/01/97) issued by the DNAEE, the Water and Electrical Energy Department – now substituted by the National Agency for Electrical Energy – Aneel – authorized the Tietê-Paraná Development Agency to coordinate feasibility studies for a 400 MW gas-fired thermoelectric plant at Guararema (SP).
- ▶ It is important to note that the articles of incorporation of newly created Petrobras subsidiary GASPETRO allow it to operate in all areas related to natural gas, including thermal generation. GASPETRO holds 51% of the Transportadora Brasileira Gasoduto Bolívia-Brasil (TBG), the company building and operating the pipeline.
- ▶ Improved electricity supplies will stimulate private industrial investments in the gas pipeline region.
- ▶ Investments are being made by the private sector in the region impacted by the gas pipeline, will improve the supply of electric energy in Brazil. Memorandums of Understanding were signed by Petrobrás and the São Paulo State Government on July 15, 1999, opening the way for construction of three thermoelectric power plants in the State of São Paulo. Located at Cubatão, Paulínia and Santa Branca, the combined output of the power plants will add 3,000 MW to the national grid. Among the companies investing in these projects are: Eletropaulo (AES, EDF and Reliant); VBC Energia; CPFL; Shell; Intergen and Florida Power Group.
- ▶ Natural gas will have growing industrial uses in São Paulo. There will be a strong positive impact on the ceramics industry, making it more competitive. Natural gas is an important input for this industry which uses it in firing ovens. Because of its purity, natural gas permits a clean and uniform burn, giving appreciable gains in quality and productivity for the finished ceramics, as well as reducing pollution.
- ▶ The strong stimulus for use of natural gas in Brazil opens up opportunities for companies to develop technologies and produce equipment for industrial plant conversions from fuel oil to natural gas.
- ▶ Demand for new equipment and industrial installation should stimulate the construction industry.
- ▶ Fiber optics opportunities are created along the pipeline, with consequent opportunities in telecommunications service supply. It is important to note that the articles of incorporation of GASPETRO envisage that company acting in this area.
- ▶ When the gas pipeline is operational there will be a tendency for accelerated socio-economic development in the region impacted by the project.

Regional distribution

- ▶ State-level gas distribution companies are in the process of being privatized (see

State-level gas distribution companies are in the process of being privatized (see following text on Comgás). This creates additional opportunities for suppliers in the distribution and marketing areas.

- ▶ A public hearing, held at the São Paulo stock exchange on August 25, 1999, began the process of privatization of the first of two new gas distribution concessions in São Paulo State. This concession area covers the north and west of the state and serves a population of 7.1 million (1.9 million domestic consumers) in 375 townships, including: Araçatuba, Araraquara, Barretos, Bauru, Franca, Marília, Presidente Prudente, Ribeirão Preto and São José do Rio Preto. Minimum price of the concession will be announced on September 16, when the tender document is due to be published. Once the concession is sold, the new owners will be responsible for the construction of a planned 220-km distribution network within the first five years; as well as the installation of five new city-gates, at an estimated cost of R\$50 million over ten years.
- ▶ In all, distribution companies in São Paulo, Mato Grosso do Sul, Paraná, Santa Catarina and Rio Grande do Sul have announced investments of \$300 million in the construction of 1,400 km of new pipelines and expansion of the existing distribution network.
- ▶ Prior to its privatization in April of 1999 (see the page "Privatization of the electric power and gas distribution sectors" in this site) Comgás said it planned to invest R\$100 million through 2000 to expand its existing 2,200 km gas distribution network by another 300 km. The company has contracted to receive at least 8.1 million m³/day of natural gas by 2006 from the Bolivia pipeline. In the Campinas region alone plans call for construction of 62 km of pipeline, which breaks down 28 km in Paulínia, 18 km in Limeira and 16 km in Piracicaba. Other pipelines are planned linking Campinas/Itatiba/Jundiaí, plus Americana and Jaguariúna, for an additional 89 km. The new owners of Comgás have announced that the company plans to invest around R\$515 million over the next three to five years.
- ▶ In Paraná State the Compagás distribution company said it will invest R\$72 million to build 300 km of distribution network, increasing the current 31,000 m³/day to 830,000 m³/day by the end of 2000. Construction of the first 59 km stretch of pipeline between Curitiba, Araucária and Campo Largo is nearing completion, with 12 km left to build. Cost is R\$15 million. A further 194 km has been contracted out at a cost of roughly R\$40 million, serving Curitiba, São José dos Pinhais, Balsa Nova and the connection between Campo largo and Ponta Grossa.
- ▶ The gas distribution company Scgas in Santa Catarina State plans to invest R\$55 million to build a 258 km distribution network, taking daily volumes to 1.5 million m³ by the end of 2000. The company issued a call for bids July 98 for construction of the 56-km Stretch A linking Joinville, Guaramirim and Jaraguá do Sul at a cost of R\$12 million. Bids were received in September and construction contracts were signed Nov 27, 1998. On 31 March 99 contracts were signed for Stretch B, 105 km, for investments of roughly R\$16 million, serving Blumenau, Gaspar, Brusque, Indaial, and Timbó. Also on that date, a service order was signed for construction of Stretch D, covering 89 km at a cost of R\$14 million and serving the cities of Criciúma, Tubarão, Urussanga, Cocal do Sul, Içara, Forquilha and Nova Veneza.
- ▶ The Rio Grande do Sul gas company – Sulgás – is shortly to begin construction of the first distribution networks for natural gas to be supplied via the Bolivia – Brazil pipeline. In all the company plans 450 km of distribution networks serving the metropolitan and mountain regions of Porto Alegre, for investments of R\$68 million. In the metropolitan region of Porto Alegre alone, Sulgás plans to invest around R\$35 million in 200 km of pipeline. Current consumption is around 40,000 m³/day, due to rise to 1.2 million m³/day by the end of 2000.
- ▶ The State of Mato Grosso lies off the main pipeline but will be served by a 640 km branch to be built by Enron to supply the 450 MW Cuiabá Thermoelectric Station, under construction since February of 1998. The station is hooked up to the Eletronorte 138 kV transmission line, and the first 150.MW turbine came on stream September of 1998, burning fuel oil. A second oil-fired turbine is schedule to come on stream before the pipeline starts supplying gas. Station cost is estimated at R\$540 million. The station is due to receive 2.8 million m³/day of natural gas supplied by YPF Internacional. The new R\$360 million pipeline will run from Rio San Miguel in Bolivia, via San Mathias, crossing into Brazil at Cáceres. Pipeline construction began in June 99 and completion is expected by the end of the year.
- ▶ The Mato Grosso State Government said it will put the state's gas distribution service out to tender. The government aims to publish the tender regulations by the end of December, 1999. A private consulting firm is being contracted to advise on price structure, operational targets and responsibilities.

structure, operational targets and responsibilities.

- ▶ With Bolivian gas now available in a number of Brazilian States, Petrobras predicts a growth in the market for natural gas as a clean fuel alternative in vehicles and transport fleets. In São Paulo, Brazil's second largest market for natural gas, daily consumption rose 53% from 41 to 62.7 million m³ over the period April/98 - March/99.





Bolivia-Brazil Gas Pipeline Investment Opportunities



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Privatization of the electric power and gas distribution sectors

In 1997 Brazil's federal and state governments embarked upon a wide-ranging program to privatize the generation and distribution of electricity and gas. Regulatory agencies have been established for both sectors and are now operational: the National Electricity Agency (ANEEL) and the National Petroleum Agency (ANP).

Privatization of electric power companies

So far, 12 international energy companies have taken stakes in the Brazilian electric power sector. They are (principally distribution, unless otherwise stated):

- ▶ US companies:
 - AES, in Light (RJ), Cemig (MG), CEEE-CO (RS) and Eletropaulo Metropolitana (SP).
 - Enron, in Elektro (SP).
 - PSEG, in CEEE-N/NE (RS).
 - Houston, in Light (RJ) and Eletropaulo Metropolitana (SP).
 - CMS, in Energipe (SE).
 - Southern, in Cemig (MG).
 - Duke Energy, in the Parapanema River Energy Company (SP).
- ▶ Spanish companies:
 - Iberdrola, in Coelba (BA).
 - Endesa, in Cerj (RJ).
- ▶ Belgian companies:
 - Tractebel, in Gerasul (regional generation, Southern Brazil).
- ▶ Portuguese companies:
 - EDP, in Cerj (RJ) and Eletropaulo Bandeirante (SP).
- ▶ French companies:
 - EDF, in Light (RJ) and Eletropaulo Metropolitana (SP).
- ▶ Chilean companies:
 - Chilectra, in Cerj (RJ).

Sale of Comgás

The São Paulo State gas distribution company Comgás was sold in auction April 14th, 1999, to a consortium headed by British Gas and Shell. The consortium bid R\$1.65 billion – the equivalent of US\$1 billion at the day's real/dollar rate of 1.64 – representing an overbid of 119.3%.

Up for sale were 52.7% of total Comgás stock. Minimum asking price was R\$753.5 million.

Shell already held 19.9% of total Comgás stock from a previous bulk shares sale by the São Paulo government, and so increased its stake to around 26%. British Gas ended up with 70% of voting shares as the privatized Companhia Paulista de Força e Luz retained an existing 4% stake.

Three other consortiums also bid in the sealed-envelope auction. They were:

- ▶ Enron (US) R\$1.28 billion
- ▶ Agip (Italy) R\$1.27 billion
- ▶ Gas Natural (Spain) R\$0.92 billion

Comgás carried with it a 30-year concession to distribute gas in the metropolitan region of São Paulo, nearby cities and some developed regions to the East of the State. The remaining areas of São Paulo State to the North, West and South where gas is currently unavailable will be offered in auction for two new concessions in 1999 (see table below). A public hearing, held at the São Paulo stock exchange on August 25, 1999, began the process of privatization of the first of two new gas distribution concessions in São Paulo State. This concession area covers the north and west of the state and serves a population of 7.1 million (1.9 million domestic consumers) in 375 townships, including: Araçatuba, Araraquara, Barretos, Bauru, Franca, Marília, Presidente Prudente, Ribeirão Preto and São José do Rio Preto. Minimum price of the concession will be announced on September 16, when the tender document is due to be published.

| Scheduled privatization sales for 1999/2000: | Auction date |
|---|----------------------------|
| ELETROPAULO – Eletricidade de São Paulo S/A | |
| Empresa Paulista de Transmissão de Energia (transmission) | 1999 |
| SAELPA – S/A de Eletrificação da Paraíba | 1999 |
| CESP – Companhia Energética de S. Paulo | |
| Hydro stations – Tietê River | October 99 |
| Cia. de Geração de Energia Elétrica Tietê – 2,644 MW – Barra Bonita, Bariri, Ibitinga, Promissão, Nova Avanhandava, Água Vermelha, Euclides da Cunha, Caconde and Armando Salles de Oliveira. | |
| Hydro stations – Paraná River and others | no date set |
| Cia. Energética de São Paulo – 8,222 MW – Mogi Guaçu, Jaguarí, Paraibuna, Três Irmãos, Porto Primavera (UHE Sérgio Motta), Jupiá and Ilha Solteira. | |
| CEAL – Cia. Energética de Alagoas S.A | 1999 |
| CEPISA – Cia. Energética do Estado do Piauí | 3 rd quarter 99 |
| COPEL – Companhia Paranaense de Electricidade | 2 nd half 99 |
| ELETRONORTE-Centrais Elétr. do Nte. do Brasil S/A G/D | |
| Generation | 1999 |
| Stand-alone systems – Boa Vista Energia SA (generation and distribution) | no date set |
| Stand-alone systems – Manaus Energia SA (generation and distribution) | no date set |
| CERON – Centrais Elétricas de Rondônia S/A. | 4 th quarter 99 |
| ELETROACRE – Centrais Elétricas de Acre S/A. | 4 th quarter 99 |
| CHESF – Cia. Hidro Elétrica do São Francisco | 1999 |
| CELPE – Cia. Energética de Pernambuco | November 99 |
| FURNAS – Centrais Elétricas S/A | 2000 |
| CEMAR – Cia. Energética do Maranhão | 4 th quarter 99 |
| Natural gas in São Paulo – (2 remaining auctions) | |
| New concession – Southwest of SP State | no date set |

New concession – Northwest of SP State

November 99

Bahiagás – Cia de Gás da Bahia

no date set

Cegás – Cia de Gás da Ceará

no date set



PRIVATE INVESTMENT OPPORTUNITIES IN ELECTRIC ENERGY DISTRIBUTION

(10/02/96)

The distribution of electric energy in Brazil, in principal, is good business in terms of risks and level of return: the market is guaranteed (although it is not exclusive any more), there is no risk of any visible technical obsolescence, the investments are modulated and of short term attainment and perfection and the system permits other parallel utilization (such as subproducts). The greater risks are attached to the tariff policies and the purchase of generated energy.

In Brazil there are actually more than 50 companies operating in activities of electric energy distribution, of which 26 have their shares controlled by state governments.

In 1995, the consumption of electric energy in Brazil reached, around 250 thousand Gwh, of which 60% in the Southeast region, 15,5% in the Northeast region and 15% in the South region. Of the total, 47% was for industrial consumption, 25% residential and 13% commercial. In 1995 the number of consumers surpassed, the figure of 38 million. Of the total income of the distributing companies, 38% was obtained from residential consumers, 31% from industries and 18% commercial consumers.

The brazilian system of distribution is predominately above ground level, with some systems underground in the principal capitals: São Paulo, Rio de Janeiro, Belo Horizonte, Porto Alegre, Curitiba, Brasília and Salvador. Nowadays there exists, approximately, 423 thousand kilometers of medium tension network, 617 thousand kilometers of low tension network, 923 thousand transformers with 50 thousand MVA installed.

The Federal Government has already encouraged the privatization of two of its companies that were characterized as distributors (Escelsa and Light) and is preparing the transfer of the exploitation of distribution services of ELETRONORTE to the private sector, probably together with local generation: Manaus System with the distribution plus the thermoelectric stations and the hydroelectric stations of Balbina and the Boa Vista System with the distribution plus the thermoelectric stations.

The Federal Government as well as taking direct necessary steps has encouraged the state authorities to promote the privatization of the concessionaires of electric energy that are under their control. In this way the BNDES and ELETROBRÁS have accomplished several financial operations in different forms and that have resulted in state authorities agreeing to promote the complete or progressive privatization of share control.

For the state authorities, the privatization of electric energy companies can represent important reinforcement in funds to cover the debts and the necessity to accomplish new priorities of investment in the social areas, as well as release public money from obligations to make new investments in the distribution system, of which, in the sectorial expansion plan 1996/2000, are foreseen in levels that are around 1,2 billion reais per year, adding, a total, of around 150 thousand kilometers of network and 344 thousand transformers with 3,6 thousand MVA of power.

Among the state concessionaires and in light of the financial operations, three are in the process of federalization for later privatization: CEAL - Companhia Energética de Alagoas, CEPISA - Companhia Energética do Piauí and CERON - Centrais Elétricas de Rondônia S.A. In another two cases an "agreement of administration" is being established between state administrations and the Federal Government, in order to prepare the companies for the process of privatization: CEMAT - Centrais Elétricas Matogrossenses S.A. and ENERSUL - Empresa Energética de Mato Grosso do Sul S.A.

There exists in various other cases, agreements or negotiations, of financial operations of the BNDES and/or ELETROBRÁS for companies or state administrations, from which result the corresponding commitment of privatizing the share control: COELBA - Cia. de Eletricidade do Estado da Bahia, COSERN - Cia. Energética do Rio Grande do Norte, ENERGIPE - Empresa Energética de Sergipe S.A., CEMAR - Cia Energética do Maranhão, CELPA - Centrais Elétricas do Pará S.A. and CERJ - Cia de Eletricidade do Estado do Rio de Janeiro.

Out of the above mentioned companies, importance should be given to the cases of CERJ, COELBA and CELPA as to their size and period of probation for arrangements. The Government of de Janeiro is developing, and is its in final phase, the work that aims at privatizing CERJ. The Legislative Assembly in Bahia has already approved the Law no 6.943/96, authorizing the privatization of COELBA. The plans should shortly be contracted and the bidding for privatization of the company is foreseen for the beginning of the second half of 1997. In Pará, the State administration is studying the division of the area of distribution into three segments, from which three companies should result: one for the region of Belém and Northeast of the state, one for the regions of Tocantins and Souteast of the state and the other for the island of Marajó, and regions of the lower Amazon and Mid-West of the state.

In the case of "paulista" concessionaires, the State administration, independent of financial operations, has been working in a way to split the companies ELETROPAULO - Eletricidade de São Paulo S.A., CESP - Companhia Energética de São Paulo S.A. and PFL - Companhia Paulista de Força e Luz and later the privatization of these companies that are a result of this, that dedicate themselves to generation (probably 7 companies) and the distribution (probably 11 companies).

The Legislative Assembly of Rio Grande do Sul has already approved the Law no 10.681/95, authorizing the privatization of 49% of the shares of CEEE - Companhia Estadual de Energia Elétrica. The company will probably be divided and three companies will probably exist for electric energy distribution, with market and levels of income reasonably similar.

The companies of distribution mentioned above are responsible, together, for about 60% of the energy supply to the final brazilian consumers. Therefore there are exists various opportunities, on short term, to be analyzed for private investors that intend to apply resources in electrical energy distribution. The next 12/18 months will definitely be made active by various biddings and it is up to the investors to define their priorities and analysis the specific cases.



Appendix 2

TO BE LATE-FILED

UtiliCorp United Inc.
Proforma Balance Sheet
September 30, 1999
Including Investment in CELPE

(\$ in million)

| | Utilicorp Actual Sept. 1999 | CELPE Investment | Pro-forma CELPE/ Utilicorp |
|--|-----------------------------------|---------------------|----------------------------------|
| Current Assets | \$ 3,302 | \$ - | \$ 3,302 |
| Property, plant & equipment, net | 3,672 | - | 3,672 |
| Investments in subsidiaries and partnerships | 1,002 | 425 | 1,427 |
| Price risk management assets | 210 | - | 210 |
| Merchant notes receivable | 167 | - | 167 |
| Deferred charges | 145 | - | 145 |
| Total Assets | <u>\$ 8,498</u> | <u>\$ 425</u> | <u>\$ 8,923</u> |
| Current Liabilities | | | |
| Current maturities of long-term debt | \$ 20 | \$ - | \$ 20 |
| Short term debt | 290 | - | 290 |
| Accounts payable | 2,854 | - | 2,854 |
| Accrued liabilities | 87 | - | 87 |
| Other current liabilities | 259 | - | 259 |
| Total Current Liabilities | <u>3,510</u> | <u>-</u> | <u>3,510</u> |
| Long-term debt | 2,234 | 234 | 2,468 |
| Deferred income tax | 433 | - | 433 |
| Minority interest | 296 | - | 296 |
| Other | 167 | - | 167 |
| Total Long Term Liabilities | <u>3,130</u> | <u>234</u> | <u>3,364</u> |
| Company obligated mandatorily redeemable preferred securities of partnership | 100 | - | 100 |
| Company obligated mandatorily redeemable security of trust holding solely parent company senior deferrable notes | 250 | - | 250 |
| Common equity | <u>1,508</u> | <u>191</u> | <u>1,699</u> |
| Total Liabilities and Shareowners' Equity | <u>\$ 8,498</u> | <u>\$ 425</u> | <u>\$ 8,923</u> |

Notes to proforma balance sheet:

- (1) Pro-formas assume preliminary purchase price of \$1.3 Billion for CELPE.
- (2) \$450 million of debt will be funded locally by the Brazilian government and \$850 million will be funded by the equity partners. UtiliCorp is expected to own 50% which represents \$425 million which will be funded as illustrated above.
- (3) The investment will be accounted for under the "equity method" and the project related debt will not be consolidated with UCU.

CELPE PRO-FORMA**Income Statement**

\$ in Millions

| | UCU 1998 <u>Actual</u> | CELPE <u>Projected</u> | Pro-Forma <u>UCU</u> |
|---------------------------------|---------------------------|---------------------------|-------------------------|
| Sales | \$ 12,563 | \$ - | \$ 12,563 |
| Cost of Sales | <u>\$ 11,596</u> | <u>\$ -</u> | <u>\$ 11,596</u> |
| Gross Profit | \$ 967 | \$ - | \$ 967 |
| | | | \$ - |
| Expenses | <u>\$ 727</u> | <u>\$ -</u> | <u>\$ 727</u> |
| Income from Ops. | \$ 240 | \$ - | \$ 240 |
| Equity in earns from Inv. & P/S | \$ 111 | \$ 39 # | \$ 150 |
| | | | \$ - |
| | | | \$ - |
| Interest Charges | \$ 133 | \$ 20 | \$ 153 |
| Income Taxes | <u>\$ 86</u> | <u>\$ (8)</u> | <u>\$ 78</u> |
| | | | \$ - |
| Net Income | \$ 132 | \$ 27 | \$ 159 |

* The succesful bidder will paythe purchase price in 3 installments as follows:

- * 40% upon close
- * 30% 6 months after close
- * 30% 12 months after close

With the close expected in late February 2000, 2002 will be the first full year of 100% investment in CELPE. Thus, the results are illustrated on a projected 2002 basis. To illustrate the results on any other basis would not show the true impact of the investment going forward.

The investment will be recorded on the Equity Method.

Basis for Equity Earnings(not to be included in application)

CELPE 2002

Projected Earnings

| | |
|--|--------|
| EBITDA(Per DMG) | \$ 210 |
| Depreciation Expense (Est. based on CELPE Presentation) | \$ 15 |
| Goodwill (\$1.3B -.417)/40 (+146.4+672)*.51=.417 | \$ 22 |

| | | |
|---|---------|--------------------|
| Interest Expense - BNDES (\$450m * 8%) | \$ 36 | |
| Tax @ 37% | \$ 59 | |
| Equity Earnings | \$ 78 | |
| Ucu Portion @ 50% | \$ 39 | |
| UCU Capital Costs | | |
| LT Debt Interest (425*.55*.08) | \$ 20 | |
| Common Equity "(425*.45)/\$22 | | 8.7 Million Shares |
| Incremental EPS | \$ 3.12 | |

ON COMMISSION LETTERHEAD

(date)

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: UtiliCorp United Inc.

Gentlemen:

UtiliCorp United Inc. ("UtiliCorp"), doing business in the State of Missouri as a public utility through its operating division Missouri Public Service, has advised this Commission, i.e., the Missouri Public Service Commission, that UtiliCorp is considering acquiring, indirectly through a subsidiary, an interest in Companhia Energetia De Pernambuco ("CELPE"), a Brazilian electric distribution utility. UtiliCorp proposes to bid to acquire up to and including a 50% stake in the capital stock of CELPE.

In that regard, UtiliCorp has filed or will file an application with the Securities and Exchange Commission on behalf of UtiliCorp Canada Corp. under Section 3(b) of the Public Utility Holding Company Act of 1935, as amended ("PUHCA" or the "Act"), for a foreign utility company exemption. In connection therewith, UtiliCorp has asked this Commission to provide you with the certification contemplated by the applicable provisions of PUHCA.

The Missouri Public Service Commission has jurisdiction over the retail electric and natural gas rates for Missouri Public Service in the State of Missouri and hereby certifies that it has the authority and resources to protect the ratepayers subject to its jurisdiction and that the Commission intends to exercise its authority with respect to UtiliCorp United Inc.'s proposed investment in CELPE. This Commission notes that this certification may be revised or withdrawn prospectively as to any future acquisition. In making this certification, this

Commission is relying on the belief that the Securities and Exchange Commission will enforce all sections of PUHCA which govern UtiliCorp United Inc.'s proposed investment in CELPE for which it has jurisdiction.

Sincerely,

Dale Hardy Roberts
Executive Secretary and Chief Regulatory Law Judge

cc: Mr. Robert Wason
Securities and Exchange Commission
Office of Public Utility Regulation
Division of Investment Management
450 Fifth Street, N.W.
Washington, D.C. 20549

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