Exhibit No.:	
Issue:	*Corporate Allocations*
Witness:	*Charles R. Hyneman*
Sponsoring Party:	*MoPSC Staff*
Type of Exhibit:	*Direct Testimony*
Case No.:	*ER-2001-672*
Date Testimony Prepared:	*December 6, 2001*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

UTILICORP UNITED INC.
d/b/a MISSOURI PUBLIC SERVICE

CASE NO. ER-2001-672

Jefferson City, Missouri
December 2001

DIRECT TESTIMONY

OF

CHARLES R. HYNEMAN

UTILICORP UNITED INC.

d/b/a MISSOURI PUBLIC SERVICE

CASE NO. ER-2001-672

Q. Please state your name and business address.

A. Charles R. Hyneman, 3675 Noland Road, Suite 110, Independence, Missouri 64055.

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

A. I am employed as a Regulatory Auditor by the Missouri Public Service Commission (Commission).

Q. Have you previously filed testimony before the Commission?

A. Yes. Schedule 1, attached to this testimony, lists the cases in which I have filed testimony before the Commission.

Q. With respect to Case No. ER-2001-672, have you made an examination of the books and records of Missouri Public Service (MPS), a division of UtiliCorp United, Inc. (UtiliCorp, UCU or Company)?

A. Yes, with the assistance of other members of the Commission Staff (Staff).

Q. What is your principal area of responsibility in this case?

A. I am responsible for the overall level of corporate costs allocated to MPS from UtiliCorp, which is included in the Staff's revenue requirement recommendation for MPS. These areas include corporate expenses (payroll and non-payroll), plant in service, depreciation reserve and deferred income taxes.

Q. What income statement, plant and reserve adjustments to the Staff Accounting Schedules are you sponsoring?

A. I am sponsoring numerous adjustments to Accounting Schedule 9, Income Statement, that are listed on Accounting Schedule 10, Adjustments to Income Statement. These adjustments are listed on Schedule 2 to this direct testimony. I am also sponsoring adjustments P-1.1 though P-12.1 and P-1.2 through P-12.2 to Accounting Schedule 3, Total Plant in Service, that are listed on Accounting Schedule 4, Adjustments to Total Plant. Finally, I am sponsoring adjustments R-1.1 through R-11.1 and R-1.2 through R-11.2 to Accounting Schedule 6, Depreciation Reserve, which are listed on Accounting Schedule 7, Adjustments to Depreciation Reserve. I am also sponsoring Deferred Income Taxes – UCU Corporate Plant, listed on Accounting Schedule 2, Rate Base.

Q. Please describe the significance of UtiliCorp's corporate costs and how UCU allocates these costs to its operating divisions and subsidiaries.

A. In calendar year 2000, UtiliCorp allocated $223,438,681 to its operating divisions and subsidiaries (business units). This amount includes approximately $118,337,060 in payroll and employee benefits costs and $105,101,621 in non-payroll costs. Of the total amount allocated, the business units were charged $155,030,331 from UtiliCorp's Enterprise Support Functions (ESF) and $68,399,350 from its Intra-Business

Units (IBU). MPS was allocated $54,870,954 ($27,192,425 of non-payroll and $27,678,529 of payroll and employee benefits costs) or 24.5% of the total $223,439,681.

Q. Please describe Enterprise Support Functions and Internal Business Units.

A. ESFs are departments within UtiliCorp that provide general corporate services to all of UtiliCorp's regulated and nonregulated business units, including the international business units. IBUs provide services to the network ("wires and pipes") operations of the Company.

Q. Is MPS proposing to recover $54,870,954 in corporate allocated costs in this case?

A. No. The $54,870,954 represents the total amount of corporate costs charged to MPS and recorded in MPS's books for year 2000. This allocation of corporate costs was made using December 2000 allocation factors. In its updated revenue requirement case provided to the Staff in October 2001, MPS's proposed level of corporate costs included non-payroll costs incurred in 2000 that were allocated with July 2001 allocation factors. Corporate payroll costs were annualized through June 30, 2001 and then allocated using the July 2001 allocation factors. Both the allocation of payroll and non-payroll costs excluded the impact of UtiliCorp's acquisition of St. Joseph Light & Power Company (SJLP), which occurred in 2000. The effect of the updated July 2001 allocation factors caused an overall reduction in the amount of corporate costs allocated to MPS.

Q. Please describe UtiliCorp's corporate structure and operations.

A. UtiliCorp's headquarters is located at 20 West 9th Street in Kansas City, Missouri. Over the past 16 years UtiliCorp has grown from a medium-sized electric utility to an international energy and services company. At September 30, 2001, the Company had total assets of $11.9 billion and annual sales of $42.3 billion. UtiliCorp is organized, and its businesses are managed, by business segments. Its four business segments are Energy Merchant (Aquila), U.S. Networks, International Networks and Services.

Q. Describe UtiliCorp's Energy Merchant business segment.

A. UtiliCorp's energy marketing subsidiary, Aquila, Inc. (Aquila) provides risk management products and services, trades energy-related and other commodities, and markets natural gas and electricity to industrial and wholesale customers in the U.S. and Canada. Aquila also markets energy in Europe through its offices in the U.K., Germany and Norway. Through its Aquila Gas Pipeline Corporation subsidiary, Aquila gathers, transports and processes natural gas and gas liquids in Texas and Oklahoma.

In 2000, Aquila had $26.5 billion in sales, which accounted for 91 percent of UtiliCorp's total sales, and contributed 35 percent of UtiliCorp's earnings before interest and taxes (EBIT). At December 31, 2000, Aquila had $7.9 billion in assets, or 55 percent of total Company assets.

Q. Describe UtiliCorp's U.S. Networks business segment.

A. UtiliCorp's operating divisions in the U.S. serve 349,000 electric distribution customers in three states: Missouri, Kansas and Colorado; and 831,000 natural gas distribution customers in seven states: Missouri, Kansas, Colorado, Nebraska, Iowa, Michigan and Minnesota. Its seven domestic utility divisions are Missouri Public Service, St. Joseph Light & Power, Kansas Public Service, Peoples Natural Gas, WestPlains Energy, Northern Minnesota Utilities and Michigan Gas Utilities.

In 2000, U.S. Networks had approximately $2 billion in sales, which accounted for 7 percent of UtiliCorp's total sales, and contributed 34 percent of UtiliCorp's EBIT. At December 31, 2000, U.S. Networks had $2.8 billion in assets, or 20 percent of total company assets.

Q. Describe UtiliCorp's International Networks business segment.

A. UtiliCorp operates electric and gas utility networks in Australia, New Zealand, and Canada.

Australia

UtiliCorp is the manager and 34 percent owner of United Energy in the Australian State of Victoria. United Energy has four business units including Distribution, Energy Merchant, Utili-Mode and UeComm. The distribution business serves 1.1 million electricity and gas customers in Melbourne and the Mornington Peninsula. UeComm, a telecommunications business, has developed networks in Sydney, Melbourne and Brisbane. Utili-Mode offers energy-related "back office" services including call center, billing, metering and account collection functions. The Energy Merchant business buys and sells electricity in the wholesale market, trades related commodities, and sells risk management products.

UtiliCorp and United Energy jointly own 45 percent of AlintaGas Limited, a natural gas distributor in the state of Western Australia. AlintaGas is based in the city of Perth and has more than 430,000 customers.

New Zealand

UtiliCorp owns 55 percent of UnitedNetworks Limited, a company that serves approximately 600,000 customers, mostly in the Auckland and Wellington areas.

UnitedNetworks Limited is New Zealand's largest electricity lines company and natural gas distributor. UnitedNetworks recently became New Zealand's largest low-pressure gas distributor by purchasing the North Island gas distribution and contracting business of Orion New Zealand Ltd. The gas system has approximately 2,800 miles of distribution mains and about 109,000 customer connections.

Canada

UtiliCorp has been operating in Canada since its acquisition of West Kootenay Power in 1987. In February 2000 UCU acquired TransAlta Corporation's distribution and retail operations in Alberta for $480 Million. UtiliCorp operates this business as UtiliCorp Networks Canada (Alberta), Ltd.

In 2000, UCU's business segment, International Networks had approximately $492 million in sales, which accounted for 2 percent of UtiliCorp's total sales, and contributed 29 percent of UtiliCorp's EBIT. At December 31, 2000, International Networks had $2.3 billion in assets, or 16 percent of total Company assets.

Q. Describe UtiliCorp's Services business segment.

A. This segment primarily consists of Quanta Services and UtiliCorp Communications Services.

UtiliCorp holds a 38.5 percent equity interest in Quanta Services, a Houston-based firm that builds and maintains networks carrying energy and telecommunications. UtiliCorp recently announced its intention to achieve financial statement consolidation for accounting purposes with Quanta. To consolidate Quanta's financial statements with it's own, UtiliCorp must own more than 50 percent of Quanta's voting stock or have the ability to elect a majority of Quanta's directors. In September 2001, UtiliCorp began to acquire shares of Quanta in the open market.

Formed in early 2000, UtiliCorp Communication Services provides a range of broadband services including local and long-distance voice, high-speed Internet access and digital television. UtiliCorp's current efforts are concentrated in the Midwest region in partnership with Unite, a competitive local exchange carrier serving an area north of Kansas City, and Everest Connections Corporation, a St. Louis-based telecommunications company involved in the construction and operation of broadband fiber-optic networks to homes and businesses.

In 2000, UCU's Services segment had approximately $4.5 million in sales, and contributed 7 percent of UtiliCorp's EBIT. At December 31, 2000, Services had $880 million in assets, which represents 6 percent of total UtiliCorp assets.

Q. Describe how UtiliCorp charges its business units for the cost of providing corporate services.

A. UtiliCorp's corporate overhead or "shared service" costs are incurred by the ESF and IBU departments as they provide services to the business units. If a specific cost incurred by the ESF or IBU can be identified as being caused by a specific business unit, that cost will be directly charged to that business unit, both domestic and international. The remaining ESF and IBU costs that are not directly charged to a business unit are allocated to the domestic business units only. With the exception of certain subsidiaries of Aquila, UtiliCorp does not allocate residual ESF department costs to its international business units. In this testimony, the term "residual costs" means costs that remain in the cost allocation "pool" after direct charges are made, and represent the costs, which are allocated to the domestic business units. This term is synonymous with the term "allocable pool costs."

UtiliCorp has developed a comprehensive corporate overhead allocation procedure to allocate costs to its domestic business units. UtiliCorp's primary method of allocating residual ESF and IBU costs is a three-factor formula referred to as the "Massachusetts Formula." While there are various modifications of the Massachusetts Formula, UtiliCorp uses the factors of gross profit (margin), net plant in service and payroll to calculate the relative allocation percentage for each business unit to apply to allocable corporate pool dollars. The example below shows how UtiliCorp allocates certain ESF costs to its domestic business units. In the example below, Aquila's weighted percentage of (margin + payroll + plant) to (total domestic business unit margin + payroll + plant) is 30.04%. Using an ESF department with $1,000,000, Aquila would be allocated $300,400 and MPS would be allocated $224,868, or 22.49 percent of this cost. The allocation factors used in this example are the actual factors used by UtiliCorp in this case:

	Margin	Payroll	Plant	Wgt Avg
Aquila	$446,877	$50,065	$419,409	30.04%
MPS	$221,576	$24,845	$700,120	22.49%
Regulated Gas Ops	$260,069	$54,247	$573,409	27.55%
Pipeline Companies	$12,150	$584	$69,799	1.56%
Other Regulated Electric	$130,630	$17,991	$341,033	12.82%
Non-regulated	$21,251	$20,131	$58,488	5.55%
Total	1,092,553	$167,862	$2,162259	100%

In addition to the Massachusetts Formula, UtiliCorp uses other allocation factors to allocate ESF and IBU department costs to its business units. For example, the ESF departments of 4220, Compensation and Benefits and 4223, Human Resource Executive are allocated based on the ratio of the number of employees in that business unit to the total number of all business unit employees. Also, ESF department 4140, Risk Solutions, handles UtiliCorp's insurance policies, including worker's compensation policies. The costs incurred during the year by this department are allocated based on the relative dollar amount of claims paid for each business unit.

Q. What adjustments to MPS's test year corporate allocated costs is the Staff proposing in this case?

A. The Staff is proposing five adjustments to MPS's test year per book corporate allocated costs. These adjustments are listed on Accounting Schedule 10, Adjustments to Income Statement. The first two adjustments listed below are shown separately on Schedule 10. The last three adjustments listed below are combined into one adjustment on Schedule 10.

<u>Adjustment</u>

1 – Reflect updated allocation factors and remove interest costs;
2 – Include the SJLP division into the corporate allocation model;
3 – Reflect allocation of overhead cots to Aquila at 100 percent;
4 – Remove severance payments from allocable pool dollars;
5 – Include allocation of certain ESF departments to UtiliCorp's international operations.

Q. Please explain the Staff's first proposed adjustment to MPS's test year per books corporate allocated costs.

A. This adjustment reflects the Staff's calculation of MPS's corporate allocated ESF and IBU costs using July 2001 allocation factors (excluding the impact of the SJLP acquisition) provided by UtiliCorp in its updated case. The Company's original June 8, 2001filing used December 2000 allocation factors. This adjustment also removes capital charges and other interest charges from total allocable pool dollars prior to the allocation. These capital and interest charges will be recovered by MPS through the overall rate of return applied to corporate allocated plant in rate base. Leaving these dollars in the pool would result in double recovery of these costs.

Q. Please explain the Staff's second proposed adjustment to MPS's test year per books corporate allocated costs.

A. Adjustment No. 2 incorporates the new SJLP operating division as an allocable business unit into UtiliCorp's cost allocation model. SJLP became an operating division of UtiliCorp effective at the end of 2000. It is the Staff's position that SJLP should be allocated an appropriate share of UtiliCorp's corporate costs. Staff Accounting witness Steve M. Traxler will address the Staff position in his direct testimony in this case.

Q. How did the Staff determine the allocation factors to include in the corporate allocation model to allocate costs to the SJLP division?

A. UCU includes allocation factors for the SJLP division for financial reporting purposes, so these factors were readily available. The Staff used the SJLP allocation factors (margin, net plant, payroll, etc.) provided by UCU with one exception. As described above, the expenses of ESF Department 4140, Risk Solutions are allocated to the business units based on relative insurance claims expense. Since UtiliCorp did not show any insurance claims expense for SJLP in its list of allocation factors, the Staff calculated an allocation percentage for SJLP based on the claims experience of MPS. The Staff divided the total claims expense used in MPS's allocation factor by the number of MPS employees to arrive at the amount of claims per employee. The claim per employee factor was then multiplied by the number of SJLP employees, to arrive at an appropriate allocation factor for SJLP.

Q. Please explain the Staff's third proposed adjustment to MPS's test year per books corporate allocated costs.

A. In its allocation of certain ESF department costs, UtiliCorp used an allocation factor for Aquila that was only 80 percent of the actual amount. UtiliCorp took the position that since it only owns 80 percent of the outstanding common stock of Aquila, it should only allocate 80 percent of certain corporate overhead costs to Aquila.

The Aquila numbers for margin, payroll and net plant reflected in the earlier allocation example represent only 80 percent of actual amounts. These factors result in an allocation to Aquila of 30.04 percent of total costs allocated under the Massachusetts Formula. Using 100 percent Aquila numbers for margin, payroll and net plant, Aquila would be allocated 34.73 percent of ESF costs allocated under the Massachusetts Formula. This Staff adjustment reflects the impact of using actual allocation factors for Aquila.

Q. Why should Aquila's allocation basis be 100 percent if UtiliCorp only owns 80 percent of this company?

A. Almost all of UtiliCorp's major ESF departments, including Departments 4040 Executive (Chief Executive Officer), 4030 Operations (Chief Operating Officer), and 4035 Chief Financial Officer, provide corporate level services to all of UtiliCorp's divisions and subsidiaries, even those that may be less than 100 percent owned. These ESF departments do not provide services to only 80 percent of Aquila's employees and operations, but 100 percent. Also, UtiliCorp's officers do not have a fiduciary responsibility to safeguard only 80 percent of Aquila's assets, they have responsibility for 100 percent of the assets.

Q. What is the effect of the UCU's position of allocating costs to Aquila that are based on only 80 percent of Aquila's actual allocation factors?

A. The effect is to allocate a higher percentage of overhead costs to UtiliCorp's other business units, including MPS. This is because UtiliCorp is not recovering the other 20 percent of Aquila's costs from Aquila's minority owners, but is instead including this 20 percent of the costs in the overall pool costs to be allocated to its business units. In effect, UtiliCorp is providing Aquila with a 20 percent discount, but charging this discount to its other, primarily regulated, business units.

For example, assuming an ESF department with $1,000,000 in allocable costs, by reflecting Aquila's Massachusetts Formula factors at 80 percent of actual amounts, UtiliCorp is shifting $46,932 dollars away from Aquila its other business units, the biggest of which is MPS. Under this scenario, MPS's cost allocation would increase by $14,686, or 7 percent.

Q. Does the fact that UtiliCorp does not own 20 percent of Aquila's outstanding common stock affect UtiliCorp's ability to control every aspect of Aquila's business operations?

A. No. In April 2001, UtiliCorp completed Aquila's Initial Public Offering (IPO) and sold 20 percent of Aquila's Class A common stock to the general public. As a part of this transaction, UtiliCorp acquired 100 percent of Aquila's Class B common stock. The effect of owning 80 percent of the Class A stock and 100 percent of the Class B stock is that UtiliCorp controls 98 percent of the combined voting power of all Aquila outstanding common stock. This means that UtiliCorp controls all matters affecting Aquila. (Amendment No. 2 to Form S-1 Registration Statement, Aquila Inc, filed with the Securities and Exchange Commission on March 23, 2001, page 6.)

Q. Please explain the Staff's fourth proposed adjustment to MPS's test year per book corporate allocated costs.

A. This adjustment removes severance payments that were made to UtiliCorp employees in 2000. The Staff's position is that severance payments should be excluded from allocable pool dollars because it is a nonrecurring type of cost and it provides no ratepayer benefit. It has been the Staff's experience that severance payments are made in connection with employee termination agreements that seek to protect the interests of the Company's shareholders.

Q. Please explain the Staff's fifth proposed adjustment to MPS's test year per books corporate allocated costs.

A. In this adjustment the Staff allocated certain ESF department costs to UtiliCorp's international operations.

Q. Does UtiliCorp allocate any ESF department costs to its international business units?

A. No. As described above, UtiliCorp's policy is to not allocate any ESF costs to its international business units. UtiliCorp's international business units are only charged corporate overhead costs when ESF department employees specifically work on a project or incur travel expenses that can be directly traced to the particular international business unit. For its U.S. business units, UtiliCorp direct charges the same as it does its international units.

Q. For which ESF departments did the Staff allocate costs to UtiliCorp's international business units?

A. The Staff allocated a portion of the following ESF department costs to international business units.

4010 - Corporate Services – 20 W. 9th Street Headquarters Building
4030 - Operations
4031 - General Counsel
4035 - Chief Financial Officer
4040 - Executive
4042 - Strategic Planning
4120 - External Communications
4130 – Treasury
4131 - Corporate Secretary
4132 - Shareholder Relations
4183 - Corporate Financial Reporting
4185 – Tax Administration
4499 – TransUCU Residual Transfer

Q. Why did the Staff select the costs of these particular ESF departments as types of costs that should be allocated to all (domestic and international) business units?

A. These ESF departments were chosen because they provide corporate services that are so general in nature that it is clear that the cost of these services should be allocated to all corporate business units. For example, the Company's Cost Allocation Manual describes each of the ESF and IBU departments. The descriptions of these departments shown below explains how they provide services to all of UtiliCorp's business units. Because of the general nature of the services provided by these departments, it is not sufficient just to charge international units only for specific direct costs when they occur. Instead, the residual pool dollars of these ESF departments should be allocated to both domestic and international business units on a fair and equitable basis.

Operations–4030
Management costs, including chief operating officer's salary, incurred for day-to-day supervision of the entire company operations, including international operations.

General Counsel–4031
Overall responsibility for all matters of a legal nature including mergers, acquisitions, joint ventures and divestitures.

Chief Financial Officer–4035
Overall responsibility for all matters of a financial nature. This department benefits all domestic and international UCU entities.

Executive–4040
Makes Executive decisions for the corporation. Performs services for all divisions as well as overseas operations.

Strategic Planning-4042
Directs development of UCU's strategic plan, working closely with business units to ensure business plans are in place, goals aligned and results measured.

Board of Directors Management-4043
Oversees the coordination of issues surrounding the board of directors.

External Communications-4120
Performs communication work for and reviews the communication work of all operations of the company including international operations. Responsibilities include media relations, corporate advertising, publications, graphics, corporate identity, presentations, annual meeting, and internal communications.

Shareholder Relations-4132
Communication relationship with analysts on the street that follow UCU. Watch who buys and sells UCU stock. Recordkeeping for stockholders. Responsible for all dealings with the annual meeting. Deal with individual smaller shareholders and respond to any issues they may have.

Corporate Reporting-4183
Perform external reporting for consolidated UCU. Also includes external audit fees.

Treasury (Finance)-4130
Responsible for permanent financing of the corporation (stock issues, debt issues). Manage cash and all borrowings. Handle the administration of the defined benefit plan and 401K plan. Maintains a relationship with consultants and managers who analyze the progress of the plans. Maintain relationship with debt rating agencies. Handle specifically all the financing for any involvement in our overseas operations such as financing for acquisitions, etc. Does not handle any of the 401K activities for our international subsidiaries nor West Kootenay.

Corporate Services-4010
Manage corporate services for two facilities (utilities, copiers, lease expense, asset capital charge, etc.) at the following locations 20 W. 9th, Kansas City, MO and TransUCU, Richards Road, Kansas City, MO.

Corporate Secretary-4131
Three main areas: 1) Responsible for Board meeting and committee minutes and arrangements for Board members. All board member transportation costs including lodging and expenses are booked to this RC. 2) Responsible for corporate records of the company. Record keeper for 120 subsidiaries – make sure all subsidiaries are in good standing in all states. 3) Corporate record retention. Coordinate all legal activities through Blackwell Sanders.

Tax Administration-4185
Provides coordination and review of all tax functions (excluding payroll taxes) for consolidated UCU.

TransUCU Residual Transfer-4499
Residual aircraft expenses, salaries, benefits and administrative expenses incurred from operating and maintaining company leased aircraft and providing travel arrangement services.

Q. Other than the department descriptions, what other evidence did the Staff review that shows that these departments provide services to UtiliCorp's international business units?

A. The evidence the Staff reviewed includes TransUCU flight logs (UtiliCorp's ESF that provides travel services and manages two leased corporate aircraft), UtiliCorp Board of Director meeting minutes, Securities and Exchange Commission (SEC) filings, annual reports, press releases and responses to Staff data requests and interviews with certain ESF department personnel. After an analysis of the information obtained from the above documents and meetings, the Staff concluded that a significant portion of UtiliCorp's senior management time and efforts are focused on international operations. This focus on international operations by senior management and the provision of services to international business units by the ESFs are not consistent with UtiliCorp's policy of not allocating corporate overhead costs to the international units.

Q. Provide an example of how the Staff used UtiliCorp's SEC filings in its determination that international business units should be allocated a pro rata share of corporate overhead costs.

A. In its annual report to the SEC (Form 10-K405) filed on March 29, 2001, UtiliCorp described its key events in 2000 under the heading "Financial Review." The Staff believes these key events indicate where the focus of the company, including its senior officers, lies. Of the 10 key events, five are related to international business units, two are related to Aquila's IPO and acquisition of GPU International, two are related to the acquisition of SJLP and the termination of the merger with the Empire District Electric Company, and one is related to its increasing investment in Quanta. This list of events is as follows:

> 1. UnitedNetworks acquired the Orion New Zealand gas distribution business in April for $274 million.
>
> 2. We invested an additional $360 million in Quanta Services, Inc. during the first half of the year, raising our beneficial equity interest to 36%.
>
> 3. In June, we reduced our interest in UnitedNetworks from 79% to 62% and granted the minority shareholder participation and protective rights. This resulted in deconsolidating the financial reporting for our New

Zealand operations and removing approximately $670 million in existing New Zealand debt and related assets from UtiliCorp's balance sheet.

4. We purchased the Alberta electric network operations of TransAlta Corporation in late August for $480 million and formed UtiliCorp Networks Canada. In November, we sold the retail part of the acquired business for $75 million.

5. In September, Uecomm, United Energy's broadband telecommunications business, had a successful initial public offering in Australia of 34% of its shares. As a result, UtiliCorp recorded a $44 million gain.

6. UtiliCorp and United Energy acquired 45% of AlintaGas Limited, the largest gas distribution company in Western Australia, in October for $166 million.

7. On December 13 we announced plans for an initial public offering of approximately 20% of Aquila's common shares, expected to take place in the first or second quarter of 2001.

8. Aquila bought GPU International in December for $225 million, acquiring interests in six power plants with 500 megawatts of generating capacity.

9. We completed our $282 million merger with St. Joseph Light & Power on December 31. It's Missouri electric and gas territory is adjacent to ours.

10. On January 2, 2001, we terminated our agreement to merge with the Empire District Electric Company due to regulatory uncertainties.

Q. What percent of the costs of these ESF departments does the Staff propose to allocate to UtiliCorp's international units?

A. The Staff is proposing that approximately 18 percent of the above-listed ESF department costs should be allocated to UtiliCorp's international units?

Q. How did the Staff calculate this percentage?

A. The Staff used three factors to determine the appropriate amount to allocate to international operations. These factors are total assets, gross sales and EBIT.

These factors represent measures of shareholder investment, scope of operations and business unit performance, similar to the measures of gross profit, net plant and payroll used by UtiliCorp in its Massachusetts Formula allocation method.

The Staff took the total costs of the selected ESF departments, classified the factors of assets, sales and EBIT for each of UtiliCorp's business segments - Energy Merchant (Aquila), U.S. Networks, International Networks, and Services - and performed a similar Massachusetts Formula calculation to arrive at the weighted average for each segment. This calculation resulted in an allocation to International Networks and Aquila UK (Aquila's only international subsidiary not included in UtiliCorp's Massachusetts Formula allocations) of 17.77%. This percentage was applied to the total allocable pool dollars of these selected ESF departments to arrive at a total dollar allocation to the international business units.

Q. Does the Staff consider the amount of corporate overhead costs it is proposing to allocate to UtiliCorp's international business units to be a conservative estimate of the actual amount of services UtiliCorp's ESF departments provide to the international business units?

A. Yes. In this case, the Staff decided to include only the ESF departments that clearly provide a significant level of services to international operations. There are several other UtiliCorp ESF departments that have directly charged international units for services provided in 2000. Some of these charges are significant. This indicates that these ESF departments possess the expertise and the personnel necessary to provide corporate services to international corporations, which have different corporate, legal and financial structures than those that exist in the U.S. This expertise may not need to exist, and the employee levels may not need to be as high, if the requirement to provide these services to international business units did not exist.

Q. Does UtiliCorp plan to increase the size of its international business operations?

A. Yes. "Serving as an incubator for excellence in energy network management as the company pursues opportunities overseas" is how UtiliCorp describes the role of its U.S. Networks business on its Internet website. As described above in UtiliCorp's key events in 2000, UtiliCorp was very active in expanding its international business operations. Currently, UtiliCorp is involved in a project to acquire an electric distribution company in England.

On October 30, 2001, UtiliCorp filed with this Commission an Application to purchase a 50 percent equity interest in Avon Energy Partners Holding, which owns and operates Midlands Electricity plc, comprising a substantial electric utility distribution business and several related businesses. This Application was docketed as Case No. EO-2002-215. At paragraph 9 of the Application, UtiliCorp states that the purpose of the acquisition is to provide a "strategic platform from which UtiliCorp will be able to expand its operations in the UK and into the rest of Europe."

Corporate Plant and Reserve Allocations

Q. Please describe how the Staff arrived at its proposed level of corporate plant, depreciation reserve and accumulated deferred taxes to allocate to MPS.

A. UtiliCorp allocates corporate plant and depreciation reserve to its business units using the same allocation method that it uses to allocate ESF department costs to its business units. The Staff made two adjustments to corporate allocated plant and reserve.

The first adjustment reflects the impact of including SJLP into the corporate allocation model. The second adjustment reflects the impact of allocating 17.77 percent of ESF Department 4010, UtiliCorp's Headquarters building in Kansas City, Missouri. This department also includes the aircraft hangar located at Kansas City's downtown airport. Plant adjustments P-1.1 though P-12.1 and Reserve adjustments R-1.1 through R-11.1 reflect the impact of allocating corporate plant and reserve to SJLP. Plant adjustments P-1.2 through P-12.2 and Reserve adjustments R-1.2 through R-11.2 reflect the allocation of a portion of the expenses of UtiliCorp's Corporate Headquarters building to its international business units.

Q. How did the Staff calculate the amount of corporate allocated deferred income taxes that is shown on Accounting Schedule 1, Rate Base?

A. UtiliCorp allocates its corporate accumulated deferred income taxes to its business units based on the relative level of plant in service. The Staff used this same method and multiplied the Staff-adjusted MPS corporate allocated plant ratio (MPS plant to total corporate plant) by UtiliCorp's total corporate accumulated deferred income taxes. This amount was then multiplied by the total plant jurisdictional factor to arrive at the amount included in rate base.

Q. Does this conclude your direct testimony?

A. Yes.

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Application of the Tariff Filing of Missouri Public Service (MPS) A Division of UtiliCorp United Inc., to Implement a General Rate Increase for Retail Electric Service Provided to Customers in the Missouri Service Area of MPS	))))))	Case No. ER-2001-672

AFFIDAVIT OF CHARLES R. HYNEMAN

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

Charles R. Hyneman, being of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 21 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.

Charles R. Hyneman

Charles R. Hyneman

Subscribed and sworn to before me this 5th day of December 2001.

D Suzie Mankin

D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21,2004

Charles R. Hyneman

Schedule of Testimony Filings

Case No.	Company
TR-93-181	United Telephone Company of Missouri
ER-94-163	St. Joseph Light & Power Company
HR-94-177	St. Joseph Light & Power Company
GR-95-160	United Cities Gas Company
EM-96-149	Union Electric Merger with CIPSCO, Inc.
GR-96-285	Missouri Gas Energy
GR-97-272	Associated Natural Gas Company
ER-97-394	UtiliCorp United, Inc.
GR-98-140	Missouri Gas Energy
EM-97-515	Western Resources, Inc. Acquisition of Kansas City Power & Light Co.
GM-2000-312	Atmos Energy Corporation Acquisition of Associated Natural Gas Company
EM-2000-292	UtiliCorp United Inc. Acquisition of St. Joseph Light & Power Company
GO-99-258	Missouri Gas Energy
EM-2000-369	UtiliCorp United Inc. Acquisition of Empire District Electric Company
GR-2001-292	Missouri Gas Energy

FERC Acct	Account Description		Adjustment Numbers		
		S-	13.1	13.4	13.7
500000	Steam Ops Supervision And Eng	13	($9,281)	($5,776)	($5,879)
			33.1	33.3	33.5
554000	Other Gen Mnt Msc Oth Pwr Gen	33	($1,337)	($832)	($847)
			36.1	36.4	36.8
556000	Sys Control And Load Dispatchi	36	($3,330)	($2,072)	($2,109)
			37.1	37.4	37.8
557000	Other Expenses	37	($29)	($18)	($18)
			38.1	38.4	38.7
560000	Trans Ops Superv & Engineering	38	($281)	($175)	($178)
			39.1	39.4	39.7
561000	Trans Ops Load Dispatching	39	($242)	($150)	($153)
			41.1	41.4	41.7
563000	Trans Ops OH Line Exp	41	($43)	($27)	($27)
			43.1	43.4	43.7
566000	Miscellaneous Transmission Exp	43	($8,800)	($5,477)	($5,574)
			46.1	46.4	46.8
569000	Trans Maint Of Structures	46	($11)	($7)	($7)
			47.1	47.4	47.8
570000	Trans Maint of Station Equipm	47	($804)	($500)	($509)
			48.1	48.4	48.9
571000	Trans Maint of Overhead Lines	48	($1,177)	($732)	($745)
			49.1	49.4	49.8
573000	Trans Maint of Misc Trans Plan	49	($379)	($236)	($240)
			50.1	50.4	50.7
580000	Dist Ops Superv & Eng	50	($1,082)	($673)	($685)
			51.1	51.4	51.7
581000	Dist Ops Load Dispatching	51	($4)	($3)	($3)
			52.1	52.4	52.7
582000	Dist Ops Station Expenses	52	($8)	($5)	($5)
			56.1	56.4	56.7
586000	Dist Ops Meter Expenses	56	($2,452)	($1,526)	($1,553)
			58.1	58.5	58.8

FERC Acct	Account Description		Adjustment Numbers		
588000	Dist Ops Misc Distrib Exp	58	($36,843)	($22,927)	($23,337)
			61.1	61.3	61.8
591000	Dist Maint Of Structures	61	($4)	($3)	($3)
			62.1	62.4	62.8
592000	Dist Maint Of Station Equipmen	62	($972)	($605)	($616)
			63.1	63.4	63.10
593000	Dist Maint Of Overhead Lines	63	$72	$45	$46
			64.1	64.4	64.9
594000	Dist Maint Of Underground Line	64	($37)	($23)	($23)
			67.1	67.4	67.8
597000	Dist Maint Of Meters	67	($565)	($352)	($358)
			68.1	68.4	68.9
598000	Dist Maint Of Misc Dist Plant	68	($329)	($205)	($208)
			69.1	69.4	69.7
901000	Cust Accts Supervision	69	($8,521)	($5,303)	($5,397)
			70.1	70.4	70.7
902000	Cust Accts Meter Reading Expen	70	($222)	($138)	($141)
			71.1	71.5	71.8
903000	Cust Accts Records & Collectio	71	($122,161)	($76,022)	($77,381)
			72.1	72.3	72.4
904000	Uncollectible Accounts	72	($53)	($33)	($33)
			73.1	73.4	73.7
907000	Customer Service Supervision	73	($1,419)	($883)	($899)
			74.1	74.4	74.7
908000	Customer Assistance Exp	74	($8)	($5)	($5)
			75.1	75.4	75.8
909000	Informational & Instruct Ads	75	($7,550)	($4,699)	($4,783)
			76.1	76.4	76.7
912000	Sales Demonstrating & Selling	76	($1,258)	($783)	($797)
			77.1	77.4	77.8
913000	Sales Advertising Expenses	77	($128)	($80)	($81)
			78.1	78.4	78.7
916000	Miscellanous Sales Expenses	78	($9,810)	($6,105)	($6,214)
			79.1	79.6	79.7

FERC Acct	Account Description		Adjustment Numbers		
920000	Admin And General Salaries	79	($66,382)	($41,310)	($42,048)
			80.1	80.3	80.5
921000	Office Supplies And Expense	80	($1,037,882)	($645,881)	($657,425)
			81.1	81.6	81.7
922000	Admin Exp Trans Credit	81	$20,698	$12,880	$13,111
			82.1	82.3	82.5
923000	Outside Services Employed	82	($403,818)	($251,299)	($255,790)
			84.1	84.4	84.5
925000	Injuries And Damage	84	($2)	($1)	($1)
			85.1	85.8	85.9
926000	Employee Pensions & Benefits	85	($261,338)	($162,632)	($165,539)
			86.1	86.6	86.7
928000	Regulatory Commission Exp	86	($6)	($4)	($4)
			89.1	89.3	89.6
930200	Miscellaneous General Exp	89	($50,075)	($31,162)	($31,719)
			90.1	90.4	90.7
931000	A & G Rents	90	($116,014)	($72,196)	($73,486)
			91.1	91.4	91.7
935000	Maintenance General Plant	91	($33,159)	($20,635)	($21,004)
			93.1	93.3	93.5
404	Amortization Of Other Plant	93	($11,277)	($7,018)	($7,143)
			94.4	94.5	94.6
408100	Taxes Other Than Income Taxes	94	($293)	($183)	($186)
	Total Adjustments		($2,178,616)	($1,355,766)	($1,379,998)