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Trippensee/Surrebuttal

Public Counsel

ER-2001-672

SURREBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

FILED³

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Missouri Public
Service Commission

Submitted on Behalf of
the Office of the Public Counsel

UtiliCorp United, Inc.

Case No. ER-2001-672

January 22, 2002

SURREBUTTAL TESTIMONY

OF

RUSSELL W. TRIPPENSEE

UTICORP UNITED INC.

CASE NO. ER-2001-672

1 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

2 A. Russell W. Trippensee. I reside at 1020 Satinwood Court, Jefferson City, Missouri 65109, and my
3 business address is P.O. Box 7800, Jefferson City, Missouri 65102.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am the Chief Utility Accountant for the Missouri Office of the Public Counsel (OPC or Public
6 Counsel).

7 **Q. ARE YOU THE SAME RUSSELL W. TRIPPENSEE WHO HAS FILED DIRECT**
8 **AND REBUTTAL TESTIMONY IN THIS CASE?**

9 A. Yes.

10 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

11 A. To respond to the rebuttal testimony of UtiliCorp United Inc. (UCU or Company) witnesses
12 regarding the appropriate scope of UCU's revenue requirement which should be determined by the
13 Commission.

14 **Q. PLEASE SUMMARIZE THE COMPANY'S POSITION, AS YOU UNDERSTAND**
15 **IT.**

16 A. UCU witness Vern Siemek advocates that the Commission should limit the scope of revenue
17 requirement inquiry in this case to its Company designated Missouri Public Service (MPS) service

1 area because he believes that the MPS and St. Joseph Light & Power (SJLP) are not a “fully
2 integrated” system. Mr. Siemek’s definition of “fully integrated” means “that the two formerly
3 independent operating systems are seamlessly joined and operated as single system in all respects
4 and with all support applications.” (Siemek Rebuttal, page 2, lines 6 – 8) Mr. Siemek’s inference is
5 that until UCU’s Missouri jurisdictional operations are “fully integrated” it is not appropriate to
6 determine a Missouri jurisdictional revenue requirement for UCU. Under this definition, it would
7 follow that it is appropriate to determine revenue requirement for separate service territories of the
8 same regulated utility within Missouri, as defined by UCU, for an indefinite and undefined period of
9 time.

10 **Q. DOES PUBLIC COUNSEL AGREE THAT THIS COMMISSION SHOULD USE A**
11 **STANDARD OF “FULLY INTEGRATED”, AS LOOSELY DEFINED BY UCU, TO**
12 **DETERMINE WHEN IF EVER RATES SHOULD BE SET ON UCU’S MISSOURI**
13 **JURISDICTIONAL OPERATIONS?**

14 **A.** No. Public Counsel believes the circumstances related to UCU, its acquisition of St. Joseph Light &
15 Power Company (SJLP), and the authorized test year for this rate case which encompasses a time
16 period that ends prior to the effective date of the acquisition, represent a unique situation. Public
17 Counsel believes that this Commission best serves Missourians when traditional regulatory practices
18 based rate of return regulation is used set rates. The “fully integrated” standard, as defined by UCU,
19 is directly interferes with the accurate determination of the rate of return for UCU’s Missouri
20 jurisdictional operations as the basis for setting rates. UCU’s interpretation of a “fully integrated”

1 standard results in regulatory practices being dependent upon actions of the Company, not decisions
2 of this Commission.

3 **Q. CAN YOU PLEASE EXPLAIN WHY PUBLIC COUNSEL BELIEVES THIS CASE**
4 **IS A UNIQUE SITUATION?**

5 A. The Commission in its Order Concerning Test Year and True-up, Resetting Evidentiary and True-
6 up Hearings, Adopting Procedural Schedule, and Concerning Local Public Hearings issued on
7 August 14, 2001 rejected Public Counsel's proposed test year ending June 30, 2002 that contained
8 post SJLP acquisition operating data and adopted a test year ending December 31, 2000. This
9 Commission approved test year does not contain data reflecting UCU's operation of the service area
10 formerly served by SJLP.

11 **Q. IN SUBSEQUENT RATE CASES, WOULD IT BE POSSIBLE TO USE A TEST**
12 **YEAR THAT DOES NOT CONTAIN POST SJLP ACQUISITION DATA?**

13 A. No.

14 **Q. DOES THE COMPANY'S DEFINITION OF THE "FULLY INTEGRATED"**
15 **STANDARD CREATE OTHER PROBLEMS RELATED TO THE DEVELOPMENT OF**
16 **JUST AND REASONABLE RATES FOR SAFE AND ADEQUATE SERVICE?**

17 A. Yes. The standard as espoused and defined by Mr. Siemek essentially places certain regulatory
18 decisions within boundaries that are defined by UCU management. The decision tree and speed of
19 implementing the process are entirely within the control of UCU. This control would allow UCU
20 manipulate the process so that a status of "fully integrated" is never achieved.

1 | **Q. CAN YOU EXPLAIN WHY PUBLIC COUNSEL ASSERTS THE “FULLY**
2 | **INTEGRATED” STATUS COULD BE MANIPULATED BY UCU?**

3 | A. Decisions effecting the day to day operations of UCU and all investment activities of UCU are
4 | entirely within the control of UCU. Various questions, such as whether to build transmission lines
5 | or contract for power delivery, how to staff power plants, workforce deployment issues, power plant
6 | siting, and design of the UCU financial system are only a sample of the decisions facing UCU
7 | management each and every day. If the Commission accepts Mr. Siemek’s recommended
8 | definition of “fully integrated” standard, UCU can make decisions which ensure the Commission
9 | will not be able to look at the appropriate rate of return for UCU’s Missouri jurisdictional
10 | operations.

11 | **Q. CAN YOU PROVIDE SOME SPECIFIC EXPAMPLES OF WHY MR. SIEMEK’S**
12 | **PROPOSED STANDARD IS NOT APPROPRIATE AND DOES NOT REFLECT**
13 | **NORMAL BUSINESS PRACTICES?**

14 | A. Yes. Mr. Siemek asserts that UCU can maintain separate income statements for individual
15 | operating “units”. The ability to maintain separate income statements for UCU designated operating
16 | divisions is wholly within the control of UCU (Mr. Siemek’s use of the term “units” should not be
17 | misconstrued to be separate legal entities). Many companies develop accounting systems that
18 | assign revenues and expenses to cost centers (other assignment would include product lines,
19 | divisions, service areas).

1 **Q. DOES THE COMPANY'S ABILITY TO MAINTAIN INCOME STATEMENTS FOR**
2 **DIFFERENT DIVISIONS INDICATE THE COMPANY HAS CONTROL OF ALL**
3 **FINANCIAL RECORDS?**

4 A. Yes. Public Counsel would assert that the ability to take UCU's financial records and develop not
5 only UCU income statements but also develop income and other financial statements for UCU
6 designated divisions indicates an integrated accounting system. The ability to take UCU corporate
7 costs such as Treasury, Shareholder Relations and Customer Service Centers and allocate or assign
8 the costs to various cost centers (divisions) indicates a high degree of integration, not a lack of
9 integration (or separate financial systems) as inferred by Mr. Siemek.

10 A general purpose of accounting records is to provide the flexibility in order to provide management
11 with information in various formats, that management defines. This flexibility allows management
12 to make sound business decisions. This flexibility of the accounting system should not be
13 misinterpreted to mean lack of control or that a accounting system is not integrated.

14 **Q. MR. SIEMEK MAKES SEVERAL ASSERTIONS REGARDING THE LACK OF**
15 **INTERGRATION BASED ON THE ASSIGNMENT OF EMPLOYEES TO THE**
16 **VARIOUS DIVISIONS. SHOULD THE ASSIGNMENT OF EMPLOYEES BE**
17 **USED AS A TEST OF INTEGRATION?**

18 A. No. It is common practice for employees to work at a specific power plant or out of a specific
19 service center with responsibility for a portion of a utility service area. Mr. Siemek's inferences in
20 his rebuttal testimony (page 7, lines 8 - 22) that these employee assignments constitute a lack of
21 integration does not reflect the reality of running a utility with a large service area. It is not efficient

1 to have employees constantly moving all around a large service area. Travel time increases cost,
2 service quality or safety can suffer due to employees lack of familiarity due to constant changes, and
3 the utility can also develop employee problems associated with incessant travel and other changes in
4 employee's routine.

5 **Q. IS PUBLIC COUNSEL'S POSITION THAT SUBSEQUENT RATE CASES FOR**
6 **UCU SHOULD DEVELOP RATES BASED ON A DETERMINATION OF A**
7 **REVENUE REQUIREMENT UCU'S TOTAL MISSOURI JURISDICTIONAL**
8 **OPERATIONS RELATED IN ANY WAY TO THE RATE DESIGN PROPOSAL**
9 **PUBLIC COUNSEL WOULD RECOMMEND?**

10 A. No. Public Counsel believes a clear distinction exists between revenue requirement and rate design.
11 The determination as to whether or not certain customer classes or different areas of the Company's
12 service territory have different rates is not dependent on how the revenue requirement for the
13 Company's Missouri jurisdictional revenue requirement is determined.

14 A good analogy of this distinction can be made by recalling previous Southwestern Bell Telephone
15 Company (SWBT) rate cases and its multiple service areas within Missouri. The first step in the
16 process was to determine a revenue requirement for SWBT's total Missouri jurisdictional
17 operations. After the determination of revenue requirement, rates were developed that enabled
18 SWBT the opportunity to collect that revenue requirement and thus earn an adequate rate of return
19 for its Missouri jurisdictional operations. I would point out that the SWBT rate design provided for
20 rates that recognized different customer groups and different service locations within our state. This
21 recognition did not however result in a staggered determination of a revenue requirement for each

1 service area, as would UCU's definition of the "fully integrated" standard. I would also point out
2 that SWBT even maintained separate financial record keeping functions in St. Louis and Springfield
3 for a period of time.

4 **Q. DO PROCEDURAL SCHEDULES AUTHORIZED BY THE COMMISSION NORMALLY**
5 **RECOGNIZE THE INDEPENDENCE OF REVENUE REQUIREMENT**
6 **DETERMINATIONS FROM RATE DESIGN PHASE?**

7 A. Yes. The bifurcation of filing dates for Staff's, OPC, and other intervenors testimony with respect
8 to revenue requirement and rate design clearly indicates that revenue requirement is not dependent
9 on rate design, but that rate design is dependent on revenue requirement. Public Counsel would
10 point out the original procedural schedule in this case provided for such bifurcation but that
11 discovery problems caused a delay in the filing dates and the direct testimony on each area was filed
12 simultaneously in this case in order to meet a constricted time line.

13 **Q. PLEASE SUMMARIZE PUBLIC COUNSEL'S POSITION.**

14 A. Public Counsel believes that the Commission's responsibility is to set just and reasonable rates
15 which provide UCU the opportunity to earn an adequate rate of return on its Missouri jurisdictional
16 electric operations. As set out in my direct testimony, if the revenue requirement is determined
17 independently for different segments of UCU's Missouri electric jurisdictional operations, then the
18 total return on equity for UCU-Missouri will not be equal the return of any one segment. Public
19 Counsel submits that the determination of rates (a separate process that is performed post revenue
20 requirement determination but that is dependent on the revenue requirement) does rely on other

1 factors such as the degree of integration. The degree of integration relates to cost drivers or cost
2 responsibility, which is one of the primary considerations in the rate design phase of any rate case.

3 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

4 **A. Yes.**