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Witness: Steven R. Weafer
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Case No. HR-2014-0066
Date Testimony Prepared: November 27, 2013

BEFORE THE PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

DIRECT TESTIMONY

OF

STEVEN R. WEAFER

VEOLIA ENERGY KANSAS CITY, INC.

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF STEVEN R. WEAFER
ON BEHALF OF VEOLIA ENERGY KANSAS CITY, INC.
CASE NO. HR-2014-0066**

1 **Q. Please state your name and business address.**

2 **A.** My name is Steven R. Weafer. My business address is 53 State Street, 14th Floor,
3 Boston, MA 02109.

4
5 **Q. What is your present occupation?**

6 **A.** I am presently employed by Veolia Energy North America, LLC (“VENA LLC”)
7 headquartered in Boston, Massachusetts, as Vice President, Controller and am
8 responsible for all accounting functions performed for Veolia Energy North
9 America Holdings, Inc. (“VENAH”) and its subsidiaries.

10

11 **Q. Please summarize the purpose and content of your testimony.**

12 **A.** The purpose of my testimony is to sponsor the unadjusted financial results for
13 Veolia Energy Kansas City, Inc. (“VEKC”) for the period July 1, 2012 through
14 June 30, 2013. Further, I will address the accounting separation between VEKC
15 and Veolia Energy Missouri Corporation (“VEMO”), describe the intercompany
16 transactions that exist between VEKC, VEMO, VENA LLC, VENAH, Thermal
17 North America Inc. (“TNAI”) and any of its subsidiaries, and discuss the
18 restructuring plans underway at Veolia.

1 **Q. What is your educational background?**

2 **A.** I received a Bachelor of Science degree in Accountancy in 1999 from Bentley
3 College in Waltham, Massachusetts.

4

5 **Q. Please summarize your professional experience.**

6 **A.** My professional career began in public accounting in 1999 with
7 PricewaterhouseCoopers LLP in Boston, Massachusetts. In 2001, I left to accept
8 a position with an energy company, Calpine Corporation, located in its Boston
9 regional office. I served as the Accounting Manager with Calpine Corporation
10 until 2006, when I assumed the role of Accounting Manager at Health Dialog, Inc.
11 in Boston, Massachusetts. I left Health Dialog, Inc. in 2006 to join VENA LLC
12 (formerly known as ThermalSource LLC).

13

14 Following my public accounting experiences, I have been charged with the
15 responsibility of keeping financial records for multiple entities within the energy
16 industry. These experiences include, but are not limited to, fixed asset
17 accounting, revenue recognition, internal controls, contract review, preparation
18 and communication of financial results and position, and working in cooperation
19 with external auditors.

20

21 **Q. Are you the witness sponsoring VEKC's unadjusted test year income**
22 **statement and balance sheet?**

1 A. Yes. The unadjusted income statement and balance sheet data were provided to
2 Company witness Steven C. Carver for use as the test year starting point for
3 purposes of quantifying the overall revenue deficiency, along with updates for
4 known and measurable changes.

5
6 **Q. How were the unadjusted test year income statement and balance sheet
7 derived?**

8 A. VEKC maintains its books and records in conformance with the Federal Energy
9 Regulatory Commission (“FERC”) Uniform System of Accounts (“USOA”) for
10 electric companies. VEKC has reported its financial results in conformance with
11 FERC USOA, as evidenced in its submission of surveillance and annual reports to
12 Commission Staff.

13
14 **Q. Please describe the VENA corporate structure, including VEKC’s
15 affiliates.**

16 A. The VENA corporate structure is summarized in Schedule SRW-1 attached to
17 this testimony. As illustrated in this schedule, VEKC is a wholly-owned
18 subsidiary of TNAI, which in turn is a wholly owned subsidiary of VENA.
19 VENA also maintains interests in several other corporate entities, most of which
20 are located in jurisdictions outside of the State of Missouri. With few exceptions,
21 VEKC does not conduct, transact or enter into any type of related party
22 transaction with these out of state entities. In particular, VEKC maintains

1 relationships with TNAI, its parent, and VENAH, VEMO and VENA LLC, which
2 is the management services provider to all TNAI operating companies.

3

4 **Q. Please identify and briefly describe the intercompany transactions that**
5 **VEKC has with either VENAH, TNAI or VENA LLC.**

6 **A.** VENAH is the parent company to TNAI, VEKC, VEMO, VENA LLC and all
7 other operating entities as illustrated in Schedule SRW-1. VENAH secures
8 insurance policies for all of the operating entities and allocates the related
9 premiums among the benefiting entities using one of three methods: net revenues,
10 salaries or replacement cost values. VENAH secures insurance for property,
11 director and officers, automobile, general liability, workers' compensation and
12 environmental. Policy premiums are based on information provided to agents by
13 VENA LLC employees acting on VENAH's behalf. This information includes
14 actual data for net revenues, salaries and replacement cost values for each
15 operating entity to price the policies appropriately and accordingly. The
16 information actually used in obtaining the insurance coverage and related
17 premiums then becomes the basis for allocating the cost to the operating entities.

18

19 In addition to insurance, VENAH allocates interest expense to all operating
20 entities. The test year interest expense is based on the intercompany debt between
21 Veolia Environnement North America Operations, Inc. (VENAO) and VENAH,
22 which was established to purchase TNAI and its subsidiaries on December 13,
23 2007.

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VENA LLC is the management services company that employs substantially all individuals performing work for the VENAH operating companies. Monthly, VENA LLC directly assigns the salaries of those employees that are physically located in Kansas City and working directly for VEKC, and performs an indirect allocation of employee costs for those individuals performing support services to VEKC and all other operating entities owned directly or indirectly by VENAH.

Q. Are the VENA LLC employees located in the Kansas City area only responsible for the direct operation and maintenance of the VEKC and VEMO business entities or do they also provide additional support services you reference?

A. The day-to-day activities of operating and maintaining the VEKC and VEMO facilities, as well as administrative duties directly related to those entities, are the responsibility of VENA LLC employees located in Kansas City. The broader VENAH LLC and VENAH support services are not provided by employees located in Kansas City.

Q. Please describe the general support services provided by VENA LLC.

A. These support services include finance, treasury, accounting, tax, legal, human resources, information technology and senior management services. VENAH/TNAI is managed and organized in a central structure that provides functional support to all of the plants that it owns either directly or indirectly. The

1 following are the functional areas of support that VENA LLC/VENAH provides
2 and a brief description of the support services provided:

3 **a. Accounting and Tax** – Accounting and reporting for operating entities
4 is performed centrally in Boston. Each operating entity is assigned an
5 accountant to process transactions, review and analyze results and to
6 adhere to all reporting requirements for each individual entity. All tax
7 compliance matters are performed through Veolia’s shared tax function in
8 Indianapolis. VENA LLC at times will engage third-party professionals
9 for assistance in adhering to compliance requirements and research of
10 certain special transactions.

11 **b. Finance and Treasury** – Support from the finance function primarily
12 relates to the review of investments and assistance in the decision making
13 process for those investments, as well as budgeting and forecasting of the
14 financial operations of each operating unit. The treasury function provides
15 all cash management support for all operating entities and forecasts cash
16 inflows and outflows. In addition, the treasury function couples with the
17 accounting function in reviewing and ensuring that all operating entities
18 are adhering to procurement controls and limits.

19 **c. Legal** – The legal department located in Boston is responsible for
20 reviewing and supporting any contract review or negotiation, and advising
21 in matters involving rate cases, regulatory requirements, litigation, and
22 dispute resolution. The legal team at times will engage third-party

1 professionals to assist in performing these support functions on behalf of
2 the operating entities.

3 **d. Human Resources** – Payroll, benefit administration, recruiting and
4 employee matters are all managed by a team of professionals employed by
5 VENA LLC located in the Boston office. The interaction with third-party
6 payroll providers and coordinating the processing of payroll is led by this
7 team. Benefit administration and the negotiation of all benefit plans
8 offered by VENA LLC and any of its operating entities is managed by this
9 same team. The human resources function engages third-party
10 organizations and professionals to assist in the payroll and benefit
11 administration of the organization.

12 **e. Information Technology** – The information technology team supports
13 both the infrastructure as well as the applications that are employed by all
14 operating entities. Infrastructure support includes hardware, network
15 administration, phone systems, plant controls and all communication
16 devices. This team of professionals provides this support from office
17 locations in Boston and Philadelphia. The applications team supports
18 existing applications run by operating entities to manage the business,
19 including Maximo and PeopleSoft. Maximo is the managed maintenance
20 and procurement systems utilized by operating entities and PeopleSoft is
21 the platform used for general ledger, fixed asset and accounts payable.
22 Further, the organization continues to implement additional applications
23 aimed at improving operations, financial information, working capital and

1 the reliability of information flow. These implementations currently
2 include a centralized billing system and human resources management
3 application, as well as the creation of all integration points between these
4 applications.

5 **g. Engineering and Health and Safety** – The engineering and health and
6 safety teams support the activities, compliance and policies that are
7 employed by all operating entities. The engineering team offers technical
8 expertise on ways to improve efficiency and address operational matters.
9 The health and safety team is responsible for ensuring compliance with
10 local, state and federal rules, and protecting the safety of employees and
11 others. In addition, a companywide health and safety policy and
12 procedure is maintained and administered by this team.

13 **h. Marketing** – The marketing team is responsible for external
14 communication. In addition, this team is responsible for all
15 advertisements and marketing campaigns issued by the Company.

16 **i. Senior Management** – The senior management team of VENAH is
17 centrally located in the Boston office. This senior management team is
18 responsible for the oversight and integration of all of the business
19 functions and manages the VENAH business as a whole.

20 Many of these functions and support services are in the process of undergoing a
21 transformation and reorganization through the “Convergence” process, as
22 described later in the testimony.

23

1 **Q. What intercompany transactions exist between VEKC and VEMO?**

2 **A.** VEKC and VEMO engage in several intercompany transactions, including the
3 sale of steam by VEKC to VEMO, sharing of office and operating personnel, and
4 the sharing of operating space for equipment used in the chilling business. VEKC
5 sells steam to VEMO at the full tariff rate for use in its chilling operation. These
6 transactions are recorded on a monthly basis within the financial statements of
7 each of the operating entities. In addition, rent is charged to VEMO by VEKC for
8 the use of certain space within the Grand Avenue plant location. VEMO uses this
9 space for the chilling equipment used to supply chilling service to customers
10 under separate agreements with VEMO. This service is provided through a
11 separate chilling distribution system. The rent transactions are recorded on a
12 monthly basis within the financial statements of both VEKC and VEMO at a rate
13 previously agreed and contracted. Employees performing office and operating
14 tasks for VEKC and VEMO track their time spent supporting the operations of
15 each of these operating units. This time is reported monthly and the transaction to
16 charge the time spent on VEMO activities is recorded in its financial statements
17 on a monthly basis.

18

19 **Q. Please briefly explain the accounting for corporate support services and the**
20 **accounting for common costs between VEKC and VEMO.**

21 **A.** VENAHA allocates corporate support service costs on a monthly basis to VEKC.
22 The allocation of the vast majority of these costs is calculated using the pre-tax
23 revenues of VEKC for the month as the numerator and the total pre-tax VENAHA

1 revenues as the denominator.¹ These costs are allocated to VEKC and have the
2 impact of increasing an intercompany liability it has with its ultimate parent,
3 VENA. Other costs, such as insurance discussed above, are allocated using
4 other indirect measures such as net revenues, salaries or tank storage capacity, as
5 appropriate.

6
7 Common costs² between VEKC and VEMO are allocated using timesheets
8 maintained on a bi-weekly basis by plant personnel. These timesheets separately
9 provide daily data of the hours worked on VEKC and VEMO related matters.
10 Using the hours reported for VEMO and VEKC, VENA LLC directly charges the
11 calculated salaries and employee related costs to VEMO and VEKC, respectively,
12 on a monthly basis and records the transaction in the underlying financial
13 statements.

14
15 **Q. Please explain the company-wide restructuring plans which Veolia has**
16 **announced and begun implementing.**

17 **A.** Veolia Environnement has recently announced a company-wide long term
18 transformation plan (“Convergence”) aimed at ensuring future success.
19 Convergence will help build a stronger, more efficient and more effective
20 organization while improving strategic integration and increasing targeted cross-

¹ Costs allocated using revenues as the basis are general and administrative costs for the accounting, tax, finance, treasury, legal, human resources and information technology functions that are centrally located within the organizational structure.

² Common costs include salaries and benefits that are directly allocated from VENA LLC to VEKC and VEMO. Steam sales and rent expense are recorded based on established tariffs rates and contract terms.

1 divisional synergies. From a global perspective, Convergence is focused on:
2 1) reducing debt and refocusing Veolia’s business activities; 2) further developing
3 Veolia’s brand, skillset, and business model; 3) reducing costs; and
4 4) transforming the Veolia organization to allow the Company to evolve into a
5 more united Company, taking advantage of its competitive strengths and
6 capitalizing on its various synergies.

7
8 In the United States, Shared Service Centers (“SSC”) have been established in
9 Milwaukee, Indianapolis, and Chicago to centralize the back-office and
10 transactional functions shared amongst the Veolia Divisions (Energy, Water, and
11 Environmental Services). These SSCs will allow Veolia to deliver best practices,
12 ensure an effective control environment, and establish a more synergistic and
13 cross-disciplinary way of working.

14
15 The key functions which will be impacted by Convergence are: 1) Accounting &
16 Tax, including Accounts Payable and General Ledger accounting; 2) Internal
17 Controls; 3) Purchasing; 4) Payroll; 5) Human Resources; 6) Legal services;
18 7) Information Technology; 8) Communications; 9) Insurance & Risk; 10) Health
19 & Safety; and 11) Marketing.

20
21 In addition to the centralization of the back-office functions, the United States
22 operations will be organized and managed along two distinct business lines: a)
23 Municipal and Commercial, and b) Industrial. These specific business lines will

1 integrate the activities from the prior three Divisions (Energy, Water,
2 Environmental Services), and allow the business line managers to focus
3 specifically on common customers and activities.

4

5 **Q. What impacts does Convergence have on the Staff and the services**
6 **previously provided out of the Boston office to VEKC?**

7 **A.** During the second half of 2013, VENA LLC has been in the process of
8 transferring many of its back-office functions to the SSC. Many employees were
9 offered the opportunity to relocate to the appropriate SSC location (i.e.,
10 Milwaukee, Indianapolis or Chicago); however, a transition plan was
11 implemented for those individuals who chose not to relocate. As a result of this
12 transition process, a reduction in the staffing levels in the Boston office has
13 already occurred, and will continue into the early portion of 2014.

14

15 The high quality of service that has been previously provided to VEKC will
16 continue throughout this transition. The new organization is anticipated to be
17 more efficient, cost effective, and offer more comprehensive services to all of the
18 subsidiaries in the Unites States.

19

20 **Q. Did you also provide Mr. Carver with additional accounting and financial**
21 **information required to develop and/or quantify annualization or**
22 **normalization adjustments that might be necessary for ratemaking**
23 **purposes?**

1 **A.** Yes. I served as the primary accounting contact for Mr. Carver. We have
2 discussed and exchanged information on a variety of regulatory and accounting
3 matters, including: basic accounting records and transaction detail; net original
4 cost plant accounting; income taxes and normalization accounting (Veolia
5 Adjustment C-10); test year accounting for outside services and regulatory
6 commission expense (Veolia Adjustment C-16); the allocation and adjustment of
7 corporate overhead costs (Veolia Adjustment C-14); as well as the annualization
8 of salaries, benefits and payroll taxes for the personnel dedicated to VEKC
9 (Veolia Adjustments C-13 and C-18). However, because Convergence
10 implementation will continue into 2014, the corporate cost adjustment is premised
11 on the test year pre-transition organization and cost structure.

12

13 **Q.** **Does this conclude your direct testimony?**

14 **A.** Yes.

**Steven R. Weafer Testimony
Schedule SRW-1**

The following diagram provides an organizational chart illustrating Veolia Energy Kansas City, Inc's linkage into the Veolia corporate structure.



