

*Exhibit No.:*

*Issues: Payroll Expense;  
Incentive  
Compensation;  
Employee Benefits;  
Payroll Taxes*

*Witness: Dana E. Eaves*

*Sponsoring Party: MoPSC Staff*

*Type of Exhibit: Direct Testimony*

*Case No.: ER-2004-0034 and  
HR-2004-0034  
(Consolidated)*

*Date Testimony Prepared: December 9, 2003*

**MISSOURI PUBLIC SERVICE COMMISSION**

**UTILITY SERVICES DIVISION**

**DIRECT TESTIMONY**

**OF**

**DANA E. EAVES**

**AQUILA, INC. D/B/A  
AQUILA NETWORKS L&P AND  
AQUILA NETWORKS MPS**

**CASE NO. ER-2004-0034**

*Jefferson City, Missouri*

*December 2003*


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

In the matter of Aquila, Inc. d/b/a Aquila networks )  
L&P and Aquila Networks MPS to implement a ) Case No. ER-2004-0034  
general rate increase in electricity. )  
)  
In the matter of Aquila, Inc. d/b/a Aquila networks )  
L&P to implement a general rate increase in Steam ) Case No. HR-2004-0024  
Rates. )

AFFIDAVIT OF DANA E. EAVES

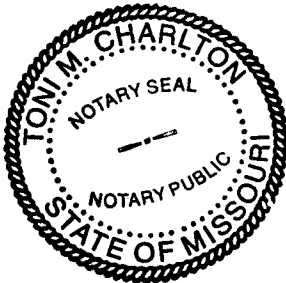
STATE OF MISSOURI     )  
                                  )     ss.  
COUNTY OF COLE     )

Dana E. Eaves, of lawful age, on his oath states: that he has participated in the preparation of the following Direct Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the following 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.

  
\_\_\_\_\_  
Dana E. Eaves

Subscribed and sworn to before me this 31<sup>st</sup> day of December 2003.

  
\_\_\_\_\_  
Notary Public



TONI M. CHARLTON  
NOTARY PUBLIC STATE OF MISSOURI  
COUNTY OF COLE  
My Commission Expires December 28, 2004

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**AND AQUILA NETWORKS – L&P – ELECTRIC AND STEAM**  
**CASE NOS. ER-2004-0034 AND HR-2004-0024**  
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1           A.     I am responsible for assisting in the audits and examinations of the books and  
2 records of utility companies operating within the state of Missouri.

3           Q.     Please describe your areas of responsibility in Case Nos. ER-2004-0034 and  
4 HR-2004-024.

5           A.     I am responsible for the areas of payroll expense, payroll taxes and certain  
6 employee benefits: 401(k) benefits, health, vision and dental benefits, and Company's  
7 Employee Stock Option (ESOP) contribution.

8           Q.     What knowledge, skills, experience, training or education do you have in these  
9 areas of which you are testifying as an expert witness?

10          A.     I have been assigned to and filed testimony as described in Schedule 1, which  
11 is attached to my testimony. I have also extensively reviewed other utility rate cases related  
12 to the issues I am sponsoring to ensure the consistency of the Staff's method and procedures.  
13 My prior academic education helped prepare me to successfully sponsor the ratemaking areas  
14 I've been assigned in this case. I have received certificates of training from the National  
15 Association of Regulatory Utility Commissioners in seminars it has sponsored concerning  
16 water, gas and electric utility cost of service and regulation. Further, I have attended  
17 numerous in-house training seminars at the Commission specifically designed for continuing  
18 education and training in the areas of regulatory issues. I have also worked closely with  
19 Senior Staff members familiar with my areas of responsibility.

20          Q.     Will your testimony be addressing the Missouri Public Service electric and  
21 Light & Power electric and steam operations?

22          A.     Yes. The Commission, by its Order on July 24, 2003, consolidated the electric  
23 and steam cases filed by Aquila Inc. (Aquila or Company) on July 3, 2003, designated as Case

1 Nos. ER-2004-0034 and HR-2004-0024. My testimony will address payroll and payroll  
2 related benefits for both cases and relate specifically to the electric operations of Aquila  
3 Networks, d/b/a Missouri Public Service and the electric and steam operations of Aquila  
4 Networks, d/b/a Light & Power (the former St. Joseph Light & Power Company). Light &  
5 Power was acquired and merged within Aquila in January 2001.

6 Q. Have you previously filed testimony before this Commission?

7 A. Yes. Please see Schedule 1 for a listing of specific cases and issues.

8 **ACCOUNTING ADJUSTMENTS**

9 Q. What adjustments are you sponsoring in this case?

10 A. I am sponsoring all of the Income Statement adjustments in the areas payroll  
11 expense, payroll taxes and certain employee benefits adjustments.

12 **PAYROLL EXPENSE**

13 Q. Please explain the payroll adjustments you are sponsoring.

14 A. As Staff Auditing witness Phillip K. Williams explains in his direct testimony,  
15 the Staff is filing a calendar year 2002 test year updated for known and measurable events  
16 through September 30, 2003. I have therefore developed the payroll expense by annualizing  
17 payroll costs at September 30, 2003, for all Missouri Public Service (MPS), Light and Power  
18 (Light & Power or L&P)/Enterprise Support Function (ESF) and Intra Business Units (IBU)  
19 departments. Please refer to the Staff's witness Charles R. Hyneman for a description and  
20 explanation of ESF and IBU departments. I annualized payroll and payroll-related benefits  
21 for MPS electric operations and Light & Power electric and steam operations. This approach

1 takes into consideration actual employees, as well as authorized wage levels paid as of  
2 September 30, 2003.

3 Q. Please list the adjustment numbers you are sponsoring to include the effect of  
4 the payroll annualization process discussed above.

5 A. I am sponsoring the following MPS - electric adjustments: S-9.1, S-11.1,  
6 S-12.1, S-13.1, S-16.1, S-17.1, S-18.1, S-19.1, S-20.1, S-21.1, S-23.1, S-24.1, S-26.1, S-27.1,  
7 S-28.1, S-33.1, S-34.1, S-35.1, S-36.1, S-37.1, S-38.1, S-40.1, S-42.1, S-43.1, S-44.1, S-45.1,  
8 S-47.1, S-48.1, S-49.1, S-50.1, S-51.1, S-52.1, S-53.1, S-54.1, S-55.1, S-56.1, S-58.1, S-60.1,  
9 S-61.1, S-62.1, S-63.1, S-64.1, S-65.1, S-66.1, S-67.1, S-68.1, S-69.1, S-72.1, S-73.1, S-74.1,  
10 S-75.1, S-76.1, S-77.1, S-78.1, S-79.1, S-81.1, S-88.1, and S-90.1.

11 I am sponsoring the following L&P- electric adjustments: S-9.1, S-11.1, S-13.1,  
12 S-14.1, S-17.1, S-18.1, S-19.1, S-20.1, S-21.1, S-22.1, S-24.1, S-25.1 S-27.1, S-31.1, S-32.1,  
13 S-33.1, S-34.1, S-35.1, S-36.1, S-37.1, S39.1, S41.1, S-43.1, S-44.1, S-45.1, S-46.1, S-47.1,  
14 S-48.1, S-49.1, S-50.1, S-51.1, S-52.1, S-53.1, S-54.1, S-55.1, S-57.1, S-58.1, S-59.1, S60.1,  
15 S-61.1, S-62.1, S-63.1, S-64.1, S-65.1, S-66.1, S-67.1, S-68.1, S-71.1, S-72.1, S-73.1, S-74.1,  
16 S-75.1, S-76.1, S-77.1, S-78.1, S-80.1, S-87.1 and S-89.1, L&P – steam: S-13.1, S-14.1,  
17 S-15.1, S-18.1, S-19.1, S-20.1, 21.1, S-22.1, S-23.1, S-24.1, S-25.1, S-27.1, S-36.1 and  
18 S-38.1.

19 Q. How did Staff develop payroll costs in this case?

20 A. The Staff requested payroll for each department and individual employed by  
21 Aquila and its operating divisions. This information was analyzed to track changes in the  
22 work force and to identify any areas that needed to be reviewed in further detail. Salary and  
23 wage rates were reviewed to determine the pay levels of the Aquila employees.

1 I determined the salary and wage rates as of September 30, 2003, and applied those  
2 rates to employees that were included in the payroll costs as of that date. The annualized  
3 amount was compared to the test year per book amount at December 31, 2002, to identify the  
4 related adjustment to the annualized level as of September 30, 2003. The annualized amount  
5 was distributed to the Federal Energy Regulatory Commission (FERC) Uniform System of  
6 Accounts by a payroll distribution percentage based on the payroll distribution percentage  
7 used for the test year.

8 Finally, I was provided changes to the costs, subject to allocation, for specific  
9 corporate departments by Staff witness Hyneman to incorporate into the payroll and payroll  
10 related costs. For a discussion on the corporate costs, please see Mr. Hyneman's testimony.

11 Q. How did Staff account for the payroll costs of Aquila, Inc. corporate  
12 departments and other business units that provide service to MPS and L&P?

13 A. These costs have been allocated to MPS and L&P using an appropriate  
14 allocation factor arrived at by Mr. Hyneman.

15 Q. Please list the adjustment numbers you are sponsoring to reflect the payroll  
16 effects of the Staff's changes to ESF/IBU departments costs subject to allocation to the MPS  
17 and L&P divisions.

18 A. I am sponsoring the following adjustments:

19 MPS – electric: S-9.3, S-11.2, S-12.2, S-13.4, S-16.3, S-17.5, S-18.3, S-19.4,  
20 S-20.3, S-21.3, S-23.3, S-24.4, S-26.3, S-27.3, S-28.4, S-33.3, S-34.3, S-35.3,  
21 S-36.4, S-37.2, S-38.3, S-40.3, S-42.3, S-43.3, S-44.4, S-45.4, S-47.4, S-48.3,  
22 S-49.3, S-50.2, S-51.3, S-52.3, S-53.2, S-54.4, S-55.3, S-56.3, S-58.3, S-60.4,  
23 S-61.4, S-62.4, S-63.3, S-64.3, S-65.4, S-66.4, S-67.3, S-68.3, S-69.6, S-72.3,  
24 S-73.3, S-74.3, S-75.3, S-76.3, S-77.4, S-78.4, S-79.4, S-81.4, S-88.3, and  
25 S-90.3.

26 L&P - electric: S-9.3, S-11.2, S-13.2, S-14.3, S-17.3, S-18.4, S-19.3, S-20.3,  
27 S-21.3, S-22.3, S-24.3, S-25.3, S-27.3, S-31.3, S-32.3, S-33.3, S-34.3, S-35.2,  
28 S-36.3, S-39.4, S-41.3, S-43.4, S-44.4, S-45.3, S-46.4, S-47.3, S-48.3, S-49.2,



1 S-50.3, S-51.3, S-52.2, S-53.3, S-54.3, S-55.4, S-57.3, S-59.4, S-60.4, S-61.3,  
2 S-62.3, S-63.3, S-64.4, S-65.4, S-66.3, S-67.3, S-68.6, S-71.3, S-72.3, S-73.3,  
3 S-74.3, S-75.3, S-76.3, S-77.3, S-78.4, S-80.3, S-87.3 and S-89.3.

4 L&P – steam: S-13.3, S-14.2, S-15.4, S-18.2, S-19.3, S-20.2, S-21.2, S-22.2,  
5 S-23.3, S-24.3, S-25.2, S-27.2, S-36.4 and S-38.2.

## 6 **PAYROLL TAXES**

7 Q. Please explain your MPS – electric adjustments: S-94.3, S-94.4, S-94.5 and  
8 S-94.6; L&P - electric: S-94.2, S-94.3, S-94.4 and S-94.5; L&P - steam: S-44.1, S-44.2,  
9 S-44.3 and S-44.4 related to payroll taxes.

10 A. These adjustments serves to ensure the appropriate level of Social Security  
11 (FICA), Medicare, state unemployment (SUTA) and federal unemployment (FUTA) taxes  
12 associated with the Staff’s annualized payroll are included in rates.

13 Q. Please briefly explain how you computed the correct level of payroll taxes.

14 A. The current 2003 tax rates for the individual tax components were used for this  
15 calculation. Applying these rates to the current annualized level of payroll expense produces  
16 the best available level of payroll taxes on a going forward basis.

## 17 **EMPLOYEE BENEFITS**

18 Q. Please describe your adjustment MPS – electric adjustment: S-85.7,  
19 L&P - electric: S-84.10 and L&P - steam: S-31.6 related to 401(k) benefits.

20 A. The 401(k) benefits matching expense incurred by MPS and L&P in the test  
21 year represent a certain percentage of payroll. I have maintained this same percentage, but  
22 multiplied it by the Staff’s annualized level of payroll to produce the Staff’s 401(k) benefit  
23 level. The difference between this and the test year level gives rise to my adjustment.

1 Q. Please describe adjustment MPS – electric adjustment: S-85.1; L&P -  
2 electric: S-84.8; and L&P - steam: S-31.1 reflecting the Staff’s annualizations of health,  
3 vision and dental benefits.

4 A. The annualized level of health and dental benefits is based on Aquila’s Semi-  
5 Annual Election Report dated July 1, 2003. The Staff’s adjustment reflects the Company’s  
6 actual premium and an estimate of costs for the self-insured portion included in the test year.

7 Q. Please describe adjustment MPS – electric adjustment: S-85.10; L&P - electric:  
8 S-84.9; and L&P - steam: S-31.7 related to the Company’s health, vision and dental benefits.

9 A. This adjustment reflects the historical over-accrual on the Company’s books  
10 for the self-insured portion of health, dental and vision, which has been higher than actual cost  
11 based on claims paid.

12 Q. Please describe your adjustment MPS – electric adjustment: S-85.8; L&P -  
13 electric: S-84.7; and L&P - steam: S-31.5 related to the Company’s Employee Stock Option  
14 Plan (ESOP) contribution.

15 A. The ESOP contribution expense is incurred by MPS and L&P in the test year  
16 represents a certain percentage of payroll. I have maintained the same percentage the  
17 Company used, but multiplied it by the Staff’s annualized level of payroll to produce the  
18 Staff’s ESOP contribution expense level. The difference between this and the test year level  
19 gives rise to my adjustment.

20 Q. Does this conclude your direct testimony?

21 A. Yes, it does.

**SUMMARY OF RATE CASE TESTIMONY FILED  
DANA E. EAVES**

<b>COMPANY NAME</b>	<b>CASE NO.</b>	<b>ISSUES</b>
<p style="text-align: center;">UtiliCorp Missouri Public Service Division</p>	<p style="text-align: center;">ER-2001-672</p>	<p style="text-align: center;">Advertising; Customer Advances; Customer Deposits; Customer Deposit Interest Expense; Dues and Donations; Material and Supply; Prepayments; PSC Assessment; Rate Case Expense</p>
<p style="text-align: center;">Citizens Electric Company</p>	<p style="text-align: center;">ER-2002-0297</p>	<p style="text-align: center;">Depreciation Expense; Accumulated Depreciation; Customer Deposits; Material &amp; Supplies; Prepayments; Property Tax; Plant in Service; Customer Advances in Aid of Construction</p>
<p style="text-align: center;">Empire District Electric</p>	<p style="text-align: center;">ER-2002-0424</p>	<p style="text-align: center;">Cash Working Capital; Property Tax; Tree Trimming; Injuries and Damages; Outside Services; Misc. Adjustments</p>