Exhibit No.	
Issue:	**Accounting, Corporate Services & Cost Allocations**
Witness:	**Steven R. Weafer**
Type of Exhibit:	**Direct Testimony**
Sponsoring Party:	**Veolia Energy Kansas City, Inc.**
Case No.	**HR-2011-0241**
Date Testimony Prepared:	**April 22, 2011**

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-2011-0241

Q. Please state your name and business address.

A. My name is Steven R. Weafer. My business address is 99 Summer Street, Suite 900, Boston, MA 02110.

Q. What is your present occupation?

A. I am presently employed by Veolia Energy North America, LLC ("VENA LLC") headquartered in Boston, Massachusetts, as Controller and am responsible for all accounting functions performed for Veolia Energy North America Holdings, Inc. ("VENAH") and its subsidiaries.

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

A. The purpose of my testimony is to sponsor the unadjusted financial results for Veolia Energy Kansas City, Inc. ("VEKC") for the period January 1, 2010 through December 31, 2010. Further, I will address the accounting separation between VEKC and Veolia Energy Missouri Corporation ("VEMO"), describe the intercompany transactions that exist between VEKC, VEMO, VENA LLC, VENAH, Thermal North America Inc. ("TNAI") and any of its subsidiaries.

Q. What is your educational background?

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

Q. Please summarize your professional experience.

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

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

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

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

Q. How were the unadjusted test year income statement and balance sheet derived?

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

Q. Please describe the VENAH corporate structure, including VEKC's affiliates.

A. The VENAH corporate structure is summarized in Schedule SRW-1 attached to this testimony. As illustrated in this schedule, VEKC is a wholly-owned subsidiary of TNAI, which in turn is a wholly owned subsidiary of VENAH. VENAH also maintains interests in several other corporate entities, most of which are located in jurisdictions outside of the State of Missouri. With few exceptions, VEKC does not conduct, transact or enter into any type of related party transaction with these out of state entities. In particular, VEKC maintains relationships with TNAI, its parent, and VENAH, VEMO and VENA LLC, which is the management services provider to all TNAI operating companies.

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

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

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

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

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

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

c. Legal – The legal department located in Boston is responsible for reviewing and supporting any contract review or negotiation, and advising in matters involving rate cases, regulatory requirements, litigation, and dispute resolution. The legal team at times will engage third-party professionals to assist in performing these support functions on behalf of the operating entities.

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

e. Information Technology – The information technology team supports both the infrastructure as well as the applications that are employed by all operating entities. Infrastructure support includes hardware, network administration, phone systems, plant controls and all communication devices. This team of professionals provides this support from office locations in Boston and Philadelphia. The applications team supports existing applications run by operating entities to manage the business, including Maximo and PeopleSoft. Maximo is the managed maintenance and procurement systems utilized by operating entities and PeopleSoft is the platform used for general ledger, fixed asset and accounts payable. Further, the organization continues to implement additional applications aimed at improving operations, financial information, working capital and the reliability of information flow. These implementations currently include a centralized billing system and human resources management application, as well as the creation of all integration points between these applications.

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

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

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

Q. What intercompany transactions exist between VEKC and VEMO?

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

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

A. VENAH allocates corporate support service costs on a monthly basis to VEKC. The allocation of the vast majority of these costs is calculated using the pre-tax revenues of VEKC for the month as the numerator and the total pre-tax VENAH revenues as the denominator.[1] These costs are allocated to VEKC and have the

[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.

impact of increasing an intercompany liability it has with its ultimate parent, VENAH. Other costs, such as insurance discussed above, are allocated using other indirect measures such as net revenues, salaries or tank storage capacity, as appropriate.

Common costs[2] between VEKC and VEMO are allocated using timesheets maintained on a bi-weekly basis by plant personnel. These timesheets separately provide daily data of the hours worked on VEKC and VEMO related matters. Using the hours reported for VEMO, VENA LLC calculates salaries and employee related costs that must be allocated to VEMO on a monthly basis, and records the transaction in the underlying financial statements.

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

A. Yes. I served as the primary accounting contact for Mr. Carver. We have discussed and exchanged information on a variety of regulatory and accounting matters, including: basic accounting records and transaction detail; net original cost plant accounting; income taxes and normalization accounting (Veolia Adjustment C-10); test year accounting for outside services and regulatory commission expense (Veolia Adjustment C-16); the allocation and adjustment of

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

corporate overhead costs (Veolia Adjustment C-14); as well as the annualization of salaries, benefits and payroll taxes for the personnel dedicated to VEKC (Veolia Adjustments C-13, C-17 and C-18).

Q. **Did the Company experience any recent events or transactions that had a unique impact on the revenues or expenses recorded during the 2010 test year?**

A. Yes. There were three such events or transactions that impacted operating results in 2010. First, the Company received a request from a former customer that had left the steam system in 2008 for emergency steam service. Second, a natural gas billing dispute arose between the Company and Missouri Gas Energy ("MGE") in 2008, which continues to negatively impact VEKC in 2010. Third, the Company recorded a series of charges to operating expense arising from a 2004 agreement to ship fly ash to a third party for use as filler material for construction of a parking lot located in Kansas. For this third matter, the Company recorded a series of charges to operating expense in 2010 after receiving a Responsible Party Notification Letter dated February 1, 2010 from the Kansas Department of Health and Environment ("KDHE").

Q. **Please summarize the circumstances that resulted in the emergency service request from a former customer.**

A. On June 8, 2010 the General Services Administration ("GSA") Federal Bolling Building contacted Veolia regarding an emergency situation where both of its electric boilers had failures. The GSA wanted to know if VEKC could provide emergency steam to their facility. Due to the building requirements for tempering air, etc., if steam remained off, the facility would have to shut down until the boilers could be repaired or portable boilers could be brought in to supply steam. Due to the nature and extent of the failure, the necessary boiler repairs would take significant time and the location of the steam supply in the boiler room would require excavation of the property with core drilling to gain access. This repair solution was not expected to be a quick, secure or a financially sound option. Fortunately, the original steam line from VEKC remained in the building due to an agreement with the GSA when it had come off line, keeping the line and valve within the facility. Veolia responded to the GSA's emergency request by reconnecting the steam line for service, and within four hours of the initial call from GSA had restored reliable steam service preventing the facility from closing.

Q. **Under what tariff did the Company provide emergency steam service to the GSA Bolling Building?**

A. The GSA was placed on the SCS tariff which resulted in the payment of the higher tariff energy costs for the emergency service, even though past history would have otherwise placed GSA on the LCS tariff. Because this was initially to be an emergency service only, and there was no meter installed in the facility, the best option for rate charges for that service was the SCS rate. For billing purposes, GSA's steam usage was estimated from their prior usage while on the Veolia Steam System.

Q. **What is the current status of the Company's business relationship with this customer?**

A. In 2011, the Company installed a permanent meter and steam connection to the customer, and will be entering into a steam service agreement providing steam to the customer under the LCS tariff. For purposes of the 2010 test year, Company witness Carver has quantified an adjustment increasing LCS revenues by about $420,000, under current rates.

Q. **Please describe the circumstances of the natural gas billing dispute with MGE.**

A. On June 23, 2009 MGE notified the Company of an allegation that MGE had failed to bill the Company $3,871,399.58 related to the delivery of natural gas between April 2003 and June 2008. MGE alleged that it had installed a meter in April 2003, and in so doing, caused a programming error that resulted in reporting only fifty percent of the natural gas delivered to the Company through two of the three meters measuring delivered natural gas.

Q. **Has the Company actually made any payments to MGE as a result of this dispute?**

A. Yes. After numerous attempts to negotiate a resolution to the dispute, MGE announced that if the Company did not tender full payment of the amount MGE allegedly failed to bill, MGE would terminate its supply of natural gas to the

Company. In order to avoid such a calamitous result, the Company agreed to a payment schedule for the alleged unbilled amounts. In turn, MGE agreed that the payments would not be deemed a waiver of any of the Company's rights to seek damages from MGE. As of today, the Company has paid MGE $967,625 related to MGE's allegations of its failed billings. The Company continues to make monthly payments of $71,402.82 and is currently scheduled to do so until August, 2014.

Q. **Without disclosing any privileged information, please generally describe the current status of this dispute.**

A. The Company sued MGE in the Circuit Court of Jackson County, Missouri, Case No. 1016-CV24880, for declaratory judgment seeking to limit the amount MGE can lawfully demand from the Company, if any, as well as to identify for recovery damages the Company suffered as a result of MGE's negligence and negligent misrepresentation. The litigation is on-going.

Q. **How have the costs incurred by the Company associated with this dispute been reflected in the 2010 rate filing?**

A. At the present time, the Company is not requesting that any portion of these disputed payments to MGE be included in or recovered through VEKC's tariff rates. Upon conclusion of this legal action and a determination of the actual cost of this billing dispute, VEKC will then consider what options might be available with respect to any unrecovered payments to MGE. Company witness Carver also briefly discusses this matter.

Q. **Please provide an overview of the fly ash transaction.**

A. By letter dated February 1, 2010, the KDHE informed the Company that it was considered a Potentially Responsible Party in connection with the following allegations, among others:

(a) Between 2004 and 2008, the Company allegedly provided 6,000 tons of waste coal residue and/or bottom ash (the "Material") generated at the Company's facility to McGraw Trucking.

(b) McGraw Trucking allegedly deposited the Material at its property located in Frontenac, Kansas for purposes of filling in low areas and constructing a parking lot pad.

(c) McGraw Trucking did not apply for and KDHE did not issue a solid waste permit for disposal of the Material at the McGraw Trucking site.

Subsequently, the Company negotiated and executed a preliminary consent order for the implementation of interim measures designed to prevent the runoff of acidic rain water from the McGraw Trucking site to a nearby creek. Thereafter, the Company negotiated and agreed upon a Removal Site Evaluation plan with KDHE for the scope of remediation of the McGraw Trucking site. Finally, the Company and KDHE expect to negotiate a second consent order for the actual remediation of the McGraw Trucking site. It should be noted that in addition to the Company's alleged involvement with the Material allegedly deposited at the McGraw Trucking site, there are other potentially responsible parties.

Q. **Did the Company have any reason to believe that this transaction would result in any exposure to environmental claims or financial consequences?**

A. At the time of the transaction the Company did not have any reason to believe that there would be any exposure environmentally or financially relating to the Material.

Q. **Has the Company recorded any journal entries associated with this transaction?**

A. Yes.

Q. **How have these costs been reflected in the 2010 rate filing?**

A. As discussed by Company witness Carver, the Company has removed these amounts from test year expense (Veolia Adjustment C-19). Since the total cost to VEKC is presently unknown and other parties may ultimately be held responsible for a portion of the remediation costs, the Company is not seeking recovery at this time.

Q. **Has the Company determined whether it will seek recovery of these costs in a future rate case?**

A. No. Once the actual costs are known and the participation of other potentially responsible parties is determined, the Company will be able to assess the materiality of its costs. At that time, the Company may or may not seek to recover those costs through utility rates

Q. Does this conclude your direct testimony?

A. Yes.