

Exhibit No.:

Issues: SERP

Witness: Philip M. Beyer

Sponsoring Party: Aquila Networks-MPS
& L&P

Case No.: ER-

Before the Public Service Commission
of the State of Missouri

Direct Testimony

of

Philip M. Beyer

TABLE OF CONTENTS
DIRECT TESTIMONY OF PHILIP M. BEYER
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. ER-_____

EXECUTIVE SUMMARY.....	1
SERP.....	1

**BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI
DIRECT TESTIMONY OF PHILIP M. BEYER
ON BEHALF OF AQUILA, INC.
D/B/A AQUILA NETWORKS-MPS AND AQUILA NETWORKS-L&P
CASE NO. _____**

1 Q. Please state your name and business address.

2 A. My name is Philip M. Beyer and my business address is 20 W. 9th Street, Kansas City,
3 Missouri, 64105.

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

5 A. I am employed by Aquila Inc. (“Aquila” or “Company”) as Director of Benefits and
6 Human Resources Information Systems “HRIS”. In that capacity I am responsible for all
7 employee benefit programs and human resource information matters.

8 Q. Please state your educational background and business experience.

9 A. I have an MBA Degree from the University of Missouri, Kansas City and an MA Degree
10 from the University of Northern Colorado. I have been employed by Aquila for 9 years
11 and was previously employed as the Employee Benefits Manager at Yellow Corporation
12 and Black and Veatch.

13 **EXECUTIVE SUMMARY**

14 Q. What is the purpose of this testimony in this proceeding before the Missouri Public
15 Service Commission (“Commission”)?

16 A. The purpose of my testimony is to provide information related to Aquila’s
17 Supplementary Executive Retirement Plan (“SERP”) expenses.

18 **SERP**

19 Q. What retirement benefits does Aquila offer employees and executives?

1 A. Aquila's retirement program includes a pension plan, 401(k) plan, profit sharing plan and
2 Social Security. All eligible employees have access to post retirement medical beginning at
3 age 55 if they have 5 years of service.

4 Q. Are these benefits different for employees and executives?

5 A. No. The benefit formulas for employees and executives are the same. However, Internal
6 Revenue Service rules [Code Sec. 415(b) (1) (a) and 401(a) (17)] limit the amount of
7 compensation that can be used in the benefit formulas of Aquila's 401(k) profit sharing
8 and pension plans. For example, in 2006 the IRS maximum salary limit is \$220,000. If
9 an executive earns \$250,000 in 2006, only \$220,000 may be included in Aquila's
10 qualified retirement plan formulas.

11 Q. What is the effect of the IRS limits on executive retirement benefits?

12 A. The IRS limits reduce the amount contributed to the 401(k) and profit sharing plans on
13 behalf of executives and the amount of compensation applied to the pension plan formula
14 in any one year. Over time, the percentage of an executive's income replaced at
15 retirement by Aquila's retirement plans and Social Security is reduced to approximately
16 55-60% while most Aquila employees' replacement percentage is about 70%.

17 Q. Are executives at other companies affected by the IRS limits?

18 A. Yes. The limits apply to all qualified retirement programs.

19 Q. What do other companies do to restore the benefits lost due to the IRS limits?

20 A. Because of the maximum salary limits, most large companies have implemented
21 supplemental retirement programs. As shown in a 2003 Hewitt survey, 80% of Standard
22 and Poor's 500 companies have implemented supplemental retirement programs.

1 Missouri based companies that have supplemental executive retirement plans include
2 Ameren and The Empire District Electric Company.

3 Q. You mentioned that Aquila has a SERP. What is its purpose?

4 A. The Aquila SERP was implemented in 1986, amended in 1996 and restated in 2001. The
5 purpose of the SERP is to restore benefits to higher compensated employees whose
6 benefits are reduced due to IRS maximum compensation limits.

7 Q. Who is eligible to participate in the plan?

8 A. Aquila has three categories of executives who participate in the plan: (1) active Aquila
9 senior leaders, (2) former SJLP executives and (3) "Others" consisting of (a) active
10 executives in Levels D- G and (b) former Aquila employees who are currently in pay
11 status or eligible to receive benefits at age 55.

12 Q. What SERP expenses are related to Aquila's Missouri electric operations?

13 A. Total Missouri 2006 SERP expenses are \$849,080. Of this total, as I will explain later in
14 my testimony the Company is seeking to recover \$602,618 through rates.

15 Q. What are the components of Aquila's SERP?

16 A. Aquila's SERP has three components that determine a monthly benefit at retirement: (1)
17 a base SERP, (2) a bonus SERP and (3) a Supplemental SERP.

18 Q. How is the base SERP amount calculated?

19 A. The base SERP is calculated by using the Aquila pre-2005 pension plan formula but
20 without the IRS annual compensation limit. For example, if an executive earns \$250,000
21 in base pay during 2006, the base SERP calculation would be \$250,000 - \$220,000 (2006
22 IRS limit) = \$30,000 of base pay that is applied to the pre-2005 pension formula to
23 restore the benefit lost due to the IRS limit.

1 Q. How are the bonus and supplemental SERP amounts calculated?

2 A. The bonus and supplemental SERP amounts are earned if an executive has 10 or more
3 years of service. The bonus SERP is calculated if an executive earns annual incentive
4 pay during four consecutive years in the last 10 prior to retirement. One time
5 discretionary awards are not included. The highest average incentive amounts over
6 those four years are applied to the pre-2005 pension formula. The supplemental SERP
7 is used to neutralize inequities in Social Security benefits that are significantly lower
8 relative to income as a worker's compensation increases. A supplemental benefit of 4%
9 of the average of the four highest incentive awards may be earned by an executive at 10
10 years of service and 6.5% at 20 years of service. An executive who attains age 62 with
11 30 years of service may receive a maximum 7.5% supplemental benefit.

12 Q. What SERP expenses has Aquila proposed to include in this case?

13 A. Aquila has proposed that the base SERP should be included in rates. Base expenses are
14 directly attributed to the restoration of benefits lost due to IRS limits on base pay. For
15 purposes of this case, Aquila has eliminated incentive pay from the calculation. The one-
16 time discretionary bonuses were never included in the calculation. By not including the
17 incentive payments in the calculation of both Aquila and SJLP SERP benefits, Aquila has
18 limited the amount of SERP expense in this case to \$602,618.

19	Aquila Senior Leaders	\$278,355
20	Former SJLP Executives	\$269,898
21	Others	<u>\$ 54,364</u>
22	Total	\$602,618

23 Q. Do other utility companies include incentive amounts in their SERP?

1 A. Yes. According to a 2004 Hewitt survey, 29% of companies in Aquila's peer group that
2 had a SERP included incentive pay in the definition of pay. Another 57% included
3 incentive pay in both the qualified pension plan and SERP. Only 14% did not include
4 incentive pay in either their qualified plan or SERP.

5 Q. Why should base expenses for former SJLP executives be included?

6 A. For years prior to the acquisition of St. Joseph Light and Power Company ("SJLP"),
7 SJLP SERP expenses were being accrued. The SJLP SERP was not created or
8 augmented as a result of the sale to Aquila. Had Aquila not purchased SJLP, the
9 executives would have received benefits on the same basis to which they are currently
10 entitled. The SJLP SERP expense was accrued over several years prior to the purchase
11 and will be paid over several years from trust assets that were accumulated prior to the
12 sale and then transferred to Aquila.

13 Q. Why should base SERP benefits for Aquila senior leaders and former executives be
14 included in rates?

15 A. The \$278,355 and \$54,364 SERP expenses for senior leader and former employees
16 respectively should be included since the expenses are directly attributed to the
17 restoration of benefits lost due to IRS limits on base pay. Discretionary bonuses have
18 never been included in base SERP benefits. Aquila is voluntarily excluding expenses
19 related to annual incentive pay used to provide eligible bonus and supplemental SERP
20 benefits.

21 Q. Do the base SERP expenses for former employees include Robert Green and Merchants
22 employees?

23 A. No, Mr. Green and former Merchant employees are excluded.

1 Q. Does this complete your direct testimony?

2 A. Yes.

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

In the matter of Aquila, Inc. d/b/a Aquila
Networks-MPS and Aquila Networks-L&P,
for authority to file tariffs increasing electric
rates for the service provided to customers in
the Aquila Networks-MPS and Aquila
Networks-L&P area

)
)
)
)
)
)

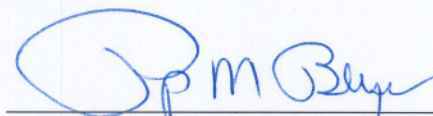
Case No. ER-_____

County of Jackson)
)
State of Missouri)

ss

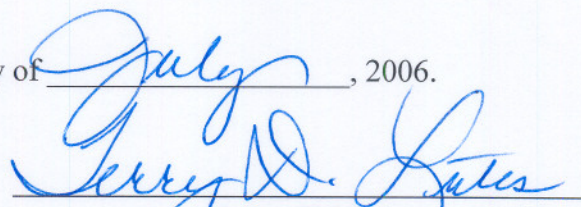
AFFIDAVIT OF PHILIP M. BEYER

Philip M. Beyer, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony entitled "Direct Testimony of Philip M. Beyer;" that said testimony was prepared by him and under his direction and supervision; that if inquiries were made as to the facts in said testimony and schedules, he would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of his knowledge, information, and belief.



Philip M. Beyer

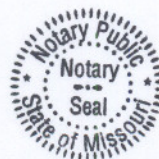
Subscribed and sworn to before me this 3rd day of July, 2006.



Notary Public
Terry D. Lutes

My Commission expires:

8-20-2008



TERRY D. LUTES
Jackson County
My Commission Expires
August 20, 2008