

Exhibit No.:

Issue: Payroll; Payroll Taxes;
Payroll Related Benefits

Witness: Janis E. Fischer

Sponsoring Party: MoPSC Staff

Type of Exhibit: True-Up Direct Testimony

Case No.: ER-2001-299

Date Testimony Prepared: August 7, 2001

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

TRUE-UP DIRECT TESTIMONY

OF

JANIS E. FISCHER

THE EMPIRE DISTRICT ELECTRIC COMPANY

CASE NO. ER-2001-299

Exhibit No. 135
Date 8/23/01 Case No. ER-2001-299
Reporter KRm

Jefferson City, Missouri
August 2001

****Denotes Highly Confidential Information****

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JANIS E. FISCHER**

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1 S-34.1, S-35.1, S-37.1, S-38.1, S-39.1,
2 S-40.1, S-41.1, S-42.1, S-45.1, S-46.1,
3 S-47.1, S-48.1, S-49.1, S-50.1, S-51.1,
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8 S-76.1, S-77.1, S-78.1, S-79.1, S-82.1,
9 S-85.1, S-89.1, S-91.1

10 Payroll Related Taxes S-95.1, S-95.2, S-95.3

11 Other Employee Benefits S-85.3, S-85.8, S-85.9, S-85.10

12 **PAYROLL**

13 Q. Please explain adjustments S-6.1, S-7.1, S-8.1, S-9.1, S-10.1, S-12.1,
14 S-13.1, S-14.1, S-15.1, S-16.1, S-17.1, S-19.1, S-20.1, S-21.1, S-22.1, S-23.1, S-24.1,
15 S-25.1, S-26.1, S-27.1, S-28.1, S-29.1, S-30.1, S-32.1, S-33.1, S-34.1, S-35.1, S-37.1,
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17 S-51.1, S-52.1, S-53.1, S-54.1, S-55.1, S-56.1, S-58.1, S-59.1, S-60.1, S-61.1, S-62.1,
18 S-63.1, S-64.1, S-65.1, S-66.1, S-67.1, S-68.1, S-69.1, S-71.1, S-72.1, S-73.1, S-76.1,
19 S-77.1, S-78.1, S-79.1, S-82.1, S-85.1, S-89.1 and S-91.1.

20 A. These adjustments revise the payroll annualization to include any
21 additional positions that have been filled or vacated based upon employee levels at the
22 end of the true-up audit, June 30, 2001. The true-up payroll annualization captures the
23 most current known and measurable level of employees and related payroll expenses.

24 These adjustments represent the individual payroll annualizations after the
25 true-up determination was calculated for the various expense accounts (i.e., production,
26 transmission, distribution, customer accounts, customer services, sales and administrative
27 and general expense).

1 Q. Did the Staff employ the same methodology in the true-up as in the Staff's
2 initial direct filing to determine annualized payroll?

3 A. Yes, with some minor exceptions. The methodology is the same except
4 for the following changes:

- 5 • The annualized true-up period payroll is based upon the Company's
6 employee levels at June 30, 2001. In addition, through responses to
7 data requests and discussions with the Company, the Staff was able to
8 reflect additions and terminations to payroll through the end of July
9 2001. The Company's updated response to Staff Data Request
10 No. 102 listed full-time, part-time and temporary personnel employed
11 by Empire at June 30, 2001. I obtained additional information in
12 Empire's updated response to Staff Data Request No. 235 for
13 employees hired and positions vacated through the completion of the
14 Staff's fieldwork, the end of July 2001.
- 15 • I deducted 40 percent of payroll related costs associated with
16 employees identified through job titles to be directly assigned to the
17 State Line Combined Cycle Unit (SLCC Unit) operation and
18 maintenance expense. The 40 percent deduction represents the
19 Westar Generating, Inc. (Westar) ownership portion of the SLCC Unit.
20 The 40 percent of SLCC Unit payroll costs allocated to Westar will not
21 be included in the determination of Empire's cost of service since
22 Empire will bill these costs to and recover these costs from Westar.
- 23 • I determined an allocation of SLCC Unit overhead costs associated
24 with indirect payroll related costs that should also be allocated to

1 Westar and excluded from Empire's cost of service. Positions
2 included in the overhead cost allocation include those from Human
3 Resources, Dispatch, and employees whose day-to-day job
4 requirements involve in part the SLCC Unit but are not directly
5 assigned to the SLCC Unit on a 100 percent basis.

6 Q. Has the Staff considered the impact of the proposed merger of Empire
7 with UtiliCorp United, Inc. (UtiliCorp), later terminated by UtiliCorp, on the employee
8 levels for Empire at the end of the true-up period?

9 A. Yes. The Staff was provided a list of vacant positions and budgeted
10 unfilled positions as part of Empire's updated response to Staff Data Request No. 235.
11 Further discussion with Empire personnel to verify salaries for new hires allowed the
12 Staff to update vacancies through the end of July 2001 as shown on the attached Highly
13 Confidential Schedule 1. The Staff has included the changes through the end of
14 July 2001 to accommodate Empire's request in the rebuttal testimony of Empire witness
15 Myron W. McKinney at page 4:

16 ...that the Staff, and ultimately the Commission, allow
17 inclusion of salaries in situations where Empire can clearly
18 demonstrate that an active search is ongoing, or that a
19 vacancy occurred due to the transfer of an internal
20 applicant to fill an existing vacancy.

21 Q. Has the Staff addressed Empire's concern that Staff recognize job
22 transfers within Empire's work force in its true-up payroll annualization?

23 A. Yes. Staff Data Request No. 350 requested additional information to
24 identify salary increases related to transfers within Empire's work force for non-union
25 and union employees since January 1, 2001. Over 60 employees have received salary
26 increases related to job transfers or as a result of an employee meeting criteria to advance

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1 to the next skill level since January 1, 2001. These increases have been reflected in the
2 Staff's true-up payroll annualization.

3 Q. Has Empire reached a normal vacancy level?

4 A. Yes. The Staff believes that the positions that are currently vacant at
5 Empire reflect a normal level of approximately 3% of the total number of employee
6 positions. Empire has had seven months since the termination of the UtiliCorp merger to
7 fill positions vacated during the merger process. Empire's updated response to Staff Data
8 Request No. 235 shows 14 vacant positions and an additional seven budgeted unfilled
9 positions. (See attached Highly Confidential Schedule 1). Empire's updated response to
10 Staff Data Request No. 296 identifies 54 positions that have been filled since January 1,
11 2001.

12 Q. Has the number of budgeted positions changed from Empire's 1999 level
13 which was used for Empire's calculation of annualized payroll in its direct filing?

14 A. Yes. Empire has closed four offices during the true-up period: Columbus,
15 Kansas; Gravette, Arkansas; and Greenfield and Republic, Missouri. The effect of these
16 office closings has been to reduce the number of budgeted positions and to transfer
17 employees to fill other vacant positions. The Staff's true-up annualized payroll reflects
18 these changes and any others that have occurred to employee positions.

19 Q. Has the Commission in the past allowed the inclusion of budgeted
20 positions in the determination of annualized payroll expenses?

21 A. No. In Kansas City Power & Light Company (KCPL) Case No.
22 ER-80-48, the Missouri Public Service Commission (Commission) rejected inclusion in
23 rates of costs associated with KCPL's budgeted level of employees as speculative. The

1 Commission found that the actual employee level at the time of the true-up hearing would
2 be allowed for KCPL's payroll expenses.

3 Q. How did the Staff determine the allocation of the total Empire payroll
4 costs among total Company expense, construction expense, retirements expense and
5 clearing accounts within the electric utility, water utility and non-regulated operations?

6 A. During the prehearing conference with Empire, the Staff agreed to use an
7 allocation based on the average historical cost distribution of expenses from the years
8 1996 through 1999. The Staff's direct filing used an allocation based on the five-year
9 average historical cost distribution of expenses from the years 1996 through 2000. The
10 prior to prehearing five-year average results in 71.954% of the payroll distribution being
11 allocated to total Company expense. The agreement to average 1996 through 1999
12 results in 72.63% of the payroll distribution being allocated to total Company expense.

13 Q. Has the Staff applied the total Company expense factor of 72.63% to other
14 payroll related adjustments?

15 A. Yes. The Staff also applied this total Company expense factor to other
16 payroll-related adjustments such as Employee 401(k) Retirement Plan, health care costs
17 and other employee benefits, which naturally follow payroll expense.

18 **PAYROLL TAXES**

19 Q. Please explain adjustments S-95.1, S-95.2 and S-95.3.

20 A. The true-up annualization of payroll, which updates all payroll related
21 expenses, also affected these adjustments. Adjustment S-95.1 represents the
22 annualization of the Federal Insurance Contributions Act (FICA) tax. FICA
23 (Social Security) is comprised of Old-Age, Survivors and Disability Insurance (OASDI)
24 taxes and Medicare taxes. Adjustment S-95.2 annualizes Federal Unemployment

1 Tax (FUTA). Adjustment S-95.3 annualizes State Unemployment Tax (SUTA). These
2 adjustments reflect the cumulative changes resulting from positions being filled or
3 vacated and salary changes through July 31, 2001.

4 **PAYROLL RELATED BENEFITS**

5 Q. Please explain adjustments S-85.3, S-85.8, S-85.9 and S-85.10.

6 A. Adjustment S-85.3 reflects the increase in expenses for the
7 Employee 401(k) Retirement Plan based upon the percentage election of each employee
8 for employee changes through June 30, 2001. Adjustment S-85.8 reflects the prehearing
9 agreed upon accrual of other post-retirement employment benefits (OPEB) expense
10 agreed upon at prehearing. Adjustment S-85.9 annualizes employee health care costs
11 through the true-up period. Adjustment S-85.10 includes the true-up annualized cost for
12 other employee benefits in FERC 926 accounts. (See attached Schedule 2). The Staff
13 has included group life insurance, accidental death and dismemberment insurance, tuition
14 and education reimbursements, total and permanent disability insurance, fiduciary
15 liability expense, flowers for employees and flexible benefit expense in
16 Adjustment S-85.10. The analysis of these expenses included total expenses in each
17 account for the calendar years 1996 through June 30, 2001. A six-year average extending
18 out through June 30, 2001 was used to normalize the costs if the actual expenses
19 fluctuated over time. Expenses that escalated over the period January 1996 through
20 June 2001 were annualized during the true-up to include July 2000 through June 2001.

21 Q. Does this conclude your true-up direct testimony?

22 A. Yes, it does.

OF THE STATE OF MISSOURI

AFFIDAVIT OF JANIS E. FISCHER

Janis E. Fischer, being of lawful age, on her oath states: that she has participated in the preparation of the foregoing True-Up Direct Testimony in question and answer form, consisting of 7 pages to be presented in the above case; that the answers in the foregoing True-Up Direct Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

Janis E. Fischer
Janis E. Fischer

Subscribed and sworn to before me this 6th day of August 2001.

Deuzell Hankin

D SUZIE MANKIN
NOTARY PUBLIC STATE OF MISSOURI
COLE COUNTY
MY COMMISSION EXP. JUNE 21, 2004

SCHEDULE JEF 1

HAS BEEN DEEMED

HIGHLY CONFIDENTIAL

IN ITS ENTIRETY

Empire District Electric Company
Case No. ER-2001-299 True-up
Analysis of A/C 926 Accts.
Posted to G/L 926 Accounts

DR Response 204

<u>A/C</u>	<u>Description</u>	<u>2000</u>	<u>Adjustment Basis</u>		<u>True-up 6 Yr Avg</u>	<u>Direct Adjustment</u>	<u>True-up Adjustment</u>
			<u>5 Yr Avg</u>	<u>2000</u>			
926222	Group Life Insurance	260,895		260,895	271,656	0	10,761
926227	Group Acc Death & Dismemb	3,989	4,076		4,184	87	195
926231	Tuition and Education	12,632	16,566		16,257	3,934	3,625
926437	Total & Permanent Disability	42,968		42,968	104,376	0	61,408
926226	Fiduciary Liability Expense	12,132	10,254		11,139	(1,878)	(993)
926230	Flexible Benefits	40,042		40,042	15,848	0	(24,194)
926217	Flowers	1,468			1,907	(1,468)	(1,468)
926219	Other	39,204	45,942		48,646	6,738	9,442
Total Adjustment S-85.10						7,413	58,775