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Employee Benefits;
Payroll Taxes
Witness: Dana E. Eaves
Sponsoring Party: MoPSC Staff
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MISSOURI PUBLIC SERVICE COMMISSION
UTILITY SERVICES DIVISION

DIRECT TESTIMONY
OF
DANA E. EAVES

FILED³

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Missouri Public
Service Commission

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

CASE NO. GR-2004-0072

Jefferson City, Missouri
January 2004

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DANA E. EAVES

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CASE NO. GR-2004-0072

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1 **DIRECT TESTIMONY**

2 **OF**

3 **DANA E. EAVES**

4 **AQUILA, INC.**

5 **d/b/a AQUILA NETWORKS-MPS AND**

6 **AQUILA NETWORKS – L&P – Natural Gas Operations**

7 **CASE NO. GR-2004-0072**

8 Q. Please state your name and business address.

9 A. Dana E. Eaves, PO Box 360, Suite 440, Jefferson City, MO 65102.

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

11 A. I am a Regulatory Auditor for the Missouri Public Service Commission
12 (Commission or PSC).

13 Q. Please describe your educational and employment background.

14 A. I graduated from Columbia College in May 1995 with a Bachelors of Science
15 degree in Business Administration with an emphasis in Accounting. I commenced
16 employment with the Commission Staff (Staff) in April 2001. Prior to employment with the
17 Commission I held the position of Accountant with Midwest Block and Brick, Inc.;
18 Vice President of Operations with Practice Management Plus, a healthcare consulting firm;
19 and Director of Finance with Capital City Medical Associates.

20 Q. What has been the nature of your duties while employed by the Commission?

21 A. I am responsible for assisting in the audits and examinations of the books and
22 records of utility companies operating within the state of Missouri.

23 Q. Please describe your areas of responsibility in Case No. GR-2004-0072.

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

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

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

16 Q. Will your testimony be addressing the natural gas operations of both Missouri
17 Public Service and Light & Power?

18 A. Yes. My testimony will address payroll and payroll related benefits for both
19 business units and relate specifically to the gas operations of Aquila Networks,
20 d/b/a Missouri Public Service (MPS), northern-southern systems and the eastern system.
21 This testimony will also address the operations of Aquila's natural gas operations in
22 St. Joseph, Missouri, Aquila Networks Light & Power (L&P) (the former St. Joseph Light &
23 Power Company). Light & Power was acquired and merged within Aquila in January 2001.

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

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

3 **ACCOUNTING ADJUSTMENTS**

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

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

7 **PAYROLL EXPENSE**

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

9 A. As Staff Auditing witness Phillip K. Williams explains in his direct testimony,
10 the Staff is filing a calendar year 2002 test year updated for known and measurable events
11 through September 30, 2003. I have therefore developed the payroll expense by annualizing
12 payroll costs at September 30, 2003, for all MPS, L&P/Enterprise Support Function (ESF)
13 and Intra Business Units (IBU) departments. Please refer to the Staff Auditing witness
14 Charles R. Hyneman's testimony for a description and explanation of ESF and IBU
15 departments. I annualized payroll and payroll-related benefits for MPS and Light & Power
16 gas operations. This approach takes into consideration actual employees at September 30,
17 2003, as well as authorized wage levels paid at the same point in time.

18 Q. Are there separate adjustments for both the MPS and L&P divisions of
19 Aquila?

20 A. Yes. There are separate revenue requirement runs for the MPS
21 northern-southern systems and the MPS eastern system and the L&P gas system. The
22 adjustment numbers will be the same for each revenue requirement run for the

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1 MPS northern-southern systems, and the MPS eastern system and the L&P gas system will
2 have distinctive adjustment numbers as designated in testimony.

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 northern-southern systems and MPS
6 eastern system – natural gas adjustments: S-14.1, S-17.1, S-18.1, S-19.1, S-21.1, S-23.1,
7 S-24.1, S-26.1, S-27.1, S-28.1, S-29.1, S-30.1, S-31.1, S-32.1, S-34.1, S-36.1, S-38.1, S-39.1,
8 S-40.1, S-41.1, S-42.1, S-43.1, S-45.1, S-46.1, S-47.1, S-50.1, S-52.1, S-53.1, S-54.1, S-55.1,
9 S-56.1, S-57.1, S-58.1, S-60.1, S-61.1, S-70.1, and S-72.1.

10 I am sponsoring the following L&P- natural gas adjustments: S-14.1, S-19.1, S-21.1,
11 S-24.1, S-26.1 S-27.1, S-28.1, S-29.1, S-30.1, S-34.1, S-36.1, S-37.1, S-38.1, S-39.1, S-40.1,
12 S41.1, S-43.1, S-44.1, S-45.1, S-48.1, S-50.1, S-51.1, S-52.1, S-53.1, S-54.1, S-55.1, S-56.1,
13 S-59.1, S-68.1, and S-70.1.

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

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

19 I determined the salary and wage rates as of September 30, 2003, and applied those
20 rates to employees who were included in the payroll costs as of that date. The annualized
21 amount was compared to the test year per book amount at December 31, 2002, to identify the
22 related adjustment to the annualized level as of September 30, 2003. The annualized amount
23 was distributed to the Federal Energy Regulatory Commission (FERC) Uniform System of

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1 Accounts by a payroll distribution percentage based on the payroll distribution percentage
2 incurred for the test year.

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

6 Q. How did the Staff account for the payroll costs of Aquila's corporate
7 departments and other business units that provide service to MPS and L&P?

8 A. These costs have been allocated to the three natural gas systems of MPS and
9 the L&P natural gas system using an appropriate allocation factor derived at by
10 Mr. Hyneman.

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

14 A. I am sponsoring the following adjustments:

15 MPS northern-southern systems and MPS eastern system – Natural gas: S-
16 14.2, S-17.2, S-18.2, S-19.2, S-21.2, S-23.2, S-24.2, S-26.2, S-27.2, S-28.2, S-
17 29.2, S-30.2, S-31.2, S-32.2, S-34.2, S-36.2, S-38.2, S-39.2, S-40.2, S-41.2, S-
18 42.2, S-43.2, S-45.2, S-46.2, S-47.2, S-50.2, S-52.2, S-53.2, S-54.2, S-55.2, S-
19 56.2, S-57.2, S-58.2, S-60.2, S-61.2, S-70.2, and S-72.2.

20
21 L&P – Natural gas: S-19.2, S-21.2, S-24.2 S-26.2, S-27.2, S-28.2, S-29.2,
22 S-30.2, S-34.2, S-36.2, S-37.2, S-38.2, S-39.2, S-40.2, S-41.2, S-43.2, S-44.2,
23 S-45.2, S-48.2, S-50.2, S-51.2, S-52.2, S-53.2, S-54.2, S-55.2, S-56.2, S-59.2,
24 S-68.2, and S-70-2.

25 **PAYROLL TAXES**

26 Q. Please explain your MPS northern-southern and MPS eastern system-- natural
27 gas adjustments: S-77.1, S-77.3, S-77.4 and S-77.5; and L&P – natural gas adjustments:
28 S-75.2, S-75.3, S-75.4 and S-75.5, related to payroll taxes.

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

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

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

8 **EMPLOYEE BENEFITS**

9 Q. Please describe your adjustment MPS northern-southern systems and MPS
10 eastern system – natural gas adjustment: S-65.9; L&P – natural gas adjustment: S-63.11
11 related to 401(k) benefits.

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

16 Q. Please describe your adjustment to MPS northern-southern systems and MPS
17 eastern system – natural gas adjustment; S-65.1 and L&P – natural gas adjustment; S-63.1
18 related to the Company's health, vision and dental benefits.

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

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1 Q. Please describe your adjustment to MPS northern-southern systems and MPS
2 eastern system - natural gas adjustment; S-65.3 and L&P- natural gas adjustment;
3 S-63.12 related to the Company's Employee Stock Option Plan (ESOP) contribution.

4 A. The ESOP contribution expense is incurred by MPS and L&P in the test year
5 represents a certain percentage of payroll. I have maintained the same percentage the
6 Company used, but multiplied it by the Staff's annualized level of payroll to produce the
7 Staff's ESOP contribution expense level. The difference between this and the test year level
8 gives rise to my adjustment.

9 Q. Does this conclude your direct testimony?

10 A. Yes, it does.

CASE PROCEEDING PARTICIPATION

DANA E. EAVES

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Aquila Networks MPS Electric	ER-2004-0034	Direct - Payroll Expense, Employee Benefits, Payroll Taxes
Aquila Networks-L&P Electric & Steam	HR-2004-0034	Direct - Payroll Expense, Employee Benefits, Payroll Taxes
Osage Water Company	ST-2003-0562 WT-2003-0563	Direct - Plant Adjustment, Operating & Maintenance Expense Adjustments
Empire District Electric	ER-2002-0424	Direct - Cash Working Capital, Property Tax, Tree Trimming, Injuries and Damages, Outside Services, Misc. Adjustments
Citizens Electric Company	ER-2002-0297	Direct - Depreciation Expense, Accumulated Depreciation, Customer Deposits, Material & Supplies, Prepayments, Property Tax, Plant in Service, Customer Advances in Aid of Construction
UtiliCorp Missouri Public Service Division	ER-2001-672	Direct - Advertising, Customer Advances, Customer Deposits, Customer Deposit Interest Expense, Dues and Donations, Material and Supply, Prepayments, PSC Assessment, Rate Case Expense