

Exhibit No.:
Issues: Payroll Expense; Employee
Benefits; Payroll Taxes
Witness: Dana E. Eaves
Sponsoring Party: MoPSC Staff
Type of Exhibit: Direct Testimony
Case No.: ER-2007-0004
Date Testimony Prepared: January 18, 2007

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-2007-0004

*Jefferson City, Missouri
January 2007*

Staff Exhibit No. 203
Case No(s). ER-2007-0004
Date 1-12-07 Rptr KF

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 service)
area.)

Case No. ER-2007-0004

AFFIDAVIT OF DANA E. EAVES

STATE OF MISSOURI)
) ss.
COUNTY OF COLE)

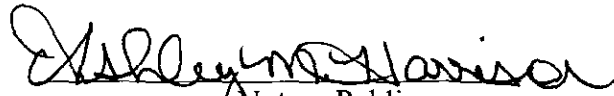
Dana E. Eaves, of lawful age, on his oath states: that he has participated in the preparation of the foregoing Direct Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the foregoing Direct Testimony were given by him; that he has knowledge 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 16th day of January 2007.



ASHLEY M. HARRISON
My Commission Expires
August 31, 2010
Cole County
Commission #06698878


Notary Public

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TABLE OF CONTENTS

DIRECT TESTIMONY OF

DANA E. EAVES

AQUILA, INC. d/b/a AQUILA NETWORKS-MPS

AND AQUILA NETWORKS – L&P – ELECTRIC AND STEAM

CASE NO. ER-2007-0004

EXECUTIVE SUMMARY..... 3

PAYROLL EXPENSE..... 3

PAYROLL TAXES 5

EMPLOYEE BENEFITS..... 6

SIX SIGMA 6

DIRECT TESTIMONY

OF

DANA E. EAVES

AQUILA, INC.

d/b/a AQUILA NETWORKS - MPS AND

AQUILA NETWORKS - L&P

CASE NO. ER-2007-0004

Q. Please state your name and business address.

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

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

A. I am an Utility Regulatory Auditor for the Missouri Public Service Commission (Commission or PSC).

Q. Please describe your educational and employment background.

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

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

A. I have conducted and assisted with the audits and examinations of the books and records of utility companies operating within the state of Missouri.

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

2 A. Yes. Please see Schedule 1, attached to my testimony, for the list of cases in
3 which I have previously filed testimony. Included on Schedule 1 are the issues covered in
4 some of my recent testimony.

5 Q. With reference to Case No. ER-2007-0004, have you made an investigation
6 with respect to the Aquila, Inc. (Aquila or Company) rate change request?

7 A. Yes, with the assistance of other members of the Commission Staff (Staff).

8 Q. What areas did your investigation cover?

9 A. My investigation included the review and examination of the Company's
10 filing, its supporting work-papers and underlying financial reports and records. Information
11 and data were further obtained through the issuance of data requests and discussions with
12 Company personnel, and through the review of work-papers and other information generated
13 from past Company cases, Commission Orders and Staff testimony on related issues in other
14 utility company cases.

15 Q. What is your primary responsibility in this case?

16 A. My primary areas of responsibility in this case are payroll expense, payroll
17 taxes, and certain payroll benefits: 401(k), health, dental and vision expense.

18 Q. What is the purpose of your Direct testimony?

19 A. The primary purpose of my Direct testimony is to discuss the calculation of
20 payroll and payroll related benefits within the Staff's Accounting Schedules and to explain the
21 following Staff adjustments contained in Accounting Schedule 10, Adjustments to Income
22 Statement.

1 **EXECUTIVE SUMMARY**

2 Q. Please summarize the various aspects of your areas and issues in this case.

3 A. The largest issue that I am sponsoring is the ongoing level of payroll and
4 related payroll expenses. The Staff and Company are in agreement as to how these
5 calculations are performed. Specifically, the payroll annualization captures the current
6 number of employees and salary levels which then is reflected for a full year. These
7 calculations are explained in detail later in testimony.

8 **PAYROLL EXPENSE**

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

10 A. As Staff Auditing witness Phillip K. Williams explains in his Direct testimony,
11 the Staff is filing a calendar year 2005 test year updated for known and measurable events
12 through September 30, 2006. I have therefore developed the payroll expense by annualizing
13 payroll costs at September 30, 2006, for all Missouri Public Service (MPS), Light and Power
14 (L&P)/Enterprise Support Function (ESF) and Intra Business Units (IBU) departments.
15 Please refer to the Staff witness Charles R. Hyneman's Direct testimony for a description and
16 explanation of ESF and IBU departments. I annualized payroll and payroll-related benefits
17 for MPS electric operations and Light & Power electric and steam operations. This approach
18 takes into consideration actual employees, as well as authorized wage levels paid as of
19 September 30, 2006.

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

22 A. I am sponsoring the following adjustments:

1 MPS - electric adjustments: S-9.1, S-11.1, S-12.1, S-13.1, S-16.1, S-17.1, S-
2 18.1, S-19.1, S-20.1, S-21.1, S-23.1, S-24.1, S-26.1, S-27.1, S-28.1, S-29.1, S-
3 33.1, S-34.1, S-35.1, S-36.1, S-37.1, S-38.1, S-40.1, S-42.1, S-44.1, S-45.1, S-
4 47.1, S-48.1, S-49.1, S-50.1, S-51.1, S-53.1, S-54.1, S-55.1, S-56.1, S-58.1, S-
5 60.1, 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-
6 71.1, S-72.1, S-73.1, S-74.1, S-75.1, S-76.1, S-77.1, S-79.1, S-80.1, S-82.1, S-
7 85.1, S-89.1 and S-91.1.

8 L&P- electric adjustments: S-9.1, S-11.1, S-13.1, S-14.1, S-17.1, S-18.1, S-
9 19.1, S-20.1, S-21.1, S-24.1, S-25.1, S-26.1, S-27.1, S-28.1, S-33.1, S-34.1, S-
10 35.1, S-36.1, , S-38.1, S-40.1, S-43.1, S-44.1, S-45.1, S-46.1, S-47.1, S-48.1,
11 S-49.1, S-50.1, S-51.1, S-52.1, S-53.1, S-54.1, S-57.1, S-58.1, S-59.1, S-60.1,
12 S-61.1, S-62.1, S-63.1, S-64.1, S-65.1, S-66.1, S-67.1, S-69.1, S-70.1, S-72.1,
13 S-74.1, S-75.1, S-76.1, S-78.1, S-79.1, S-81.1, S-84.1, S-88.1, and S-90.1

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

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

20 I determined the salary and wage rates as of September 30, 2006, and applied those
21 rates to employees that were included in the payroll costs as of that date. The annualized
22 amount was compared to the test year per book amount at December 31, 2005, to identify the
23 related adjustment to the annualized level as of September 30, 2006. The annualized amount
24 was distributed to the Federal Energy Regulatory Commission (FERC) Uniform System of
25 Accounts by a payroll distribution percentage based on the payroll distribution percentage
26 used for the test year.

27 Q. Did the Staff remove any payroll and payroll related benefits from Aquila's
28 payroll costs?

1 A. Yes. In the payroll records provided by the Company, the Staff observed that
2 there were payroll and payroll related costs being paid to Robert K. Green, Aquila's former
3 Chief Executive Officer and President. Staff ensured that none of these costs related to
4 Mr. Robert Green were included in the cost of service amounts in this case by disallowing
5 those costs from this case.

6 Q. Are there any outstanding issues related to payroll annualization?

7 A. Yes. The Staff has some outstanding questions relating to Aquila's treatment
8 of FERC account 920, Administrative & General (A&G) Salaries and Wages to Construction.
9 It appears the Company is not booking any portion of the costs associated with A&G salaries
10 to this account. The Staff has issued Data Request No. 339 in an effort to gain additional
11 clarification on the issue. However, the Staff will not be able to review this additional
12 information until after this Direct testimony has been filed. Depending on the information
13 provided by the Company, the Staff's recommended Payroll Allocation Factor in this case
14 may be subject to change.

15 **PAYROLL TAXES**

16 Q. Please explain your MPS – electric adjustments: S-94.4, S-94.5, S-94.6 and
17 S-94.7; L&P - electric: S-94.6, S-94.5, S-94.3 and S-94.4; related to payroll taxes.

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

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

1 A. The current 2006 tax rates for the individual tax components were used for this
2 calculation. Applying these rates to the current annualized level of payroll expense produces
3 the best available allowance for payroll taxes on a going forward basis.

4 **EMPLOYEE BENEFITS**

5 Q. Please describe your adjustment MPS – electric adjustment: S-85.15, and
6 L&P - electric: S-84.6 related to 401(k) benefits.

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

11 Q. Please describe adjustment MPS – electric adjustment: S-85.13; and L&P -
12 electric: S-84.7 reflecting the Staff's annualizations of health, vision and dental benefits.

13 A. The annualized level of health and dental benefits is based on Aquila's Semi-
14 Annual Election Report dated July 1, 2005. The Staff's adjustment reflects the Company's
15 actual premium and an estimate of costs for the self-insured portion included in the test year.

16 Q. Please describe adjustment MPS – electric adjustment: S-85.14; and L&P -
17 electric: S-84.8 related to the Company's health, vision and dental benefits.

18 A. These adjustments reflect the proper ongoing level on the Company's books
19 for the self-insured portion of health, dental and vision, which has been accrued historically
20 and is adjusted for actual cost based on claims paid.

21 **SIX SIGMA**

22 Q. Please explain what is meant by "Six Sigma?"

1 A. Six Sigma is a methodology Aquila has implemented to improve its processes
2 and efficiency in its regulated utility operations. Aquila began training and implementation
3 of Six Sigma in 2004.

4 Q. Are there costs associated with the introduction of Six Sigma?

5 A. Yes. Aquila has established corporate IBU department 6134 to capture costs
6 associated with Six Sigma. This department is then allocated to the business units through the
7 allocation process.

8 Q. How have the costs for this function been treated in this case?

9 A. The Staff has proposed to eliminate all department 6134 Six Sigma costs
10 allocated to MPS and L&P in the test year and this adjustment is reflected in the previously
11 listed payroll adjustment numbers.

12 Q. Are there savings that the Company has tracked associated with the Six Sigma
13 program?

14 A. Yes. In response to the Staff Data Request No. 310, the Company provided
15 estimates of savings associated with the Six Sigma program.

16 Q. Is the Staff proposing any adjustments to the savings associated with the Six
17 Sigma program?

18 A. No. The Staff is not proposing any adjustments relating to savings stemming
19 from projects associated with the Six Sigma program. There are substantial projected cost
20 savings in 2006 regarding Six Sigma programs. It should be noted that these cost savings are
21 only projections, and as such represent estimates of savings. The Staff has not attempted to
22 impute the projected 2006 savings. To be consistent with the approach of not including

Direct Testimony of
Dana E. Eaves

1 projected savings in its rate recommendations, the Staff has eliminated related Six Sigma
2 costs from the MPS and L&P cost of service calculations.

3 Q. Has Six Sigma resulted in improved efficiency for the Company?

4 A. Yes. The Staff's approach to the Six Sigma project will allow the Company to
5 retain the efficiency benefits related to the project until the time of its next rate case, while
6 ensuring customers do not pick up any of the Six Sigma costs in the meantime.

7 Q. Does this conclude your Direct testimony?

8 A. Yes, it does.

CASE PROCEEDING PARTICIPATION

DANA E. EAVES

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Empire District Electric Company	ER-2006-0315	Direct - Jurisdictional Allocations Factors, Revenue, Uncollectible Expense, Pensions, Prepaid Pension Asset, Other Post-Employment Benefits Rebuttal - Updated: Pension Expense, Updated Prepaid Pension Asset, OPEB's Tracker, Minimum Pension Liability
Missouri Gas Energy (Gas)	GR-2004-0209	Direct - Cash Working Capital, Payroll, Payroll Taxes, Incentive Compensation, Bonuses, Materials and Supplies, Customer Deposits and Interest, Customer Advances and Employee Benefits Surrebuttal - Incentive Compensation
Aquila, Inc. d/b/a Aquila Networks-MPS & L&P (Natural Gas)	GR-2004-0072	Direct - Payroll Expense, Employee Benefits, Payroll Taxes Rebuttal - Payroll Expense, Incentive Compensation, Employer Health, Dental and Vision Expense
Aquila, Inc. d/b/a Aquila Networks-MPS (Electric)	ER-2004-0034	Direct - Payroll Expense, Employee Benefits, Payroll Taxes Rebuttal - Payroll Expense, Incentive Compensation, Employer Health, Dental and Vision Expense
Aquila, Inc. d/b/a Aquila Networks-L&P (Electric & Steam)	HR-2004-0024	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 Company, The	ER-2002-0424	Direct - Cash Working Capital, Property Tax, Tree Trimming, Injuries and Damages, Outside Services, Misc. Adjustments

PARTICIPATION		TESTIMONY
COMPANY	CASE NO.	ISSUES
Citizens Electric Corporation	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 United Inc, d/b/a Missouri Public Service	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