

**BEFORE THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS**

07-AQLG-431-RTS

In the Matter of the Application of Aquila, Inc.,)
d/b/a Aquila Networks-KGO, For Approval of)
the Commission to Make Certain Changes)
in its Rates For Natural Gas Service)

Docket No. _____

STATE CORPORATION COMMISSION

NOV 01 2006

 Docket
Room -

Direct Testimony of Philip M Beyer

Director of Benefits and Human Resources Information Systems
Aquila, Inc.

Pension Expense

November 2006

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,
3 Kansas City, MO 64105.

4

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

6 A. I am employed by Aquila, Inc. as Director of Benefits and Human Resources
7 Information Systems. In that capacity, I am responsible for managing the
8 overall plan design, cost and administration of Aquila's employee benefit plans
9 and Human Resources Information Systems.

10

11 **Q. Please state your educational background and business experience.**

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

16

17 **Q. Have you ever testified before any regulatory commission?**

18 A. Yes, I have submitted direct and rebuttal testimony before the Kansas and Missouri
19 commissions.

20

21 **Q. What is the purpose of your testimony?**

22 A. The purpose of my testimony is to support the adjustment for escalating pension
23 plan expenses included in Pro Forma Adjustment No. 7.

24

1 **Q. Please describe your supporting documents.**

2 A. My supporting documents are for corporate-wide and Kansas pension costs.

3 Exhibit No. _____ (PMB-1) consists of two pages of the January 1, 2006
4 actuarial report for the Aquila, Inc. Retirement Income Plan (Pension Plan)
5 prepared by Aquila's actuary, Hewitt Associates (Hewitt). This is the latest
6 actuarial report since the January 1, 2007 report will not be prepared by Hewitt
7 until May 2007. Table 1, shown below, is the projected increase in Kansas
8 allocated pension expenses from 2006 to 2007. This projection was prepared
9 by Aquila's accounting department using 2007 budget estimates provided by
10 Hewitt. Exhibit No. _____ (PMB-2) from the 2006 actuarial report shows the
11 pension formula used to calculate benefits under the pension plan.

12

13 **Q. What are the increases in pension expense?**

14 A. Page 2 of Exhibit No. _____ (PMB-1) shows the history of the FAS 87 pension
15 annual expense increases for Aquila from \$8,427,028 in 2003 to \$16,146,682 in
16 2006. The total increase to Kansas is the sum of the direct expense plus the
17 allocated piece of Central Services and Corporate Services.

18

Table 1

KS Gas	Projected 2006	2007 Budget	Increase
Direct Cost	\$493,578	\$573,133	\$79,555
Central Services/ Corporate	\$456,833	\$438,378	(\$18,455)
Total	\$950,411	\$1,011,511	\$61,100

19

1 Table 1 shows a projected increase of \$79,555 in direct expense and a
2 decrease of \$18,455 in allocated pension expense to Kansas from Central
3 Services and Corporate in 2007. Exhibit No. ____ (PMB-1) also demonstrates
4 that pension expense as a percent of compensation, a standard measure of the
5 FAS 87 pension expense, has increased significantly greater than the inflation
6 rate as measured by the Consumer Price Index (CPI) from 2003 through August
7 2006. See comparison of Aquila's pension expense increases to the CPI on
8 Table 2 below:
9

10 **Table 2**

Year	Pension Expense	CPI Rate	Difference
2003	5.28%	2.27%	3.01%
2004	6.13%	2.68%	3.45%
2005	7.14%	3.39%	3.75%
2006	9.24%	3.87%	5.37%

11

12

13 **Q. What accounts for the increase in pension expense?**

14 A. The increase in Aquila's pension expense is primarily the result of the annual
15 increase in (1) the years of credited service accrued by employees and (2)
16 annual pay increases. As years of credited service and pay increase on an
17 annual basis, the projected expense to provide a pension benefit increases.
18 Exhibit No. ____ (PMB-2) shows Aquila's pension formula. The pension

1 benefit provided to plan participants is the amount provided by the greatest of
2 the three formulas listed on page 52. The formula (a) results in the greatest
3 benefit 95% of the time. That formula is 1% of final average pay (FAE) + .25%
4 FAE – Covered Compensation (Social Security compensation) x Credited
5 Service. Consequently, as employees earn greater service and pay, Aquila's
6 pension expense increases. Another major factor contributing to increased
7 expense is the discount interest rate at which pension liabilities are valued per
8 FAS 87 requirements. As interest rates decline, pension liabilities increase. In
9 the last four years interest rates have declined to historic lows causing pension
10 liabilities to increase.

11

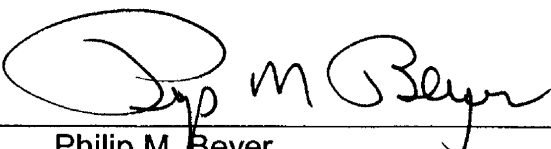
12 **Q. Does this conclude your testimony at this time?**

13 **A. Yes.**

VERIFICATION


STATE OF Missouri)
)ss:
COUNTY OF Jackson)

Philip M. Beyer, being first duly sworn, deposes and says that he is Philip M. Beyer referred to in the foregoing document entitled "Direct Testimony of Philip M. Beyer" before the State Corporation Commission of the State of Kansas and the statements therein were prepared by him or under his direction and are true and correct to the best of his information, knowledge and belief.



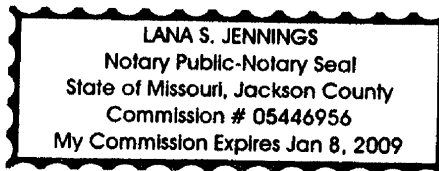
Philip M. Beyer

SUBSCRIBED AND SWORN to before me this 11th day of October, ²⁰⁰⁶ ~~2004~~.



Notary Public

My Appointment Expires:
January 8, 2009



Hewitt

Hewitt Associates LLC

Actuarial Report

Aquila, Inc.

Aquila, Inc.
Retirement Income
Plan

As of January 1, 2006

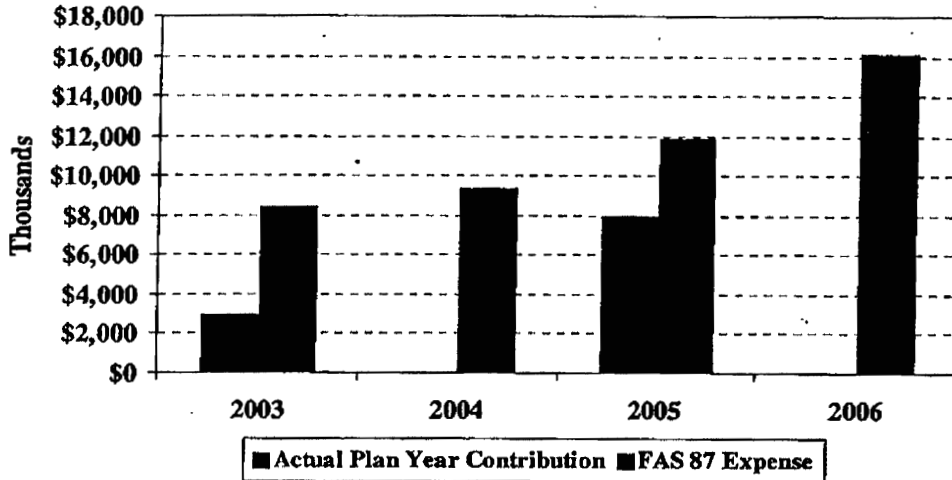
(Before Funding Reform)

Argentina	Channel Islands	Greece	Japan	Poland	Sweden
Australia	Chile	Hong Kong	Malaysia	Puerto Rico	Switzerland
Austria	China	Hungary	Mauritius	Singapore	Thailand
Belgium	Czech Republic	India	Mexico	South Africa	United Kingdom
Brazil	France	Ireland	Netherlands	South Korea	United States
Canada	Germany	Italy	Philippines	Spain	Venezuela

To protect the confidential and proprietary information included in this material, it may not be disclosed or provided to any third parties without the approval of Hewitt Associates LLC.

Summary (continued)

History of Pension Contribution and Expense



	Actual Plan Year Contribution		FAS 87 Expense/(Income)	
	Amount	Percent of Compensation	Amount	Percent of Compensation
2003	\$ 3,000,000	1.88%	\$ 8,427,028	5.28%
2004	\$ 0	0.00%	\$ 9,327,553	6.13%
2005	\$ 8,000,000	4.82%	\$ 11,862,132	7.14%
2006	N/A ¹	N/A	\$ 16,146,682	9.24%

¹ Actual contribution to be determined. Minimum required is \$0. Maximum deductible is \$44,656,563.

Plan Provisions

History of Plan

This outline is an abbreviated description of the benefits valued in the actuarial calculations reflected in this report. It is not a formal summary plan description or a legal definition of the plan provisions.

- Effective Date:** Last amended December 16, 2005.
- Eligibility:** Age 21 and one year of service.
- Vesting Service:** An employee receives a year of vesting service for each calendar year in which he is credited with 1,000 hours of service.
- Credited Service:** Same as Vesting Service.
- Compensation:** Annual compensation paid to a participant for the year or portion of year in which he is eligible to participate in the plan. Compensation shall not include expense allowances, deferred compensation and welfare benefits. For periods before 2005, base pay.
- Final Average Earnings (FAE):** The average of a participant's compensation for the highest four full consecutive calendar years in the last ten years. If the Employee has been a participant fewer than four years as of the determination date, then the compensation shall be averaged over such shorter period.
- Covered Compensation (CC):** 35-year average of Social Security taxable wage bases ending in year of Social Security normal retirement.
- Normal Retirement Date:** First of the month coincident with or next following attainment of age 62.

Plan Provisions (continued)

Normal Retirement Benefit:	A benefit equal to the greatest of (a), (b) and (c) below: a. $[1\% \times \text{FAE} + 0.25\% \times [\text{FAE} - \text{CC}] (\text{min. } 0)] \times \text{Credited Service}$ b. $\$23 \times \text{Credited Service}$ c. the benefit determined under the plan formula in effect as of December 31, 2004. (Special minimum benefits make this apply for about 90 individuals as of January 1, 2005.)
Disability Benefit:	Upon a disability that renders an employee permanently incapable of continuing substantial gainful activity as determined by eligibility for disability benefits under the Federal Social Security Act in effect at the date of disability, a participant may receive his accrued benefit on the first day of the month coincident with or next following such disability if he has five years of vesting service.
Preretirement Death Benefit:	If a participant dies before his retirement date and is survived by an eligible spouse, his spouse is eligible to receive 50% of the accrued benefit, paid at later of Participant's death or when the participant would have attained age 55.
Vesting:	100% at five years of service, or attainment of age 55.
Normal Form of Payment:	For married participants, the normal form of payment is a 50% Joint & Survivor annuity. For single participants, the normal form of payment is a life annuity.
Early Retirement Benefit:	Accrued benefit is reduced .5% per month from age 62 (special minimums for ARKLA, Minnegasco, MPS Union, NMN Union, WPE Non-Union).