

Exhibit No:
Issues: Eastern System Sale
Witness: Steven M. Jurek
Type of Exhibit: Rebuttal Testimony
Sponsoring Party: Aquila Networks – MPS
Aquila Networks – L&P
Case No: GR-2004-0072
Date Testimony
Prepared: February 13, 2004

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2004-0072

REBUTTAL TESTIMONY

OF

STEVEN M. JUREK

ON BEHALF OF


**AQUILA, INC.
d/b/a
AQUILA NETWORKS – MPS
and
AQUILA NETWORKS – L&P**

**Omaha, Nebraska
February, 2004**

AFFIDAVIT OF STEVEN M. JUREK

STATE OF NEBRASKA)
) ss.
COUNTY OF DOUGLAS)

Steven M. Jurek, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony and schedules entitled "Rebuttal Testimony of Steven M. Jurek"; that said testimony was prepared by him and/or 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.

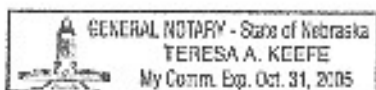


Steven M. Jurek

SUBSCRIBED AND SWORN TO before me this 9 day of February, 2004



Notary Public



1
2 **REBUTTAL TESTIMONY OF STEVEN M. JUREK**
3

4 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

5 A. My name is Steven M. Jurek and my business address is 1815 Capitol Avenue,
6 Omaha, Nebraska.

7 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

8 A. I am presently employed by Aquila, Inc. (“Aquila” or “Company”) as Vice
9 President, Regulatory Services. In that capacity I am responsible for the
10 Company’s natural gas related rate and regulatory matters in its seven state
11 jurisdictions.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **EMPLOYMENT HISTORY.**

14 A. I have held my current position since January 2001. I started employment with
15 Aquila and predecessor companies in 1980. In my tenure with Aquila, I have
16 held positions in areas of Planning, Accounting, Corporate Policy and Regulation.
17 I have a BSBA degree, with a specialization in Finance, from Creighton
18 University (1978).

19 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**
20 **BODIES?**

21 A. Yes. I have testified before regulatory bodies in Colorado, Iowa, Kansas,
22 Minnesota, Missouri, and West Virginia.

23 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

1 A. The purpose of my testimony is to discuss the potential sale of the Aquila
2 Networks - MPS Eastern System ("Eastern System") to Union Electric Company,
3 d/b/a AmerenUE ("Ameren"), including the impact such a sale would have on this
4 rate case.

5 **Q. IS THIS THE SAME EASTERN SYSTEM THAT AQUILA WITNESS JOSEPH M.
6 BAHR DESCRIBES IN HIS DIRECT TESTIMONY IN THIS CASE?**

7 A. Yes, it is. Mr. Bahr describes this system on Page 20, Lines 10 – 25 of his direct
8 testimony.

9 **Q. PLEASE DESCRIBE AQUILA'S PROPOSED SALE OF THE EASTERN
10 SYSTEM.**

11 A. Aquila began the process of offering the Eastern System for sale in May of 2003.
12 Aquila ultimately reached an agreement to sell this system to Ameren, and the
13 agreement was executed September 24, 2003.

14 **Q. HAS AQUILA MADE A FILING WITH THE MISSOURI PUBLIC SERVICE
15 COMMISSION REQUESTING AUTHORITY TO SELL THE EASTERN
16 SYSTEM?**

17 A. Yes. Aquila filed a joint application with Ameren on December 3, 2003 for
18 authority to sell and transfer the assets of the Eastern System to Ameren in Case
19 No. GM-2004-0244. More information regarding the reasons for the sale and the
20 process that Aquila followed in offering this system for sale can be found in that
21 case.

22 **Q. WAS THE SALES AGREEMENT WITH AMEREN EXECUTED DURING
23 EITHER THE TEST YEAR OR UPDATE PERIOD OF THIS RATE CASE?**

1 A. Yes. The test year for this rate case ended December 31, 2002, while the
2 update period ended September 30, 2003. Therefore, this agreement was
3 executed within the update period.

4 **Q. WHEN IS THIS TRANSACTION EXPECTED TO CLOSE?**

5 A. That depends on a number of issues, including if and when approval is given by
6 the Missouri Public Service Commission (“MPSC”). Aquila’s goal is to have the
7 transaction closed as quickly as possible, but no later than June 30, 2004.

8 **Q. DO YOU ANTICIPATE THIS TRANSACTION CLOSING PRIOR TO THE**
9 **COMPLETION OF THIS RATE CASE?**

10 A. That is certainly possible. The operation of law date in this rate case is June 30,
11 2004, so they are on a very similar path from a timing standpoint.

12 **Q. DOES THE COMPANY HAVE A PROPOSAL FOR HOW TO DEAL WITH THIS**
13 **SALE IN THE EVENT THAT IT IS COMPLETED PRIOR TO THE**
14 **COMPLETION OF THE RATE CASE?**

15 A. Yes. When Aquila provided its update to the MPSC Staff and intervenors, it
16 provided two updates for Aquila Networks – MPS (“MPS”). The first was the
17 typical update, which included the Eastern System. The second was an update
18 that excluded the Eastern System. (For the purposes of this testimony, I’ll refer
19 to this update as the “Sale Update.”) Aquila proposes that the information from
20 this second update be utilized in the event that the sale of the Eastern System is
21 completed prior to the completion of this rate case. Both of these updates, as
22 well as the update for Aquila Networks – L&P (“L&P”), are included in the rebuttal
23 testimony of Aquila Witness Richard G. Petersen.

1 **Q. CAN YOU GENERALLY EXPLAIN THE METHODOLOGY USED TO DEVELOP**
2 **THE SALE UPDATE?**

3 A. Mr. Petersen is sponsoring these updates and will provide more detailed
4 information regarding their development. I will explain the methodology used at a
5 high level.

6 **Q. WHAT METHODOLOGY WAS USED?**

7 A. When developing the Sale Update, the Company eliminated all direct revenue
8 and expense associated with the Eastern System from the overall MPS revenues
9 and costs. In essence, this treats the MPS system as if the Eastern System did
10 not exist.

11 **Q. DID THE COMPANY ELIMINATE ALLOCATED COMMON AND CORPORATE**
12 **COSTS AS WELL AS DIRECT COSTS WHEN DEVELOPING THE SALE**
13 **UPDATE?**

14 A. As a general rule, no.

15 **Q. WHY NOT?**

16 A. The Company eliminated only those costs and revenues that would no longer
17 exist once the sale was concluded. Allocated common and corporate costs will
18 still exist after the sale, so they were not eliminated in developing the Sale
19 Update.

20 **Q. WHY WILL NO ALLOCATED COMMON OR CORPORATE COSTS BE**
21 **ELIMINATED AS A RESULT OF THIS SALE?**

22 A. The Eastern System is a small part of Aquila's business. Based on customer
23 count, it makes up approximately eight percent of Aquila's overall Missouri gas

1 business, and less than the 0.4% of Aquila's overall domestic utility business.

2 Other than the direct costs associated with the system, such as direct labor,
3 vehicles, etc., there will be no decrease in costs to Aquila overall. For example,
4 the number of call center employees, accountants, buildings, and other costs will
5 not change as a result of this sale.

6 **Q. HOW DOES YOUR POSITION DIFFER FROM THAT OF THE MPSC STAFF**
7 **ON THIS ISSUE?**

8 A. The MPSC Staff has developed a separate revenue requirement for the MPS
9 North/South systems and the Eastern System. In principle, that is reasonable.
10 However, the Staff has included allocated costs in these revenue requirements.
11 While that is not Aquila's approach, it may be reasonable in the event that the
12 Eastern System is not sold. In that event, the overall MPS revenue requirement
13 would potentially be recovered via rates for the two systems. However, this
14 approach does not work in the event of the sale of the Eastern System. In that
15 event, Aquila would be left with stranded costs, since the common and corporate
16 costs that Staff has allocated to the Eastern System would no longer have any
17 revenue associated with them. Therefore, Aquila's approach is the only
18 approach that appropriately recognizes the cost recovery issues resulting from a
19 sale of the Eastern System.

20 **Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?**

21 A. Yes. Aquila has reached agreement to sell its Eastern System to Ameren. This
22 sale, pending MPSC and other approvals, should close no later than June 30,
23 2004. Aquila has provided two updates for MPS – one that includes the Eastern

1 System and one that does not. This Sale Update removes all direct revenues
2 and expenses associated with the Eastern System from the overall MPS revenue
3 requirement. Utilizing this methodology will provide Aquila the opportunity to
4 recover its full cost of service in the event that the sale is completed.

5 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

6 A. Yes, it does.