

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of )  
Union Electric Company d/b/a AmerenUE, )  
Aquila, Inc., d/b/a Aquila Networks - MPS, )  
and Aquila Networks - L & P, for an Order )  
Authorizing the Sale and Transfer of )  
Certain Assets of Aquila, Inc., Located in )  
Missouri to AmerenUE, and Either )  
Authorizing the Transfer of Existing )  
Certificates of Public Convenience and )  
Necessity, or Granting a New Certificate of )  
Public Convenience and Necessity to )  
AmerenUE in Conjunction with Same. )

Case No. GM-2004-0244

**AFFIDAVIT OF MARK S. VANTREASE**

**STATE OF MISSOURI** )  
 ) ss  
**CITY OF ST. LOUIS** )

Mark S. Vantrease, being first duly sworn on (his/her) oath, states:

1. My name is Mark S. Vantrease. I am employed by Ameren Services as Director, Strategic Planning and Corporate Development.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 9 pages, which has been prepared in written form for introduction into evidence in the above-referenced docket.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Mark S. Vantrease  
Mark S. Vantrease

Subscribed and sworn to before me this 3<sup>rd</sup> day of December, 2003.

Mary Hoyt  
Notary Public

My Commission Expires: 4-1-2006

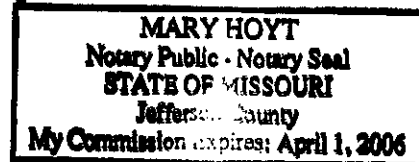


Exhibit No.:  
Issue(s): Transaction Overview,  
Discussion of Benefits  
Witness: Mark S. Vantrease  
Sponsoring Party: Union Electric Company  
Type of Exhibit: Direct Testimony  
Case No.: GM-2004-0244  
Date Testimony Prepared: December 3, 2003

**MISSOURI PUBLIC SERVICE COMMISSION**

**CASE NO. GM-2004-0244**

**DIRECT TESTIMONY**

**OF**

**MARK S. VANTREASE**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY,  
d/b/a AmerenUE**

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

**St. Louis, Missouri  
December 2003**

**NP**



1           **Q.     What is the purpose of your direct testimony?**

2           A.     The purpose of my direct testimony is to provide a high level overview of  
3 AmerenUE's proposed acquisition of Aquila, Inc.'s ("Aquila") Missouri Eastern Gas System  
4 ("the System"), (the "Transaction"), and to outline what the Company is asking the  
5 Commission to approve in this case. I will also provide an overview of the rationale  
6 supporting the Transaction, including a discussion of how the Transaction will benefit the  
7 existing customers of the System, how the Transaction will benefit the existing Missouri gas  
8 customers of AmerenUE and, from an operational standpoint, how the System will be  
9 integrated into the AmerenUE system.

10          **Q.     Please describe the Transaction.**

11          A.     The System was a natural gas expansion project that Aquila initiated in the  
12 mid-1990s to provide natural gas service to the communities of Rolla, Salem and Owensville,  
13 Missouri. The System currently serves approximately 4,200 customers. Since that time,  
14 Aquila has operated the System in conjunction with its other Missouri gas operations.  
15 However, Aquila is currently in the process of refocusing its business around a core of  
16 domestic utility operations, which includes the selective divestiture of non-core assets.  
17 Aquila considers the System assets to be geographically remote from Aquila's other Missouri  
18 gas operations and, with limited opportunities for Aquila to realize operational synergies with  
19 the rest of its Missouri operations, has included the System as part of its efforts to divest non-  
20 core assets. The rationale behind the decision to divest the System is discussed in greater  
21 detail in the direct testimony of Aquila witness Ivan Vancas.

22                   The outcome of the resulting bidding process established by Aquila for the  
23 sale of the System was that, on September 24, 2003, AmerenUE signed an Asset Purchase

1 Agreement (the “Agreement”) with Aquila whereby AmerenUE would acquire the assets and  
2 related gas distribution business of the System.

3 **Q. What are Ameren and Aquila asking the Commission to approve in this**  
4 **case?**

5 A. AmerenUE and Aquila are requesting that the Commission issue an Order  
6 approving the Transaction, including AmerenUE’s request to fully integrate the System into  
7 its existing Missouri gas operations, as set forth in the Joint Application.

8 **Q. What was your role in the transaction?**

9 A. I was AmerenUE’s representative in negotiating the Asset Purchase  
10 Agreement with Aquila and currently serve as AmerenUE’s primary point of contact for the  
11 transaction, including transition and integration planning activities.

12 **Q. How did AmerenUE become aware of Aquila’s offer to sell the System?**

13 A. AmerenUE became aware of Aquila’s interest in selling the System through  
14 an unsolicited phone call it received from Aquila.

15 **Q. Why is AmerenUE pursuing this transaction?**

16 A. AmerenUE views this transaction as an effective way to grow its natural gas  
17 business in Missouri with high quality assets. It views the System as a strategic fit with its  
18 existing Missouri gas operations due to the geographic proximity of the System with the  
19 existing AmerenUE service territory. In addition, \*\*\*

20 \_\_\_\_\_

21 \_\_\_\_\_

22 \_\_\_\_\_ \*\*\*

1           **Q.     Please describe the quality of the assets.**

2           A.     Based on the results of the Company's due diligence effort and given the fact  
3 that the System in its entirety is less than 10 years old the Company believes the assets  
4 should be in excellent condition. The system is constructed of polyethylene pipe, which,  
5 according to our gas operations group, is the lowest cost material to install, maintain and  
6 repair and is consistent with the materials utilized by AmerenUE for its existing Missouri gas  
7 system.

8           **Q.     What is the amount that AmerenUE is paying for the System?**

9           A.     \*\*\* \_\_\_\_\_  
10 \_\_\_\_\_ \*\*\*

11          **Q.     What does this price include?**

12          A.     \*\*\* \_\_\_\_\_ \*\*\* approximately 164 miles of  
13 distribution mains, approximately 4,200 service lines, meters and regulators, as well as the  
14 associated services, trucks, and construction equipment needed to operate and maintain the  
15 System.

16          **Q.     How was this price determined?**

17          A.     Upon expressing an interest in the assets being offered, AmerenUE was  
18 invited to participate in a bidding process for the System. After completing its due diligence  
19 investigation, which included a review of Aquila financial and operating documents,  
20 interviews with certain Aquila management and a field visit to the area, AmerenUE  
21 submitted a non-binding bid for the System assets. Based on the value of that bid,  
22 AmerenUE was invited to participate in a second round of bidding and was ultimately  
23 selected by Aquila to enter into exclusive negotiations with the intent of entering into an

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1 Asset Purchase Agreement for the System. The final purchase price, and the signed  
2 Agreement, was the outcome of those second round negotiations between AmerenUE and  
3 Aquila.

4 **Q. How will AmerenUE pay for this transaction?**

5 A. This transaction will be financed from funds available in AmerenUE's  
6 treasury, a portion of which may be obtained by new financing. The amount and nature of  
7 any new financing subject to the jurisdiction of the Commission will be submitted to the  
8 Commission for approval.

9 **Q. Will the Transaction result in any loss of jobs on the System?**

10 A. Ameren does not anticipate any direct loss of jobs related to this transaction.  
11 While the Agreement only covers the physical assets directly associated with the System,  
12 AmerenUE values the collective knowledge and experience of the System's employees and,  
13 in order to ensure continuity of service to customers after closing, the Company anticipates  
14 extending offers of employment to the existing System employees.

15 **Q. What benefits will AmerenUE ownership bring to the System?**

16 A. AmerenUE ownership will benefit the System in a number of ways. First, the  
17 most notable impact on existing System customers should be an immediate reduction in their  
18 cost of natural gas service. \*\*\* \_\_\_\_\_

19 \_\_\_\_\_ \*\*\*

20 These benefits are further discussed in the direct testimony of AmerenUE witness Glaeser.  
21 Second, lower cost of natural gas service will provide potential customers with a competitive  
22 alternative to current energy options. Finally, lower natural gas service cost will provide the  
23 communities of Rolla, Salem and Owensville with an additional economic development tool

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1 to use in their efforts to attract new businesses to their communities. The communities will  
2 also have access to Ameren's Economic Development Department, which can provide  
3 assistance to these communities in their economic development efforts. Other benefits that  
4 AmerenUE ownership will bring are its strategic focus on the regulated utility business and  
5 its long history of providing a high level of customer service. This is the business we have  
6 continuously focused on for the past one hundred years, and is the business we plan to focus  
7 on in the future.

8 **Q. What other changes will existing System customers notice?**

9 A. Customers will, of course, see a change in signage on local facilities and on  
10 service vehicles, and will have a new customer service phone number to call. Also, being  
11 part of the AmerenUE system, customers will have the same variety of billing and payment  
12 options currently available to other AmerenUE customers, including budget billing, online  
13 bill payment and automatic payment from bank accounts. Customers will also have online  
14 access that will allow them to view bill details, payment history and other information related  
15 to their residential and business accounts. In summary, the change in ownership will not  
16 result in any reduced level of service or reliability for those customers presently being served  
17 by Aquila.

18 **Q. Will the Transaction bring any benefits to AmerenUE's existing Missouri**  
19 **gas customers?**

20 A. Yes, the Transaction will benefit AmerenUE's existing Missouri gas  
21 customers. \*\*\* \_\_\_\_\_

22 \_\_\_\_\_

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1 \_\_\_\_\_ \*\*\* In addition, existing AmerenUE  
2 customers will benefit from potential growth on the System.

3 **Q. Please explain how existing AmerenUE customers will benefit from**  
4 **growth on the acquired system.**

5 A. When the System was originally built out, approximately 1,600 service lines  
6 were constructed to customers' premises who, to date, have not converted to natural gas. If,  
7 through competitive natural gas prices, AmerenUE is able to convert many of the additional  
8 services in the System to natural gas, it should bring in additional revenue with little  
9 incremental capital investment. While AmerenUE's embedded revenue requirement would  
10 increase due to this nominal capital investment, it is likely that the incremental revenue  
11 associated with these sales would be greater than the aforementioned increased revenue  
12 requirement. As a result, all of AmerenUE's Missouri gas customers would benefit from  
13 these conversions at the Company's next general rate proceeding.

14 **Q. Please describe AmerenUE's financial capabilities to close on this**  
15 **transaction and its operational capabilities to effectively operate the System.**

16 A. Ameren Corporation, AmerenUE's parent company, brings to the transaction  
17 a strong balance sheet and credit rating, which is currently rated as A3/A- by Moody's and  
18 Standard & Poor's ("S&P"), respectively. Equally strong is AmerenUE's financial position.  
19 The credit rating on its recently issued senior secured debt is A-, as rated by S&P. In terms  
20 of capabilities to operate the System, AmerenUE has been in the business of distributing  
21 natural gas for roughly 100 years and currently serves approximately 111,000 natural gas  
22 customers in Missouri. AmerenUE affiliates have an equally long record of serving natural  
23 gas customers in Illinois and currently serve over 400,000 natural gas customers in that state.

1           **Q.     How does financial strength and size of business benefit System customers?**

2           A.     Financial strength provides access to lower cost capital and \*\*\* \_\_\_\_\_

3 \_\_\_\_\_

4 \_\_\_\_\_ \*\*\*

5           **Q.     Please describe how the System will be operationally integrated with**  
6 **AmerenUE's existing Missouri gas operations.**

7           A.     Organizationally, the System will become part of AmerenUE's Central Ozarks  
8 Division, which is headquartered in Jefferson City. Management, engineering and other  
9 technical support for the System will be provided from the Jefferson City headquarters. The  
10 close proximity of the System to existing Missouri gas operations will allow the Company to  
11 bring in additional resources when they are needed for activities such as large construction  
12 projects. Integration of the System with AmerenUE will also involve bringing the System  
13 into AmerenUE's suite of information technology systems, including billing, customer  
14 contact centers, dispatch, gas compliance, meter management, mapping, work management,  
15 and SCADA (System Control and Data Acquisition).

16           **Q.     In the Joint Application, AmerenUE is requesting authority to integrate**  
17 **the property accounting records associated with the System with AmerenUE's property**  
18 **accounting records, and to adopt AmerenUE's authorized depreciation rates for assets**  
19 **of the System. Please explain the rationale for this request.**

20           A.     Because of the relative size of the System compared to AmerenUE's existing  
21 Missouri gas operations and of the asset based nature of this acquisition, Ameren views the  
22 Transaction more as a system expansion than it does an acquisition of another company. In a  
23 typical system expansion, one would not contemplate keeping separate billing and

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1 accounting records for the expansion area. The complexity, inefficiencies and cost  
2 associated with such an effort would likely outweigh the related benefits of the project.

3 Unlike in an acquisition of an entire company, which would bring with it the  
4 intact financial and operating systems necessary to operate the acquired business on a stand  
5 alone basis, in this transaction AmerenUE is acquiring only the local assets and equipment  
6 necessary to operationally serve the System's customers. All of the necessary support  
7 functions, such as engineering, billing, accounting, IT and customer service, will be provided  
8 from existing Ameren resources.

9 The nature of the regulated business is that costs for all customers of a like  
10 system are averaged across all customers just as the benefits of any efficiency and/or  
11 productivity gains are equally shared among all customers. We view the acquisition of the  
12 System in the same way.

13 The full benefits of being part of a larger, more financially secure gas  
14 operation only accrue to the System's customers when the System is fully integrated into  
15 AmerenUE's existing suite of financial and operating systems, just as the synergies that  
16 AmerenUE anticipates from adding the System to its existing Missouri operations are  
17 realized only when full integration takes place.

18 **Q. Does this conclude your direct testimony?**

19 **A.** Yes, it does.