

Exhibit No:

Issues:

Overview of System

Reasons for Sale

No Public Detriment

Witness:

Ivan Vancas

Type of Exhibit:

Direct Testimony

Sponsoring Party:

Aquila Networks – MPS

Case No:

GM-2004-0244

Date Testimony to be filed:

December 4, 2003

**MISSOURI PUBLIC SERVICE COMMISSION**

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

**DIRECT TESTIMONY**

**OF**

**IVAN VANCAS**

**ON BEHALF OF**

**AQUILA, INC.**

**d/b/a**

**AQUILA NETWORKS – MPS**

**West Des Moines, Iowa**

**December, 2003**

State of Iowa       )  
                              ) ss  
County of Polk       )

AFFIDAVIT OF IVAN VANCAS

Ivan Vancas, being first duly sworn, deposes and says that he is the witness who sponsors the accompanying testimony and schedules entitled "Direct Testimony of Ivan Vancas"; 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.

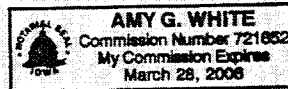
Ivan Vancas

Subscribed and sworn to before me this 20 day of November, 2003.

Amy G. White  
Notary Public

My Commission expires:

March 28, 2006



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**DIRECT TESTIMONY OF IVAN VANCAS**

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

A. My name is Ivan Vancas and my business address is 1701 48<sup>th</sup> Street, Suite 260, West Des Moines, Iowa.

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

A. I am presently employed by Aquila, Inc. ("Aquila") as Operating Vice President for its gas distribution properties in Missouri and Iowa.

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

A. I graduated from Kansas State University in Manhattan, Kansas with a Bachelor of Science Degree in Electrical Engineering in 1989. I have worked for Aquila and its predecessor companies since 1989 and have held various positions in field operations, engineering and management.

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

A. Yes. I have testified before the Missouri Public Service Commission ("MPSC") and the Iowa Utilities Board.

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

A. The purpose of my testimony is to provide an overview of Aquila Networks – MPS' ("MPS") Eastern System, to explain the reasons why Aquila proposes to

1 sell this system to Union Electric Company, d/b/a AmerenUE ("Ameren"), and to  
2 discuss why there is no public detriment arising from this sale.

3 **Q. WHAT IS THE EASTERN SYSTEM?**

4 A. The Eastern System is a MPS tariff term that refers to the collective distribution  
5 systems serving three individual towns (Rolla, Salem, and Owensville) that are  
6 supplied natural gas off the same interstate pipeline and two intrastate pipelines.  
7 These three towns are situated along Interstate 44, generally and remotely to the  
8 southeast of the other systems of MPS: Northern and Southern. Each of the  
9 three MPS systems has separate accounting for its purchased gas adjustment  
10 ("PGA"). However, the three systems otherwise have the same rates.

11 **Q. HOW DID THE EASTERN SYSTEM ORIGINATE?**

12 A. For each of the towns of Rolla, Salem, and Owensville, MPS filed applications  
13 with the MPSC for certificates of convenience and necessity authorizing it to  
14 construct, install, own, operate, and manage a gas distribution system. These  
15 individual applications were approved by the MPSC in 1994, 1995, and 1997,  
16 respectively. Shortly after receiving approval of each application, MPS began its  
17 build-out of the distribution system to convert customers from propane primarily,  
18 and also to serve new homes and businesses in the area.

19 **Q. HOW HAS THE FINANCIAL PERFORMANCE OF THE EASTERN SYSTEM**  
20 **COMPARED TO THE BUSINESS CASES REFLECTED IN THE APPROVED**  
21 **APPLICATIONS?**

1 A. The financial performance of the Eastern System has not met expectations.  
2 Both customer count and margins have been lower than anticipated, while the  
3 cost to build-out the system has been higher than anticipated.

4 **Q. WHAT IS THE PRIMARY REASON FOR THE FAILURE TO MEET**  
5 **EXPECTATIONS ON THE EASTERN SYSTEM?**

6 A. The anticipated economies of scale were not attained. The primary reason for  
7 the shortfall in customer conversions was that competition with un-regulated  
8 propane dealers was more fierce than anticipated.

9 **Q. GIVEN THIS FAILURE TO MEET EXPECTATIONS, WHAT ACTIONS HAS**  
10 **AQUILA RECENTLY TAKEN?**

11 A. Aquila has taken two primary actions. First, Aquila wrote-down the value of  
12 these assets by nearly \$9 million last year. This write-down is discussed by  
13 Aquila witness Joseph Bahr in his testimony in this case. Second, Aquila put  
14 these assets up for sale. The sale process is described by Aquila witness  
15 Thomas Fleener in his testimony in this case.

16 **Q. WHY DID AQUILA PUT THESE ASSETS UP FOR SALE?**

17 A. As I stated earlier in my testimony, customer connections did not achieve  
18 anticipated levels. Aquila cannot achieve economies of scale in gas purchasing  
19 due to the stacking of pipeline rates and Aquila's inability to leverage its gas  
20 purchasing on its other systems for the benefit of Eastern System ratepayers.  
21 These issues lead to higher prices for customers in this area, making Aquila's rate  
22 uncompetitive. In other words, the current burner-tip cost of gas makes new  
23 conversions difficult to achieve and impacts our ability to grow. The Eastern

1 System is also geographically remote from the rest of Aquila's Missouri  
2 operations so we have no opportunities to realize operational synergies and  
3 reduce costs. With all of these factors we determined it was in Aquila's and our  
4 customer's best interest to sell the system.

5 **Q. HAS AQUILA DISCUSSED THESE ISSUES WITH THE MPSC STAFF**  
6 **(“STAFF”) IN THE PAST?**

7 A. Yes, we have. Aquila has made some proposals that Staff has supported, and  
8 others that Staff has not supported. Unfortunately, these discussions have never  
9 yielded viable solutions to the issues. It is my understanding that Staff had, in at  
10 least one such discussion, asked whether Aquila had considered selling the  
11 Eastern System.

12 **Q. DO YOU BELIEVE THAT THIS SALE IS DETRIMENTAL TO THE PUBLIC**  
13 **INTEREST?**

14 A. No. Aquila proposes to sell these assets to Ameren, an established natural gas  
15 distribution company in the state of Missouri. It is Aquila's understanding that  
16 Ameren intends to continue serving these customers at the same margin rate  
17 that Aquila currently serves them under. Further, it is likely, as discussed in the  
18 testimony of Ameren's witnesses, that Ameren will be able to lower the cost of  
19 gas supply to these customers. This would represent a benefit to the Eastern  
20 System customers. Finally, Aquila's current customers will experience no  
21 detriment. Aquila intends to continue serving its remaining customers under the  
22 same terms and conditions it has always served them, including the same cost of  
23 service rates. Aquila has a rate case currently on file with the MPSC, and that

1 case will determine what rate changes are appropriate for Aquila's remaining  
2 customers.

3 **Q. WILL ANY OF THE EMPLOYEES ASSOCIATED WITH THIS SYSTEM LOSE**  
4 **THEIR JOBS AS A RESULT OF THE SALE?**

5 A. No. Ameren has indicated that it intends to offer employment to all Aquila  
6 personnel directly associated with the Eastern system.

7 **Q. ARE THERE ANY OTHER COMMENTS THAT YOU WOULD LIKE TO MAKE**  
8 **REGARDING THE PROPOSED SALE OF THE EASTERN SYSTEM?**

9 A. Yes. When Aquila originally filed for MPSC approval to construct, own, and  
10 operate this system, the Staff was very clear that it did not agree that this system  
11 would be economically viable. As a result of those concerns, the MPSC, in its  
12 order, stated that Aquila was constructing this system at shareholder's risk.  
13 Clearly, based on the significant write-down already taken and the proposed sale  
14 of this system at a price significantly below its cost, Aquila's shareholders have  
15 absorbed this risk. At this point, the public interest can best be served by  
16 approving the proposed sale of the Eastern System to Ameren.

17 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

18 A. Yes.