

BEFORE THE STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

FILED⁴

APR 16 2004

Missouri Public
Service Commission

Illinois Commerce Commission
On Its Own Motion

vs.

Union Electric Company,
d/b/a AmerenUE

Case No. 02-0729

Reconciliation of revenues
collected under gas adjustment
charges with actual costs prudently
incurred.

AFFIDAVIT OF JAMES J. MASSMANN

STATE OF MISSOURI)

SS

CITY OF ST. LOUIS)

James J. Massmann, being first duly sworn on his oath, states:

1. My name is James J. Massmann. I am a Natural Gas Supply and Transportation Director at Ameren Energy Fuels and Services Company.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of 116 pages, all of which have 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.

James J. Massmann
James J. Massmann

Subscribed and sworn to before me this 1st day of April, 2003.

MARY HOYT
Notary Public - Notary Seal
STATE OF MISSOURI
Jefferson County
My Commission Expires: April 1, 2006

Mary Hoyt
Notary Public

Exhibit No. 53
Case No(s) 02-0729-0108
Date 4-1-04 Rptr TUE

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 02-0729

DIRECT TESTIMONY

OF

JAMES J. MASSMANN

Submitted on Behalf

Of

UNION ELECTRIC COMPANY

d/b/a AmerenUE

April 2003

PUBLIC VERSION

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

NP

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 02-0729

DIRECT TESTIMONY OF JAMES J. MASSMANN

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

Q. Please state your name and business address.

**A. My name is James J. Massmann. My business address is 1901 Chouteau Avenue,
St. Louis, Missouri 63103.**

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

**A. I am employed as a Natural Gas Supply and Transportation Director in the Natural
Gas Supply and Transportation Department of AmerenEnergy Fuels and Services
Company.**

Q. Please briefly describe AmerenEnergy Fuels and Services Company.

**A. AmerenEnergy Fuels and Services Company is an affiliate of Ameren Corporation
(Ameren) which was formed following the December 1997 merger of Union Electric
Company, now doing business as AmerenUE (AmerenUE or Company), and Central
Illinois Public Service Company, Inc., now doing business as AmerenCIPS.
AmerenEnergy Fuels and Services Company is a company which provides
AmerenUE, AmerenCIPS, and the other companies of the Ameren system with a
variety of fuel related services, including natural gas procurement services.**

Q. Please describe your pertinent employment history.

**A. I was employed by Union Electric Company in August 1982 and by Ameren
Corporation upon the December 1997 merger. Prior to being promoted to the
position of Natural Gas Supply and Transportation Director, I held several positions**

26 in the Natural Gas Supply and Transportation Department, including Gas Supply
27 Executive and Gas Systems Analyst. Prior to that, I was a Resource Planning
28 Engineer in the Corporate Planning Department, an engineer in the Engineering &
29 Construction Department, and an engineer in the Nuclear Engineering Department.

30 **Q. Please describe your educational background.**

31 **A.** I received a Bachelor of Science degree in Mechanical Engineering in 1980 and a
32 Masters of Science degree in Engineering Management in 1986, both from the
33 University of Missouri – Rolla.

34 **Q. What are your duties and responsibilities as Natural Gas Supply and
35 Transportation Director?**

36 **A.** My primary responsibility is to direct the management and procurement of reliable
37 and economic gas supply, transportation and storage services for Ameren affiliates,
38 including AmerenUE's Illinois gas distribution system in Alton and its vicinity. I
39 also participate in proceedings before the Federal Energy Regulatory Commission
40 (FERC) involving AmerenUE's interstate pipeline suppliers and before this
41 Commission and the Missouri Public Service Commission relating to AmerenUE's
42 natural gas distribution systems. Finally, I oversee daily operations including load
43 forecasting, system balancing, storage management, nominations, and scheduling.

44 **Q. Are you familiar with the subject matter of this proceeding?**

45 **A.** Yes, I am. This docket is the Commission's annual reconciliation proceeding related
46 to AmerenUE's Illinois Uniform Purchased Gas Adjustment Clause (PGA). It was
47 established for the purpose of reviewing the Company's gas procurement activities
48 under its PGA for the twelve-month period ending on December 31, 2002.

49 **Q. What is the purpose of your testimony in this proceeding?**

50 **A.** The purpose of my testimony is to provide a description of the gas procurement
51 activities AmerenUE performed during the reconciliation period with respect to its
52 gas utility distribution system located in the city of Alton, Illinois and its vicinity.

53 **Q. Please describe AmerenUE's gas system in Illinois.**

54 **A.** AmerenUE's gas system in Illinois serves Alton and adjacent areas, and is separate
55 and distinct from the Company's Missouri gas operations. This system serves
56 approximately 18,178 customers comprised of residential (65% of sales), commercial
57 (24% of sales) and industrial (11% of sales) customers. The Company's customer
58 load requirements are highly weather sensitive with sharp variations in demand
59 occurring during the peak winter season. During 2002, AmerenUE's Illinois
60 distribution system was directly connected to one interstate pipeline, Mississippi
61 River Transmission Corporation (MRT), which is regulated by the FERC, and to one
62 intrastate pipeline, Illinois Gas Transmission Company (IGT), regulated by this
63 Commission. There were no local gas fields in or near the Company's gas service
64 area from which the Company could have reliably purchased direct gas supply.
65 AmerenUE has no on-system natural gas storage, but does lease storage services from
66 MRT under the terms and conditions of MRT's FERC regulated Firm Storage Service
67 (FSS). This storage is located in Lincoln Parish, Louisiana.

68 **Q. Mr. Massmann, would you please describe the Company's general purchasing**
69 **policy for acquiring natural gas supplies and related services for its Illinois gas**
70 **system?**

71 A. AmerenUE's natural gas acquisition policy is essentially a product of its utility
72 obligation to serve. As a regulated public utility, the Company is obligated to provide
73 natural gas service to all present and future customers in its service area; it is required
74 to meet changes in its customers' demand for gas, without regard to their cause; and
75 AmerenUE is charged with providing reliable service at reasonable cost. Each gas
76 purchasing decision made on behalf of the Company is directed at satisfying this
77 obligation to serve in the most economic way.

78 Q. Please describe the gas transportation and storage services that were available
79 for use by AmerenUE in 2002 to supply gas to its Illinois distribution system.

80 A. The Company signed Firm Transportation Service and Firm Storage Service contracts
81 with MRT on November 1, 1993 as a result of FERC Order No. 636, which required
82 interstate pipelines to unbundle their sales and transportation services. These original
83 contracts were extended through October 31, 2001, and then extended again through
84 April 30, 2007. The Company also executed a firm transportation agreement with
85 IGT on December 1, 1993 and amended it to increase capacity in 1998. The contract
86 with IGT was extended for a period from December 1, 2001, through October 31,
87 2006. Firm transportation agreements with Natural Gas Pipeline Company of
88 America (NGPL), an interstate pipeline upstream of IGT, were executed on
89 December 1, 1993 and November 19, 1998. The firm transportation agreements with
90 NGPL were also extended for the period from December 1, 2001 through October 31,
91 2006. AmerenUE also executed interruptible transportation agreements with MRT on
92 December 1, 1989 and with IGT on September 17, 1990.

93 Later in my direct testimony, I will provide a summary of these contracts
94 including their Maximum Daily Contract Quantities (MDCQ).

95 **Q. Did the Company alter any of its gas transportation or storage agreements in**
96 **2002?**

97 **A. Yes, the term of the storage contract, which was scheduled to expire May 15, 2003**
98 **was extended to May 15, 2008.**

99 **Q. Please provide a table that summarizes the specific pipeline services that were**
100 **available to AmerenUE for transportation and storage during 2002 prior to and**
101 **after the renegotiations.**

102 **A. A table summarizing such services is set forth below:**

Contract	Service	Description	MDCQ (MMBtu/d)
462	FTS	MRT Firm Transport	20,887/18,636 (1)
#503/#3280 (3)	FSS	MRT Firm Storage	16,656 (2)
I100010	FT	IGT Firm Transport	8,000 MMBtu/d Oct - Apr 0 MMBtu/d May - Sept
106214	FTS	NGPL Firm Transport	8,530 (4,5)
17	IT	MRT Interruptible Transport	15,000
I100010	IT	IGT Interruptible Transport	12,000

103 (1) Peak/Off-Peak season

104 (2) Storage injections/withdrawals transported to/from facilities on FT #462 and limited to capacity on FT#462.

105 (3) For a portion of the year, the total withdrawal capability 16,656 was made up of 14,914 MMBtu/d from FSS
106 #503 and 1,742 MMBtu/d from FSS #3280. The contracts were combined into FSS #503 to ease operation
107 and administration efforts.

108 (4) Upstream capacity delivery to IGT.

109 (5) Total contract includes 530 MMBtu/d of firm capacity delivered to AmerenUE Fisk/Lutesville system in
110 Missouri. Fixed reservation charges are allocated to each distribution system by primary delivery point
111 capacity.
112

113 **Q. Please describe the specific changes to the pipeline services that were a result of**
114 **the renegotiated agreements.**

115 **A. The firm transportation services and storage services with MRT and NGPL were**
116 **unchanged in 2002.**

117 ** _____

118 _____

119 _____

120 _____

121 _____

122 _____

123 _____

124 _____

125 _____

126 _____

127 _____

128 _____

129 _____

130 _____

131 _____

132 _____

133 _____

134 _____**

135 **Q. Please describe AmerenUE's gas supply portfolio.**

136 **A. The Company's gas supply portfolio for Illinois was divided into different sources**
137 **based upon the Company's firm pipeline capacity on MRT and NGPL. This allowed**
138 **for supply diversity while retaining economies of scale.**

NP

139

**

140

141

142

143

144

145

146

147

148

149

**

150

For November and December 2002, new firm gas supply agreements were
acquired through competitive bidding. **

151

152

153

154

155

156

157

158

159

160

161

**

NP

162 The final portion of firm gas supply for both peak seasons was available from
163 the Company's FSS agreement with MRT. This storage agreement provided for the
164 firm withdrawal of AmerenUE's storage inventory into the firm transportation
165 agreement with MRT for delivery to the Company's citygate.

166 **Q. Describe the relationship between these firm gas supply sources and the**
167 **corresponding pipeline transportation capacity.**

168 **A. The maximum daily firm pipeline capacity and gas supply volumes that were**
169 **available during January, February, and March 2002 are described in the table below.**

170 Firm Gas Supply quantities do not reflect exclusions for fuel and loss.

171

[illegible]172
173

(1)		
(2)		**

NP

(1) _____

(2) _____

(1)

(2)

(4)

NP

179
180 **Q. Were these gas supplies generally available throughout the year, and on peak**
181 **days experienced by the Company?**

182 **A. Yes, the gas supplies were available during the periods indicated above with no**
183 **exceptions.**

184 **Q. Your tables above include propane as a source of firm gas deliverability. Please**
185 **describe the operation of AmerenUE's propane plant during 2002.**

186 **A. As an additional supply source on peak days in 2002, AmerenUE maintained a**
187 **propane-air blending plant with a capacity of 7,500 MMBtu per day. This plant did**
188 **not operate other than for tests during the reconciliation period.**

189 **Q. Were other supply sources available to AmerenUE during 2002?**

190 **Yes. In addition to the supplies mentioned above, the Company purchased gas from**
191 **the short-term spot market during the off-peak period (April through October). This**
192 **gas was used for injection into storage and for the summer requirements of the**
193 **Company's Illinois distribution system.**

194 **Q. How was the spot market monitored for the purchase of gas?**

195 **A. AmerenEnergy Fuels and Services Company gas supply personnel maintain**
196 **communications with gas producers and marketers when performing their normal job**
197 **activities. A large volume of information regarding the spot market is derived from**
198 **these communications. In addition, AmerenEnergy Fuels and Services Company**
199 **subscribes to a number of gas industry publications such as Gas Daily, Inside FERC**
200 **Gas Market Report, and Natural Gas Week which provide spot market pricing**
201 **information and industry news on a regular basis. The New York Mercantile**
202 **Exchange gas futures market is also monitored on a real time basis by a satellite feed**

203 signal from a futures information service provider. In addition, electronic gas trading
204 platforms are utilized to monitor market conditions.

205 The Company procured spot market gas by competitive bid from various
206 suppliers on a monthly or daily basis. AmerenUE maintains a spot market supplier
207 list containing gas suppliers qualified to bid on the spot market requirements of the
208 Company. AmerenUE uses the spot market as a "testing" ground for new suppliers
209 since non-performance by a gas supplier during the summer will not typically cause
210 operational or economic harm to the Company.

211 **Q. Mr. Massmann, how did the Company plan the utilization of its supply sources?**

212 **A.** The supply sources were utilized by AmerenUE to meet the operational
213 characteristics of its citygate loads and to comply with contract and/or tariff
214 restrictions incorporated within the various pipeline and supplier agreements.
215 Baseload gas, typically being the lowest cost and subject to more contract restrictions,
216 has the highest priority as to use and flowed continuously during the periods when
217 agreements were in effect. Swing gas supply agreements were utilized to meet
218 citygate load swings outside the range of the FSS storage withdrawals and to control
219 the FSS storage inventory to maintain adequate storage deliverability through the
220 month of February. FSS storage withdrawals provided the "No-Notice" service
221 required to manage significant and unpredictable load swings. The propane plant was
222 available to be utilized to meet peak day demand that exceeded firm pipeline
223 deliverability. Finally, spot market purchases were utilized during the off-peak
224 season.

225 Q. What procedure was used to purchase firm gas supply to serve AmerenUE's
226 distribution system?

227 A. Written requests for bids for firm gas supply were sent from the Company to
228 suppliers who were known to be reliable and capable of furnishing firm service. For
229 the winter of 2001/2002, bids for two of the packages were each solicited from four
230 suppliers through a telephone bidding process. The winning bids were selected based
231 on a ranking of price with further consideration given to reliability and diversity of
232 supply.

233 Q. Did the Company use any hedging or price control methods during 2002?

234 A. **
235
236
237
238 ** These costs were
239 significantly below the gas prices prevailing in the spot market during this period,
240 which at times exceeded \$5.00 per MMBtu.

241 An additional amount of gas supply was hedged using a combination of fixed
242 price purchases, first of the month calls, caps and collars. **

243
244
245
246
247

NP

248	
249	
250	
251	
252	
253	

254 _____** These pricing structures are identified in the table provided on
255 Pages 9 and 10 of this testimony.

256 **Q. Describe the method used to obtain propane for the Company's peak-shaving**
257 **propane-air blending plant.**

258 **A. Replenishment of bulk propane supplies is only necessary after the plant is utilized or**
259 **when testing reduces the inventory level. The propane facility was tested in the year**
260 **2001 and the propane was replenished from supplies transferred from the Company's**
261 **Cape Girardeau facility in April of 2001.**

262 **Q. What steps does the Company take on peak days when the daily demand level**
263 **exceeds the supply available through its pipeline sources?**

264 **A. If daily demand exceeds available gas supply, assuming there is still available**
265 **pipeline capacity, the first step of utilizing "No-Notice" storage withdrawals would**
266 **automatically occur if the storage service was not being fully utilized. If demand was**
267 **still in excess of these resources, then any remaining interstate pipeline capacity,**
268 **along with swing gas supplies, would be nominated and scheduled. At this point, all**
269 **available firm contracted interstate pipeline resources and storage resources would be**
270 **maximized. AmerenUE would then investigate the availability of any additional**

NP

271 capacity and or supplies. If none were available, then the curtailment of interruptible
272 services would be required on the distribution system. In addition, transportation
273 customers would not be allowed to withdraw from their imbalance banks on the
274 distribution system. The final resource to be utilized would be the propane-air plant.

275 Q. Was it necessary to curtail interruptible customers or utilize the propane plant
276 during 2002?

277 A. No.

278 Q. What was the Company's peak usage day in 2002?

279 A. The peak usage day occurred on March 3, 2002 when a throughput of 19,423 MMBtu
280 was experienced on the distribution system.

281 Q. What sources of supply were used to meet the demand on this peak day?

282 A. The following table sets forth the supply sources that were used on March 3, 2002:

Supply Source	MMBtu (delivered)
**	
	**

283
284 Q. Does AmerenUE have procedures for monitoring the delivery of purchased gas?

285 A. Yes, it does. The Company measures and records gas flow volumes from MRT and
286 IGT at points of delivery in Alton with electronic flow computer data telemetered to
287 the Ameren Gas Operations office in Springfield, Illinois. MRT and IGT measure
288 their respective flows with orifice meters, which are integrated on-site with flow

NP

289 computers. AmerenUE compares its records to MRT and IGT measurements. The
290 Company periodically requests and then witnesses calibration and inspection of
291 measurement equipment by MRT and IGT personnel. Volumes of propane deliveries
292 are verified by comparing bills of lading against propane tank measurement gauges.

293 **Q. Were the Company's gas purchases during the year consistent with its**
294 **procurement policies?**

295 **A. Yes. AmerenUE utilized the most economical mix of gas sources available under the**
296 **given conditions.**

297 **Q. Do you believe AmerenUE's procurement of natural gas was prudent during**
298 **2002?**

299 **A. Yes, I do.**

300 **Q. Does this complete your testimony?**

301 **A. Yes, it does.**