

STATE OF MISSOURI

On-the-Record Presentation

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In the Matter of Natural Gas)
Capacity Restrictions on)
Transmission and Distribution) Case No. GW-2007-0397
Systems and Collateral Issues)

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ROBERT M. CLAYTON, III, Presiding
COMMISSIONERS.

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1 P R O C E E D I N G S

2 COMMISSIONER CLAYTON: Good morning
3 everybody. My name is Robert Clayton, member of the
4 Public Service Commission of Missouri opening
5 Case No. GW-2007-0397 looking into natural gas capacity
6 issues in the State of Missouri. Also present at the
7 bench is Commissioner Steve Gaw, two commissioners
8 doing an investigation on these important issues.

9 At this time, I would like to go ahead
10 and have some identification of the parties that are in
11 the room. I'd like to start with -- I guess, why don't
12 we start with staff, and then work from there. I'm not
13 sure how many folks that we have here.

14 MR. BERLIN: I'm Bob Berlin appearing on
15 behalf of the staff of the Missouri Public Service
16 Commission, Post Office Box 360, Jefferson City,
17 Missouri 65201. I'd like to note for the record Lera
18 Shemwell, who is assigned to this case, is out ill
19 today and has asked to set in for her today.

20 COMMISSIONER CLAYTON: Lucky you.
21 Mr. Berlin, how many other staff members do you have
22 available today?

23 MR. BERLIN: We have -- it appears about
24 five, including Janis Fischer --

25 COMMISSIONER CLAYTON: So Janis would

1 be our key person from staff for the time being; is
2 that correct?

3 MR. BERLIN: That is correct.

4 COMMISSIONER CLAYTON: Okay. We have
5 some folks from AmerenUE here? Would you go ahead and
6 identify yourself?

7 MS. TATRO: Wendy Tatro, and I filed a
8 motion to be admitted -- excuse me. I'm not sure
9 that's been granted yet, but presuming that it would
10 be, I've brought Scott Glaeser with me and Emma Cruthis
11 and Jim Massman.

12 COMMISSIONER CLAYTON: Okay. I don't
13 think there is a need to enter -- well, first of all, I
14 don't think we have the authority to enter an order.
15 And because this is only an investigation, I don't
16 think we have a proceeding that would necessarily
17 require you -- we won't call the Bar Association. So
18 we'll do that. From Atmos?

19 MR. FISCHER: Jim Fischer, Fischer and
20 Dority PC, 101 Madison Street, Suite 400, Jefferson
21 City, Missouri 65101. I also have with me by telephone
22 Mark Martin who is available from Atmos to answer
23 questions.

24 COMMISSIONER CLAYTON: Thank you,
25 Mr. Fischer.

1 Panhandle?

2 MR. RUSSELL: Commissioner Clayton,
3 Commissioner Gaw, good morning. My name is Gregg
4 Russell. I'm with Panhandle Energy, 5444 Westheimer
5 Road, Houston, Texas 77056. I also have with me Jackie
6 Butler, Brittany Mirgeaux, and Coralie Sculley.

7 COMMISSIONER CLAYTON: Okay. I know we
8 have the public councils here with us. Do you have
9 anything to say, Mr. Mills?

10 MR. MILLS: No. But I'll go ahead and
11 enter an appearance. My name is Lewis Mills. My
12 address is P.O. Box 2230, Jefferson City, Missouri
13 65102. Thank you.

14 COMMISSIONER CLAYTON: Are there any
15 other parties that should be identified at this time?
16 I don't think we invited any other parties, but
17 certainly if there are other parties in the room,
18 they're certainly welcome to make themselves known.

19 Hearing none then we will move forward.
20 Today is a continuation of an investigation that we
21 began several weeks ago studying natural gas capacity
22 issues along especially Panhandle Eastern pipeline and
23 including those areas in northeast Missouri served by
24 Panhandle and the local distribution companies. We had
25 one on the record discussion and a transcript, I

1 believe, was filed. And this was a continuation today.

2 We've also had an off-the-record
3 conversation with Panhandle that was conducted by
4 telephone. And we appreciate Panhandle being available
5 to visit with us today. Because this is an
6 investigation, this is kind of an odd thing that we are
7 doing. It is not a contested case. It is not a case
8 at this time. It may not ever be a case.

9 We are trying to maintain a record so
10 that others can participate or be able to review the
11 information that is obtained during this investigation.
12 We also need a record to support any final report, if
13 there is a report that may be issued out of this
14 investigation. It is my understanding, my recollection
15 that today's proceeding was to allow for Panhandle to
16 offer some additional information or perhaps a
17 restatement of some of the information that was given
18 during the last informal discussions so that they can
19 be placed on the record.

20 We also wanted to conclude the LDCs that
21 are here today, so that they can participate, perhaps
22 offer a reaction or response if there are any
23 suggestions that are contrary to their views, and we
24 certainly invite them to do that at the appropriate
25 time.

1 Having said that, I'll ask Commissioner
2 Gaw if he has anything to say or anything to offer at
3 this point.

4 COMMISSIONER GAW: I do not. I just
5 welcome all of you, and thank you very much for coming.

6 COMMISSIONER CLAYTON: We especially
7 welcome the folks from Houston. You all get the ticket
8 for the award for the longest distance in traveling.
9 So we appreciate you making it up to the Midwest from
10 Houston.

11 Having said that, I will ask Mr. Russell
12 what would be your preference in how to proceed? Could
13 you give us an idea of who will be speaking, will it be
14 you or Ms. Butler?

15 MR. RUSSELL: Commissioner, actually
16 we'll leave it up to you. You know, we did have
17 opening remarks just more or less descriptors --
18 discuss a little about Panhandle, Panhandle's history
19 in the state of Missouri. I certainly, you know, we
20 brought a cadre of folks up her to hopefully answer all
21 the questions. And I really do think this is a good
22 forum to have Ameren and Atmos in the room so we can
23 all, sort of, participate jointly some of your
24 questions.

25 COMMISSIONER CLAYTON: Will you be

1 giving the opening remarks?

2 MR. RUSSELL. I will, yes.

3 COMMISSIONER CLAYTON: You will. Okay.

4 Well, why don't we do this. We'll allow for Panhandle
5 to go ahead and open up with it's remarks. I'd like to
6 go ahead and swear in whoever the principle people are
7 speaking for each of the entities unless there's an
8 objection to that, so that we don't have to waste time
9 moving along. Is there any opposition to that? Any
10 problems?

11 You can identify whoever you want that
12 you think will be testifying. I'll say that to each of
13 the parties. And if the court reporter can do it all
14 together if that would be possible?

15 COURT REPORTER: He's got some tough
16 last names. If I can have everybody spell it, and then
17 I'll do it en masse.

18 COMMISSIONER CLAYTON: Certainly

19 MR. RUSSELL. Again for Panhandle, it
20 would be Gregg Russell, G-R-E-G-G, R-U-S-S-E-L-L.

21 COMMISSIONER CLAYTON: And I don't think
22 the attorneys need to be sworn in. Are you an attorney
23 Mr. Russell?

24 MR. RUSSELL: No. I'm not.

25 COMMISSIONER CLAYTON: You're not?

1 Okay. Thank you.

2 MR. RUSSELL: Some people think I am.

3 COMMISSIONER CLAYTON: You may charge

4 like you are. I understand. Go ahead.

5 COURT REPORTER: Any witnesses today?

6 MR. RUSSELL: That will be Jackie

7 Butler.

8 COURT REPORTER: Butler. Okay.

9 MR. RUSSELL: Probably Coralie

10 C-O-R-A-L-I-E, Sculley S-C-U-L-L-E-Y.

11 COURT REPORTER: Okay.

12 MR. RUSSELL: And Brittany,

13 B-R-I-T-T-A-N-Y, Mirgeaux, M-I-R-G-E-A-U-X.

14 COURT REPORTER: Any other witnesses to

15 be sworn?

16 MS. TATRO: Scott Glaeser,

17 G-L-A-E-S-E-R.

18 MR. FISCHER: Mark Martin on the

19 telephone.

20 COURT REPORTER: Okay. What about Emma

21 Cruthis?

22 MS. TATRO: I guess. We will do that.

23 COMMISSIONER CLAYTON: It's up to you

24 all whoever you want to do. We don't have to do

25 Everybody if you don't want to.

1 MS. TATRO: We'll have them available.

2 Jim Massman, M-A-S-S-M-A-N, and Emma Cruthis,
3 C-R-U-T-H-I-S.

4 COURT REPORTER: Okay. Those who we are
5 going to swear in --

6 COMMISSIONER CLAYTON: And staff, I
7 assume Ms. Fischer.

8 MR. BERLIN: Yes.

9 COMMISSIONER CLAYTON: I don't see staff
10 chiming in here, but you're not getting off the hook.

11 MS. FISHER: J-A-N-I-S Fischer,
12 F-I-S-C-H-E-R.

13 COURT REPORTER: Is that everyone?
14 Okay. For those witnesses we just named, will you
15 raise your right hand?

16 (WITNESSES SWORN.)

17 COMMISSIONER CLAYTON: I feel like we're
18 empaneling a jury here. Kind of makes it fun around
19 here. Mr. Russell, why don't you go ahead and proceed?

20 MR. RUSSELL: Yes. Well, again thank
21 you Commissioners Gaw and Commissioners Clayton for
22 giving us an opportunity to come up and visit. This is
23 actually, I believe, the fourth time I've been up
24 visiting with most of you. Albeit not as formal as we
25 are today, but we try to do this on a regular basis to

1 give you an opportunity to talk with us about what's
2 going on not only with Panhandle, but as far as market
3 conditions are as a whole.

4 As you mentioned today, I think we're
5 here as a follow-up to some discussions we had
6 regarding the availability of capacity on Panhandle
7 Eastern's main line. As I'm sure you're aware,
8 Panhandle has provided reliable, affordable natural gas
9 service into the state of Missouri for the past 70
10 years.

11 Quite frankly, our systems -- meaning
12 when I say our systems -- meaning Panhandle's systems,
13 was built through the state of Missouri to provide
14 utility service for, excuse me, the city of Kansas
15 City, Jefferson City, going across into to Missouri.
16 Truly our utility systems are linked with our pipeline
17 systems, and we many times act as one.

18 More recently we've seen different types
19 of customers being added into our pipeline customer
20 mix. In the last five to seven years, we've seen the
21 emergence of gas-fired electric generators, and now
22 more recently, ethanol producers. Combined these new
23 customer classes have added almost 120,000 of day load
24 in the winter, and over 260,000 of day of load during
25 our summer seasons. To date, we have found the power

1 plant load in particular has been a nice compliment to
2 our traditional utility customers.

3 Panhandle has demonstrated not only it's
4 willingness to put assets into the ground, but also to
5 adjust its gas operations to better serve the state.
6 Given Panhandle's current contract levels, terms, we
7 really think the back haul opportunities are the best
8 for incremental Missouri loads.

9 We always are monitoring market to get,
10 excuse me, market conditions to add or find
11 opportunities to expand Panhandle's main line and to
12 provide forward haul capacity. Most recently in late
13 1905 (sic) and early 1906 (sic), we conducted an open
14 season to gauge interest and expansion of Panhandle's
15 system from Kansas into Michigan. Unfortunately the
16 interest, albeit high, was not of the commitment levels
17 needed to make the project economically feasible.

18 We continue to monitor the market to
19 find opportunities to bring new capacity into the state
20 whether it'd be forward haul or back haul. I guess
21 that said, Commissioners we'd love to entertain more
22 questions, and I thank again the opportunity to do it
23 with some of our customers. We'll be enlightening for
24 you.

25 COMMISSIONER GAW: Okay. Well, then

1 we're -- at the moment, we're trying to get the webcast
2 going, so if others are wanting to view this outside
3 that can be done. Mr. Russell, let's just take a look
4 first of all, I suppose that we have a map up there
5 across the way of the various natural gas pipelines
6 that are in existence in Missouri, and that could be
7 referred to from time to time?

8 MR. RUSSELL: Certainly. And I believe
9 Commissioner we also have a map of the Panhandle energy
10 assets as well.

11 MS. FISCHER: Yes. The map that you can
12 flip over from the large Missouri map is the Panhandle
13 system.

14 COMMISSIONER GAW: If someone could do
15 that, let's look at that map dealing with Panhandle
16 alone. Thank you very much, Mr. Mills.

17 I was wondering if you would
18 Mr. Russell, if could you describe the capacity
19 along -- and I guess first of all, I'm not talking
20 about the capacity that's used, but just basic capacity
21 that exists along the Panhandle system.

22 MR. RUSSELL: Certainly. Would it be
23 helpful if I actually stood up and talked off of the
24 map?

25 COMMISSIONER GAW: It's whatever is

1 easiest for you, so long as we get the description
2 adequately in the record is the thing we're most
3 concerned about.

4 MR. RUSSELL: Sound's fine.

5 COMMISSIONER GAW: And there's a
6 microphone -- I don't know if it's movable or not -- up
7 there at that witness stand. You can see that that's
8 on. There you go. That'll work.

9 MR. RUSSELL: Again, I mentioned
10 Panhandle Energy, I want to be clear that when I talk
11 Panhandle Energy, I'm talking about Panhandle Eastern
12 pipeline which is our system that snakes through as I
13 mentioned earlier Kansas, Oklahoma, the panhandle of
14 Texas, in through Missouri, Illinois, Indiana, Ohio,
15 and it terminates at the US/Canadian border at a point
16 we call a jibway.

17 We also have Trunk Line gas. Okay.
18 Which goes from south Texas, as well as off-shore
19 Louisiana are two fuel zone links join here at
20 Longville, Louisiana, goes north, interconnects with
21 Panhandle at a point we call Tuscola, and then goes
22 forward on up until Michigan as well. We also have Sea
23 Robin which is an offshore pipeline that feeds Trunk
24 Line as well as some other Gulf Coast pipelines. And
25 then we have Trunk Line L&G which is our L&G facility

1 located in Lake Charles.

2 I guess, when you talk about capacities,
3 we'll talk about each of the assets a little bit in --

4 COMMISSIONER GAW: In more detail.

5 MR. RUSSELL: Panhandle is what is known
6 as telescoping pipeline where our fields on demarkation
7 point which here in Haven, Kansas. The capacity of the
8 pipeline at that point is roughly 1.5 BCF a day. And
9 as we experience drop offs through Missouri into
10 Illinois, here to Tuscola, Illinois, the capacity
11 reduces to approximately about a BCF a day, and then it
12 balloons back up to 1.5 BCF. And then again the same
13 pattern continues as we go through Indiana, Ohio, and
14 finally into Michigan where the capacity is reduced to
15 about again 900,000 a day.

16 Panhandle is a four-line system. Okay?
17 Meaning we have four pipelines put in the ground. The
18 reason it is a four-line system is as the markets have
19 increased and the demand for natural gas has increased,
20 we've added lines over the course of time. Okay?

21 COMMISSIONER GAW: Okay. Is that the
22 normal way of handling growth?

23 MR. RUSSELL: You know, the pipeline
24 industry as a whole is sort of going through a
25 transformation right now. The technology today is what

1 is more commonly referred to in the industry as a
2 silver-bullet pipeline which are usually larger
3 diameter pipelines -- 42-inch, 36-inch with
4 compression. Those pipelines today are designed to
5 take large volumes of gas in producing regions and get
6 them directly to market.

7 Panhandle wasn't designed that way. As
8 I said, our system was built around utilities
9 particularly in Missouri to serve peaking needs. Okay?
10 So we have to be able to regulate our pressures down to
11 get into the various utility systems that we serve. So
12 we can't take a large diameter 42-inch pipeline at
13 1,200 pounds and move gas up through the middle of the
14 United States or our customer load doesn't really allow
15 us to do that.

16 COMMISSIONER GAW: Okay. If you could
17 go a little bit further with helping us to understand,
18 how -- what are the advantages and disadvantages of
19 those two types of systems in regard to customers in
20 particularly in Missouri?

21 MR. RUSSELL: Well, you know, as that
22 relates to the Panhandle, again our system is designed
23 to provide a large amount of swing for our utilities,
24 meaning that usually in the early morning hours,
25 there's a large pull on our system. We give our

1 customers, especially here in the state of Missouri,
2 the ability to take almost a 150 percent or 1/16 swing
3 on their contract quantities to allow them to manage
4 the heat load. Okay?

5 If you contrast that against probably
6 the most -- the pipeline that people are probably
7 familiar with is the Rockies Express pipeline. That
8 pipeline -- and again not speaking for the company --
9 it's a large diameter pipe that's designed to move
10 production into other pipelines. It's not necessarily
11 designed to feed a utility load, although it can.
12 But -- and again in my opinion, I think from an
13 engineering standpoint, that's not what the main
14 purpose of that pipeline is.

15 COMMISSIONER GAW: Okay. So if there is
16 to be an expansion of capacity on the type of system
17 that Panhandle has, is that done most generally by
18 adding an additional line?

19 MR. RUSSELL: By looping and
20 compression. Yes.

21 COMMISSIONER GAW: Okay. Now as you're
22 looking at the Missouri system itself, can you -- the
23 portion of the Panhandle that is in the Missouri
24 borders, can you tell me about where we are today in
25 regard to utilizing that capacity?

1 MR. RUSSELL: Panhandle is fully
2 subscribed on a forward haul basis. Okay? So --

3 COMMISSIONER GAW: And for just the
4 record, what does that mean?

5 MR. RUSSELL: That means that our
6 capacity that we can operationally and contractually
7 provide service for is fully contracted. There is no
8 more available capacity going through the state on a
9 forward haul basis to provide service either to
10 electric generators, to utilities, I mean, our
11 traditional customer class.

12 COMMISSIONER GAW: All right. Does that
13 mean it is not possible to add any additional load to
14 the system in Missouri on the Panhandle?

15 MR. RUSSELL: No. That's not the case.

16 COMMISSIONER GAW: All right. And if
17 there was additional load that was seeking service, how
18 would you handle that?

19 MR. RUSSELL: It's a term called a back
20 haul, and more or less what that means is we use gas
21 coming in different parts of our pipeline to displace
22 forward haul volumes to in essence move gas backwards
23 on the system. Okay?

24 I mentioned of course Panhandle, Trunk
25 Line, it's sister pipeline, it's actually two-line

1 system that has capacity of about 1.3 BCF a day. Most
2 recently we'd had a lot of Missouri customers sourcing
3 their gas in the Gulf Coast either from Texas or
4 Louisiana, often times taking advantage of L&G in
5 particular, bringing the gas up Trunk Line, okay, and
6 then through displacement will move the gas back into
7 Missouri. That's again using the Trunk Line
8 interconnect.

9 Panhandle also has other market areas
10 interconnects so we can do the same thing with other
11 pipelines.

12 COMMISSIONER GAW: Okay. And again when
13 we're talking back haul, we're not necessarily talking
14 about the molecules of gas going backwards in the
15 system are we? We're talking about the financial
16 transaction itself appearing that that's the case? Or
17 you can describe it in your own words?

18 MR. RUSSELL: Well, yes and no. There
19 are truly some instances --

20 COMMISSIONER GAW: Where it actually
21 goes back?

22 MR. RUSSELL: -- where it does go back.
23 That isn't necessarily as much the case in Missouri.
24 This is more an instance where we have customers that
25 want supplies here (indicating). Okay? And what we do

1 is offset those volumes by bringing in more volumes of
2 a Trunk Line or other market interconnects. So in
3 other words, we're taking capacity that may be used in
4 Indiana, and we are taking molecules source coming out
5 of the Gulf Coast using those molecules to serve load
6 on the east end of the system, and then just using the
7 capacity that would have moved the gas long haul to
8 serve Missouri.

9 COMMISSIONER GAW: But the end results
10 on the financial side is as though you were back
11 hauling the gas up the other system back and in the
12 Panhandle system?

13 MR. RUSSELL: That's correct,
14 Commissioner.

15 COMMISSIONER GAW: Okay. Now as you
16 look at that potential, can you give me an idea about
17 how much additional capacity you could get out of back
18 hauling onto the Panhandle line?

19 MR. RUSSELL: Looking probably going
20 forward -- and I believe Jackie the number about to
21 say -- for this winter only, it's about 80 million a
22 day.

23 COMMISSIONER GAW: Okay. And in regard
24 to that number, can you give me some idea about what
25 that might mean as far as customers are concerned? And

1 in particular, if you could perhaps draw in the ethanol
2 or the gas-fired generator as an example and compare
3 the numbers of use but they might have against the
4 number that you just gave?

5 MR. RUSSELL: When the ethanol
6 facilities first sort of really came into fruition
7 probably about years two to three years ago, they were
8 smaller in nature. They were usually 3,000 a day that
9 had expansion capabilities up to about 5,000 a day.
10 Now those facilities are typically much larger almost
11 double in size close to 10,000 a day. Okay?

12 So if you look at some of the more
13 recent ethanol facilities that have been put on
14 Panhandle, that's about 80,000, excuse me, about 10,000
15 a day on average. Okay? Now, if you contrast that
16 against say a power plant in particular, we'll look at
17 the, I believe, we refer to it as the peculiar plant
18 which I think the Aquila folks call South Harbor? That
19 facility --

20 COMMISSIONER GAW: It's a well-known
21 facility here.

22 MR. RUSSELL: I thought that you'd be
23 familiar with it.

24 COMMISSIONER GAW: Yes.

25 MR. RUSSELL: That facility almost does

1 80,000 a day. So for the 80,000, you can either almost
2 do one power plant or do maybe eight ethanol
3 facilities.

4 COMMISSIONER GAW: Okay. Now in regard
5 to the main lines that Panhandle Eastern has, would
6 that number that you're giving me apply fairly equally
7 across the line in Missouri or would it vary? And I'm
8 not going into the laterals yet. Just in regards to
9 the main lines?

10 MR. RUSSELL: It is going to decrease as
11 you get more towards the -- would be the easterly side
12 of the state.

13 COMMISSIONER GAW: Okay.

14 MR. RUSSELL: I don't have those numbers
15 exactly about what the capacity would be say at Kansas
16 City versus being in say at Pike County. But there
17 will be some capacity reductions.

18 COMMISSIONER GAW: Is it a significant
19 amount of reduction or is it fairly unsubstantial?

20 MR. RUSSELL: Everything is relative --

21 COMMISSIONER GAW: Yes.

22 MR. RUSSELL: -- but from a pipeline
23 perspective I would say it's minimal.

24 COMMISSIONER GAW: Okay. Now, we'll
25 accept that until we can perhaps get some better

1 numbers if you have them if you can supply then later
2 if that's possible?

3 MR. RUSSELL: We can see what we can do
4 with that.

5 COMMISSIONER GAW: The other -- I guess
6 the other next question would then go into the
7 laterals, and in particular, if you can give me some
8 idea about whether or not the laterals that exist off
9 Panhandle's main lines have capacity issues and the
10 nature of those?

11 MR. RUSSELL: You know, again
12 Panhandle's system was built to the center of Missouri.
13 And then there's sort of little legs off of it's main
14 line as you call them laterals to serve, for example,
15 Jefferson City. Pipeliners are pretty creative how
16 they name laterals. So for example, Jefferson City is
17 served off the Jefferson City Lateral.

18 We have one to serve Mexico, Missouri.
19 We have one to serve Hannibal in particular. You know,
20 those lateral capacities vary depending on what the
21 utility takes are off of that lateral, depending on not
22 just -- when I say utility takes, meaning is there more
23 residential load versus base load sort of usage off the
24 lateral. I don't have the exact capacity
25 availabilities for each of the laterals.

1 You know, certainly we are very familiar
2 with the Quincy lateral, which serves Hannibal and then
3 serves Quincy, Illinois. We can probably speak to
4 those numbers a little more directly. But certainly to
5 the Mexico lateral, the Jeff-City lateral, I'd say that
6 there's capacity available on them, but what it is
7 exactly I don't have that.

8 COMMISSIONER GAW: Okay. That's a
9 figure -- those are figures you can supply later. But
10 let's talk about the Quincy/Hannibal lateral problem
11 for a moment if you have some figures on that you could
12 share?

13 MR. RUSSELL: Certainly. Actually
14 Jackie do you have some numbers in front of you that
15 maybe you can talk to a little bit? I guess just to
16 give you some background, Commissioners, while Jackie's
17 looking for specific capacity numbers, recently was a
18 flurry of activity regarding possible ethanol
19 development in the Hannibal and Quincy area. Given the
20 load requirements that we had on the lateral, we really
21 weren't able to, excuse me, provide service to four
22 more ethanol facilities.

23 In all likelihood, we knew that all for
24 would never come to fruition, but at the same time we
25 wanted to make sure everyone knew the capacity was

1 constrained on the lateral, and we wanted really to
2 find out who was serious about placing a facility there
3 and who wasn't. We actually had an open season or what
4 we call solicitation of interest to find out those who
5 were interested. And then as well as finding out if
6 you're interested, if you weren't actually awarded the
7 capacity, would you actually be interested in Panhandle
8 expanding the lateral capacity as well to serve those
9 facilities if you weren't the winning bidder.

10 So I guess Jackie, do you have what the
11 capacity on those -- what we were looking at?

12 MS. BUTLER: I don't know what the total
13 capacity is on that lateral, but we went out with our
14 solicitation of interest, we were aware that there were
15 a number of parties looking for capacity on that
16 lateral. And so in our posting -- and we did a number
17 of flow studies to make sure we understood what
18 capacities was on that lateral.

19 Depending on the location that somebody
20 might want to connect with Panhandle or might want to
21 gas off of that lateral, the capacity can vary. It's
22 kind of like Gregg mentioned, it's a telescoping
23 pipeline on our main line, that also happens on the
24 lateral. You know, the closer you are to our main
25 line, the more capacity that we have and has the -- you

1 know, as load drops off, then the pipe that was built
2 in the ground originally had less capacity just because
3 there was less needed at the end of the pipeline.

4 So when we put out the posting, near our
5 main line we had about 20,000 available, and at the far
6 end we had -- we estimated we had about 2,000 available
7 based on the configuration of facilities that we had in
8 the ground.

9 MR. RUSSELL: And that 2000, Jackie,
10 that was at the terminus of the line?

11 MS. BUTLER: That was at the terminus of
12 Quincy and then also had some assumptions built into it
13 that there is no modification there because we didn't
14 know what -- who would be the winning bidder, who would
15 want to -- you know, if somebody might want to pay for
16 modification of those facilities.

17 COMMISSIONER GAW: And if can you do
18 this without getting into highly confidential
19 information, can give me an idea about what the result
20 was? You put this out for what, an open season or --

21 MS. BUTLER: We call it a solicitation
22 of interest, and we did get three bids. And as a
23 matter of fact, Ameren was the winning bidder, they're
24 here today. That's public information we posted about
25 a week or so ago. And as part of that -- and maybe

1 Ameren should speak to this -- but they are going to
2 modify some facilities at the end so they can take
3 10,000 a day to Quincy. Whereas the way the pipe is
4 configured today or is in the ground today, only about
5 2,000 can be delivered there. So they bid on it kind
6 of with the understanding that they were going to
7 modify some facilities so they can take 10,000 all the
8 way to Quincy.

9 COMMISSIONER GAW: Okay. Would Ameren
10 like to speak to that while we're on the subject?

11 MR. GLAESER: Yes.

12 COMMISSIONER GAW: Go right ahead. Give
13 me an idea about -- if you would, about first of all to
14 the extent that you can talk about it in public
15 session, generally the need for the capacity and what
16 modifications would be done to get this additional
17 capacity available up to the 10,000 figure?

18 MR. GLAESER: As Panhandle stated, today
19 the delivery point of the Ameren subsystem is only
20 capable about incremental 2,000 MMBtu per day. We are
21 planning on facility modifications both in our
22 transmission facilities and with Panhandle changing
23 some of their operations, instructional Panhandle
24 system, to increase that capacity to 10,000.

25 COMMISSIONER GAW: Okay. And so some of

1 the modification would actually be actually to the
2 Panhandle system --

3 MR. GLAESER: Yes.

4 COMMISSIONER GAW: -- correct?

5 But Ameren would be paying for that
6 enhancement or --

7 MR. GLAESER: Yes.

8 COMMISSIONER GAW: I that -- am I -- is
9 that correct?

10 MR. GLAESER: Yes. We'd pay for the
11 construction.

12 COMMISSIONER GAW: Okay.

13 MS. BUTLER: It's essentially just
14 moving the meter a little farther upstream where there
15 was more capacity available.

16 COMMISSIONER GAW: I see.

17 MS. BUTLER: And I don't know what
18 happens on the Ameren's side of the equation, but from
19 Panhandle perspective is really just moving a meter.

20 COMMISSIONER GAW: Okay.

21 MR. GLAESER: That's the simple part of
22 the project. There is some more transmission
23 facilities that we have to work on internally to our
24 own system to get that proper flow capacity.

25 COMMISSIONER GAW: All right. Can you

1 give us an idea, is this additional usage involving
2 Quincy itself, or is it on the Missouri side? Can you
3 give me an idea?

4 MR. GLAESER: It is for the subsystem in
5 Quincy, Illinois, and the surrounding territory.

6 COMMISSIONER GAW: Okay. And is it for
7 a particular customer or is it just part of an
8 expansion for that area?

9 MR. GLAESER: Well, it's a multi-fold
10 issue. One is we are seeing growth in that system. So
11 obviously to handle the growth of that system, we need
12 new capacity. Panhandle is our primary way to look at
13 capacity in that system. We also have transportation
14 capacity through NICOR's system. NICOR's a major LDC
15 in Illinois primarily the greater northern Illinois
16 outside of Chicago.

17 They also have the Carthage system which
18 also runs in western Illinois kind of parallels the
19 Mississippi river. We actually transport gas on NICOR
20 system under a FERC transportation capacity agreement
21 all -- on Carthage system to feed parts of the Quincy
22 system as well. So we have two transportation paths to
23 get into the Quincy system. We are seeing capacity
24 being restrained on NICOR system as well because of the
25 growth of ethanol plants in their system in western

1 Illinois.

2 So when we look at the long-term
3 capacity situation, our own internal low growth, and
4 the NICOR system becoming constrained, and the
5 Panhandle system becoming constrained especially the
6 lateral, basically we put in a bid for that capacity to
7 handle our growth.

8 COMMISSIONER GAW: Okay. So after you
9 get the improvements done, and you've acquired this
10 additional capacity, how much then is left on this
11 lateral after Ameren has taken up this additional
12 capacity that we're discussing?

13 MS. BUTLER: A little further upstream
14 there's still some capacity that's available. We did
15 not have any bidders for that capacity there.

16 COMMISSIONER GAW: All right. When does
17 it become constrained after this taking by Ameren?

18 MS. BUTLER: You mean physically when?

19 COMMISSIONER GAW: Yes. Can you give me
20 an idea geographically where that starts becoming
21 constrained up that lateral? Is that possible?

22 MS. BUTLER: We have a guy that does
23 nothing but run flow studies. But from my
24 understanding in kind of a general way is that the
25 closer you are to the main line the more that's

1 available. Say as far downstream as Hannibal or
2 Palmyra area, there might be about 4,000 that's
3 available.

4 COMMISSIONER GAW: Okay.

5 MS. BUTLER: Now coming off the original
6 20, say you've got, you know, six in the main line --
7 or ten in the main line, I'm sorry, and four as far
8 downstream as Palmyra. And to be more specific that, I
9 don't think -- I know I haven't seen the numbers so --

10 COMMISSIONER GAW: Okay. I would assume
11 Ameren's territory starts as the Mississippi river
12 where the line goes underneath the river I would
13 assume, so does that mean that the line is constrained
14 just prior to going underneath the Mississippi River?

15 MS. BUTLER: I don't know that it's
16 constrained as much as it was designed to handle
17 reducing loads as it goes further away from the main
18 line. And so --

19 COMMISSIONER GAW: Where does the main
20 line end as you just mentioned?

21 MS. BUTLER: Just the main line that
22 goes through Missouri, kind of the interconnect between
23 the Panhandle main line, the long haul lines, and the
24 Hannibal/Quincy lateral.

25 COMMISSIONER GAW: So even between

1 Hannibal and west Quincy, the line would still be
2 decreasing in size; is that what you're saying?

3 MS. BUTLER: Yes. Yes.

4 COMMISSIONER CLAYTON: So even in
5 that -- or does the step down occur just in the last
6 couple of miles? I mean, how --

7 MS. BUTLER: I think it's a gradual step
8 down, but we have to do flow studies -- I mean,
9 whenever we have a request for incremental capacity, we
10 actually model that. You know, how does that increased
11 demand effect current obligations that we have or
12 contracts that we have on that system. So I'm not -- I
13 don't think we can be any more specific right now. We
14 did look at the Hannibal/Palmyra area because it was
15 just kind of a good marker, and so we know there we
16 probably still have about four left.

17 COMMISSIONER CLAYTON: You said that you
18 had three bids on a solicitation? And are all the bids
19 actually public or just the winning bid is public?

20 MR. RUSSELL: We just publish the
21 winning bid.

22 COMMISSIONER CLAYTON: Just the winning
23 bid. And when a winning bid is published -- and I have
24 not seen the site whoever wants to answer -- how is it
25 described? Is it described by quantity of capacity

1 that is acquired? Is the --

2 MR. RUSSELL: It's put out there as far
3 as what the quantity of what the winning bid was as
4 well as the rate and the term that the bidder was
5 interested in.

6 COMMISSIONER CLAYTON: Okay. And what
7 was the actual quantity?

8 MR. RUSSELL: I believe the quantity was
9 for 10,000 a day. And they were assuming a tariff rate
10 on Panhandle for a term of ten years.

11 I think Commissioners, it's worthy to
12 note that the other bidders as I mentioned earlier when
13 we were talking in the solicitation of interest, we
14 specifically asked if you are not given or did not
15 receive this capacity, would you be interested in
16 having Panhandle expand so we could serve these
17 facilities. And the other two bidders did not say that
18 they were interested in such a thing.

19 COMMISSIONER CLAYTON: Would the bidders
20 do you know -- were the bidders, the losing bidders
21 would they have been sophisticated enough to be able to
22 calculate what the impact would be from the cost
23 associated with increasing capacity?

24 MR. RUSSELL: Our development people
25 sort of do give them a back-of-the-envelope number, if

1 you will, as far as what that capacity or the cost of
2 that capacity would have been. So in rough numbers, I
3 think they were given an idea about what sort of
4 expansion you'd need to have.

5 COMMISSIONER CLAYTON: When
6 solicitations go out, who actually receives them? Do
7 you send them out to people or are they just --

8 MR. RUSSELL: It gets posted on our
9 bulletin board.

10 COMMISSIONER CLAYTON: And what would
11 cause someone to look at your bulletin board?

12 MR. RUSSELL: Any shipper, anyone
13 interested in transporting on Panhandle.

14 COMMISSIONER CLAYTON: Mr. Glaeser, does
15 Ameren check the Panhandle and other pipeline websites
16 on a daily basis for these types of things? How does
17 Ameren become aware of these? What is the procedure
18 for being aware of these solicitations?

19 MR. GLAESER: Well, actually a couple
20 ways. One is we do operate in the interstate pipeline
21 ABBs on a daily basis. Just by sheer -- our business
22 activities, our scheduling denominations, in balance
23 management. So we're in the ABB, so are all of the
24 pipelines we receive today. Our job is also checking
25 for postings of capacity. So we're knowledgeable about

1 what capacity is available in the future on each of
2 these pipelines.

3 And finally just dealing with each of
4 the marketing groups of each interstate pipeline,
5 staying informed, what capacity is becoming available
6 in the future, what expansion projects will exist in
7 the future is the second way. And the third way is
8 most pipelines will put out industry press releases
9 that go into the gas history publications like inside
10 FERC Gas Daily.

11 COMMISSIONER CLAYTON. So that sounds
12 like a pretty exciting read.

13 MR. GLAESER: It is. So we have three
14 methods to become aware of capacity availability.

15 COMMISSIONER CLAYTON: But you either
16 have to be an LDC or a marketer or shipper, is that --
17 would you agree with that?

18 MR. GLAESER: You'd probably have to be
19 knowledgable about the gas industry somewhat and how it
20 operates or at least have a consultant working with you
21 that's knowledgable about the gas industry.

22 COMMISSIONER CLAYTON: Okay.

23 MR. RUSSELL: You don't necessarily have
24 to be a shipper on Panhandle to have access for our
25 bulletin board. Again, given the level of interest we

1 specifically spoke with some ethanol developers that we
2 have dealt with in the past to make sure they were
3 aware of what the capacity situation was and made that
4 it wasn't as -- not noticed on our bulletin board.

5 So we certainly felt that between the
6 bulletin board as well as having our marketing staff
7 work with the folks we've done business with in the
8 past running ethanol plants. They're well aware of
9 what capacity situation was.

10 MS. BUTLER: Anybody who had contacted
11 us interested in capacity on that lateral, we called
12 them back and made them aware of the posting.

13 COMMISSIONER CLAYTON: Well, I mean,
14 there was just recently an new article that was in the
15 paper about an ethanol plant in west Quincy, Missouri,
16 which is before you get to the Ameren UE's line. And
17 what confuses me is that the press release or the
18 announcement just came out so that they are going to
19 put it in there. I don't know the size of the plant,
20 I'd assume it'd be more on the lines of 10,000 per day
21 in terms of usage.

22 If they were not the winning bid, does
23 mean that they either acquired capacity through other
24 means and didn't participate in the solicitation that
25 went out? Or does it mean that they were not able to

1 acquire the capacity necessary to operate the plant?
2 Because I'm not understanding how the capacity
3 availability declines as you pass Hannibal/Palmyra, the
4 pipe gets smaller, there's less capacity, and then
5 Ameren is the winning bidder once it crosses the line,
6 so what does that leave for west Quincy?

7 MR. RUSSELL: Well, again Commissioner,
8 I can speak to actually who won the solicitation of
9 interest. Now, that's up to the -- and you said that
10 the ethanol plant had definitely committed to going in?

11 COMMISSIONER CLAYTON: I didn't bring
12 the article with me, but it was just recently. It was
13 west Quincy, and I will have to find it. It didn't
14 make any reference to natural gas --

15 MR. RUSSELL: Uh-huh.

16 COMMISSIONER CLAYTON: -- that I recall.

17 MR. RUSSELL: As I said, I can't speak
18 to how they would they would be receiving service. I
19 mean, that might be something better put to Ameren.
20 And again I'm not trying to --

21 COMMISSIONER CLAYTON: Well, let me ask
22 this: Outside of this solicitation of interest that
23 was issued by Panhandle on the website, what would be
24 the alternative in finding available capacity or unused
25 capacity on that part of the lateral? Would there be a

1 third-party transaction that would be available?

2 You -- Panhandle basically put out for
3 bid what it has right here. That was taken up by
4 Ameren, so is there another way through perhaps unused
5 portions of third parties? Is that possible as well?

6 MR. RUSSELL: Again, you'd really have
7 to look at who had the -- or excuse me, who had the
8 ability to deliver on a primary basis into Quincy
9 lateral. But again, certainly third-party transactions
10 could occur. I mean, Ameren, for example, could
11 release capacity either on a permanent or even just a
12 temporary basis to someone. I mean, that happens on a
13 regular basis on the pipeline.

14 MR. GLAESER: Commissioner Clayton, if I
15 could? One thing we see especially in Illinois where
16 there's a tremendous amount of ethanol plant
17 development, some of these developers do not have the
18 sophistication of understanding the energy markets to
19 properly develop these plants. So don't be surprised
20 if that occurs.

21 COMMISSIONER CLAYTON: So that's what
22 I'm wondering happened in this instance? I just don't
23 know. I haven't spoken with them, but with the
24 announcement coming out -- unless you're getting, you
25 know, FERCs daily buzz or whatever it is, how would you

1 even know that Panhandle is putting out -- how would a
2 person that is not an experienced shipper or LDC even
3 know to look at the open season? How do you know
4 you're getting all the interest that is out there? And
5 before you respond to that let me let Mr. Glaeser
6 finish. I'm ranting on the record here. Go ahead.

7 MR. GLAESER: The second issue is, some
8 of these plants are looking at alternative energy such
9 as oil or propane or other forms of energy to create
10 thermal energy for their processes. Now of course
11 that's dependent on how the air permit is structured in
12 the particular state. But they are looking at
13 different types of energy as well. So maybe they're
14 burning coal or propane. You know, we don't know.

15 COMMISSIONER CLAYTON: Propane. Atmos
16 has some interesting information on that.

17 Go ahead Mr. Russell.

18 MR. RUSSELL: You know, I think
19 Commissioner Clayton, Mr. Glaeser had what I was about
20 to say. There are certainly other ways to -- there are
21 other feed stocks other than natural gas for the
22 thermal process.

23 COMMISSIONER CLAYTON: Okay.

24 MR. RUSSELL. Okay.

25 COMMISSIONER GAW: So in regard to --

1 first let me follow that question then, what is it that
2 makes it more attractive for ethanol plants to utilize
3 natural gas as opposed to these others to begin with?
4 Or is it a neutral thing? Assuming it's price?

5 MR. RUSSELL: I would assume price would
6 have a lot to do with it. Perhaps either Atmos or
7 Ameren would maybe be able to answer from the
8 distribution standpoint. You know, why would they want
9 ethanol facility would prefer gas versus the other --
10 other than pricing, I'm assuming it's price driven and
11 then again, availability of capacity.

12 Though I find it hard to believe that
13 someone would be looking at putting a huge amount of
14 capital dollars into a project like this and not
15 evaluate whether or not the feed stock would be
16 available in some form of provision.

17 COMMISSIONER GAW: I understand your
18 comment. I'm not so sure that it answers our question,
19 but I understand what you're saying. Go ahead
20 Mr. Glaeser.

21 MR. GLAESER: Same question?

22 COMMISSIONER GAW: Yes. If you can
23 remember it.

24 MR. GLAESER: Typically natural gas is
25 the preferred fuel supply over like propane or oil for

1 several reasons. One, it has definite emissions
2 advantages over oil or coal or bio fuels. It has
3 reliability advantages if there's current capacity
4 available, and you get interstate pipeline capacity on
5 a firm basis, it is a very, very reliable fuel as well.
6 Now if that capacity is not available, then that
7 becomes a little bit of an issue.

8 COMMISSIONER GAW: Well, then I suppose
9 the question is, is it better for you to just plan to
10 move your plant somewhere else as opposed to using one
11 of those alternate fuels? Which there it would seem to
12 me it would be a question on separation of dollars
13 between the two -- between the fuel sources. I don't
14 know.

15 MR. GLAESER: Well, we see these ethanol
16 developers, they've had several major constraints.
17 Selling natural gas --

18 COMMISSIONER GAW: Water is another one.

19 MR. GLAESER: Water is huge, it's
20 availability of interstate highways and rail
21 transportation.

22 COMMISSIONER GAW: Yes.

23 MR. GLAESER: It's the availability of
24 electric power -- high-voltage power as well.

25 COMMISSIONER GAW: Yes.

1 MR. GLAESER: What is the available corn
2 resource in that region?

3 MR. GLAESER: Right. Well, if you're
4 looking at this area going up the lateral to
5 Hannibal/Quincy, of course you're next to the
6 Mississippi river and you're in northeast Missouri
7 which has some significant corn production. Of course
8 Illinois would as well, across the river. So there
9 are -- the other elements in that region would seem to
10 be at least at a very high level satisfied except for
11 this question on natural gas.

12 My next question then would be what is
13 it that we're dealing with on that lateral at this
14 point knowing what we do about Ameren winning the bid
15 on this additional capacity. If I understood you
16 correctly, anywhere above Hannibal at this point would
17 be something like 6,000 MMBtu under what would be the
18 necessary amount to serve a modern-sized ethanol plant
19 at 10,000 per day if only 4,000 is available at
20 Hannibal.

21 MR. RUSSELL: Unless they would like to
22 expand the system.

23 COMMISSIONER GAW: Let's talk about that
24 just a little bit and the cost of doing that. Can you
25 give some ballpark figures about what it would cost to

1 expand the lateral in that area?

2 MR. RUSSELL: Commissioner, I don't have
3 those specifics with us with the lateral.

4 COMMISSIONER GAW: Okay.

5 MR. RUSSELL: I do have some main line
6 expansion numbers, but I don't think that would be
7 particularly relevant to what the lateral expansion
8 costs would have been.

9 COMMISSIONER GAW: Okay.

10 MR. RUSSELL: I don't have those numbers
11 with me.

12 COMMISSIONER GAW: All right. Those
13 numbers are available. Correct?

14 MR. RUSSELL: I'm sure we could -- again
15 just the same way give a rough estimate -- we could
16 provide that to you as well.

17 COMMISSIONER GAW: If you could. Wasn't
18 there some discussion though with the -- or at least
19 available for discussion with the entities that had
20 expressed some interest in capacity along this area
21 about what it would cost if it was necessary to expand?

22 MR. RUSSELL: That's correct.

23 COMMISSIONER GAW: So but you don't have
24 those figures today here?

25 MR. RUSSELL: No. That's correct. I

1 don't have those figures with me here.

2 COMMISSIONER GAW: Could you supply them
3 to us then after the hearing today?

4 MR. RUSSELL: We can provide those.

5 COMMISSIONER GAW: And in regard to the
6 issue of expense and expansion, I'm going to drift away
7 from the lateral for just a moment, and I want you to
8 talk about that, and I want you to give a little
9 history about what you had done in the recent past to
10 seek interest in expanding capacity along the main
11 system?

12 MR. RUSSELL: More or less as I said
13 earlier, in late 19-- excuse me, 2005 not 1905, we
14 looked at the possibility of expanding Panhandle's main
15 line. The project we looked at was involving
16 approximately 500,000,000 a day of incremental capacity
17 that would be more or less accomplished through about
18 525 miles of 30- and 40-inch loop. We were looking at
19 adding and additional 10,000 of horsepower, and we were
20 hopeful to have that project end by November 2009.

21 The approximate cost of the project as
22 we saw it was close to \$750,000,000. If you look at
23 what the rate would equate to, that would have been a
24 rate I'll call it in the low eighty-cent range, and we
25 were looking for terms of ten years to make that

1 expansion possible.

2 As I said, when we finished our open
3 season and we actually went down and tried to negotiate
4 firm agreements in that range, we were just not able to
5 get those types of commitment levels.

6 COMMISSIONER GAW: Let's flush this out
7 a little bit. Did the price that it was going to cost
8 for this expansion, can you compare that to the current
9 price or some sort of understanding of the current
10 price on the system for additional capacity when it is
11 available? Give me something comparable there?

12 MR. RUSSELL: Certainly. A tariff rate
13 on Panhandle is in the mid-thirties going through
14 Missouri. So if you compare that to a rate, it could
15 have been as high as 85 cents. You know, a 50-cent
16 price differential just in the state of Missouri, it
17 just didn't seem very viable.

18 COMMISSIONER GAW: So the fact that you
19 didn't get interest in that was not terribly surprising
20 to you, was it?

21 MR. RUSSELL: Well, yes and no, I mean.

22 COMMISSIONER GAW: All right. I want
23 you to give me both the --

24 MR. RUSSELL: Yes and no?

25 COMMISSIONER GAW: -- both sides to that

1 equation.

2 MR. RUSSELL: There's a huge demand for
3 Panhandle right now simply because it's a very -- it
4 comes out of a very cost-effective supply basin. Okay?
5 So when you look at the cost of being able to purchase
6 gas in Panhandle steel zone as I mentioned Oklahoma,
7 Kansas, Texas, it is significantly cheaper than the
8 cost to buy that gas say in Michigan or in Ohio. Okay?

9 So when you look at what we -- a term of
10 art in the industry is a freight spread. If you look
11 up what the freight spread is, you know, certainly
12 there is -- there would have been a willingness it
13 seemed for shippers to sign up for that capacity. A
14 lot of things changed.

15 COMMISSIONER GAW: Yeah. I want you to
16 be specific with those splits if you would between the
17 differences in what it cost in one place as compared to
18 another. And then I want you to talk about how things
19 changed so that it's fairly clear about what happened
20 in that timeframe that might have changed the dynamic
21 on the entities willingness to sign up for that new
22 capacity.

23 MR. RUSSELL: Well, you know, certainly
24 when you look at just -- let me back up a bit and talk
25 about the concept of a freight spread. There's

1 something called a basis differential, and basis
2 differential is simply the cost between a common
3 pricing point which is in the natural gas industry the
4 Henry Hub.

5 What that pricing point is say as to
6 buying gas in Kansas, as opposed to buying gas in
7 Texas. And even within Texas, say for example, there
8 are pricing differences versus the Henry Hub versus
9 south Texas. There are pricing differences in Kansas
10 say as in Panhandle versus into Northern Natural. A
11 lot of those has -- a lot of those pricing differences
12 are based on what the demand is, as well as just
13 general supply availability as well.

14 So again, often times the freight spread
15 as we talked about is how much you can buy gas for in
16 Missouri or -- excuse me in Kansas from Panhandle's
17 steel zone to another point on Panhandle system or
18 Trunk Line system or Northern Natural system.

19 COMMISSIONER GAW: Okay. And give me
20 some idea about how those -- what those spreads look
21 like or have looked like in the recent past. And if
22 there's been a change in that dynamic, and I want that
23 perspective laid out if you could?

24 MR. RUSSELL: When we first sort of
25 started evaluating the possibility of Panhandle

1 expansion, the basis differentials between Panhandle's
2 steel zone and say Ohio was close to like \$1.20. So at
3 that point we felt that the market could certainly
4 support Panhandle expansion. You know, lots of things
5 occurred. Anything from hurricanes that caused Chicago
6 pricing to change. Demand changed also in Michigan if
7 you look at what's happening now as far as the just
8 automotive industry. There's been a huge drop in
9 demand in that state.

10 A lot of factors go into changing
11 differential could be. Those are just a few of them
12 that right now, you know, the freight spread between
13 Panhandle and again the say markets we were talking
14 about is probably closer to 70 cents -- 75 cents. So
15 it's an economic opposition from those people.

16 COMMISSIONER GAW: So let me see if I'm
17 following you. At one point in time prior to when you
18 had this open season, there was a freight spread of
19 about \$1.20?

20 MR. RUSSELL: That's correct.

21 COMMISSIONER GAW: And the cost for
22 building additional capacity was somewhere around 80 to
23 85 cents?

24 MR. RUSSELL: I would believe you would
25 call that slam dunk.

1 COMMISSIONER GAW: So you say, okay, we
2 need to construct.

3 MR. RUSSELL: That's right.

4 COMMISSIONER GAW: That makes sense.
5 Now that changed before the open season occurred.
6 Correct?

7 MR. RUSSELL: It changed during the open
8 season process.

9 COMMISSIONER GAW: During the process
10 itself, and that's when it moved to a figure that was
11 less than this 80 to 85 cents. Correct?

12 MR. RUSSELL: That's correct. And, you
13 know, Commissioner, it needs to be noted that the
14 numbers that we're talking about that \$1.20, a lot of
15 folks they're wanting to try to lock in that spread for
16 a long period of time. Utilities in particular will
17 find it very difficult to do that. Some states allow
18 hedging, some don't. Even a marketing company, it's
19 very difficult for them to go out probably further than
20 36 months to lock in what that differential is. Okay?

21 As I said, a pipeline project doesn't
22 pay for itself overnight. Usually these projects are
23 amortized over 20 years different term values. Things
24 like that. Again we were looking for 10-year contract
25 term. It was just very difficult for people to lock in

1 that sort of spread number or even if they could get it
2 approved on a regulatory basis, going forward.

3 COMMISSIONER GAW: Can you give me a
4 little bit better understanding of what it is that
5 caused that number to move? I know you gave me some
6 general reasons, but can you attest that directly to
7 causation to the reduction in that spread? And give me
8 an idea of whether that's a more permanent change that
9 reduction or it's just a temporary thing that will go
10 back to the larger spread that you mentioned?

11 MR. RUSSELL: Well, you know,
12 Commissioner, I think we would be remiss in not
13 understanding or appreciating the financial markets,
14 their ability to influence gas prices today. I think
15 probably the most recent example of that is hedge fund
16 that more or less imploded and there used to be huge
17 storage differentials. And storage differentials are
18 based on the price between buying gas in the summer,
19 applying gas in the winter.

20 COMMISSIONER GAW: Okay.

21 MR. RUSSELL: When that hedge fund
22 imploded, what used to be so much as a \$3 spread
23 collapsed down to as small down in some cases as 30
24 cents. So again, Commissioner, I am not trying to be
25 evasive, but there are lots of financial factors,

1 there're demand factors, and, I mean, it's hard just to
2 lay out 10 reasons why the Panhandle expansion didn't
3 occur.

4 COMMISSIONER GAW: Okay.

5 MR. RUSSELL: I mean, there were
6 different things going on at different times. It's
7 just -- unfortunately, it wasn't able to get off the
8 ground.

9 COMMISSIONER GAW: Well, and I know we
10 would all appreciate your great insight if you could
11 predict for us how those prices are going to change in
12 the future, but knowing that that's probably not very
13 predictable. At the same time, is it expected, do you
14 think there's an expectation that where we are today on
15 this spread is going to be generally where we are for
16 the near future or not?

17 MR. RUSSELL: Commissioners, I would be
18 glad to share with you some modeling we have. We have
19 an outside firm that does it that works for forecast,
20 what freight differentials are. Their guesses are
21 probably as good as what mine would be. I mean,
22 certainly it's their -- they have much wider breadth of
23 knowledge. But if you would like to see some of those,
24 we'd be glad to share with you. We share them on a
25 regular basis.

1 COMMISSIONER GAW: Okay. That would be
2 helpful. I think it would also then be helpful if you
3 could tell us what it is that that means as far as the
4 dynamic of capacity constraints on the Panhandle main
5 line basically being where it is today subject to
6 growth on the line as opposed to the possibility of
7 some expansion?

8 Does it mean that we are in this place
9 where we are on capacity on Panhandle for the
10 foreseeable future without some other intervening
11 factors?

12 MR. RUSSELL: You know, we have looked
13 at what the cost would be to expand only into Missouri.

14 COMMISSIONER GAW: Yes.

15 MR. RUSSELL: And again this is a very
16 rough type of a number. If we would expand roughly 450
17 miles from our Greensburg, Kansas, and Bresser station
18 from Missouri into say the Missouri pipeline area which
19 is sort of the eastern side of the state.

20 COMMISSIONER GAW: Okay.

21 MR. RUSSELL: If you're assuming an
22 expansion of roughly 340,000,000 a day, I believe that
23 cost was roughly \$750,000,000.

24 COMMISSIONER GAW: Can you translate
25 that to me into a figure or a cost of acquiring

1 capacity?

2 MR. RUSSELL: If you can give me one
3 second.

4 COMMISSIONER GAW: Sure. That'd be
5 great.

6 MR. RUSSELL: Again just looking,
7 pipeline rates are very, very scientific.

8 COMMISSIONER GAW: He says with some
9 sarcasm.

10 MR. RUSSELL: Again looking at it, it
11 just varying ranges anywhere from 100 up to 340,000,000
12 a day, you're looking at a rate north of a dollar.

13 COMMISSIONER GAW: Okay.

14 MR. RUSSELL: And again, that does not
15 really take into consideration how whether or not it
16 would be a new line necessarily, whether you are doing
17 partial looping.

18 COMMISSIONER GAW: Okay.

19 MR. RUSSELL: How integrated this would
20 be into the rest of the system, I mean, there's a lot
21 of factors. But again, it would be north of a dollar.
22 The other thing, you know, Commissioner, you talked
23 about a very, very substantial factor that went on
24 during the open season.

25 COMMISSIONER GAW: Yes.

1 MR. RUSSELL: There was a huge flurry of
2 pipeline construction activities. Construction costs
3 as well as steel cost went up exponentially during this
4 time period which is another reason why if you look at
5 what the expansion cost is today versus it was a year
6 and a half, two years ago, it's gone up tremendously.

7 COMMISSIONER GAW: Okay. That's one of
8 the -- thank you for answering that part of the
9 question because I was going to ask you why we were
10 seeing this figure up on this Missouri expansion from
11 what the estimates were during the open season? Is
12 that primarily the explanation?

13 MR. RUSSELL: I would say that's a huge
14 factor. I mean, you hear stories about how welders
15 will just leave construction sites or pipeline sites
16 going to other jobs just because they can get more
17 money literally overnight.

18 COMMISSIONER GAW: And as you said,
19 there has been significant amount of activity along the
20 lines of new construction and you would be referring to
21 things like the Rocky Express line?

22 MR. RUSSELL: Correct.

23 COMMISSIONER GAW: I mean, and again --

24 MR. RUSSELL: It's just not here within
25 the United States. Internationally there's a lot going

1 on as well -- China in particular. Most of the United
2 States know capacity is spoken for so, for example, the
3 pipeline that we recently acquired to do an expansion
4 on our trunk line system in north Texas came from
5 overseas.

6 COMMISSIONER GAW: Interesting. Okay.
7 Rod do you want to follow up with these?

8 Rod: Yeah.

9 COMMISSIONER GAW: Unless should we want
10 to ask Ameren, do you all want to add anything or Atmos
11 what's been said here in the last few minutes.

12 MR. GLAESER: I think just to reinforce
13 what Mr. Russell was saying. The cost of these
14 expansions -- these capacity expansions has risen
15 dramatically. And it will always cost significantly
16 more than existing pipeline capacity has been
17 depreciating over time.

18 COMMISSIONER CLAYTON: Sure.

19 MR. GLAESER: So whenever we look at an
20 expansion project, the rate is going to be a lot more
21 than what we're used to paying for.

22 COMMISSIONER CLAYTON: Right.

23 MR. GLAESER: And that's the bottom line
24 situation that we're in and continue to face.

25 COMMISSIONER CLAYTON: Okay. And

1 anything from Atmos?

2 MR. FISCHER: Mark Martin, do you have
3 any comment's you'd like to add?

4 MR. MARTIN: No. I'd just echo what
5 Mr. Glaeser said.

6 MR. FISCHER: I bet we can turn the
7 volume up on that phone.

8 MR. MARTIN: I heard him.

9 COMMISSIONER GAW: Go ahead. We are
10 going to do a test here.

11 MR. MARTIN: Can you hear me now?

12 COMMISSIONER GAW: We can definitely
13 hear you now.

14 MR. MARTIN: Okay. Great. I would
15 just, you know, like to re-emphasize what Mr. Glaeser
16 had already said.

17 COMMISSIONER CLAYTON: I just wanted to
18 follow-up on a couple of things while I've been doing
19 some other stuff up here. Mr. Russell, how many miles
20 is the Hannibal lateral to the Mississippi river from
21 the main line to the Mississippi where it crosses into
22 Illinois, do you know? I mean, I could get a scale and
23 do that. I don't know if you need that number right
24 off the bat -- off the top of your head?

25 MR. RUSSELL: We can try to get a hold

1 of someone in Houston and get the exact numbers.

2 COMMISSIONER CLAYTON: Okay. Well, let
3 me ask this question: What is the total capacity right
4 now in the Hannibal lateral? How much gas can it pass
5 through? I know it changes from start to finish. But
6 is there a way to --

7 MR. RUSSELL: It does. Commissioner,
8 I'd be glad to get you what that lateral capacity is.
9 However, be advised that there will be caveats that
10 will be around it. It has to do with pressures, it has
11 to do -- again, as we said earlier, and ethanol plant
12 is very, very different than a residential load, it's
13 very different from a power plant load. So depending
14 on -- it's not a static type of a number is what I'm
15 trying to say.

16 COMMISSIONER CLAYTON: Even with the
17 existing line it's not static. It's not a firm number
18 today?

19 MR. RUSSELL: Given what the load
20 requirements are that we have we feel from Ameren and
21 how those are going to continue as best we can tell in
22 the future, we're viewing it as static. Yes.

23 COMMISSIONER CLAYTON: Okay. And I
24 think you said that you were going to get back with
25 what the cost would be for increasing the capacity on

1 the Hannibal line?

2 MR. RUSSELL: We can get you that as
3 well.

4 COMMISSIONER CLAYTON: Whether doing the
5 loops or --

6 MR. RUSSELL: Now, again let me just --

7 COMMISSIONER CLAYTON: I'm trying to get
8 a handle on how much would you actually have to sell?
9 How much capacity do you have to if you were to
10 completely subscribe a new lateral line, a line that
11 was going to run side-by-side or what do you call that
12 is that a loop? Would that be a loop?

13 MR. RUSSELL: No. That would be a new
14 line. A loop is where you take a piece of pipe a few
15 miles out of a compressor station and move it further
16 down and integrate it into an existing line.

17 COMMISSIONER CLAYTON: I see. Okay.
18 Well, if you were going to put down a new line to get
19 natural gas to all the way to the end of the Missouri
20 point, what amount of capacity would we be looking at?
21 If you're on the main line you said 340,000,000 a day,
22 what would be a comparable figure for the Hannibal
23 lateral?

24 MR. RUSSELL: Again Commissioner, I
25 don't have that number. I'd be happy --

1 COMMISSIONER CLAYTON: Could you give me
2 just a guess?

3 MR. RUSSELL: Sir, I can't. I honestly
4 can't --

5 COMMISSIONER CLAYTON: Less than 340 or
6 could it be 340? Could you get it within 100,000,000 a
7 day, I mean?

8 MR. RUSSELL: A rough estimate for
9 pipeline construction today is between \$2,000,000 and
10 \$2,500,000 a mile so --

11 COMMISSIONER CLAYTON: Well, I
12 understand that, but maybe I misunderstood. I think
13 the additional capacity, you said you were going to be
14 adding on the main line if you were to upgrade that the
15 entire Missouri section was 340,000,000 per day of
16 capacity? Did I hear that correctly?

17 MR. RUSSELL: Yes.

18 COMMISSIONER CLAYTON: Okay.

19 MR. RUSSELL: Well, could you ask that
20 again please? You're asking me for --

21 COMMISSIONER CLAYTON: I wrote down
22 340,000,000 -- is it MMBtu?

23 MR. RUSSELL: That's correct.

24 COMMISSIONER CLAYTON: So if that's
25 340,000,000 MMBtu per day on the main line if you were

1 to expand, what would be a comparable number of
2 expansion on the Hannibal lateral? I'm just trying to
3 get an idea of the amount of capacity that it would
4 add. And I know it would vary, I understand that.

5 MR. RUSSELL: Well, bear in mind that
6 that 340,000,000 a day that included compression, I
7 mean, there are a lot of other factors built into that.
8 I would guess that it would certainly be less.

9 COMMISSIONER CLAYTON: I would think so
10 too.

11 MR. RUSSELL: -- without new compression
12 -- as much compression.

13 COMMISSIONER CLAYTON: Okay.

14 MR. RUSSELL: How much load do you think
15 is in Hannibal, Commissioner?

16 COMMISSIONER CLAYTON: I don't know.
17 I'll tell you what, but I'm glad you asked --

18 MR. RUSSELL: Uh-huh.

19 COMMISSIONER CLAYTON: -- because I'd
20 like to have some exhibits marked. All they are are
21 newspaper articles, and I will make copies for
22 everybody. They are publicly available. The first
23 article is an article from the Jefferson City News
24 Tribune entitled Ethanol Project draws former Governor
25 and Basketball Coach, about how construction will begin

1 in 2008 of an ethanol plant in west Quincy, Illinois.
2 100,000,000-gallon ethanol plant -- it says that they
3 are going to begin construction 2008. So first of all,
4 if I could --

5 (WHEREIN; Exhibit 1 was marked for
6 identification.)

7 MR. FISCHER: Would you like me to
8 distribute that?

9 COMMISSIONER CLAYTON: Well, I don't
10 have extra copies. I can start printing things off.
11 Mr. Fischer, I appreciate the offer. The second item
12 that I'd like to offer is an article that is from the
13 Springfield Business Journal which references an
14 ethanol plant in Monroe City, Missouri, \$220,000,000
15 plant by Gulf Stream Bioflex Energy LLC for
16 constructing a plant in Monroe City, Missouri.

17 (WHEREIN; Exhibit 2 was marked for
18 identification.)

19 COMMISSIONER CLAYTON: Additionally, I
20 have another article that is from a TV station KHQA-7
21 Online, your 24-7 source for everything in the
22 Tri-States, dated January 27, 2007, which makes
23 reference to ethanol plants announced or under
24 construction in Monroe City, Quincy, Illinois, and
25 Griggsville, Illinois, as well as investors considering

1 two other ethanol plants in Adams County. This is the
2 same company, gulf Stream Bioflex Energy.

3 (WHEREIN; Exhibit 3 was marked for
4 identification.)

5 COMMISSIONER CLAYTON: So I will tell
6 you that there is another entity, another news article
7 that it was published, and I have to find it. I did
8 not bring it with me. A news article that suggested
9 that another chemical company that is probably served
10 directly by Panhandle, I believe BASF. There's been a
11 statement of interest in some sort of ethanol
12 production at that facility as well. I don't know the
13 size, I don't know the amount, I don't know the
14 quantities, but that is yet another plant that is out
15 there.

16 So I don't know if each of those were to
17 go through that would be potentially 70,000 per day
18 capacity that would take up -- if Griggsville is even
19 served. I don't know if CIP serves Griggsville or
20 not -- but I know all of them probably won't be
21 developed, but I think it's important that each of
22 these entities be aware of this discussion going on,
23 and from my perspective, I don't even know if they're
24 participating in the solicitation.

25 And I'm sure you can not tell me, but I

1 guess what I want is confidence that the people that
2 are looking to expand, the people that are going to use
3 more natural gas in the future are aware of the these
4 solicitations and that there are discussions going on
5 about the type of investment that's needed, the type of
6 firm capacity that needs to be purchased. And so I
7 guess I'll identify those, and we'll make copies after
8 this so you can see them. But those are just the
9 published new reports. Having said that I'll stop.

10 MR. RUSSELL: No. I mean, obviously
11 Commissioner, I'm excited about how much demand there
12 is off of Panhandle system. We are more than willing
13 to expand our system. We are not just going to drop a
14 500,000,000 a day line through the center of Missouri
15 and have it not be subscribed. That said, we went
16 through a process actively looking for people who would
17 be interested in signing up for firm commitments
18 through the Hannibal lateral. We received three. One
19 party in particular, Ameren, was willing to sign a
20 no-contingency contract for 10 years at tariff rate.

21 The other two bidders weren't willing to
22 do that. Commissioner, if you a better way to make the
23 market understand that there is a need or better yet --
24 let me rephrase that. If you can figure out a way for
25 us to communicate to the market that we're looking to

1 expand, we want to more, I'm all yours, sir.

2 COMMISSIONER CLAYTON: Well, that is an
3 excellent question. I don't know who is participating
4 in your process. Obviously this is a private process,
5 a market-driven process. I don't know what
6 communication is received by the entities that have
7 expressed interest, and I'm not satisfied that this
8 process does satisfy all the potential needs that are
9 out there.

10 MR. RUSSELL: Uh-huh.

11 COMMISSIONER CLAYTON: It's not one that
12 I'm able to change. So the reason why we're having
13 this whole investigation is to explore this.

14 MR. RUSSELL: Uh-huh

15 COMMISSIONER CLAYTON: So we may try to
16 find a better way, and I hope that Panhandle will be
17 willing to participate in looking at ways of providing
18 this service especially in this region of the state.

19 MR. RUSSELL: Well, as I said earlier,
20 listening to a few of the names you mentioned, I feel
21 fairly confident that we've talked to most of those
22 entities that looking at signing. I do feel that most
23 of the ethanol, I guess, developers are sophisticated
24 enough to try to understand what capacity availability
25 is. That's why I'd say with a high degree of

1 confidence that most of these folks probably have
2 contacted us, and we probably through just the course
3 of normal conversations have contacted them.

4 We put -- in particular with the
5 Hannibal lateral, we asked for folks if you are
6 interested, please let us know. We'd like to expand if
7 we need to. This was an instance where we knew that
8 there was capacity constraint. We went through the
9 process. We did it as fairly and certainly as
10 equitably as we could. Again, if there's another way
11 you feel that --

12 COMMISSIONER CLAYTON: Mr. Russell, I
13 don't have a particular plan in mind. What concerns me
14 is that facilities like these are not going to be able
15 to be put together because of lack of natural gas
16 capacity. Now if they've all expressed interest, then
17 my concerns would be satisfied. What my concern is is
18 that some of them are not sophisticated to have
19 shippers or to read publications that I've never heard
20 of -- as one in the business, I've never heard of.

21 And that's what I want to make sure of.
22 And I've asked several occasions, I've Ms. Butler when
23 she was in my office. I asked about cost estimates for
24 Hannibal lateral expansion. I asked it again today. I
25 would appreciate getting an idea of prices or cost that

1 it would take to do this. What types of capacity needs
2 to be sold? And If there needs to be a public
3 education campaign, then perhaps we should do that, and
4 I'm willing to participate. I said that three months
5 ago. So that's why I am participating in this
6 investigation here today.

7 MR. RUSSELL: Certainly. And we would
8 be glad to give, I believe, using your number was
9 70,000 a day. Okay? We'd be glad to give you a cost
10 estimate to expand the Hannibal lateral to the
11 Mississippi river for 70,000 a day. And if you would
12 like, we would be glad to hold another solicitation of
13 interest for that 70,000 a day looking for binding
14 bids. Would that satisfy you, Commissioner?

15 COMMISSIONER CLAYTON: I'm not sure if
16 it would satisfy me, but I think it's a good start.
17 And I think we need to have this conversation, make
18 sure that each of these entities are participating,
19 that they're knowledgeable about what's going on.

20 MR. RUSSELL: Well, obviously if you
21 could use some of your connections within the state to
22 make sure the legislators know what we're doing to make
23 sure that their constituents know what's going on.
24 That would be a great help as well.

25 COMMISSIONER CLAYTON: Well, great.

1 Good.

2 MR. GLAESER: Commissioner Clayton, if I
3 could add to this discussion? Panhandle did file the
4 FERC regulations to the letter in terms of posting
5 capacity open season for capacity, accepting bids,
6 evaluating those bids, and awarding new capacity. So
7 there following the FERC regulatory environment to the
8 letter -- the same environment that we've all operated
9 on and all the pipelines we operate on in the US.

10 So back to the ethanol developers, even
11 a novice developer, a not very sophisticated developer
12 in the terms of the energy infrastructure, just one
13 call Panhandle Eastern, even if it was Panhandle's gas
14 control center off a pipeline marker next to a highway,
15 they would get in touch eventually with these folks
16 here and would probably -- and they would be more than
17 happy to meet with those developers and explain the
18 situation.

19 So the developers being unaware or
20 unsophisticated, I don't think that's a good enough
21 reason. They can get to the right people if they try.

22 MR. RUSSELL: May I -- go ahead if you
23 want to. I'm just --

24 COMMISSIONER CLAYTON: Well, that may be
25 the case. I'm trying to understand how an ethanol

16 COMMISSIONER GAW: I want to understand
17 because we don't at this point -- we don't have these
18 entities in the room with us to get some direct
19 feedback. And I think we need to do that because in
20 order to understand what we're all speculating on what
21 they know and don't know at this point. And I think
22 the primary drive as Commissioner Clayton has said for
23 us to ensure that there are not impediments that are
24 out there to development in some of these rural areas.

25 In particular that with the time delays

1 of expansion capacity that will occur through
2 necessarily through construction, it would be better to
3 find that out earlier rather than later. And to get an
4 assessment of whether or not there are cost-effective
5 answers to the potential to -- for the development for
6 ethanol plants in particular as we're talking in north
7 Missouri and northeast Missouri.

8 Without having those entities here and
9 the corn growers and the others here that have
10 significant interest in these developments, it's hard
11 for us to assess that. And I think that what we may do
12 is just ask for some of those entities to come in at a
13 subsequent proceeding here and get their perspective on
14 it.

15 If they come in and say, Hey we've
16 already done all this, and we're satisfied with where
17 we are and we think that we've got the ability to get
18 this capacity, great. If they say that, we understand
19 where we are, and there are issues here that we would
20 like a better perspective on what we're dealing with, I
21 think that's something we're looking for constructive
22 solutions here if there is a problem that needs to be
23 addressed.

24 On the surface, it appears that there is
25 an issue on expansion that will come about either in

1 the next year or two or over time because, as I
2 understand it, both Atmos and AmerenUE will be growing
3 over the course of the next few years without any
4 additions of this type or either to your system as
5 sales or transportation customer from major plants.

6 So rather than wait for us to get into a
7 situation where we're at the limit or have somebody
8 come in and say I'd like to build here and everything
9 is great except for the fact that we can't get
10 capacity, so therefore we're going somewhere else.
11 We'd rather lay this out in anticipation of what we
12 all -- I think, that anyone that is up in that area, I
13 believe, is a very important potential for development
14 in northeast Missouri.

15 So to the extent that we don't have
16 answers right now from some of those entities and
17 groups that are interested in this development, I think
18 both of us want to get that answered. Now, the other
19 thing as Commissioner Clayton pointed out, is T'd (ph.)
20 up in the tariff filing that was initially proposed by
21 Ameren in this case of suggesting that they would not
22 potentially be able to serve a large customer as a
23 sales customer on their system, of the size of an
24 ethanol plant, which is really what's caused all of
25 this inquiry I think to begin with.

1 But as we're looking at this, the other
2 big item that is potentially out there -- and I don't
3 know how big of a potential it is -- but it has to do
4 with whether or not there's another peaking facility
5 that might be placed in and be fed by the Panhandle
6 system. And as you already pointed out earlier from
7 Panhandle's perspective, one peaking unit fills out the
8 entire available capacity on the Panhandle system.
9 Correct?

10 MR. RUSSELL: That's correct,
11 Commissioner. But also it doesn't necessarily just
12 have to be one peaking facility. If a marketing
13 company comes in and they see an arbitrage value from
14 getting gas delivered in someplace in Panhandle's
15 market zone and delivering it back into Panhandle's
16 field zone, that would take up that capacity just as
17 easily.

18 COMMISSIONER GAW: Explain that for me,
19 please?

20 MR. RUSSELL: Let's just say for
21 example, right now there's a lot of -- another pipeline
22 that interconnects with Panhandle, Northern Natural.
23 They're a little bit supply constrained right now, so
24 there's been a huge interest in moving supplies, pardon
25 me, from Panhandle's market area or specifically from

1 Trunk Line, moving gas up Trunk Line and back hauling
2 it as we talked about earlier, through and into
3 Panhandle's field zone. That would take up that
4 capacity. In other words, the capacity doesn't
5 necessarily need to reside in Missouri. It could be
6 someplace in Kansas.

7 COMMISSIONER GAW: I see.

8 MR. RUSSELL: So as far fetched as it
9 sounds, there's even some folks that are contemplating
10 bringing gas up from the Gulf Coast back down
11 Panhandle, putting it in Cheyenne Plain's pipeline,
12 moving that gas north back up into Colorado, and bring
13 it back down REX.

14 COMMISSIONER GAW: Well, you're going to
15 have to explain that one to me.

16 MR. RUSSELL: Well, actually there's no
17 use in trying. I don't understand it, but there are
18 people looking to do that. So obviously again, these
19 are issues that doesn't -- it might go far beyond
20 having another generating facility put in. It might be
21 some fund manager in New York that feels that this
22 would be a good idea to have a financial transaction or
23 a physical transaction to facilitate a financial hedge.

24 COMMISSIONER GAW: Okay. Well, if we
25 look at the traditional means of expanding capacity the

1 FERC construct, it appears to me that for the most part
2 that's a reactionary system. And what I mean by that
3 is that until you get to the point where capacity
4 gets -- is almost used up, it's likely that there's not
5 going to be any new capacity added. It's made that way
6 in essence, isn't it?

7 I mean, I'm not trying to be critical of
8 it. There's a why it's constructed that way so that
9 you're not over building, I suppose. But isn't that
10 basically what the system does under the current
11 construct?

12 MR. RUSSELL: Well, the process as it
13 stands right now does appear to be reactionary. I
14 guess I would ask you quite frankly as a legislator --
15 or excuse me, a regulator, would you or legislators
16 allow a utility to contract for more pipeline capacity?
17 Again, I mean, Commissioner, we're very, very eager to
18 expand.

19 COMMISSIONER GAW: I understand. You've
20 made that message clear. And I don't know the answer
21 to your question to me because it seems to me like
22 we're in a balancing mode here and we need to have that
23 discussion in order to balance. And we haven't been
24 having that discussion. What we've been having is the
25 system just sort of takes care of itself because if

1 somebody wants new capacity, they come in on your open
2 seasons and either bid in or they don't. Because they
3 think it's worth the additional money, well then
4 they'll bid in for the additional capacity. They'll
5 pay for that at the new rate under the additional
6 capacity cost.

7 But if you're in that kind of a mode,
8 you can as a result of using that, it seems to me at
9 this point inadvertently cause a freezing or an
10 impediment to economic development in the region that's
11 served by that line. If they're making choices about
12 where they locate it, and there's just simply not any
13 available in the time that it takes to construct this
14 new facility, then they probably look at some other
15 location as opposed to saying, okay well we'll pay for
16 that but you also add that time element -- how long
17 that actually takes to put that capacity in as a factor
18 that keeps them from selecting that area. Would you
19 agree with that just generally?

20 MR. RUSSELL: Generally, yes. I would
21 agree with that.

22 COMMISSIONER GAW: So what I think we're
23 trying to understand is, do we need to be affirmatively
24 planning with some of these entities out here as a part
25 of an overall look down the road for Missouri on an

1 economic development basis? Or do we just continue to
2 rely on this system as we have? And I think what we're
3 trying to do is understand what that would cost and is
4 it worth the cost or not --

5 MR. RUSSELL: Uh-huh.

6 COMMISSIONER GAW: -- and have that
7 discussion. It shouldn't be framed as necessarily a
8 criticism of the pipelines themselves to have that
9 discussion. It shouldn't be viewed that way.

10 MR. RUSSELL: And Commissioner, I
11 certainly don't view it as that. I guess I look on
12 human nature. I mean, why would someone be willing or
13 wanting to pay more for something to have it available
14 in the future than what they could buy it for right
15 now? I mean, that's --

16 COMMISSIONER GAW: Well, that's a
17 different dynamic. That's a different dynamic. That
18 may relate to the location of the plant however.

19 MR. RUSSELL: Uh-huh.

20 COMMISSIONER GAW: There are public
21 policy decisions made all the time by governments about
22 what they're willing to advance in the short run in
23 order to gain long-term advantage. And that is not a
24 part of the discussion that goes on with the way the
25 FERC construct works. That doesn't enter into the

1 picture, it seems to me.

2 MR. RUSSELL: Uh-huh.

3 COMMISSIONER GAW: Because there's no
4 one there at the FERC who cares where these ethanol
5 plants are located whether they're in Illinois or Iowa
6 or Missouri. It's irrelevant. It's immaterial to
7 them. But it may be material to the people that live
8 in Missouri.

9 MR. RUSSELL: And I appreciate that.

10 COMMISSIONER GAW: And so that's a
11 perspective that we are adding to this discussion that
12 is not going to be a part of the discussion at any
13 point in time with FERC.

14 MR. RUSSELL: It's very, very clear that
15 the state of Missouri is integral to the success of
16 Panhandle, and visa versa. So as I said earlier
17 Commissioner Clayton and Commissioner Gaw, I'd be glad
18 to provide you with expansion numbers up the lateral
19 for 70,000,000 a day. I can have those to you within
20 30 days. Is that timely enough for you?

21 COMMISSIONER GAW: The sooner the
22 better.

23 COMMISSIONER CLAYTON: It's timely for
24 me.

25 COMMISSIONER GAW: Yeah, the sooner the

1 better. I mean, two weeks would be preferable.

2 MR. RUSSELL: I'll see what we can do on
3 that.

4 COMMISSIONER GAW: Okay. And then in
5 regard to what we're looking at on the peaking plant
6 issue, is there anything public about additional
7 capacity being utilized on Panhandle by any proposed
8 peaking facility?

9 MR. RUSSELL: Are you directing that to
10 me?

11 COMMISSIONER GAW: Anyone in the room
12 who might have that information?

13 MR. RUSSELL: There's nothing public to
14 my knowledge.

15 MR. GLAESER: We don't have any plans.
16 We're not aware of any other plans for peaking
17 facilities.

18 COMMISSIONER GAW: In that general
19 region?

20 MR. GLAESER: In that general vicinity.

21 COMMISSIONER GAW: And Atmos wouldn't
22 have any knowledge of that that I can think of.

23 MR. FISCHER: Mark Martin did you hear
24 that question?

25 MR. MARTIN: Yeah, Jim. We're unaware

1 of any.

2 COMMISSIONER GAW: Okay.

3 MR. RUSSELL: Commissioners, what else
4 can we help you with today?

5 COMMISSIONER GAW: Why don't we take
6 just about a five minute break and come back on the
7 record.

8 (WHEREIN; a recess was taken.)

9 COMMISSIONER CLAYTON: Why don't we go
10 back on the record. We don't have too much more to do
11 here today, and it's around the noon hour. I do want
12 to mark one additional exhibit to complete the comments
13 that I made earlier regarding an additional plant that
14 was being discussed. If I could give this to the court
15 reporter.

16 (WHEREIN; Exhibit 4 was marked for
17 identification.)

18 COMMISSIONER CLAYTON: This is an
19 article from the Quincy Herald Whig relating to BASF in
20 Palmyra, Missouri, and their potential for producing
21 ethanol. Thank you. Okay.

22 Having marked that exhibit, I wanted to
23 ask just a couple of questions, and I will address I
24 think those to Mr. Russell if I could.

25 First of all, now I'll ask Mr. Russell

1 this first, then I'll go to Ameren and Atmos if they
2 have a reaction to it. Can everyone hear us? Are we
3 live? We've got video? We got audio I hope?

4 MR. MARTIN: I'm here.

5 COMMISSIONER CLAYTON: Good. And we've
6 got speaker phone. Is there capacity held by Panhandle
7 or any of the LDCs in reserve for economic development
8 purposes?

9 MR. RUSSELL: There's none outlined in
10 Panhandle.

11 COMMISSIONER CLAYTON: None? None by
12 Panhandle? How about Ameren?

13 MR. GLAESER: No. We hold no capacity
14 for future development.

15 COMMISSIONER CLAYTON: Okay. Are you
16 aware of any entity that would hold capacity for
17 economic development?

18 MR. GLAESER: None that I am aware of.

19 COMMISSIONER CLAYTON: Are you aware of
20 any state that actively seeks capacity reserves for
21 economic development purposes?

22 We'll start with Mr. Russell.

23 MR. RUSSELL: I don't know of a state
24 that actually holds capacity. I know in particular the
25 state of Tennessee is looking at developing an

1 ethanol -- or not an ethanol but an industrial park
2 that will probably house some ethanol facilities. I
3 believe it's called Gates Landing. And I believe the
4 state is looking at providing some funding to develop
5 the lateral cross over to Trunk Line.

6 COMMISSIONER CLAYTON: Okay. Does
7 Panhandle see that as something that's constructive?

8 MR. RUSSELL: Certainly.

9 COMMISSIONER CLAYTON: Okay. In that
10 instance, who actually pays for that capacity or would
11 pay for that expansion? Is it the state?

12 MR. RUSSELL: I don't know the goings-on
13 behind the scenes. We would be looking at a
14 contracting with another entity, not the state that
15 would hold the capacity. I don't know the details on
16 that.

17 COMMISSIONER CLAYTON: Mr. Glaeser, are
18 you aware of any state that actively seeks to reserve
19 capacity for economic development?

20 MR. GLAESER: No. I'm not aware of it
21 personally.

22 COMMISSIONER CLAYTON: Now, how about
23 Atmos?

24 MR. MARTIN: No, sir. Actually most of
25 our states try to limit our reserve margins. So we

1 don't have any wiggle room at all.

2 COMMISSIONER CLAYTON: When you say
3 states are actively trying to limit your reserve
4 margins, who do you mean by states?

5 MR. MARTIN: There are several states
6 that Atmos operates within that have an actual reserve
7 margin limit. Tennessee is one that has a 7 percent
8 reserve margin limit.

9 COMMISSIONER CLAYTON: But who does that
10 within the state?

11 MR. MARTIN: I think it's the regulatory
12 body.

13 COMMISSIONER CLAYTON: The regulatory
14 body. So you have difficulties associated with the
15 Public Service Commission or the regulatory agency; is
16 that correct?

17 MR. MARTIN: We basically do a lot of
18 our planning and forecasting around those known
19 measurable limits. So, you know, if in particular a
20 project did come down our way, then we would go to that
21 particular regulatory body.

22 COMMISSIONER CLAYTON: So it's state
23 agencies, say regulatory body, does have a role in
24 terms of LDCs in what level of capacity is held in
25 reserve, if any?

1 MR. MARTIN: A few of the states we
2 operate in do. Yes.

3 COMMISSIONER CLAYTON: Okay. And does
4 Panhandle have some sort of policy that relates to
5 rights of first refusal relating to certain capacity?

6 MR. RUSSELL: There is a provision in
7 our tariff that outlines what is called right of first
8 refusal.

9 COMMISSIONER CLAYTON: And what is that?
10 I know what right of first refusal means, but what does
11 it mean in your business?

12 MR. RUSSELL: In our business, that more
13 or less means that if -- there's two, there's
14 contractual right of first refusal, and there's just a
15 regulatory right of first refusal. You can grant --
16 you are automatically given regulatory right of first
17 refusal if you are paying tariff rate on the pipeline.
18 It's also something negotiated contractually, however
19 that's done fewer and fewer -- far less frequently now
20 as it has in the past simply because Panhandle is
21 typically being sold at tariff rate.

22 The process more or less -- the basic
23 premise is that the capacity -- original capacity
24 holder has the right to match anyone coming in wanting
25 to acquire that capacity from them through a bid

1 process.

2 COMMISSIONER CLAYTON: So the person who
3 would hold -- who holds the right? The original
4 capacity holder?

5 MR. RUSSELL: The original capacity
6 holder.

7 COMMISSIONER CLAYTON: Okay. Before the
8 last think I'm going to have, then I'm going to turn it
9 over to Commissioner Gaw. Does Panhandle with -- and I
10 know you may not have been able to look at it -- but
11 what the ethanol facilities that the articles that I've
12 added to the record, does Panhandle have any reaction
13 to those at all? Surprising? Not surprising?
14 Consistent?

15 MR. RUSSELL: I'd say it's probably
16 consistent. I mean, again ethanol is -- it's very
17 popular right now. You know, it's -- the government as
18 a whole is supporting the development of ethanol
19 facilities. You know, it's very routine for us to get,
20 you know, maybe an ethanol request maybe once a week.
21 So I would say it's not out of the ordinary. Yeah.

22 COMMISSIONER CLAYTON: Okay.

23 MR. RUSSELL: Now, I will say
24 Commissioner, just to add, we were a little surprised
25 by a very quick flurry in activity in the Hannibal

1 area. It just all of the sudden came out of nowhere.

2 COMMISSIONER CLAYTON: It's a nice
3 place.

4 MR. RUSSELL: Are you familiar with
5 Hannibal?

6 COMMISSIONER CLAYTON: I'm familiar with
7 it -- just familiar with it.

8 COMMISSIONER GAW: Did you ask on that
9 right of first refusal if that was posted?

10 MR. RUSSELL: I did not.

11 COMMISSIONER GAW: Is that posted on
12 your website?

13 MR. RUSSELL: No. In our listing?

14 COMMISSIONER GAW: Yes.

15 MR. RUSSELL: On our index of shippers,
16 it does not state if a shipper has right of first
17 refusal. No.

18 COMMISSIONER GAW: Okay. Give me an
19 idea about how long it takes -- I know this is --

20 MR. RUSSELL: I'm sorry. Just a
21 clarification now -- if someone does elect to go
22 through the right of first refusal process, we do of
23 course post that on our bulletin board.

24 COMMISSIONER GAW: Okay. Give me a
25 general idea about how long it takes to build new

1 capacity after there has been an interest or an
2 acceptable bid put in for that capacity? I know that's
3 going to vary, but can you give me some general idea?

4 MS. SCULLEY: Time frame?

5 MR. RUSSELL: Yes.

6 MS. SCULLEY: It's several years. The
7 lead time on purchasing equipment and it's design would
8 be as long as 24 months such as purchase it right away.
9 And then some of that depends upon the breadth of the
10 project.

11 COMMISSIONER GAW: Would you mind coming
12 up to the mics, sorry, and identify yourself and your
13 position please?

14 MS. SCULLEY: I'm Coralie Sculley with
15 Panhandle Energy, Director of Business Development.

16 COMMISSIONER GAW: Thank you. Go ahead
17 and repeat what you said again if you wouldn't mind?

18 MS. SCULLEY: Okay. The time to -- from
19 the binding agreements to actual in service --

20 COMMISSIONER GAW: Yes.

21 MS. SCULLEY: -- would be several years.

22 COMMISSIONER GAW: Ballpark that for me,
23 if you could?

24 MS. SCULLEY: Two to four.

25 COMMISSIONER GAW: Two to four. Okay.

1 MS. SCULLEY: Yeah. And four for a
2 sizeable project.

3 COMMISSIONER GAW: What is sizeable?
4 What is the minimum threshold generally?

5 MS. SCULLEY: It would be mileage and
6 equipment dependent and certainly a major expansion of
7 say 500,000,000 a day that we had gone forth with or
8 had our open season on, that would be several years --
9 probably three years --

10 COMMISSIONER GAW: Okay.

11 MS. SCULLEY: -- of total in service.
12 And that includes filing, time with FERC, you know, the
13 purchasing of right-of-way, the ordering and then
14 delivering of equipment as well as the work to the
15 installation and construction.

16 COMMISSIONER GAW: Okay. Thank you very
17 much for that. Ask this to Ameren and Atmos, in regard
18 to what would be done on cost for new capacity
19 acquisitions for an LDC if there was some additional
20 capacity that was needed off of a line such as
21 Panhandle that required new construction? How would
22 those costs generally be handled for the -- in regard
23 to paying for that from your customer base?

24 MR. GLAESER: How would the cost be
25 recovered from our customer?

1 COMMISSIONER GAW: Yes.

2 MR. GLAESER: Typically through the PGA
3 the capacity agreements of the pipeline.

4 COMMISSIONER GAW: And would it be split
5 up according to class cost of service provisions that
6 you had or not? Is that something that --

7 MR. GLAESER: Typically it would be a
8 long-term capacity agreement directly with the pipeline
9 which those costs would flow through the PGA. In
10 certain circumstances, we might have to do some direct
11 construction costs with the pipelines.

12 COMMISSIONER GAW: But all of that then
13 go through -- all of it goes through the PGA?

14 MR. GLAESER: Basically. Yes.

15 COMMISSIONER GAW: Okay.

16 MR. GLAESER: Commissioner, it might
17 also be worth noting that of course transportation
18 customers, large industrial customers that are
19 transportation, don't pay the PGA'd rate.

20 COMMISSIONER GAW: That's kind of where
21 I was heading in this discussion. So would the Atmos
22 answer basically be the same as what Ameren has?

23 MR. FISCHER: I think so. Mark?

24 MR. MARTIN: Yes. Any capacity, being a
25 new capacity would used for our FERC customers would

1 flow through the PGA. Any capacity that would be for
2 transportation customer, that particular customer would
3 acquire capacity in their own name and then solicit
4 their own supply to meet their needs.

5 COMMISSIONER GAW: Okay. So let's say
6 hypothetically that I'm a new plant, and I'm shopping,
7 and it's going to require a new construction to serve
8 me. Now if I'm looking as to whether or not I'm going
9 to be a transportation or a sales customer, the first
10 thing that jumps out at me from what you all are
11 saying, if I'm correct, is that if I am a sales
12 customer, then the cost that acquisition of that new
13 capacity is going to be spread out throughout the
14 customer base. Correct?

15 MR. RUSSELL: Yes, sir.

16 MR. MARTIN: Yes.

17 MR. GLAESER: If they are a sales
18 customer.

19 COMMISSIONER GAW: If they are sales
20 customers. But if not, if I'm a transportation
21 customer -- I as the transportation customer, if I'm
22 the only one, and this is hypothetically obviously, I'm
23 going to pay for that full cost of that construction in
24 that capacity for whatever the minimum time that
25 contract is; is that correct?

1 MR. GLAESER: Yes. Commissioner,
2 that's -- we've come full circle now.

3 COMMISSIONER GAW: Yes. I know.

4 MR. GLAESER: We have a tariff provision
5 in our rate case.

6 COMMISSIONER GAW: Yes. I'm trying
7 to -- this is part of the purpose of this is to
8 complete this picture so it's easier for me to
9 understand what you all, I know, already do. But if
10 that's the case then, if I'm shopping, first of all do
11 I have a right as a potential customer to chose which
12 direction I go?

13 MR. RUSSELL: In today's environment,
14 yes.

15 COMMISSIONER GAW: Okay. And I
16 understand you all have concerns about whether or not
17 you have an obligation legally to serve. Correct?

18 MR. GLAESER: Correct.

19 COMMISSIONER GAW: Would it -- would the
20 difference in the price of bearing the full load of
21 that new construction as a transportation customer as
22 opposed to the socialization of those costs or the
23 spreading out of those costs around all of the customer
24 base of an LDC, at some point in time make it more
25 likely that they would go back to the LDC for service

1 in comparison with the weight on the other side of
2 getting potentially a better price as a transportation
3 customer?

4 Is there a point at which those scales
5 flip in regard to which is the best financially for
6 that industrial customer?

7 MR. GLAESER: You're correct. There's
8 two curves that cross each other at a certain point.
9 Where that point is, we're not sure as far as the
10 differences for each plant based upon their total cost
11 facilities and so forth.

12 COMMISSIONER GAW: Yes.

13 MR. FISCHER: Commissioner, I might also
14 add to the results of a tax consideration firm-based
15 gross receipts taxes where the transportation customers
16 are able to generally able to avoid that.

17 COMMISSIONER GAW: Yeah, that's the
18 issue that's been sort of hovering around from time to
19 time. I think it's been a few years since anyone tried
20 to deal with that up in the legislature. But as some
21 point in time, there was some attempt discussed about
22 trying equalize those two. But at this present time,
23 that's part of the differential?

24 MR. FISCHER: That's about 6 percent for
25 most gross receipts taxes.

1 COMMISSIONER GAW: And if I understand
2 you all correctly, no one has really done a full
3 evaluation at this point about where those two lines as
4 you put it cross in the Ameren service territory?

5 MR. GLAESER: Yeah. The only people
6 that can do that evaluation is the ethanol plant
7 developers themselves.

8 COMMISSIONER GAW: Yeah.

9 MR. GLAESER: And like I said, it would
10 be different for every plant based upon their location,
11 the distance to the interstate pipeline, what pipeline
12 they're closest to. There are so many considerations
13 there. To develop a general curve, I think would be
14 impossible.

15 COMMISSIONER GAW: For everyone. But it
16 would be possible for a particular plant at a
17 particular location?

18 MR. GLAESER: A particular plant there's
19 definitely a way to account for economics. Again we
20 don't have access to that data. That's privileged with
21 the developer themselves.

22 COMMISSIONER GAW: Okay. The same would
23 be true for Atmos?

24 MR. MARTIN: Yes.

25 COMMISSIONER GAW: Okay. Panhandle, can

1 you all share anything on this issue at all in regard
2 to just this general discussion on this last group of
3 questions?

4 MR. RUSSELL: I mean, it sounds like
5 actually -- no.

6 COMMISSIONER GAW: But you agree with
7 the dynamic as they have pointed it out in regard to a
8 decision that an industrial customer might make about
9 which way to go as to being a transportation or sales
10 customer, wouldn't you?

11 MR. RUSSELL: I can see that. Yes.

12 COMMISSIONER GAW: Commissioner Clayton,
13 do you have any other questions at this point?

14 COMMISSIONER CLAYTON: I don't think so.

15 COMMISSIONER GAW: Do any of the parties
16 have anything else they want to add at this point to
17 this discussion today?

18 MR. RUSSELL: I guess just again
19 Commissioner, thank you for inviting us up to sit down
20 and talk a little bit about what's going on on the
21 Panhandle system. I just want to make sure that I
22 haven't left you with the impression that it's
23 necessarily a one-for-one tradeoff. And when I say
24 that, I'm saying that just one peaking plant doesn't
25 equate to eight ethanol plants or one back haul going

1 through the state into Kansas doesn't necessarily
2 preclude a peaker plant or other ethanol facilities.

3 I mean, I'm not trying to sound
4 melodramatic, but the pipeline truly is like a living
5 animal. We've run flow studies on a cost and basis --

6 COMMISSIONER CLAYTON: Right.

7 MR. RUSSELL: -- checking where gas is
8 coming in or gas is going out. The numbers that we
9 talked about in our phone conversation, that was based
10 on today. You know, certainly with other pipelines
11 coming across, not just Panhandle, but coming across
12 Trunk Line, the markets can certainly change very, very
13 quickly.

14 So if I'm back up here this time next
15 year, I could be saying something completely different.
16 So please don't just run off and think, okay Panhandle
17 is severely capacity constrained going into the
18 long-term future. Things can happen. We constantly
19 work with our customers to reconfigure their
20 agreements, not just to better the pipeline's position,
21 but also better theirs as well. I mean, we truly work
22 with our customers to make sure they are getting their
23 optimal mix, and make sure that new facilities can come
24 onto the system in the most efficient way.

25 Obviously, if we don't have to put new

1 assets into the ground, that's the most cost effective
2 way to do it as Scott, Mr. Glaeser, said. Certainly
3 existing capacity is much more economical than new
4 capacity. I mean, we work very, very hard to do that.
5 So --

6 COMMISSIONER GAW: Where we are today in
7 regard to growth anticipated on the AmerenUE system and
8 the growth anticipated on the Atmos system dealing with
9 the Panhandle line -- if you can all talk about this
10 without being HC -- can you give me an idea with the
11 assumption there are no new major industrial loads
12 placed on the system, which is probably unrealistic.
13 But with that give me an idea about how long you can go
14 before we're dealing with talking to Panhandle about
15 new construction? If you can do that in a public
16 session?

17 MR. GLAESER: I can do it in a very
18 generic, high-level sense.

19 COMMISSIONER GAW: All right.

20 MR. GLAESER: But we should be in the
21 very good position with our reserve margin for assuming
22 typical, normalized residential commercial growth for
23 three to five years. At that point, we're going to
24 start looking at some new capacity to support our
25 systems.

1 COMMISSIONER GAW: Okay. And would that
2 new capacity likely include new construction or is it
3 unclear at this point?

4 MR. GLAESER: There's a lot of different
5 options that we have as Ameren, as a group of
6 utilities.

7 COMMISSIONER GAW: Right. You described
8 some of those earlier, and I don't want to make you
9 repeat those. But I'm just trying to firm this picture
10 up right at this point. So to the extent that you can,
11 go ahead.

12 MR. GLAESER: Yeah. A key option
13 obviously is new -- brand new expansion capacity.
14 There's options with existing capacity held by some of
15 our other Ameren affiliates. We may be able to expand
16 the storage fields -- some of our own storage fields
17 freeing up some capacity to go work in Missouri.

18 So there's different options we have.
19 Again as Mr. Russell mentions it, it's a very dynamic
20 situation. These things are changing continuously. So
21 just to take a static point in time and say that's the
22 way it is, we just can't do that. It's much more a
23 complex picture.

24 COMMISSIONER GAW: Sure. Okay. And can
25 Atmos answer the same general set of questions?

1 MR. FISCHER: Mark Martin?

2 MR. MARTIN: Yeah. Right now, we're
3 forecasting growth. I think we would be fine for that
4 same three- to five-year window. When you have little
5 bit of a wrinkle that we do have a propane air plant
6 that we rely on heavily to meet a peak day. And as
7 that facility ages depending on the economics, we would
8 maybe possibly looking at replacing that with
9 additional capacity.

10 COMMISSIONER GAW: Can you give me any
11 time frames on that publicly?

12 MR. MARTIN: Five years.

13 COMMISSIONER GAW: And what kind of
14 discussion behind -- when you all are talking about
15 this, do you all have these discussions with Panhandle
16 about a looking out over this three- to five-year
17 horizon? We're anticipating this as being possibly a
18 time frame when we are going to need some additional
19 capacity? Do those discussions go on frequently at
20 all?

21 MR. GLAESER: Yes. We're always in the
22 state of discussion with Panhandle Eastern on a variety
23 of operational issues, tariff issues, contractual
24 issues. And part of that discussion is always
25 long-term capacity planning.

1 COMMISSIONER GAW: Right.

2 MR. GLAESER: We were negotiating with
3 Panhandle Eastern in their first open season they had
4 about two years ago.

5 COMMISSIONER GAW: Okay.

6 MR. GLAESER: We were an interested
7 shipper in that process.

8 COMMISSIONER GAW: And if there were --
9 and here's where I'm headed with this so you all can
10 give me some feedback. If there were industrial
11 entities out there that were interested in coming on
12 the system within that three- to five-year horizon, is
13 there a way or is there a system that allows a
14 discussion to take place among UE, Atmos, and potential
15 additional industrial customers so that there could
16 potentially with all of you having interest in
17 additional capacity, that could be factored in with
18 some sort of new construction possibilities within the
19 horizon?

20 In other words, are there efficiencies
21 that can be gained from collaboration between the LDCs
22 and potential industrial customers that we are not
23 currently utilizing?

24 MR. RUSSELL: You know, I'll just use an
25 example. Mr. Glaeser mentioned that Ameren

1 participated in Panhandle's, you know, open season.
2 There very well could have been an industrial that
3 Mr. Glaeser was looking at -- there could have been.
4 Again just from his earlier comment about looking out
5 past that five-year time horizon, you know, that
6 certainly could have been going on. Again Ameren, just
7 speaking to them in particular, Atmos as well, I mean,
8 we do have discussions about what their demand needs
9 are going to be going out into the future.

10 COMMISSIONER GAW: Uh-huh.

11 MR. RUSSELL: Again that's what we said
12 earlier. We continue to market -- or monitor to market
13 to figure out the cost-effective way to bring capacity
14 into not just Missouri, but other states that the
15 pipelines serve. Is there a more efficient process? I
16 think you can always improve on a process. Certainly,
17 sessions like we're having today is a good example of
18 making sure everyone, not just the utility and the
19 pipelines, but also making sure that you, the
20 regulators, understand what's going on and can ask us
21 questions about it.

22 COMMISSIONER GAW: Well, it strikes me
23 that there are common interests among some of those
24 players I listed that where it's possible to gain some
25 efficiency by having some discussions among those

1 groups. But I'm not -- it doesn't sound like there's
2 really any systematic way of that occurring currently.
3 And I'm just trying to -- I just thinking aloud here
4 that perhaps there could be some gains made if there
5 were some collaborations of interested entities.

6 Since the horizons here are not too far
7 apart between the LDCs and if there are some additional
8 customers potentially out there that would be seeking
9 service on a transportation basis, it could be brought
10 to the table for those discussions to occur with
11 Panhandle. Is there -- do you understand what I'm
12 trying --

13 MR. GLAESER: Yeah. I understand your
14 point. It is a broad issue. It's an issue that
15 stretches for Panhandle Eastern from Kansas all the way
16 up to Michigan. And how do you get all those different
17 entities, the LDCs, the generators, the industrials,
18 pipelines all together to do long-term planning that
19 sounds like --

20 COMMISSIONER GAW: Yeah.

21 MR. GLAESER: -- or extensions.

22 COMMISSIONER GAW: It could be though on
23 a more specific geographic area such as Missouri
24 itself. Although you would think that if you included
25 broader areas, you would gain more efficiencies.

1 MR. GLAESER: And, you know, what that's
2 going to include the broader area because really what
3 Panhandle needs to expand is a large group of shippers
4 up and down the entire system to do an efficient
5 economic expansion of their system.

6 MR. RUSSELL: Yeah. And Commissioners,
7 I'll just give you an example. You've sort of talked
8 around REX. You know, REX will actually parallel
9 Panhandle for a couple hundred miles --

10 COMMISSIONER GAW: Yes.

11 MR. RUSSELL: -- through the middle of
12 Indiana and for of jut down to the south. As we talked
13 about earlier, it's a huge diameter pipeline and
14 there's no storage attached to it. A lot of the
15 shippers on the pipeline are looking at storage
16 attached. You know, a possibility could be Panhandle
17 could expand the east end of it's system --

18 COMMISSIONER GAW: Okay.

19 MR. RUSSELL: -- to allow for gas to
20 move from it's Michigan storage facilities back and
21 forth from Rockies Express. When you expand the east
22 end of the Panhandle system, that very well likely
23 could provide more opportunities for back hauls into
24 the state of Missouri. I mean, it's -- you just can't
25 look at Missouri in particular. And that's why I said

1 earlier, please don't take my comment one-for-one
2 meaning one peaking facility, eight ethanol plants, or
3 back and forth. I mean, lots of things can happen, you
4 know, in the market that we haven't even touched on
5 right now that could change the capacity situation
6 going forward.

7 COMMISSIONER GAW: Yes. I understand.
8 And I think as we move forward in this discussion
9 though, if there were -- would there be an impediment
10 to having some discussions whether that's perhaps even
11 with the staff of the Commission and interested
12 entities about resource planning long-term -- longer
13 term resource planning on Panhandle? Are there
14 impediments to that? Are there reasons that that can
15 not be done?

16 MR. GLAESER: Yeah. I think the
17 non-jurisdictional shippers, industrials --

18 COMMISSIONER GAW: Yes.

19 MR. GLAESER: -- ethanol plants,
20 probably wouldn't feel comfortable coming into the
21 state regulatory environment. They would question why
22 do we need to do that and expose us to whatever is
23 going to happen there.

24 COMMISSIONER GAW: Well, that's
25 potentially true, but it's also potentially true that

1 they might be able to gain some better perspective if
2 that was the reason for the facilitation. It's
3 possible.

4 Okay. All right. Well, that's all I
5 have.

6 MR. RUSSELL: I guess, Commissioners, we
7 really do need your help when it comes down to it. I
8 mean, you're affiliation for example. When you talk
9 with your other commissioners, I mean, it would be
10 very, very helpful if you discuss say with Commissioner
11 Mason in Ohio what their demands are.

12 COMMISSIONER GAW: Right.

13 MR. RUSSELL: And how, as we talked
14 earlier, you can offset the two, and that's how you're
15 effectively going to enhance the pipeline grid by
16 utilizing existing capacity and then basically putting
17 in incremental capacity.

18 COMMISSIONER GAW: Well, I appreciate
19 that perspective, and I have a better perspective and I
20 know it's not really comparable, but I have a better
21 perspective of what's been going on on the electric
22 side in the last few years. And when FERC decided a
23 few years ago to insure that there was
24 non-discriminatory access on the transmission system or
25 for electric purposes, there was sort of some desire, I

1 think, in some look forward about well let's compare
2 what we've been doing in the natural gas side.

3 But what happened when they went to this
4 new system that struck me was, the way that you funded
5 new transmission was still on a participant-funded
6 basis. And the last to come in that caused the
7 increase in or the need for new construction on that
8 electric transmission paid for all of it. And as a
9 result, we've been through this time frame on the
10 electric side where a lot transmission that probably
11 should have been built from an economic standpoint,
12 didn't get built because you placed all the load on
13 somebody that needed a portion of that new capacity,
14 but not what was really efficient to build. And so it
15 just didn't happen.

16 So now, we've got FERC at least for
17 moving toward a more regional process, either through
18 the regional transmission organizations or through some
19 sort of effort now under 890, I think, that they are
20 working on, to try to get some independent planning and
21 some system approach where you allocate the costs in a
22 way that doesn't act as an impediment to new
23 transmission being built.

24 That's where - what I'm hearing you all
25 say on the gas transmission side is, we're still doing

1 basically -- and this is FERC policy, I understand.
2 We're still doing basically what was occurring on the
3 electric side that didn't get any new transmission
4 built. It was causing a significant problem. They're
5 different animals, and I understand that. But there
6 are efficiency gains out of a regional planning process
7 when you can put all of the things on the table and see
8 how all of the systems work together, that you don't
9 get piece-mealing these things together.

10 And it just strikes me that what I'm
11 hearing out of you all is that the system that's still
12 going on with the natural gas side, is basically
13 piece-mealing these things together and whoever comes
14 to the table that wants to do capacity that requires
15 construction, you bear all the costs of that.

16 And I can see how that can be
17 problematic. I also understand there are advantages to
18 it in regard to not over building. But that discussion
19 would seem to me ought to be occurring about how much
20 benefit could there be from more regional look at what
21 efficiencies might be gained from what you were saying
22 earlier. I'm not talking to some other entities around
23 that are not just within the state.

24 MR. RUSSELL: And again, you know,
25 Commissioner, we can talk a lot about FERC's position

1 on rolled-in versus incremental rates. You know,
2 certainly the costs of an expansion into Missouri, you
3 can easily make the argument that a customer in Indiana
4 is also benefiting from that capacity -- that you're
5 upgrading compression, if you're just general system
6 enhancement.

7 COMMISSIONER GAW: Right.

8 MR. RUSSELL: We're not necessarily
9 saying that the State of Missouri would have to bear
10 all the costs of a main line expansion. That's not the
11 case at all.

12 COMMISSIONER GAW: Okay.

13 MR. RUSSELL: I mean, through the course
14 of time, you'd look at trying to roll in that expansion
15 with your existing rates.

16 COMMISSIONER GAW: Is that current
17 policy or is that --

18 MR. RUSSELL: Current policy is as long
19 as you can demonstrate a system benefit, generally the
20 commission will you allow -- allow you to roll in those
21 costs of those facilities through existing rates.

22 COMMISSIONER GAW: Okay. And when does
23 that occur in the process generally? Does it occur up
24 front, after this new construction occurs, or does it
25 occur some time down the road after the construction

1 is --

2 MR. RUSSELL: It would occur after the
3 facilities were in place. But again, I mean, it can
4 vary from project to project --

5 COMMISSIONER GAW: Sure.

6 MR. RUSSELL: -- depending on how much
7 the incremental cost is.

8 COMMISSIONER GAW: Okay. All right.

9 Well, that's all I have questions this morning.
10 Commissioner Clayton, do you have anything else? Does
11 anyone -- or Staff, you haven't said much today. Do
12 you have anything to add?

13 MS. FISCHER: No. I'm in pretty much
14 agreement with everything I heard through this
15 discussion today, so I don't really have anything to
16 add unless there's something you would like me to
17 provide or whether it's here today at a later date.

18 COMMISSIONER GAW: Okay. Anyone else
19 for Atmos?

20 MR. FISCHER: Mark, do you have anything
21 to add?

22 MR. MARTIN: No. I don't.

23 COMMISSIONER GAW: Ameren?

24 MR. GLAESER: Yes. Just quickly I'd
25 like to add to the record that number one, this isn't

1 just and ethanol development issue.

2 COMMISSIONER GAW: That's true.

3 MR. GLAESER: It's energy infrastructure
4 issue, long-term strategic issue that we're facing.
5 It's not here today, right now, but it's definitely
6 coming down the pike pretty quickly here. The second
7 issue is that any type of expansion, new pipeline
8 capacity, is going to be much more expensive than the
9 existing capacity we've been utilizing for the past
10 many decades. And we really got to get used to that
11 fact that new capacity will be more expensive. There's
12 simply no way around that.

13 Finally, where the state commissions play a
14 role in this issue, it that new capacity does it get
15 built in little tiny increments to match the growth
16 rate of the different LDCs and different shippers in
17 the system. It's going to come in big blocks. And if
18 we want to get new pipeline capacity built for the long
19 term, we are going to have to examine policies about
20 reserve margins and so forth to basically get over
21 those blocks -- those humps, that make the LDCs kind of
22 shy away from huge commitment with big jump up in
23 capacity. That has to be addressed.

24 COMMISSIONER GAW: Okay.

25 MR. FISCHER: Commissioner, the other

1 point being, the way the system is developed, most part
2 of the industrial customers, ethanol or otherwise, have
3 become transportation customers.

4 COMMISSIONER GAW: Yes.

5 MR. FISCHER: And the LDCs don't have to
6 plan for that load as much because they need to go out
7 and find their own pipeline capacity. Of course, they
8 are very much the ones that are causing the need for
9 expansion and also the ones that should probably help
10 pay.

11 COMMISSIONER GAW: Okay. And Panhandle?
12 Anything further?

13 MR. RUSSELL: No.

14 COMMISSIONER GAW: We want to again
15 thank all of you for coming today and for the extensive
16 travel some of you have had. And we will continue this
17 inquiry and make a decision about whether we're going
18 to have some additional testimony which we will give
19 you all notice, I'm sure about that. I think if we
20 move that direction, we'll probably try to look at
21 whether there might be some interest from some of the
22 potential industrial customers or groups that would
23 have something to do with ethanol itself.

24 And if you have any other suggestions
25 that you think would be helpful to us in regard to

1 accessing information or other people who could give us
2 a more complete picture, we'd certainly like to hear
3 that from you.

4 And with that, Mr. Mills, do you have
5 anything?

6 MR. MILLS: I have nothing to add right
7 now, thank you.

8 COMMISSIONER GAW: Okay. And
9 Commissioner Clayton?

10 COMMISSIONER CLAYTON: Thank you. I'm
11 hopeful that I've made my interests clear. I mean, as
12 one commissioner in Missouri the interest of insuring
13 that economic development is not stymied because of
14 this potential for constraints on any particular
15 system. That is my goal, and there is no other
16 interest in picking on any entity or anything like
17 that. So I want to be clear on that. Those are the
18 problems that I'm interested in trying to resolve.

19 If there are suggestions, if there are
20 FERC policies that could be tweaked or modified that
21 you think that would be helpful, certainly feel free to
22 submit that information. If there are reserve margin
23 issues that you think -- policies that you think that
24 would be helpful at the state or federal level, please
25 send those to us and we'll make them part of the record

1 and we'll certainly contemplate. This is not a -- I
2 don't see this as a top-down exercise.

3 This is not an attempt from my
4 perspective of Commissioners attempting to exert any
5 particular plan that is going to work or that it's
6 going to solve problems, but a attempt to find answers.
7 And everyone that's in the room are certainly a part of
8 that finding of the solutions to meet whatever problem
9 comes up on any particular day regarding natural gas
10 capacities. So having said that, I don't have anything
11 else.

12 COMMISSIONER GAW: That's good.

13 COMMISSIONER CLAYTON: Then we'll go
14 ahead and conclude the investigation and go off the
15 record.

16 (WHEREIN; the on-the-record
17 presentation was concluded.)

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