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Witness:	Scott A. Glaeser
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2007-0003

DIRECT TESTIMONY

OF

SCOTT A. GLAESER

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

**** DENOTES HIGHLY CONFIDENTIAL INFORMATION ****

St. Louis, Missouri
July, 2006

Public

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DIRECT TESTIMONY

OF

SCOTT A. GLAESER

CASE NO. GR-2007-0003

I. INTRODUCTION

Q. Please state your name and business address.

A. Scott A. Glaeser, AmerenEnergy Fuels and Services Company (AFS), One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri.

Q. What is your position with AmerenEnergy Fuels and Services Company?

A. I am the Vice President of Gas Supply and System Control.

Q. What is the function of AmerenEnergy Fuels and Services Company?

A. AFS is an affiliate of Union Electric Company d/b/a AmerenUE (AmerenUE) which is charged with acquiring and managing natural gas and generation fuel resources for all of the Ameren affiliated companies including Ameren's gas distribution utilities and power generation companies.

Q. Please describe your educational background and employment experience.

A. I received a Bachelor of Science Degree in Mechanical Engineering from the University of Missouri at Rolla in December of 1986. From 1987 to January 1991 I was a Combustion Engineer for the Granite City Steel Division of National Steel Corporation (now U.S. Steel Corporation). In February 1991, I accepted the position of Fuel Buyer for Union Electric Company (UE) in which I was responsible for the purchase

of natural gas for the company's gas distribution systems and gas-fired generation. In 1994, I was named Engineer, Gas Supply and Planning, with continuing responsibilities for obtaining reliable and economic gas supply, transportation, and storage services for UE's gas distribution systems and gas-fired generation. During 1997 and 1998, in addition to my duties related to the natural gas business, I also acted as a short-term power trader for UE. In March of 1998, after the merger of the parent company of Central Illinois Public Service Company with UE, which formed Ameren Corporation, I was promoted to the position of Supervising Engineer of Gas Supply and Transportation in Ameren Services Company. In July of that year I was promoted to Manager of the Gas Supply and Transportation Department. In November of 2000 I was involved with the formation of AmerenEnergy Fuels and Services Company by the consolidation of the Gas Supply and Transportation Department with the Fossil Fuels Department. In this position, I continued to have management responsibilities over business activities including gas supply acquisition, price hedging, transportation and storage capacity acquisition, system operations, and state and federal regulatory affairs for AmerenUE, AmerenCIPS, AmerenCILCO, and AmerenEnergy Generating Company. In October 2004 my function became responsible for the same activities for the Illinois Power Company gas distribution system.

In October of 2004, I was promoted to my current position of Vice President, Gas Supply and System Control for AmerenEnergy Fuels and Services Company. My current responsibilities include all of the duties I performed in my previous position, plus the management and oversight of the Gas Control and End-User Transportation functions located in Springfield, Illinois.

II. PURPOSE AND SUMMARY OF TESTIMONY

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

A. My testimony is focused on three areas of the natural gas rate case: 1) AmerenUE's proposal to consolidate its four Purchased Gas Adjustment (PGA) rate areas under a single PGA rate mechanism; 2) proposed revisions to AmerenUE's tariff provisions addressing Critical Day definitions, Unauthorized Gas Usage, and penalties; and 3) proposed changes to the process for a transportation customer to request a return to the sales function and miscellaneous tariff changes.

III. SINGLE PGA RATE MECHANISM

Q. Please describe the single PGA rate mechanism that are proposed for the AmerenUE gas distribution system.

A. The proposed single PGA rate mechanism would combine AmerenUE's four separate PGA rate areas under a single PGA rate common to all four gas distribution operating regions. Currently, AmerenUE operates four separate PGA rate areas differentiated by the upstream interstate or intrastate pipeline delivering gas to the AmerenUE operating regions. The current PGA rate areas are 1) the Missouri Valley, Central Ozarks, and Boone Trails regions in central and eastern Missouri supplied by Panhandle Eastern Pipe Line Company (PEPL) and Missouri Pipeline Company (MPC), 2) the Rolla system in south central Missouri supplied by Missouri Gas Company (MGC) which is also supplied upstream by PEPL and MPC, 3) the SEMO region supplied by Texas Eastern Transmission, LLC (TETCO), and 4) the SEMO region supplied by Natural Gas Pipeline Company of America (NGPL). The single PGA rate would simply integrate the total costs of gas supply resources, financial hedging instruments,

transportation costs, storage costs, fuel losses, and various surcharges on all four interstate pipelines and two intrastate pipelines into a single PGA rate accounting mechanism to develop a single PGA rate applicable to all AmerenUE sales customers.

Q. What is the purpose of moving to a single PGA rate for all AmerenUE gas customers?

A. Our purpose is to provide all of our sales customers with the benefits of a more stable PGA rate regardless of their location or the size of the distribution system that serves them by uniformly dampening the effects of natural gas price volatility and spikes driven by supply/demand imbalances and uncertainty in the U.S. gas industry.

Q. Why are there currently four separate PGA rates areas?

A. The four different PGA rate areas represents a by-product of the historic growth of Union Electric Company (and now AmerenUE) due to mergers with several Missouri electric and gas utilities during the 1980s consisting of Missouri Power and Light Company, Missouri Utilities Company, and Missouri Edison Company, and the acquisition of the Rolla system from Aquila, Inc. in 2004. Since each gas utility system was originally independent and connected to a different interstate or intrastate pipeline, after each company's merger with AmerenUE, the PGA rates remained separate and unique to each system.

Q. Was it appropriate to maintain separate PGA rate areas during the period when UE was integrating the gas systems it had purchased?

A. Yes, maintaining a separate PGA rate based upon the upstream interstate pipeline made sense during the period when UE was consolidating these gas systems in the 1980s. During this period, and prior to Federal Energy Regulatory Commission

(FERC) Order No. 636 (Order 636), the exclusive cost driver for gas supply resources was the bundled sales service from the upstream interstate pipeline. Basically, all gas supply was delivered and sold to a gas distribution utility from the upstream interstate pipeline under bundled FERC regulated rates.

Q. How did Order 636 impact the gas industry?

A. Order 636 completely restructured the interstate natural gas pipeline industry in the U.S. during the early 1990s. The order basically unbundled gas supply costs from pipeline transportation and storage costs and it unbundled the pipelines' primary operating functions, such as transmission and storage, into separate services that could be contracted for by shippers such as AmerenUE. Order 636 also required the pipelines to terminate their merchant function, which eliminated the pipeline's role as the primary supplier of natural gas under FERC-regulated rates. In addition to FERC Order 636, the Wellhead Decontrol Act of 1979 eventually decontrolled or deregulated the price of gas sold at the wellhead by 1991. This created a natural gas commodity market in the U.S. with prices set by supply and demand, while at the same time the interstate pipelines were being removed as suppliers of gas under FERC-regulated rates.

Q. How did Order 636 and the Wellhead Decontrol Act impact the gas supply resources available to gas distribution utilities?

A. The combined effect of both policy decisions dramatically changed gas supply resources and price structures for gas distribution utilities. The gas supply portfolio was transformed from gas supply purchased from interstate pipelines at regulated prices to one where gas supply is purchased directly from producers and marketers in a national market where supply and demand determine prices. Commodity

gas prices were no longer set by regulatory authority. The responsibility for providing reliable and economic gas supply was transferred from interstate pipelines to gas distribution utilities, while the regulated safety net the interstate pipelines provided for gas supply was eliminated.

Q. How did Order 636 and the Wellhead Decontrol Act impact the PGA rates of gas distribution utilities?

A. Both federal policy decisions created a dramatic shift in the gas supply cost drivers impacting the PGA rates of gas distribution utilities. Gas supply costs were transformed from a "wellhead to burner-tip" fully regulated price environment to a free-market commodity price environment where market factors such as supply, demand, storage levels, weather, and crude oil prices determined the price of natural gas in a national market. Order 636 also required interstate pipelines to utilize the straight-fixed variable rate design method in developing pipeline transportation and storage rates. This rate design method places all fixed costs in the reservation charge for capacity while all variable operating costs are placed in the variable or commodity portion of rates. This rate design results in very high reservation charges for firm transportation and storage capacity while the variable or commodity cost for actually transporting or injecting natural gas is very low, usually around one or two cents per MMBtu. The cumulative effect of these changes is that the primary driver of gas supply costs in PGA rates has become the unregulated commodity cost of natural gas, while interstate pipeline costs have become a smaller and more stable component of PGA gas costs.

Q. In addition to Order 636 and the Wellhead Decontrol Act, are there other significant events that have had major impacts on PGA rates?

A. Yes. The winter of 2000/2001 was the first winter when gas prices spiked above $10 per MMBtu which marked the end of the "Gas Bubble" period of the 1990s when gas prices averaged around $2 per MMBtu (see Schedule SAG-1 Graph of NYMEX Henry Hub Futures Prices 1990 to Present). The "Gas Bubble" represented the period between the implementation of the Wellhead Decontrol Act in the late 1980s and prior to the winter of 2000/2001 when U.S. gas production capacity exceeded demand, creating gas-on-gas competition and low, stable gas prices for the entire decade. The extreme price spikes and associated volatility first experienced during the winter of 2000/2001 revealed that the supply/demand balance in the U.S. had become constrained and the period of low and stable natural gas prices had come to an end.

Q. How did the change in the supply/demand balance in the U.S. impact AmerenUE's PGA rates?

A. The primary cost driver for PGA rates has now become the commodity cost of natural gas due to its greatly increased cost and volatility. Natural gas commodity costs significantly exceed the cost of transportation and storage capacity within the PGA rate mechanism. For example, approximately $0.73 per Ccf of the total $0.95 per Ccf PGA rate currently in effect for AmerenUE's PEPL service area is due to the commodity cost of natural gas. Therefore, approximately 77% of the currently effective PGA rate is driven by the commodity cost of natural gas while the remaining 23% consists of transportation and storage costs, surcharges, and prior period under or over recoveries in the Actual Cost Adjustment (ACA) factor. In addition, gas commodity costs greatly

overshadow any transportation and storage cost differentials between interstate pipelines. For example, AmerenUE's discounted firm transportation rate negotiated with PEPL on one contract (EFT #011704) is ** [redacted] ** per MMBtu while the discounted firm transportation rate negotiated with NGPL on a similar contract (FTS #106214) is ** [redacted] ** and AmerenUE's maximum tariff rate with TETCO on a similar contract (FT-1 #80242 from ETX to M-1) is $0.2746. This creates transportation rate differentials of only ** [redacted] ** per MMBtu or less among PEPL transportation serving AmerenUE's PEPL PGA rate area, NGPL transportation serving AmerenUE's NGPL PGA rate area, and TETCO transportation serving AmerenUE's TETCO PGA rate area. This transportation rate differential is relatively minor when compared to natural gas commodity prices with price volatility that has exceeded $1.50 per MMBtu within a single trading day and $0.50 per MMBtu within a trading hour.

Q. Since gas commodity costs are now the primary driver of PGA rates, what does AmerenUE do to manage this price risk for its customers?

A. We have developed and implemented a gas hedging strategy and associated risk management policy with the primary goal of ensuring reliable and economic gas supply for our customers, while providing protection from extreme market volatility and price spikes.

Q. What are the basic elements of AmerenUE's gas hedging strategy?

A. Our overall strategy is to have approximately 75% of a normal winter demand price hedged using a combination of purchased gas supply with price hedge protection and storage withdrawals at a fixed Weighted Average Cost of Gas (WACOG) withdrawn from inventory. Storage provides a fundamental component of our strategy.

We target 50% of gas supply delivered during a normal winter to come from storage withdrawals. Storage is critical to price hedging since the gas supply is purchased and injected during the summer season when prices are typically lower and less volatile, and it enables the price hedging of future injection seasons. Other key elements of our hedging strategy are to utilize a forward planning and acquisition horizon in which we are purchasing physical gas supply and financial price hedges for six years into the future. For physical gas supply, the strategy has seasonal (peak and off-peak) maximum and minimum acquisition targets set according to proximity to the current season which stair-step down into the future. For example, for the upcoming winter season of 2006/2007 our strategy is to have 100% of the physical gas supply purchased by November 1st, 2006 to supply the maximum winter demand for the AmerenUE system while the winter season of 2008/2009 must have a minimum of 10% physical supply purchased up to a maximum of 75% by this coming November 1st. For financial price hedges, the strategy is similar with seasonal maximum and minimum acquisition targets set according to proximity to the current season, but the strategy also adds a market price sensitivity component. This price sensitive component increases or decreases the maximum and minimum targets based upon the forward market price of natural gas as traded on the New York Mercantile Exchange (NYMEX) futures market. The price range targets are based upon a low price market valuation of below $6 per MMBtu, a mid-price market valuation of from $6 to $9 per MMBtu, and a high price market valuation of greater then $9 per MMBtu. The strategy increases minimum and maximum price hedge targets for low-priced forward markets while decreasing minimum and maximum price hedge targets for mid- and high-priced forward markets. In effect, we accelerate the acquisition

of forward price hedges when futures prices are low and reduce forward price hedges when futures prices are high. For example, the upcoming winter season of 2006/2007 has a price hedging target of from 30% up to100% if forward NYMEX futures prices are below $6 per MMBtu while the target reduces to a minimum of 15% and a maximum of 60% if forward winter prices are $9 per MMBtu and above. Schedules SAG-2 and SAG-3 are graphical representations of this strategy for the AmerenUE system which shows the six-year planning and acquisition horizon along with the maximum and minimum acquisition limits for both volumetric and price positions stair-stepping down through future periods.

Q. What are the basic elements of AmerenUE's risk management policy?

A. The risk management policy parallels our gas hedging strategy and requires the minimum and maximum limits to be met during two key points each year which represent the transition dates between the peak and off-peak operating seasons; April 1st and November 1st. Basically, we must ensure our systems are within the hedging limits described in the policy on these two dates for the forward six years for each gas utility. The policy also addresses many other risk management areas including authorized gas traders, approval authorities for transactions, the types of physical and financial instruments that can be traded, prohibitions against speculative trading and so forth. In addition, the policy creates a procedure in which all trades must be entered into a risk management software and database system with daily reports generated to monitor the commodity positions of all Ameren companies.

Q. What is the fundamental purpose of the six-year planning and acquisition horizon and the price sensitive hedging limits in the strategy?

A. The purpose is to create a "dollar-cost-averaging" effect in which we are layering in forward price hedge positions over time to dampen the effect of market price volatility and price spikes in our PGA rates. In addition, our goal is to secure firm gas supplies in future periods before the majority of other physical participants in the market begin acquiring their gas supplies.

Q. Are there any constraints with this strategy?

A. The strategy works very well with large gas utility systems that have a large number of gas supply baseload transactions that can be efficiently price hedged. This allows for price hedging with a series of financial instruments acquired over a period of several years leading up to the actual operating season which creates the desired "dollar-cost-averaging" effect. The strategy becomes constrained when applied to small gas utility systems that have separate PGA rates. In this situation, the baseload volumes available for price hedging may be so small that only one or two price hedges can be placed on the system for a given winter period. This constraint makes the "dollar-cost-averaging" strategy difficult to fully implement and creates the situation where the acquisition of a single price hedge basically sets the PGA rate for the system.

Q. Does AmerenUE have small utility systems with separate PGA rates?

A. Yes, our Marble Hill system connected to NGPL consists of only 1,957 customers and has a forecasted peak design day of only 2,998 MMBtu. The system is supplied with firm capacity on NGPL consisting of contracts for firm transportation capacity of 530 MMBtu/day, and of 2,370 MMBtu/day, and storage deliverability of

1,000 MMBtu/day. The critical issue from a price hedging perspective is the baseload gas supply for the winter period is only 530 MMBtu/day due to the load profile of the system. This 530 MMBtu/day is the only gas supply purchased during the winter period that can be efficiently price hedged but, due to its small size, acquiring even a single price hedge for this package is difficult. It would be nearly impossible to break this small package into several even smaller transactions that could be priced hedged over time. Therefore, when the single price hedge for this system is acquired, it represents the only price hedged position other than storage withdrawals. This is the difficulty with implementing price hedging for a small system. AmerenUE also has small distribution systems with separate PGA rates served on TETCO and on MGC.

Q. What is the solution for price hedging small distribution systems with separate PGA rates?

A. The solution is very simple yet effective: the separate PGA rates need to be combined or integrated into the PGA rate mechanism of a significantly larger system for the benefits of our price hedging strategies to be shared with all AmerenUE customers. The small systems would continue to have price hedges acquired for their small baseload supplies but would benefit from the large number of price hedges acquired over a longer period of time for the entire integrated system to reduce price volatility. This would eliminate the situation in which a single price hedge would basically set the PGA rate for the small distribution system. In addition, all AmerenUE sales customers would share in the benefits of aggregating a larger pool of hedged gas supplies and storage.

Q. Are there benefits with respect to the acquisition and utilization of storage under a single PGA rate?

A. Yes, there are significant benefits to be derived from the acquisition and utilization of storage under a single PGA rate. As I stated earlier in my testimony, storage is a fundamental component of our gas hedging strategies. The single PGA will enable AmerenUE to utilize leased storage service on any one of its three interstate pipelines to benefit all AmerenUE sales customers. It will not matter if that storage is on PEPL, TETCO, or NGPL within limitations of the respective system. This will allow us to acquire the most economic and operationally efficient storage service from the three interstate pipelines above what is necessary for daily operational balancing purposes (which, by nature, must remain on the upstream interconnected pipeline). This significantly reduces the existing constraint that forces us to acquire incremental storage capacity on the pipeline directly connected to the distribution system in order to properly price hedge the respective system and PGA rate.

Q. Are there additional benefits with respect to the acquisition and utilization of storage under a single PGA rate?

A. Yes, another significant benefit is access to storage in this era of constrained storage capacity. Since storage is so critical and valuable in dampening price volatility and providing a secure source of gas supply during the winter, many interstate pipelines in the U.S are sold out of storage capacity. For example, a portion of the storage capacity on AmerenUE's TETCO system will expire 10/31/06 and TETCO has notified AmerenUE that the agreement would not be renewed. Currently, there is no incremental storage capacity available on TETCO to provide additional support for the

Cape Girardeau system to meet our strategy of 50% storage withdrawals during the winter. If AmerenUE had a single PGA rate, we could add storage capacity on PEPL, within the operating limitations of the PEPL system, to meet our overall hedging strategy of 50% storage for the overall system, including Cape Girardeau. The added benefit is that PEPL storage has much greater operational flexibility and access to lower cost Mid-continent gas supplies, both of which will directly benefit all AmerenUE customers within the single PGA.

Q. Are there additional benefits of a single PGA rate for AmerenUE's customers?

A. There are many other benefits associated with a single PGA. It reduces the volatility of the PGA rate mechanism with respect to under and over-recoveries. Since the PGA rate mechanism attempts to match actual gas costs with actual revenues from customers, there is inevitably a difference in this cost recovery which causes under or over-recoveries to build over time. The single PGA creates larger volume and cost basis for under/over recoveries which reduces the volatility of the overall adjustment. The single PGA will also eliminate customer confusion regarding different PGA rates for AmerenUE in general and especially for close geographic areas such as the Marble Hill and Cape Girardeau areas and the Rolla and Jefferson City areas. The single PGA will also reduce the administrative burden for both the Missouri Public Service Commission (MPSC) Staff and AmerenUE in managing and administering four different PGA rates.

Q. Do other gas distribution utilities in Missouri have single PGA rates?

A. Yes, Missouri Gas Energy, the second largest gas distribution utility in Missouri, has a single PGA rate even though it is served by multiple interstate pipelines

over a broad geographic area. Until the recent acquisition of the Fidelity System, Laclede Gas Company, the largest gas utility in Missouri also had a single PGA rate. Both utilities are served by multiple interstate and intrastate pipelines and their customers have benefited from the more stable rates of single PGA rate.

Q. Considering the cost data from AmerenUE's last PGA filing, what would be the estimated single PGA rate?

A. A comparison of costs was prepared using the Regular Purchase Gas Adjustment (RPGA) cost component. This calculation provides the proper comparison since it does not include Actual Cost Adjustment (ACA) true ups for over and under collection that occur from time to time. Using a weighting of base period usage for each of the four systems, the estimated single RPGA would be $0.9506 per Ccf. This is compared to the current RPGA rates of $1.3039 per Ccf for the area served by MGC, $1.0894 per Ccf for the area served by TETCO, $0.9146 per Ccf for the area served by PEPL, and $0.8017 per Ccf for the area served by NGPL. The PGA rate entries on tariff sheet 30 are blank and, if approved, the Company will make recommendation on a combined basis.

The estimated impact of employing a single PGA would result in residential customer bills in the area served by MGC to decrease by $18.51 per month, TETCO to decrease by $7.62 per month, PEPL to increase by $2.16 per month and NGPL to increase by $8.18 per month. However, this does not reflect the potential benefits of employing the most effective hedging instruments if the systems were allowed to be managed as a single PGA. Also, we anticipate additional PGA savings in the future

due to the complaint case recently filed by the Staff of the Missouri Public Service Commission to investigate the tariff rates on the MPC and MGC pipeline systems.

Q. The single PGA will lower the costs for some ratepayers and raise the costs for other ratepayers. How can you justify that higher cost for some ratepayers?

A. Although ratepayers in the area served by PEPL and NGPL are currently experiencing lower costs with a separate PGA, those conditions can change as the market for the gas commodity changes. In particular, the area served by NGPL is currently enjoying the benefits of a single supply package that was price hedged under extremely favorable market conditions. This advantage will expire this year, and higher gas commodity costs, which are more reflective of the current market, will be experienced through the PGA process.

Access to more Liquid Natural Gas (LNG) on the TETCO system may offer price advantages in the future which may change price relationship with PEPL and NGPL. In addition, there are concerns over the production decline rates for the gas supplies sourced from the Mid-continent area which supply PEPL and NGPL. The natural gas market has been exceptionally volatile and using all alternatives for diversifying supply areas is an important tool for achieving price stability to benefit all customers.

Q. Please summarize your arguments and conclusions on why the single PGA rate mechanism provides substantial benefits to AmerenUE's customers.

A. The primary purpose of the single PGA rate is to provide all of our customers with the benefits of a single PGA which is more stable and less susceptible to

market price volatility and spikes. The single PGA will bring the commodity price hedging benefits of a large system to all customers, regardless of their location or the size of the distribution system that serves them. There are no direct financial benefits for AmerenUE from the single PGA rate, but it should provide higher customer satisfaction and less customer confusion. The historic factors that created AmerenUE's four PGA rate areas are no longer relevant in today's gas industry and no longer represent the primary drivers of gas supply costs within the PGA rates. In fact, the rate differentials between the three interstate pipelines that serve AmerenUE are relatively insignificant and completely over shadowed by hourly gas price volatility in today's constrained gas markets. The ability of all of our distribution systems to equally access storage, a fundamental resource in managing price volatility, on any interstate pipeline will be enhanced by a single PGA.

IV. CRITICAL DAY DEFINITIONS, UNAUTHORIZED GAS USAGE, AND PENALTIES

Q. What changes are being proposed to Critical Day definitions, Unauthorized Gas Usage, and penalties contained in AmerenUE's tariff?

A. Ameren is proposing to more clearly define in its tariffs the operating conditions that create a Critical Day on AmerenUE's distribution system(s) and increase the penalties that are charged for unauthorized system gas taken by transportation and interruptible sales customers during Critical Day periods.

Q. What are the proposed conditions that will create a Critical Day declaration by AmerenUE?

A. The conditions that will cause a Critical Day declaration by AmerenUE will be defined as the occurrence of any of the following four conditions:

1. AmerenUE experiences failure of transmission, distribution, or gas storage facilities;
2. Changes to transmission or distribution system pressures or other unusual conditions that may jeopardize the operations of AmerenUE's gas system;
3. AmerenUE's transportation, storage, or supply resources are being used at or near their maximum rated, tariff, or contractual limits;
4. Any of AmerenUE's transporters or suppliers declares the functional equivalent of a Critical Day or Force Majeure conditions;

The common driver for all four conditions that create a Critical Day occurrence is that system or upstream resources used to operate and maintain system integrity are under duress, threatening the integrity of AmerenUE's distribution system and its ability to deliver gas to all customers. Under Critical Day conditions, AmerenUE must take immediate actions to protect system integrity. These actions include, but are not limited to, curtailing interruptible sales customers and ensuring that transportation customers are maintaining the proper balance between gas deliveries to the distribution system and their gas consumption.

Q. Please describe Unauthorized Gas Usage and the proposed revisions to penalty rates.

A. Unauthorized Gas Use is the usage of system gas by transportation customers and interruptible sales customers during Critical Day periods. System gas is the gas supply resources of AmerenUE supplying the PGA sales function. AmerenUE is proposing to increase the penalty rates for Unauthorized Gas Usage from $1.5 per Ccf to

$6 per Ccf plus 150% of the highest cost of gas purchased by AmerenUE during the Critical Day period. In addition, any interstate or intrastate pipeline penalties that are incurred by AmerenUE attributable to the customer's unauthorized use will also be billed to that customer.

Q. Why are these changes being proposed to the tariffs?

A. The purpose of penalties is to deter customer behavior that is detrimental to the operation and integrity of the system during Critical Day periods. We are proposing to increase the penalty for Unauthorized Gas Use due to the greater volatility and spikes of natural gas prices since the winter of 2000/2001. Since market prices have exceeded $15 per MMBtu this past winter, a penalty rate of $1.50 per Ccf, or $15 per Mcf, which is approximately $15 per MMBtu, is now at the market and its impact as a deterrent is eliminated. In fact, some marketers may view the utility's unauthorized gas as a source of gas supply for its customers during critical periods on interstate pipelines when penalties can exceed $100 per MMBtu. For example, PEPL's and NGPL's penalties for taking unauthorized gas during Operational Flow Orders (OFO) or critical periods are up to $200 per MMBtu . If a marketer is facing penalties of $200 per MMBtu on NGPL or penalties of $15 per Mcf on a gas utility, it will not deliver to the utility to maintain balance on NGPL and avoid the $200 penalty charge. In similar circumstances, penalties for other Midwestern gas utilities such as NICOR or Peoples Gas are also in the $60 per Mcf range, creating an incentive for a marketer delivering gas to multiple utilities to maintain deliveries to the utility with a higher penalty and "short" the utility with lower penalties. The purpose of the increased penalty rate is to place AmerenUE at parity with interstate pipelines and other Midwestern gas utilities to ensure proper incentives for

marketers to continue delivering gas to AmerenUE transportation customers and to deter those customers from being out of balance during Critical Days.

Q. How are the penalty revenues received from offending customers allocated?

A. All penalty revenues are credited back through the PGA rate mechanism for the benefit of the firm sales customers. AmerenUE does not derive any increased margin or earnings from penalty revenues and therefore has no incentive to charge them other than to protect system integrity during Critical Day periods.

V. TRANSPORTATION CUSTOMER CONVERSION TO SALES AND MISCELLANEOUS TARIFF REVISIONS

Q. What tariff changes are being proposed for transportation customers wishing to return to sales service?

A. Tariff changes are being proposed to give AmerenUE the authority to determine if it has sufficient gas supply resources, storage capacity, and transportation capacity to support the transportation customer wishing to return to sales service. If there are insufficient resources to meet the demand requirements of the customer, then the Company, in its sole judgment, may deny the request and the customer must remain as a transportation customer. In the event of a denial of sales service, AmerenUE may offer a special contract in which the terms and conditions of sales service are restricted to enable the customer to use sales service. In addition, the customer must provide written notice prior to July 1st of each year if the customer wishes to convert to sales service to be effective the following November 1st. Finally, the customer must remain on sales services for at least 12 months after the conversion date.

Q. What is the purpose of the proposed tariff revisions and restrictions for the conversion to sales service?

A. The primary reason for these proposals is that interstate and intrastate pipeline capacity markets have become more constrained and there may be no incremental firm transportation capacity available to serve transportation customers wishing to return to the sales function. In the event that AmerenUE has insufficient capacity in its existing portfolio to serve a customer wishing to return to sales service, then AmerenUE must acquire new incremental capacity from the upstream interstate or intrastate pipeline to serve the customer's demand requirements. AmerenUE simply cannot serve the customer under the sales function if the firm capacity to meet the customer's demand is not available. It is important for AmerenUE to be able to control migration from transportation service to sales service in order to maintain the integrity of the gas supply resources supporting the distribution systems.

Q. What is the purpose of the special contract option if insufficient gas supply resources are available?

A. The special contract option will enable AmerenUE to negotiate a custom gas sales agreement that has certain restrictions and conditions regarding the usage of PGA sales gas. These contract restrictions will allow the Company to serve the customer under the sales function even with insufficient capacity resources to meet the peak design day demand for that customer. For example, the restrictions may state that the customer may not receive gas during the December through February period each year or may restrict the customer's deliveries when temperatures are forecasted to fall below a certain level. This tariff provision gives AmerenUE the ability to serve customers for a majority

of the year even with insufficient capacity resources to support that customer's demand year-round.

Q. What type of transportation customer wishing to return to the sales function would seek a special contract for sales service?

A. The typical customer would be an industrial customer that can tolerate interruptions to its gas consumption under known conditions. An example would be a grain dryer that operates only in the fall season and will not operate during the core winter months of December through February when AmerenUE capacity resources would be fully utilized for existing firm sales customers during extreme weather conditions. Another example would be an ethanol plant that desires firm sales service but can tolerate two weeks of downtime each winter coinciding with extremely low temperatures.

Q. Are their any benefits to special contracts for the firm sales customers?

A. The special contracts would allow AmerenUE to connect new large industrial loads or existing transportation customers wishing to convert to sales service without having to acquire additional firm capacity for the system. This would increase throughput on AmerenUE's existing firm transportation capacity which would allow the Company to more efficiently utilize that capacity at higher load factors and drive down the unit rate of fixed capacity costs in the PGA rate.

Q. What is the purpose of the annual notification deadline prior to July 1st for transportation customers to request a conversion to sales service?

A. The annual July 1st deadline for conversion requests is to provide the Company with adequate time before the winter season to analyze the demand

requirements and capacity resources needed to meet all customers' requests for a return to sales service. The deadline also gives the Company adequate time to acquire and negotiate for additional capacity from interstate and intrastate pipelines, if available, to meet the conversion requests. The effective date of the accepted conversions also coincides with the start of the peak winter season on November 1st which is a typical commencement date for firm transportation agreements in the gas industry. Finally, the standard request date and effective date enables the Company to perform this service in aggregate for all customers at the same time so that requests and subsequent pipeline capacity agreements are not piecemealed in small lots throughout the year and conversion between transportation and sales and also from sales to transportation can be netted for the most efficient use of existing capacity.

Q. Are there any other proposed tariff changes and the purpose of these changes?

A. Yes, there are many proposed changes to update and to clarify the tariff. The following is a summary of the material tariff language changes:

1. Remove sections in Tariff pages 20.2 through 20.22 referring to the Missouri Service Area Formerly Served Under Aquila's Eastern System Tariffs.
2. Tariff pages 18 and 18.1 will address The Special Transportation Contracts, previously under Tariff page 20.21 for Missouri Service Area Formerly Served Under Aquila's Eastern System Tariffs. These Special Contracts will be grandfathered from the effective date of the tariff to the existing expiration date, if the customer wishes to do so.

3. Remove the Natural Gas Transportation Service contract example on Tariff pages 16.2-16.6.
4. Change the Natural Gas Transportation Service provision on Tariff page 15 for calculation of imbalances from 5% of usage to 5% of nominations.
5. Revise the Natural Gas Transportation Service Section H regarding customer nominations on Tariff pages 13.1 and 13.2 to specify that the customer must notify the Company by 4:00 PM CST of any schedule changes for intraday flow.
6. Add tariff language in the "Application for Service" section on Tariff page 43 regarding application for new Firm Gas Service to be granted if in the Company's sole judgment, sufficient gas supplies, storage availability and/or pipeline capacity exists.
7. Add new section titled Penalty Charges from Interstate Pipelines on Tariff page 44.1 regarding customer's responsibility for interstate pipeline penalties.
8. Remove Gas Supply Incentive Plan (GSIP) Section VI in its entirety on Tariff pages 29.5 through 29.9.
9. Add a new section titled Right to Purchase Gas Owned by Transportation Customers on Tariff page 69.3. This section gives the Company the right to purchase natural gas supplies owned by transportation customers when system integrity is threatened.

10. Remove items in the Pilot Program Section XV on Tariff pages 72 through 74 titled Use of Financial Markets To Manage Gas Costs.
11. Revised the Daily Balancing and Cash-out of Customer-Owned Gas on Tariff page 13.2 to remove reference to “Burner Tip Balancing” and replaced with “interstate/intrastate pipelines serving the Company elect to allow balancing on their system”.
12. Removing item number 10, Purchased Gas Adjustment Clause, Rider A, page 29, per staff’s suggestion that the current methodology is acceptable.

Q. Does this conclude your direct testimony?

A. Yes, it does.

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of Union Electric Company d/b/a AmerenUE for Authority to File Tariffs Increasing Rates for Gas Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. GR-2007-

AFFIDAVIT OF SCOTT A. GLAESER

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

Scott A. Glaeser, being first duly sworn on his oath, states:

1. My name is Scott A. Glaeser. I work in the City of St. Louis, Missouri, and I am employed by Ameren Corporation as Vice President of Gas Supply and System Control.

2. Attached hereto and made a part hereof for all purposes is my Direct Testimony on behalf of Union Electric Company d/b/a AmerenUE consisting of 24 pages, Attachment A and Schedules SAG-1 through SAG-4, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

Scott A. Glaeser

Subscribed and sworn to before me this 30th day of June, 2006.

Notary Public

My commission expires: Jan. 29, 2008

CAROLYN J. SHANNON
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Jan. 29, 2008

EXECUTIVE SUMMARY

SCOTT A. GLAESER

Vice President of Gas Supply and System Control

*** * * * * * * * * ***

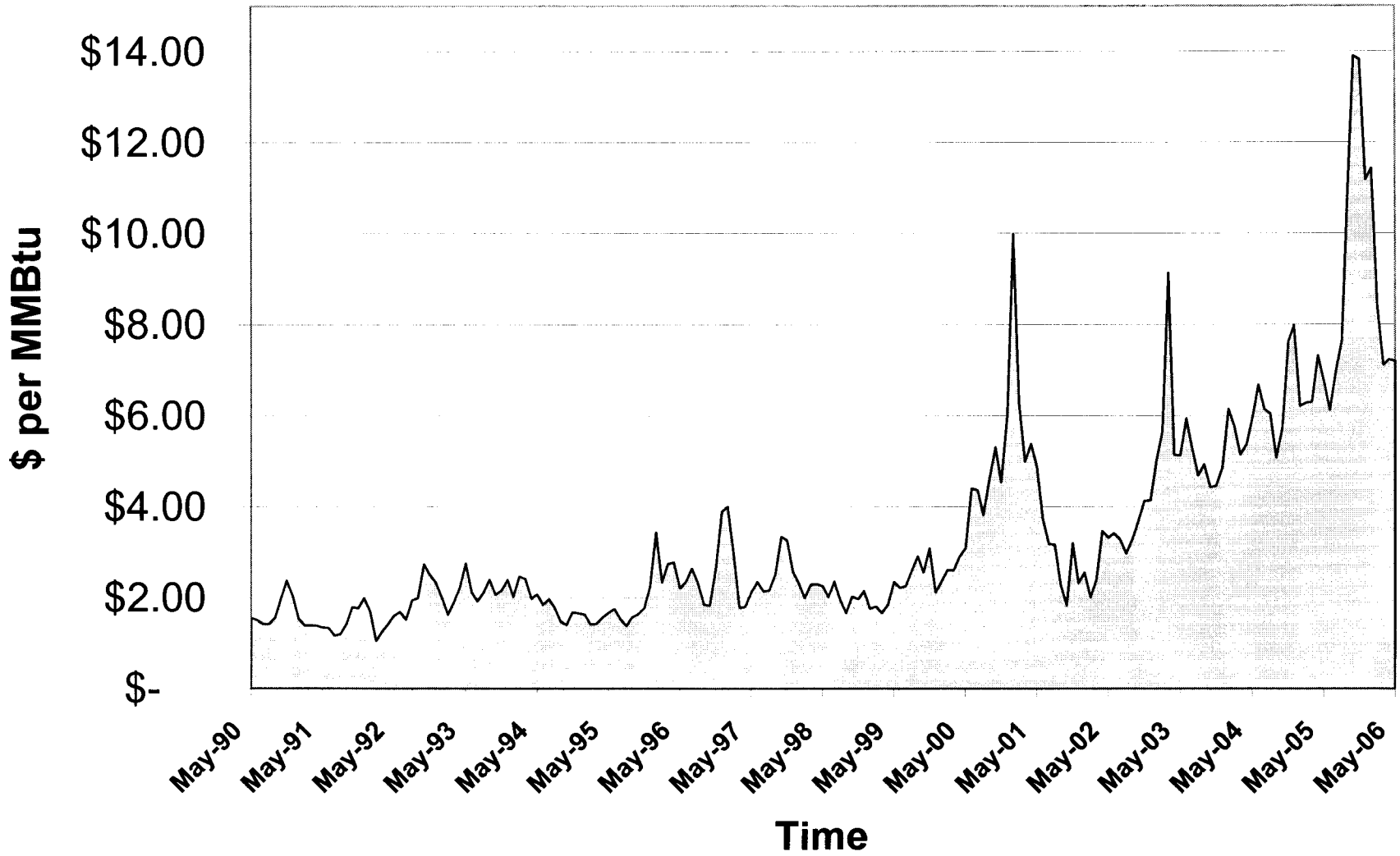
My testimony is focused on three areas. First, I propose to consolidate AmerenUE's four Purchased Gas Adjustment (PGA) areas into a single rate mechanism. The primary purpose of the single PGA rate is to provide all of our customers with the benefits of a single PGA which is more stable and less susceptible to market price volatility and spikes. The single PGA will bring the commodity price hedging benefits of a large system to all customers, regardless of their location or the size of the distribution system that serves them. There are no direct financial benefits for AmerenUE from the single PGA rate, but it should provide higher customer satisfaction and less customer confusion. The historic factors that created AmerenUE's four PGA rate areas are no longer relevant in today's gas industry and no longer represent the primary drivers of gas supply costs within the PGA rates. In fact, the rate differentials between the three interstate pipelines that serve AmerenUE are relatively insignificant and completely over shadowed by hourly gas price volatility in today's constrained gas markets. The ability of all of our distribution systems to equally access storage, a fundamental resource in managing price volatility, on any interstate pipeline will be enhanced by a single PGA.

Second, I am proposing revisions to tariff provisions which address Critical Day definition, Unauthorized Gas Usage, and penalties. These changes more clearly define in its tariffs the operating conditions that create a Critical Day on AmerenUE's distribution system(s) and increase the penalties that are charged for unauthorized system gas taken by

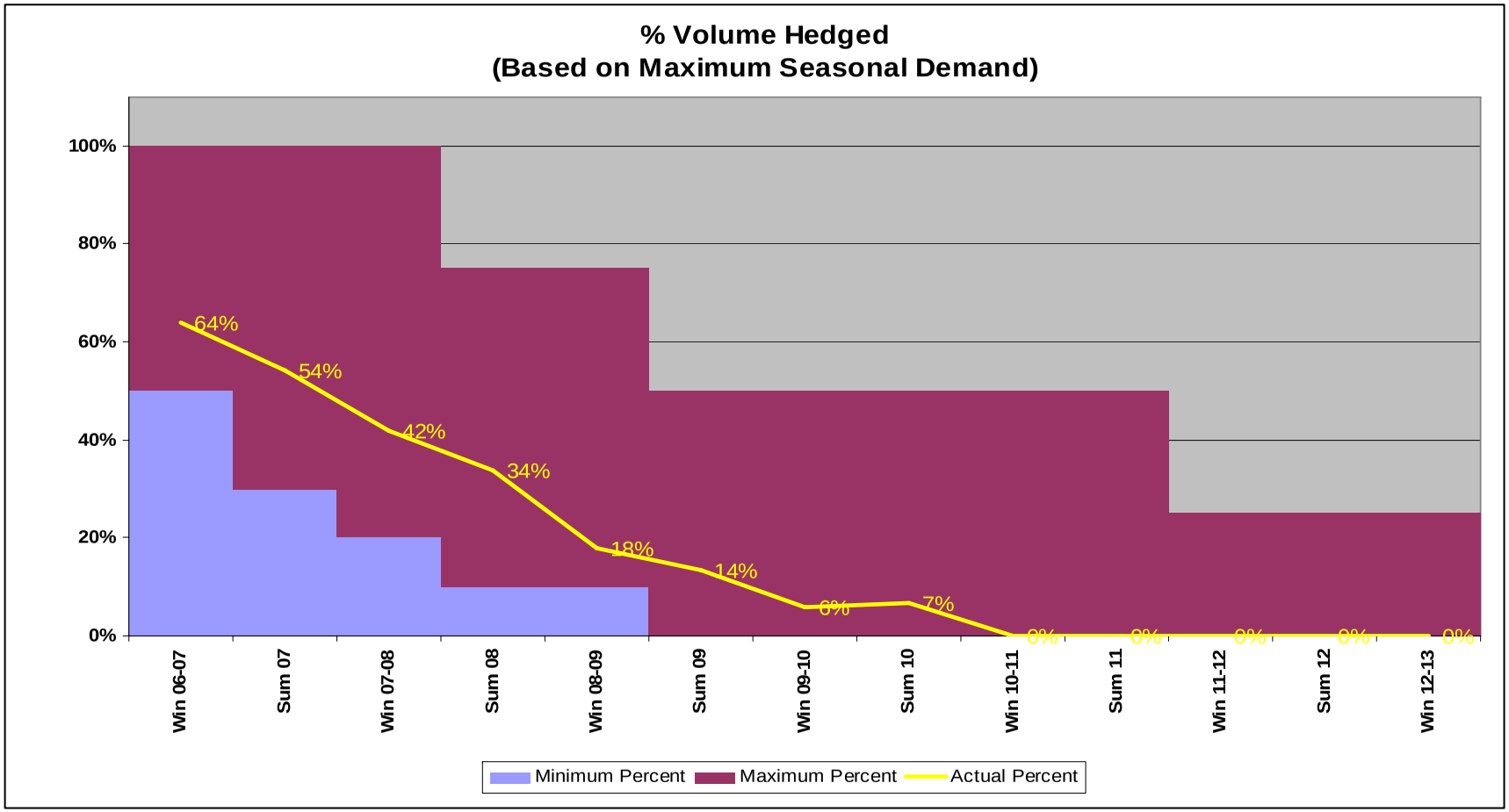
transportation and interruptible sales customers during these Critical Day periods. This authorized taking of system gas is detrimental to the operation and integrity of the system during Critical Day periods.

Finally, I am proposing changes to the process under which a transportation customer may request a return to the sales function. These changes will give AmerenUE the authority to determine if the Company has sufficient gas supply resources, storage capacity, and transportation capacity to support the transportation customer wishing to return to sales service. I propose this change because interstate and intrastate pipeline capacity markets have become more constrained and AmerenUE may not have incremental firm transportation capacity available to serve transportation customers wishing to return to the sales function. In the event that AmerenUE has insufficient capacity in its existing portfolio to serve a customer wishing to return to sales service, then AmerenUE would have to acquire new incremental capacity from the upstream interstate or intrastate pipeline to serve the customer's demand requirements. AmerenUE simply cannot serve the customer under the sales function if the firm capacity to meet the customer's demand is not available. It is important for AmerenUE to be able to control migration from transportation service to sales service in order to maintain the integrity of the gas supply resources supporting the distribution systems.

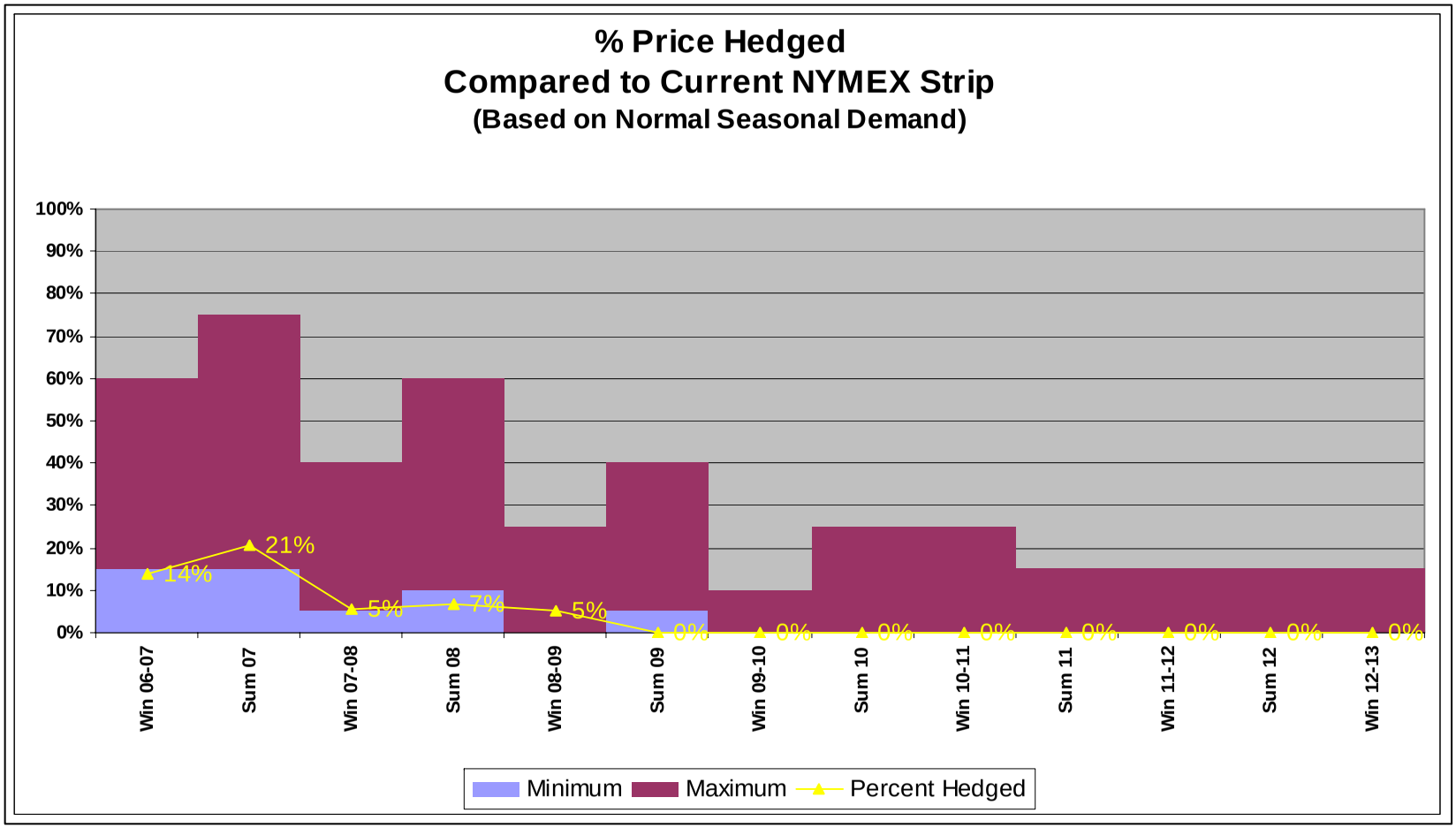
NYMEX Henry Hub Natural Gas Futures Contracts



Schedule SAG-1



Schedule SAG-2


% Price Hedged
Compared to Current NYMEX Strip
(Based on Normal Seasonal Demand)
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
14%
21%
5%
7%
5%
0%
0%
0%
0%
0%
0%
0%
0%
Win 06-07
Sum 07
Win 07-08
Sum 08
Win 08-09
Sum 09
Win 09-10
Sum 10
Win 10-11
Sum 11
Win 11-12
Sum 12
Win 12-13
Minimum
Maximum
Percent Hedged

Single RPGA Rate Comparison
Based on RPGA Rates of 3/1/06

	Base Period Demand (MMBtu)	03/01/2006 RPGA Rate ($/CCF)	Cost ($)	Rate Change (%)	Normal Residential Use (CCF/Yr)	Change to Bill ($/Month)
PEPL	8,961,939	$ 0.9146	$ 81,965,890	3.9%	719	$ 2.16
TETCO	1,688,381	$ 1.0894	$ 18,393,222	-12.7%	659	$ (7.62)
Rolla	322,593	$ 1.3039	$ 4,206,289	-27.1%	629	$ (18.51)
NGPL	171,201	$ 0.8017	$ 1,372,518	18.6%	659	$ 8.18
Total	11,144,113		$ 105,937,918			
Weighted Average Rate		$ 0.9506				