

Exhibit No.:
Issue: Transportation Balancing Revision
Revisions to Gas Supply Incentive Plan
Witness: Scott A. Glaeser
Type of Exhibit: Direct Testimony
Sponsoring Party: Union Electric Company d/b/a AmerenUE
Case No: GR-2000-512

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2000-512

FILED³
APR 03 2000
Missouri Public
Service Commission

DIRECT TESTIMONY

OF

SCOTT A. GLAESER

ST. LOUIS, MISSOURI
April 3, 2000

MISSOURI PUBLIC SERVICE COMMISSION

STATE OF MISSOURI

FILED³

APR 03 2000

Missouri Public
Service Commission

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-2000-512

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 Manager, Gas Supply Department of Ameren Services Company.
2. Attached hereto and made a part hereof for all purposes is my Direct Testimony consisting of pages 1 through 15 and Schedule 1, all of which has been prepared in written form for introduction into evidence in Missouri Public Service Commission Case No. GR-2000-512 on behalf of Union Electric Company.
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 29 day of March, 2000.

Carol A. Head
Notary Public

CAROL A. HEAD
Notary Public - Notary Seal
STATE OF MISSOURI
St. Charles County
My Comm. Expires: Sept. 23, 2002

DIRECT TESTIMONY
OF
SCOTT A. GLAESER

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1 **DIRECT TESTIMONY**
2 **OF**
3 **SCOTT A. GLAESER**
4 **UNION ELECTRIC COMPANY**
5 **d/b/a AmerenUE**
6 **CASE NO. GR-2000-512**

7 **Q. Please state your name and business address.**

8 A. My name is Scott A. Glaeser. My business address is 1901 Chouteau Avenue, St.
9 Louis, Missouri 63103.

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

11 A. I am employed by Ameren Services Company as Manager of the Gas Supply
12 Department.

13 **Q. Please describe your educational background and pertinent employment history.**

14 A. A summary of my educational background, relevant work experience and job
15 responsibilities is set forth in Schedule 1 to my testimony.

16 **Q. What is the purpose of your participation in this case?**

17 A. I will discuss AmerenUE's proposed changes to the balancing provisions of its
18 natural gas transportation service tariffs and the Company's proposed revisions to its
19 existing Gas Supply Incentive Plan or "GSIP". The transportation balancing
20 revisions appear on Tariff Sheet No. 15 and the GSIP changes appear on Tariff Sheet
21 Nos. 29.7 and 29.9 through 29.14 of the Company's Purchased Gas Adjustment
22 (PGA) Clause in Schedule 2 attached to the direct testimony of Company witness
23 William W. Warwick.

DESCRIPTION OF AMERENUE'S NATURAL GAS SYSTEM

Q. Before you discuss the proposed tariff changes, for background purposes please identify the Company's current natural gas transmission pipeline suppliers in Missouri.

A. AmerenUE's Missouri gas system consists of three distinct and separate non-interconnected distribution systems, each of which is served by a major interstate pipeline. In addition, an intrastate pipeline serves one of these distribution systems. The largest system is located in central and eastern Missouri and serves approximately 85,000 customers. It is connected to the interstate pipeline Panhandle Eastern Pipe Line Company (Panhandle Eastern) and to the intrastate carrier Missouri Pipeline Company. The Company's two remaining distribution systems are located in southeast Missouri and are served by the interstate pipelines Texas Eastern Transmission Corporation (Texas Eastern) and Natural Gas Pipeline Company of America (NGPL). The Texas Eastern-connected distribution system serves approximately 20,000 customers and the NGPL-connected system has approximately 1,700 customers.

Q. Does the Company supplement gas obtained in this manner by using other sources of supply?

A. Yes, it does. As part of its overall gas supply function, the Company utilizes firm storage and "no-notice" storage services for firm deliverability and, in addition, operates two propane-air mixing plants.

1 **Q. Please describe the source of the Company's storage services.**

2 A. AmerenUE does not own any on-system storage facilities. It either contracts for such
3 services from interstate pipelines regulated by the Federal Energy Regulatory
4 Commission (FERC) or from third-party storage providers.

5 **Q. Please describe the Company's propane plants.**

6 A. These plants are located in Cape Girardeau and Jefferson City and have an
7 operational capability to produce approximately 12,500 Mcf (thousand cubic feet) per
8 day of equivalent natural gas capacity. The planned operation of such plants is
9 limited to supplementing the delivery of natural gas on colder than normal system
10 peak days and to maintain adequate service to customers in those areas in the event of
11 physical conditions involving the potential disruption of the receipt and delivery of
12 natural gas at one or more points on the local gas distribution system.

13 TRANSPORTATION BALANCING REVISIONS

14 **Q. Please describe the Company's current transportation balancing provisions.**

15 A. Under the Company's existing tariffs, transportation customers are required to
16 maintain their daily gas receipts and deliveries of customer-owned gas in perfect
17 balance. If a transportation customer delivers less gas than it uses, the customer
18 creates a negative imbalance on the Company's system. Depending upon when the
19 negative imbalance occurs, the Company will assess the customer a penalty of either
20 the Unauthorized Gas Use Charge or the Balancing Gas Use Charge specified in the
21 tariff. If the negative imbalance occurs on a day during a critical time when the
22 Company's interruptible sales customers are being curtailed, the Company will assess

1 the transportation customer an Unauthorized Gas Use Charge (\$1.50 per Ccf plus 150
2 percent of the highest cost of gas purchased at the time plus any applicable pipeline
3 penalties incurred). If the negative imbalance occurs during noncritical times, the
4 Company assesses the transportation customer a Balancing Gas Use Charge (the
5 applicable service area's firm sales service PGA factor plus 10%).

6 **Q. What action is taken by the Company under its existing tariff if the**
7 **transportation customer delivers more customer-owned gas to the Company**
8 **than the customer uses?**

9 A. In this case, called a positive imbalance, the Company purchases the customer's
10 entire daily imbalance at 90 percent of the indexed commodity price of the gas as
11 quoted in the publication *Inside FERC Gas Market Report* applicable to the interstate
12 pipeline to which the distribution system is connected.

13 **Q. Mr. Glaeser, do these balancing provisions apply in all cases?**

14 A. No, the balancing provisions do not apply to transportation customers who balance
15 their gas receipts and deliveries directly on the interstate pipeline system. This
16 reconciliation method is referred to as "burner tip balancing". Presently, Panhandle
17 Eastern provides "burner tip balancing" to customers. Texas Eastern and NGPL do
18 not provide "burner tip balancing" on their pipeline systems. Thus, the Company's
19 balancing provisions apply to those transportation customers who are located in
20 service areas that are connected to interstate pipelines Texas Eastern and NGPL.¹

¹ If the customer's supplier on the Panhandle Eastern system fails to nominate, schedule or deliver any volumes to AmerenUE's citygate interconnections with Panhandle Eastern which results in an imbalance, such a transportation customer would be penalized in accordance with the Company's balancing provisions.

1 Presently, there are only five such customers, who due to their location within the
2 Company's system, are unable to avail themselves of "burner tip balancing" and
3 instead must comply with the Company's balancing procedures.

4 **Q. Please describe the modifications being proposed by the Company to its**
5 **transportation balancing provisions.**

6 A. The balancing provisions are proposed to be modified to allow for a daily tolerance
7 level of plus or minus 5 percent during noncritical times. This daily tolerance level
8 will give transportation customers a daily operating window of 10 percent to manage
9 imbalances before incurring increased imbalance or cash-out charges (referred to as
10 the "Balancing Gas Use Charge"). Under the proposed tariff modifications, a
11 transportation customer's negative imbalance up to 5 percent will be billed at the
12 applicable service areas firm sales service PGA without the 10 percent adder. A
13 negative imbalance greater than 5 percent will maintain the current Balancing Gas
14 Use Charge of the firm sales service PGA factor increased by 10 percent.

15 Likewise, positive imbalances of up to 5 percent will be purchased by the Company
16 at 100 percent of the commodity price quoted in the *Inside FERC Gas Market Report*
17 monthly index for the applicable interstate pipeline. Positive imbalances greater than
18 5 percent will be purchased at a price of 90 percent of the applicable *Inside FERC*
19 *Gas Market Report* index as is provided in the current tariff.

1 **Q. Why is the Company proposing these changes to its transportation balancing**
2 **provisions?**

3 A. These changes are designed to make transportation service more financially attractive
4 to nonresidential customers throughout AmerenUE's entire system. Presently,
5 customers located outside of the Company's Panhandle Eastern service area where
6 burner tip balancing is not available, have, except in very few cases, been precluded
7 from transporting partially due to the existing more stringent balancing tariffs.
8 AmerenUE believes that the proposed daily tolerance level and reduced imbalance
9 charge will not degrade service to its sales customers while providing more flexible
10 daily balancing to its transportation customers.

11 GSIP REVISIONS

12 **Q. Please summarize the Company's existing Gas Supply Incentive Plan.**

A. In the Company's last Missouri gas rate case (Case No. GR-97-393), the Commission approved a stipulation and agreement of the parties authorizing, among other things, the Company's implementation of a Gas Supply Incentive Plan. In effect, the GSIP established a mechanism whereby the Company and its customers share a specified savings and revenues realized by AmerenUE in acquiring and managing its system gas supply assets. The GSIP is designed to provide the Company with incentives to minimize the costs incurred in the acquisition of transportation and storage capacity and to maximize revenues generated from the prudent management and utilization of such assets. There are three (3) main components of the current GSIP: Capacity Release Revenues, Transportation and Storage Discounts and Off-System Revenues.

1 AmerenUE proposes to modify the terms of the Off-System Revenues component and
2 include an additional component relating to gas procurement. Minor modifications
3 are also proposed for early termination or modification for unforeseen events and
4 extending the term of the GSIP, which is scheduled to terminate March 31, 2001.
5 Both the current and proposed programs borrow heavily from other incentive plans
6 that have been approved previously by the Commission for other utilities.

7 Off-System Revenues Component

8 **What changes are being proposed by the Company to the Off-System Revenues**
9 **component of its GSIP?**

10 A. The Company proposes to include language in the program's Off-System Revenues
11 component which will allow it to engage in transactions with its affiliates in
12 accordance with the affiliate transaction regulations of the Commission. Under the
13 existing language of the Company's tariffs, such transactions are expressly
14 prohibited.

15 **Q. Why is the Company proposing this change?**

16 A. The Commission recently issued affiliate transaction regulations which permit
17 transactions between utilities and their affiliates so long as certain conditions are
18 complied with to safeguard the public interest. Those regulations have been stayed
19 pending judicial appeal. The Company is merely requesting authority to modify the
20 Off-System Revenues component of the GSIP to reflect the Commission's
21 regulations, when and if those regulations become final.

Gas Procurement Component

Q. Is AmerenUE proposing any other changes to its GSIP?

A. Yes, it is. The Company is proposing to add a new component which will establish an incentive mechanism for natural gas supply procurement.

Q. Mr. Glaeser, why do you believe that the Commission should authorize the Company to establish an incentive mechanism with respect to the purchase of gas supply?

A. In authorizing similar plans for other utilities, the Commission has recognized that it is important to create a gas procurement mechanism that encourages the minimization of gas costs. Although AmerenUE constantly strives to procure gas supplies at commercially favorable terms, the current regulatory treatment of gas procurement provides no financial reward for such efforts, nor benefit to AmerenUE's customers. In fact, the Company is currently prohibited from earning a profit on the gas commodity itself. Such a prohibition creates a clear inequity in an environment where unregulated companies are given an opportunity to make a profit furnishing gas supplies. FERC Order 636 imposes a gas procurement obligation on local distribution companies (LDCs) such as AmerenUE. Each LDC is now responsible for creating and procuring a secure portfolio of firm gas supplies, storage services and pipeline transmission capacity that matches the LDC's unique load requirements. The return received on rate base regulation compensates the Company for transmission and distribution functions and not the additional risk assumed by the Company in gas procurement. Fairness dictates that the Company be afforded the

1 opportunity to be rewarded for prudently managing the risks and rewards associated
2 with gas procurement.

3 **Q. Isn't the Company presently provided an opportunity under its GSIP to make a**
4 **profit on its gas supply procurement services?**

5 A. No. Under the current GSIP in effect, the Company is only able to earn profits from
6 off-system sales, capacity release revenues, and certain discounts on transportation
7 and storage capacity. The current GSIP does not allow for Company earnings related
8 to the actual procurement of natural gas supply. This is unreasonable in the post-
9 Order 636 environment where the responsibilities and risks imposed on LDCs have
10 increased so dramatically.

11 **Q. Has the Commission approved such a gas procurement incentive mechanism for**
12 **any other gas utilities under its jurisdiction?**

13 A. Yes, the Company's proposal is virtually the same as that recently approved by the
14 Commission for Laclede Gas Company. It has been modified primarily to tailor the
15 plan to AmerenUE's gas operations.

16 **Q. Please review the general objective of the Company's currently effective Gas**
17 **Supply Incentive Plan along with the proposed changes to the plan.**

18 A. The objective of the GSIP is to establish a mechanism whereby the Company and its
19 customers would share in specified savings and revenues realized by AmerenUE in
20 acquiring, utilizing, and managing its upstream natural gas supply assets. At the same
21 time, the GSIP, as proposed to be revised, would also impose on the Company a share
22 of the risks for certain increases in the cost of its gas supply. The Plan achieves these

1 objectives by applying financial incentives to separate categories of gas procurement
2 transactions performed by the Company. The Plan would be administered separately
3 for each portion of the Company's service area to which gas is transported
4 exclusively by a different interstate pipeline company.

5 **Q. Mr. Glaeser, please discuss the proposed new component of the GSIP that**
6 **involves gas procurement costs.**

7 A. Gas procurement costs represent the Company's total cost of purchasing natural gas
8 at wellhead or pooling points from producers or marketers for ultimate delivery and
9 sale to the Company's customers. These costs include commodity charges for gas
10 volumes purchased and demand charges for reserving supply. To provide additional
11 assurance that these gas procurement costs are being minimized, the GSIP would
12 allow the Company to retain a share of the cost decreases from an established cost
13 benchmark achieved as a result of its procurement efforts. Conversely, the GSIP
14 would require the Company to absorb a share of gas cost increases above the
15 benchmark.

16 **Q. What are the specific features of this sharing mechanism?**

17 A. While I refer the Commission to the Company's proposed tariffs for details regarding
18 the gas procurement costs component of the GSIP, following is a summary
19 description of its principal sharing features:

20 (1) if AmerenUE's cumulative cost of gas during an Actual Cost
21 Adjustment (ACA) year is between the defined cumulative benchmark cost of gas and

1 104 percent of the benchmark, the gas costs would be recovered through the normal
2 PGA/ACA process and would be deemed to be prudent;

3 (2) if the Company's cumulative cost of gas is greater than 104 percent of
4 the benchmark, but less than or equal to 110 percent of the benchmark, the Company
5 would absorb 50 percent of the difference between the cumulative cost of gas and 104
6 percent of the benchmark, and the gas costs would be deemed prudent;

7 (3) if the Company's cumulative cost of gas exceeds 110 percent of the
8 benchmark, the Company would absorb 50 percent of the maximum difference
9 computed in (2) above and those costs in excess of 110 percent of the benchmark
10 would be subject to a prudence review;

11 (4) if the Company's cumulative cost of gas is less than the benchmark,
12 but not less than 94 percent of the benchmark, the Company would retain 50 percent
13 of the difference between the benchmark and the cumulative cost of gas; and

14 (5) if the Company's cumulative cost of gas is below 94 percent of the
15 benchmark, the Company would not retain any of the cost savings below 94 percent
16 of the benchmark.

17 **Q. In your description of the sharing mechanism above, you refer to a defined**
18 **benchmark cost of gas. What is this benchmark and how would it be**
19 **determined under the plan?**

20 **A.** A benchmark unit cost of gas would be established for each month of the Company's
21 ACA year for each of the Company's three separate distribution systems transported
22 to exclusively by a different interstate pipeline (Panhandle Eastern, Texas Eastern,

1 and NGPL). Each benchmark would be comprised of a demand cost and a
2 commodity cost for two types of natural gas supply the Company requires for its
3 system supply; baseload supply and swing supply.

4 **Q. How is the demand cost benchmark calculated?**

5 A. The demand cost benchmark is calculated by taking the annual supply requirements
6 of baseload and swing supply for a certain service area and multiplying the supply
7 requirements by the applicable demand charges from the applicable gas supply basin
8 from which the Company purchases gas supply. For example, the Panhandle Eastern
9 system typically utilizes 4.55 Bcf per year of baseload supply and 5.34 Bcf per year
10 of swing supply which define the annual supply requirements. In addition, typically
11 96 percent of the gas supply purchased for the Panhandle Eastern system is from the
12 Mid-continent Texas-Oklahoma production basin and the remaining 4 percent from
13 the Michigan/MichCon region.

14 **Q. What do the demand charges represent?**

15 A. The demand charge or premium represents the charges above spot market gas costs
16 that the Company incurs in securing firm gas supply to meet the load requirements for
17 each of its service areas. Gas costs incurred by AmerenUE include purchases of firm
18 baseload supplies and firm swing supplies that command premiums over spot market
19 prices. The premiums or demand charges are charged by the sellers to reflect their
20 contractual firm delivery obligations and the operational flexibility requirements of
21 swing supply. Load factors can also influence the demand charges for swing
22 supplies.

1 **Q. What is the source of data proposed to be used to calculate the demand cost**
2 **benchmark?**

3 A. The demand cost benchmark will be calculated from a "Request for Proposal" (RFP)
4 bidding process which will be performed prior to the start of each ACA period.
5 Under the RFP, competitive bids from the gas market will be secured from each of
6 the production basins or supply areas the Company procures natural gas and for each
7 type of supply required by the Company. For each supply area and type, the bids
8 received from the RFP will be averaged after excluding the highest 10% of bids. The
9 average demand charge resulting from this competitive bidding process becomes the
10 demand cost benchmark.

11 **Q. How is the commodity cost benchmark calculated?**

12 A. The weighted average spot cost of gas would be developed by using the first-of-the-
13 month spot market index price for each of the Company's applicable pipelines
14 published in the *Inside FERC Gas Market Report* or *Gas Daily* (where specified), and
15 multiplying by certain volume weighting percentages. Both indices represent the
16 price of baseload gas purchased on the spot market for a particular month and are
17 industry-wide recognized sources of gas price data. It not only shows prices for each
18 pipeline but also prices for each producing region attached to a particular pipeline.
19 The spot cost of gas in the benchmark would be weighted based upon the Company's
20 annual supply requirements in the various production basins as previously discussed.
21 For example, gas purchases on Panhandle Eastern would be weighted based on 96
22 percent from the "Panhandle Eastern Pipe Line Co. - Texas, Oklahoma (main line)"

1 index and 4 percent from the "ANR ML7 (entire zone)" and "Mich.-MichCon" index,
2 as reported in *Inside FERC Gas Market Report* and *Gas Daily*, respectively. The first
3 index reflects gas purchased by the Company in the Oklahoma/Texas
4 Panhandle/Southwest Kansas region for citygate deliveries and for WS/IOS storage
5 injections, while the ANR ML7 and Mich.-MichCon reflects gas purchased to be
6 backhauled for peaking purposes in the winter season only.

7 **Q. Why should the Commission approve AmerenUE's proposed addition of the gas**
8 **procurement component to its GSIP?**

9 A. By permitting the Company and its customers to retain a share of the savings
10 achieved as a result of its gas procurement efforts, or, conversely, by requiring them
11 to absorb a share of the cost increases, the GSIP offers the Commission and the
12 Company's customers additional assurance that gas costs are, in fact, being
13 optimized. Second, in light of the new industry structure that has resulted following
14 FERC Order 636, it is only fair that LDCs should begin to receive at least some
15 compensation for their gas procurement efforts. Hundreds of unregulated companies
16 are now provided the opportunity to make a profit for furnishing gas supply services
17 that replace those furnished by LDCs. The revised GSIP would allow the Company
18 to participate in these opportunities to a limited extent.

1 **Q. Mr. Glaeser, is it possible that the GSIP's introduction of financial incentives in**
2 **the gas procurement process could cause the Company to use its gas supply**
3 **assets in a manner that would elevate profits over the reliability needs of its**
4 **customers?**

5 A. No. AmerenUE fully recognizes that its most fundamental responsibility is to ensure
6 that customers have gas when they need it. We would do nothing to jeopardize our
7 public service obligation.

OTHER GSIP REVISIONS

9 Q. Please describe the remaining proposed two modifications to the Company's
10 GSIP?

11 A. The remaining two modifications to the GSIP include the addition of an “unusual
12 event” clause which grants the Company the right to file for termination or
13 modification of the GSIP due to significant or unforeseen changes to markets, laws,
14 regulations, operating conditions, etc. The final modification is to extend the term of
15 the GSIP to March 31, 2004.

16 Q. Does this conclude your testimony?

17 A. Yes, it does.

QUALIFICATIONS OF SCOTT A. GLAESER

I received a Bachelor of Science Degree in Mechanical Engineering from the University of Missouri at Rolla in May 1986. I was employed as a Combustion Engineer by the Granite City Steel Division of National Steel Corporation from October 1987 through January 1991. I was responsible for various aspects of natural gas, coke oven gas, blast furnace gas, and fuel oil consumption within the plant, including sourcing supply and the negotiation of agreements with suppliers and pipelines.

In February of 1991, I was employed by Union Electric Company, now doing business as AmerenUE, as a Fuel Buyer. This position involved procurement activities related to various fossil fuels, but primarily to the purchase of natural gas for that Company's utility distribution systems in Missouri and Illinois. In May 1994, when all gas procurement was moved to the Energy Services Department of Corporate Planning, my position changed to Engineer-Gas Supply and Planning. In both these positions, I was responsible for obtaining reliable and economical gas supply, transportation, and storage services for AmerenUE's distribution systems. My duties included the preparation of studies and analyses to evaluate system supply needs; the sourcing and procurement of natural gas supply, transportation capacity, and storage capacity; and the negotiation of gas supply, transportation, and other gas related service arrangements for the distribution systems. I also participated in proceedings before the Federal Energy Regulatory Commission (FERC) involving interstate pipeline suppliers and in proceedings before this Commission and the Illinois Commerce Commission relating to AmerenUE's natural gas distribution systems.

During the period of 1997 through early 1998, in addition to my duties related to the natural gas business, I also served as a short-term power trader. This position involved the buying and selling of short-term electric energy and capacity in the MAIN, MAPP, ECAR, SERC, and SPP regions of the United States.

In March of 1998 after the merger of Union Electric and CIPSCO, Inc., I was promoted to the position of Supervising Engineer of Gas Supply and Transportation in Ameren Services Company. The following July, I was promoted to my current position as Manager of Gas Supply. My responsibilities in this position include managing and overseeing the daily operations and business activities of the Gas Supply Department and its employees involved with the gas supply business activities for Ameren and its subsidiaries.