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Witness: James J. Massmann
Sponsoring Party: Union Electric Company
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MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. GR-2010-_____

DIRECT TESTIMONY

OF

JAMES J. MASSMANN

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

St. Louis, Missouri
June, 2010

TABLE OF CONTENTS

I. INTRODUCTION 1

II. PGA TRANSITION MECHANISM 2

IV. GAS SUPPLY INCENTIVE PLAN 9

V. TRANSPORTATION TARIFF CHANGES 13

DIRECT TESTIMONY

OF

JAMES J. MASSMANN

CASE NO. GR-2010-____

I. INTRODUCTION

Q. Please state your name and business address.

A. My name is James J. Massmann and my business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

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

A. I am the Manger of Gas Supply in AmerenEnergy Fuels and Services Company ("AFS"). My primary responsibility is to direct the management and procurement of reliable and economic gas supply, transportation and storage services for Ameren affiliates, including Union Electric Company d/b/a AmerenUE's ("AmerenUE") gas distribution system and gas-fired electric generating units. I also participate in proceedings before the Federal Energy Regulatory Commission ("FERC") involving AmerenUE's interstate pipeline suppliers and before the Missouri Public Service Commission ("Commission"). Finally, I oversee daily operations including load forecasting, system balancing, storage management, nominations, and scheduling. I am appearing in this case on behalf of AmerenUE.

Q. Please describe your educational background and previous employment experience.

A. I received a Bachelor of Science degree in Mechanical Engineering in 1980 and a Masters of Science degree in Engineering Management in 1986, both from the University of Missouri – Rolla. I was employed by Union Electric Company in

August 1982 and became an Ameren Corporation employee upon the December 1997 merger. Prior to being promoted to the position of Manager Natural Gas Supply in 2005, I held several positions in the Natural Gas Supply and Transportation Department, including Gas Supply Executive and Gas Systems Analyst since 1998. Prior to that, I was a Resource Planning Engineer in the Corporate Planning Department, an engineer in the Engineering & Construction Department, and an engineer in the Nuclear Engineering Department.

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

A. My testimony is focused on three areas: 1) A review of the Rider B, Purchased Gas Adjustment ("PGA") Transition Mechanism, 2) AmerenUE's proposal to reinstate tariff provisions for a Gas Supply Incentive Plan, and 3) other transportation tariff changes.

II. PGA TRANSITION MECHANISM

Q. Please explain the history of the PGA Transition Mechanism

A. Prior to the 2006 AmerenUE rate case, Case No. GR-2007-0003, the Company had four PGA rates. In Case No. GR-2007-0003, the Company was allowed to combine its districts served by Panhandle Eastern Pipe Line Company L.P. ("PEPL"), Texas Eastern Transmission L.P. ("TETCO") and Natural Gas Pipeline Company of America ("NGPL") into a state-wide, single PGA rate with the customers served from the Missouri Gas Company ("MGC") continuing to pay the MGC transportation incremental PGA charge (Rolla Incremental PGA) in addition to the total PGA rate.[1] In addition, the Commission approved a PGA transition mechanism for AmerenUE's customers served by PEPL, NGPL and TETCO pipelines. These changes were detailed in the Stipulation

[1] The Rolla Incremental PGA is addressed in the direct testimony of AmerenUE witness Emma N. Cruthis.

and Agreement dated March 8, 2007 and first appeared on AmerenUE's customer bills on November 1, 2007. At that time, the delivered cost of natural gas for PEPL customers was lower than the delivered cost of natural gas for TETCO customers. To accommodate the difference in natural gas costs, the sales customers served by PEPL received a $0.50 per month credit and the sales customers served by TETCO received a $2.55 per month charge on their bills. The NGPL customers did not receive a credit or charge.

Q. Why are you addressing the PGA Transition Mechanism at this time?

A. The Stipulation and Agreement in Case No. GR-2007-0003 stated, "This arrangement will continue until AmerenUE's next natural gas rate case at which time the mechanism will be reviewed to see if any changes are warranted, including the elimination of these charges." Furthermore, there have been significant changes in the sources of supply and interstate pipelines that have caused the delivered cost of natural gas for these two areas to converge. These changes support the elimination of the PGA Transition Mechanism.

Q. How was the PGA Transition Mechanism credit for PEPL customers and the charge for TETCO customers calculated?

A. The averages of the historical PGA's for PEPL and TETCO customers for the period 2000 to 2006 were calculated separately and weighted by the base period demand to calculate a combined PGA. That combined PGA was compared to PEPL and TETCO customers' average PGA's. Based on average customer usage, it was found that PEPL customers would pay approximately $0.50 per month more with the combined single PGA than they would pay with their separate PGA. Similarly, TETCO customers would pay approximately $2.55 per month less with the combined single PGA than they would pay with their separate PGA.

Q. Why was the cost for natural gas procured on the PEPL and TETCO interstate pipelines different?

A. Most of the natural gas for PEPL customers is produced in the Oklahoma, Kansas and north Texas areas. The gas is transported on the PEPL interstate pipeline from these areas across Missouri, Illinois, Indiana, Ohio and into Michigan. Traditionally, interstate pipeline transportation from this production area has been fully subscribed, which has limited this natural gas from reaching the high value markets. There is a small amount of gas used for PEPL customers from the Trunkline Pipeline ("TRKL"), but it has a small impact on the total cost. When I refer to PEPL I have included the small portion from TRKL. The price of natural gas on the PEPL interstate pipeline has typically been lower cost than gas on the TETCO interstate pipeline. Gas procured on the TETCO interstate pipeline is produced in Louisiana, Texas, and the Gulf Coast areas. The gas is transported across the Midwest and reaches the high value markets on the east coast. The price of the gas in this area has typically been higher than the price of gas on PEPL. The differences in price are typically referred to as "basis".

Q. What was the actual delivered cost of natural gas for the past three winters for PEPL customers and TETCO customers?

A. Table JJM-1, which follows, provides a tabulation of the delivered natural gas costs for the past three winter seasons. The costs are based on the actual NYMEX and IFERC Monthly Index weighted by the actual purchased volumes in the different zones on TETCO and PEPL. The current applicable pipeline fuel rates were applied to provide a delivered cost. The data shows that both TETCO and PEPL delivered natural gas costs have dropped over the three year period. Notably, the delivered natural gas cost for TETCO has dropped more than PEPL costs over that period.

Table JJM–1
Historical Delivered Cost of Natural Gas

Winter Period	TETCO Delivered Cost $/MMBtu	PEPL Delivered Cost $/MMBtu	Percentage difference between TETCO Costs and PEPL Costs.
2007 - 2008	$7.63	$6.95	10%
2008 - 2009	$5.69	$3.94	45%
2009 - 2010	$5.09	$5.33	-4%

Q. During this past winter the TETCO delivered natural gas costs dropped below the PEPL delivered gas costs. Can you explain this change?

A. Yes, in June of 2009 the first phase of the Rockies Express Pipeline LLC ("REX") East pipeline was completed. This changed the gas supply availability into the Midwest, by providing natural gas supplies from Rocky Mountain region of Colorado, Utah and Wyoming to the mid-continent and eastern markets. In November 2009, REX became fully operational with 1.8 bcf per day to Monroe County, Ohio. The addition of this pipeline changed the supply mix as portions of gulf coast supply were replaced with REX supply.

Q. Are there any other supply or pipeline projects that affected the gas supply availability into the Midwest?

A. Yes, with the technological changes in drilling for natural gas to the unconventional shale, tight sands, and coal bed methane reserves, other pipeline projects have emerged, such as the Boardwalk Pipeline's Fayetteville and Greenville Laterals project to bring Fayetteville shale production to Kosciusko, Mississippi. The more recent discovery and development of the Marcellus Shale in the upper East Coast Region will replace portions of gulf coast supply and again change the gas supply availability into the

Midwest. There are numerous other unconventional gas production and pipeline projects emerging to bring this gas to market. Many of these projects and new gas supplies are increasing the availability of gas to markets served by TETCO.

Q. What would the TETCO and PEPL customers' PGA be if they were calculated separately, rather than as a combined single PGA?

A. For the PGA filed April 16, 2010, if a separate PGA was calculated for the PEPL customers it would have been $0.7373/Ccf, and if a separate PGA was calculated for the TETCO customers it would have been $0.6103/Ccf. For this period, the separate PGA for the TETCO customers would now be lower than the separate PGA for the PEPL customers by $0.127/Ccf. The combined PGA, without the Filing Adjustment Factor ("FAF") factor, was $0.7129/Ccf. When the FAF factor of -$0.0029/Ccf is included, the total combined single PGA is $0.7100/Ccf.

Q. How would these small differences in the separate PGA's affect the PEPL and TETCO customers' bills?

A. The average annual customer PGA bill for a PEPL customer is $474.08 with the combined single PGA. That average annual customer PGA bill would be $490.30 with a separate PGA. For this period, the average PEPL customer would pay $16.22 less per year with the combined single PGA. In addition, the PEPL customers are receiving a credit of $6.00 per year through the PGA Transition Mechanism. Likewise, the average annual customer PGA bill for a TETCO customer is $433.44 with the combined single PGA. The average annual TETCO customer PGA bill would be $371.06 with a separate PGA. For this period, an average TETCO customer would pay $62.38 more per year with the combined single PGA. In addition, the TETCO customers are paying $30.60 per year through the PGA Transition Mechanism.

Q. Why does the PGA Transition Mechanism have a smaller impact on the PEPL customers than on the TETCO customers?

A. The difference is that the PEPL area has significantly more customers (approximately 106,000) compared to TETCO (approximately 19,000). In addition, the average annual usage for the PEPL customers is greater than the TETCO customers.

Q. Do you expect the TETCO customers to continue to pay more each year with the combined single PGA than with a separate PGA in the future?

A. It is uncertain what difference there will be in the future. Prior to this past winter, TETCO gas costs were higher than PEPL gas costs. However, that changed during the winter of 2009-2010, when the TETCO gas costs were less than the PEPL gas costs. It is possible that the pricing relationship could flip again. Nevertheless, the major improvements in supplies and the addition of interstate pipelines are expected to continue to suppress price differences between the supply regions. PEPL and TETCO delivered costs are much closer today and are forecasted to be relatively close in the future.

Q. Are there other factors that affect the gas supply costs other than basis differential?

A. Yes, the commodity cost component of the PGA includes the commodity cost of gas and any hedging instruments used to reduce the impact of volatile gas prices on the utility customers. The hedging instruments can affect the difference in price between the PEPL and TETCO area. There is a greater market for hedging instruments for the PEPL supplies than for the TETCO supplies that serve AmerenUE customers. The combined single PGA allows AmerenUE to take advantage of the greater flexibility for hedging PEPL supplies.

Q. What is the benefit of removing the PGA Transition Mechanism to AmerenUE?

A. Other than an improvement in the ease of administration, there are no direct financial benefits for AmerenUE. The credit and charge are designed to be revenue neutral and are included in the single ACA account.

Q. Are there additional benefits of removing the PGA Transition Mechanism for AmerenUE's customers?

A. The PGA Transition Mechanism is no longer necessary and is not representative of the cost differences between the two areas. The elimination of the PGA Transition Mechanism will make the bills more equitable and will eliminate customer confusion regarding the credit or charge. It will reduce the administrative burden for both the Commission Staff and AmerenUE in managing and reviewing this component of the ACA balances.

Q. Please summarize the reasons why the PGA Transition Mechanism should be removed.

A. The Transition Mechanism has been useful to help equalize the differences in delivered natural gas costs between the TETCO and PEPL areas in the past. However, due to market changes from new unconventional gas supplies and the addition of new interstate pipeline infrastructure, the delivered natural gas costs for these areas have converged. The single PGA is now representative of the costs for both areas and the Transition Mechanism is no longer necessary.

IV. GAS SUPPLY INCENTIVE PLAN

Q. Mr. Massmann, you are also proposing to reinstate Tariff provisions for a Gas Supply Incentive Plan ("GSIP") for AmerenUE. Please describe the GSIP program you are proposing.

A. The Company is requesting authorization to reinstate a GSIP program whereby AmerenUE and its customers would share in specified savings and revenues realized by the Company in managing its upstream transportation capacity through capacity release.

Q. Has the Company previously had a GSIP Program?

A. Yes, in 1997 AmerenUE proposed and received approval for a GSIP mechanism in Case No. GR-97-393, whereby the Company and its customers shared in specified savings and revenues realized by the Company in acquiring, utilizing and managing its system gas supply assets.

Q. How long did the plan remain in effect?

A. The GSIP was effective from February, 1998 through March, 2001, and then was extended, according to Stipulation and Agreement in Case No. GT-2001-635, through May, 2002, excluding April and May, 2001.

Q. What were the components of the initial plan?

A. The original plan included sharing related to capacity release revenues, transportation and storage discounts, and off-system revenues.

Q. Why did the plan end in 2002?

A. The Stipulation and Agreement in Case No. GT-2001-635 specified that the GSIP would expire in May, 2002. After the expiration of the GSIP AmerenUE continued to actively release capacity to gain revenues from the capacity release markets.

However, revenues from the capacity release markets and transportation and storage discounts were declining. At that time, AmerenUE continued its capacity release efforts but decided not to request an extension for the sharing program.

Q. Please explain capacity release.

A. The Company is the primary holder of enough firm interstate pipeline transportation and storage capacity to transport gas to its distribution system to serve its firm sales customers on a peak day (or very cold day). The reservation charges for the firm interstate transportation and storage capacity are passed on to AmerenUE's customers 'dollar-for-dollar' through the PGA. The customers' actual usage varies from contracted capacity mainly due to weather. Therefore, there are times when the Company does not utilize its entire contracted pipeline capacity and may "release," or resell, the capacity that comes available to a third party. The Company will then receive credits on its pipeline bills for the released amount of contracted capacity. This credit is used to reduce gas costs for its firm sales customers. Capacity releases from interstate pipelines are subject to Federal Energy Regulatory Commission rules.

Q. Please describe the general objective of the GSIP as proposed by the Company.

A. The objective of the GSIP is to establish a mechanism whereby the Company and its customers would share in specified savings and revenues realized by AmerenUE in acquiring, utilizing, and managing its upstream gas transportation assets. The proposed GSIP allows the Company, as a holder of firm transportation capacity, to retain from 15 percent up to 30 percent of savings gained in releasing firm capacity to secondary markets. The more aggressive and creative the Company is in seeking new markets for its capacity, the greater the savings for its customers and the more the Company would be compensated.

Q. How did AmerenUE develop its GSIP proposal?

A. The AmerenUE GSIP was designed to be similar to the GSIP programs allowed for other gas utilities in Missouri.

Q. How much Capacity Release revenue has AmerenUE been able to realize in the last three years for the firm sales customers?

A. For the years 2007 through 2009, the capacity release revenues were: $1,931,610; $2,170,857; and $1,378,544 respectively. This is exclusive of capacity allocated to UE Generation.

Q. Why have the capacity release revenues declined since 2008?

A. The major reasons were the severe economic downturn over the past year and the REX completion in 2009, which have reduced the market interest in PEPL and MoGas capacity.

Q. Do you expect this downward trend to continue?

A. Yes. The projected total capacity release revenue for 2010 is $323,509. If the GSIP program was available in 2010, AmerenUE would retain $74,553. This estimate is based on current capacity release postings and interest in AmerenUE's capacity.

Q. What are the primary features of the proposed GSIP?

A. The program employs a sharing grid, whereby for the first $75,000 of capacity release credits received, 85 percent is credited to offset costs for the ratepayers and 15 percent is retained by the Company. As capacity release credits increase, the

Company's retention percentage increases. The proposed sharing grid is provided in Table JJM–2.

Table JJM–2
Gas Supply Incentive Plan Sharing Grid

Annual Capacity Release Credits	AmerenUE Retention Percentage	Firm Sales Customer Percentage
First $75,000	15%	85%
Next $75,000	20%	80%
Next $75,000	25%	75%
Amounts Over $225,000	30%	70%

Q. Do other gas utilities in the State of Missouri have GSIP Programs?

A. Yes, Laclede Gas Company and Missouri Gas Energy both have programs that allow sharing in Capacity Release revenues up to 30%. This is in addition to other components, such as acquisition of natural gas commodity (Laclede only), and off-system sales approved by the Commission. These programs have been in effect for more than 10 years.

Q. Please explain why you believe the GSIP program is beneficial for the customers?

A. The value of the capacity release markets has changed significantly over the past few years. Currently, the market conditions make it more difficult to glean revenue from these markets. The GSIP compensates the Company for expending the additional time and resources necessary to seek out new market opportunities for the capacity. Any resulting savings will directly reduce the PGA rate to be paid by AmerenUE's customers.

V. TRANSPORTATION TARIFF CHANGES

Q. Are there any other proposed tariff changes?

A. Yes. I propose removing the Natural Gas Transportation Service contract example on Tariff Pages 16.4 - 16.8. The transportation contract is for customers who elect to purchase their own gas. These customers buy gas from independent producers, owners or distributors. AmerenUE needs a contract with these customers to transport this customer-owned gas to the customer site specifying rates, charges and other parameters so as to protect both AmerenUE and the transportation customers. The Company will employ a revised contract that references the terms and conditions of the tariff, and that is flexible to accommodate changes.

Q. Why does AmerenUE wish to adopt a revised contract outside of the tariffs?

A. As the sophistication of our transport customers increases, we find that this one-size fits-all contract cannot adequately address all the needs of our transportation customers. AmerenUE needs the flexibility to tailor portions of the contract to our customers' needs, thereby increasing customer satisfaction. In fact, AmerenUE's sister companies use a transportation agreement outside of tariffs. We have found that contracts outside of the tariffs are more user-friendly and easier to administer and implement.

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 Natural Gas Service Provided to Customers in the Company's Missouri Service Area.	)))))	Case No. GR-2010-

AFFIDAVIT OF JAMES J. MASSMANN

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

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

1. My name is James J. Massmann. I work in the City of St. Louis, Missouri, and I am employed by AmerenEnergy Fuels & Services Company as a Manager of Gas Supply.

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 13 pages, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.

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

James J. Massmann
James J. Massmann

Subscribed and sworn to before me this 11 day of June, 2010.

Amanda Tesdall
Notary Public

My commission expires:

Amanda Tesdall - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #07158967
My Commission Expires 7/29/2011