

Surrebuttal Testimony  
Christopher A. John

Appendix HH

**BEFORE THE PUBLIC SERVICE COMMISSION  
STATE OF MISSOURI**

In the Matter of the Joint Application of	)	
Union Electric Company d/b/a AmerenUE,	)	
Aquila, Inc., d/b/a Aquila Networks - MPS,	)	
and Aquila Networks - L & P, for an Order	)	
Authorizing the Sale and Transfer of	)	
Certain Assets of Aquila, Inc., Located in	)	
Missouri to AmerenUE, and Either	)	Case No. GM-2004-_____
Authorizing the Transfer of Existing	)	
Certificates of Public Convenience and	)	
Necessity, or Granting a New Certificate of	)	
Public Convenience and Necessity to	)	
AmerenUE in Conjunction with Same.	)	

**JOINT APPLICATION**

COME NOW Union Electric Company d/b/a AmerenUE ("AmerenUE"), Aquila, Inc., d/b/a Aquila Networks - MPS, and Aquila Networks - L & P ("Aquila") (collectively "Joint Applicants"), by and through their counsel, and for their Application pursuant to Section 393.190, R.S. Mo. 2000, 4 CSR 240-2.060 and 4 CSR 240-3.210, hereby request authority for Aquila to sell and transfer to AmerenUE portions of its natural gas distribution system, and for AmerenUE to purchase and operate that system as part of its Missouri natural gas operations. In support thereof, Joint Applicants respectfully state as follows:

1. AmerenUE is a Missouri corporation with its principal office and place of business located at 1901 Chouteau Avenue, St. Louis, Missouri 63103. AmerenUE is authorized to conduct business in Missouri and is engaged in providing electric and natural gas utility services in Missouri in those areas certificated to it by the Commission. It is also currently engaged in providing electric and gas services in a portion of Illinois as a public utility under the jurisdiction of the Illinois Commerce Commission. AmerenUE is a subsidiary of Ameren Corporation, which is a registered public utility holding company under the Public Utility

Holding Company Act of 1935. A copy of the registration of the fictitious name of AmerenUE was filed in Case No. GO-98-486, and is incorporated herein by reference in accordance with 4 CSR 240-2.060(1)(G). In addition, a Certificate of Good Standing from the Secretary of State is attached hereto as Appendix 1 and incorporated herein by reference.

2. AmerenUE is an "electrical corporation," a "gas corporation" and a "public utility" as those terms are defined in Section 386.020 R.S.Mo. 2000. Consequently, it is subject to the jurisdiction and supervision of the Commission as provided by law.

3. AmerenUE has no pending action or final unsatisfied judgments or decisions against it from a state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred within three (3) years of the date of this Application. However, it does currently have a natural gas rate case pending before this Commission - Case No. GR-2003-0517.

4. AmerenUE has no overdue Commission annual reports or assessment fees.

5. Aquila is a Delaware corporation with its principal office and place of business at 20 West Ninth Street, Kansas City, Missouri 64105. Aquila is authorized to conduct business in Missouri through its Aquila Networks - MPS and Aquila Networks - L & P operating divisions and, as such, is engaged in providing electrical, natural gas and heating company utility service in Missouri in those areas certificated to it by the Commission. A certified copy of Aquila's Amended Certificate of Authority to do business in this state as a foreign corporation was filed with the Commission in Case No. EU-2002-1053 and said documents are incorporated herein by reference in accordance with 4 CSR 240-2.060(1)(G). Likewise, copies of the registrations of fictitious name of Aquila Networks - MPS and Aquila Networks - L&P were filed in Case

No. EU-2002-1053 and said documents are incorporated herein by reference in accordance with 4 CSR 240-2.060(1)(G).

6. Aquila is an "electrical corporation," a "gas corporation," a "heating company" and a "public utility" as those terms are defined in Section 386.020 R.S.Mo. 2000. Consequently, it is subject to the jurisdiction and supervision of the Commission as provided by law.

7. Aquila has no pending action or final unsatisfied judgments or decisions against it from a state or federal agency or court which involve customer service or rates, which action, judgment or decision has occurred within three (3) years of the date of this Application. However, it does currently have three rate cases pending before this Commission - Cases Nos. HR-2004-0024, ER- 2004-0034 and GR-2004-0072.

8. Aquila has no overdue Commission annual reports or assessment fees.

9. Pursuant to an Asset Purchase Agreement between AmerenUE and Aquila dated September 24, 2003 (the "Agreement"), which is attached hereto as Highly Confidential Appendix 2 and incorporated herein by reference, AmerenUE and Aquila have agreed upon the terms and conditions under which Aquila's regulated gas utility business and operations conducted in and around the cities of Rolla, Salem and Owensville, Missouri (referred to herein as the "System"), will be sold and transferred to AmerenUE. The System serves approximately 4,200 customers and is more fully described in the Agreement. Following the sale, AmerenUE will operate the business formerly conducted by Aquila, and the manner of providing natural gas services to customers served by the System will remain largely unchanged.

10. A certified copy of the resolutions of the AmerenUE Board of Directors authorizing the consummation of the transaction contemplated by this Application is attached hereto as Appendix 3 and incorporated herein by reference

11. By the verification attached hereto, Aquila states that it has proper authority to consummate the transaction contemplated by this Application

12. The proposed sale of the System will not be detrimental to the public interest because the sale will not result in any reduced level of service or reliability for those customers presently being served by Aquila. AmerenUE will integrate the System with its natural gas operations in Missouri. AmerenUE proposes to retain the existing approved base rates of Aquila for the Missouri area presently served by the System. A copy of the proposed tariff sheets adopting those rates is attached hereto as Appendix 4 and is incorporated herein by reference. In all other respects, AmerenUE proposes to serve the System pursuant to the terms of its existing natural gas tariff applicable to its Missouri natural gas operations and its existing procedures applicable to such service. AmerenUE proposes to incorporate gas costs for the System into its Purchased Gas Adjustment Clause ("PGA") charges applicable to AmerenUE customers served from the Panhandle Eastern Pipe Line Company ("PEPL") interstate natural gas pipeline, from which this System is also served. In addition, AmerenUE proposes to integrate the property records and accounting records of the System with its existing property records and accounting records applicable to its Missouri natural gas system. To this end, the Joint Applicants request that the Commission rescind its previous requirement that separate accounting records be maintained for the Rolla and Salem portions of the System.

13. This transaction will provide benefits to customers of the System by:

(a) providing customers of the System with a substantial and immediate reduction in gas costs

recovered through AmerenUE's PGA; (b) creating operational efficiencies by combining the relatively small operations of the System with AmerenUE's more extensive Missouri gas operations; (c) creating the opportunity for additional efficiencies in gas supply, pipeline capacity acquisition and gas supply hedging through the integration of the System into AmerenUE's Missouri gas operations served by PEPL; and (d) creating administrative efficiencies through the integration of the property accounting records of the System with AmerenUE's existing property accounting records.

14. AmerenUE, through its operations in Missouri and Illinois, has demonstrated it is qualified both financially and managerially to carry on the business of a regulated gas corporation. There will be no interruption in service to any customers as a result of the sale.

15. A balance sheet and income statement of AmerenUE, with adjustments showing the result of the acquisition of the System, is attached as Appendix 5 and incorporated by reference herein.

16. No significant impact is expected on the tax revenues of the Missouri political subdivisions in which any structures, facilities or equipment of Aquila and AmerenUE are located.

17. Financing of this transaction will be from funds available in AmerenUE's treasury, a portion of which may be obtained by new financing. The amount and nature of any new financing subject to the jurisdiction of the Commission will be submitted to the Commission for approval.

WHEREFORE, AmerenUE and Aquila respectfully request the Commission to issue an Order approving the transaction described herein, including:

(a) the sale of the Missouri assets of Aquila comprising the System, as more fully described in the Agreement, to AmerenUE;

(b) the execution and performance of the Agreement and all other documents reasonably necessary and incidental to the performance of the sale which is the subject of this Application;

(c) authority for Aquila, through the sale, to transfer to AmerenUE all of the property rights, privileges, immunities and obligations of Aquila applicable to the System, including, but not limited to, the Certificates of Public Convenience and Necessity, works, or systems or franchises, as described in the Agreement, effective as of the date of the closing of the transaction;

(d) authority for AmerenUE to provide service in the service areas presently served by Aquila through the System by transfer of such Certificates of Public Convenience and Necessity or pursuant to a new Certificate or Certificates of Public Convenience and Necessity, if necessary as a public utility subject to the jurisdiction of the Commission;

(e) authority for AmerenUE to provide gas service in the areas served by the System in accordance with the rules, regulations, rates and tariffs of AmerenUE as may be on file with and approved by the Commission on the effective date of the closing of the transaction, including the tariff sheets reflecting the existing base rates of Aquila which comprise Appendix 4 hereto;

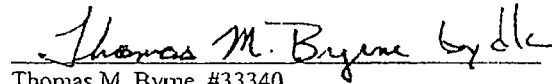
(f) Authority for AmerenUE to integrate its recovery of gas costs incurred to serve the System with its PGA charges applicable to existing AmerenUE customers served through PEPL;

(g) authority for AmerenUE to integrate the property accounting records associated with the System with AmerenUE's property accounting records, and to adopt AmerenUE's authorized depreciation rates for assets of the System;

(h) rescission of the requirement that separate accounting records must be maintained for the Rolla and Salem portions of the System; and

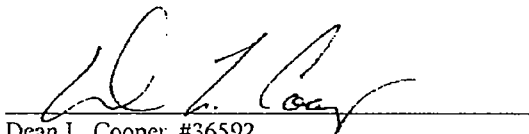
(i) such other relief as may be deemed necessary to accomplish the purpose of this Joint Application and to consummate the sale.

Respectfully submitted,



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Attorney for Aquila, Inc.,  
d/b/a Aquila Networks - MPS, and  
Aquila Networks - L & P

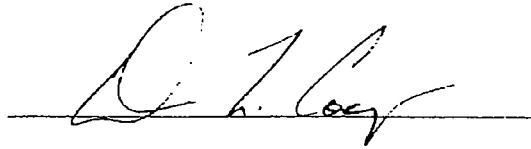


CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing *Joint Application* was hand-delivered or mailed, via first-class United States mail, postage pre-paid, on this 3RD day of December, 2003, to:

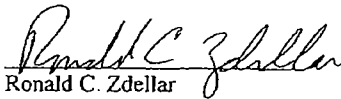
Office of the Public Counsel  
P.O. Box 2230  
Jefferson City, Missouri 65102-2230

General Counsel  
P.O. Box 360  
Jefferson City, MO 65102

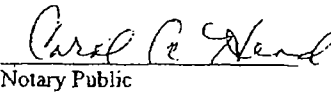
A handwritten signature in black ink, appearing to read "D. L. Coyle", is written over a horizontal line.

VERIFICATION

I, Ronald C. Zdellar, Vice President of Union Electric Company d/b/a AmerenUE, being first duly sworn, state that I have authority to sign this verification on behalf of AmerenUE, that I have read the foregoing Application, that I am familiar with the statements therein, and that the statements therein are true and correct to the best of my knowledge, information and belief.

  
Ronald C. Zdellar

Subscribed and sworn to before me this 3rd day of December, 2003

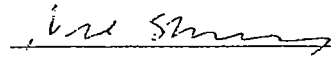
  
Notary Public

My Commission Expires:

CAROL A. HEAD  
Notary Public - Notary Seal  
STATE OF MISSOURI  
St. Charles County  
My Commission Expires: Sept 23, 2006

**VERIFICATION**

I, Neal Shumway, Senior Vice President of Aquila, Inc., being first duly sworn, state that I have authority to sign this verification on behalf of Aquila, that I have read the foregoing Application, that I am familiar with the statements therein, and that the statements therein are true and correct to the best of my knowledge, information and belief

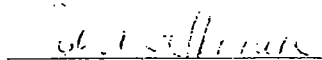


Neal Shumway

Subscribe and sworn to before me this 19<sup>th</sup> day of November, 2003



My Commission Expires:



Notary Public

SARA L. HENNING  
Notary Public-Notary Seal  
STATE OF MISSOURI  
County of Jackson  
My Commission Exp: 12/28/2005

Surrebuttal Testimony  
Christopher A. John

Appendix II

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the Matter of the Joint Application of )  
Union Electric Company d/b/a AmerenUE, )  
Aquila, Inc., d/b/a Aquila Networks – MPS )  
and Aquila Networks – L&P for an Order )  
Authorizing Sale and Transfer of Certain )  
Assets of Aquila, Inc. Located in Missouri ) Case No. GM-2004-0244  
to AmerenUE and Either Authorizing the )  
Transfer of Existing Certificates of Public )  
Convenience and Necessity, or Granting )  
a New Certificate of Public Convenience )  
and Necessity to AmerenUE in Conjunction )  
with same. )

COME NOW the Parties to the case, Union Electric Company d/b/a AmerenUE  
(AmerenUE); Aquila, Inc., d/b/a Aquila Networks – MPS and Aquila Networks – L&P (Aquila);  
the Staff of the Commission; and the Office of the Public Counsel (OPC), and submit the  
following Unanimous Stipulation and Agreement to resolve the issues in this case.

UNANIMOUS STIPULATION AND AGREEMENT

1. On December 3, 2003, AmerenUE and Aquila filed an application (Joint Filing)  
for authority to sell and transfer certain assets from Aquila to AmerenUE that are used to provide  
natural gas distribution service in the cities of Rolla, Salem and Owensville, Missouri and their  
vicinity (Eastern System).
2. In its December 16, 2003 Order and Notice, the Missouri Public Service  
Commission (Commission) set the time for intervention with December 29, 2003 as the final  
date for parties wishing to intervene in this case to file their applications to intervene.
3. On January 2, 2004, Staff requested that the Commission establish an early  
prehearing conference to determine if the issues in this case could be resolved. As a result of the

prehearing conference and subsequent negotiations, the undersigned parties (Parties) have reached the following stipulations and agreements.

4. The standard for Commission authorization of the sale and transfer of parts of a utility's franchise, system, works, or assets and for approval of mergers is found in Section 393.190 RSMo 2000 and applicable case law. In order to authorize the proposed transfer, the Commission must find that the transaction is not detrimental to the public interest.

5. Consequently, the purpose of the settlement is to ensure that there is no detriment to the public interest as a result of the sale and transfer. The Parties to the Stipulation have structured this agreement so that the sale and transfer of the Eastern System from Aquila to AmerenUE is not detrimental to the public interest.

6. Current Eastern System customers will benefit from this transaction in several ways including:

- They will receive access to significant firm storage capacity on Panhandle Eastern Pipe Line Company's (PEPL) system;
- They will benefit from economies of scale resulting from their integration into AmerenUE's customer base and from AmerenUE's expertise in price hedging;
- They will be served by AmerenUE regional gas operations and engineering/construction support from Jefferson City District; and
- Their service will be supported by Ameren Corporation's strong credit rating

7. AmerenUE has a separate Purchased Gas Adjustment (PGA) rate for the area served by PEPL. The Eastern System that AmerenUE is purchasing will continue to be served by PEPL, and PGA costs will be allocated in accordance with the following provisions

8. One hundred percent (100%) of the PEPL and Missouri Pipeline Company capacity costs will be included in the AmerenUE PEPL PGA factor. The AmerenUE PEPL PGA factor will apply to the existing AmerenUE customers served by the PEPL system as well as the Eastern System customers formerly served by Aquila.

9. One hundred percent (100%) of Missouri Gas Company (MGC) reservation costs and one hundred percent (100%) of the MGC variable costs shall be included in the incremental MGC PGA factor. This factor shall be applied to the Eastern System customers and is in addition to the AmerenUE PEPL PGA factor. This factor shall remain in effect for Eastern System customers until there is a determination by the Commission to discontinue the factor.

10. A separate, incremental Actual Cost Adjustment (ACA) reconciliation for over/under recoveries of MGC costs (MGC ACA) shall be established for use in the Annual ACA reconciliation process. Any under or over recovery balance remaining in the Aquila ACA account for the Eastern System at the time of the closing (expected to be on or about May 1, 2004) shall be included in the MGC ACA. The balance is unknown at this time and will be audited after AmerenUE's November 2004 ACA filing. The balance and the underlying costs and revenues that create the balance shall be subject to adjustment based upon the Commission's ACA reviews. This shall include any prior period ACA adjustments that are due to be refunded to customers by Aquila.

11. Pro forma tariff sheets are attached hereto as Exhibit A which reflect the revised rates and other tariff provisions necessary to effectuate this settlement.

12. AmerenUE will continue to charge the Aquila base rates effective on March 16, 2004 until such time as the Commission approves new rates as a result of a rate proceeding.

Aquila shall allocate all corporate and overhead costs in accordance with Aquila's allocation policy and procedures and cost allocation manual methodology.

13. Records related to plant and other property transferred by Aquila to AmerenUE as a result of this transaction shall include plant cost by unit of property. Any deficiencies in the detailed property records shall be corrected prior to transfer. AmerenUE agrees to book depreciation expense for the newly acquired Aquila property in accordance with AmerenUE's Commission-approved depreciation rates. AmerenUE's records shall reflect Aquila's year-end 2002 impairment, subsequently transferred to Aquila Networks - MPS's financial books in 2003, of the regulated value of the Eastern System plant.

14. The Parties recommend that if the Commission requires an on-the-record presentation of this Unanimous Stipulation and Agreement, prior to approval of the Stipulation, such hearing be held to allow sufficient time to permit the transaction to take place as planned on May 1, 2004.

15. The signatories agree that the Commission should approve the sale and transfer of assets as requested in the Joint Filing, and the transfer of the related certificates of public convenience and necessity from Aquila to AmerenUE, because, subject to the agreements above, the sale and transfer is not detrimental to the public interest. No ratemaking determination has been made regarding the book value of the plant transferred or any interim adjustments to the sales price.

16. This Unanimous Stipulation and Agreement is being entered into solely for the purpose of settling this case. None of the signatories to this Unanimous Stipulation and Agreement shall be deemed to have approved or acquiesced in any ratemaking or procedural principle, including, without limitation, any method of cost determination or cost allocation, rate



design method, depreciation or revenue related methodology or any service or payment standard, and none of the signatories shall be prejudiced or bound in any manner by the terms of this Unanimous Stipulation and Agreement in this or any other proceeding, except as otherwise expressly specified herein.

17. This Unanimous Stipulation and Agreement has resulted from extensive negotiations among the signatories and the terms hereof are interdependent. In the event the Commission does not approve this Unanimous Stipulation and Agreement by the issuance date of its Report and Order in this case, or approves this Unanimous Stipulation and Agreement with modifications or conditions (other than a modification to the recommended effective date of the tariff sheets attached hereto as Schedule I) that a Party to this proceeding objects to prior to the effective date of the Order approving this Unanimous Stipulation and Agreement, then this Unanimous Stipulation and Agreement shall be void and no signatory shall be bound by any of the agreements or provisions hereof.

18. If the Commission does not unconditionally approve this Stipulation without modification, and notwithstanding its provision that it shall become void thereon, neither this Stipulation, nor any matters associated with its consideration by the Commission, shall be considered or argued to be a waiver of the rights that any party has to a hearing on the issues presented by the Stipulation, for cross-examination, or for a decision in accordance with Section 536.080 RSMo 2000 or Article V, Section 18 of the Missouri Constitution, and the parties shall retain all procedural and due process rights as fully as though this Stipulation had not been presented for approval, and any suggestions or memoranda, testimony or exhibits that have been offered or received in support of this Stipulation shall become privileged as reflecting the substantive content of settlement discussions and shall be stricken from and not be considered as

part of the administrative or evidentiary record before the Commission for any further purpose whatsoever.

19. In the event the Commission accepts the specific terms of the Stipulation, the signatories waive their respective rights to call, examine and cross-examine witnesses, pursuant to Section 536.070(2) RSMo 2000; their respective rights to present oral argument and written briefs pursuant to Section 536.080.1 RSMo 2000; their respective rights to the reading of the transcript by the Commission pursuant to Section 536.080.2 RSMo 2000; their respective rights to seek rehearing, pursuant to Section 386.500 RSMo 2000; and their respective rights to judicial review pursuant to Section 386.510 RSMo 2000. This waiver applies only to a Commission Report and Order respecting this Stipulation issued in this proceeding, and does not apply to any matters raised in any subsequent Commission proceeding, or any matters not explicitly addressed by this Stipulation.

20. The Staff shall submit to the Commission a memorandum explaining its rationale for entering into this Stipulation and Agreement. Each of the Parties shall be served with a copy of any such memorandum and shall be entitled to submit to the Commission, within five days of receipt of Staff's memorandum, a responsive memorandum which shall also be served on all Parties. The contents of any memorandum provided by any Party are its own and are not acquiesced in or otherwise adopted by the other signatories to this Stipulation, whether or not the Commission approves and adopts this Stipulation.

21. The Staff also shall have the right to provide, at any agenda meeting at which this Agreement is noticed to be considered by the Commission, whatever oral explanation the Commission requests, provided that the Staff shall, to the extent reasonably practicable, provide the other parties with advance notice of when the Staff shall respond to the Commission's

request for such explanation once such explanation is requested from the Staff. The Staff's oral explanation shall be subject to public disclosure, except to the extent it refers to matters that are privileged or protected from disclosure pursuant to any protective order issued in this case.

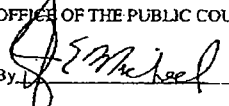
WHEREFORE the Parties submit this Stipulation as resolution of the issues in this case and recommend the Commission find that the sale, transfer and merger is not detrimental to the public interest, and approve the Stipulation and Agreement as submitted.

Respectfully submitted,

UNION ELECTRIC COMPANY  
d/b/a AmerenUE

By /s/ Thomas M. Byrne  
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**Certificate of Service**

I hereby certify that copies of the foregoing have been mailed, hand-delivered, or transmitted by facsimile or electronic mail to all counsel of record this 30<sup>th</sup> day of March, 2004.

/s/ Lera L. Shemwell

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

In the Matter of the Joint Application of	)	
Union Electric Company d/b/a AmerenUE,	)	
Aquila, Inc., d/b/a/ Aquila Networks – MPS	)	
and Aquila Networks – L& P for an Order	)	
Authorizing Sale and Transfer of Certain	)	
Assets of Aquila, Inc. Located in Missouri	)	Case No. GM-2004-0244
to AmerenUE and Either Authorizing the	)	
Transfer of Existing Certificates of Public	)	
Convenience and Necessity, or Granting	)	
a New Certificate of Public Convenience	)	
and Necessity to AmerenUE in Conjunction	)	
with same.	)	

**STAFF MEMORANDUM IN SUPPORT  
OF UNANIMOUS STIPULATION AND AGREEMENT**

COMES NOW the Staff of the Missouri Public Service Commission (Staff) and submits this memorandum to the Missouri Public Service Commission (Commission) in support of the Unanimous Stipulation and Agreement (Stipulation) executed by the signatory parties and filed with the Commission on March 30, 2004.

On December 3, 2003, Union Electric Company d/b/a AmerenUE (AmerenUE) and Aquila, Inc. (Aquila) d/b/a Aquila Networks – MPS (MPS) and Aquila Networks – L&P (L&P) filed a joint application (Joint Filing) for authority to sell and transfer certain assets located in Missouri from Aquila to AmerenUE. On December 4, 2003, AmerenUE and Aquila filed direct testimony in support of the Joint Filing.

On January 2, 2004, Staff requested that the Commission establish an early prehearing conference to see if the issues in this case could be resolved. Pursuant to that request, the Commission ordered the Parties to meet on January 23, 2004 to discuss said issues in an attempt to resolve any differences and conduct settlement discussions, as well as develop a proposed procedural schedule. As established by the Commission, a prehearing conference was convened

on January 23, 2004. AmerenUE, Aquila, the Commission Staff ("Staff") and the Office of the Public Counsel (OPC) appeared and participated at the prehearing conference. As a result of the prehearing conference and subsequent negotiations, the Parties reached agreement and filed a Unanimous Stipulation (Stipulation).

All signatories to the Stipulation were actively involved in its negotiation. As a consequence, the Stipulation reflects a resolution of the concerns and requirements of all of the signatory parties.

The Stipulation resolves all issues and addresses:

(1) The Purchased Gas Adjustment rate for the area served by the Panhandle Eastern Pipeline System (PEPL);

(2) The inclusion of all, one hundred percent (100%), of the PEPL and Missouri Pipeline capacity costs in the AmerenUE PEPL PGA factor;

(3) The inclusion of all, one hundred percent (100%), of Missouri Gas Company (MGC) reservation costs and all, one hundred percent (100%), of the MGC variable costs in the incremental MGC PGA factor;

(4) The transfer of any under or over recovery balance at one hundred percent (100%) of the Aquila ACA balance for the Eastern System at the time of closing, expected to be on or about May 1, 2004 to the MGC ACA balance;

(5) Aquila's margin rates are to be charged by AmerenUE until such time as AmerenUE files a new rate case;

(6) The allocation by Aquila of overhead or corporate costs previously charged to the Eastern System;

(7) The transfer of plant and other property records to AmerenUE by Aquila; and

(8) The booking of depreciation expense for the newly acquired Aquila property in accordance with AmerenUE's Commission approved depreciation rates and the reflection of Aquila's year-end impairment in Ameren's records.

The suggestions and explanations that follow are generally in the same order as they are presented in the Agreement filed in this case. The Staff states in support of the Stipulation as follows:

**I. Is the Stipulation not detrimental to the Public Interest?**

The Stipulation contains provisions that assure that the transfer is not detrimental. The standard for Commission authorization of the sale and transfer of parts of a utility's franchise, system, works, or assets and for approval of mergers is found in Section 393.190 RSMo 2000 and applicable case law. In order to authorize the proposed transfer, the Commission must find that the transaction is not detrimental to the public interest. Staff, accordingly, recommends approval of this transaction as not detrimental to the public interest. The Stipulation is consistent with Section 386.610 RSMo 2000, which states, in relevant part, that the provisions of the Public Service Commission Law "shall be liberally construed with a view to the public welfare, efficient facilities and substantial justice between patrons and public utilities." The terms of the Stipulation could produce benefits to the former Aquila customers, including AmerenUE's negotiating strength for transportation, storage capacity and the availability of AmerenUE service personnel located in this area. The Stipulation addresses the specific interests of the various Parties to this case. The Stipulation removes the uncertainty and additional costs resulting from a continued litigation of this case and, if approved, will allow for the prompt sale and transfer of Aquila's Eastern System assets to AmerenUE since such a sale and transfer is not detrimental to the public interest.

## **II. Resolution of the Issues**

### **A. Resolution of Potential Detriments**

This Stipulation assures that the current customers of AmerenUE, and those customers currently identified as Aquila's Eastern System customers are protected from detriment. Aquila Networks – MPS and L&P customers are not expected to suffer any detriment as a result of this transfer, and will continue to receive safe and reliable service from Aquila. Those customers currently identified as Aquila's Eastern System customers will, upon transfer, receive safe and reliable service from AmerenUE. As the example tariffs illustrate, Sheet No. 30.1 keeps the AmerenUE Eastern System PGA rates at the same level as the current Aquila Eastern System PGA rates. New AmerenUE Eastern system factors will be established on the effective date of the next PGA filing. The AmerenUE Eastern system customers will pay the AmerenUE PEPL PGA plus an incremental MGC PGA at that time. This Stipulation and Agreement addresses any concerns of the Staff regarding this sale and transfer and this agreement has been structured in such a way that the sale and transfer of the Eastern System from Aquila to AmerenUE is not detrimental to the public interest. All known detriments with regard to rates and service have been addressed at this time and there are sufficient benefits for Staff to recommend approval of this transfer.

### **B. Purchased Gas Adjustment (PGA) Rates**

AmerenUE has a separate PGA rate for the area served by PEPL. The Eastern System that AmerenUE is purchasing will continue to be served by PEPL and the PGA costs will be allocated in accordance with the following provisions that are designed to eliminate any identified detriments:



- One hundred percent (100%) of the PEPL and Missouri Pipeline Company (MPC) capacity costs will be included in the AmerenUE PEPL PGA factor. The AmerenUE PEPL PGA factor will apply to the existing AmerenUE customers served by the PEPL system as well as the Eastern System customers formerly served by Aquila. In areas where the costs are common for pipeline services and gas costs, it makes sense to combine those costs for purposes of developing PGA rate. Since the Eastern System and AmerenUE's Central system are both served by PEPL and MPC then there are possible benefits to be achieved by merging these systems for purposes of gas procurement.
- One hundred percent (100%) of the Missouri Gas Company (MGC) reservation costs and one hundred percent (100%) of the MGC variable costs shall be included in the incremental MGC PGA factor. This factor shall be applied to the Eastern System customers and is in addition to the AmerenUE PEPL PGA factor. This factor shall remain in effect for the Eastern System customers until there is a determination by the Commission to eliminate the factor. Since the Eastern System is the only system served by MGC it is reasonable to identify those specific costs and allocate them to the system that actually incurred those costs.

The two provisions above are designed to protect AmerenUE's customers, who receive no benefit from the MGC system. AmerenUE's other customers in this area will not bear the cost of transporting natural gas on the MPC system, which serves only the Aquila Eastern System customers, so there will be no detriment for Ameren's other customers due to the addition of this system to Ameren's service area and the higher cost of transportation.

- A separate, incremental Actual Cost Adjustment (ACA) reconciliation for over/under recoveries of MGC costs (MGC ACA) shall be established for use in the Annual ACA reconciliation process. Any under or over recovery balance remaining in the Aquila ACA account for the Eastern System at the time of closing (expected to be on or about May 1, 2004) shall be included in the MGC ACA. The balance and the underlying costs and revenues that created the balance shall be subject to adjustment based upon the Commission's ACA reviews. This shall include any prior period ACA adjustments that are due to be refunded to customers by Aquila. Since there is a separate additional factor that has been developed to track Missouri Gas Company costs, it is reasonable to reconcile those costs and revenues in a separate ACA factor. In addition, since the Eastern System customers were previously served by Aquila for some portion of the 2003-2004 ACA period those balances should be considered in a reconciliation of the MGC costs.

### **C. Rate Design**

Rate stability and predictability are major Staff considerations in the determination by the Staff of the level of rates at which the Staff will enter into a settlement. The pro forma tariff sheets attached to the Stipulation and Agreement reflect the revised rates and other tariff provisions necessary to effectuate this settlement. AmerenUE will continue to charge Aquila's Eastern System margin rates effective as of the date of this sale until such time as the Commission approves new rates as a result of an AmerenUE rate proceeding. Since AmerenUE is under a rate moratorium until 2006, there is rate stability and predictability for several years for the Eastern System customers, which Staff considers a benefit to these customers.

**D. Corporate Allocations**

Aquila shall allocate all corporate and overhead costs in accordance with Aquila's allocation policy and procedures and cost allocation manual methodology.

**E. Continuous Property Records**

Records related to plant and other property transferred by Aquila to AmerenUE as a result of this transaction shall include plant cost by unit of property. Any deficiencies in the detailed property records shall be corrected prior to transfer. This provision is designed to assure that Staff has complete property records to audit in AmerenUE's next rate case so that just and reasonable rates may be determined.

**F. Expected Benefits**

The Staff believes that the current Eastern System customers will suffer no detriment because known detriments are balanced by benefits, for example: 1) Eastern System customers will not participate in the rate increase resulting from Aquila's current rate case. Thus, rates charged to those customers will remain at the existing Aquila rates, at least until such time as AmerenUE's rates are next audited either as a result of AmerenUE filing a rate case or the Staff instigating a complaint regarding AmerenUE's rates for gas services; 2) the Eastern System customers are protected from a rate increase for the duration of the rate moratorium and Infrastructure Replacement Surcharge (ISRS) moratorium resulting from the Unanimous Stipulation and Agreement reached in the most recent AmerenUE gas rate case 3) Eastern system customers will be served by AmerenUE regional gas operations and engineering/construction support from Jefferson City District.

**G. Specimen tariffs**

Ameren submitted specimen tariffs that were attached to the Stipulation.

## CONCLUSION

In summary, the Stipulation provides for the transfer of the assets currently owned by Aquila known as the Eastern System to AmerenUE. The settlement provides conditions meant to protect the public from all known detriments, to provide Aquila the means to dispose of the assets now known as the Eastern System and to allow AmerenUE to acquire said assets and the opportunity to receive just and reasonable rates for operating that system. Staff has entered into this Stipulation because it balances the needs of the Company to earn a reasonable rate of return on its investment with the needs of the Eastern System customers, as well as AmerenUE's existing customers, to receive safe and adequate service at just and reasonable rates.

**WHEREFORE** the Staff respectfully recommends that the Commission approve the Stipulation filed on March 30, 2004, in this case, and the resulting sale of Aquila's Eastern System to AmerenUE. The Staff also requests that the Commission order AmerenUE to file compliance tariffs within one (1) week of the approval of this Stipulation by the Commission.

Respectfully submitted,

DANA K. JOYCE  
General Counsel

/s/ Lera L. Shemwell  
Lera L. Shemwell  
Senior Counsel  
Missouri Bar No. 43792

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**Certificate of Service**

I hereby certify that copies of the foregoing have been mailed or hand-delivered or emailed to all counsel of record this 8<sup>th</sup> day of April 2004.

/s/ Lera Shemwell

Surrebuttal Testimony  
Christopher A. John

Appendix JJ

STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held at its  
office in Jefferson City on the 20th day of April, 2004.

In the Matter of the Joint Application of )  
Union Electric Company d/b/a AmerenUE, )  
Aquila, Inc., d/b/a Aquila Networks – MPS )  
and Aquila Networks – L&P for an Order )  
Authorizing Sale and Transfer of Certain )  
Assets of Aquila, Inc. Located in Missouri )  
to AmerenUE and Either Authorizing the )  
Transfer of Existing Certificates of Public )  
Convenience and Necessity, or Granting )  
a New Certificate of Public Convenience )  
and Necessity to AmerenUE in )  
Conjunction with Same )

**Case No. GM-2004-0244**

**ORDER APPROVING STIPULATION AND AGREEMENT**

On December 3, 2003, the Union Electric Company d/b/a AmerenUE, Aquila, Inc., d/b/a Aquila Networks – MPS and Aquila Networks – L&P filed an application for authority to transfer certain assets from Aquila to Ameren. The transaction basically consists of the sale of Aquila's Eastern System to AmerenUE. Notice and the opportunity to intervene was provided, and no entity sought intervention.

On March 30, 2004, the parties<sup>[1]</sup> filed a unanimous stipulation and agreement. In the agreement, the parties state that as a result of discussions at and after the prehearing conference, they have reached an agreement that they believe to be reasonable, and recommend the Commission approve as being in the public interest. The parties state that they have structured their agreement so that the sale and transfer of the Eastern System from Aquila to AmerenUE is not detrimental to the public interest. On April 8, 2004, Staff filed suggestions in support of the agreement. Staff stated that:

This Stipulation assures that the current customers of AmerenUE, and those customers currently identified as Aquila's Eastern System customers are protected from detriment. Aquila Networks – MPS and L&P customers are not expected to suffer any detriment as a result of this transfer, and will continue to receive safe and reliable service from Aquila. Those customers currently identified as Aquila's Eastern System customers will, upon transfer, receive safe and reliable service from AmerenUE.

This Stipulation and Agreement addresses any concerns of the Staff regarding this sale and transfer and this agreement has been structured in such a way that the sale and transfer of the Eastern System from Aquila to AmerenUE is not detrimental to the public interest. All known detriments with regard to rates and service have been addressed at this time and there are sufficient benefits for Staff to recommend approval of this transfer.

On April 20, Staff filed a pleading in which it clarified that the assets involved in this transaction "will be transferred at the net book value at the time of the closing, so there will be no acquisition adjustment as a result of this transfer."

The Commission has considered the unanimous stipulation and agreement, the pleadings and the prefiled testimony, and the Staff Memorandum. The Commission finds that the agreement is a reasonable resolution of the issues raised and also finds that the transfer will not be detrimental to the public interest, and will approve it.

**IT IS THEREFORE ORDERED:**

1. That the Unanimous Stipulation and Agreement filed on March 30, 2004, is approved, and the parties shall carry out the terms and requirements therein.
2. That Union Electric Company d/b/a AmerenUE is authorized to file tariffs in conformance with the illustrative tariffs attached to the Stipulation and Agreement.
3. That this order shall become effective on April 30, 2004.

**BY THE COMMISSION**

**Dale Hardy Roberts  
Secretary/Chief Regulatory Law Judge**

(S E A L)

Gaw, Chm., Murray and Clayton, CC., concur

Mills, Deputy Chief Regulatory Law Judge

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[1]The parties to this case are Union Electric Company d/b/a AmerenUE, Aquila, Inc., d/b/a Aquila Networks – MPS and Aquila Networks – L&P, the Staff of the Commission, and the Office of the Public Counsel.



Surrebuttal Testimony  
Christopher A. John

Appendix KK

-----Original Message-----

**From:** Wood, Warren

**Sent:** Tuesday, August 27, 2002 7:28 AM

**To:** Morrissey, Carmen; Schwarz, Tim; Sommerer, David; Imhoff, Tom

**Subject:** FW: Bundled transactions

Dave and I spoke on Friday and it was determined that Dave's group can't bundle their transportation service (w/PEPL interstate capacity and gas). Dave had some other "creative" ideas that I made no commitments on. I asked him to send an e-mail with his ideas and that is what prompted the e-mail below. Please take a look at this and forward any thoughts on which approach is preferable (if any).

Thanks,  
Warren

-----Original Message-----

**From:** David J. Ries [mailto:riesdj@msn.com]

**Sent:** Friday, August 23, 2002 4:17 PM

**To:** Wood, Warren

**Subject:** Bundled transactions

Warren, as we discussed yesterday the concept of Missouri Gas holding interstate capacity can't work because on interstate pipelines the capacity holder must have title to the gas. It is clear that MGC can not buy and sell the natural gas to it's customers as it is restricted by the commission order.

There are basically 3 alternatives from which we could proceed.

We could completely change the current tariff of MGC to allow it to buy and sell commodity. The issues would be the expense of changing the tariffs, if the staff and commission would support such a change and if any of the existing customers would object to the change.

Another possibility would be for Omega Pipeline Company which provides distribution services to the Army on Fort Leonard Wood. Omega is a non-regulated LDC as it provides service to only the base under contract with the DOD. Omega currently buys natural gas, holds transportation on both interstate and intrastate pipelines and resells the commodity to FLW. Omega is also exempt under the interstate affiliate rules of Missouri Interstate since it is an LDC. Since Omega currently performs all of the necessary functions, selling gas to other customers along the transportation path would be a natural fit. My concern is whether this action would somehow change the regulated status of Omega. Omega currently holds transportation capacity on MPC and MGC to serve FLW and could contract for additional capacity to serve customers along the way. Alternatively, the small cities currently hold their own capacity on MPC and MGC and assign various third parties to be their agent under those agreements. Omega could continue to serve the Fort and act as agent for the cities the same way other parties are doing today. In the later case, there would be no affiliated transaction associated with Omega and MPC & MGC related to servicing the cities.

The last option would be to form a new marketing affiliate to perform this same function. This is not my preference as I do not expect to make any profit off of this service which is generally the business logic with forming a marketing affiliate.

The primary objective here is to make sure that the pipelines are collecting a fair share of the revenue as possible within their tariffs without making the retailers uncompetitive. The only thing I know for sure is that it is not working very well currently and that I need to be more involved in this process to develop a better economic picture for all of us. Please let me know what your collective thoughts are related to the above concept and questions.

Also I meant to ask you the other day, about HB 1402. I am told that this bill is intended to apply to LDC's but is worded so that it relates to gas corporations which would include MPC and MGC which obviously do not sell gas. Could you get someone to give me a read on whether this bill applies to the pipelines identified above? If so, what are we supposed to do?

Thanks for your help.

Surrebuttal Testimony  
Christopher A. John

Appendix LL

Surrebuttal Testimony  
Christopher A. John

Appendix MM

P.S.C. MO. No. 2

(Original) SHEET NO. 6

Cancelling P.S.C. MO. No. 1 CANCELLING ALL PREVIOUS SHEETS

MISSOURI GAS COMPANY

FOR: All Delivery Points  
**RECEIVED**

FIRM PROVISIONAL TRANSPORTATION SERVICE (FPTS) MAR 18 1996  
RATE SCHEDULE (Cont.)

3.2 Range of Rates.

MISSOURI  
Public Service Commission

- a. Unless otherwise agreed upon in writing between Shipper and Transporter, or unless as otherwise set forth herein, the reservation and commodity charges applicable to a Shipper for service hereunder shall be the applicable Maximum Rates as set out above. In the event an amount less than the applicable Maximum Rates and not less than the applicable Minimum Rates as set out above is agreed upon, such reservation and commodity rate shall be applicable prospectively and Transporter shall be responsible for compliance with any reporting requirements prescribed by the MoPSC.
- b. For all Transportation Agreements entered into by Transporter with any affiliate of Transporter after the effective date of tariff sheets having a Date of Issue of January 18, 1995, in those instances in which the term of the Agreement is greater than three (3) months:
  - (1) The lowest transportation rate charged to an affiliate shall be the maximum rate that can be charged to non-affiliates. Any renegotiation or other type of modification to the rates of any then-effective Transportation Agreement is to be considered an applicable Transportation Agreement for the purpose of setting this maximum rate for non-affiliates.
  - (2) Transporter will submit each such Transportation Agreement for Commission approval in those instances in which the rate offered to a non-affiliate is proposed to be greater than any rate offered to any affiliate.
  - (3) Transporter will submit a rate comparison for all Transportation Agreements.
  - (4) Rate comparisons for compliance with these provisions will be calculated assuming a 25% load factor.

**FILED**

APR 22 1996

MO. PUBLIC SERVICE COMMISSION

DATE OF ISSUE: March 19, 1996  
ISSUED BY: Richard C. Kreul, President  
Missouri Gas Company  
10700 East 350 Hwy, Suite 200A  
Kansas City, MO 64138

EFFECTIVE DATE: April 22, 1996