

Exhibit No.:
Issue: *Transfer of Gas Resources*
Witness: *David M. Sommerer*
Sponsoring Party: *MoPSC Staff*
Type of Exhibit: *Rebuttal Testimony*
Case No.: *EO-2004-0108*
Date Testimony Prepared: *January 30, 2004*

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY SERVICES DIVISION

REBUTTAL TESTIMONY

OF

DAVID M. SOMMERER

UNION ELECTRIC COMPANY d/b/a AMERENUE

CASE NO. EO-2004-0108

Jefferson City, Missouri
January 2004

****Denotes Highly Confidential Information****

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BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In The Matter of the Application of Union Electric)
Company, Doing Business as AmerenUE, for an)
Order Authorizing the Sale, Transfer and Assign-)
ment of Certain Assets, Real Estate, Leased)
Property, Easements and Contractual Agreements)
to Central Illinois Public Service Company, Doing)
Business as AmerenCIPS, and, in Connection)
Therewith, Certain Other Related Transactions.)

Case No. EO-2004-0108

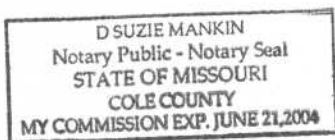
AFFIDAVIT OF DAVID M. SOMMERER

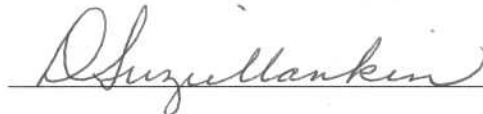
STATE OF MISSOURI)
)
COUNTY OF COLE) ss.

David M. Sommerer, being of lawful age, on his oath states: that he has participated in the preparation of the following Rebuttal Testimony in question and answer form, consisting of 8 pages to be presented in the above case; that the answers in the following Rebuttal Testimony were given by him; that he has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of his knowledge and belief.


David M. Sommerer

Subscribed and sworn to before me this 29th day of January 2004.





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1 1990, I transferred to the Commission's Energy Department. Until November of 1993, my
2 duties consisted of reviews of various tariff proposals by electric and gas utilities, Purchased
3 Gas Adjustment (PGA) reviews and tariff reviews as part of a rate case. In November of
4 1993, I assumed my present duties of managing a newly created department called the
5 Procurement Analysis Department. This Department was created to more fully address the
6 emerging changes in the gas industry especially as those changes impacted the utilities'
7 recovery of gas costs. My duties have included managing the five-member-staff, reviewing
8 ACA audits and recommendations, participating in the gas integrated resource planning
9 project, serving on the gas project team, serving on the natural gas commodity price task
10 force and participating in matters relating to natural gas service in the State of Missouri.

11 Q. Have you previously testified before this Commission?

12 A. Yes. A list of cases and issues in which I have filed testimony is included as
13 Schedule 1 of my testimony.

14 Q. Did you make an examination and analysis of the books and records of Union
15 Electric Company d/b/a AmerenUE (AmerenUE) in regard to matters raised in this case?

16 A. Yes. I have examined these records in the context of the issues I am
17 addressing in this case.

18 Q. What matters will you address in your testimony?

19 A. I am sponsoring the Staff's position regarding the impact on the natural gas
20 operations resulting from the proposed transfer to Central Illinois Public Service Company
21 d/b/a AmerenCIPS (AmerenCIPS) of AmerenUE's gas service operations in that portion of
22 the metropolitan St. Louis service area located in the state of Illinois (Metro East operations
23 or service area).

1 Q. What knowledge, skill, experience, training or education do you have in these
2 matters?

3 A. I have been assigned to and testified in many PGA and ACA proceedings. I
4 have reviewed numerous ACA filings and have evaluated the purchasing practices of various
5 Local Gas Distribution Companies (LDCs) in Missouri. I have also attended conferences and
6 seminars related to the natural gas futures market and other natural gas issues.

7 Q. What is the purpose of your rebuttal testimony in this case?

8 A. I will address and provide support for the Staff's position that, should the
9 Commission authorize the proposed transfer, it should be conditioned such that no gas
10 supply, transportation, or storage agreement that is used to serve Missouri electric or gas
11 utility operations be transferred to AmerenCIPS until AmerenUE has new agreements that
12 leave Missouri's electric and gas utility operations in no worse position or situation, in terms
13 of cost or operations, than would exist absent a transfer of these gas supply, transportation,
14 and storage agreements.

15 Q. What did the Staff find as a result of your review?

16 A. During the course of the review, the Staff found that AmerenUE's application
17 and testimony failed to fully describe and analyze the impact the transfer of the Alton system
18 from AmerenUE to AmerenCIPS would have on AmerenUE's access to the Alton system's
19 gas resources. As filed, the Staff finds that the transfer of the AmerenUE gas distribution
20 system to AmerenCIPS would be detrimental to AmerenUE's Missouri gas and electric
21 customers.

22 Q. What areas of this case have you reviewed?

1 A. I have reviewed the effects this proposed transaction will have on the
2 traditional reliance of AmerenUE on the Alton, Illinois gas distribution system (Alton
3 system) from a gas supply/transportation perspective.

4 Q. Please explain what you mean by the term “Alton system gas resources?”

5 A. As is the case with most Local Distribution Company’s (LDC’s), the Alton
6 system customers require firm natural gas supply, transportation, and if available, storage.
7 AmerenUE negotiated and entered into various gas supply, transportation, and storage
8 contracts to serve firm gas load. The main interstate pipeline supplier to the Alton system is
9 Mississippi River Transmission (MRT), ** _____

10 _____ **. Upstream transportation simply means transportation
11 that is further away from the final delivery point and closer to the gas supply fields. Gas
12 supply is acquired through contracts with various natural gas marketers or producers.

13 **AMERENUE’S APPLICATION AND DIRECT TESTIMONY**

14 Q. Did the Company’s application or direct testimony fully describe impacts
15 related to the transfer of the Alton system gas resources?

16 A. No. In its application at page 6, paragraph 14, the Company stated, in part:

17 . . . Further, AmerenUE’s Missouri gas utility business is completely
18 separate from its Illinois gas utility business in Alton, Illinois.
19 AmerenUE’s Missouri gas utility business is served from different
20 pipelines than the one which serves its Illinois gas utility business.
21 Further, AmerenUE’s Missouri gas utility business has supply and
22 transportation contracts which are separate and distinct from those
23 contracts entered into for the benefit of its Illinois gas utility business.
24 Therefore, the transfer of the gas utility business in the Metro East
25 Service Area will have no adverse effect on AmerenUE’s Missouri gas
26 utility business. Consequently, the proposed transaction will clearly
27 not be detrimental to the public interest.

1 These statements ignore the fact that AmerenUE does have a ** _____

2 _____
3 _____ **. This arrangement will be discussed later in my testimony.

4 Q. What has AmerenUE's direct testimony said about the loss of the Alton
5 system's gas resources?

6 A. On page 12, lines 3 through 5 of his direct testimony, Mr. Craig Nelson states:
7 "AmerenUE's Missouri gas business is separate and apart from the Illinois gas business. The
8 service areas are determined by state jurisdictional lines. The gas businesses do not share
9 pipelines or supply contracts. There will be no adverse impact on the Missouri gas utility
10 business or its customers as a result of the transfer."

11 On page 9, lines 1 through 3, Mr. Nelson states: "Except for electric transmission
12 assets used to serve the entire Ameren control area, none of the assets to be transferred have
13 been used to provide public utility service to AmerenUE's Missouri retail customers."

14 There are also other general references throughout Mr. Nelson's direct testimony
15 regarding the transfer of "obligations" and "agreements" from AmerenUE to AmerenCIPS.
16 Those references do not specify how the Alton system gas resources were historically used
17 by AmerenUE to provide service to its Missouri operations, but responses to Staff data
18 requests do indicate that those resources will be transferred.

19 Q. Did AmerenUE provide a list of the natural gas supply, transportation and
20 storage contracts involved in this transfer?

21 A. Yes, although the contracts were not listed in the application, schedules or
22 direct testimony of AmerenUE, the contracts proposed to be transferred were supplied in
23 answer to Staff's discovery. That list is provided as Schedule 2, attached to my rebuttal

1 testimony. Schedule 2 is a portion of a more voluminous response provided by AmerenUE
2 to Staff Data Request (DR) No. 0004, that contains a list of the natural gas contracts.

3 **THE ATLON ILLINOIS GAS DISTRIBUTION SYSTEM (ALTON SYSTEM)**

4 Q. Has the Missouri natural gas utility business relied on Alton system gas
5 resources?

6 A. Yes. AmerenUE has three service areas with regard to its PGA clause. The
7 smallest of these areas is the NGPL or Fisk/Lutesville area. ** _____
8 _____ **.

9 Although AmerenUE has indicated through discovery, in response to Staff DR No. 0004 and
10 the December 23, 2003, answers of AmerenUE to Staff questions, that there will be a

11 ** _____
12 _____
13 _____
14 _____
15 _____
16 _____ **.

17 Q. How has AmerenUE's Missouri electric utility business relied on Alton
18 system gas resources?

19 A. Once again, based on discovery and AmerenUE's responses to Staff
20 DR No.0006, it is apparent that the Alton gas distribution system and associated gas
21 resources acted as a type of "resource center" for certain of AmerenUE's Missouri power
22 plants that needed natural gas. The Venice and Meramec power plants have access to the
23 Alton gas resources. These power plants are owned and operated by AmerenUE. The

1 Venice power plant is located in Illinois but will be retained by AmerenUE to serve its
2 Missouri and wholesale customers.

3 Q. Please describe what you mean by the term “resource center.”

4 A. In this instance, the term is best explained by AmerenUE’s own description of
5 how the Alton system gas resources were used. This description is contained in AmerenUE’s
6 response to the Staff DR No. 0006 which is attached as Schedule 3 to my testimony. Part of
7 the response to Staff DR No. 0006, is a document entitled “**Alton and Power Plant Gas**
8 **Cost Allocation.**” This document describes the joint use policy that was in place prior to the
9 proposed transfer. In the introduction some of the benefits of joint use are described as
10 follows:

11 The Alton service territory requires firm gas service, but
12 requires the reserved capacity on MRT only during the winter season.
13 The power plants have alternate fuels and need interruptible gas
14 service but on a no-notice basis, and tend to use more gas in the
15 summer. The gas needs of the Alton service territory and the power
16 plants are therefore complementary, and in order to save costs for both
17 gas and electric customers, it was decided to utilize the MRT gas
18 transportation and storage contracts for both distribution and electrical
19 generation. Joint usage allows the power plants to continue to have
20 no-notice service (the interruptible MRT gas sales contract which
21 provided no-notice service in the past was cancelled when Order 636
22 services commenced on MRT), and the sharing of expenses lowers the
23 cost of maintaining the capacity for the Alton distribution customers.

24 Q. How would you summarize this access of the AmerneUE power plants to the
25 Alton gas resources?

26 A. I would summarize the access by saying that the two systems operated
27 together, mutually relying on each other’s strengths. When the Alton local gas distribution
28 system resources were generally idle (during the summer months), the Venice and Meramec
29 power plants could utilize those resources for summer electric needs while making a
30 contribution to the fixed costs of the Alton system. The power plants even had access to

1 Alton system storage resources. Thus, the Alton local gas distribution system was a
2 “resource center” for the Venice and Meramec power plants, providing access to gas supply,
3 transportation and storage.

4 Q. Has AmerenUE indicated its intentions “post-transfer” with regard to the
5 Meramec and Venice power plants’ natural gas needs?

6 A Yes, it has, but only in a general way. Pursuant to AmerenUE’s response in
7 Staff DR No. 0006, the Company will obtain gas for those plants through “separate
8 transportation and supply contracts.” Additionally, AmerenUE stated “However,
9 AmerenCIPS *may release available capacity* through MRT’s FERC regulated capacity
10 release program to AmerenUE at transportation capacity market rates.” (Emphasis added)

11 In summary, AmerenUE is proposing to give up self-described efficiencies for an
12 uncertain stand-alone gas supply and transportation arrangement for its AmerenUE Venice
13 and Meramec power plants. On the Missouri gas utility side, ** _____

14 _____
15 _____ **. There are almost no
16 descriptions whatsoever in either AmerenUE’s application or its direct testimony of any
17 safeguard to prevent detriment to the public interest in Missouri. Even in responses to Staff’s
18 discovery requests, critical details of how current beneficial transactions and relationships
19 will be recreated once the Alton gas system is transferred from AmerenUE to AmerenCIPS
20 are absent. Clearly, this uncertainty and lack of specificity concerning the impacts of this
21 proposed transaction is not indicative of an arms-length-transfer, and does not satisfy the
22 applicable standard of not detrimental to the public.

23 Q. Does this conclude your rebuttal testimony?

24 A. Yes.

CASES WHERE TESTIMONY WAS FILED

DAVID M. SOMMERER

COMPANY	ISSUES	CASE NO.
Missouri-American Water Co.	Payroll	WR-85-16
Great River Gas Company	Payroll, Working Capital	GR-85-136
Grand River Mutual Telephone	Cash Working Capital	TR-85-242
Associated Natural Gas Company	Revenues, Gas Cost	GR-86-86
Empire District Electric Company	Revenues	WR-86-151
Grand River Mutual Tel. Company	Plant, Revenues	TR-87-25
Great River Gas Company	Lease Application	GM-87-65
KPL Gas Service Company	ACA Gas Costs	GR-89-48
KPL Gas Service Company	ACA Gas Costs	GR-90-16
KPL Gas Service Company	Service Line Replacement	GR-90-50
Associated Natural Gas Company	Payroll	GR-90-152
United Cities Gas Company	PGA tariff	GR-90-233
United Cities Gas Company	PGA tariff	GR-91-249
Laclede Gas Company	PGA tariff	GR-92-165
United Cities Gas Company	PGA tariff, Billing Adjustments	GR-93-47
Western Resources Inc.	PGA tariff, Billing Adjustments	GR-93-240
Union Electric Company	ACA Gas Costs	GR-93-106
Missouri Public Service	Cost of Gas	GA-95-216
Missouri Gas Energy	Incentive Plan	GO-94-318
Missouri Gas Energy	PGA Clause	GO-97-409
United Cities Gas Company	PGA Clause	GO-97-410
Missouri Gas Energy	ACA Gas Costs	GR-96-450
Missouri Gas Energy	Complaint Gas Costs	GC-98-335

COMPANY	ISSUES	CASE NO.
Laclede Gas Company	Price Stabilization	GO-98-484
Laclede Gas Company	PGA Clause	GR-98-374
Laclede Gas Company	Complaint PGA	GC-99-121
Laclede Gas Company	Incentive Plan	GT-99-303
Laclede Gas Company	ACA Gas Cost	GR-98-297
Laclede Gas Company	Incentive Plan	GT-2001-329
Laclede Gas Company	Price Stabilization	GO-2000-394
Laclede Gas Company	Inventory, Off-System Sales	GR-2001-629
Laclede Gas Company	Inventory, Off-System Sales	GR-2002-356
Laclede Gas Company	ACA Price Stabilization	GR-2001-387
Laclede Gas Company	Low-Income Program	GT-2003-0117
Missouri Gas Energy	ACA Hedging/Capacity Release	GR-2001-382
Missouri Gas Energy	Pipeline Discounts, Gas Supply	GM-2003-0238
Aquila, Inc.	PGA Process, Deferred Gas Cost	EF-2003-0465

SCHEDULE 2
HAS BEEN
DEEMED
HIGHLY CONFIDENTIAL
IN ITS
ENTIRETY

AmerenUE's Response to
MPSC Staff Data Request
MPSC Case No. EO-2004-0108
AmerenUE's Application to Transfer Assets to AmerenCIPS

No. 0006:

Request From: Dave Sommerer

Please describe all gas procurement procedures (methods of acquiring gas supply and transportation) that will change because of the transfer.

Response:

Currently, the Alton service territory and the power plants reside within the same company; i.e., AmerenUE. Supply and transportation contracts arranged to serve the Alton, IL service territory could also be used to serve the power plants when not required to support the Alton, IL service territory. Costs were allocated according to an internal accounting methodology entitled: Alton and Power Plant Gas Cost Allocation. A copy of the methodology is attached.

Upon transfer of the Alton territory to AmerenCIPS, AmerenUE will have separate transportation and supply contracts to serve the power plants. The allocation methodology will no longer be necessary. However, AmerenCIPS may release available capacity through MRT's FERC regulated capacity release program to AmerenUE at transportation capacity market rates.

AmerenUE procures gas through solicitation of written and verbal gas supply bids from suppliers who were known to be reliable and capable of furnishing this service. This procedure will continue for procuring gas supply for the power plants.

Prepared By: James J. Massmann
Title: Natural Gas Supply and
Transportation Director
Date: December 4, 2003

ALTON AND POWER PLANT GAS COST ALLOCATION

INTRODUCTION

UE purchases natural gas for distribution for both the Alton service territory and for electrical generation at our Venice and Meramec power plants. Both the Alton service territory and Venice and Meramec power plants are located on the Mississippi River Transmission (MRT) pipeline system. The Alton service territory requires firm gas service, but requires the reserved capacity on MRT only during the winter season. The power plants have alternate fuels and need interruptible gas service but on a no-notice basis, and tend to use more gas in the summer. The gas needs of the Alton service territory and the power plants are therefore complementary, and in order to save costs for both gas and electric customers, it was decided to utilize the MRT gas transportation and storage contracts for both distribution and electrical generation. Joint usage allows the power plants to continue to have no-notice service (the interruptible MRT gas sales contract which provided no-notice service in the past was cancelled when Order 636 services commenced on MRT), and the sharing of expenses lowers the cost of maintaining the capacity for the Alton distribution customers.

For electrical generation, UE will purchase gas and then transport it using the MRT gas transportation contracts if the capacity is not needed by the Alton system. UE will then credit the Alton system gas costs based on a proportional share of electrical generation gas usage using rates based on an average market value of capacity release. As UE will use MRT transportation contracts for generation gas only when capacity is not needed by the Alton distribution system, the transportation needs of our Alton customers will not be affected.

In some situations, the power plants may utilize gas held in storage. UE will credit the Alton system gas costs the additional incremental costs incurred by the use of storage gas by the power plants. In such cases, the power plants will pay all associated gas costs for such use including injection charges, withdrawal charges, commodity or replacement gas charges. The following is an explanation of how costs will be tracked.

ALLOCATION PROCEDURES

Transportation Costs - The MRT transportation bill consists of a demand component and volumetric components (ACA, GRI and commodity transportation). In months when gas is transported for electrical generation, the power plants will pay commodity costs associated with their volumes and pay a pro-rated demand portion that is volumetrically based for the month (i.e. if plants transport 20% of the volumes in a given month, 20% of the demand charge, adjusted for capacity release market value, would be allocated to power plant fuel accounts). The gas supply engineer will calculate the charges and mark the MRT bill accordingly.

Storage Costs - The MRT storage bill consists of a capacity charge (demand) and an injection and withdrawal charge (commodity). To the extent that power plant usage causes storage gas to be withdrawn, the power plants will be charged for an injection/withdrawal for each commodity unit, and a pro-rated demand charge based on the volumetric portion of storage withdrawn for the month. The gas supply engineer will allocate the charges on the bill and indicate additional charges which will be credited to Alton system gas costs and billed to the power plants.

Gas Costs - In months of power plant gas usage, gas will be replaced in storage if necessary, and the power plants will be allocated these costs. If replacement is not necessary, then the power plants will be allocated the unit cost of gas in storage. The gas supply engineer will indicate on the gas bill any additional charges for gas withdrawn from storage. If no gas is purchased, the engineer will indicate on a report to gas accounting the cost of gas withdrawn from storage to be charged to the power plants and credited to Alton system gas costs.

STORAGE GAS ACCOUNTING

All gas in storage is purchased by UE, and is owned by UE. At present, no customer pays any carrying charges on inventory, nor any other charges until the gas is withdrawn from storage. The firm storage service demand charges are paid on a monthly basis. Due to the availability of storage for no-notice transport service these demand charges are billed in the month of occurrence.

The weighted average cost of gas (WACOG) method of accounting has been chosen over other methods (e.g. LIFO and FIFO). Last In First Out or First In First Out accounting would produce "layers" of gas at different prices and complicate the accounting. The WACOG calculation includes the commodity cost of gas, injection charges, transportation charges, and transportation fuel costs. It does not include withdrawal charges, which are assessed monthly when gas is withdrawn. The WACOG is calculated at the end of each month. All gas supplies from the firm storage service are priced at the last computed WACOG (prior month). Such supplies are identified as a separate source of gas on the Company's PGA worksheets.