

Exhibit No.:
Issue: Natural Gas Issues
Arising from the Transfer
Witness: James J. Massmann
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: Union Electric Company
d/b/a AmerenUE
Case No.: EO-2004-0108
Date Testimony Prepared: March 1, 2004

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EO-2004-0108

SURREBUTTAL TESTIMONY

OF

JAMES J. MASSMANN

ON

BEHALF OF

UNION ELECTRIC COMPANY
d/b/a AmerenUE

FILED⁴

APR 16 2004

Missouri Public
Service Commission

St. Louis, Missouri
March 1, 2004

Exhibit No. 17
Case No(s) EO-2004-0108
Date 3-25-04 Rptr XF

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

**In the Matter of the Application of Union)
Electric Company d/b/a AmerenUE for)
an Order Authorizing the Sale, Transfer)
and Assignment of Certain Assets, Real Estate)
Leased Property, Easements and Contractual)
Agreements to Central Illinois Public)
Service Company d/b/a AmerenCIPS, and)
in Connection Therewith, Certain Other)
Related Transactions.)**

Case No. EO-2004-0108

AFFIDAVIT OF JAMES J. MASSMANN

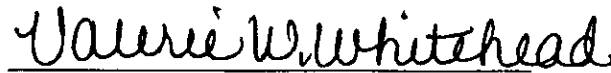
STATE OF MISSOURI)
) SS
CITY OF ST. LOUIS)

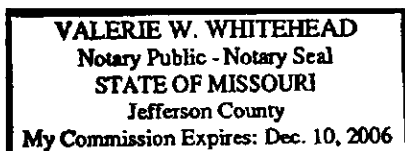
James J. Massmann, being first duly sworn on his oath, states:

1. My name is James J. Massmann. I am a Natural Gas Supply and Transportation Director at Ameren Energy Fuels and Services Company.
2. Attached hereto and made a part hereof for all purposes is my Surrebuttal Testimony consisting of 12 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

Subscribed and sworn to before me this 15th day of March, 2004.


Notary Public



1 is also in the process of acquiring Illinois Power Company, which serves over
2 400,000 natural gas customers.

3 **Q. Please describe your pertinent employment history.**

4 A. I was employed by Union Electric Company in August 1982 and became an
5 Ameren employee with the UE-CIPSCO merger. Prior to being promoted to the
6 position of Natural Gas Supply and Transportation Director, I held several
7 positions in the Natural Gas Supply and Transportation Department, including
8 Gas Supply Executive and Gas Systems Analyst. Prior to that, I was a Resource
9 Planning Engineer in the Corporate Planning Department, an engineer in the
10 Engineering & Construction Department, and an engineer in the Nuclear
11 Engineering Department.

12 **Q. Please describe your educational background.**

13 A. I received a Bachelor of Science degree in Mechanical Engineering in 1980 and a
14 Masters of Science degree in Engineering Management in 1986, both from the
15 University of Missouri – Rolla.

16 **Q. What are your duties and responsibilities as Natural Gas Supply and
17 Transportation Director?**

18 A. My primary responsibility is to direct the management and procurement of
19 reliable and economic gas supply, transportation and storage services for Ameren
20 affiliates, including AmerenUE's Illinois gas distribution system in Alton,
21 AmerenUE's gas fired generators, and Ameren Energy Generating Co. I also
22 participate in proceedings before the Federal Energy Regulatory Commission
23 (FERC) involving AmerenUE's interstate pipeline suppliers and before the

1 Missouri Public Service Commission and the Illinois Commerce Commission
2 (ICC) relating to AmerenUE's gas distribution systems. Finally, I oversee daily
3 operations including load forecasting, system balancing, storage management,
4 nominations, and scheduling.

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

6 A. The purpose of my testimony is to address the concerns identified in the rebuttal
7 testimony of Mr. David Sommerer on behalf of the Commission Staff concerning
8 the transfer of AmerenUE's Metro East retail operations in Illinois to
9 AmerenCIPS. Mr. Sommerer's rebuttal testimony identified three concerns:

- 10 1) AmerenUE's direct testimony did not fully describe gas related impacts
11 associated with the transfer,
- 12 2) AmerenUE does not guarantee that the smaller Fisk/Lutesville, Missouri
13 gas utility system will continue to have access to the current pipeline
14 discount after the transfer has taken place and after the contract expires,
15 and
- 16 3) AmerenUE's power plants will not have access to what Mr. Sommerer
17 calls the "resource center" associated with the Alton, Illinois Gas utility
18 system.

19 **Q. Do any of Mr. Sommerer's concerns deal with AmerenUE's ability to**
20 **continue to provide safe, reliable, and adequate gas service in Missouri after**
21 **the transfer?**

22 A. No. Mr. Sommerer's testimony indicates that he is concerned that AmerenUE
23 may lose some financial advantage in terms of access to lower cost gas supplies or

1 discounted gas transportation or storage. It appears that his concerns are directed
2 toward the possibility that AmerenUE's cost of service might increase and thus, at
3 some future point in time, might impact gas or electric rates.

4 **Q. Is he correct?**

5 A. No. No one can predict with any certainty what the market for gas supply,
6 transportation, or storage will be in the future. However, as I discuss below, if
7 AmerenUE's gas supply costs are higher or lower in the future, it will not be
8 because of the Metro East transfer. It will simply be because prices for those
9 products or services have changed.

10 **Q. Please address Mr. Sommerer's statement to the effect that AmerenUE's**
11 **direct testimony did not fully describe the impact related to the transfer.**

12 A AmerenUE's application provides that:

13
14 Further, AmerenUE's Missouri gas utility business is completely
15 separate from its Illinois gas utility business in Alton, Illinois.
16 AmerenUE's Missouri gas utility business is served from different
17 pipelines than the one which serves its Illinois gas utility business.

18
19 The Alton, Illinois gas utility (AmerenUE) is served by Mississippi River
20 Transmission Corp. (MRT) and Illinois Gas Transmission (IGT) pipelines. Both
21 pipelines are owned and operated by CenterPoint Energy. MRT is an interstate
22 pipeline that transports natural gas from the producing regions directly to the
23 Alton, Illinois gas utility. IGT is an intrastate pipeline that transports gas from
24 upstream pipelines to the Alton, Illinois gas utility. Natural Gas Pipeline of
25 America, Inc. (NGPL) is the upstream pipeline that transports natural gas from the
26 producing regions to IGT for the Alton, Illinois gas utility. Although NGPL is not
27 directly connected to the Alton, Illinois gas utility, it should have been identified

1 in the application as a pipeline that indirectly serves the utility. The Alton,
2 Illinois gas utility and the Fisk/Lutesville, Missouri gas utility share one common
3 NGPL firm transportation contract. There are no other transportation contracts
4 that serve both the Alton, Illinois gas utility and any AmerenUE Missouri gas
5 utility.

6 **Q. Please describe the benefits that the Fisk/Lutesville, Missouri gas utility**
7 **system receives because of the common NGPL contract.**

8 A. The contract for firm transportation with NGPL includes 8,000 Dth for the Alton,
9 Illinois gas utility and 530 Dth for the Fisk/Lutesville, Missouri gas utility. The
10 two gas utilities are under the jurisdiction of different state regulatory authorities.
11 Although both gas utilities employ a common contract, the systems are managed
12 separately. However, the Fisk/Lutesville, Missouri gas utility did receive certain
13 discount benefits from being included in the negotiations with the larger
14 distribution system on NGPL.

15 **Q. How will AmerenUE assure that the smaller Fisk/Lutesville, Missouri gas**
16 **utility system will continue to have access to competitive pipeline rates after**
17 **the transfer?**

18 A. Upon transfer of the Alton, Illinois gas utility from AmerenUE to AmerenCIPS,
19 8,000 Dth of firm transportation capacity from NGPL that supports the Alton,
20 Illinois gas utility will be permanently released to AmerenCIPS according to the
21 capacity release procedures in NGPL's FERC-approved tariff. The capacity for
22 the Alton, Illinois gas utility and the capacity for the Fisk/Lutesville, Missouri gas
23 utility will be effectively held in separate contracts. Both gas utilities will

1 continue to pay the same discounted rate for the firm transportation as they paid
2 prior to the transfer for the remainder of the term of the NGPL contract, which
3 expires on October 31, 2006. Since the primary transportation agreement and
4 related discount will remain with AmerenUE after the 8,000 Dth capacity release
5 to AmerenCIPS, the Fisk/Lutesville, Missouri gas utility will continue to retain all
6 of its contractual rights to the discounted transportation rates provided for in the
7 NGPL contract, and therefore will not be harmed or impacted in any way by the
8 transfer.

9 **Q. What will happen to the transportation capacity and associated discount**
10 **when the agreement expires?**

11 A. When the NGPL contract expires in 2006, the 530 Dth firm transportation
12 contract for the Fisk/Lutesville, Missouri gas utility, the 8,000 Dth firm
13 transportation contract for the Alton, Illinois gas utility, and a 10,000 Dth firm
14 transportation contract with NGPL for the other AmerenCIPS distribution system
15 will all be renegotiated with NGPL at the same time. In addition, AFS will have
16 increased leverage with NGPL during the next round of negotiations due to the
17 *addition of the capacity from AmerenCILCO and potentially the addition of other*
18 *NGPL capacity agreements after the potential acquisition of Illinois Power*
19 *Company. Thus, the Fisk/Lutesville Missouri gas utility will enjoy similar and*
20 *most likely increased negotiating benefit and leverage as it enjoyed when the*
21 *current NGPL contract was negotiated. It is our philosophy to utilize the*
22 *combined leverage of all Ameren affiliates when negotiating deals with interstate*
23 *pipelines, even for the smallest systems.*

1 **Q Will the Fisk/Lutesville, Missouri gas utility be in any different position with**
2 **regard to its potential transportation costs in 2006 when the NGPL contract**
3 **must be renegotiated than it would be had the Metro East transfer never**
4 **occurred?**

5 A. No. With or without the Metro East transfer, the condition of interstate natural
6 gas pipeline markets in 2006 and beyond cannot be determined with certainty at
7 this time. Future transportation rates may or may not increase in 2006, regardless
8 of whether the Metro East transfer occurs. As I noted above, we will negotiate
9 the transportation contract for the AmerenCIPS Illinois gas utility and
10 AmerenUE's Fisk/Lutesville gas utility together so AmerenUE's Fisk/Lutesville,
11 Missouri gas utility will continue to have the same benefit of the negotiating
12 strength Ameren enjoys today. Ameren in fact, holds over 150,000 Dth of firm
13 transportation on NGPL due to its contracts for AmerenCIPS, AmerenCILCO,
14 AmerenUE, and Ameren Energy Generating Company. Ameren, through AFS,
15 will continue the strategy of negotiating on behalf of all Ameren affiliates as a
16 group to gain the best rates for all of its affiliates. This strength would be further
17 enhanced with the acquisition of additional NGPL transportation contracts
18 associated with Ameren's purchase of Illinois Power Company.

19 **Q. Mr. Sommerer also raised concerns regarding the gas resources available for**
20 **AmerenUE's power plants. Please describe AmerenUE's natural gas fired**
21 **power plants on the MRT system.**

22 A. In addition to the Alton, Illinois gas utility, the MRT system serves generating
23 units at AmerenUE's Venice and Meramec power plants. Prior to 2003, the

1 Venice power plant consisted of a gas fired 430 MW steam boiler plant and a dual
2 fuel, gas or oil fired 50 MW combustion turbine generator. The gas fired 430
3 MW steam boiler plant was retired at the end of 2002.

4 The Meramec power plant also has a dual fuel, gas or oil fired 50 MW
5 combustion turbine generator. In addition, natural gas is used for flame
6 stabilization for the coal fired Meramec steam boiler plant.

7 The peak day demand of natural gas for the power plants has been
8 significantly reduced now that it is only used by the two peaking gas fired
9 combustion turbines and for flame stabilization.

10 **Q. Mr. Sommerer noted that AmerenUE's power plants will not have access to**
11 **what he called the "resource center" associated with the Alton gas**
12 **distribution system. What assets of the Alton, Illinois gas utility have been**
13 **used by the AmerenUE power plants?**

14 **A.** Similar to an end-use transporter, the power plants require pipeline transportation,
15 balancing services, and gas supply resources. The power plants have employed
16 firm transportation, gas storage, and gas supply packages of the Alton, Illinois gas
17 utility to the extent that the gas utility has not required these resources on a day-
18 to-day basis. If the gas utility required those resources, the gas utility's needs
19 would take precedence over the power plants' needs. Although these resources
20 have been shared with the gas utility, each of the resources is monitored
21 individually and costs are allocated separately to the power plants.

22 **Q. Please describe how transportation is currently arranged and how it will be**
23 **arranged after the transfer.**

1 A. Currently, transportation requirements of the power plants are first obtained from
2 any available firm transportation for the Alton, Illinois gas utility when it is not
3 required by the utility system to meet demand. The gas utility has the right to
4 recall the capacity at any time, as described above. Any additional transportation
5 requirements of the power plants are obtained from interruptible services
6 available directly from MRT. The market value of the transportation capacity
7 released by the Alton, Illinois gas utility to the power plants is determined by the
8 value of the actual capacity released performed on MRT's system for that month
9 which is then charged to the power plants. The Alton, Illinois gas utility receives
10 a credit for the market value of the capacity.

11 When the Alton, Illinois gas utility is separated from AmerenUE, the
12 power plants will be required to formally bid on capacity release according to the
13 terms and conditions of MRT's FERC-approved tariff. The power plants will bid
14 on capacity release on a monthly or seasonal basis. Under the tariff, the power
15 plants may obtain capacity from any shipper, not just the Alton, Illinois gas
16 utility. The power plants have always been charged the market value of the
17 transportation capacity obtained from the Alton, Illinois gas utility, and after the
18 transfer the power plants will continue to obtain that capacity at the prevailing
19 market prices. Consequently, the cost of transportation for the power plants will
20 be unaffected by the Metro East transfer.

21 In summary, the only change before and after the transfer will be the
22 requirement to formally post and bid for the capacity on the MRT system.

1 **Q. Please describe how supply imbalances are currently managed and how they**
2 **will be managed after the transfer.**

3 **A. During the winter months, gas supply imbalances created by unscheduled power**
4 **plant demands are managed by increases or decreases in planned storage**
5 **withdrawals. In the non-winter months, when storage gas is not available for**
6 **withdrawal, the imbalances created by the power plants may increase or decrease**
7 **the monthly imbalance position for the Alton, Illinois gas utility.**

8 MRT provides monthly balancing, which allows all shippers to maintain a
9 supply imbalance through the month (i.e. shippers need not balance on a daily
10 basis). Thus, on a daily basis shippers may be short or long on supply. However,
11 by the close of the calendar month, they are required to return to a balanced
12 position.

13 Currently, the cost of any imbalance created by the power plants is
14 charged to the power plants and credited to the Alton, Illinois gas utility. The
15 imbalances caused by the power plants are generally resolved by purchasing
16 additional gas supplies on the spot market. The cost of supplies necessary to
17 resolve an imbalance will not be affected by the Metro East transfer.

18 Storage gas is intended for use by the Alton, Illinois gas utility, and every
19 effort is made to avoid using storage gas for the power plants. Whenever the
20 power plants' monthly imbalances inadvertently involve the use of storage gas,
21 the power plants are charged for the storage gas and any associated storage
22 capacity and deliverability costs. This has only happened once in the past three

1 years. Storage offers no advantage over the monthly imbalance service and is
2 seldom used for the benefit of the power plants.

3 After the transfer, the power plants, as their own shipper, will use the same
4 monthly balance feature of the MRT pipeline's tariff as they use today. The only
5 difference will be that the power plants themselves will be a direct shipper
6 customer on MRT, as opposed to indirectly using the monthly balancing feature
7 through the Alton, Illinois gas utility. After the transfer there will be no need, or
8 advantage, for the power plants to continue to use the Alton, Illinois gas utility's
9 storage because the power plants can access the same services at the same costs
10 themselves.

11 **Q. Please describe how gas supplies are currently arranged and how they will be**
12 **arranged after the transfer.**

13 A. Gas supplies are procured to meet the infrequent demand of the two peaking
14 generators and the steady demand for flame stabilization at Meramec. The
15 demand for the peaking generators is typically satisfied through supply packages
16 procured for the Alton, Illinois gas utility. These supply packages are used to
17 serve the power plants when the gas utility does not need the supply on a day-to-
18 day basis. A small baseload gas supply package is purchased specifically for the
19 flame stabilization demand at the Meramec power plant. Based on the cost
20 allocation methodology that has been used for years, the highest priced gas used
21 in the month is charged to the power plants. That cost may be higher or lower
22 than the daily spot market.

1 After the transfer, the demand for the two peaking generators will be met
2 with spot market purchases. A small baseload gas supply package will continue
3 to be purchased specifically for the flame stabilization demand at the Meramec
4 power plant. As described before, Ameren will continue to negotiate each supply
5 package as part of its larger portfolio. The power plants will benefit by being
6 charged for the actual cost of the gas consumed, not the highest cost gas for the
7 month.

8 **Q. Will the AmerenUE power plants be harmed by not having access to what**
9 **Mr. Sommerer calls the “resource center” of the Alton, Illinois gas utility?**

10 **A.** No. There is no material benefit for AmerenUE’s power plants to continue to use
11 the Alton, Illinois gas utility’s transportation, storage, or natural gas supply
12 packages. In summary, peak natural gas demand has been reduced since the
13 retirement of the Venice steam boiler plant, pipeline transportation capacity will
14 still be obtained at market rates, MRT’s monthly balancing service will allow
15 management of imbalances, and finally, spot market purchases will provide
16 competitive gas costs.

17 **Q. Does this complete your testimony?**

18 **A.** Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been sent to all parties of record this 1st day of March, 2004 by electronic mail (e-mail) or U.S. Mail.

/s/ Joseph H. Raybuck